X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 1, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
2	Ontario County Trust Co., Canandaigua, N. Y., ...	$300,000	6-29-32
7	Illinois Bank & Trust Co., Rockford, Ill., ...	200,000	7- 1-32
	Consolidation:		
12	Anglo-California Trust Co., San Francisco, Calif.,	1,500,000	6-30-32
	Anglo & London Paris National Bank, ...	10,000,000	
	Consolidated under charter of latter and title of Anglo California National Bank of San Francisco,. .	10,400,000	

NATIONAL BANKS GRANTED TRUST POWERS:

None.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 8, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
6	Merchants & Farmers Bank of Greene County, Eutaw, Ala.	$55,000	6- 8-32

NATIONAL BANKS GRANTED TRUST POWERS:

None.

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 15, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Absorption of Nonmember:		
3	State Bank of Schuylkill Haven, Pa., nonmember,	$60,500	7- 5-32
	Absorbed jointly by Schuylkill Haven Trust Co., (member)	125,000	
	and the First National Bank & Trust Co., . . .	125,000	
	Absorbed by Nonmember:		
3	Dime Savings & Trust Co., Allentown, Pa.,member,	500,000	7- 2-32
	Absorbed by Lehigh Valley Trust Co., nonmember,	500,000	
	Consolidation with Nonmember:		
3	Lock Haven Trust Co., Lock Haven, Pa., member,	250,000	6-11-32
	Clinton Trust Co., nonmember, ...	200,000	
	Consolidated to form the Lock Haven Trust Co.		
3	Berks County Trust Co., Reading, Pa., member,	1,000,000	6-30-32
	Colonial-Northeastern Trust Co., nonmember,	1,500,000	
	Consolidated to form the Berks County Trust Co.,	1,500,000	
	Absorbed by National Bank:		
3	Union Savings Bank & Trust Co., Wilkes-Barre, Pa.	500,000	7- 1-32
	Absorbed by the Wyoming National Bank (1-26-32)	500,000	
	(Membership terminated 7- 1-32 through voluntary withdrawal, liquidation not having been completed).		

NATIONAL BANKS GRANTED TRUST POWERS:

None.

- - -

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 22, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Absorbed by National Bank:		
3	Penn Trust Company, Allentown, Pa., member, Absorbed by Allentown National Bank, ...	$ 400,000 1,000,000	7-16-32
	Change of Title:		
8	The Jefferson Bank, St. Louis, Mo., has changed its title to Jefferson Bank & Trust Co.		6- 9-32

NATIONAL BANKS GRANTED TRUST POWERS:

5	Planters National Bank in Fredericksburg, Va.	(Full powers)	7-19-32
7	First National Bank in Sioux City, Iowa	(Full powers)	7-19-32
11	First National Bank, Port Arthur, Texas	(Supplemental powers)	7-20-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 29, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
10	Wahoo State Bank, Wahoo, Nebr., ...	$40,000	7-25-32

NATIONAL BANKS GRANTED TRUST POWERS:

None.

- - -

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 5, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Absorbed by National Bank:		
3	Liberty Trust Company, Allentown, Pa., member,	$653,150	7-30-32
	Absorbed by Lehigh Valley Trust Co., nonmember	500,000	

NATIONAL BANKS GRANTED TRUST POWERS:

5	First National Bank, Morgantown, N. C. (Full powers)	7-29-32
9	Midland National Bank & Trust Co., Minneapolis, Minn. (Additional powers)	8- 4-32
10	City National Bank & Trust Co., Oklahoma City, Okla. (Additional powers)	7-30-32
10	First National Bank, Kemmerer, Wyo. (Additional powers)	8- 2-32
11	First National Bank, Shreveport, La. (Additional powers)	7-29-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 12, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
9	Burke State Bank, Burke, S. Dak.	$25,000	8-10-32

NATIONAL BANKS GRANTED TRUST POWERS:

7	First National Bank, Savanna, Ill.	(Additional powers)	8- 9-32
8	Exchange National Bank, Columbia, Mo.	(Additional powers)	8-10-32
8	Peoples National Bank, Warrensburg, Mo.	(Limited powers)	8- 8-32
10	American National Bank, St. Joseph, Mo.	(Additional powers)	8- 6-32
10	Rawlins National Bank, Rawlins, Wyo.	(Additional powers)	8- 9-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 19, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
11	Eden State Bank, Eden, Texas	$50,000	8-15-32
	Absorption of National Bank:		
2	Citizens Trust Company, Adams, N. Y., member, has absorbed the Farmers National Bank of Adams, and changed its title to "Citizens and Farmers Trust Company", a member.	150,000 100,000	8-16-32
	Closed Bank Reopened:		
12	Farmers and Merchants Bank, Provo, Utah, member,	100,000	8-16-32

NATIONAL BANKS GRANTED TRUST POWERS:

None.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 26, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Voluntary Withdrawal:		
11	Citizens State Bank, Memphis, Texas	$75,000	8-15-32

TRUST POWERS GRANTED TO NATIONAL BANKS:

7	Third National Bank, Rockford, Ill. (Additional powers)	8-24-32
11	First National Bank, Seguin, Texas (Full powers)	8-16-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 2, 1932

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

None.

NATIONAL BANKS GRANTED TRUST POWERS:

None.

- - -

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 9, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District	Admitted to Membership:	Date
	None.	

NATIONAL BANKS GRANTED TRUST POWERS:

7	First National Bank, Neenah, Wisconsin (Full powers)	9- 3-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 16, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Date

Admitted to Membership:

None.

NATIONAL BANKS GRANTED TRUST POWERS:

8	Morganfield National Bank, Morganfield, Ky. (additional powers)	9- 9-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 23, 1932

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

None.

NATIONAL BANKS GRANTED TRUST POWERS:

None.

- - -

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 30, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Change of Title:		
2	The Hibernia Trust Company, New York, N. Y., has changed its title to Colonial Trust Company.		6-27-32
	Absorption of Nonmember:		
4	The Cleveland Trust Company, Cleveland, O., a member, has absorbed:	$13,800,000	9-21-32
	Peoples Savings Bank, Lorain, O., nonmember,	100,000	

NATIONAL BANKS GRANTED TRUST POWERS:

7	Newton National Bank, Newton, Iowa (Full powers)	9-28-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 7, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
11	Citizens State Bank, Dalhart, Texas	$50,000	10- 6-32
	Absorption of Nonmember:		
7	St. Joseph Loan & Trust Co., South Bend, Ind. Assumed the savings deposit liability of Mishawaka-St. Joseph Loan & Trust Co., Mishawaka, Ind., nonmember, ... (Commercial deposits assumed by the First National Bank of Mishawaka, Ind.)	$800,000 100,000	9-19-32
	Converted to National Bank:		
8	Bank of Eastern Arkansas, Forrest City, Ark. Converted into The National Bank of Eastern Arkansas.	$50,000	10- 1-32
	Reopened:		
2	Federation Bank & Trust Co., New York, N. Y.	$825,000	10- 3-32

NATIONAL BANKS GRANTED TRUST POWERS

7	City National Bank & Trust Co., Chicago, Ill. (Full powers)	10- 5-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 14, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Voluntary Withdrawal:		
11	First State Bank, Bishop, Texas	$25,000	9-24-32

NATIONAL BANKS GRANTED TRUST POWERS:

None.

X-1550

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 21, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Converted to National Bank:		
7	Continental Illinois Bank & Trust Co., Chicago, Ill., a member, ...	$75,000,000	10-15-32
	Converted into the Continental Illinois National Bank & Trust Co.		

NATIONAL BANKS GRANTED TRUST POWERS:

7	Continental Illinois National Bank & Trust Co., Chicago, Ill. (Full powers)	10-15-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 28, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Voluntary Withdrawal:		
7.	Central Republic Bank & Trust Co., Chicago, Illinois	$14,000,000	10-26-32

NATIONAL BANKS GRANTED TRUST POWERS:

None.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 4, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Voluntary Withdrawal:		
7	Hinsdale State Bank, Hinsdale, Ill. (Absorbed by the First National Bank of Hinsdale)	$100,000	8-13-32
	Succeeded by Nonmember:		
8	Guaranty Bank & Trust Co., St. Louis, Mo. (Succeeded by Guaranty Plaza Trust Co., nonmember)	$200,000	10-22-32
11	Junction State Bank, Junction, Texas (Succeeded by State Bank of Junction, nonmember)	$100,000	11- 2-32

NATIONAL BANKS GRANTED TRUST POWERS:

9	American National Bank & Trust Co., Eau Claire, Wis. (Full powers)	10-28-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 11, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Voluntary Withdrawal:		
6	Exchange Bank, Tallahassee, Fla.	$50,000	11- 5-32

NATIONAL BANKS GRANTED TRUST POWERS:

None.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 18, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
2	Center Moriches Bank, Center Moriches, N. Y.	$125,000	11-18-32

NATIONAL BANKS GRANTED TRUST POWERS:

None.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 25, 1932

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

None.

NATIONAL BANKS GRANTED TRUST POWERS:

None.

- - -

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 2, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership		
2	President and Directors of the Manhattan Company, New York, N. Y.	$20,000,000	11-26-32
	Absorbed by State Member		
2	Bank of Manhattan Trust Co., New York, N. Y. Absorbed by President and Directors of the Manhattan Company, New York, N. Y.	22,250,000	11-26-32
4	First-City Savings Bank, Barberton, Ohio, member Absorbed by First Central Trust Co., Akron, Ohio, member.	100,000	10-31-32
	Succeeded by Nonmember		
9	Drovers State Bank, South St. Paul, Minn., member Merged with Exchange State Bank, nonmember, under new charter and title of Drovers Exchange State Bank, nonmember.	100,000	11-21-32
11	First State Bank, Rochester, Texas, member Succeeded by Home State Bank, nonmember.	25,000	11-28-32
	Voluntary Withdrawal		
12	Live Stock State Bank, North Portland, Oreg.	50,000	11-29-32

NATIONAL BANKS GRANTED TRUST POWERS:

12	First National Bank, Eugene, Oreg. (Additional powers)	11-21-32

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS

2	President and Directors of the Manhattan Company, New York, N.Y.	11-26-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 9, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
3	Lock Haven Trust Co., Lock Haven, Pa.	$375,000	12- 5-32
9	Farmers and Merchants Bank, Huron, S. Dak.	100,000	12- 8-32

NATIONAL BANK GRANTED TRUST POWERS:

10	First National Bank in Bartlesville, Okla. (Additional powers)	12- 8-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 16, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership		
	None.		
	Absorbed by Nonmember		
8	Farmers State Bank, New Athens, Ill. Absorbed by State Bank of New Athens, nonmember.	$25,000	12-10-32

NATIONAL BANK GRANTED TRUST POWERS:

3	First National Bank, Woodstown, N. J. (Full powers)	12- 5-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 23, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Consolidated with National Bank:		
3	Dime Trust and Safe Deposit Co., Shamokin, Pa.	$125,000	12-14-32
	Consolidated with National Bank of Shamokin under title of National-Dime Bank of Shamokin.	325,000	
	Converted to National Bank:		
7	Illinois Bank and Trust Co., Rockford, Ill.	$200,000	12-19-32
	Converted into The Illinois National Bank and Trust Company of Rockford.	200,000	
	Voluntary Withdrawals:		
8	Farmers and Traders Bank, Iberia, Mo.	$ 25,000	12-20-32
8	First State Bank, Brownsville, Tenn.	100,000	12-20-32

NATIONAL BANKS GRANTED TRUST POWERS:

7	Illinois National Bank and Trust Co., Rockford, Ill. (Full powers)	12-19-32

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 30, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
5	Farmers Bank of Clinch Valley, Tazewell, Va.	$200,000	12-29-32
	Absorbed by National Bank:		
6	Citizens Bank, Claxton, Ga. Absorbed by First National Bank of Claxton.	$30,000	12-20-32

NATIONAL BANKS GRANTED TRUST POWERS:

3	Market Street National Bank, Philadelphia, Pa. (Additional powers)	12-21-32
11	Commercial National Bank in Shreveport, La. (Full powers)	12-23-32

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7194

July 1, 1932.

SUBJECT: Reimbursement of Par Remitting Banks for Tax on Remittance Drafts.

Dear Sir:

There are inclosed a confirmation of a telegram on the above subject which the Board is sending today to the Governor of each Federal reserve bank and a summary of the replies received from the various Federal reserve banks as a result of the Board's telegram of June 23, 1932, on this subject.

It appears that the Governors of one or two Federal reserve banks expect that the Federal Reserve Board will issue a regulation on this subject; but this is not believed to be necessary, as the subject of par collections is adequately covered by the provisions of Regulation J (especially the last paragraphs of Sections II and III) and the fact that the tax is levied on the drawers and not on the payees of checks and drafts clearly appears from the provisions of Section 751 of the Revenue Act of 1932 and Chapter IV of Regulations 42 of the Bureau of Internal Revenue.

It is not believed that any public announcement on this sub-

ject is desirable; but it is suggested that the matter be taken up individually with each bank which attempts to deduct the amount of the tax from its remittance drafts or which requests the Federal reserve bank to reimburse it for the amount of the tax and that the Board's position on the subject be explained to it. If any bank insists on deducting the amount of the tax from its remittance drafts after the Federal reserve bank has exhausted every reasonable means of persuading it to desist from doing so, the matter should be reported to the Federal Reserve Board, if the bank is a member bank, or the bank should be removed from the par list, if it is a non-member bank.

In the light of the experience which various Federal reserve banks have had in recent years in connection with the removal of non-member banks from the par list, it is not believed that the policy outlined in the Board's telegram will result in any material impairment of the par collection system.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7194-a

July 1, 1932

YOUNG BOSTON	HARRISON NEW YORK	NORRIS PHILADELPHIA	FANCHER CLEVELAND
SEAY RICHMOND	BLACK ATLANTA	McDOUGAL CHICAGO	MARTIN ST. LOUIS
GEERY MINNEAPOLIS	HAMILTON KANSAS CITY	McKINNEY DALLAS	CALKINS SAN FRANCISCO

Replies to Board's wire June 23 re absorbing tax on remittance drafts for cash letters discloses that seven reserve banks oppose the absorption of such taxes, three favor it, and the positions of two are doubtful. Board is of opinion that, as matter of System policy, reserve banks should not reimburse remitting banks for tax on remittance drafts. Tax levied on drawers of drafts and should not be absorbed by Reserve Banks for same reasons that they should not absorb any other taxes levied on member or nonmember banks. In view of reasonableness of this position and fact that amount involved for each remitting bank is very small, believe no great difficulties should be encountered and that very few, if any, withdrawals from par list should result if situation is explained properly to banks raising the question. Experience of one reserve bank of which we have already been advised supports this belief. Law and regulations require member banks to remit at par for checks forwarded to them for collection by reserve banks and latter are forbidden to receive for collection checks on nonmember banks which cannot be collected at par. Deduction of tax from remittance drafts is not par remittance. Letter follows.

MORRILL

WW/gc

X-7194-b

SUMMARY OF VIEWS OF FEDERAL RESERVE BANKS RE ABSORPTION OF TAX ON REMITTANCE DRAFTS FOR CASH LETTERS.

The following is a summary of the replies of the various Federal reserve banks to the Board's telegram of June 23, 1932, inquiring whether, in view of the uniform practice of the Federal reserve banks absorbing certain costs in connection with the par collection of checks, such as those involved in shipments of cash by member banks in settlement of cash letters, the Federal reserve banks, as a matter of system policy, would now be justified in reimbursing member and nonmember banks for the 2¢ tax on drafts sent in remittance for checks and drafts forwarded to them for collection or payment by the Federal reserve banks under Regulation J.

BOSTON — No

NEW YORK — No

PHILADELPHIA — No. Would be illogical and would establish bad precedent. In view of possibility of withdrawals from par list, suggest that no announcement of policy be made "until after regulations have been issued and subject clarified".

CLEVELAND — Yes. Strongly recommends adoption of uniform system policy of absorbing tax on all remittance drafts. Refusal to do so would encourage removal of nonmember banks from par list, thus impairing efficiency of check collection system. Many member banks have requested Federal reserve bank to accept their advice of credit as payment

for cash letters in order to escape tax and this would be a step backward because of tendency to change agency relationship which all Federal reserve banks have tried to strengthen and preserve. If reserve banks absorb tax on remittance drafts, all incentive to adopt subterfuges to avoid the tax will be removed and efficiency of check collection system preserved.

RICHMOND. No. Do not believe it good policy to absorb any kind of tax and it is not correct in principle.

ATLANTA. Doubtful. Amount involved in absorbing tax by reserve bank of Atlanta would be small - only about $3750 per year. As matter of policy would be entirely willing to absorb this cost. Doubt remains as to whether as matter of policy we should pay this tax for member and nonmember banks, since under Federal Reserve Act we are exempt from Federal taxes and it might be bad policy in the face of such exemption for us to voluntarily absorb any taxes. My personal opinion in view of this doubt is that tax probably should not be absorbed. However if system policy is adopted of absorbing such taxes this bank will readily acquiesce.

CHICAGO. No. Drawer of checks should pay tax on remittance drafts.

ST. LOUIS. Yes, if matter develops so as to jeopardize par list. Requests so far in Eighth District not sufficient to justify serious consideration from standpoint of effect on par list. Uniform action throughout System essential.

MINNEAPOLIS. Yes. Inclined to think it would make better feeling among banks, especially nonmembers, if we were to absorb the tax. If we do not some nonmember banks will withdraw from par list. Already assume shipping charges on currency and wire costs on transfers and 2¢ additional would be small item.

KANSAS CITY. No. If reimbursement were made to member banks it would serve to diminish Federal revenue by reducing amount of franchise tax paid by reserve banks.

DALLAS. No. Congress has attempted in the new tax bill to make an equitable distribution of the tax burden, basing it upon business activity and other considerations and has specifically provided that the maker or drawer of a check or draft should pay the tax thereon and it is our thought we should no more absorb that item than we should a portion of a member banks other taxes. If we should reimburse the banks the expense would be absorbed out of funds that might otherwise be paid to treasury as franchise tax at end of year and thus the very purpose of the Revenue Act to that extent would be defeated. Aside from this, we are rendering very substantial amount of free service to member banks and we do not believe that in all fairness we are warranted at this time in increasing the amount of expense absorbed by us. We have not had and do not anticipate having any

(Dallas, continued)

serious difficulty in this connection. A few banks deducted the tax from their first remittances but, upon our advising them with reference to the law, they readily agreed with our position and have not repeated the deduction. This is true of both member and nonmember banks.

SAN FRANCISCO. Position doubtful. Telegram of June 20 said Federal Reserve Bank of San Francisco would not absorb tax, but telegram of June 23 says, Reserve bank is now in receipt of drafts issued by member and non-member banks in settlement cash letters sent to them from which remitting bank has deducted 2 cent tax on covering draft. It would seem that absorption of this charge by Reserve Bank would ultimately come out of public treasury through lessening of profits which may hereafter inure to government. Any ruling by commissioner Internal Revenue to effect that deduction of tax by remitting bank would nullify law and therefore prohibited would cause banks having accounts with reserve bank to discontinue use settlement drafts and adopt practice of giving credit advices. From standpoint check collections, use of credit advices is extremely dangerous; because it would set up debtor and creditor relationship which System has taken great pains to avoid. Counsel of opinion that Commissioner Internal Revenue may rule that drafts issued to Reserve Banks in settlement cash letters not subject to tax. If nonmember

banks insist upon deducting tax, reserve banks have no alternative but to pay or open wide whole par collection question.

WW/sad

6 29 32

X-7195

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

June 21 to 30, 1932.

	$10	$20	$50	$100	$500	$1000	Total Sheets	Amount
Chicago,.....	54,000	54,000	32,000	54,000	9,950	7,500	211,450	$19,559.13
Minneapolis,..	-	-	5,000	5,000	-	-	10,000	925.00
	54,000	54,000	37,000	59,000	9,950	7,500	221,450	$20,484.13

221,450 sheets, @ $92.50 per M, ...$20,484.13

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7196

July 7, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEJECT" has been designated to cover a new issue of Treasury Bills, dated July 13, 1932, and maturing October 11, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEGRAD" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7200

July 15, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEMON" has been designated to cover a new issue of Treasury Bills, dated July 20, 1932, and maturing October 19, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEJECT" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7202

July 18, 1932.

SUBJECT: Shipments of Canceled Currency
Under New Postal Regulations.

Dear Sir:

An inquiry has been received as to the effect of the new rates on registered mail upon shipments of canceled currency to Washington. Since the matter affects the Treasury Department, advice from that Department has been requested. A copy of the reply signed by Under Secretary Ballantine is inclosed, and your attention is directed to the statement in the letter that such currency "no longer possesses money value". In the circumstances it would seem unnecessary to declare a value upon such shipments which would make them subject to the surcharges prescribed by the new regulations.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS.

C O P Y X-7202-a

TREASURY DEPARTMENT

WASHINGTON

July 13 1932

Dear Mr. McClelland:

Referring to your communication of the 7th to the Commissioner of the Public Debt, with which you enclosed a copy of a wire from the Federal Reserve Bank of Dallas, I think it will be appropriate for you to advise that bank, and any other banks, that paper currency which has been redeemed, canceled, and cut in halves no longer possesses money value. Of course, the canceled halves are important as vouchers, but under the procedure in effect - the second halves not being forwarded until receipt of the first halves is acknowledged by the Treasury - there is almost no chance of loss.

Very truly yours,

(S) A. A. BALLANTINE
Under Secretary of the Treasury

E. M. McClelland, Esq.,
Assistant Secretary,
Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7203

July 25, 1932.

SUBJECT: Tax on Checks, and Other Questions
Arising under the Revenue Act of 1932.

Dear Sir:

Inclosed are three copies of a letter addressed to the Secretary of the Treasury dated July 16, 1932, signed by Governor Meyer asking numerous questions arising under the Revenue Act of 1932. The questions deal principally with the tax on checks imposed by Section 751a. Questions arising under other sections of the Act are also covered and will be found on pages 3 and 25 of the inclosed letter.

The letter was prepared in order to facilitate and expedite consideration by the Treasury Department by eliminating duplications and by re-grouping and rearranging the questions and inclosures contained in the letters received from the reserve banks. Conferences were had with the Treasury officials both before and after July 16.

It now appears that the reply of the Secretary of the Treasury will not be received for a day or two, although it had originally been hoped that the reply would be received before the

end of last week.

Accordingly, a copy of the letter of July 16 is being sent to you at this time in order that you may, if you so desire, familiarize yourself with its contents and thus shorten the time required for the examination of the answer of the Secretary of the Treasury, and also in order that this office may telegraph to you, if necessary, a summary of the reply of the Secretary of the Treasury, with references to the questions by number, without having to repeat the questions in the telegram.

Very truly yours,

Chester Mortill,
Secretary.

Inclosures.

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7203-a

July 16, 1932.

Honorable Ogden L. Mills,
Secretary of the Treasury,
Washington, D. C.

S I R :

On behalf of the Federal reserve banks, rulings by your Department are respectfully requested on the questions set forth below, all of which arise under the Revenue Act of 1932 out of transactions incident to the conduct of the business of the Federal reserve banks.

The various Federal reserve banks have addressed separate letters and telegrams to the Federal Reserve Board stating the questions upon which they desire rulings and submitting sample copies of the forms used in the transactions referred to; but, in order to eliminate duplications and to facilitate consideration by your Department, the various questions have been assembled in this letter and grouped according to the types of transactions out of which they arise, excepting the first group which consists of questions all of which are believed to be governed by the same legal principles and precedents.

Numerous different questions which apparently involve the same general principles are being presented at the request of the reserve banks; because the practices of various Federal reserve banks are not uniform and, even at the same Federal reserve bank, the same type of transaction may assume a number of different forms; and it would be helpful to the Federal reserve banks to have specific rulings on each of the questions presented. The answers to some of the questions may appear to be obvious; but the Federal reserve banks have specifically asked that rulings on such questions be obtained from your Department.

Specimens of all of the forms submitted by the Federal reserve banks are inclosed herewith in two separate groups. Those in the group marked "Appendix A" are specifically referred to in this letter as illustrative of the transactions described. Those in the group marked "Appendix B" are not specifically referred to in this letter, but are submitted for the inspection of your Department.

I TAXABILITY OF FEDERAL RESERVE BANKS.

1. Does the tax imposed by Section 751(a) apply to checks drawn on Federal reserve banks by their own officers acting in their official capacities?

2. Does the tax imposed by Section 701(a) (2) apply to leased telephone and telegraph service contracted for, used and paid for by the Federal reserve banks?

3. Does the tax imposed by 701(a) (1) apply to telegraph, telephone, cable and radio messages sent by the reserve banks or sent to them collect, which are paid for by the reserve banks and for which no reimbursement is received by them? (Instances of the latter sort are described in Exhibits 1 and 2).

4. Does the tax imposed by Section 701(a) (1) apply to messages paid for by the reserve banks but for which they are later reimbursed by other banks, such as messages sent by the reserve banks in performing services for other banks?

5. Is electrical energy furnished to Federal reserve banks for their own use subject to the tax imposed by Section 616(a)?

6. Do the taxes on fuel oil and other articles of merchandise imposed in Article IV of the Revenue Act of 1932 apply when such articles are purchased by the reserve banks for their own use?

COMMENTS.

In connection with the above questions, reference is made to the following:

Federal Reserve Act (Act of December 23, 1913; 38 Stat. 251, Chap. 6), section 7:

> "* * * Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate."

Opinion of the Attorney General of the United States addressed to the Secretary of the Treasury under date of March 10, 1916, holding that the above-quoted provision of the Federal Reserve Act exempted Federal reserve banks from the provisions of the Act of October 22, 1914 (38 Stat. 759) imposing, in general terms, a stamp tax on stock certificates. (30 Op. Atty. Gen. 511.)

A letter from the Commissioner of Internal Revenue, addressed to the General Counsel of the Federal Reserve Board under date of November 8, 1917, and referred to at page 921 of the 1917 Federal Reserve Bulletin. The body of the letter is quoted below:

> "Referring to your letter of the 3d instant, I have to advise you that it is the opinion of this office that Federal Reserve Banks are not subject to the tax upon payments for telephone, telegraph and express service when such payments fall directly upon the banks."

II. VARIOUS FORMS OF REMITTANCES OR SETTLEMENTS FOR CHECKS AND COLLECTION ITEMS.

Pursuant to the provisions of Sections 13 and 16 of the Federal Reserve Act and Regulation J of the Federal Reserve Board, a copy of which is inclosed herewith, the Federal reserve banks act as clearing houses and collect checks for their member banks, which maintain deposit balances with the Federal reserve banks as their legal reserves, and for non-member banks which establish deposit balances with the Federal reserve banks for the purpose. The Board's regulations on this subject are supplemented by circulars issued by the Federal reserve banks, copies of which are attached (Exhibits 3 and 4). Each Federal reserve bank receives each day numerous checks drawn upon banks in its district and forwards them to the drawee banks for payment. The usual procedure is to send all the checks received during each day drawn on a particular bank to that bank, with one covering letter. The covering letter is known as a "cash letter". The total amount of the checks thus transmitted is accounted for to the Reserve bank in any one of several ways, the principal ones being, (a) by authorizing the Federal reserve bank to debit the amount to the deposit balance of the remitting bank on the books of the Federal reserve bank, and (b) by sending the Federal reserve bank a check or draft drawn upon the remitting bank's deposit with the Federal reserve bank or a correspondent bank. The reply to the cash letter will also state the amount, if any, of the items which are returned to the reserve bank (because not collected or for some other reason),

and this amount is accordingly deducted from the total stated in the cash letter. The transaction is illustrated by Exhibit 5, which is a detachable portion of the cash letter sent by one reserve bank, and Exhibit 6, which is a form furnished by another reserve bank.

The Federal reserve banks also collect for their member banks promissory notes, bills of exchange and other similar items and the procedure in forwarding and accounting for such items is similar, so far as the questions here presented are concerned to that followed in connection with the collection of checks, except for differences in detail which are indicated in Questions 8 to 11 below. For convenience, such items are commonly referred to as "non-cash items", in order to distinguish them from checks and similar items payable on demand at banks, which are commonly referred to as "cash items".

1. Is a tax payable in the event that a member bank, in response to the cash letter, authorizes the Federal reserve bank to debit the amount to its deposit balance with the Federal reserve bank, (a) by a specific authorization in the form indicated in Exhibits 5 and 6; or (b) by returning to the Federal reserve bank a memorandum slip (Exhibit 7) merely stamped "debit" or "paid", which has by custom the effect of such authorization?

2. In some cases the reserve bank is given a continuing authorization to charge the account of the member bank with the net amount of each "cash letter" sent to that bank. Is such authori-

zation taxable? If so, is it taxable once, or each time an entry is made?

3. Is the tax payable in the event that the bank makes remittance of the amount called for by its reply to the cash letter, by means of a draft or check, (a) drawn against its deposit balance with the Federal reserve bank? or (b) drawn against a deposit in a correspondent bank?

4. In one instance the cash letter has a detachable portion which performs the same functions as those contained in Exhibits 5 and 6 but which is in the form of a draft and which is marked "Settlement draft". This "Settlement draft" is not dealt with as an ordinary draft in that it is never returned to the drawer, but, like the forms in Exhibits 5 and 6, is held by the reserve bank as a part of its records. Is such a "Settlement draft" taxable? (See Exhibit 8)

5. In the event that any of the transactions described in the preceding questions is taxable, is only one tax imposed, or is the tax payable with regard to each separate item inclosed with the cash letter, when a single settlement is made for the total amount of such items?

6. It sometimes occurs that, in its response to a cash letter, the member bank will incorrectly state the amount chargeable against its reserve account, usually because it has failed for some reason to return and deduct an item which should have been returned and deducted because uncollectible or for some other reason.

In that event, it communicates again with the reserve bank advising it of the correcting book entry to be made. Is such a transaction taxable?

7. In certain reserve districts, in order to achieve greater promptness in settlement, where drafts are sent in settlement of cash letters, the drafts are required to be on certain member banks which have previously agreed that such drafts may be immediately charged against their accounts by the reserve bank, without waiting for the draft to be sent to the drawee bank. After such a charge is made, the reserve bank notifies the bank upon which the draft is drawn so that it may keep its books in order and forwards the draft to it. (For a form of such notification, see Exhibit 9) Is such notification taxable?

8. In connection with non-cash items, a printed slip is often attached to each item when it is forwarded for collection by the Federal reserve bank, such slip taking the place of a letter of transmittal. Acknowledgment of receipt of the item, acknowledgment that payment has been received, and authorization to the reserve bank to charge its account is made by the bank receiving it, by returning a carbon copy of the slip stamped "paid" or "debit". Is this transaction, or the returned slip, taxable? (Exhibit 10 is an example)

9. Is the result different if the collecting bank merely advises the reserve bank that it has credited the latter's account, which is an implied authorization to the latter to make a corresponding entry on its books? (Exhibit 11)

10. Promissory notes, bills of exchange and other non-cash collection items which are payable by persons located in the same city

as the Federal reserve bank or its branch are sometimes presented by the Federal reserve bank directly to the persons by whom they are payable, and such persons give the Federal reserve banks in payment for such items checks drawn on member banks in the same city. In such cases the Reserve bank immediately presents such checks by messenger to the banks on which they are drawn and the drawee banks give the Federal reserve bank drafts against their deposit balances with the Federal reserve bank. Are such drafts subject to the tax?

11. In the circumstances described in the preceding question, the bank, instead of sending a draft, sometimes authorizes the reserve bank to charge its account. Is this transaction taxable?

COMMENTS.

It has been suggested that, under the language of the statute, the tax is levied on "instruments", and not on transactions or on debits or credits; that, in order for an "instrument" to be taxable, it must be "presented for payment" and must be a check, draft or order "for the payment of money"; and that, therefore, a mere authorization to debit the account of a bank on the books of the Federal reserve bank is not an order "for the payment of money", is never "presented for payment", and is not taxable under the statute.

The argument has also been made by some of the Federal reserve banks that the imposition of any tax on these transactions results in pyramiding the tax, since the tax has already been paid upon the checks or drafts for which payment or settlement is made by the transactions described above.

III. CLEARING HOUSE TRANSACTIONS.

The questions under this heading involve the settlement of balances resulting from exchange of checks between banks. The settlement of balances resulting from the exchange of checks through the Newark Clearing House Association, Newark, New Jersey, will illustrate this type of transaction. Each business day each bank in the Clearing House Association takes to the office of the association checks deposited with such bank drawn on other banks in the association, and messengers representing the respective banks in the association call for and receive the checks drawn on their banks. Each bank is credited with the amount of the checks drawn on the other banks which it brings to the clearing house and is debited with the amount of the checks drawn on it which other banks bring. There is a net credit or debit balance in favor of or against each bank as a result of the day's exchanges, and the aggregate of the net credit balance must, of course, be exactly equal to the aggregate of the net debit balances. The amounts of the net credit and debit balances to all banks are written on the clearing house statement for that day and this statement, signed by an officer of the Clearing House Association, is sent by messenger to the Federal Reserve Bank of New York, and the balances as shown on the statement are settled on the books of the Federal reserve bank by credits and debits to accounts of member banks. The balances in favor of or against banks which are members of the Federal Reserve Bank are

credited or debited to the accounts of such banks on the books of the Federal reserve bank. The balances for or against other banks, i. e. banks which are not members of, and therefore have no account with, the Federal reserve bank are, by arrangement between the banks concerned, credited or debited to the accounts of designated banks in New York City which are members of the Federal reserve bank. These credits and debits are made by the Federal reserve bank pursuant to continuing letters of authorization on file with it signed by the various banks. Copies of the three forms of letter of authorization used for this purpose are hereto attached and marked Exhibits 12, 13 and 14, and a copy of the form of Newark Clearing House Association statement furnished each day to the Federal reserve bank is also attached and marked Exhibit 15.

The questions asked in this connection are:

1. Are any of the above-described transactions which consist merely in book entries, taxable?

2. Is the clearing house statement above referred to (Exhibit 15) subject to the tax?

3. Are the letters of authorization (Exhibits 12, 13 and 14) subject to tax? If so, are they taxable once, or each time an entry is made, or as to each item covered by each entry?

4. In some instances the clearing house issues certificates showing the net balances. Such a certificate is issued to a creditor bank called upon a debtor bank to pay the creditor bank the amount

stated therein. No accounts are carried in any of the clearing house banks in the name of the manager for the purpose of effecting settlement pursuant to the certificates, and these certificates are issued by the clearing house manager merely as memoranda to facilitate the settlement of balances between the members of the clearing house association. The Federal reserve bank participates in the clearings and certificates issued in its favor against member banks are charged against their deposit balances on the books of the Federal reserve bank pursuant to standing authorizations. Are such certificates subject to the tax?

5. In some instances (particularly where banks are so located as not to be in communication by messenger with the Federal reserve bank) a group of banks adopt, by agreement, the procedure of forwarding each day to each member of the group all the items they receive that are payable by or through that member of the group, forwarding to the reserve bank a form on which are listed the names of all the other members of the group together with the amount of the items that it has forwarded to each. When received by the reserve bank, this form is used as an authorization to make the appropriate entries in the accounts of the banks in the group. In practice, however, instead of making several entries, the reserve bank strikes the balance from the advices sent by all the members of the group and makes each day only one entry in each of their accounts, representing the net balance for the particular bank. Examples of these forms are attached hereto, marked Exhibits 16 and 17.

Is the use of these forms in the manner above-described taxable?

6. Are the resultant book entries made by the reserve bank taxable?

7. In certain instances, the Federal reserve bank itself acts as a clearing house, receiving the checks from the various banks, striking the balance and making the appropriate entries in the accounts of the various banks. Are these transactions taxable?

8. In certain instances the Federal reserve bank performs these services even for banks which have no account with it (i.e., banks not members of the Federal Reserve System). Where such banks are located in the same city as the reserve bank, the method adopted is for the drawee bank to send a messenger to the reserve bank to get the checks drawn on it which have been forwarded to the reserve bank for collection. The checks are immediately charged to the account of a member bank which has authorized the reserve bank to do so, and credited to the bank which forwarded them. In the event that the check is later dishonored, the book entries are reversed. Exhibits 18, 19 and 20 are copies of such authorizations. Are such authorizations taxable?

IV. MEMBER BANKS OBTAINING CURRENCY FROM RESERVE BANKS.

A member bank desiring currency usually obtains it from the Federal reserve bank, and the amount usually is debited on the books of the Federal reserve bank to the deposit balance maintained by the member bank with the Federal reserve bank as the legal reserve of the member bank. Such requests for currency and the authorizations to debit the reserve balances assume a variety of forms and give rise to the following questions:

1. Is such a request by a member bank for the shipment of currency to it taxable when made by telephone and not confirmed in writing?

2. If such a request is made by telephone but confirmed in writing after the shipment of the currency, is it taxable?

3. If a messenger sent to the Federal reserve bank delivers merely a receipt for the currency and receives the currency, is the transaction taxable? (Exhibit 21)

4. If the messenger in such a case delivers a check or draft drawn on the Federal reserve bank for the amount of the currency, is the transaction taxable?

5. If a written request for currency is accompanied by a check or draft, are both the check and the request taxable?

6. When the transaction is completed, the reserve bank frequently sends a confirmation on a printed form to the member bank. (See Exhibit 22) Is this document taxable, whether or not any other part of the transaction is taxable?

COMMENTS.

In this connection, reference has been made to the language of the court in Haverty Furniture Co. v. United States, 286 Fed. 985-986, which indicates that a mere receipt for currency delivered across the counter was not taxable under a similar provision of the Revenue Act of 1898. This principle is adopted in Article 36 of Regulation 42, dealing with Section 751 (a).

V. TRANSACTIONS INCIDENT TO REDISCOUNTS AND ADVANCES BY FEDERAL RESERVE BANKS.

1. Federal reserve banks extend credit accommodations to their member banks: (a) By rediscounting, on the indorsement of their member banks, the commercial, industrial and agricultural paper acquired by them from their customers; and (b) by making advances to their member banks on their promissory notes secured in the manner prescribed by law. In either event, the proceeds usually are made available to the member bank by crediting the amount to the deposit balance of the member bank on the books of the Federal reserve bank. Are such credit entries taxable?

2. At the maturity of the rediscounted paper or the promissory notes of the member banks, the Federal reserve banks, pursuant to agreements or regulations previously made, return the rediscounted paper or promissory notes to the member banks and debit the amounts due thereon to the deposit balances of the member banks on the books of the Federal reserve banks. Are these transactions taxable?

3. The member bank frequently desires to have its promissory notes or rediscounted paper returned to it prior to the time when it would be returned in due course as described above. Its reason for so desiring may be, for instance, that the maker of the instrument desires to pay it before maturity, or it may be that the member bank desires to decrease the total amount of the paper rediscounted for it by the

reserve bank. In such case the member bank communicates with the Reserve Bank by letter or by telegram, requesting that the item be returned to it, and, either impliedly or actually in words, authorizing the reserve bank to debit its deposit balance on the books of the reserve bank with the amount due thereon. Are these transactions, (i.e., the book entries, the transmission of the instruments, or the communications requesting the return of the instruments and authorizing the book entries) taxable?

(See Exhibits 23 and 24, being a circular letter describing the transaction, and a printed memorandum slip in two parts, one of which is called "debit ticket". See Exhibits 25 and 26 being examples of a form of letter and a telegram asking for a change in the usual procedure.)

COMMENTS.

I am advised that it has been held by the courts that the indorsement and rediscount of commercial paper by a member bank with a Federal reserve bank results in an indebtedness owing by the member bank to the Federal reserve bank (see Federal Reserve Bank of Minneapolis v. First National Bank, 277 Fed. 300), and, of course, this is true where the member bank gives its own promissory note to the Federal reserve bank for money borrowed. It has been suggested, therefore, that, where a member bank authorizes a Federal reserve bank to debit its deposit balance with the amount due on rediscounted paper or on the promissory note of the member bank, whether due or not, the transaction is a mere offset of indebtedness between mutual creditors and that the transaction is not taxable.

VI. INTER-BANK TRANSFERS OF FUNDS.

One of the important functions of the Federal Reserve System is to facilitate the transfer of funds between banks. This function is performed (with unimportant exceptions) free of charge for members of the System. It is done as far as possible without resorting to shipments of currency.

Transfers between member banks in the same Federal Reserve District are made merely by means of entries on the books of the Reserve bank. The steps involved in such transaction are: (1) A member bank requests the reserve bank to transfer an amount on its books from the reserve account of the requesting bank to the account of another bank, (2) the reserve bank makes the transfer on its books, and (3) the bank to whose account the transfer is made is notified. If the bank to which the transfer is made is located in another District, the second step must consist in (a) a transfer from the account of the requesting bank to the account of the reserve bank for the District in which is located the bank to which the transfer is made, and (b) a transfer by that reserve bank to the account of the latter. If the latter has no account with the reserve bank, the reserve bank transfers to the account of a bank which has and which is a correspondent of the bank to which the transfer is made. For the purpose of effecting transfers between two Federal reserve banks (where the transfer is from one District to another), the Gold Settlement Fund is maintained in Washington. This fund was created by a deposit of gold by each Federal reserve bank with the Treasurer of the United States to the credit of the Federal Reserve

Board, which maintains books showing the amount due to each Federal reserve bank. The Federal reserve banks each own an undivided interest in this fund and advise the Federal Reserve Board each day of the transfers made to each other. The Board makes appropriate book entries transferring interests in the Fund equivalent to the transfers of funds made between the Federal reserve banks.

Member banks make their requests for transfers in many ways:- by letter, (Exhibit 27), telegram, (Exhibit 28) telautograph, and telephone. After the transfer has been made, the Federal reserve bank sends a memorandum of the transaction to the member bank, and executes appropriate vouchers, and makes appropriate entries on its books. Exhibit 29 attached hereto consists of a circular letter of the Federal Reserve Bank of Philadelphia dealing with such transfers and various printed memorandum slips used in connection therewith. See also Exhibit 2.

(1) Are such transfers of funds by one Federal reserve bank to another at the request of a member bank, made by means of a telegram or letter sent by one Federal reserve bank to another, taxable?

(2) Is a request for such a transfer, made by the member bank, taxable if made by telephone and not confirmed in writing?

(3) Is such a request taxable if made by telephone and confirmed in writing after the transfer has been made?

(4) If made by telautograph or telegram and not confirmed in writing?

(5) If made by telautograph or telegram and subsequently confirmed in writing?

(6) If made by letter? (Exhibit 30, See also Exhibit 31 being a printed form for such request).

(7) If such requests are taxable if made by telephone, then when a number of such requests are made in the course of one day and the Federal reserve bank makes only one book entry for the total amount at the conclusion of the day, is one tax only imposed or is each separate request taxable?

(8) In the event that a request for transfer of funds made by letter is taxable, is a letter containing a request for several transfers subject to taxation once, or several times depending upon the number of transfers requested in the letter? (In this connection it has been suggested that, if taxable at all, such requests are subject to only one tax since they are contained in one letter or memorandum).

(9) Requests for such transfers are sometimes accompanied by a draft for the amount to be transferred. Is such draft taxable?

(10) If so, is the letter transmitting the draft and making the request also taxable?

(11) Is a receipt or acknowledgment on a printed form sent by the reserve bank to the member bank in response to a letter such as is described in the preceding question (Exhibits 32, 33, 34 and 35) also taxable?

(12) When a bank located in one Federal Reserve District requests that a transfer be made to a bank located in another District, the steps incident to completing the transaction include a transfer by the Federal reserve bank of the District in which the requesting bank is located to the Federal reserve bank of the District in which the transferee bank is located and a transfer from the latter reserve bank to the transferee

bank, both transfers being accomplished by means of book entries in the accounts of the respective banks. Is the latter transfer taxable?

(13) Transfers are also made by Federal reserve banks between two member banks located in its district. Requests for such transfers take the same forms as the transfers described above, but such transfers are accomplished merely by means of book entries in the reserve accounts of the two banks involved. Are such transfers taxable when the requests are made in any of the different ways described above, (including messenger, telephone, written memorandum, etc.)?

VII. TRANSFERS TO 5% REDEMPTION FUND, WAR LOAN DEPOSIT ACCOUNT AND RECONSTRUCTION FINANCE CORPORATION.

National banks issuing national bank notes are required by statute to maintain with the Treasurer of the United States a Redemption Fund equal to 5% of their notes in circulation. When necessary, a national bank will in most instances make additions to its 5% Redemption Fund by requesting the Federal Reserve Bank of its district to transfer the required amount to the account of the Treasurer of the United States. Such requests are made substantially in the following form: "Please charge our account $---- and credit the Treasurer of the United States for the account of our 5% Redemption Fund". The reserve banks prepare "debit tickets" covering the necessary book entries and send copies, or similar slips, to the member banks for their records. Samples of such forms are attached, marked Exhibits 37 and 38.

1. Is such a request taxable?

2. Sometimes such a request is accompanied by a draft. Is the draft or the written request taxable?

It has been contended by some of the reserve banks that such transfers to officers of the United States are not taxable in any event.

3. Similar questions are also raised with regard to transfers from the reserve account of a member bank to the Treasurer of the United States as payments on the War Loan deposit of the bank giving the direction (representing its subscription to United States securities.)

4. From time to time borrowing institutions repay on advances made by the Reconstruction Finance Corporation, doing so (a) by means of instructions to the Reserve bank to charge the borrowing bank's account and to credit the Treasurer of the United States for account of the Reconstruction Finance Corporation, and (b) by means of drafts. Debit tickets are prepared by the reserve bank and similar slips are forwarded to the requesting bank for its records. (Exhibit 39) Are either the instructions, the debit tickets and slips, or the drafts taxable?

VIII. MISCELLANEOUS TRANSACTIONS.

(a) Purchase of Securities by Reserve Banks on Behalf of Member Banks.

Member banks frequently request reserve banks to purchase Government or other securities, or bankers' acceptances for them, authorizing the reserve bank, either impliedly or specifically, to charge their reserve account with the cost. Such requests are made in a variety of ways.

1. Is such request taxable if made by telephone and not confirmed in writing?

2. If made by telephone and subsequently confirmed in writing?

3. If made by letter not specifically authorizing the reserve bank to charge the account of the requesting member bank?

4. If the request described in the preceding question contains a specific authorization to charge the member bank's account?

5. If the reserve bank, when the transaction is completed, sends to the member bank a memorandum confirming the transaction and stating the amount of the charge, is such confirmation taxable? (Exhibit 40).

(b) Incidental Expenses, Telephone Calls, etc.

6. In connection with transactions of this type as well as numerous others, the reserve banks have occasion to charge the accounts of member banks, without specific authorization, with

expenses incurred in connection with telephone, telegraph, shipping charges on securities, etc. The member bank is notified by sending to it a copy of the "debit ticket" made out by the operating department which incurred the expense, or else a list of the expenses which have been charged to its account is sent to the member bank at the end of the month. Are such "debit tickets", book entries or memoranda taxable?

7. Are telephone calls and telegrams subject to a tax when they pertain to Fiscal Agency or Reconstruction Finance Corporation business when the cost falls directly on the Treasury Department or the Reconstruction Finance Corporation?

(c) Member Bank Subscriptions to Stock of Federal Reserve Banks.

8. All banks which are members of the Federal Reserve System are required to subscribe to the capital stock of the Federal reserve bank in an amount equal to 6% of their own unimpaired capital and surplus. As a member bank's capital and surplus accounts are increased it is necessary to subscribe for a proportionate increase in its holdings of Federal reserve bank stock. Infrequently, drafts are drawn in favor of the Federal reserve bank for these payments. Usually when subscribing for this additional stock the member bank authorizes a charge to its account. (See Exhibit 41). In the latter case, is the transaction taxable?

(d) Correction Entries.

9. Member and nonmember banks make deposits of coin or currency with the reserve bank, receiving immediate credit subject to

verification. Occasionally in process of verification the Reserve Bank finds counterfeits and shortages for which a debit is prepared (Exhibit 42) and charged to the depositing bank's account. Are such entries taxable?

10. A similar question is raised with regard to maturing coupons deposited with the reserve bank. When mutilated or unmatured coupons are discovered, the coupons are returned to the depositing bank and charge made to its account. (Exhibit 43) Are such transactions taxable?

(e) Penalty for Insufficient Reserves.

At periodic intervals an analysis is made of each member bank's reserve account to determine whether adequate reserves have been carried during the period, as required by the Federal Reserve Act. If the reserves have not been properly maintained, a penalty is assessed pursuant to the Federal Reserve Act and the regulations of the Federal Reserve Board. The penalty is charged to the reserve account of the member bank by the Reserve bank itself. (Exhibit 44). Is such a charge taxable?

Rulings at the early convenience of your Department on the the questions herein presented will be greatly appreciated. If further information is desired respecting any of the transactions described in this letter it will be furnished promptly on request; and, if conferences with the Board's General Counsel or with

officers or counsel of the Federal reserve banks are desired, they can be arranged on short notice.

Very truly yours,

(Signed) Eugene Meyer.

Eugene Meyer
Governor

GHC/WW/gc/omc/mw

FEDERAL RESERVE BOARD

WASHINGTON X-7204

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 18, 1932.

SUBJECT: Holidays during August, 1932.

Dear Sir:

The Federal reserve banks and branches listed below will be closed on the dates specified during the month of August, on account of holidays:

Monday	August	1	Denver	Colorado Day
Tuesday	"	2	St. Louis	Primary Election
			Kansas City	" "
Thursday	"	4	Nashville	" "
			Memphis	" "
Tuesday	"	30	San Francisco	" "
			Los Angeles	" "

On the dates indicated the offices affected will not participate in either the Gold Fund or the Federal reserve note clearing. Please include credits for the offices affected on each of the holidays with your credits for the following business day in the Gold Fund clearing and make no shipments of Federal reserve notes for account of the head offices affected on the holidays mentioned.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

X-7205

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 18, 1932.

SUBJECT: Taxability of Checks and Drafts Used in Remitting for Items Payable to Officials of the Government.

Dear Sir:

Under date of July 2, 1932, the Federal Reserve Board addressed a letter to the Secretary of the Treasury requesting a ruling of the Treasury Department on certain questions with regard to the application of the tax imposed by Section 751 of the Revenue Act of 1932 to checks and drafts drawn by banks on their correspondent banks in remitting to the Federal reserve banks for checks and drafts drawn on themselves payable to Collectors of Internal Revenue, Collectors of Customs, and other officials of the Government in their official capacities and sent to the drawee banks by the Federal reserve banks for collection. The Board has now received a letter from the Acting Secretary of the Treasury answering the question submitted; and I inclose herewith for your information a copy of the Board's letter and of the reply thereto.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7205-a

Jul 2 - 1932

Honorable Ogden L. Mills,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

Under the provisions of Section 22 of Treasury Department Circular No. 176, the Federal Reserve Banks, as you know, receive checks and drafts from Collectors of Internal Revenue, Collectors of Customs, and other depositors of public money for collection and credit to the Treasurer of the United States. Many of these checks and drafts are drawn on banks which are not members of the Federal Reserve System; and the Federal Reserve Bank of Atlanta advises that, while certain of the nonmember banks in its district are willing to remit at par for such checks and drafts, they are unwilling to pay the Federal tax on their own checks and drafts sent to the Federal Reserve Bank in payment for such items and are deducting two cents for each remittance to reimburse them for the tax. In these circumstances, rulings from your Department will be appreciated on the following questions:

1. Whether the tax imposed by Section 751 of the Revenue Act of 1932 applies to checks and drafts drawn by banks on their correspondent banks in remitting to the Federal Reserve Banks for checks and drafts drawn on themselves payable to Collectors of Internal Revenue, Collectors of Customs, and other officials of the Government in their official capacities and sent to the drawee banks by the

Federal Reserve Banks for collection;

2. If so, whether the issuing banks may deduct two cents from each remittance to reimburse themselves for the tax; and

3. If so, whether the Treasurer of the United States will accept credit on the books of the Federal Reserve Bank for the amount of the checks and drafts covered by each remittance minus the two cent tax on the remittance check or draft.

For your further information in this connection, there is quoted below an extract from an opinion addressed to the Cashier of the Federal Reserve Bank of Atlanta by the General Counsel of that bank under date of June 23, 1932.

> "You state that you receive a very large number of checks from the United States government disbursing officers or departments, drawn on non-par (and, of course, non-member) banks located in this and other districts. You send these items for payment to the banks on which they are drawn, if located in this district. Your cash letters enclosing such items contain instructions to the drawee to remit to you at par or to return the items if they are unwilling to remit at par. These non-member banks are now deducting two cents from the remittances, representing the tax they have to pay on their own remittance checks. You state that, in your opinion, such remittance checks should not be subject to the tax because they are issued in payment of checks representing monies paid to the Government.
>
> "I am inclined to believe that the checks are subject to the tax. It was not the purpose of the Act to tax checks, drafts or orders drawn by the officers of the United States in their official capacities against public funds standing to their official credit. I do not think, however, that the Act intended to provide any immunity from taxation in favor of a private citizen merely because he might happen to utilize a personal check as a medium for the satisfaction of an obligation to the United States. Upon similar principles, the drawee bank, in remitting for the items by its own check, would not be exempt from taxation thereon. I do not think that the non-member bank would have any right to "pass on" its tax liability to the Federal Reserve Bank by the

simple expedient of reducing the remittance draft by two cents. The non-member bank would doubtless argue, however, that its obligation is to pay checks at its own counter and that if, for the convenience of the holder, whether the United States Treasury or its fiscal agent, the Federal Reserve Bank, it sees fit to send a check drawn on its correspondent, it should be accorded the right to reimburse itself for the tax liability occasioned by such remittance."

The Federal Reserve Board has received numerous other requests for rulings on questions arising under Section 751 of the Revenue Act of 1932 and is assembling them for presentation to your Department in due course; but the questions raised in this letter are being submitted separately, because it is believed that a prompt decision is desirable in the interest of both the Government and the Federal Reserve Banks.

Very truly yours,

Eugene Meyer,
Governor.

Copy X-7205-b

The Secretary of The Treasury
Washington

July 18, 1932.

Honorable Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor:

In your letter to me of July 2, 1932, you refer to the practice under which the Federal Reserve Banks receive checks and drafts from collectors of internal revenue, collectors of customs, and other depositors of public money for collection and credit to the Treasurer of the United States, and state that certain non-member banks of the Federal Reserve System, upon which these checks and drafts are drawn, have indicated an unwillingness to pay the Federal tax on their own checks and drafts used in making remittances to the Federal Reserve Banks in payment for such items, and are deducting two cents for each remittance to reimburse them for the tax. Under these circumstances you request a ruling of the Treasury Department on the following questions:

1. Whether the tax imposed by section 751 of the Revenue Act of 1932 applies to checks and drafts drawn by banks on their correspondent banks in remitting to the Federal Reserve Banks for checks and drafts drawn on themselves payable to Collectors of Internal Revenue, Collectors of Customs, and other officials of the Government in their official capacities and sent to the drawee banks by the Federal Reserve Banks for collection;

2. If so, whether the issuing banks may deduct two cents from each remittance to reimburse themselves for the tax; and

3. If so, whether the Treasurer of the United States will accept credit on the books of the Federal Reserve Bank for the amount of the checks and drafts covered by each remittance minus the two cent tax on the remittance check or draft.

In the opinion of this Department the remittance checks and drafts given under the circumstances referred to are taxable under section 751 of the Revenue Act of 1932. Such checks and drafts are clearly included among the instruments described in that section upon which the Federal check tax is imposed. While checks and drafts drawn by officers of the United States or of a State, county, or municipality, or of a foreign Government, in their official capacities, against public funds standing to their official credit and in furtherance of duties imposed upon them by law, are not subject to the tax, that exemption can have no application to a person who in a private capacity draws a check or draft as a medium for the satisfaction of an obligation to the United States. In principle, a drawee bank in remitting by its own check or draft to the Federal Reserve Bank in payment of checks and drafts drawn on itself stands in the same position as such a person and must pay the Federal tax imposed upon checks and drafts drawn by it to make such payment. The bank's decision to remit by check or draft is within its discretion and is not due to any requirement of the United States. The Treasury Department has always taken the position that a check or draft is not paid by the bank on which it is drawn until the proceeds thereof have been received in actually and finally collected funds. Checks or drafts in payment of obligations to the United States Government would not be acceptable unless the amount of the instruments was to be paid to the United States or to the Federal Reserve Bank as its fiscal agent without any deduction therefrom and without expense to the Government. There is no warrant in law for any taxes or expenses incurred by a bank in making payment of checks or drafts drawn on itself being passed on to the fiscal agent of the United States or by it to the United States.

For the reasons stated, the first question propounded by you is answered in the affirmative and the second and third questions in the negative.

Very truly yours,

(Signed) A. A. Ballantine,

Acting Secretary of the Treasury.

77

FEDERAL RESERVE BOARD

WASHINGTON

X-7206

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 20, 1932.

SUBJECT: Federal Reserve Exhibit at
Chicago World's Fair in 1933.

Dear Sir:

Referring to the Board's letter of September 2, 1931, No. X-6956, it will be appreciated if you will suggest to the Board at your earliest convenience the name of any member of your organization who would be desirable and available for service on a system committee to arrange for an exhibit at the International Exposition at Chicago in 1933. It would also be appreciated if you would describe any material that you may have that would be helpful to this committee, particularly material accumulated in connection with exhibits held at meetings of the American Bankers Association and elsewhere. In view of the fact that the plans for the Exposition have progressed quite far, it would be desirable to have such a committee at work as promptly as possible, and it will be appreciated if you will send in the names and the material at your early convenience.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7209

July 22, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEPOSE" has been designated to cover a new issue of Treasury Bills, dated July 27, 1932, and maturing October 26, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEMON" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7210

July 22, 1932.

SUBJECT: Audit of Reserve Stock of Incomplete Federal Reserve Notes.

Dear Sir:

For your information there is inclosed a copy of the recapitulation of an audit of the stock of incomplete Federal reserve notes of the Federal reserve banks held at the Bureau of Engraving and Printing as of close of business June 30, 1932, forwarded to the Secretary of the Treasury by Mr. M. R. Loafman, Chief, Division of Public Debt Accounts and Audit. In accordance with arrangements made between the Treasury Department and the Federal Reserve Board a representative of the Board was present during the process of the audit.

In his letter forwarding the report of the audit to the Secretary of the Treasury, Mr. Loafman stated that: "The audit extended from July 1 to 7, inclusive, and consisted of a piece count of the entire stock of Federal reserve note faces and a package count of the uniform backs allocated to Federal reserve notes. In view of the fact that a recent piece count has been made by this office of the entire stock

of each denomination of uniform backs on hand in the Bureau, a package inspection of the uniform backs allocated to Federal reserve notes was deemed sufficient at this time. The total faces and backs audited was found to be in excess of the required reserve of 4,250,000 sheets of incomplete notes, faces and backs as authorized in the letter of the Governor of the Federal Reserve Board to the Under Secretary of the Treasury under date of December 2, 1929. * * * With respect to the total faces and backs of the $50 denomination, it will be noted that the faces are greater and the backs fewer in proportion than the quantities specified to be held in reserve. This condition was caused by the withdrawal of backs for printing faces for the Federal Reserve Bank of Chicago, in accordance with supplemental printing orders dated June 23 and 25, 1932, and the apparent shortage in $50 backs is more than offset by the excess quantity in $50 faces on hand."

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosure.

TO ALL F. R. AGENTS.

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in Morning Papers, Monday, July 25, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of June and July, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Industrial activity decreased further from May to June by somewhat more than the usual seasonal amount and there was a considerable reduction in factory employment and payrolls. The general level of commodity prices advanced between the middle of June and the middle of July, reflecting chiefly a rise in the prices of livestock and meats.

Production and Employment - Volume of industrial production, as measured by the Board's seasonally adjusted index, declined from 60 per cent of the 1923-1925 average in May to 59 per cent in June. There were large decreases in output in the steel, coal, and meat-packing industries, while at automobile factories daily average production showed a smaller decline than is usual at this season, and at woolen mills activity increased contrary to seasonal tendency. Consumption of cotton by domestic mills showed the usual seasonal decline.

At manufacturing establishments there was a further reduction of 3.6 per cent in number of employees and of 7.8 per cent in earnings between the middle of May and the middle of June. Decreases in employment were general, with the exception of the automobile and tobacco industries and of seasonally active industries, such as vegetable and fruit canning and the manufacture of ice cream. The largest decreases were in the steel, textile, chemical and machinery industries and at railway repair shops.

Daily average value of building contracts awarded, as reported by the F. W. Dodge Corporation, declined in June but increased in the first half of July.

Department of Agriculture estimates as of July 1 indicate a corn crop of 3,000,000,000 bushels, the largest since 1923; a winter wheat crop of 432,000,000 bushels, 45 per cent smaller than last year and 21 per cent less than the five-year average; a spring wheat crop of 305,000,000 bushels, three times as large as last year and slightly larger than the average; and a tobacco crop one-fifth smaller than usual.

Distribution - Volume of railroad freight traffic declined somewhat further in June and value of merchandise sold by department stores decreased by more than the usual seasonal amount.

Wholesale Prices - The level of prices in wholesale markets, after declining steadily during May, was relatively stable early in June, and after the middle of the month there was an advance which continued through the second week in July. Prices of several leading commodities, including livestock and meats, cotton, and sugar, increased considerably during June and the first half of July, but later showed some recession. Prices of wheat declined to unusually low levels and markets for copper and lead continued weak.

Bank Credit - Volume of reserve bank credit continued to increase between the middle of June and the middle of July, reflecting principally further purchases of United States Government securities by the reserve banks. In addition, member banks obtained reserve bank funds through an increase in the monetary stock of gold and a decline in deposits held with the reserve banks by foreign central banks. Funds released from these

sources were absorbed by an increase in the demand for currency which also caused the member banks to draw on their balances with the reserve banks and to increase their discounts somewhat. The demand for currency which for the period amounted to $270,000,000, was caused by banking disturbances, largely in the Chicago district, by seasonal requirements at the turn of the month and the Fourth of July holiday, and by increased use of cash to avoid the tax on checks.

Loans and investments of reporting member banks, after fluctuating widely during June, declined in the first two weeks of July, and on July 13 totaled $18,475,000,000, about $540,000,000 less than on June 1. There was a further decline in loans, while the banks' investments in United States Government securities, after increasing substantially during the period of Treasury financing in mid-June, declined gradually, but on July 13 were still $90,000,000 larger than six weeks earlier.

Money rates in the open-market declined further during June and the first half of July. At the Federal Reserve Bank of New York buying rates for bankers' acceptances maturing within 90 days were reduced from 2 1/2 to 1 per cent on June 24. On the same day the bank lowered its discount rate from 3 per cent to 2 1/2 per cent, and on the following day the rate at the Chicago bank was reduced from 3 1/2 per cent to 2 1/2 per cent.

July 25, 1932.

To: Federal Reserve Board Subject: Discounts for individuals, partnerships and corporations.

From: Messrs. Harrison, Morrill, Goldenweiser, Smead, Siems and Wyatt.

We respectfully recommend that the proposed circular on the above subject be approved by the Board in the revised form attached hereto.

Especial attention is invited to the revised Sections II and III and to the fact that the proposed section regarding the rate of discount has been omitted.

In the earlier drafts of Section II, it was proposed to require Federal reserve banks to apply for the Board's permission to discount eligible paper for individuals, partnerships and corporations and to state the unusual and exigent circumstances which, in the judgment of their directors, justify such action. It is believed, however, that the Board is already in possession of sufficient information to enable it to reach the conclusion that unusual and exigent circumstances exist in all Federal Reserve Districts, and it would simplify the procedure and expedite matters if the Board would authorize all Federal reserve banks generally for a period of six months to discount eligible paper for individuals, partnerships and corporations.

Section III has been revised so as to provide that a Federal reserve bank may discount for individuals, partnerships or corporations (a) notes, drafts, or bills of exchange, which are the obligations of other parties actually owned by such individuals, partnerships or corporations and indorsed by them, or (b) the promissory notes of such

individuals, partnerships or corporations indorsed by other parties whose indorsements are satisfactory to the Federal reserve bank. This construes the law as permitting direct advances to individuals, partnerships and corporations on their own promissory notes. On this point, the law is not at all clear. Technically, it could be construed as authorizing the Federal reserve banks to discount only eligible paper consisting of obligations of other parties actually owned by such individuals, partnerships or corporations; but it is believed that, in view of the remedial character of the legislation, it should be given the more liberal interpretation, which would permit direct advances. Otherwise, the benefits of the amendment would be greatly restricted.

The proposed section regarding discount rates has been omitted entirely from this draft of the circular; because it is not believed to be necessary and because it is believed that this subject can be dealt with better when it arises, in the light of the circumstances existing in each Federal Reserve District, and especially in the light of the rates customarily charged by commercial banks in each district on similar classes of paper.

Respectfully,

(S) Walter Wyatt
Chester Morrill
L. A. A. Siems
E. L. Smead
E. A. Goldenweiser

WW:mw

(Revised Draft) X-7212

86

July 25, 1932.

SUBJECT: DISCOUNTS FOR INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July 21, 1932, provides as follows:

> "In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe."

In view of the fact that the power conferred by this provision can be exercised only in "unusual and exigent circumstances", the Federal Reserve Board has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Federal Reserve Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals, partnerships or corporations that may contemplate applying to them for discounts.

I. LEGAL REQUIREMENTS.

It will be observed that, by the express terms of the law:

1. The power conferred upon the Federal Reserve Board to authorize Federal reserve banks to discount eligible paper for individuals, partnerships or corporations may be exercised only:

(a) In unusual and exigent circumstances,

(b) By the affirmative vote of not less than five members of the Federal Reserve Board, and

(c) For such periods as the Federal Reserve Board may determine.

2. When so authorized, a Federal Reserve Bank may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13 and 13a) of the Federal Reserve Act. (Such paper must, therefore, comply with the applicable requirements of Regulation A of the Federal Reserve Board).

3. Paper discounted for individuals, partnerships or corporations must be both (a) indorsed and (b) otherwise secured to the satisfaction of the Federal reserve bank.

4. Before discounting paper for any individual, partnership or corporation, a Federal reserve bank must obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions.

5. Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Federal Reserve Board;

6. All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

II. AUTHORIZATION BY THE FEDERAL RESERVE BOARD

The Federal Reserve Board, being satisfied that there are in all Federal reserve districts unusual and exigent circumstances which justify such action, hereby authorizes all Federal reserve banks for a period of six months from the date of this letter to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and this circular.

III. FOR WHOM PAPER MAY BE DISCOUNTED.

A Federal reserve bank may discount for individuals, partnerships or corporations notes, drafts or bills of exchange, which are the obligations of other parties actually owned by such individuals, partnerships or corporations and indorsed by them, or the promissory notes of such individuals, partnerships, or corporations indorsed by other parties whose indorsements are satisfactory to the Federal reserve bank.

Within the meaning of this circular, the term "corporations" does not include banks.

IV. APPLICATIONS FOR DISCOUNT.

Each application of an individual, partnership or corporation for the discount of eligible paper by the Federal reserve bank must be addressed to the Federal Reserve Bank of the District in which the principal place of business of the applicant is located, must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

2. Evidence sufficient to satisfy the Federal reserve bank as to (a) the legal eligibility of the paper offered for discount under Section 13 or Section 13(a) of the Federal Reserve Act and Regulation A of the Federal Reserve Board and (b) its acceptability from a credit standpoint;

3. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which applications for such credit accommodations were made, the dates upon which such applications were made, whether such applications were definitely refused and the reasons, if any, given for such refusal;

4. A list showing each bank with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate date upon which such banking relations commenced and, if such banking relations have been terminated, the approximate date of their termination;

5. Complete credit data regarding the financial condition of the principal obligors and indorsers on the paper offered for discount;

6. A list and description of the collateral or other security offered by the applicant;

7. A waiver by the applicant of demand, notice and protest as to applicant's obligation on all paper discounted by the Federal reserve bank or held by the Federal reserve bank as security; and

8. An agreement by the applicant, in form satisfactory to the Federal reserve bank, (a) to furnish additional credit information to the Federal reserve bank, when requested, (b) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank at the expense of the applicant, whenever requested by the Federal reserve bank, and (c) to furnish additional security whenever requested to do so by the Federal Reserve Bank.

V. GRANT OR REFUSAL OF APPLICATION.

Before discounting notes, drafts, or bills of exchange for any individual, partnership or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

1. That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;

2. That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

3. That the security offered is adequate to protect the Federal reserve bank against loss;

4. That there is a reasonable need for such credit accommodations; and

5. That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

A special effort should be made to determine whether the banking institutions with which the applicant ordinarily transacts his banking business or any other banking institution to which the applicant ordinarily would have access is willing to grant such credit accommodations.

A Federal reserve bank should not discount such paper unless it appears that the proceeds of such discounts will be used to finance current business operations and not for speculative purposes, for permanent or fixed investments, or for any other capital purposes. Except with the permission of the Federal Reserve Board, no such paper should be discounted if it appears that the proceeds will be used for the purpose of paying off existing indebtedness to other banking institutions.

In discounting paper for individuals, partnerships or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

VI. LIMITATIONS.

Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount for any one individual, partnership or corporation paper amounting in the aggregate to more than one per cent of the paid-in capital stock and surplus of such Federal reserve bank.

VII. ADDITIONAL REQUIREMENTS.

Any Federal reserve bank may prescribe such additional requirements and procedure respecting discounts hereunder as it may deem necessary or advisable; provided that such requirements and procedure are consistent with the provisions of the law, the Board's regulations and the terms of this circular.

By order of the Federal Reserve Board.

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7213

July 26, 1932.

SUBJECT: Suggested Form of Application for Discount by an Individual, Partnership or Corporation.

Dear Sir:

There are inclosed four copies of a suggested form of application for use in connection with discounts for individuals, partnerships or corporations under the provisions of Section 13 of the Federal Reserve Act as amended by the Act approved July 21, 1932, if and when the Federal Reserve Board authorizes discounts for individuals, partnerships and corporations under the provisions of that section as amended. There are also inclosed four copies of a form of resolution to be adopted by the board of directors of the corporation when the applicant for discount is a corporation.

The inclosed forms have not been considered by the Federal Reserve Board and are not prescribed by the Board; but they have been prepared for the assistance of the Federal reserve banks in preparing forms of application in this connection and in order to obtain uniformity in such applications in so far as possible. It is suggested that you submit these forms to your

Counsel for careful consideration, inasmuch as it may be desirable or necessary to make amendments or additions in order to meet conditions existing in your District. When the forms have been revised and approved by your Counsel, please send us five sets for the information and records of the Board.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

P.S. Since the preparation of these forms, it has been suggested that an item be added to the form of application as follows:

> "The applicant hereby waives demand, notice and protest as to applicant's obligation on all paper discounted by the Federal reserve bank or held by the Federal reserve bank as security."

This item might appropriately be inserted in the inclosed form of application immediately after the first line on page 8 thereof.

TO GOVERNORS OF ALL F. R. BANKS.

APPLICATION FOR DISCOUNT BY AN INDIVIDUAL,

PARTNERSHIP OR CORPORATION.

To the Federal Reserve Bank of _____

Application is hereby made, on this _____ day of _____, 193__, to the Federal Reserve Bank of _____ by _____ (name and address of applicant) _____ for the discount of the commercial, industrial or agricultural paper described in Schedule A attached hereto, and such schedule is hereby made a part of this application.

The applicant hereby certifies that all of the notes, drafts or bills of exchange for the discount of which application is herein made are notes, drafts or bills of exchange which have been issued or drawn, or the proceeds of which have been used or are to be used in the first instance, in producing, purchasing, carrying or marketing goods in one or more of the steps of the process of production, manufacture, or distribution, or for the purpose of carrying or trading in direct obligations of the Government of the United States. It is further certified that none of such notes, drafts or bills of exchange was acquired from a bank.

The applicant further agrees that the proceeds of the discount for which application is herein made shall be used by the applicant to finance current operations and shall not be used for speculative purposes, for permanent or fixed investments, for any other capital purpose, nor for the purpose of paying off existing indebtedness to other financial institutions.

The circumstances giving rise to this application and the purposes for which the proceeds of the discount are to be used are as follows:

_____

_____

_____

_____

The applicant hereby certifies that every reasonable effort has been made to obtain adequate credit accommodations from other banking institutions and submits the following information describing such efforts.

_____

_____

_____

_____

The banks to which applications for credit accommodations have been made and other information with regard thereto are as follows:

_____

Name and Address of Bank	Date of Application	Was application definitely refused? (Yes or no)	Reasons given for refusal

The following information is submitted with regard to all banks with which the applicant has had banking relations, either as a depositor or as a borrower, during the last preceding year.

Name and Address of Bank	Depositor or borrower (Indicate by D or B).	Date banking relations commenced.	Date banking relations terminated.	Amount of line of credit granted.	Amount of line of credit availed of at present time.

Financial statements of the makers and of the endorsers on the paper offered for discount (including a financial statement of each of the partners when the applicant is a partnership) are attached hereto, and the applicant hereby certifies that to the best of his knowledge and information each of such statements contains a true, complete and correct statement of the financial condition of the maker thereof.

The applicant hereby offers to the Federal Reserve bank the following described collateral or other security to secure the payment of any or all of the notes, drafts and bills of exchange for the discount of which the applicant has herein applied:

_____

_____

_____

_____

The applicant hereby agrees (a) to furnish the Federal reserve bank such additional financial statements, copies of recent auditors' reports and other credit information as are requested by the Federal reserve bank, (b)

to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank when the Federal reserve bank shall so desire, and (c) to furnish any additional information, collateral, further assurances or security which the Federal reserve bank, in its discretion, may require. Any such additional statements, copies of auditors's reports, information, collateral, assurances, security, audits, credit investigations, or examinations shall be furnished or made at the expense of the applicant.

The Federal reserve bank, at its discretion, may collect and at the expense and in the name of the applicant, or otherwise, enforce the payment when due of any note, draft or bill of exchange discounted for the applicant or of any or all collateral or other security held hereunder, by suit or otherwise, may surrender, compromise, release, renew, extend, or exchange all or any thereof, and may apply the net proceeds thereof to the payment of any obligation of the applicant to it. The applicant will pay or cause to be paid to the Federal reserve bank all expense which the Federal reserve bank may incur in connection with the collection and/or enforcement of any notes, drafts or bills of exchange discounted for the applicant, and any security or substitution therefor, even though no foreclosure or other legal action takes place. The applicant will pay or cause to be paid promptly when due all taxes, insurance premiums, warehouse charges, transportation costs, and other expenses necessary for the enforcement, preservation, and/or protection of any security pledged hereunder, including the enforcement of any guaranty which the

Federal reserve bank may hold hereunder, and including fees for filing and recording mortgages and the like, or assignments thereof, required by the Federal reserve bank. If the applicant fail to make any payment required in the preceding provisions of this paragraph, the Federal reserve bank is authorized to do so and shall have a lien upon all collateral held by it until it shall have been fully reimbursed for any advance which it may have made in payment of any such items, together with interest thereon at the rate of ____% per annum.

Any check or draft received by or for the Federal reserve bank for the account of the applicant may be presented for payment or forwarded for collection direct to the bank upon which drawn or at which payable. Cash, bank drafts, transfers of funds or bank credits, or any other forms of payment or remittance may be accepted by the Federal reserve bank in payment of or remittance for any such check or draft, but the applicant shall not be entitled to credit on account of any such check or draft until the Federal reserve bank shall have received the amount thereof in actually and finally collected funds, and the amount of any such check or draft credited by the Federal reserve bank may be charged back to the applicant notwithstanding the check or draft itself cannot be returned.

Upon any failure of the applicant to comply with any provision of this application or upon any default in the payment of any

obligation to the Federal reserve bank or in case a receiver or liquidator is appointed for the applicant or any of its property, or in case of adjudication of insolvency, or assignment for benefit of creditors, the Federal reserve bank is authorized to declare any or all obligations of the applicant to the Federal reserve bank due and payable forthwith, and the same shall thereupon become so due and payable. And in case of any such default, the Federal reserve bank is authorized to sell, assign, and deliver the whole or any part of the collateral held hereunder and any substitutes therefor or additions thereto, and any guaranty held by the Federal reserve bank in connection with the applicant's obligations, at any public or private sale without demand, advertisement, or notice of the time or place of sale or adjournment thereof, for such price as it may deem fair, the applicant hereby waiving any and all equity or right of redemption whether before or after sale hereunder, and, upon such sale, the Federal reserve bank may become the purchaser of the whole or any part of such security free from any such right or equity of redemption. In case of any such sale, after deducting all costs, attorneys' fees, and other expenses of collection, the Federal reserve bank may apply the residue of the proceeds of such sale or sales to the payment of any or all obligations of the applicant to the Federal reserve bank, whether due or not, as the Federal reserve bank shall deem proper, and any balance remaining shall be paid to the applicant.

Without limiting or affecting such rights of the Federal reserve bank so to sell a part or all of such security, the Federal reserve bank is further authorized at its option and in its discretion to collect or cause to be collected or otherwise converted into money all or any part of the security held hereunder, by suit or otherwise, and is authorized in such case to surrender, compromise, release, renew, extend, or exchange any of such security without prior notice or consent of the applicant. Proceeds of collections so made, after first deducting costs, attorneys' fees and expenses of collection, may be applied to the payment of any or all obligations of the applicant to the Federal reserve bank, whether due or not. In the event of any legal proceedings, all costs and reasonable attorneys' fees incurred by the Federal reserve bank shall become part of the obligation of the applicant to the Federal reserve bank covered by the provisions hereof.

Upon any transfer or pledge of any obligation of the applicant, the Federal reserve bank may deliver the collateral or any part thereof or interest therein or any guaranty or other document held hereunder in connection with the applicant's obligations to the Federal reserve bank to the transferee or pledgee, who shall thereupon become vested with all the powers and rights herein given and shall have the same remedies as if originally named herein.

The Federal reserve bank shall be protected in acting upon any notice, request, consent, certificate, writing, resolution or other paper or document believed by it to be genuine and to have

been signed, executed, passed, or presented by the proper parties.

The applicant agrees to be and remain bound for the payment of all obligations to the Federal reserve bank pursuant hereto and that the lien hereof and any pledge or pledges hereunder shall remain undisturbed notwithstanding any delay, extension of time, substitution of security, renewal, or other indulgence granted by the Federal reserve bank in connection with any note, draft or bill of exchange discounted for the applicant or security held hereunder, hereby waiving all notice of such delay, extension, substitution, renewal, or other indulgence. The applicant expressly reserves the right to anticipate the payment of any obligation to the Federal reserve bank under this or any other application, but agrees that any payment so made by it may be applied on any of its obligations to the Federal reserve bank, whether due or not, in such order as the Federal reserve bank may elect.

The applicant hereby agrees that wherever the obligation of the applicant is referred to herein, it includes the applicant's obligation to the Federal reserve bank as maker, drawer, acceptor, indorser or guarantor of any negotiable or nonnegotiable instrument, or in any other manner.

_____(Signature)

NOTE:

When made by an individual, the application for discount of notes, drafts or bills of exchange should be signed by the individual.

When made by a partnership, the application should be signed by one of the members of the partnership and should be accompanied by a certified copy of the partnership agreement, if any, as amended to the date of the application.

When made by a corporation, the application should be signed by one of its duly authorized officers and should be accompanied by a certified copy of the resolution of its board of directors authorizing such officer to make the application on behalf of the corporation. Such application should also be accompanied by a certified copy of the corporation's Articles of Association or Charter and of the by-laws of the corporation, as amended to the date of the application.

RESOLUTION OF BOARD OF DIRECTORS OF APPLICANT CORPORATION

RESOLVED, That _____ (name) the _____ (office)

and _____ (name) the _____ (office)

of this corporation, or either of them, be, and they are hereby, authorized and empowered for and in the name and on behalf of this corporation to execute and/or deliver to the Federal Reserve Bank of _____ the following papers and documents:

(1) Application for the discount of any notes, drafts or bills of exchange owned by this corporation, such discount to be at the rate of interest prescribed by the Federal reserve bank with the approval of the Federal Reserve Board, on a form prescribed or approved by the Federal reserve bank, which form has been submitted to the Board of Directors of this corporation.

(2) The notes, drafts or bills of exchange covered by such application and made, accepted or indorsed in the name of this corporation by such officers or either of them.

BE IT FURTHER RESOLVED, That in order to secure the payment of any or all of such notes, drafts or bills of exchange discounted by the Federal reserve bank for this corporation and to guarantee the faithful performance of any contract entered into with the Federal reserve bank, the said officers of this corporation be, and each of them is hereby, authorized and empowered in their discretion to pledge and hypothecate with the Federal reserve bank any collateral or property

belonging to this corporation and any collateral or property which they may in their discretion, from time to time, substitute therefor, and any collateral or property which may be required from time to time as additional security for the payment of any such notes, drafts or bills of exchange. Such officers and each of them are further authorized and empowered to do such acts and to execute such additional agreements or instruments in the name and on behalf of this corporation as may be necessary or desirable to meet the requirements of the Federal reserve bank.

BE IT FURTHER RESOLVED, That _____ (name of officers) the _____ (offices) of this corporation, and each of them, be, and is hereby, authorized and empowered to receive on behalf of this corporation the proceeds of any such discount and to indorse in the name and on behalf of this corporation any checks or drafts representing the proceeds of any such discount.

CERTIFICATE

I hereby certify that the foregoing is a true and correct copy of a resolution regularly adopted by the Board of Directors of the _____ (name of applicant) at a meeting duly called and held at _____ on the _____ day of _____, 193__, at which meeting a quorum was present and voted.

(Corporate Seal) _____ Secretary.

X-7208-b

SCHEDULE A.

The following is a list of the commercial, industrial or agricultural paper for the discount of which application was made by _____ (Name and address of applicant) _____ to the Federal Reserve Bank of _____ on the _____ day of _____, 19 , and this schedule constitutes a part of that application.

Number from 1 up.	Name and Address		Business (Indicate purpose for which paper was issued or proceeds used.)	Maturity date	Rate of Interest	Amount	Security.
	Maker or Acceptor	Indorser					

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7214

July 26, 1932.

SUBJECT: New Issues of Treasury Notes.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Notes:

"NOWHUNCH" 2 1/8% Treasury Notes, Series B-1934, to be dated August 1, 1932, maturing August 1, 1934.

"NOWHUNG" 3 1/4% Treasury Notes, Series A-1936, to be dated August 1, 1932, maturing August 1, 1936.

These code words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOWHULK" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD X-7215

WASHINGTON July 26, 1932.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Discounts for Individuals, Partnerships and Corporations.

Dear Sir:

There is inclosed a copy of a circular on the above subject which was approved by the Federal Reserve Board today. Your attention is invited to the fact that, in Section II thereof, the Board has authorized all Federal reserve banks, for a period of six months beginning August 1, 1932, to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's Regulation A and the inclosed circular.

Copies of this circular will be given to the press on Saturday, July 30, for release on Monday, August 1, 1932, and should be treated as confidential until the latter date.

You are at liberty to have the inclosed circular printed and, beginning August 1, 1932, to give copies thereof to persons making inquiries regarding this subject, together with copies of the Board's Regulation A and of any supplemental circular and any forms which your bank may adopt with the approval of your Counsel.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS AND CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7215-a

July 26, 1932.

SUBJECT: DISCOUNTS FOR INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July 21, 1932, provides as follows:

> "In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe."

In view of the fact that the power conferred by this provision can be exercised only in "unusual and exigent circumstances", the Federal Reserve Board has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Federal Reserve Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals, partnerships or corporations that may contemplate applying to them for discounts.

I. LEGAL REQUIREMENTS.

It will be observed that, by the express terms of the law:

1. The power conferred upon the Federal Reserve Board to authorize Federal reserve banks to discount eligible paper for individuals, partnerships or corporations may be exercised only:

(a) In unusual and exigent circumstances,

(b) By the affirmative vote of not less than five members of the Federal Reserve Board, and

(c) For such periods as the Federal Reserve Board may determine.

2. When so authorized, a Federal Reserve Bank may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13 and 13a) of the Federal Reserve Act. (Such paper must, therefore, comply with the applicable requirements of Regulation A of the Federal Reserve Board).

3. Paper discounted for individuals, partnerships or corporations must be both (a) indorsed and (b) otherwise secured to the satisfaction of the Federal reserve bank.

4. Before discounting paper for any individual, partnership or corporation, a Federal reserve bank must obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions.

5. Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Federal Reserve Board.

6. All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

II. AUTHORIZATION BY THE FEDERAL RESERVE BOARD.

The Federal Reserve Board, pursuant to the power conferred upon it by the amendment hereinbefore quoted, hereby authorizes all Federal reserve banks, for a period of six months beginning August 1, 1932, to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and this circular.

III. FOR WHOM PAPER MAY BE DISCOUNTED.

A Federal reserve bank may discount for individuals, partnerships or corporations notes, drafts or bills of exchange, which are the obligations of other parties actually owned by such individuals, partnerships or corporations and indorsed by them, or the promissory notes of such individuals, partnerships, or corporations indorsed by other parties whose indorsements are satisfactory to the Federal reserve bank.

Within the meaning of this circular, the term "corporations" does not include banks.

IV. APPLICATIONS FOR DISCOUNT.

Each application of an individual, partnership or corporation for the discount of eligible paper by the Federal reserve bank must be addressed to the Federal Reserve Bank of the District in which the principal place of business of the applicant is located, must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

2. Evidence sufficient to satisfy the Federal reserve bank as to (a) the legal eligibility of the paper offered for discount under Section 13 or Section 13(a) of the Federal Reserve Act and Regulation A of the Federal Reserve Board and (b) its acceptability from a credit standpoint;

3. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which applications for such credit accommodations were made, the dates upon which such applications were made, whether such applications were definitely refused and the reasons, if any, given for such refusal;

4. A list showing each bank with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate date upon which such banking relations commenced and, if such banking relations have been terminated, the approximate date of their termination;

5. Complete credit data regarding the financial condition of the principal obligors and indorsers on the paper offered for discount;

6. A list and description of the collateral or other security offered by the applicant;

7. A waiver by the applicant of demand, notice and protest as to applicant's obligation on all paper discounted by the Federal reserve bank or held by the Federal reserve bank as security; and

8. An agreement by the applicant, in form satisfactory to the Federal reserve bank, (a) to furnish additional credit information to the Federal reserve bank, when requested, (b) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank at the expense of the applicant, whenever requested by the Federal reserve bank, and (c) to furnish additional security whenever requested to do so by the Federal Reserve Bank.

V. GRANT OR REFUSAL OF APPLICATION.

Before discounting notes, drafts, or bills of exchange for any individual, partnership or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

1. That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;

2. That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

3. That the security offered is adequate to protect the Federal reserve bank against loss;

4. That there is a reasonable need for such credit accommodations; and

5. That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

A special effort should be made to determine whether the banking institution with which the applicant ordinarily transacts his banking business or any other banking institution to which the applicant ordinarily would have access is willing to grant such credit accommodations.

A Federal reserve bank should not discount such paper unless it appears that the proceeds of such discounts will be used to finance current business operations and not for speculative purposes, for permanent or fixed investments, or for any other capital purposes. Except with the permission of the Federal Reserve Board, no such paper should be discounted if it appears that the proceeds will be used for the purpose of paying off existing indebtedness to other banking institutions.

In discounting paper for individuals, partnerships or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

VI. LIMITATIONS.

Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount for any one individual, partnership or corporation paper amounting in the aggregate to more than one per cent of the paid-in capital stock and surplus of such Federal reserve bank.

VII. ADDITIONAL REQUIREMENTS.

Any Federal reserve bank may prescribe such additional requirements and procedure respecting discounts hereunder as it may deem necessary or advisable; provided that such requirements and procedure are consistent

with the provisions of the law, the Board's regulations and the terms of this circular.

By order of the Federal Reserve Board.

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7216

July 27, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, June, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7216-a and X-7216-b, covering in detail operations of the main lines, Leased Wire System, during the month of June, 1932.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JUNE, 1932.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	30,754	3,173	33,927	3.81
New York	154,431	-	154,431	17.35
Philadelphia	29,714	3,769	33,483	3.76
Cleveland	67,795	3,222	71,017	7.98
Richmond	58,469	2,564	61,033	6.86
Atlanta	54,913	8,698	63,611	7.15
Chicago	103,701	5,861	109,562	12.31
St. Louis	69,898	3,914	73,812	8.29
Minneapolis	32,707	2,842	35,549	3.99
Kansas City	71,810	2,684	74,494	8.37
Dallas	58,884	5,304	64,188	7.21
San Francisco	110,462	4,570	115,032	12.92
Total	843,538	46,601	890,139	100.00

F. R. Board business	286,454	1,176,593
Reimbursable business Incoming and Outgoing		420,855
Total words transmitted over main lines		1,597,448

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7216-b).

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, JUNE, 1932.

Name of bank	Operators' salaries	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	$260.00	$ -	$ -	$260.00	$660.81	$260.00	$400.81
New York	1,134.15	7.00	-	1,141.15	3,009.20	1,141.15	1,868.05
Philadelphia	225.00	-	-	225.00	652.14	225.00	427.14
Cleveland	306.66	-	-	306.66	1,384.06	306.66	1,077.40
Richmond	190.00	-	230.00 (&)	420.00	1,189.80	420.00	769.80
Atlanta	270.00	-	-	270.00	1,240.10	270.00	970.10
Chicago	3,842.99 (#)	11.00	-	3,853.99	2,135.06	3,853.99	1,718.93 (*)
St. Louis	195.00	3.00	-	198.00	1,437.83	198.00	1,239.83
Minneapolis	226.51	-	-	226.51	692.03	226.51	465.52
Kansas City	287.50	-	-	287.50	1,451.70	287.50	1,164.20
Dallas	251.00	-	-	251.00	1,250.51	251.00	999.51
San Francisco	380.00	-	-	380.00	2,240.86	380.00	1,860.86
Federal Reserve Board	-	-	15,728.10	15,728.10	-	-	-
Total	$7,568.81	$ 21.00	$15,958.10	$23,547.91	$17,344.10	$7,819.81	$11,243.22
							1,718.93 (a)
							$ 9,524.29

Reimbursable charges:

Treasury Department	$2,958.20
Reconstruction Finance Corporation	3,097.71
Federal Farm Loan Board	23.23
Federal Farm Board	71.63
Compt. of Currency, Insolv. Bank Div.	53.04
Less: reimbursable charges	6,203.81
	$17,344.10

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7217

July 28, 1932.

SUBJECT: Change in Inter-District
Time Schedule.

Dear Sir:

In accordance with a request of the Federal Reserve Bank of Minneapolis, the Federal Reserve Bank of San Francisco having agreed thereto, the Federal Reserve Board has approved a change in the inter-district time schedule of availability items from Helena to Spokane from one day to two days.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7218

SUBJECT: Tax on Checks and Other Taxes Imposed by the Revenue Act of 1932.

Dear Sir:

Inclosed are five copies of a letter received today from the Secretary of the Treasury, which contains rulings on the questions presented in our letter of July 16, 1932 on the above subject, copies of which were forwarded to you under date of July 25, 1932.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS.

COPY

X-7220

Honorable Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor:

In your letter of July 16, 1932, request is made for rulings upon a number of stated questions arising under the Revenue Act of 1932 out of transactions incident to the operations of the Federal Reserve system. These questions appear to fall generally into two classes, those relating to the application of a number of the excise taxes to the Federal reserve banks themselves (Part I) and those relating to the application of the tax on checks, etc., provided in Section 751 of the Act, to a great variety of transactions involving the transfer of funds and the settlement of accounts between banks in the course of the operations of the Federal Reserve system (Parts II to VIII).

The questions stated in Part I, involving the extent to which the Federal reserve banks themselves are subject to the various excise taxes, are governed in a large part by Section 7 of the Federal Reserve Act (Section 531, Title 12, U.S.C.), which provides:

> " * * * Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate."

Under these provisions no excise tax may be collected in respect of a transaction to which a Federal reserve bank is a party in its own right, if, under the taxing Act, the tax as such would be payable by the reserve bank. The tax on checks, etc., under Section 751, is imposed upon the maker or drawer of the instrument. The taxes on telephone, telegraph, etc., facilities, provided in Section 701, and on electrical energy, provided in Section 616, are imposed in each case upon the person who makes payment for the facility

to the company which furnished it. The taxes on sales of miscellaneous articles (other than electrical energy), provided in Title IV of the Act, are imposed in each case upon the person selling the article.

Questions in Part I of your letter are accordingly answered as follows:

I. TAXABILITY OF FEDERAL RESERVE BANKS.

1. Q. Does the tax imposed by Section 751(a) apply to checks drawn on Federal reserve banks by their own officers acting in their official capacities?

A. No.

2. Q. Does the tax imposed by Section 701(a) (2) apply to leased telephone and telegraph service contracted for, used, and paid for by the Federal reserve banks?

A. No.

3. Q. Does the tax imposed by Section 701(a) (1) apply to telegraph, telephone, cable, and radio messages sent by the reserve banks or sent to them collect, which are paid for by the reserve banks and for which no reimbursement is received by them?

A. No.

4. Q. Does the tax imposed by Section 701(a) (1) apply to messages paid for by the reserve banks but for which they are later reimbursed by other banks, such as messages sent by the reserve banks in performing services for other banks?

A. Yes.

5. Q. Is electrical energy furnished to Federal reserve banks for their own use subject to the tax imposed by Section 616(a)?

A. No.

6. Q. Do the taxes on fuel oil and other articles of merchandise imposed in Article IV of the Revenue Act of 1932 apply when such articles are purchased by the reserve banks for their own use?

A. Yes. The taxes as such are payable by the seller.

The questions which are stated in Parts II to VIII of your letter are intended to cover the more common forms of transactions by which transfers of funds or settlements of balances are effected between banks. It would seem desirable to set forth a general statement of the basis for the rulings on these questions, so that the scope of the rulings will be understood when applied to cases where there may be some local variations in the form of a given transaction. To give a separate explanation of the basis of the ruling on each question in your letter is believed to be unnecessary, since it is apparent that a great many of the transactions covered by your letter, although falling into different classes and grouped separately, have certain elements in common, so far as the application of the tax is concerned. A general statement as to the character and form of the instruments which are subject to the tax will serve to explain the rulings on a majority of the questions stated, and will permit more or less categorical answers to be made to the specific questions, except in those cases where an additional statement as to the basis of the ruling may be necessary.

The tax under Section 751 is imposed upon certain "instruments presented for payment", namely, "checks, drafts, or orders for the payment of money" drawn upon a bank, banker, or trust company. "Checks" and "drafts" are terms which have a well-established meaning. "Orders for the payment of money", intended to be taxed under this section, are such as have some similarity to "checks" and "drafts", at least to the extent that they must be capable of being characterized as "instruments" and of being "presented for payment." The phrase "presented for payment" implies that the instrument must be capable of having a holder, that is, a person who by reason of his possession of the instrument is entitled to receive payment of the sum of money specified therein. Moreover, the instrument must according to its terms or effect call for the payment of money; an order or authorization merely to charge a book account does not constitute such an order as is subject to the tax. Of course, if the instrument is in fact an order for the payment of money, it is none the less taxable because the payment of money may, in a particular case or even in a number of cases, be accomplished through a book entry.

A great number of the transfers of funds or settlements mentioned in your letter are accomplished through written orders or authorizations, usually on standard forms, by which the addressee is directed or authorized to charge the account of the person giving such order or authorization or to make an offset against a balance standing to the credit of such person. In some instances the writing does not in express terms contain such an order or authorization but merely states the substance of the transaction, and the order or direction to the addressee is implied from the course of dealing between the parties or has been separately provided for by prior agreement. Some of the orders or authorizations call for the delivery or shipment of currency or coin to the person giving such order or authorization. Orders, authorizations, or instructions of the nature mentioned, whether oral or written, are not subject to the tax.

Some of the transactions referred to in your letter involve transfers of funds belonging to or due to the United States. If the

transfer is effected by or through an instrument which is of such character and form as to be subject to tax, the tax must be collected, as no exemption attaches by reason of the fact that funds of the United States are involved.

The detailed questions stated in your letter, with such changes in phraseology as are necessitated by omitting references to exhibits, and the answers thereto are as follows:

II. VARIOUS FORMS OF REMITTANCES OR SETTLEMENTS FOR CHECKS AND COLLECTION ITEMS.

Pursuant to the provisions of Sections 13 and 16 of the Federal Reserve Act and Regulation J of the Federal Reserve Board, the Federal reserve banks act as clearing houses and collect checks for their member banks, which maintain deposit balances with the Federal reserve banks as their legal reserves, and for non-member banks which establish deposit balances with the Federal reserve banks for the purpose. The Board's regulations on this subject are supplemented by circulars issued by the Federal reserve banks. Each Federal reserve bank receives each day numerous checks drawn upon banks in its district and forwards them to the drawee banks for payment. The usual procedure is to send all the checks received during each day drawn on a particular bank to that bank, with one covering letter. The covering letter is known as a "cash letter". The total amount of the checks thus transmitted is accounted for to the Reserve bank in any one of several ways, the principal ones being, (a) by authorizing the Federal reserve bank to debit the amount to the deposit balance of the remitting bank on the books of the Federal reserve bank, and (b) by sending the Federal reserve bank a check or draft drawn upon the remitting bank's deposit with the Federal reserve bank or a correspondent bank. The reply to the cash letter will also state the amount, if any, of the items which are returned to the reserve bank (because not collected or for some other reason), and this amount is accordingly deducted from the total stated in the cash letter.

The Federal reserve banks also collect for their member banks promissory notes, bills of exchange and other similar items and the procedure in forwarding and accounting for such items is similar, so far as the questions here presented are concerned, to that followed in connection with the collection of checks, except for differences in detail which are indicated in Questions 8 to 11 below. For convenience, such items are commonly referred to as "non-cash items", in order to distinguish them from checks and similar items payable on demand at banks, which are commonly referred to as "cash items".

1. Q. Is a tax payable in the event that a member bank, in response to the cash letter, authorizes the Federal reserve bank to debit the amount to its deposit balance with the Federal reserve bank, (a) by a specific authorization in the form used for that purpose; or (b) by returning to the Federal reserve bank a memorandum slip merely stamped "debit" or "paid", which has by custom the effect of such authorization?

A. (a) No. (b) No.

2. Q. In some cases the reserve bank is given a continuing authorization to charge the account of the member bank with the net amount of each "cash letter" sent to that bank. Is such authorization taxable? If so, is it taxable once, or each time an entry is made?

A. Neither the continuing authorization nor the separate entries made pursuant thereto are taxable.

3. Q. Is the tax payable in the event that the bank makes remittance of the amount called for by its reply to the cash letter, by means of a draft or check, (a) drawn against its deposit balance with the Federal reserve bank, or (b) drawn against a deposit in a correspondent bank?

A. The check or draft, whether drawn against a deposit with a Federal reserve bank or against a deposit in a correspondent bank, is taxable.

4. Q. In one instance the cash letter has a detachable portion which is in the form of a draft and which is marked "Settlement draft". This "Settlement draft" is in the usual form of a draft; it is drawn by the remitting bank on, and payable to the order of, the Federal reserve bank. It is not dealt with as an ordinary draft in that it is never returned to the drawer, but is held by the reserve bank as a part of its records. Is such a "Settlement draft" taxable?

A. Yes. The "Settlement draft" is clearly of a character and form which make it subject to tax; and the fact that after payment it is not returned to the drawer does not affect the taxability of the instrument.

5. Q. In the event that any of the transactions described in the preceding questions is taxable, is only one tax imposed, or is the tax payable with regard to each separate item inclosed with the cash letter, when a single settlement is made for the total amount of such items?

A. The taxability of the instruments mentioned in the preceding questions which are held to be taxable is not affected by the fact that such instruments are given in settlement of a great many separate items, each of which may likewise be subject to the tax; only one tax is payable in respect of each instrument.

6. Q. It sometimes occurs that, in its response to a cash letter, the member bank will incorrectly state the amount chargeable against its reserve account, usually because it has failed for some reason to return and deduct an item which should have been returned and deducted because uncollectible or for some other reason. In that event, it communicates again with the reserve bank advising it of the correcting book entry to be made. Is such a transaction taxable?

A. No.

7. Q. In certain reserve districts, in order to achieve greater promptness in settlement, where drafts are sent in settlement of cash letters, the drafts are required to be on certain member banks which have previously agreed that such drafts may be immediately charged against their accounts by the reserve bank, without waiting for the draft to be sent to the drawee bank. After such a charge is made, the reserve bank notifies the bank upon which the draft is drawn so that it may keep its books in order and forwards the draft to it. Is such notification taxable?

A. No.

8. Q. In connection with non-cash items, a printed slip is often attached to each item when it is forwarded for collection by the Federal reserve bank, such slip taking the place of a letter of transmittal. Acknowledgment of receipt of the item, acknowledgment that payment has been received, and authorization to the reserve bank to charge its account is made by the bank receiving it, by returning a carbon copy of the slip stamped "paid" or "debit". Is this transaction, or the returned slip, taxable?

A. No.

9. Q. Is the result different if the collecting bank merely advises the reserve bank that it has credited the latter's account, which is an implied authorization to the latter to make a corresponding entry on its books?

A. No.

10. Q. Promissory notes, bills of exchange and other non-cash collection items which are payable by persons located in the same city as the Federal reserve bank or its branch are sometimes presented by the Federal reserve bank directly to the persons by whom they are payable, and such persons give the Federal reserve banks in payment for such items checks drawn on member banks in the same city. In such cases the Reserve bank immediately presents such checks by messenger to the banks on which they are drawn and the drawee banks give the Federal reserve bank drafts against their deposit balances with the Federal reserve bank. Are such drafts subject to the tax?

A. Yes.

11. Q. In the circumstances described in the preceding question, the bank, instead of sending a draft, sometimes authorizes the reserve bank to charge its account. Is this transaction taxable?

A. No.

III. CLEARING HOUSE TRANSACTIONS.

The questions under this heading involve the settlement of balances resulting from exchange of checks between banks. The settlement of balances resulting from the exchange of checks through the Newark Clearing House Association, Newark, New Jersey, will illustrate this type of transaction. Each business day each bank in the Clearing House Association takes to the office of the association checks deposited with such bank drawn on other banks in the association, and messengers representing the respective banks in the association call for and receive the checks drawn on their banks. Each bank is credited with the amount of the checks drawn on the other banks which it brings to the clearing house and is debited with the amount of the checks drawn on it which other banks bring. There is a net credit or debit balance in favor of or against each bank as a result of the day's exchanges, and the aggregate of the net credit balance must, of course, be exactly equal to the aggregate of the net debit balances. The amounts of the net credit and debit balances to all banks are written on the clearing house statement for that day and this statement, signed by an officer of the Clearing House Association, is sent by messenger to the Federal Reserve Bank of New York, and the balances as shown on the statement are settled on the books of the Federal reserve bank by credits and debits to accounts of member banks. The balances in favor of or against banks which are members of the Federal Reserve Bank are credited or

debited to the accounts of such banks on the books of the Federal reserve bank. The balances for or against other banks, i.e., banks which are not members of, and therefore have no account with, the Federal reserve bank are, by arrangement between the banks concerned, credited or debited to the accounts of designated banks in New York City which are members of the Federal reserve bank. These credits and debits are made by the Federal reserve bank pursuant to continuing letters of authorization on file with it signed by the various banks.

The questions asked in this connection are:

1. Q. Are any of the above-described transactions which consist merely in book entries, taxable?

A. No.

2. Q. Is the clearing house statement above referred to subject to the tax?

A. No.

3. Q. Are the letters of authorization subject to tax? If so, are they taxable once, or each time an entry is made, or as to each item covered by each entry?

A. Such letters of authorization are not subject to tax.

4. Q. In some instances the clearing house issues certificates showing the net balances. Such a certificate is issued to a creditor bank calling upon a debtor bank to pay the creditor bank the amount stated therein. No accounts are carried in any of the clearing house banks in the name of the manager for the purpose of effecting settlement pursuant to the certificates, and these certificates are issued by the clearing house manager merely as memoranda to facilitate the settlement of balance between the members of the clearing house association. The Federal reserve bank participates in the clearings and certificates issued in its favor against member banks are charged against their deposit balances on the books of the Federal reserve bank pursuant to standing authorizations. Are such certificates subject to the tax?

A. No.

5. Q. In some instances (particularly where banks are so located as not to be in communication by messenger with the Federal reserve bank) a group of banks adopt, by agreement, the procedure of forwarding each day to each member of the group all of the items they receive that are payable by or

through that member of the group, forwarding to the reserve bank a form on which are listed the names of all the other members of the group together with the amount of the items that it has forwarded to each. When received by the reserve bank, this form is used as an authorization to make the appropriate entries in the accounts of the banks in the group. In practice, however, instead of making several entries, the reserve bank strikes the balance from the advices sent by all the members of the group and makes each day only one entry in each of their accounts, representing the net balance for the particular bank. Is the use of these forms in the manner above described taxable?

A. No.

6. Q. Are the resultant book entries made by the reserve bank taxable?

A. No.

7. Q. In certain instances, the Federal reserve bank itself acts as a clearing house, receiving the checks from the various banks, striking the balance and making the appropriate entries in the accounts of the various banks. Are these transactions taxable?

A. No.

8. Q. In certain instances the Federal reserve bank performs these services even for banks which have no account with it (i. e., banks not members of the Federal Reserve System). Where such banks are located in the same city as the reserve bank, the method adopted is for the drawee bank to send a messenger to the reserve bank to get the checks drawn on it which have been forwarded to the reserve bank for collection. The checks are immediately charged to the account of a member bank which has authorized the reserve bank to do so, and credited to the bank which forwarded them. In the event that the check is later dishonored, the book entries are reversed. Are such authorizations taxable?

A. No.

IV. MEMBER BANKS OBTAINING CURRENCY FROM RESERVE BANKS.

A member bank desiring currency usually obtains it from the Federal reserve bank, and the amount usually is debited on the books of the Federal reserve bank to the deposit balance maintained by the member bank with the Federal reserve bank as the legal reserve of the member bank. Such requests for currency and the authorizations to debit the reserve balances assume a variety of forms and give rise to the following questions:

1. Q. Is such a request by a member bank for the shipment of currency to it taxable when made by telephone and not confirmed in writing?

A. No.

2. Q. If such a request is made by telephone but confirmed in writing after the shipment of the currency, is it taxable?

A. No.

3. Q. If a messenger sent to the Federal reserve bank delivers merely a receipt for the currency and receives the currency, is the transaction taxable?

A. No.

4. Q. If the messenger in such a case delivers a check or draft drawn on the Federal reserve bank for the amount of the currency, is the transaction taxable?

A. The check or draft is taxable.

5. Q. If a written request for currency is accompanied by a check or draft, are both the check and the request taxable?

A. Only the check or draft and not the written request is taxable.

6. Q. When the transaction is completed, the reserve bank frequently sends a confirmation on a printed form to the member bank. Is this document taxable, whether or not any other part of the transaction is taxable?

A. The confirmation is not taxable, whether or not any other part of the transaction is taxable.

V. TRANSACTIONS INCIDENT TO REDISCOUNTS AND ADVANCES BY FEDERAL RESERVE BANKS.

1. Q. Federal reserve banks extend credit accommodations to their member banks: (a) By rediscounting, on the indorsement of their member banks, the commercial, industrial and agricultural paper acquired by them from their customers; and (b) by making advances to

their member banks on their promissory notes secured in the manner prescribed by law. In either event, the proceeds usually are made available to the member bank by crediting the amount to the deposit balance of the member bank on the books of the Federal reserve bank. Are such credit entries taxable?

A. No.

2. Q. At the maturity of the rediscounted paper or the promissory notes of the member banks, the Federal reserve banks, pursuant to agreements or regulations previously made, return the rediscounted paper or promissory notes to the member banks and debit the amounts due thereon to the deposit balances of the member banks on the books of the Federal reserve banks. Are these transactions taxable?

A. No.

3. Q. The member bank frequently desires to have its promissory notes or rediscounted paper returned to it prior to the time when it would be returned in due course as described above. Its reason for so desiring may be, for instance, that the maker of the instrument desires to pay it before maturity, or it may be that the member bank desires to decrease the total amount of the paper rediscounted for it by the reserve bank. In such case the member bank communicates with the Reserve Bank by letter or by telegram, requesting that the item be returned to it, and, either impliedly or actually in words, authorizing the reserve bank to debit its deposit balance on the books of the reserve bank with the amount due thereon. Are these transactions (i.e., the book entries, the transmission of the instruments, or the communications requesting the return of the instruments and authorizing the book entries) taxable?

A. Neither the book entries, the transmission of the instruments, nor the communications requesting the return of the instruments and authorizing the book entries are taxable.

VI. INTER-BANK TRANSFERS OF FUNDS.

One of the important functions of the Federal Reserve System is to facilitate the transfer of funds between banks. This function is performed (with unimportant exceptions) free of charge for members of the System. It is done as far as possible without resorting to shipments of currency.

Transfers between member banks in the same Federal Reserve District are made merely by means of entries on the books of the Reserve bank. The steps involved in such transaction are: (1) A member

bank requests the reserve bank to transfer an amount on its books from the reserve account of the requesting bank to the account of another bank, (2) the reserve bank makes the transfer on its books, and (3) the bank to whose account the transfer is made is notified. If the bank to which the transfer is made is located in another District, the second step must consist in (a) a transfer from the account of the requesting bank to the account of the reserve bank for the District in which is located the bank to which the transfer is made, and (b) a transfer by that reserve bank to the account of the latter. If the latter has no account with the reserve bank, the reserve bank transfers to the account of a bank which has and which is a correspondent of the bank to which the transfer is made. For the purpose of effecting transfers between two Federal reserve banks (where the transfer is from one District to another), the Gold Settlement Fund is maintained in Washington. This fund was created by a deposit of gold by each Federal reserve bank with the Treasurer of the United States to the credit of the Federal Reserve Board, which maintains books showing the amount due to each Federal reserve bank. The Federal reserve banks each own an undivided interest in this fund and advise the Federal Reserve Board each day of the transfers made to each other. The Board makes appropriate book entries transferring interests in the Fund equivalent to the transfers of funds made between the Federal reserve banks.

Member banks make their requests for transfers in may ways:- by letter, telegram, telautograph, and telephone. After the transfer has been made, the Federal reserve bank sends a memorandum of the transaction to the member bank, and executes appropriate vouchers, and makes appropriate entries on its books.

(1) Q. Are such transfers of funds by one Federal reserve bank to another at the request of a member bank, made by means of a telegram or letter sent by one Federal reserve bank to another, taxable?

A. No.

(2) Q. Is a request for such a transfer, made by the member bank, taxable if made by telephone and not confirmed in writing?

A. No.

(3) Q. Is such a request taxable if made by telephone and confirmed in writing after the transfer has been made?

A. No.

(4) Q. If made by telautograph or telegram and not confirmed in writing?

A. No.

(5) Q. If made by telautograph or telegram and subsequently confirmed in writing?

A. No.

(6) Q. If made by letter?

A. No.

(7) Q. If such requests are taxable if made by telephone, then when a number of such requests are made in the course of one day and the Federal reserve bank makes only one book entry for the total amount at the conclusion of the day, is one tax only imposed or is each separate request taxable?

A. Neither the separate requests nor the covering book entry is taxable.

(8) Q. In the event that a request for transfer of funds made by letter is taxable, is a letter containing a request for several transfers subject to taxation once, or several times depending upon the number of transfers requested in the letter? (In this connection it has been suggested that, if taxable at all, such requests are subject to only one tax since they are contained in one letter or memorandum.)

A. Such a request is not taxable.

(9) Q. Requests for such transfers are sometimes accompanied by a draft for the amount to be transferred. Is such draft taxable?

A. Yes.

(10) Q. If so, is the letter transmitting the draft and making the request also taxable?

A. No.

(11) Q. Is a receipt or acknowledgment on a printed form sent by the reserve bank to the member bank in response to a letter such as is described in the preceding question also taxable?

A. No.

(12) Q. When a bank located in one Federal Reserve District requests that a transfer be made to a bank located in another District, the steps incident to completing the transaction include a transfer by the Federal reserve bank of the District in which the requesting bank is located to the Federal reserve bank of the District in which the transferee bank is located and a transfer from the latter reserve bank to the transferee bank, both transfers being accomplished by means of book entries in the accounts of the respective banks. Is the latter transfer taxable?

A. No.

(13) Q. Transfers are also made by Federal reserve banks between two member banks located in its district. Requests for such transfers take the same forms as the transfers described above, but such transfers are accomplished merely by means of book entries in the reserve accounts of the two banks involved. Are such transfers taxable when the requests are made in any of the different ways described above (including messenger, telephone, written memorandum, etc.)?

A. No.

VII. TRANSFERS TO 5% REDEMPTION FUND, WAR LOAN DEPOSIT ACCOUNT AND RECONSTRUCTION FINANCE CORPORATION.

National banks issuing national bank notes are required by statute to maintain with the Treasurer of the United States a Redemption Fund equal to 5% of their notes in circulation. When necessary, a national bank will in most instances make additions to its 5% Redemption Fund by requesting the Federal Reserve Bank of its district to transfer the required amount to the account of the Treasurer of the United States. Such requests are made substantially in the following form: "Please charge our account $_____ and credit the Treasurer of the United States for the account of our 5% Redemption Fund". The reserve banks prepare "debit tickets" covering the necessary book entries and send copies, or similar slips, to the member banks for their records.

1. Q. Is such a request taxable?

A. No.

2. Q. Sometimes such a request is accompanied by a draft. Is the draft or the written request taxable?

It has been contended by some of the reserve banks that such transfers to officers of the United States are not taxable in any event.

A. The draft is taxable.

3. Q. Similar questions are also raised with regard to transfers from the reserve account of a member bank to the Treasurer of the United States as payments on the War Loan deposit of the bank giving the direction (representing its subscription to United States securities).

A. Requests to charge the reserve account of a bank to cover subscriptions to United States securities are not taxable, but drafts drawn for this purpose are taxable.

4. Q. From time to time borrowing institutions repay on advances made by the Reconstruction Finance Corporation, doing so (a) by means of instructions to the Reserve bank to charge the borrowing bank's account and to credit the Treasurer of the United States for account of the Reconstruction Finance Corporation, and (b) by means of drafts. Debit tickets are prepared by the reserve bank and similar slips are forwarded to the requesting bank for its records. Are either the instructions, the debit tickets and slips, or the drafts taxable?

A. Neither the instructions nor the debit tickets or slips are taxable, but the drafts are taxable.

VIII. MISCELLANEOUS TRANSACTIONS.

(a) Purchase of Securities by Reserve Banks on Behalf of Member Banks.

Member banks frequently request reserve banks to purchase Government or other securities, or bankers' acceptances for them, authorizing the reserve bank, either impliedly or specifically, to charge their reserve account with the cost. Such requests are made in a variety of ways.

1. Q. Is such request taxable if made by telephone and not confirmed in writing?

A. No.

2. Q. If made by telephone and subsequently confirmed in writing?

A. No.

3. Q. If made by letter not specifically authorizing the reserve bank to charge the account of the requesting member bank?

A. No.

4. Q. If the request described in the preceding question contains a specific authorization to charge the member bank's account?

A. No.

5. Q. If the reserve bank, when the transaction is completed, sends to the member bank a memorandum confirming the transaction and stating the amount of the charge, is such confirmation taxable?

A. No.

(b) Incidental Expenses, Telephone Calls, etc.

6. Q. In connection with transactions of this type as well as numerous others, the reserve banks have occasion to charge the accounts of member banks, without specific authorization, with expenses incurred in connection with telephone, telegraph, shipping charges on securities, etc. The member bank is notified by sending to it a copy of the "debit ticket" made out by the operating department which incurred the expense, or else a list of the expenses which have been charged to its account is sent to the member bank at the end of the month. Are such "debit tickets", book entries or memoranda taxable?

A. No.

7. Q. Are telephone calls and telegrams subject to a tax when they pertain to Fiscal Agency or Reconstruction Finance Corporation business when the cost falls directly on the Treasury Department or the Reconstruction Finance Corporation?

A. As already pointed out, a Federal reserve bank is exempt from tax in cases where the charges for such messages sent on its own account are payable by it. Where, however, the charge for the telephone or telegraph message is paid by a member bank, the tax must be collected, notwithstanding the message may have related to matters involving the Treasury Department or the Reconstruction Finance Corporation. Where the charges for such messages are paid by the Treasury Department or the Reconstruction Finance Corporation, no tax is due; the Treasury Department is exempt by reason of section 701(b) of the Revenue Act, and the Reconstruction Finance Corporation is exempt by reason of section 10 of the act creating it (Act of January 22, 1932, Public No. 2, - 72d Congress), which has provisions almost identical with those of Section 7 of the Federal Reserve Act.

(c) Member Bank Subscriptions to Stock of Federal Reserve Banks.

8. Q. All banks which are members of the Federal Reserve System are required to subscribe to the capital stock of the Federal reserve bank in an amount equal to 6% of their own unimpaired capital and surplus. As a member bank's capital and surplus accounts are increased it is necessary to subscribe for a proportionate increase in its holdings of Federal reserve bank stock. Infrequently, drafts are drawn in favor of the Federal reserve bank for these payments. Usually when subscribing for this additional stock the member bank authorizes a charge to its account. In the latter case, is the transaction taxable?

A. The authorization to charge the reserve account of the member bank is not taxable, but the draft is taxable.

(d) Correction Entries.

9. Q. Member and nonmember banks make deposits of coin or currency with the reserve bank, receiving immediate credit subject to verification. Occasionally in process of verification the Reserve Bank finds counterfeits and shortages for which a debit is prepared and charged to the depositing bank's account. Are such entries taxable?

A. No.

10. Q. A similar question is raised with regard to maturing coupons deposited with the reserve bank. When mutilated or unmatured coupons are discovered, the coupons are returned to the depositing bank and charge made to its account. Are such transactions taxable?

A. No.

(e) Penalty for Insufficient Reserves.

Q. At periodic intervals an analysis is made of each member bank's reserve account to determine whether adequate reserves have been carried during the period, as required by the Federal Reserve Act. If the reserves have not been properly maintained, a penalty is assessed pursuant to the Federal Reserve Act and the regulations of the Federal Reserve Board. The penalty is charged to the reserve account of the member bank by the Reserve bank itself. Is such a charge taxable?

A. No.

Very truly yours,

(Signed) Ogden L. Mills,
Secretary of the Treasury.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7219

July 28, 1932.

Dear Sir:

Apparently some local postmasters are not fully advised regarding the new registry fees and surcharges on currency shipments. One question in particular appears to have caused difficulty, namely, whether it is permissible in connection with such shipments to pay the minimum registry fee of 15¢ which carries an indemnity not exceeding $5.00 and to pay the surcharge on the excess of the declared value above $5.00, instead of being required to pay a registry fee of $1.00 for the maximum indemnity of $1,000 and to pay the surcharge on the excess of the declared value above $1,000.

Inclosed is a copy of The Postal Bulletin for June 30, 1932, which contains on page 2 Instructions of the Postoffice Department in this connection. These instructions, and particularly the example in paragraph (i) seem to make it reasonably clear that the mailer has the option of paying for any indemnity which he may choose within the statutory limit of $1,000, and that he is required to pay surcharges on the

excess of the declared value above the indemnity paid for, the result being that he has the option of paying the minimum registry fee of 15¢, if he so desires, being required in that case to pay a surcharge upon an amount equal to the difference between the declared value and the registry indemnity of $5.00 for which he has paid.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-7221

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 30, 1932.

SUBJECT: Discounts for Individuals, Partnerships and Corporations.

Dear Sir:

In order that the Board may have adequate information with respect to notes, drafts and bills of exchange discounted by Federal reserve banks for individuals, partnerships and corporations under the provisions of the third paragraph of Section 13 of the Federal Reserve Act, as amended on July 21, 1932, it is requested that the BD-4 schedules submitted to the Federal Reserve Board covering such discounts show the following information as to each note, draft or bill of exchange discounted:

1. Name, business and principal place of business of the individual, partnership or corporation for which the paper is discounted.

2. Name, business and principal place of business of each party liable thereon, including indorsers (other than the individual, partnership or corporation for which the paper is discounted).

3. Rate at which discounted by Federal reserve bank.

4. Rate at which previously discounted or rate charged principal obligor.

5. Face amount (maturity value).

6. Date of note, draft or bill of exchange.

7. Date of maturity.

8. Collateral security: kind, aggregate face value, and approximate aggregate value as collateral.

Each schedule should also show:

1. Purpose for which the proceeds of the discount by the Federal reserve bank are to be used.

2. Reasons for inability of applicant to obtain credit from other banking institutions.

3. Kind, aggregate face value, and approximate aggregate value as collateral, of marginal or additional collateral, if any, pledged with the Federal reserve bank.

In order that the Board may also have current information regarding definite applications for discounts (not mere inquiries) under the above-mentioned provision of the Act which are not granted by the Federal reserve bank, it will be appreciated if you will submit a report to the Board as at the close of business each Saturday listing all such applications, showing in each case the name and address of the individual, partnership or corporation that applied for discount accommodation, the amount of the application, and the reason the Federal reserve bank did not make the discount. The reason should be stated briefly, as, for example, "Placed with _____ bank", "Ineligible", "Not satisfactorily secured", etc.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7222

August 1, 1932.

Dear Sir:

There is inclosed herewith for your information, a copy of the revised regulations of the Treasury Department dealing with the tax on checks, etc., being Treasury Decision No. 4344 amending Chapter IV of Regulations 42, made pursuant to Section 751 of the Revenue Act of 1932.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosure

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7223-c

August 6, 1932.

SUBJECT: Suggested Form of Application for Discount by an Individual, Partnership or Corporation.

Dear Sir:

There are inclosed for your information and assistance two copies of a letter and inclosures therewith received from the Counsel for the Federal Reserve Bank of Atlanta, containing suggestions with regard to the form of application for discount by an individual, partnership or corporation inclosed in the Board's letter of July 26, 1932, (X-7213).

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT ATLANTA.

C O P Y

X-7223 145

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT

Attorneys at Law

Suite 1607 William Oliver Bldg.

Atlanta

August 2, 1932.

SUBJECT: Suggested Form of Application for Discount by an Individual, Partnership or Corporation.

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill:

I duly received a copy of the Board's letter of July 26th (X-7213), with which there was enclosed a copy of a suggested form of application for use in connection with discounts for individuals, partnerships or corporations under the provisions of Section 13 of the Federal Reserve Act as amended by the Act approved July 21, 1932, etc.

This form of application seemed to me to be excellent. So far as concerns its use in the Sixth Federal Reserve District but one change of any importance suggested itself to me. In Florida, where powers of sale upon default have always been regarded with disfavor, a statute provides that collateral may not be sold after default unless a prescribed notice be given by advertisement. I have, therefore, suggested to the Federal Reserve Bank that the application prepared for use here contain a proviso, inserted after the power of sale, to the effect that "in any case where some provision of applicable law may require advertisement or other notice as a condition to the exercise of a power of sale, such as is herein given and granted, any sale made pursuant to this power shall be had after compliance with such provisions of law."

I note from the Board's Circular (X-7215-A) that a Federal Reserve Bank may discount for individuals, partnerships or corporations not only notes, etc., which are the obligations of other parties actually owned by such individuals, partnerships or corporations and endorsed by them, but also the promissory notes of such individuals, partnerships or corporations endorsed by other parties, whose endorsements are satisfactory to the Federal Reserve Bank. It seemed to me that,

in cases where the direct notes of an applicant are to be discounted, the endorsers should be made to assent to the terms and conditions of the application, which include important and substantial rights touching the handling, collection, substitution, compromise, renewal, extension and sale of collaterals. I have, accordingly, drafted a form of consent to be signed by such endorsers and enclose a copy for your information.

Of course, in cases where the promissory notes of the applicant, duly endorsed, are discounted, the note itself will be drawn upon the Federal Reserve Bank's form and will contain powers of substantially the same tenor as those set out in the application. It seemed advisable to me, however, that the endorsers specifically assent to the discount of the paper upon the terms set out in the application.

Mr. Johns, Deputy Governor, after reviewing the suggested form of application, made another suggestion, namely, that the application contain a provision under which the Federal Reserve Bank could hold any collateral acquired as security for the discounted obligations for the payment of any other paper of the applicant held by the Reserve Bank. Mr. Johns stated that it might happen that the bank would receive applications from individuals, partnerships or corporations whose paper it held under rediscount from member banks. It was not entirely clear to him whether, in such cases, the collateral taken in connection with the "direct" loans could be utilized as security for the paper taken under rediscount from member banks. In order to remove any doubt about this question I have drafted a paragraph which may be put in our form of application immediately above the applicant's signature. A copy of the paragraph proposed for insertion is also enclosed.

The Federal Reserve Bank will, of course, send you copies of the application when the same has been put in final form and printed, but, in the meantime, I am sending you these suggestions for whatever they may be worth to the other Federal Reserve Banks.

Very truly yours,

(S) Robt. S. Parker.

RSP/w.
Copy to:

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board.

Copy X-7223-a

CONSENT OF ENDORSER.

The undersigned, being endorser or endorsers of certain commercial, industrial or agricultural paper offered for discount to Federal Reserve Bank of Atlanta by _____ _____ under an application dated ____ day of _____, 193__, and more particularly described in Schedule A attached to said application, hereby agree__ and assent__ to the discount by said Federal Reserve Bank of the said paper upon the terms and under the conditions in said application set forth.

The undersigned request__ said Federal Reserve Bank to discount said paper and expressly agree__ that, in consideration of such discount, his, its or their liability as endorser or endorsers shall be and remain unimpaired and unaffected by the exercise by the Federal Reserve Bank of any of the rights, powers or privileges in said application set forth, including rights, powers or privileges touching or concerning the handling, collection, substitution, compromise, renewal, extension and sale of any of the collaterals at any time held for the payment of the obligations upon which the undersigned is or are or may be liable as endorser or endorsers.

WITNESS the hand__ and seal__ of the undersigned, this the ____ day of _____, 193__.

_____(SEAL)

_____(SEAL)

_____(SEAL)

INSERT BEFORE THE SIGNATURE
LINE ON PAGE 8.

The applicant further expressly agrees that any collateral or security of any kind or character at any time held by the Federal Reserve Bank for the payment of the commercial, industrial or agricultural paper described in Schedule A hereto attached may be held and utilized by the Federal Reserve Bank not only for the payment of said paper and/or any renewals, in whole or in part, or any extensions thereof, but also for the payment of any other obligations of the applicant to the Federal Reserve Bank, whether acquired directly from the applicant or from some third party or otherwise acquired; it being the intention hereof to provide that any indebtedness or obligation due by the applicant to the Federal Reserve Bank shall be secured by the said collaterals and securities listed on Schedule A, the Federal Reserve Bank to have the right to apply the proceeds of any collaterals upon any of such obligations as the Federal Reserve Bank may determine.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7224

August 4, 1932.

SUBJECT: Loans to Veterans on Adjusted Service Certificates.

Dear Sir:

There is inclosed herewith, for your information, a copy of Public Act No. 303, 72nd Congress, approved July 21, 1932, together with four copies of an extract of revised regulations of the Veterans' Administration with regard to loans by banks on veterans' adjusted service certificates under section 502 of the World War Adjusted Compensation Act as amended by the Act of July 21, 1932.

The changes made by this Act affecting the rediscount of notes representing such loans are, (1) a loan may be made at any time after the date of the adjusted service certificate instead of only after two years from the date thereof, and (2) except as to interest accrued prior to July 21, 1932, the rate of interest on such loans shall not exceed 3 1/2% per annum, compounded annually. You will note that the Veterans' Administration, in its revised regulations, has interpreted this latter provision of the Act of July 21, 1932, to mean that the

limitation of the rate of interest such a loan may bear to 3 1/2% per annum compounded annually, is applicable only to loans or extensions of loans made on or after July 21, 1932.

Should you desire additional copies of the extract of regulations of the Veterans' Administration, the Board will be glad to forward them to you.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7225

August 6, 1932.

Dear Sir:

An inquiry has been received as to the applicability of the tax on checks, etc., imposed by the Revenue Act of 1932 to checks, drafts or orders for the payment of money used to remit government funds, particularly to those used by postmasters for the purpose of remitting money-order funds or other moneys in the performance of their official duties. A letter was addressed to the Secretary of the Treasury asking for a ruling, and the letter was referred to the Commissioner of Internal Revenue.

Five copies of the reply, which contains the ruling of the Bureau of Internal Revenue, are inclosed herewith for your information. Your attention is invited particularly to the next to the last paragraph of the reply.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

Copy X-7225-a

TREASURY DEPARTMENT

Washington

Office of
Commissioner of Internal Revenue July 30, 1932.

MT:ST:WJR

The Federal Reserve Board,

Washington, D. C.

Gentlemen:

Your letter of July 19, 1932, addressed to the Secretary of the Treasury, has been referred to this office for reply. You inclosed a copy of a communication addressed to the Postmaster, Endicott, New York, by the Post Office Department, relative to the tax imposed by section 751(a) of the Revenue Act of 1932, on checks, drafts, or orders for the payment of money, drawn upon any bank, banker, or trust company.

Checks, drafts, or orders drawn by officers of the United States, or of a State or political subdivision thereof, in their official capacities against public funds standing to their official credit and in furtherance of duties imposed upon them by law, are not subject to the tax.

It is held that checks drawn by postmasters against funds standing to their official credit are not subject to tax.

Cashier's checks or drafts issued to a postmaster by a bank are subject to tax. The question of whether the bank may require the postmaster to reimburse it for an amount equal to the tax is one affecting the parties to the transaction over which the Bureau of Internal Revenue has no jurisdiction. The statute clearly imposes the tax upon the person drawing the check, draft or order, which in this case is the bank.

A copy of the communication submitted by you is returned, an additional copy having been made and retained for the files of this office.

Very truly yours,

MBC:RL (Signed) David Burnet,
Incl.-302 Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7226

August 5, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEPRESS" has been designated to cover a new issue of Treasury Bills, dated August 10, 1932, and maturing November 9, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEPOSE" on page 172.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7227

August 11, 1932.

SUBJECT: Collection of Drafts Drawn by Business Concerns on Themselves Which are Not Payable at or Through Designated Banks.

Dear Sir:

There is inclosed for your information, a summary of the telegrams received in response to our telegram of August 1, 1932, inquiring on behalf of the Treasury Department what the attitude of the Federal reserve banks would be as to handling checks drawn by business concerns on themselves which are not payable at or through designated banks, especially in the light of the third paragraph of Article 36 of Regulations No. 42 of the Bureau of Internal Revenue, as amended by Treasury Decision No. 4344 on July 29, 1932.

Notwithstanding the action of the recent Conference of Governors in approving the report on this subject rendered July 14, 1932, by the Standing Committee on Collections and in voting that the practice regarding this subject should be uniform throughout the Federal Reserve System, you will note that the practices of the various Federal reserve banks as

described in their telegrams to the Board are not at all uniform.

Attention is invited to the telegram from Governor Calkins, quoted at the end of the summary, suggesting that this subject should again be reviewed with the thought of reversing the action of the Conference; and there are inclosed for your further information a copy of another telegram on this subject addressed to the Board by Governor Calkins on August 8 and a copy of our reply.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7227-a

August 4, 1932.

SUMMARY OF TELEGRAMS FROM FEDERAL RESERVE BANKS RE COLLECTION OF DRAFTS DRAWN BY BUSINESS CONCERNS ON THEMSELVES WHICH ARE NOT PAYABLE AT OR THROUGH DESIGNATED BANKS.

BOSTON: Our volume of drafts drawn by business concerns upon themselves which are not payable at or through a designated bank has not been large and we have been able to handle such drafts as collection items. However, if volume of such items should increase to appreciable extent it is our feeling that we should decline to handle them in any way.

NEW YORK: It is the practice of this bank to accept and handle checks drawn by business concerns upon themselves which are not payable at or through a designated bank in this district only as cash items and only where we have received advice from a bank that it will remit to us for such checks at par. We will not receive such items from New York City Banks either as cash or non cash when payable in other districts. At present for convenience occasional items of this character received from our own out of town member banks payable in other districts are charged back and entered for collection. If volume of such items payable in other districts should materially increase will refuse to handle them on any basis.

PHILADELPHIA: We will handle checks drawn by business concerns upon themselves which are not payable at or through a designated bank as non cash collection items.

CLEVELAND: When we are authorized by banks to include such items referred to in cash letter and that they will be remitted for at par and without delay we will handle as cash items.

RICHMOND: Our general attitude is that we will not handle items drawn by business concerns upon themselves which are not payable at or through a designated bank.

ATLANTA: For several years we have handled for collection at par drafts drawn by corporations on themselves or their officials. This has been done principally through banks in clearing house cities. This arrangement may be extended further provided member banks or par remitting banks will permit us to forward them as cash items and remit to us at par.

CHICAGO: Replying your wire yesterday inquiring what our attitude will be as to handling checks drawn by business concerns upon themselves which are not payable at or through a designated bank we have been handling such items since effective date of tax as cash items where they can be collected at par in acceptable funds where they cannot be so collected we decline to handle at all this policy has proved satisfactory and it does not seem necessary to change it at this time.

ST. LOUIS: We believe it in the best interests of the bank collection system and of being of service to member banks that checks drawn by business concerns upon themselves which are not

payable at or through a designated bank be handled as cash in all instances, where by experience it develops that the collecting agent will so handle them.

MINNEAPOLIS: We will have to handle checks described as noncash items but think that practice should be uniform in all reserve banks and prefer to have board issue regulations binding on all banks covering this point.

KANSAS CITY: Following conference of Governors in Washington last month this bank, contrary to its former policy and belief as to proper method of handling drafts drawn by the makers on themselves adopted the procedure recommended by standing committee on collections and approved by Governors Conference and accordingly issued circular letter to member banks under date of July 19 stating that we would until further notice handle as cash items drafts drawn by makers on themselves without designating the bank through which payable where satisfactory arrangements have previously been made for the payments of such drafts through certain banks and that such drafts would not hereafter be handled as non cash collections. We volunteered the further observation that member banks should discourage the making of arrangements of this nature where the name of the bank through which the items are to be handled is not designated. After consideration of amended treasury regulation, we see no reason to change this procedure.

DALLAS: Items drawn directly on the maker without designation of bank through which payable have been in existence in this district for a number of years. Among other uses, it is practice of representatives of firms purchasing cotton and other commodities to draw on their companies or their officers without, in many cases, designating name of bank where payable. We have handled these and similar items as non cash collections for a number of years. If we should attempt to discontinue handling items where there is an apparent effort to evade the tax, we would be confronted with considerable difficulty in attempting to segregate them from those of the kind mentioned above, which manifestly we should not discontinue handling. We therefore believe it would be desirable to handle checks drawn by business concerns upon themselves which are not payable at or through a designated bank as non cash items.

SAN FRANCISCO: This bank would not consider handling as cash items drafts drawn by business concerns on themselves which are not payable at or through a designated bank. We further feel that Reserve Banks should not accept as cash items drafts on business concerns payable through Banks (as distinguished from drafts payable at banks). These non-bank drafts increase the expense of handling to all banks and a firm policy on the part of Federal Reserve Banks in refusing to accept as cash items would undoubtedly aid in discouraging growth of practice. Our experience indicates

impossible to know which items marked payable through a bank will be handled as cash. Even items on same drawee are handled by same bank in different manner on different occasions. Problem of Federal Reserve Bank is aggravated when items received from distant districts. Believe subject should again be reviewed with thought of reversing action of conference.

C O P Y

X-7227-b

T E L E G R A M

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

20gmr

San Francisco 513p Aug 8/9

Board,

Washington.

Referring Board's wire August first, our reply second, would appreciate knowing whether Board has approved system policy acceptance as cash items by reserve banks of drafts drawn on individuals firms or corporations marked "Collectible through" "Payable through" etc., a designated bank we have not been accepting these items but find ourselves confronted with demands to do so brought about by circulars of other federal reserve banks stating such drafts accepted on basis policy agreed to by governors at recent conference. Question herein raised does not refer to handling drafts drawn payable "at" a bank inasmuch as bank designated in such circumstances may legally pay or reject the item upon presentation without any further action of drawee individual firm of corporation. Please wire reply.

Calkins

833a

C O P Y

X-7227-c

August 10, 1932.

Calkins,
San Francisco.

Referring your wire August 8 stop It has not been Board's practice to regulate collection by Federal reserve banks of items other than checks and drafts as defined in Regulation J or to approve or disapprove System policies regarding collection of non-cash items; and Board has taken no action on System policy adopted at conference of July 15, 1932, re handling drafts drawn by business concerns on themselves stop In view of amendment to Treasury regulations as to taxability of such items and considerations stated in your wire August 2, it would seem appropriate for you, as Chairman of Governors' Conference, to arrange for reconsideration of System policy by all Federal reserve banks stop Replies to Board's wire August 1 disclose lack of uniformity in practices of Federal reserve banks and summaries are being mailed to all Governors for their information.

MC CLELLAND

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7228

August 13, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDRIVE" has been designated to cover a new issue of Treasury Bills, dated August 17, 1932, and maturing November 16, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEPRESS" on page 172.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7229

August 16, 1932.

SUBJECT: Weekly reports on direct loans.

Dear Sir:

There are inclosed herewith, for your information, copies of letters which the Federal Reserve Board has exchanged with the Federal Reserve Bank of New York with regard to the weekly reports requested in the Board's letter of July 30, 1932, X-7221, relative to applications for discounts received from individuals, partnerships and corporations, under the provisions of the recent amendment to section 13 of the Federal Reserve Act.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL GOVERNORS.

Copy X-7229-a

August 15, 1932.

Mr. L. R. Rounds, Deputy Governor,
Federal Reserve Bank of New York,
New York City, New York.

Dear Mr. Rounds:

This will acknowledge receipt of your letter of August 2, and in reply you are advised that the Board would like to have the report requested in the last paragraph of its letter, X-7221, of July 30, cover all formal applications for discounts by individuals, partnerships and corporations which are not granted by the Federal reserve bank and all informal applications where the paper is placed with another bank or the applicant is definitely advised in writing, that the discount will not be made by the Federal reserve bank.

It is noted from the second paragraph of your letter that you may not permit the filing of formal applications except in cases where there appears to be fair reason to assume a loan might be granted. The Board understands from your letter that before any attempt is made to discourage the submission of a formal application, sufficient information will be obtained from the prospective applicant to enable you to determine with some certainty that the paper which the applicant proposes to offer

is not eligible and acceptable. It is requested that for the time being you furnish the Board a report covering all cases where an applicant is advised in writing not to submit a formal application, or where other than a routine examination of the inquiry was necessary to determine the facts upon which the decision of the Federal reserve bank was based.

Very truly yours,

(Signed) E. M. McClelland,
Assistant Secretary.

EMM/vmt

Copy X-7229-b

Federal Reserve Bank

of New York

August 2, 1932.

Federal Reserve Board

Washington, D. C.

Attention of Mr. Chester Morrill, Secretary

Dear Sirs:

This will acknowledge receipt of your letter X-7221 dated July 30, 1932. We shall be governed accordingly in the preparation of BD-4 schedules covering discounts granted to individuals, partnerships and corporations.

In the last paragraph of your letter you have asked for current information regarding definite applications for discounts (not mere inquiries). It is assumed that it is your wish to receive reports only with regard to loans for which actual signed applications are made. Judging from present indications many of our applications will be informal and will be disposed of by interview, and we believe the Board would not desire information with respect to such applications. It appears, however, that we are also likely to receive a number of informal applications with regard to what might be considered border-line cases and which, after investigation, would be informally turned down either because it appeared the paper would be ineligible or for credit reasons. It seems quite likely from our experience thus far that we may not permit the filing of definite applications except in cases where there appears to be fair reason to assume a loan might be granted.

Since some of the cases thus turned down might at least have the appearance of eligibility and might not differ greatly from those for which formal applications would be received, I have thought best to call the matter to your attention and to inquire whether or not the Board would care to be informed concerning such applications.

Very truly yours,

(Signed) L. R. Rounds,
Deputy Governor.

LAL

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7230

August 17, 1932.

SUBJECT: Holidays During September, 1932.

Dear Sir:

On Monday, September 5th, Labor Day, there will be neither Gold Fund nor Federal Reserve Note clearing, and the books of the Board will be closed.

In addition to the Labor Day holiday, the following Banks and branches will observe holidays during the month of September:

Friday,	September	9,	San Francisco Los Angeles	(Admission (Day
Monday,	"	12,	Baltimore	Defenders' Day

Therefore, on the dates indicated the offices affected will not participate in either of the clearings. Please include your credits for the Banks affected on each of the holidays with your credits for the following business day in the Gold Fund Clearing, and make no shipment of Federal reserve notes for account of the Federal Reserve Bank of San Francisco on Friday, September 9th.

Please notify Branches.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7231

August 19, 1932.

SUBJECT: Copies of Regulations of Veterans Administration

Dear Sir:

There is inclosed herewith copy of a letter received from the Director of Finance of the Veterans Administration, from which it will be noted that the Administration has only a limited supply of its recently revised regulations concerning loans by banks on adjusted service certificates, and would appreciate the cooperation of the Federal reserve banks in making no unnecessary distribution of the regulations.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.

COPY X-7231-a

VETERANS ADMINISTRATION

Washington

August 16, 1932

Mr. E. M. McClelland,
Assistant Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

This has reference to your letter of August 8, 1932, concerning a request received by the Federal Reserve Board from the Federal Reserve Bank of Minneapolis for 2,500 copies of the recently revised regulations of this Administration concerning loans by banks on adjusted service certificates.

Approximately 500 copies of this extract of the regulations already have been furnished to the Federal Reserve Board; however, due to the fact that the appropriation made to this Administration by Congress for printing has been curtailed extremely, it will not be possible to supply orders of this size. Only about 100 copies can be supplied to any Federal Reserve Bank for general distribution to member banks and others and it will be appreciated if all Federal Reserve Banks can be requested to use fewer than this if possible, sending them only to banks actually interested, and only a single copy to each bank.

One hundred copies are being shipped directly to the Federal Reserve Bank of Minneapolis, and your cooperation in this will be greatly appreciated.

Respectfully,

(Signed) M. Collins

Director of Finance.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7232

August 19, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDETEST" has been designated to cover a new issue of Treasury Bills, dated August 24, 1932, and maturing November 23, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDRIVE" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7233

August 25, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, July, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7233-a and X-7233-b, covering in detail operations of the main lines, Leased Wire System, during the month of July, 1932.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JULY, 1932.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	28,029	2,082	30,111	3.67
New York	142,668	-	142,668	17.37
Philadelphia	28,372	1,754	30,126	3.67
Cleveland	60,830	1,567	62,397	7.60
Richmond	60,275	1,665	61,940	7.54
Atlanta	55,283	5,631	60,914	7.42
Chicago	92,734	2,414	95,148	11.59
St. Louis	63,960	2,323	66,283	8.07
Minneapolis	33,117	1,534	34,651	4.22
Kansas City	72,753	1,696	74,449	9.07
Dallas	58,772	2,413	61,185	7.45
San Francisco	97,601	3,700	101,301	12.33
Total	794,394	26,779	821,173	100.00

F. R. Board business	299,322	1,120,495
Reimbursable business Incoming and Outgoing		408,637
Total words transmitted over main lines		1,529,132

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7233-b).

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.

173

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, JULY, 1932.

Name of bank	Operators' salaries	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	$260.00	$ 2.00	$ -	$262.00	$641.92	$262.00	$379.92
New York	1,239.15	7.00	-	1,246.15	3,038.18	1,246.15	1,792.03
Philadelphia	225.00	-	-	225.00	641.92	225.00	416.92
Cleveland	306.66	-	-	306.66	1,329.32	306.66	1,022.66
Richmond	226.00	-	230.00 (&)	456.00	1,318.82	456.00	862.82
Atlanta	270.00	-	-	270.00	1,297.83	270.00	1,027.83
Chicago	4,095.32 (#)	12.00	-	4,107.32	2,027.21	4,107.32	2,080.11 (*)
St. Louis	195.00	-	-	195.00	1,411.52	195.00	1,216.52
Minneapolis	234.37	-	-	234.37	738.12	234.37	503.75
Kansas City	287.50	-	-	287.50	1,586.43	287.50	1,298.93
Dallas	251.00	-	-	251.00	1,303.08	251.00	1,052.08
San Francisco	380.00	-	-	380.00	2,156.63	380.00	1,776.63
Federal Reserve Board	-	-	15,648.83	15,648.83	-	-	-
Total	$7,970.00	$ 21.00	$15,878.83	$23,869.83	$17,490.98	$8,221.00	$11,350.09
							2,080.11 (a)
							$ 9,269.98

Reimbursable charges:

Treasury Department	$2,721.85
Reconstruction Finance Corporation	3,533.71
FederalFarm Loan Board	33.33
Federal Farm Board	54.62
Compt. of Currency, Insolv. Bank Div.	35.34
Less: Reimbursable charges	6,378.85
	$17,490.98

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in Morning Papers, Thursday, August 25, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of July and August, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Volume of industrial output declined seasonally from June to July while factory employment and payrolls decreased by more than the usual seasonal amount. In July the general level of wholesale prices was about 1 per cent higher than in June, and in the first half of August prices of many leading commodities advanced considerably. Reserve bank credit declined somewhat in the four weeks ending August 17, reflecting chiefly a substantial growth in the country's stock of monetary gold.

Production and Employment - Industrial production declined by about the usual seasonal amount in July and the Board's index, which is adjusted to allow for the usual seasonal variations, remained unchanged at 59 per cent of the 1923-1925 average. Activity decreased seasonally in the steel industry; by slightly more than the usual seasonal amount in the lumber, cement, newsprint, and meatpacking industries; and by substantially more than the seasonal amount in the automobile and lead industries. Output of shoes, which ordinarily increases in July, declined. At woolen mills activity increased by a substantial amount, and at silk mills there was a seasonal increase in production. Activity at cotton mills decreased, as is usual in July, while sales of cotton cloth by manufacturers increased considerably. Output of coal increased from the low level prevailing in June.

Reports on the volume of factory employment and payrolls showed substantial declines from the middle of June to the middle of July. In the machinery, women's clothing, and hosiery industries, and at railroad repair shops, the number employed decreased by considerably more than the usual seasonal amount, and at shoe factories the increase reported was smaller than usual. In the woolen goods industry a substantial increase in employment was reported.

Value of building contracts awarded, as reported by the F. W. Dodge Corporation, continued at a low level during July and the first half of August.

Prospects for many leading crops, including corn, spring wheat, potatoes, and tobacco, were reduced somewhat during July, according to the Department of Agriculture. The estimated total wheat crop, based on August 1 conditions, is 723,000,000 bushels, a decrease of about 175,000,000 bushels from last year's large crop, reflecting a reduction of 350,000,000 bushels in the winter wheat crop, offset in part by an estimated increase of 175,000,000 in the spring wheat crop. The first official cotton estimate, as of August 1, was 11,300,000 bales, as compared with crops of 17,100,000 last season and 13,900,000 the year before. The indicated production of corn is 2,820,000,000 bushels, substantially larger than the crops of the last two seasons and slightly larger than the five-year average.

Distribution - Volume of freight traffic decreased somewhat from June to July, and value of department store sales was substantially reduced.

Wholesale Prices - The general level of wholesale prices, as measured by the monthly index of the Bureau of Labor Statistics, advanced from 63.9 per cent of the 1926 average in June to 64.5 per cent in July. Between the middle of July and the third week of August prices of livestock and meats, which had previously advanced considerably, declined somewhat, while price increases were

reported for many other leading commodities, including wheat, textile raw materials and finished products, nonferrous metals, hides, sugar, coffee, and rubber.

Bank Credit - The total volume of reserve bank credit outstanding, which had increased by $850,000,000 between the end of March and the third week of July, declined by $95,000,000 in the four weeks to August 17, and in the same period member banks increased their reserve balances by $45,000,000. These changes reflected chiefly the addition of $95,000,000 to the country's stock of monetary gold and an inflow to the banks of $30,000,000 in currency.

Total loans and investments of reporting member banks in leading cities were $250,000,000 larger on August 17 than four weeks earlier. Total loans of these banks continued to decline throughout the period, while their investments increased substantially, reflecting an increase in holdings of United States Government securities in connection with Treasury financing operations. Time deposits increased by $95,000,000 and net demand deposits by $85,000,000.

Money rates in the open market remained at low levels. Successive reductions brought the prevailing rates on prime commercial paper to a range of 2 - 2 1/4 per cent in the first part of August.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7235

August 26, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDETORT" has been designated to cover a new issue of Treasury Bills, dated August 31, 1932, and maturing November 30, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDETEST" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7236

September 1, 1932.

SUBJECT: Charge for Printing Federal Reserve Notes During Fiscal Year 1933.

Dear Sir:

Referring to the telegrams which were addressed to all Federal reserve banks under date of July 30, 1932, and August 9, 1932, you are advised that the charge for printing Federal reserve notes during the month of July was at the rate of $90.50 per one thousand sheets, a reduction of $2.00 per one thousand sheets from the charge during the fiscal year 1932. The Bureau of Engraving and Printing advises that this reduction is the result of savings effected in the cost of materials used for the printing of the notes.

The Bureau also estimates that a much larger saving in the cost of printing Federal reserve notes will be made during the present fiscal year by virtue of the furlough without pay of employees of the Bureau under the provisions of the Economy Act. The Comptroller General of the United States has ruled, however, that the amounts withheld from the compensation of employees engaged in the printing of Federal reserve notes and other so-called repay work by reason of the operation of the Economy Act must be impounded, and

that the fact that the compensation actually paid such employees has been reduced by the operation of the statute does not authorize any reduction in the charge made against Federal reserve banks for the printing of Federal reserve notes or the charge for other so-called repay work which is to be reimbursed by other agencies.

However, there is under consideration a proposed request to the Comptroller General to reconsider his decision. If the opinion of the Comptroller General should be reversed a further reduction will be made in the charge against the Federal reserve banks for printing Federal reserve notes; if not, the charge of $90.50 per one thousand sheets will continue during the fiscal year 1933.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7237

September 6, 1932.

SUBJECT: New Issues of Treasury Certificates of Indebtedness and Treasury Notes.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Certificates of Indebtedness and Treasury Notes:

"NOWHOBBY" Treasury Certificates of Indebtedness, Series TS-1933, 1¼%, dated September 15, 1932, due September 15, 1933;

"NOWHURL" 3¼% Treasury Notes, Series A-1937, to be dated September 15, 1932, due September 15, 1937.

These code words should be inserted in the Federal Reserve Telegraph Code book, on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE SYSTEM

The Federal Reserve System was established pursuant to authority contained in the Act of December 23, 1913, known as the Federal Reserve Act, the purposes of which, as stated in the preamble, are "To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." The System comprises the Federal Reserve Board, which exercises supervisory functions, the Federal Advisory Council, which acts in an advisory capacity to the Federal Reserve Board, the twelve Federal reserve banks situated in different sections of the United States, and the member banks, which include all national banks and such State banks and trust companies as have voluntarily applied to the Federal Reserve Board for membership and have been admitted to the System.

The Federal reserve banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco. There are also in operation twenty-five branches and two agencies of the Federal reserve banks, all of which are located in other cities of the United States, except one agency in Havana, Cuba.

The capital stock of the Federal reserve banks is entirely owned by the member banks and may not be transferred or hypothecated. Every national bank in existence at the time of the establishment of the Federal Reserve System was required to subscribe to the capital stock of the Federal

reserve bank of its district in an amount equal to six per cent of the subscribing bank's capital and surplus. A like amount of Federal reserve bank stock must be subscribed for by every national bank organized since that time and by every State bank or trust company upon becoming a member of the Federal Reserve System; and, when a member bank increases its capital or surplus, it is required to subscribe for additional stock in the same proportion. One half of each subscription must be fully paid and the remainder is subject to call by the Federal Reserve Board; but call for payment of the remainder has never been made.

After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholding member banks are entitled to receive an annual dividend of six per cent on the paid-in capital stock, which dividend is cumulative. After these dividend claims have been fully met, the net earnings are paid into a surplus fund, until it amounts to 100 per cent of the subscribed capital of the bank. Thereafter 10 per cent of such earnings is paid into the surplus, and the remaining net earnings are paid to the United States as a franchise tax. Federal reserve banks, including the capital stock and surplus therein and the income derived therefrom, are exempt from Federal, State and local taxation, except taxes upon real estate.

The board of directors of each Federal reserve bank is composed of nine members, equally divided into three classes, designated Class A, Class B and Class C. Directors of Class A are representative of the stockholding member banks. Directors of Class B must be actively engaged in their district in commerce, agriculture or some other industrial pursuit, and may not be officers, directors or employees of any bank. Class C directors may

not be officers, directors, employees, or stockholders of any bank. Six of the nine directors, those of Class A and Class B, are elected by the stockholding member banks, while the Federal Reserve Board appoints the three Class C directors. The term of office of each director is three years, so arranged that the term of one director of each class expires each year.

One of the Class C directors appointed by the Board is designated as chairman of the board of directors of the Federal reserve bank and as Federal reserve agent, and in the latter capacity he is required to maintain a local office of the Federal Reserve Board on the premises of the Federal reserve bank. Another Class C director is appointed by the Federal Reserve Board as deputy chairman.

Federal reserve banks are authorized, among other things, to discount for their member banks notes, drafts, bills of exchange and bankers' acceptances of short maturities arising out of commercial and agricultural transactions, and short term paper secured by obligations of the United States; to make advances to their member banks for periods not exceeding fifteen days upon collateral security of certain prescribed classes; in certain exceptional circumstances and under certain prescribed conditions, when authorized by at least five members of the Federal Reserve Board, to make advances to groups of member banks (and until March 3, 1933, to individual member banks) upon other kinds of security; in unusual and exigent circumstances when authority has been granted by at least five members of the Federal Reserve Board, to discount for individuals, partnerships or corporations, under certain prescribed conditions, notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member

banks; to purchase and sell in the open market bankers' acceptances and bills of exchange of the kinds and maturities eligible for discount, and obligations of the United States; to deal in gold coin and bullion; to receive and hold on deposit the reserve balances of member banks; to issue Federal reserve notes; to act as clearing houses and as collecting agents for their member banks, and under certain conditions for nonmember banks, in the collection of checks and other instruments; to act as depositaries and fiscal agents of the United States; and to exercise other banking functions specified in the Federal Reserve Act.

Federal reserve notes are a first and paramount lien on all the assets of the Federal reserve banks through which they are issued and are also obligations of the United States. They constitute at present nearly one half of the total money in actual circulation in the United States outside of the Treasury Department and the Federal reserve banks. They are issued against the security of gold and of commercial and agricultural paper discounted or purchased by Federal reserve banks, and until March 3, 1933, when authorized by the Federal Reserve Board, may also be secured by direct obligations of the United States. Every Federal reserve bank is required to maintain reserves in gold of not less than 40 per cent against its Federal reserve notes in actual circulation and is also required to maintain reserves in gold or lawful money of not less than 35 per cent against its deposits.

Broad supervisory powers are vested in the Federal Reserve Board, which has its offices in Washington. The law designates the Secretary of the Treasury and the Comptroller of the Currency as ex-officio members, and

provides for the appointment of six members by the President with the advice and consent of the Senate. In selecting these six members, the President is required to have a due regard to a fair representation of the financial, agricultural, industrial and commercial interests, and geographical divisions of the country. No two appointive members may be from the same Federal reserve district.

Among the more important duties of the Federal Reserve Board are the review and determination of discount rates charged by the Federal reserve banks on their loans to member banks and the approval or disapproval of the open market operations of the Federal reserve banks. In connection with its supervision of Federal reserve banks the Board is also authorized to make examinations of such banks; to require statements and reports from such banks; to require the establishment or discontinuance of branches of such banks; to supervise the issue and retirement of Federal reserve notes; and to supervise the foreign operations of the Federal reserve banks.

The Federal Reserve Board also passes on the admission of State banks and trust companies to membership in the Federal Reserve System and on the termination of membership of such banks; it has the power to examine member banks either through its own personnel or in cooperation with national and State banking authorities; it receives condition reports from member banks; it passes on applications of national banks for authority to exercise trust powers or to act in fiduciary capacities; it may grant authority to national banks to establish branches in foreign countries or dependencies or insular possessions of the United States, or to invest in the stock of banks or corporations engaged in international or foreign banking; it supervises the organization and activities of corporations organized under

Federal law to engage in international or foreign banking; and it issues permits under the authority granted by the provisions of the Clayton Antitrust Act relating to interlocking bank directorates. Another function of the Board is the operation of the gold settlement fund, by which balances due to and from the various Federal reserve banks arising out of their own transactions or those of their member banks are settled in Washington without physical shipments of gold.

In exercising its supervisory functions over the Federal reserve banks and member banks, the Federal Reserve Board promulgates regulations, pursuant to authority granted by the Federal Reserve Act, governing certain of the above-mentioned activities of Federal reserve banks and member banks. To meet its expenses and to pay the salaries of its members and its employees, the Board makes semi-annual assessments upon the Federal reserve banks in proportion to their capital stock and surplus. Annual reports of the operations of the Board are made to the Speaker of the House of Representatives for the information of Congress as required by law.

The Federal Advisory Council acts in an advisory capacity, conferring with the Federal Reserve Board on general business conditions and making recommendations concerning matters within the Board's jurisdiction and the general affairs of the Federal Reserve System. The Council is composed of twelve members, one from each Federal reserve district being selected annually by the board of directors of the Federal reserve bank of the district. The Council is required to meet in Washington at least four times each year and oftener if called by the Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7240

September 13, 1932.

SUBJECT: Surcharges on Registered Mail
Shipments of Currency.

Dear Sir:

There are inclosed for your information a copy of a letter on the above subject which Governor Meyer addressed to the Postmaster General under date of August 12, 1932, and a copy of the Postmaster General's reply of September 3, 1932, inclosing a memorandum addressed to him by the Third Assistant Postmaster General.

In view of the position taken by the Post Office Department, it would seem advisable for a suitable committee representing all of the Federal reserve banks to consider what changes, if any, should be made in the practices regarding shipments of currency and what other steps, if any, should be taken. The Board would also be glad to receive any comments or suggestions regarding this matter which you may care to make.

In this connection you are advised that the negotiations which were conducted by the Federal Reserve Bank of New York with the American Railway Express Company resulted in a decision by that company to make no change in the tariff rates for Federal

reserve banks on currency or security shipments. The company advised the Federal Reserve Bank of New York that it could not see its way clear to reduce rates to the point where it would be advantageous for the Federal reserve banks to use the express service in preference to the postal service.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7240-a

August 12, 1932.

Honorable Walter F. Brown,
The Postmaster General,
Washington, D. C.

S I R :

The Federal Reserve System is being required under the Act of June 28, 1932, as it is now being administered by the Post-office Department, to pay registry surcharges on currency shipments, which will have the effect of increasing by some $750,000 annually the cost to the System of supplying the banks of the country with currency. Since this large additional cost will add materially to the burden of expense of operation of the Federal Reserve System in the performance of one of its most important functions, you are respectfully requested to prescribe, under the provisions of Section 2 of the Act of June 28, 1932, which I am advised give you the power to do so, regulations relieving such shipments of currency from the requirement that their full value be declared for the purpose of registration, thus relieving the System of this additional burden.

Federal reserve notes, which constitute about half the currency in circulation, and which are obligations of the United States, are distributed by means of shipments by the Comptroller of the Currency at the direction of the Federal Reserve Board to the various Federal Reserve Agents, who are the local representatives of the Federal Reserve Board and who issue such notes to the Federal reserve banks to meet the requirements of those institutions

and of the State and national banks. The Federal reserve banks also handle the distribution of United States currency issues forwarded to them by the Treasurer of the United States. The System is, therefore, performing the functions formerly performed by, and is bearing the expense formerly borne by, the United States when currency was distributed by means of shipments to the Subtreasuries and mints. Such shipments by the Board now aggregate about $2,250,000,000 yearly, and most of them are in large amounts running to millions of dollars. Shipments between the reserve banks and State and national banks, excluding those the cost of which is not borne by the reserve banks, aggregate about $5,750,000,000 yearly.

The new registry surcharges are on a "straight line" basis; that is, they are one hundred times as great for a shipment of $10,000,000 as for one of $100,000. The elements entering into the cost of carrying currency are the transportation, the insurance and the physical protection furnished. The cost of the actual transportation varies with the weight, which is reflected in the postage charge, but which would not be affected by the value of the shipment. The insurance or indemnity furnished by the Post-office Department, being limited to $1,000 is of no value in connection with these shipments, and the banks have always found it necessary to insure them with commercial insurance companies. The only element of cost upon which the surcharges of currency could be justified is, therefore, the cost of the physical protection furnished. It seems very improbable that that cost increases at a rate compar-

able to the increase in surcharges above referred to. Manifestly, a hundred times as many guards would not be necessary to protect a $10,000,000 shipment as are necessary to afford adequate protection to a $100,000 shipment. The conclusion can hardly be avoided that the surcharges on these shipments of currency are much greater than either the cost or the value of the service rendered, and that they could only be justified on the theory that, as a matter of public policy, shipments of great value should bear the brunt of the burden of making up the deficit in the Registry Service as a whole. It is respectfully submitted that such a theory is unsound when applied to the Federal Reserve System in the performance of a quasi-governmental function.

The Federal Reserve System was created for the purpose of giving to the banking system of the country greater elasticity and strength, and of providing a currency sufficiently flexible to meet varying needs. The result has been to render it unnecessary for the banks to keep on hand at all times a sufficient amount of currency to meet peak requirements, because means are afforded whereby they may secure currency to meet runs or other emergencies promptly and in any quantity which their condition may justify. The need of fostering the free movement of shipments of currency for such purpose is too obvious to require more than mere statement. Among other things, it has influenced the Federal Reserve System to absorb practically all expenses in connection with shipments of Federal reserve notes between the reserve banks and commercial banks, both national and State.

Honorable Walter F. Brown - - 4

The effect of the new surcharges alone is to increase by fully 100 per cent the postal charges on such shipments, and there is a distinct possibility that, unless the Federal reserve banks can avoid this added expense, either through the prescribing of different rules by your Department or by arranging for transportation otherwise than by mail, they will find it necessary to discontinue absorbing these charges. In that event, the State and national banks might seek to avoid some of the added expense by curtailing such currency shipments, with the result that they might either accumulate a supply of currency more than sufficient for their normal needs or would hesitate to ask for as much currency as caution and prudence might require. The first course would tend to defeat the efforts of the System and of the Government to decrease the volume of currency outstanding but unavailable as a basis of credit. In this connection, it is important to observe that surplus currency in the vaults of banks has the same effect as hoarded currency. The second course would be attended by the danger that runs and other emergencies might find the banks unprepared to meet them.

In view of the quasi-governmental nature of the function of distributing currency, and particularly in view of the conditions which have existed in the banking system during the past few years, there are strong reasons of public policy in favor of not casting upon the System any undue burden in its efforts to assist the banks in dealing with the existing situation, and in favor of permitting these shipments of currency to move with the greatest possible freedom.

Honorable Walter F. Brown - - 5

It is, therefore, respectfully requested that you issue regulations or instructions in such form as you may deem appropriate and proper, providing that shipments of currency either to or from any Federal reserve bank shall be accepted by all postmasters for registration (or for insurance if the shipment is insured mail treated as registered mail) without the mailer being required to declare a value in excess of $1,000.

There is inclosed for your information a memorandum prepared by the Board's Counsel discussing the question whether you may lawfully modify the regulations of your Department in the manner suggested herein.

Very truly yours,

Eugene Meyer,
Governor.

Inclosure.

C O P Y

X-7240-b

THE POSTMASTER GENERAL

WASHINGTON

September 3, 1932.

Hon. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor:

Your letter of August 12, requesting that the Federal Reserve System be exempted from surcharges on registered mail shipments, has been given painstaking consideration. The views of the Department with respect to this matter are set out in detail in a memorandum from the Third Assistant Postmaster General, which is enclosed herewith.

I regret to inform you that in my judgment the request should be denied.

Sincerely yours,

(s) Walter F. Brown

Post Office Department

Third Assistant Postmaster General

Washington

August 30, 1932.

Memorandum for the Postmaster General:

Subject: Letter from the Governor, Federal Reserve Board, Washington, D. C., dated August 12, 1932, asking the Postmaster General to prescribe regulations relieving Federal Reserve shipments of currency from surcharges, reference being made to Section 2 of the Act of June 28, 1932 (effective July 1, 1932), which provides that "The full value of all registered mail or insured mail treated as registered mail shall be declared by the mailer at the time of mailing unless otherwise prescribed by the Postmaster General * * *"

The Governor of the Federal Reserve Board called attention to the wording and lack of punctuation influencing the interpretation that may be placed upon the law in paragraph 2 of the Act of June 28, 1932, involving the requirement that the full value of all registered mail or insured mail treated as registered mail shall be declared by the mailer at the time of mailing unless otherwise prescribed by the Postmaster General. He argues that the Postmaster General has authority to exempt Federal Reserve shipments from surcharges on registered mail and requests that the authority given in the law for the Postmaster General to do so be exercised in Federal Reserve shipments.

There is no intention on the part of the Post Office Department to avail itself of the technicality arising from the implied omission of punctuation. It is conceded that practically construed the phrase "unless otherwise prescribed by the Postmaster General" modifies the sentence "shall be declared" rather than the phrase "at the time of mailing.

While it may be true that the law permits the Postmaster General to exempt Federal Reserve shipments from surcharges, it might be also argued and equally admitted that he had authority to exempt all registered mail or insured mail treated as registered mail from surcharges and thus nullify the intention of the Act itself which prescribes the registry fees and surcharges. The question resolves itself into whether or not the Postmaster General is justified in

exempting Federal Reserve shipments from surcharges because he has authority to do so.

The phrase "unless otherwise prescribed by the Postmaster General" in Section 2 of the Act of June 28, 1932, was recommended by the Post Office Department in the draft for legislation prepared by the Department and as it was enacted by Congress. The intention of the Department in inserting these words was particularly to permit the Postmaster General to relieve from surcharges matter which was entitled to free registration under already existing statutes, and, incidentally, other matter not entitled to free registration which for good and sufficient reasons, in the opinion of the Postmaster General, should be exempted from registry surcharges.

Matter which is entitled to free registration has been exempted from registry surcharges. In addition to the exemption from registry surcharges of matter entitled to free registration, registered articles which contain exclusively checks, drafts and other written or printed matter having no intrinsic value which may be duplicated without expense or at a nominal cost, as well as non-negotiable securities which can be duplicated unless the known or estimated cost of duplication in case of loss will exceed the maximum indemnity provided for the amount of registry fee paid, have also been exempted from registry surcharges.

The fact that the Federal Reserve System is "performing the functions formerly performed by, and is bearing the expense formerly borne by, the United States when currency was distributed by means of shipments to the Subtreasuries and mints", does not indicate per se that the Federal Reserve shipments of registered mail should be exempted from surcharges because the Subtreasuries and mints were not entitled to free registration. The mints and assay offices now in existence are required to pay registry surcharges.

No matter which is not entitled to free registration has been exempted from surcharges except such as come within the category of the exceptions stated.

The Governor of the Federal Reserve Board states "The new registry surcharges are on a 'straight line' basis; that is, they are one hundred times as great for a shipment of $10,000,000 as for one of $100,000." The object of the Act of Congress approved June 28, 1932, was to provide such additional revenue as might be necessary to make the registry service self-supporting.

The Cost Ascertainment Report of the Post Office Department for the fiscal year 1931 showed a deficit on paid registrations of $8,516,387.52.

The basis method of prescribing registry surcharges on the value and length of haul of the article involved is considered by the Post Office Department to be both reasonable and equitable.

The fixing of tariffs and rates according to the principle of "what the traffic would bear" is not a new one. It is recognized in all rate making relating to transportation.

To have increased the rates uniformly or horizontally for all articles would have resulted in discouraging the mailing of letters and articles of small value, thereby reducing the revenues in the amount of the increased fees. Therefore, the principle of charges based upon the measure of delivered service, that is, value and distance, was resorted to. While uniform safeguards are accorded to all matter, registered mail, known or supposed to be of large value, requires in post offices and terminals special precautions and safeguards including armed guards and armored trucks. Heretofore mailers of shipments of large value have availed themselves of the minimum registration fee of 15¢ regardless of the value contained in the shipment. The surcharges were adopted, therefore, to provide additional revenue in connection with registered articles containing matter of

large value and the amounts of the surcharges were fixed with the idea of providing the additional revenue required to make the registry service self-supporting. If the rates as now fixed by law are found to be too high in that respect, the Department will move to have them reduced.

Representatives of the insurance companies handling this business have stated in hearings before the Post Office and Post Roads Committee of the House of Representatives that they have been able to reduce their rates from time to time because of the increased protection afforded by the Post Office Department. The shippers, therefore, have for years had the benefit of the service which has been performed consistently at great loss to the Department.

The Governor of the Federal Reserve Board states that the Act of June 28, 1932, "will have the effect of increasing by some $750,000 annually the cost to the System of supplying the banks of the country with currency." This amount does not appear to the Post Office Department to be excessive when considered and compared with the cost and deficit of the registry service, the expense for transportation of similar amounts by other agencies who conduct their business for profit, and the fact that the Post Office Department merely desires the registry service to be made self-sustaining instead of continuing to be conducted at a loss.

If the $750,000 surcharges received from the Federal Reserve System were deducted from the deficit on paid registrations, there would still be over $7,000,000 deficit in the registry service to be collected from other financial institutions and the general public to offset the deficiency.

It is understood that the accumulated surplus credited to the Federal Reserve System amounts to approximately $275,000,000. If this be true it does not appear that $750,000 alloted to surcharges on registry shipments is more than

the System can reasonably bear nor in excess of its proportionate amount of required surcharges, particularly because the Federal Reserve surplus doubtless has been augmented to some extent at least by the past performances of the registry service conducted at less than the cost of the service rendered.

To exempt Federal Reserve shipments from the payment of surcharges, even if the law were construed to permit such action by the Postmaster General, would, in my opinion, establish an ill-advised precedent which would doubtless be the basis of other similar requests for exemption from other financial institutions which might also claim to be performing a "quasi-governmental" function.

The Postal Savings System is distinctly a Post Office Department feature, notwithstanding its intimate connection with the Treasury Department. The banks throughout the country which obtain deposits of postal savings funds are required to hypothecate securities with the Treasury Department for that purpose. The shipments of these securities by registered mail to secure loans of postal savings funds are subject to surcharges.

The Treasury Department makes valuable registry shipments of national bank currency which are subject to registry fees and registry surcharges.

The field Loan Agencies of the Reconstruction Finance Corporation which do not have the right to free registration are also required to pay surcharges on registered mail.

The Attorney General of the United States, in his opinion to the Postmaster General dated October 5, 1915, copy of which is attached hereto, stated: "Numerous other provisions of the Act (Federal Reserve Act), not necessary to be here set forth in detail, manifest the purpose of Congress to impose upon the banks all expenses connected with its administration" and "* * * that these notes (Federal Reserve notes) do not relate 'exclusively to the business of the United States,' and therefore, regardless of the Federal Reserve Act, could not enjoy

the benefit of the free carriage provision of the Act of March 3, 1877, (19 Stat. 319, 335)."

The right to free postage does not necessarily carry with it the right to free registration and therefore there are instances where the registry fees and the surcharges are required where postage is not required but I know of no instance where the right to free registration is given in which the right to free postage is not also legalized.

In conclusion, it is my opinion that the Federal Reserve shipments should not be exempted from the payment of surcharges on registered mail which naturally carries with it the required declaration of values at the time of mailing.

The Federal Reserve Board may have some changes to suggest in connection with the registry fees and surcharges and if so the Post Office Department would welcome, and give consideration to, any suggestions made which will result in offsetting the registry deficit of $8,516,387.52 reported in paid registrations for the fiscal year 1931. There is inclosed herewith a copy of the Cost Ascertainment Report and Report of the Postmaster General for the fiscal year 1931, particular reference being made in the Cost Ascertainment Report to Table A, page 10, and in the Postmaster General's Report to pages 8 and 49 and to Table No. 16 beginning on page 98. As a matter of interest in connection with this subject I am also inclosing a copy of the Hearings before Subcommittee No. 5 of the Committee on the Post Office and Post Roads, House of Representatives, February 18, 1930, on Bill H. R. 8573 (71st Congress 2d Session) to authorize the Postmaster General to pay indemnity for the actual value of registered mail and to fix the fees for the risks assumed. After these Hearings were held another bill was substituted (H. R. 10244, 72d Congress 1st Session) in which registry

fees and surcharges were fixed by Congress and which was passed by both Houses of Congress, and approved by the President June 28, 1932. This later bill (H. R. 10244) is the subject of this memorandum.

(S) F. A. Tilton,

Third Assistant Postmaster General.

COPY X-7240-d

THE DEPARTMENT OF JUSTICE

WASHINGTON.

October 5, 1915.

The Honorable,

The Postmaster General.

Sir:

I have the honor to acknowledge your letter of August 24, 1915, wherein you request my opinion as to whether Federal reserve notes can be sent through the mails under penalty envelopes or labels by the members of the Federal Reserve Board.

The solution of the question depends alone upon the correct interpretation of the Act of December 23, 1913 (United States Statutes at Large; Advance Pamphlet, p. 251), commonly referred to as the Federal Reserve Act, the material portion whereof reads:

> When such (Federal reserve) notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this act. ******, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The language plainly imposes upon the Federal reserve banks all expenses involved in the procurement, issuance and retirement of Federal reserve notes. As the shipment of these notes to the subtreasury, etc., and ultimately to the bank applying for them, is necessarily a step precedent to their issuance, it follows that the expense of such shipment is one "incidental to their (the notes) issue," and under the terms of the act must be borne by the banks.

Numerous other provisions of the act, not necessary to be here set forth in detail, manifest the purpose of Congress to impose upon the banks all expenses connected with its administration.

Having reached the conclusion that the Federal Reserve Act imposes the expense of shipment upon the reserve banks, I deem it unnecessary to pass upon the additional reason assigned by your Solicitor, viz: that these notes do not relate "exclusively to the business of the United States," and therefore, regardless of the Federal Reserve Act, could not enjoy the benefit of the free carriage provision of the Act of March 3, 1877 (19 Stat. 319, 335).

Respectfully,

(Signed) T. W. GREGORY.

Attorney General.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7241

September 14, 1932.

SUBJECT: Reserves Against Funds Collected by Banks under Revenue Act.

Dear Sir:

There is inclosed herewith, for your information, copy of a letter addressed by the Board to the Federal Reserve Agent at San Francisco in response to an inquiry as to whether funds collected by banks pursuant to the requirements of Section 751 of the Revenue Act of 1932, and held for remittance to the Collector of Internal Revenue, are subject to reserve.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

X-7241-a

Sep 3 1932

Mr. Isaac B. Newton,
Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Newton:

Reference is made to your letter of August 13, 1932, in which you inquire whether funds collected by banks under the Revenue Act and held for remittance to the Collector of Internal Revenue are subject to reserve. It is assumed that you refer to amounts collected pursuant to the requirements of Section 751 of the Revenue Act of 1932, which contains the provisions with respect to the tax on checks, drafts or orders for the payment of money.

Upon consideration of this question, it is the opinion of the Federal Reserve Board that amounts collected by member banks and held pending payment to the Collector in accordance with the provisions of the statute in question do not constitute deposits within the meaning of Section 19 of the Federal Reserve Act and, accordingly, are not subject to the reserve requirements of that section.

Very truly yours,

(s) Chester Morrill,
Secretary.

LIST OF DOCUMENTS PERTAINING TO THE "CASHING" OF GOVERNMENT WARRANTS AND CHECKS BY FEDERAL RESERVE BANKS WHICH HAVE BEEN SENT TO COUNSEL TO THE VARIOUS FEDERAL RESERVE BANKS.

- - -

1. Memorandum addressed by Mr. Wyatt to the Federal Reserve Board under date of April 17, 1931, (X-6867) and documents attached thereto as exhibits (X-6867-a);

2. Letter addressed to the Board under date of April 23, 1931, by the Under Secretary of the Treasury (X-6880) transmitting copy of an opinion of the Attorney General of the United States rendered May 27, 1925, (X-6880-a);

3. Letter addressed by the Board to the Governors of all Federal reserve banks and to members of the Standing Committee on Collections under date of May 6, 1931, (X-6881);

4. Copy of the report rendered under date of August 10, 1931, by the Standing Committee on Collections on this subject.

5. Letter dated August 13, 1931, addressed by Mr. Wyatt to Mr. John S. Walden, Jr., Chairman of the Standing Committee on Collections, discussing the Committee's report on this subject (X-6944);

6. Letter dated August 19, 1931, from Mr. Robert S. Parker, Counsel to the Federal Reserve Bank of Atlanta, discussing the letter Mr. Wyatt addressed to Mr. Walden under date of August 13, 1931, (X-7169-a);

7. Letter dated September 11, 1931, from Mr. A. C. Agnew, Counsel to the Federal Reserve Bank of San Francisco, also discussing the letter of August 13, 1931, above referred to (X-7169-b);

8. Letter dated November 28, 1931, from Mr. James G. McConkey, Counsel to the Federal Reserve Bank of St. Louis, inclosing a memorandum which he had prepared discussing the report rendered by the Standing Committee on Collections and the letter of August 13, 1931, above referred to (X-7169-c and X-7169-c-1);

9. Letter dated December 14, 1931, addressed by Mr. Wyatt to Mr. McConkey in response to his letter of November 28, 1931, (X-7169-d);

10. Letter dated January 6, 1932, from Mr. J. P. Dreibelbis of the firm of Locke, Locke, Stroud and Randolph, Counsel to the Federal Reserve Bank of Dallas, inclosing a file of correspondence concerning Treasury checks which were involved in the failure of a national bank in Texas (X-7169-e) and X-7169-e-1 to X-7169-e-25);

11. Letter dated June 1, 1932, from Mr. J. S. Walden, Jr., Chairman of the Standing Committee on Collections, discussing the possibility of holding a conference on this subject (X-7169-g); and

12. Reply of Mr. Wyatt dated June 2, 1932, (X-7169-f).

List of documents transmitted to the Counsel to the various Federal Reserve Banks regarding the legal and practical problems arising under the Bank Collection Code.

*****

1. Letter dated March 26, 1931, from Mr. Walter S. Logan, Deputy Governor and General Counsel of the Federal Reserve Bank of New York, to Mr. Wyatt (X-6851-a);

2. Reply of Mr. Wyatt, dated March 31, 1931 (X-6851);

3. Letters written by Counsel to the various Federal Reserve Banks discussing questions presented in correspondence above referred to (X-6910 to X-6910-i);

4. Copy of an opinion of the Supreme Court of New York in the case of In re Jayne & Mason, Private Bankers, and copy of Mr. Logan's memorandum of authorities in that case;

5. Undated memorandum addressed to Mr. Wyatt by Mr. F. G. Awalt, Deputy Comptroller of the Currency, inclosing copies of telegraphic correspondence between him and the Federal Reserve Bank of San Francisco (X-7008-a to X-7008-a-6);

6. Letter, with inclosures, addressed to Mr. Wyatt under date of June 11, 1931, by Mr. Walter S. Logan, Deputy Governor and General Counsel of the Federal Reserve Bank of New York (X-7008-b to X-7008-b-4);

7. Letter addressed to Mr. Wyatt under date of June 15, 1931 by Mr. A. C. Agnew, Counsel to the Federal Reserve Bank of San Francisco (X-7008-c);

8. Letter addressed to Mr. Wyatt by Mr. M. G. Wallace, Counsel to the Federal Reserve Bank of Richmond under date of June 17, 1931 (X-7008-d), inclosing copy of letter addressed to Mr. Logan on the same

date with reference to the decision of the Supreme Court of South Carolina in the case of Ex Parte Wachovia Bank and Trust Company, 158 S.E. 214; (X-7008-d-1);

9. Letter addressed to Mr. Wyatt by Mr. Wallace dated July 17, 1931 (X-7008-e) inclosing copy of a memorandum to the Executive Committee of the Federal Reserve Bank of Richmond (X-7008-e-1 to X-7008-e-5);

10. Letter addressed to Mr. Wyatt by Mr. Logan, dated September 30, 1931 (X-7008-f) inclosing copy of a letter and inclosure addressed to the Comptroller of the Currency (X-7008-f-1 and X-7008-f-2);

11. Letter addressed to Mr. Wyatt by Mr. Logan, dated October 6, 1931 (X-7008-g) inclosing copy of letter to the Comptroller of the Currency regarding checks on Peoples National Bank of Pulaski, New York (X-7008-g-1 and X-7008-g-2);

12. Letter of November 9, 1931, from Mr. Robert S. Parker, Counsel to the Federal Reserve Bank of Atlanta (X-7108-f);

13. Letter dated November 21, 1931, from Mr. Wallace, Counsel to the Federal Reserve Bank of Richmond, to Mr. Wyatt (X-7043-a);

14. Letter quoting telegram which Mr. F. G. Awalt, Deputy Comptroller of the Currency, sent to the receiver of the Peoples National Bank of Pulaski, New York, on December 2, 1931 (X-7043);

15. Letter of December 30, 1931, and inclosures, from Mr. M.G. Wallace, Counsel to the Federal Reserve Bank of Richmond (X-7108-a and X-7108-a-1 to X-7108-a-9);

16. Letter of December 16, 1931, from Mr. H. G. Leedy, Counsel to the Federal Reserve Bank of Kansas City (X-7108-b);

17. Three letters, one with an inclosure, from Mr. A. C. Agnew, Counsel to the Federal Reserve Bank of San Francisco, dated December 22, 1931, January 5, 1932, and January 22, 1932 (X-7108-e, X-7108-d, X-7108-c and X-7108-c-1).

FEDERAL RESERVE BOARD

WASHINGTON

X-7243

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 16, 1932.

SUBJECT: Holidays during October, 1932.

Dear Sir:

On Wednesday, October 12th, in observance of Columbus Day, there will be neither Gold Settlement Fund nor Federal reserve note clearing, and the books of the Federal Reserve Board's Gold Settlement Fund will be closed. The offices of the Board, and the following Federal Reserve Banks and Branches will be open for business as usual:

Richmond	St. Louis
Charlotte	Little Rock
	Memphis
Atlanta	
Birmingham	Minneapolis
Nashville	
Jacksonville	Kansas City
	Denver
Detroit	Oklahoma City

In addition to the holiday mentioned above, the following Branches of the Federal Reserve Bank of Atlanta will be closed on the dates indicated:

Monday	October 10	Havana Agency	Revolution of Yara
Tuesday	October 11	Birmingham	Fraternal Day
Friday	October 14	Jacksonville	Farmers' Day

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-7247

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 20, 1932.

SUBJECT: Decision of Comptroller General re cost of Federal reserve notes.

Dear Sir:

Reference is made to the Board's letter of September 1, 1932, X-7236, on the subject of the "Charge for printing Federal reserve notes during fiscal year 1933," and there is inclosed herewith, for your information, copy of a letter addressed to the Secretary of the Treasury by the Comptroller General of the United States, under date of September 13, 1932, which quotes and replies to a letter which the Secretary addressed to the Comptroller General on September 1, 1932, requesting a reconsideration of the decision that no reduction in the charge made against Federal reserve banks for the printing of Federal reserve notes may be made as a result of the reduction in the compensation of employees engaged in the printing of such notes by the operation of the Economy Act of 1932.

In view of the Comptroller General's affirmation of his previous decision, the charge against the Federal reserve banks for the printing of Federal reserve notes during the fiscal year 1933 will be at the rate of $90.50 per one thousand sheets.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.

X-7247-a

COPY

COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON

A-43585 September 13, 1932.

The Honorable,

The Secretary of the Treasury.

Sir:

There has been received your letter of September 1, 1932, as follows:

"Reference is made to your letter of August 5, 1932 (A-43585) in which you held in response to question No. 5 set forth in my letter of July 22, 1932, that employees of the Bureau of Engraving and Printing engaged upon repay work are subject to the provisions of section 101 of the Economy Act, that the amounts withheld from the compensation of such employees by reason of the operation of this statute must be impounded, and that the fact that the compensation actually paid such employees has been reduced by the operation of the Economy Act does not authorize any reduction in the amount of the cost of printing Federal Reserve notes and postage stamps which is to be reimbursed to the Government by other agencies.

"The Federal Reserve Board has invited my attention to the fact that in making this ruling you apparently did not have before you section 16 of the Federal Reserve Act, which provides for the payment by the Federal Reserve Banks of the expenses necessarily incurred in connection with the printing and issue of Federal reserve notes; and, accordingly, at the instance of the Board, I am again presenting this matter to you with the request that it be given reconsideration in the light of the provisions of this statute.

"Section 16 of the Federal Reserve Act contains the following provisions on this subject:

" 'The plates and dyes to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue

and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal Reserve Banks a sufficient amount to cover the expenses herein provided for.

" ' * * *

" 'Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: Provided, however, That nothing in this section contained shall be construed as exemption national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.'

"Under these provisions of the statute, the Federal reserve banks are authorized and required to pay the necessary expenses of printing and issuing Federal reserve notes; and they have no authority to include in their payments covering such expenses amounts which are to be used for other purposes. Amounts impounded in the Treasury of the United States under the provisions of the Economy Act clearly do not constitute any part of the expenses of printing or issuing Federal reserve notes. It is respectfully submitted, therefore, that since the law governing the printing and issue of these notes specifically prescribes the basis of reimbursement of the Treasury by the Federal reserve banks there may not lawfully be included in the amounts which the Federal reserve banks are asked to pay additional sums which are to be impounded in the Treasury of the United States.

"Moreover, I am advised that the appropriation by Congress for the Bureau of Engraving and Printing does not include any amount for the expenses of 'repay work', i.e., work as to which the expenses are repaid by other agencies, but the only appropriation for the Bureau is for work 'exclusive of repay work.' It is the practice of the Bureau to make payments of the salaries of its employees engaged either in repay work or in non-repay work

out of the fund thus appropriated by Congress, but that part of the compensation of employees which is applicable to repay work is reimbursed to the Bureau from time to time by the agencies for which the work is performed. In the case of Federal reserve notes, such reimbursement is made by the Federal Reserve Board from assessments levied upon the Federal reserve banks, and the amounts obtained through such reimbursements are placed to the credit of the appropriation made by Congress for the expenses of the Bureau for non-repay work.

"Inasmuch as the only appropriation by Congress for the Bureau of Engraving and Printing is for the work of the Bureau 'exclusive of repay work,' it is submitted that section 110 of the Economy Act providing that 'The appropriations or portions of appropriations unexpended by reason of the operation of this title shall not be used for any purpose, but shall be impounded and returned to the Treasury' is not applicable in the case of amounts withheld from the compensation of the employees of the Bureau which is applicable to repay work. There is no appropriation covering such compensation and, therefore, no amount to which the terms of the impounding provision are applicable. The part of the appropriation for the compensation of employees of the Bureau engaged in non-repay work which is unexpended by reason of Title 1 of the Economy Act is, of course, subject to the impounding provision; but it would seem clearly improper to impound an additional amount equal to a portion of the compensation paid employees for repay work which is not included in the appropriation by Congress for non-repay work.

"For the reasons stated, it is respectfully submitted that amounts unexpended by reason of the operation of Title 1 of the Economy Act upon the compensation of Employees of the Bureau which is applicable to repay work are not properly subject to the impounding provision of the Economy Act, because not derived from an appropriation by Congress; and further, that, notwithstanding the impounding provision of the Economy Act, the Federal Reserve Act does not obligate or empower the Federal reserve banks to pay the Bureau of Engraving and Printing amounts which are not to be used for the expenses of printing and issuing Federal reserve notes, but are to be impounded in the Treasury of the United States, and consequently the Treasury cannot include such amounts in its charges against the banks."

It will be noted that the decision to you of August 5, 1932, did not require any reduction in compensation or any impounding with respect to employees, if such there be, whose compensation

is paid entirely from funds collected by assessment against the federal reserve banks and that, as to such employees, the gross amount of their compensation would, of course, be charged against the banks. Your present submission, however, appears to be concerned with those employees whose compensation is not entirely paid from assessments, but who are engaged more or less upon repay work.

Section 104 of Title 1 of the Economy Act of June 30, 1932, 47 Stat., 400, excepts from the definition of "officers" and "employees" as used in that title "public officials and employees whose compensation is derived from assessments on banks and/or is not paid from the Federal Treasury". If the compensation of particular employees is not paid entirely from assessments on banks they do not come within the exception and the reduction in compensation and the impounding required either by section 101 (a), section 101 (b), or section 105 (d), of the Economy Act is compulsory. As the appropriations for the Bureau of Printing and Engraving are specifically "exclusive of repay work" the amount of such reduction and impounding, if not included in the cost of repay work, would result in reducing the amount available for the other work of the bureau.

Section 803 of the Economy Act, 47 Stat. 419. expressly makes all appropriations for the fiscal year 1933 subject to the provisions of that act. As section 16 of the Federal Reserve Act, while authorizing expenses involved in the production of

Federal reserve notes to be assessed against the banks, does not define such expenses, and in view of the express provisions of the Economy Act, said section 16 may be considered as modified or amplified by the later act in so far as not specifically excepted therefrom.

The Economy Act was not enacted in aid of the Federal reserve banks but for the purpose of effecting savings during the fiscal year 1933 and balancing the Federal budget and, in effect requires the officers and employees to whom its provisions are applicable to contribute a part of their earnings for that purpose. If the amount of such contributions were to be passed on to the banks, the purpose of the act would to that extent be defeated.

Careful consideration has been given to the arguments advanced in your submission, but in view of the evident intent and purpose of the Economy Act, I am constrained to adhere to the previous decision that the amount required to be withheld and impounded from the compensation of employees paid only in part from assessed funds is to be included as a part of the cost to be reimbursed by Federal reserve banks; in other words, that the cost to be reimbursed is not to be reduced by the operation of sections 101 or 105 of the Economy Act.

Respectfully,

Comptroller General
of the United States.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7248

September 21, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, August, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7248-a and X-7248-b, covering in detail operations of the main lines, Leased Wire System, during the month of August, 1932.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST, 1932.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	28,218	2,736	30,954	3.71
New York	158,071	-	158,071	18.92
Philadelphia	29,016	2,265	31,281	3.74
Cleveland	61,673	2,050	63,723	7.63
Richmond	58,048	2,142	60,190	7.21
Atlanta	53,475	1,969	55,444	6.64
Chicago	91,589	2,599	94,188	11.28
St. Louis	65,989	2,867	68,856	8.24
Minneapolis	34,483	2,072	36,555	4.38
Kansas City	68,574	2,241	70,815	8.48
Dallas	58,482	3,165	61,647	7.38
San Francisco	99,400	4,086	103,486	12.39
Total	807,018	28,192	835,210	100.00

F. R. Board business	308,450	1,143,660
Reimbursable business Incoming and Outgoing		361,589
Total words transmitted over main lines		1,505,249

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7248-b).

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, AUGUST, 1932.

Name of bank	Operators' salaries	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	$260.00	$ -	$ -	$260.00	$666.39	$260.00	$406.39
New York	1,134.15	1.00	-	1,135.15	3,398.40	1,135.15	2,263.25
Philadelphia	225.00	-	-	225.00	671.78	225.00	446.78
Cleveland	306.66	-	-	306.66	1,370.50	306.66	1,063.84
Richmond	190.00	-	230.00 (&)	420.00	1,295.06	420.00	875.06
Atlanta	270.00	-	-	270.00	1,192.67	270.00	922.67
Chicago	4,090.36 (#)	5.00	-	4,095.36	2,026.11	4,095.36	2,069.25 (*)
St. Louis	195.00	-	-	195.00	1,480.07	195.00	1,285.07
Minneapolis	200.00	-	-	200.00	786.73	200.00	586.73
Kansas City	287.50	-	-	287.50	1,523.17	287.50	1,235.67
Dallas	251.00	-	-	251.00	1,325.59	251.00	1,074.59
San Francisco	380.00	-	-	380.00	2,225.49	380.00	1,845.49
Federal Reserve Board	-	-	15,615.29	15,615.29	-	-	-
Total	$7,789.67	$ 6.00	$15,845.29	$23,640.96	$17,961.96	$8,025.67	$12,005.54
							2,069.25 (a)
							$ 9,936.29

Reimbursable charges:

Treasury Department	$2,172.61
Reconstruction Finance Corporation	3,335.71
Federal Farm Loan Board	33.80
Federal Farm Board	54.63
Compt. of Currency, Insolv. Bank Div.	82.25
Less: Reimbursable charges	5,679.00
	$17,961.96

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7249

September 22, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDIAL" has been designated to cover a new issue of Treasury Bills, dated September 28, 1932, and maturing December 28, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDETORT" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

Federal Reserve Notes, Series 1928, for the Federal Reserve Board, from July 1 to 29, 1932.

	$5	$10	$20	$50	$100	$500	$1000	$5000	Total Sheets	Amount
Boston,.....	37,000	20,000	20,000	-	-	-	-	-	77,000	$6,968.50
Philadelphia,.....	30,000	34,000	10,000	-	-	-	600	-	74,600	6,751.30
Cleveland,.....	74,000	36,000	20,000	-	-	-	-	-	130,000	11,765.00
Richmond,.....	10,000	20,000	-	-	-	2,000	1,000	200	33,200	3,004.60
Atlanta,.....	14,000	10,000	-	-	-	-	-	-	24,000	2,172.00
Chicago,.....	-	299,000	291,000	122,000	63,000	13,400	10,000	-	798,400	72,255.20
St. Louis,.....	21,000	14,000	-	-	-	-	-	-	35,000	3,167.50
Minneapolis,.....	10,000	20,000	12,000	-	-	-	-	-	42,000	3,801.00
Kansas City,.....	-	15,000	15,000	-	-	-	150	-	30,150	2,728.58
San Francisco,....	58,000	25,000	22,000	-	10,000	-	-	-	115,000	10,407.50
	254,000	493,000	390,000	122,000	73,000	15,400	11,750	200	1,359,350	$123,021.18

1,359,350 sheets @ $90.50 per M,..... $123,021.18.

X-7252

Federal Reserve Notes for Federal Reserve Board,
Series 1928

August 1 to 31, 1932.

	$5	$10	$20	$50	$100	Total Sheets	Amount
Boston,.....	37,000	20,000	20,000	-	-	77,000	$6,968.50
Philadelphia,..	30,000	34,000	20,000	14,000	10,000	108,000	9,774.00
Cleveland,.....100,000		20,000	20,000	-	-	140,000	12,670.00
Richmond,.....	10,000	20,000	-	-	-	30,000	2,715.00
Atlanta,.....	20,000	10,000	-	-	-	30,000	2,715.00
Chicago,.....	-	18,000	10,000	-	-	28,000	2,534.00
St. Louis,.....	21,000	14,000	10,000	-	-	45,000	4,072.50
Minneapolis,...	-	20,000	13,000	-	-	33,000	2,986.50
Kansas City,...	10,000	15,000	15,000	-	-	40,000	3,620.00
San Francisco,.	58,000	25,000	24,000	-	-	107,000	9,683.50
	286,000	196,000	132,000	14,000	10,000	638,000	$57,739.00

638,000 sheets @ $90.50 per M,.....$57,739.00

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in Morning Papers, Saturday, September 24, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of August and September, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Volume of industrial production increased from July to August by considerably more than the usual seasonal amount, reflecting chiefly expansion in activity at textile mills. Wholesale prices advanced during August and the general level prevailing in the first three weeks of September was somewhat higher than in other recent months. There was a further growth in the country's stock of monetary gold and a non-seasonal return flow of currency to the reserve banks.

Production and employment - Industrial output increased substantially in August and the Board's seasonally adjusted index showed an advance from 58 to 60 per cent of the 1923-25 average. Activity at cotton, woolen, silk, and rayon mills increased from the low level of other recent months by considerably more than the usual seasonal amount, and there was also a substantial increase in activity at shoe factories. Output of automobiles, however, declined further and production in the steel and lumber industries showed none of the usual seasonal increase in August. During the first three weeks of September there was a slight advance in steel output.

Employment at factories increased slightly more than is usual at this season. There were large additions to working forces in the textile, clothing, and leather industries, while in the automobile, tire, and

machinery industries and at car-building shops the number employed decreased further. Aggregate wage payments increased less than seasonally.

Building contracts awarded up to September 15, as reported by the F. W. Dodge Corporation, indicate that for the third quarter the total value of contracts will be about the same as for the second quarter, whereas usually awards for the third quarter are smaller. Currently, contracts for public works are a considerably larger part of the total than they were at the beginning of the year and residential contracts are a smaller part.

Department of Agriculture crop estimates based on September 1 conditions indicate little change in prospects during August. Indicated crops of wheat and tobacco are considerably smaller than in other recent years, while the corn crop is the largest since 1925. The cotton crop is estimated at 11,300,000, a decrease of about 6,000,000 bales from the large crop of a year ago.

Distribution - Volume of merchandise and other freight handled by the railroads increased seasonally during August, while during the corresponding period a year ago no increase was reported. Department store sales of merchandise increased from July to August by somewhat less than the usual seasonal amount.

Wholesale prices - Wholesale commodity prices advanced from 64.5 per cent of the 1926 average in July to 65.2 per cent in August, according to the monthly index of the Bureau of Labor Statistics. During August prices of many leading commodities including textile raw materials and finished products, wheat, hides, nonferrous metals, sugar, rubber, and coffee, increased substantially. In the first half of September there were declines

in the prices of many of these commodities, while prices of wool and woolen goods, cattle, and hides advanced.

Bank credit - During recent weeks further growth in monetary gold stock, a return flow of currency from hoards, and new issues of national bank notes have resulted in additions to the reserve funds of member banks. These banks have employed a part of the funds in further reducing their borrowings at the reserve banks, and have accumulated a part as reserve balances, which at the present time are more than $300,000,000 in excess of required reserves. Reserve bank holdings of United States Government securities and of acceptances remained practically unchanged during the four weeks ending September 14, while the total of reserve bank credit declined by $43,000,000 through the reduction of discounts for member banks.

Loans and investments of reporting member banks in leading cities showed little change between the middle of August and the middle of September. A further decline of more than $150,000,000 in loans by banks outside New York City during the past four weeks was offset in large part by continued increase in investment holdings, chiefly at member banks in New York City. There was a considerable growth in deposits of reporting member banks, reflecting in part larger balances held by city banks for the account of other banks.

Money rates in the open market remained unchanged at low levels during August and the first half of September.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7254

September 23, 1932.

SUBJECT: Insurance Policies.

Dear Sir:

For the information and files of the Federal Reserve Board, it will be appreciated if you will forward photostatic copies of the policies now in effect which provide fidelity or burglary insurance for your bank, including the bankers' blanket bond, and which provide insurance against loss incurred in the shipment of currency or securities.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7255

September 24, 1932.

SUBJECT: Warehouse Receipts Securing Bankers' Acceptances.

Dear Sir:

I inclose herewith for your information a copy of a letter which the Board is addressing to the executive vice president of the Lawrence Warehouse Company of San Francisco with reference to the question whether certain warehouse receipts proposed to be issued by that company for goods stored in certain warehouses leased from the Southern Idaho Bean Growers Cooperative Association would comply with the requirements of the Federal Reserve Act and the Board's Regulations with respect to warehouse receipts securing bankers' acceptances drawn to finance the storage of readily marketable staples, together with a copy of an opinion rendered by the Board's Counsel in this connection under date of August 4, 1931.

The desirability of publishing a ruling on this question in the Federal Reserve Bulletin, which would recite the facts upon which the conclusions of the Board are based but would not mention the name of the warehouse company in question, is now under consideration by the Board. In this connection, you are requested to advise

the Board whether, according to your information, member banks in your district are engaged in granting acceptance credits on the basis of warehouse receipts issued under circumstances similar to those described in the inclosed opinion of Counsel; and the Board would also appreciate an expression of your views as to the advisability of publishing a ruling on this subject in the Federal Reserve Bulletin.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

X-7255-a

September 23, 1932.

Mr. J. Van Cartmell, Executive Vice President,
Lawrence Warehouse Company,
1 North LaSalle Street,
Chicago, Illinois.

Dear Sir :

Reference is made to the Board's letter of November 23, 1931, with respect to the question presented to it by the Department of Agriculture as to whether certain warehouse receipts proposed to be issued by your company for goods stored in certain warehouses leased from the Southern Idaho Bean Growers Cooperative Association would comply with the requirements of the Federal Reserve Act and the Board's regulations with reference to warehouse receipts securing bankers' acceptances drawn to finance the storage of readily marketable staples.

As you were advised in that letter, notwithstanding the fact that your company has withdrawn its request for a reconsideration by the Department of Agriculture of certain questions pertaining to its operations, the Board has continued its consideration of the question whether such warehouse receipts comply with the requirements of the Federal Reserve Act and the Board's regulations, because it appears that some of the Federal reserve banks may have discounted or purchased bankers' acceptances secured by receipts issued under similar circumstances and that your company has advertised that "Credits based on Lawrence Warehouse Company field warehouse receipts are eligible for rediscount at Federal reserve banks."

In connection with its investigation of this matter the Federal Reserve Board has consulted with several of the Federal reserve banks and has carefully considered the information furnished by your company and its attorneys and the arguments made by them together with information received from other sources. After studying all information received on this subject, the Federal Reserve Board is of the opinion that bankers' acceptances issued against receipts such as those proposed to be issued in the name of your company under the arrangement entered into between your company and the Southern Idaho Bean Growers' Cooperative Association are not eligible for rediscount at Federal reserve banks; because it is doubtful whether such receipts comply with the requirement of Section 13 of the Federal Reserve Act that warehouse receipts securing bankers' acceptances drawn to finance the storage of readily marketable staples must convey or secure title to such staples and because such receipts do not, in the Board's judgment, comply with the requirement of Section XI of the Board's Regulation A that warehouse receipts securing such bankers' acceptances must be "issued by a party independent of the customer."

In giving expression to this opinion, the Board is not undertaking to pass upon the merits of field warehousing in general, either as conducted by your company or as conducted by any other company, and the Board's opinion relates solely to warehouse re-

ceipts such as those proposed to be issued under the arrangement entered into between your company and the Southern Idaho Bean Growers Cooperative Association.

Very truly yours,

Chester Morrill,
Secretary.

COPY

CONFIDENTIAL

X-7255-b 234

FEDERAL RESERVE
BOARD

Date August 4, 1931.

To The Federal Reserve Board

From Mr. Wyatt, General Counsel.

Subject: Warehouse receipts issued by Lawrence Warehouse Company of San Francisco.

On June 10, 1931, a letter was received from the Department of Agriculture inquiring whether certain warehouse receipts arising out of field warehousing arrangements of the Lawrence Warehouse Company of San Francisco would meet the Board's requirement that bankers' acceptances issued against the storage of readily marketable staples be secured by warehouse receipts issued by a party independent of the customer. The Lawrence Warehouse Company has applied to the Department of Agriculture for licences under the United States Warehouse Act; the Department has denied the licenses on the ground that the plan does not provide disinterested custodianship; the matter is now before the Department upon a request for reconsideration; and the Lawrence Warehouse Company has told the Department that its warehouse receipts issued under similar circumstances are accepted without question by the Federal Reserve Bank of San Francisco.

The letter from the Department states that, in administering the Warehouse Act, the Department has consistently endeavored to have warehousing arrangements approved by it comply with the Federal Reserve Board's regulations with reference to bankers' acceptances issued against warehouse receipts; and it is on this ground that a ruling by the Federal Reserve Board is requested.

The Board transmitted copies of the Department's letter to Governor Calkins of the Federal Reserve Bank of San Francisco and to Mr. E. R. Kenzel, Deputy Governor of the Federal Reserve Bank of New

York and Chairman of the Standing Committee on Bankers' Acceptances, with a request for their views; and both of them expressed the view that such warehouse receipts comply with the Board's regulations.

As a result of requests for additional information which I made of Mr. A. C. Agnew, Counsel for the Federal Reserve Bank of San Francisco, the Lawrence Warehouse Company learned that the Board was considering this question and Mr. J. Van Cartmell, Executive Vice President of that Company, conferred at length with Mr. Vest and the undersigned and submitted lengthy documents describing in detail and defending the warehouse company's methods of operation.

Mr. Van Cartmell has also sent a telegram to the Board requesting that, before issuing any ruling adverse to the Lawrence Warehouse Company, the Board grant him a hearing.

In a letter addressed to me under date of July 31, 1931, Mr. Robert H. Bean, Executive Secretary of the American Acceptance Council, said:

> "I understand that the Board has indicated its intention of holding a hearing on this matter sometime this Fall. I am sure you understand the Council's deep interest in this matter and I ask that you will keep me informed as to the date of the hearing so that we can attend and be of any assistance to the Board in getting this question definitely adjusted."

Under date of July 17, 1931, Mr. Wilson V. Little, Executive Secretary of the American Warehousemen's Association, also addressed a letter to me expressing a great interest in this subject and expressing the hope that I would "concur with other noted counsel in reaffirming the eligibility of properly issued field warehouse receipts for purposes of rediscount by the Federal Reserve Banks."

THE QUESTION PRESENTED.

The question presented for the Board's consideration may be stated concisely as follows: Whether warehouse receipts issued in the name of an independent warehouse company for goods stored on the premises of the bailor leased to the warehouse company, the sole custodian of which is an employee of the bailor, who has been transferred temporarily to the employ of the warehouse company and expects to be employed again by the bailor, are warehouse receipts "conveying or securing title" within the meaning of Section 13 of the Federal Reserve Act, and are "issued by a party independent of the customer," within the meaning of Section XI of the Board's Regulation A; so that bankers' acceptances secured by such warehouse receipts will be eligible for acceptance by member banks and for rediscount by Federal reserve banks.

OPINION.

I have read every word of every document in the attached file; I have given this subject thorough, careful and impartial consideration; while I have not attempted to read every case ever decided, I have studied enough of the recent cases to satisfy me as to the present status of the law on this subject; and I am of the opinion that:

(1) The decisions on this subject are in such conflict that there is no certainty that the validity of any lien attempted to be created by the pledge of such warehouse receipts will be sustained by the courts; and it can not be said with certainty that these warehouse receipts comply with the requirement of Section 13 of the Federal Reserve Act that warehouse receipts securing bankers' acceptances drawn to finance the storage of readily marketable staples must

"convey or secure title" to such staples; and

(2) While the receipts are issued in the name of a warehouse company which is independent of the borrower, the actual custodian of the goods and the person upon whose certification the receipts are issued is so much under the influence of the borrower that these warehouse receipts can not be said to be "issued by a party independent of the customer" within the meaning of Section XI of the Board's Regulation A.

RECOMMENDATIONS.

Before the Board rules on this subject, however, I respectfully recommend:

(1) That the representatives of the Lawrence Warehouse Company be given a hearing on this subject;

(2) That Mr. H.S. Yohe and Mr. C.W. Kitchen of the Department of Agriculture, Mr. Robert H. Bean, Executive Secretary of the American Acceptance Council, and Mr. Wilson V. Little, Executive Secretary of the American Warehousemen's Association, be notified of the hearing and invited to attend; and

(3) That copies of this opinion be sent to Governor Calkins and Mr. Kenzel and that they be invited to submit their comments in writing and to attend, or have a representative attend, the hearing, if they care to do so.

Proposed letters to each of these interested parties are respectfully submitted herewith.

THE FACTS.

The following are the facts as stated in the letter from the Department of Agriculture:

"The Lawrence Warehouse Company of San Francisco has applied to this Department for license under the Warehouse Act for the operation of several warehouses owned by the Southern Idaho Bean Growers' Cooperative Association, Twin Falls, Idaho. These houses are located at five different points in southern Idaho. The warehouses are leased to the Lawrence Warehouse Company for the purpose of storing the association's beans. In the operation of these warehouses the warehouse company will not send men from its home office to take charge of the leased premises but will transfer to its payroll present employees of the cooperative association, paying them the same salary as they are now receiving from the association. The expectation is that these employees will be re-employed by the association at the close of the storage season or when the beans have been removed from storage. This period of employment will naturally vary with the time required to market the crop. Except for such local employees who will serve as representatives of the Lawrence Warehouse Company the warehouseman will have no one in charge of the premises, but representatives of its district office which is located at Portland will visit the premises for periodic audits. These warehouses are leased from the association at a nominal rental and the association reimburses the warehouse company under contract with the company for all expenses including salary of custodian, cost of bonds, salaries and expenses of auditors, and also pays a monthly storage fee.

"This arrangement is solely for the purpose of obtaining credit for the cooperative association with a minimum of interference with the usual operations of the association."

Governor Calkins reports, in part, as follows:

"We believe the statements contained in the letter of the Department of Agriculture are correct insofar as they explain the situation, but are probably somewhat incomplete. There is no question in our minds that the leases executed by the Lawrence Warehouse Company under its field warehousing plan are bona fide leases, and that all the necessary precautions are taken to isolate the goods accepted in storage and to maintain physical control thereof. While it is true that the men placed in charge of this operation are, in some cases, former employees of the association or company in question, they become bona fide employees of the Lawrence Warehouse Company and are placed under bond by this company of at least $5,000, and are also covered under a superimposed blanket bond of $100,000. An employment contract is entered into which gives the Lawrence Warehouse Company the right to dispense with their services at any time. Their compensation insurance is paid by the Warehouse Company, and the Warehouse Company is responsible for their salary regardless of any agreement between the warehousing company and the association.

"A further important point in their operation, as we view it, is the fact that such employees are not permitted to issue warehouse receipts nor to authorize releases, this operation being carried on in a central office of the Warehouse Company by

executives of the Company.

"It is, of course, true that through collusion between the representative of the Warehouse Company and the owner of the plant, the goods might be abstracted or false reports made concerning the goods in storage. This risk is present in any form of warehousing and, in our opinion, is no more apt to occur under the Lawrence Warehouse Company's plan than in any other plan. This company maintains a complete auditing system of their own and conducts periodical checks of all its agents, which not only check up and verify the goods stored, but also check up and maintain a uniformly high standard of operation throughout all of their warehouses. The Lawrence Warehouse Company has been operating under this plan for a number of years and has built up a considerable business. All our dealings with them have indicated that they are fully conversant with the obligations and duties of a warehouseman and fully realize that success in their business is dependent upon their strict adherence to proper warehousing ethics.

"We have not hesitated to accept their receipts as collateral in connection with notes offered for rediscount and, while we would not normally know whose warehouse receipts were held by a bank accepting drafts against readily marketable staples in storage, we do know that a good many of our Pacific Coast banks issue acceptances against their receipts."

From further information I have obtained from Mr. Agnew, Counsel to the Federal Reserve Bank of San Francisco and from Mr. J. Van Cartmell, Executive Vice President of the Lawrence Warehouse Compnay, however, it appears that:

1. The bonds covering the custodian are ordinary fidelity bonds issued to protect the warehouse company against any losses resulting to it from the wrongful acts of its employees and do not give a right of action against the bonding company to the holders of warehouse receipts who may suffer similar losses;

2. The Lawrence Warehouse Company operates about 500 field warehouses in the States of California, Oregon, Washington, Michigan, Idaho, Wisconsin, Iowa, Missouri, Arkansas, Pennsylvania, New York, and Maryland, although only 250 to 300 of these warehouses are in actual operation at any one time;

3. The financial statement of the Lawrence Warehouse Company

indicates only about $300,000 net worth; and the elimination of certain questionable items would leave the Company very little, if any, actual net worth; and

4. While the warehouse receipts are issued by a branch office of the Warehouse Company in another city, the branch managers rely upon written statements signed by the manager of the cooperative association and by the local custodian of the warehouse, who is a former employee of the cooperative association and may still be performing services for the cooperative association.

From statements submitted on behalf of the Lawrence Warehouse Company, it appears that its plan of operation contemplates that the goods will be physically segregated in separate buildings or in portion of buildings partitioned off for that purpose and locked with the warehouse company's own locks; that conspicuous signs showing that the warehouse company is in charge of the premises will be placed both outside and inside of the premises; that the warehouse company's stack cards will be placed upon every stack of goods; and that all precautions will be taken to comply with the legal requirement that the warehoused goods be physically segregated from other goods and sufficiently placarded to give notice to the world that they are in the possession of the warehouse and not in the possession of the depositor. There is reason to believe, however, that those precautions are not always strictly adhered to.

For further details, the Board's attention is invited to the statements in the attached file submitted by Mr. J.Van Cartmell, Executive Vice President of the Lawrence Warehouse Company, describing in detail the general methods of field warehousing adopted by that company and its

specific arrangement for warehousing the beans of the Southern Idaho Bean Growers' Association. These documents will be discussed in more detail elsewhere in this memorandum.

THE BOARD'S JURISDICTION.

The fifth and sixth paragraphs of Section 13 of the Federal Reserve Act provide, in substance, that Federal reserve banks may discount bankers' acceptances "which are secured at the time of acceptance by a warehouse receipt or other such documents conveying or securing title covering readily marketable staples"; and the second paragraph of Section 13 authorizes the Federal Reserve Board "to determine or define the character of paper thus eligible for discount, within the meaning of this Act."

Section XI of the Board's Regulation A provides, in substance, that, in order to be eligible for discount by a Federal reserve bank, a bankers' acceptance drawn to finance the storage of readily marketable staples must be secured at the time of acceptance "by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer."

Under these provisions of the law and the Board's regulations, the Board has published a number of rulings on the question whether bankers' acceptances secured by warehouse receipts issued under various circumstances are eligible for rediscount by Federal reserve banks, and on February 17, 1931, advised the Department of Agriculture that warehouse receipts issued under circumstances very similar to those presented in this case do not meet the requirements of the Board's regulation.

It is clear that, under the usual authority of administrative officers of the Government to construe the act which they administer and the

regulations which they have prescribed pursuant thereto, the Federal Reserve Board has the right to issue administrative rulings on this question. Even in the absence of such power, the right of the Federal Reserve Board to express its viewson this subject when requested by a department of the Government could not be questioned.

ADVISABILITY OF RULING BY FEDERAL RESERVE BOARD.

Because of the fact that the request of the Department of Agriculture for an expression of the Board's viewson this question apparently arises out of a controversy between the Department of Agriculture and the Lawrence Warehouse Company over the question whether the Warehouse Company should be licensed under the United States Warehouse Act, some question may be raised as to whether it is advisable or appropriate for the Federal Reserve Board to make a ruling on this question, especially in view of the fact that no actual case is presented involving an actual bankers' acceptance secured by such receipts which is offered to a Federal reserve bank for rediscount.

In view of the following facts, however, it would seem difficult for the Board to justify a refusal to give the Department of Agriculture an expression of its views on this question:

1. Both the Department of Agriculture and the Federal Reserve Board have been endeavoring for many years to raise the standard of warehouse receipts which are used as collateral in obtaining credit from banks and especially to obtain adherence to the principle of independent custodianship.

2. The Department of Agriculture has always endeavored to require the warehouses licensed by it to conform to the Board's regulation requiring the warehouse to be independent of the borrower.

3. The Department of Agriculture has denied the license applied for by the Lawrence Warehouse Company, on the ground that the proposed arrangement does not provide disinterested custodianship; and

4. In applying for a reconsideration of its application for a license, the Lawrence Warehouse Company has represented that Federal reserve banks accept their warehouse receipts without question.

Moreover, it appears that commercial banks are accepting such warehouse receipts in large quantities as collateral for loans and acceptance credits; that the Federal reserve banks take them without question; and that the Lawrence Warehouse Company is advertising that, "Credits based on Lawrence Warehouse Company field warehouse receipts are eligible for rediscount at Federal reserve banks."

If, therefore, the Board concurs in my view that the validity and effectiveness of liens attempted to be created by the pledge of such receipts are very doubtful, it would seem appropriate for the Board to publish a ruling on this subject for the guidance and protection of member banks and Federal reserve banks. Such a ruling, however, should not name the Lawrence Warehouse Company but should merely describe the circumstances under which the warehouse receipts are issued.

Mr. Yohe of the Department of Agriculture also advises that the Lawrence Warehouse Company proposes to expand its business by entering into similar arrangements for field warehousing in many parts of the country and that it is anxious to obtain some Governmental approval of its plan. This case may, therefore, be regarded as a test case and the Board's decision may have an important or far-reaching result. Under these circumstances, it would seem that the Federal Reserve Board should be unusually careful not to approve any plan of warehousing, the reliability and legality of which is subject to doubt and the approval of which might encourage unsound practices or might mislead member banks to their injury. It would seem that all doubts about this plan should be resolved on the side of conservatism and caution.

FIELD WAREHOUSING IN GENERAL

The general subject of field warehousing is not on trial here, and I believe that the Board should carefully avoid issuing any statement which would discourage the development of field warehouses along sound lines; because I believe that the practice is of great economic value.

In Philadelphia Warehouse Co. v. Winchester, 156 Fed. 600, (decided September 5, 1907), the advantages of field warehousing were stated as follows:

> "The system of 'field storage' under which the warehouse company largely, if not wholly, conducts its business, has much to commend it, if care be taken not to mislead the public. It is both convenient and economical. It is promotive of the welfare of manufacturing and commercial industry. It avoids all necessity for unreasonably

moving from place to place heavy and bulky material. Sound industrial policy requires that when conducted with reasonable safeguards for the public, it should be encouraged, and not discountenanced."

An examination of certain circulars issued by the Department of Agriculture which are in the attached file discloses that the Department is inclined to encourage field warehousing and to prefer it to subsidiary warehousing. Moreover, there is a letter in the attached file listing no less than 82 field warehouses actually licensed at the present time by the Department of Agriculture.

The practice of field warehouses, however, is comparatively new; the law on this subject is not at all settled; the court decisions affecting it are in hopeless conflict; the decision in each individual case seems to depend quite largely upon the apparent good faith or lack of good faith of the parties and upon the court's feeling as to whether a greater injustice will be done in that particular case by upholding the validity of the warehouse receipts or by holding that they are not valid; and, in many of the cases, the validity of the warehouse receipts has depended upon the findings of a jury or a master as to the particular facts in that case. Under these circumstances, it is important that the Board not issue any ruling which will encourage the development of unsound or dangerous practices.

In a decision rendered November 10, 1930, in the case of McGaffey Canning Co. v. Bank of America, 294 Pacific 45, which involves the warehouse receipts of the Lawrence Warehouse Company itself, the California District Court of Appeals, sums up the situation as follows:

> "Warehousing on the premises of the owner proposing to pledge his merchandise is effective when done in obedience to legal requirements; but when done only far enough to get the goods represented by documents without really getting them stored, the documents are but scraps of paper. The term "field warehousing" is not a talisman to give dominion by enchantment. Taking exclusiveness of possession and control as the criterion, we find now and then a case where it may be said as a matter of law that, through the field warehouse, open, exclusive, and unequivocal possession passed constructively to a pledgee; and then again in other cases we find that as a matter of law the possession of the warehouseman "tapers away" to nothingness. Between these two extremes lies the aggregation of cases in which the facts are such that different men may with reason reach opposing conclusions. Cases of that character, when tried by a jury, must be allowed to go under proper instructions to the jury for their determination of the facts in controversy."

In this opinion I shall not endeavor to discuss all of the cases dealing with the legality of field warehouses in general but shall discuss only those cases having a direct bearing upon the precise question presented for the Board's consideration. For the Board's additional information on this general subject, however, I respectfully submit with the attached file the following documents:

1. A copy of the important portions of the opinion of the California Court of Appeals in the case of McGaffey Canning Co. vs. Bank of America, which contains the best discussion of the decided cases on this subject which I have been able to find anywhere;

2. A memorandum entitled, "Decided Cases as to Validity of Warehouse Receipts", which was prepared by Mr. Vest under date of June 30, 1931; and

3. A 92 page "Abstract of Cases Involving Field Warehousing", which was loaned to me by Mr. Yohe and which he said was prepared by

counsel for the Federal Intermediate Credit Bank at Berkeley, California.

THE REQUIREMENTS OF THE LAW AND REGULATIONS.

In order for a bankers' acceptance drawn to finance the domestic storage of readily marketable staples to be eligible for rediscount by Federal reserve banks:

(1) Section 13 of the Federal Reserve Act requires that it be "secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples"; and

(2) Section XI of the Board's Regulation A requires that it be "secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer."

The requirement of the law that such warehouse receipts must convey or secure title to readily marketable staples obviously contemplates that the accepting bank shall have a lien on such staples which is valid and enforceable against general creditors of the person for whose benefit such acceptance credit is granted.

The requirement of the Board's regulations that such warehouse receipts be issued by a party independent of the customer obviously is intended to require that the actual custody of the goods be maintained by an independent and disinterested party, so that the bank holding the warehouse receipt may be able to identify and obtain possession of them

and thus enforce its lien without any difficulty. A lien on personal property is of no practical value unless such property can be found and identified when it becomes necessary to enforce the lien; and, if custody of the goods is not maintained by a disinterested party, there is danger that the goods may be improperly released or disposed of.

Both the requirements of the law and the requirement of the Board's regulations, therefore, are intended for the protection of the accepting banks; they are of great practical importance; and any unsound interpretation thereof by the Federal Reserve Board would be likely to mislead member banks to their injury.

VALIDITY OF LIENS GIVEN BY WAREHOUSE RECEIPTS.

It is my conclusion, after an examination of cases decided on somewhat similar facts, that no definite statement may be made as to the validity or invalidity of the lien afforded by a pledge of the warehouse receipts issued by the Lawrence Warehousing Company under the facts stated; but the question is one upon which there is serious doubt and reasonable precaution would seem to demand that such receipts should not be accepted by banks which wish to be assured beyond question of the safety of their loans.

Whether the lien given by the receipt will be held valid depends in a large measure on the facts which are presented in the particular case which reaches the courts and to some extent also perhaps on the jurisdiction in which the question arises.

While the essential requirements for the creation of a valid lien through the pledge of warehouse receipts have been prescribed in

different ways by statutes in different States and apparently have never been uniformly stated by the courts, those generally recognized may be summarized as follows:

1. The warehouse receipts must be issued by a person, firm or corporation regularly engaged in the business of storing the goods of others;

2. The warehouseman must take and maintain actual physical possession of the goods;

3. The possession of the warehouseman must be exclusive and unequivocal;

4. The warehoused goods must be segregated from other goods of the owner which are not warehoused; and

5. The possession of the warehouseman must be open and notorious so as not to mislead other creditors of the owners of the goods.

American Can Co. v. Erie Preserving Co. (C.C.A.) 183 Fed. 96, 98 (Decided Nov. 14, 1910);

In re Rodgers (C.C.A.) 125 Fed. 169 (Decided April 22, 1903);

MacDonald v. Aetna Indemnity Co., 90 Conn. 415, 97 Atl. 332 (Decided April 19, 1916);

Security Warehousing Co. v. Hand, 206 U.S. 415, 27 Sup.Ct. 720, 51 L.Ed. 1117, 11 Ann. Cases 789 (Decided May 27, 1907);

McGaffey Canning Co. v. Bank of America (Calif) 294 Pac. 45, 53 (Decided November 10, 1930).

In Security Warehousing Company v. Hand (C.C.A.) 143 Fed. 32, 41, (Decided January 2, 1906) affirmed 206 U.S. 415, 27 Sup. Ct. 720, the Circuit Court of Appeals said:

"Delivery of possession is the very life of a pledge. No mere agreements respecting possession can create it. The contract of pledge cannot exist outside of the fact of change of possession. The pledgor must dispossess himself openly, completely, unequivocally and 'without deceptive combinations which lead third persons into error as to the real possessor of the thing'. And the pledgee must take and maintain an open, exclusive and unequivocal possession."

In the case of In Re Rodgers, 125 Fed. 169, 179 (decided April 22, 1903 and reversed on other grounds by the Supreme Court of the United States) the Circuit Court of Appeals said:

"Actual or symbolical possession of personal property in the pledgee is essential to its pledge. It is true that when the actual delivery is to a carrier or warehouseman, and bill of lading or warehouse receipt is given therefor, the transfer of the instrument and its delivery to the pledgee is regarded in the law as delivery of possession to the pledgee of the property represented by the instrument; but it is a necessary condition to the existence of such symbolical possession by the pledgee that the property itself be in the possession of some person other than the pledgor. Two different persons cannot be in the actual adverse possession of the same property or premises at the same time, * * *."

In McGaffey Canning Company vs. Bank of America, 294 Pacific, 45, 50, 53, (decided November 10, 1923), a well considered case involving receipts of the Lawrence Warehouse Company, the California District Court of Appeals said:

"When there is actual delivery of merchandise to a warehouseman, with actual and explicit change of possession, and a warehouse receipt is issued and delivered to one lending money on the security of the merchandise in store, the delivery of the warehouse receipt is the legal equivalent of the delivery of the merchandise itself; but such symbolic possession by the pledgee is dependent for its efficacy upon complete and actual, as distinguished from merely formal or colorable, relinquishment of possession and control by the pledgor."

* * * * * * * * * *

"Merely colorable or constructive change of possession accomplishes nothing in favor of a pledgee. There must be open, visible, unequivocable change of possession, manifested by such substantial outward signs as to make it evident to the world that the control of the owner has wholly ceased, and that another has acquired, and is openly exercising, the exclusive dominion over the property."

It may be assumed for the purpose of the discussion of this particular point that the Lawrence Warehouse Co. is regularly engaged in the business of storing goods of others; that the goods are placed either in separate buildings or in portions of buildings which are partitioned off from the other portions of such buildings; that all entrances to such buildings or the portions thereof used as warehouses are securely locked with the warehouseman's own locks; that the warehoused goods are completely segregated from all other goods of the depositor; and that the premises are sufficiently designated with large and conspicuous signs so placed as to give adequate notice to all the world that the premises and the goods therein are in the custody of the warehouseman and not in the custody of the depositor. (There are indications that sometimes these precautions are not strictly adhered to by the Lawrence Warehouse Company in actual practice; but it may be assumed that they are for the purpose of this discussion.)

The Department of Agriculture has questioned the method of the Lawrence Warehouse Company, however, because the sole custodian of the warehoused goods is a person transferred from the employ of the depositor to the employ of the warehouse company, who expects to be reemployed by the depositor and may continue to perform certain services for the depositor during the period of warehousing. This raises the following legal questions:

1. Whether it can be said that the warehouseman takes and maintains actual physical possession of the goods, in view of the fact that such possession is maintained by a person so closely identified with, and so much under the influence of, the depositor, i. e., whether the possession of such custodian is the possession of the warehouse company or the possession of the depositor.

2. Whether the possession of the warehouseman can be said to be exclusive, when the actual custodian cannot reasonably be expected to refuse to permit his former employer and the person to whom he looks for future employment to have access to the premises whenever requested; and

3. Whether the possession of the warehouse company can be said to be unequivocal when it is exercised by a custodian whom the depositor and his creditors may regard as the employee of the depositor rather than of the warehouseman.

On these points, and on the entire subject of the validity of warehouse receipts arising out of field warehousing, the law is in a very unsettled state; the decisions of the courts are in conflict; and no definite conclusion can be expressed with any real assurance that it will be sustained by the courts in any given case.

The case of Union Trust Co. v. Wilson, 198 U.S. 530; 25 Sup. Ct. 766, (decided May 29, 1905) is often cited as a case in which the Supreme Court of the United States sustained the legality of field warehousing. The question presented here was not present in that case, however, because the warehouse company itself actually held the only keys to the warehouse and, whenever the owner desired access to the goods, the warehouse company had to send a man to unlock the warehouse. Moreover, three of the justices of the Supreme Court dissented from the majority opinion sustaining the validity of the warehouse receipts; and Mr. Justice Holmes, who wrote the majority opinion, qualified it as follows:

> "We deal with the case before us only. No doubt there are other cases in which the exclusive power of the so-called bailee gradually tapers away until we reach those in which the courts have held as matter of law that there was no adequate bailment."

The following language of the Circuit Court of Appeals in the case of In re Cincinnati Iron Store Company, 167 Fed. 486, 492, (decided February 22, 1909) is frequently cited in support of the proposition that a field warehouseman may utilize an employee of the owner of the goods for his custodian:

> "Nor is the fact that the custodian was an employe of the bridge company, and in its sole pay, necessarily inconsistent with his lawfully and effectually acting as the representative of the bank, and with his possession being regarded in law as that of the bank."

That, however, was a case in which the Circuit Court of Appeals

sustained the validity of certain preferential claims of a bank against a bankrupt bridge company, based partly upon the written assignment of moneys due the bridge company under its contract for the construction of the bridge and partly upon a pledge of certain structural iron which was set aside, earmarked, and placed under the custody of one of the bridge company's employees, appointed by the bank as its custodian. It was not a case involving warehouse receipts but involved an attempt to pledge the goods themselves direct to the bank. Moreover, the court said:

> "A change of possession to the extent of furnishing notice to third persons becomes immaterial, as no rights of such third persons have intervened."

In the case of Love v. Export Storage Co. (C.C.A.) 143 Fed. 1, (decided February 1, 1906) a lumber company leased its premises to a warehouse company and the warehouse company issued receipts against the lumber stored on the premises. The warehouse company was engaged in warehousing business throughout several states but had no warehouse of its own. In arranging for warehousing of the lumber in question it sent its State agent to the premises temporarily, and piles of lumber were numbered, designated and placarded by this agent and by an employee of the lumber company. This employee was designated as custodian for the warehouse company and it was provided by contract that he should be paid $1 per month for his service. He actually received nothing, however, except his wages from the lumber company. The custodian was bonded in the amount of $5,000. The lumber company was required to pay compensation for storage of the lumber, and to reimburse the storage company for all expenses connected with the storage. The custodian was still subject to instructions from his superior on the premises, but no regular business of the company was transacted there after the storage contract was entered into. The warehouse receipts

were pledged with the bank as security for a loan. After the bankruptcy of the lumber company it became material to determine the validity of the warehousing arrangement and of the lien created by the receipts. The court upheld the validity of the lien, taking the position that there had been a sufficient designation of the stored lumber, and said:

> "It is unimportant that at the time of his appointment as custodian he was the servant of the hardwood company and continued such after his appointment and received no other pay than the wages paid him by the hardwood company * * *. It is well settled in cases of this sort that the warehouseman may acquire and hold exclusive control and possession of the goods in such a way and under such circumstances."

That case was decided in 1906, however, and other cases decided since that date show clearly that the law on this point is not well settled.

In the case of Dunn v. Train, 125 Fed. 221, 224, (decided September 29, 1903) the Circuit Court of Appeals said:

> "We are not aware of any absolute rule of law which would render actual possession and dominion inoperative, and a pledge invalid because the keeper selected to protect the property was in the employ of the pledgor."

This, however, was another case involving a pledge of goods themselves direct to the creditor; and no warehouse receipts were involved.

In the case of Philadelphia Warehouse Co. v. Winchester, 156 Fed. 600, (decided September 5, 1907) where a field warehousing arrangement was entered into and adequate precautions were taken to put the public on notice that the goods were in the possession of a warehouseman but the actual custodian of the goods was the treasurer of the pledgor company, the court definitely held that the law does not render an officer or agent of the pledgor incompetent to be the custodian of the pledged property, where the parties so agree; but this was a decision of a trial court, no appeal was

taken, and the decision is not of any great value as a precedent.

The case of American Can Co. v. Erie Preserving Co., 171 Fed. 540, 548, (Decided February 20, 1909), 183 Fed. 96, (Decided November 14, 1910) which apparently is relied upon very strongly by the Lawrence Warehouse Company as sustaining the validity of its receipts, is also of very doubtful value as a precedent. It was really a combination of several cases.

In one of these cases (171 Fed. 548), where goods on the premises of the Preserving Company were conspicuously marked as belonging to a bank and the bank employed an employee of the Preserving Company as its custodian and through him exercised exclusive dominion and control over the property, the trial court sustained the validity of the pledge, and said that, "There was no legal objection to the employment of Wode by the bank as custodian of the property or to the storing of the property in the defendant's warehouse."

In another of these cases (171 Fed. 540), where a warehouse company undertook to warehouse goods on premises leased from the Preserving Company, employed the Preserving Company's superintendent to act as its custodian, and failed to segregate and earmark the goods, the trial court held that no valid pledge was created, since the pledgor never parted with the possession of the property; but said that, "It is not intended to hold that the property pledged as collateral security may not be stored by the pledgee at such place as he selects, or that the warehousing company cannot designate as custodian an employee of the pledgor."

On appeal, both cases were considered together and both decisions were affirmed (183 Fed. 96). The Circuit Court of Appeals, however, did not expressly adopt the view of the trial court that there is no legal objection to the employment of an employee of the pledgor as the custodian

of the pledgee or of the warehouseman whose receipts are pledged. On the contrary, the court said:

> "Warehouse receipts would give constructive possession of goods actually warehoused; but it is plain that the warehousing company did not maintain a warehouse in any proper sense, because it had no exclusive and unequivocal possession. There is no pretense that either Sheridan or Wode were warehousemen at all. Yenni v. McNamee, 45 N.Y. 614. Therefore the holders of these receipts who had no actual possession had no constructive possession either. The Bank of North Collins has, however, been found both by the special master and the judge of the Circuit Court to have actually set apart and marked and kept in its own custody the goods described in its receipts which remained undisturbed down to the time receivers were appointed. We will adopt the conclusion of the court below as to its claim also because it did have actual possession and a valid lien."

In Security Warehousing Co. v. Hand (C.C.A.) 143 Fed. 32, (decided January 2, 1906) affirmed 206 U.S. 45, 27 Sup. Ct. 720 (May 27, 1907), a knitting company leased a portion of its premises to a warehouse company and the latter issued warehouse receipts against the goods of the knitting company stored on such leased premises. The leased premises were separated from the remainder of the building by a slatted enclosure provided with a door which was locked with a padlock on which was stamped, in small letters, the fact that the premises were those of the warehouse company. There was, however, no adequate designation or marking of the goods nor of the leased premises showing that the warehouse company had possession. The custodians in charge of the warehouse goods were employees of the knitting company. All expenses incident to the storing arrangement were collected from the knitting company. The lease was for a nominal sum only. The custodian's salary up to $5 per month was reimbursed by the knitting company. The key to the slatted enclosure was kept by the cashier of the knitting company, the custodian, on a ring with other keys used in the business of the knitting company; this

bunch of keys was accessible to the manager of the knitting company during the cashier's absence.

The Circuit Court of Appeals held that this was not a public warehouse within the meaning of the Wisconsin law and further that the arrangement did not give a valid pledge to the holders of the receipts. The court said:

> "So far from the security company's maintaining an open, exclusive, unequivocal possession during the two years this arrangement was carried on, it seems to us that the security company might as well have been eliminated, and the knitting company have employed its own stockkeepers and shipping clerks as custodians for intending lenders, directly, instead of indirectly through the security company."

In affirming the decision of the Circuit Court of Appeals, the Supreme Court of the United States said:

> "* * * There was scarcely a semblance of an attempt at such change of possession from the hands of the knitting company to the hands of the warehousing company. Actual possession of the property in question was exercised by and existed with the knitting company substantially the same after the issuing of the receipts as before. It is a trifling with words to call the various transactions between the knitting company and the warehousing company a transfer of possession from the former to the latter. There was really no delivery, and no change of possession, continuous or otherwise. The alleged change was a mere pretense, a sham."

In McGaffey Canning Co. v. Bank of America, 294 Pac. 45, 53, (decided November 10, 1930) a case involving the Lawrence Warehouse Company itself, the California District Court of Appeals said:

> "The appointment of the owner, or one of his staff, as a warehouseman's custodian of goods stored, while not conclusively ineffectual, is nevertheless a circumstance to give pause, and must be carefully weighed in connection with the other facts in evidence."

In the case of MacDonald v. Aetna Indemnity Co., 90 Conn. 415, 97 Atl. 332, 334, (decided April 19, 1916) a warehouse company was engaged in the business of field warehousing; it warehoused the goods of the bailor

upon premises leased from the bailor and issued warehouse receipts to the bailor, who pledged them as collateral security for credit obtained by him. Apparently the bailor continued in control of the premises and goods therein with the right to sell the goods, provided he continued ready to meet the demand of the holder of the receipt; but, just before the appointment of a receiver, the warehouse company entered and took actual possession of the goods. Because the warehouse company had taken actual possession of the goods, the court upheld the validity of the lien created by the pledge of the warehouse receipt; but, in discussing the situation existing prior to the taking of actual possession by the warehouse company, the Supreme Court of Connecticut said:

> "The custodian remained an employe of the pledgor, and any possession he may have had was that of his employer; the repayment to his employer of the compensation paid him as custodian indicates this."

Likewise, in any case in which the Lawrence Warehouse Company employs as its custodian an employee of the cooperative marketing association, the courts may hold that the warehouse company had no exclusive and unequivocal possession of the goods and that, therefore, the pledge of its warehouse receipt does not create a valid lien, especially in view of the fact that the Lawrence Warehouse Company requires the cooperative marketing association to reimburse it for the salary paid to the custodian.

There is no certainty that the courts will adopt this view; but there is such a grave danger of it that it would seem inadvisable for the Federal Reserve Board to approve of such warehouse receipts as complying with the requirements of the Federal Reserve Act and the Board's regulations. The most the Board can do is to guess at what the courts may hold; and if it guesses wrong, it may mislead member banks to their injury.

PRACTICAL QUESTION AS TO INDEPENDENCE OF CUSTODIAN.

Even if it could be said without question that the warehouse receipts issued by the Lawrence Warehouse Company under the circumstances described above convey or secure title to the goods covered thereby and, therefore, comply with the requirement of Section 13 of the Federal Reserve Act, I am clearly of the opinion that they do not comply with the requirement of the Board's regulations that warehouse receipts securing bankers' acceptances drawn to finance the storage of readily marketable staples must be "issued by a party independent of the customer."

It is true that they are issued in the name of the Lawrence Warehouse Company which is supposedly independent of the borrower; but the actual custodian of the goods is so much under the influence of the borrower that the purpose of the regulation is defeated.

This requirement of the regulation is based upon the fact that a lien on personal property is of no practical value unless it is possible to identify and seize the goods whenever it becomes necessary to enforce the lien; and, unless the goods are in the hands of a party independent of the borrower, they may be dissipated or wrongfully disposed of and it may be impossible to enforce the lien.

While nominally on the pay roll of the warehouse company, the custodian of the goods is a former employee of the cooperative association; he expects to be placed again on the pay roll of the cooperative association as soon as the storage season closes; and, while he may draw his pay from the warehouse company, he knows that it will be reimbursed by the cooperative. It is natural for him to continue to regard the cooperative

association as his real employer and as the one to whom his allegiance and responsibility are due.

Under such circumstances, he would naturally be inclined to accommodate the cooperative association in any emergency, and, if the officers of the association should request the release of certain goods, urging that the custodian could get the receipts covering the goods at a later date, it is not unlikely that in many cases the custodian would comply; and the receipts might or might not be forthcoming later. His future means of livelihood would depend upon retaining the good will of the manager of the cooperative marketing association and he could not reasonably be expected to be as independent nor as strict in his performance of his duties to the warehouse company and the holders of the warehouse receipts as could be a person not so situated.

Whatever may be the theoretical requirements of the arrangement as to the complete control and custody of the goods by the warehouseman, therefore, it is obvious that in fact the cooperative association will be in a position to exercise control over the goods through control of its former employee, and that the association in such cases may have unlimited access to the goods in storage. Under such circumstances, it is apparent that the warehouseman will not actually be independent of the cooperative association; because the warehouse company must rely upon its local custodian, and he is not independent of the association.

Both Governor Calkins and the Lawrence Warehouse Company argue that the risk that the goods will be abstracted or a false report made concerning the goods in storage always exists and that this may always

be accomplished through collusion between the representative of the warehouse company and the owner of the goods; but it is obvious that this is not so likely to happen when the custodian of the goods is a truly independent person as it is where the custodian of the goods is so much under the influence of the borrower.

As was said by Mr. Wilbert Ward, Assistant Vice President of the National City Bank of New York, in an address before the Association of Reserve City Bankers, at New Orleans, La., March 15, 1928:

> "No barrier of legal sophistry will prevent the servant from hearing his paymaster's voice".

This principle has been recognized repeatedly by the courts in cases dealing with trusteeship; but I shall quote only two short passages from the court's opinions as illustrating the point.

In Michoud v. Girod, 4 How. 503, The Sup. Ct. of the U.S. said:

> "In this conflict of interests, the law wisely interposes. It acts not on the possibility, that, in some cases, the sense of that duty may prevail over the motives of self-interest, but it provides against the probability in many cases, and the danger in all cases, that the dictates of self-interest, will exercise a predominate influence, and supercede that of duty."

In Staats v. Bergen, 17 N.J. Equity 554, Chief Justice Beasley said:

> "So jealous is the law upon this point, that a trustee may not put himself in a position in which to be honest must be a strain on him."

When the custodian of the goods depends for his future employment and his means of livelihood upon the good will of the borrower and knows that the salary paid to him by the warehouse company is being reimbursed by the borrower, there is a real danger that it would be too much of a strain on

him to refuse a request of the borrower to release the goods on a promise that the warehouse receipts will be presented in a few days.

The Department of Agriculture advises that, as a matter of fact, the requirements of the Lawrence Warehouse Company arrangement are not always strictly observed; and that, in one case which came to the Department's attention, it was found that goods warehoused by this company had been withdrawn from storage without the surrender of the warehouse receipts covering them.

Viewing this warehousing plan from the standpoint of the cooperative association whose goods are warehoused, it appears that, in substance, the warehouse company does not propose actually to operate the warehouse itself but proposes to lend its name or endorsement to these warehousing operations, accepting the legal responsibility for the safe custody of the goods stored therein and providing supervision and inspection of the warehoused goods from a distance, but leaving the actual operation of the warehouse to persons who, while technically in the employ of the warehouse, are actually subject to the influence of the cooperative association whose goods are stored.

Much emphasis is laid upon the fact that the custodian of the goods is bonded in each case in the amount of $5,000 and that there is a superimposed blanket bond of $100,000. These bonds, however, are for the protection of the warehouse company itself and do not of themselves protect the holders of the warehouse receipts for any losses which they may suffer. The holders would have no right of action against the bonding company for losses incurred, and it is conceivable that in emergencies the warehouse company might permit the bonds to lapse or the bonding company might possibly cancel the bonds.

The fact is also emphasized that warehouse receipts are not issued by the local custodian but by the regional offices of the company and that withdrawals may be effected only upon instructions from a regional office. The regional office, however, issues warehouse receipts upon the basis of a statement from the owner and a report from the local custodian as to the goods which have been received in storage. Accordingly, the fact that the regional office actually issues the receipts is of little importance so far as the question under consideration is concerned; because the company must nevertheless rely upon the honesty and good faith of the local custodian.

While the Lawrence Warehouse Company claims that it will not employ as its custodian the manager or any responsible officer or even a large stockholder or relative of an officer or stockholder of the depositor, the fact is that in the only two decided cases we have dealing with the transactions of that company, McGaffey Canning Co. v. Bank of America and the Topper-Knewbow case, the so-called custodian of the Lawrence Warehouse Company, remained in the employ of the depositor. In one case he was the manager of the depositor company and in the other case he was the nephew of the owner of the depositor company. Moreover, one of the chief advantages claimed by the Lawrence Warehouse Company for its system of field warehouses is that it interferes as little as possible with the activities of the depositor.

EXCUSES FOR FAILURE TO HAVE INDEPENDENT CUSTODIAN.

I asked Mr. J. Van Cartmell, Executive Vice President of the

Lawrence Warehouse Company, why that company does not place in charge of its field warehouses its own employees who would be independent of the depositor. He replied, (1) that it would interfere too much with the operations of the depositor, (2) that it would add too much expense to the plan, and (3) that it is difficult to find independent custodians sufficiently familiar with the business of the canneries and cooperative marketing associations and of the grade and qualities of the goods stored.

In a telephone conversation which I had with him on this subject, on July 24, 1931, Mr. Ralph Merritt argued that it would be impossible to comply with the Board's requirements regarding independent custodianship in so far as the Raisin Growers' Association is concerned; because there are about 35 field warehouses storing raisins and there are no men who know the grades of raisins except the men in the employ of the Raisin Growers' Association. In other words, he said that the raisin growers have in their own employ all the men who have any knowledge of this subject.

The answer to these arguments is that the problem of finding competent men to conduct this business on behalf of the warehouse company is a business problem which the warehouse company must solve for itself; and the fact that it may be a difficult business problem is no reason why the Federal Reserve Board should sacrifice an important provision of its regulations designed for the protection of its member banks.

A mimeographed circular entitled "Acceptable 'Field' or 'Custodian' Set-ups for Warehousemen licensed or Applying for Licenses under the United States Warehouse Act," issued by the Department of Agriculture under date of March 21, 1928, which is in the attached file, contains the following requirement on this subject:

"7. A custodian or manager of the warehouse shall not receive any part of his salary or wages from any person depositing goods in the warehouse, nor shall he be subject to receiving instructions from anyone concerning the business of the warehouse except from the warehouseman. He need not be a full-time employee of the warehouseman but he shall not be a part or a full-time employee of any depositor who owns or is interested in any of the goods in the warehouse. He cannot perform any services for such depositor either for compensation or otherwise. In other words, the custodian or manager must be absolutely independent of every depositor. A temporary independence cannot be considered; that is, an employee of a depositor may not be engaged for the period of the lease and then thereafter return to the employ of the depositor."

Notwithstanding this requirement, which I believe is strictly enforced, there is enclosed in the attached file a letter addressed to me by Mr. Yohe under date of July 25, 1931, listing 82 field warehouses which are now licensed and doing business under the United States Warehouse Act. This would seem to demonstrate that it is not impossible to comply with the requirement of the Board's regulation that warehouse receipts underlying bankers' acceptances must be issued by parties independent of the borrower.

STATEMENT SUBMITTED BY LAWRENCE WAREHOUSE COMPANY.

Mr. J. Van Cartmell, Executive Vice President of the Lawrence Warehouse Company, has filed with me several letters describing the field warehouse operations of the Lawrence Warehouse Company in general and the plan proposed to be operated for the Southern Idaho Bean Growers' Association in particular. All of these letters are respectfully submitted herewith for the Board's information.

He emphasizes the statement that the Lawrence Warehouse Company is an independent public warehouseman which has successfully conducted field warehousing operations for a number of years; that the premises to be used as warehouses will be leased from the Bean Growers' Association under bona

fide leases which are duly recorded; that they will be completely partitioned off from other parts of the building in which they are located; that Lawrence Warehouse Company signs will be conspicuously placed on the outside of the buildings and on the inside of the buildings; that the Lawrence Warehouse Company locks will be placed on all doors to the premises used for warehouse purposes; that all commodities warehoused for this account will be conspicuously placarded with the Lawrence Warehouse Company's stack cards; and that any person approaching the premises or the commodities can readily see that the goods are warehoused and are not in the possession of the cooperative association.

If faithfully adhered to, these precautions are sufficient to satisfy the usual legal requirements that the warehouseman's possession must be open and notorious and sufficient to place creditors upon notice that the goods are in the possession of a warehouseman and not in the possession of the depositor.

The principal question before the Board, however, is whether the actual custodian of the goods is independent of the depositor who desires to borrow against the warehouse receipts. On this question, Mr. Van Cartmell says:

> "The Lawrence Warehouse Company has not definitely decided who it will employ as its Bonded Field Warehouse Custodian (Bonded Agent) at each of the five locations referred to, but anticipates employing one of the former employees at each location of the subsidiary warehouse company of the Southern Idaho Bean Growers' Association, which is now operating the warehouses. However, The Lawrence Warehouse Company will not employ the present manager of the subsidiary warehouse company, as we are advised he is an officer and director of the Southern Idaho Bean Growers' Association, and The Lawrence Warehouse Company does not employ as a Field Warehouse Custodian (Bonded Agent) or a Field Warehouse Watchman, an officer, director or stockholder of the depositor of commodities."

From the description of the Lawrence Warehouse Company's method of

operating field warehouses furnished to me by Mr. Van Cartmell, it would seem that, if the plan is rigidly adhered to in all respects, there would be no legal or practical objection to it, except for the fact that the actual custodian of the goods is not sufficiently independent of the depositor who proposes to borrow money against the receipts issued by the Lawrence Warehouse Company. This is a very important exception, however, and in my opinion it renders such warehouse receipts unreliable as collateral both from a legal standpoint and from a practical standpoint.

The Lawrence Warehouse Company places great emphasis upon the fact that its receipts are accepted as collateral by numerous large commercial banks. It is possible, however, that these banks do not know that the actual custodian of the goods is a former employee of the depositor who pledges the warehouse receipts as collateral and the banks, without making their own independent inquiries, may be relying upon statements by the company to the effect that, "The Lawrence Warehouse Company places each of its field warehouses in the custody of a bonded Lawrence Warehouse Company employee."

Moreover, from the facts stated by the courts in the McGaffey Canning Company case and the Topper Knewbow case, which are discussed elsewhere in this memorandum, it appears that the Lawrence Warehouse Company does not always faithfully adhere to the course of business described in its circulars and in the briefs submitted to me by Mr. Van Cartmell.

OPINIONS OF COUNSEL FOR LAWRENCE WAREHOUSE COMPANY.

The advertising circulars of the Lawrence Warehouse Company quote the conclusions expressed by counsel retained by the warehouse company for the purpose of giving advisory opinions to the warehouse company as to the legality of its methods and validity of the warehouse receipts issued by it, and, of course, all of the opinions quoted are favorable to the warehouse

company. As usual in such opinions, however, it may be assumed that they are based upon hypothetical statements of fact submitted to counsel by the warehouse company, which describe its system of warehousing in its most favorable light.

One of these opinions was by Hon. Owen J. Roberts, now an Associate Justice of the Supreme Court of the United States, and a copy of his opinion is in the attached file. It is based upon a hypothetical statement of facts and upon the following statement regarding the custodians of the warehouses:

> "* * * If the bonded agent be a former employee of the manufacturer or storer of the goods, he is transferred to the pay rolls of your company, is paid a substantial salary by your company, and is under the control and supervision of your company only."

In the case now under consideration, however, it appears that the custodians will not be under the control and supervision of the warehouse company only, but will continue to perform services for the cooperative association and will look to it for future employment.

CASES INVOLVING THE LAWRENCE WAREHOUSE COMPANY.

While the Board is not called upon to pass upon the merits of the entire plan of operation of the Lawrence Warehouse Company, the representatives of that company have filed lengthy documents setting forth in detail the alleged merits and advantages of this plan; and, if they are granted a hearing, they undoubtedly will elaborate on this subject at great length.

The Board should not lose sight of the fact that the sole questions presented for its consideration are:

1. Whether, on the facts submitted by the Department of Agriculture, the warehouse receipts of the Lawrence Warehouse Company may be said to convey or secure title, as required by Section 13 of the Federal Reserve Act; and

2. Whether they may be said to be issued by a party independent of the borrower, as required by Section XI of the Board's Regulation A.

As a matter of general information, however, it no doubt will be of interest to the Board to know something about the decided cases affecting the Lawrence Warehouse Company itself.

THE MC GAFFEY CANNING COMPANY CASE.

In the case of McGaffey Canning Co. v. Bank of America, 294 Pac. 45, decided November 10, 1930, by the California District Court of Appeal, a creditor sought to attach certain goods in one of the field warehouses of the Lawrence Warehouse Company; the Bank of America, which held warehouse receipts for such goods, intervened; the Sheriff released the goods to the Bank of America when the attaching creditor refused to furnish him an indemnity bond; the Bank of America sold the goods and applied the proceeds in liquidation of its loan; and the attaching creditor brought suit against the Bank of America, the Lawrence Warehouse Company and the Sheriff, for conversion.

The trial Court granted a non-suit (i. e., dismissed the case) and an appeal was taken to the California District Court of Appeal, which held that there was not such a transfer of possession from the Canning Company to the warehouse company that it could be said absolutely as a matter of law that there was an actual, open, visible, and unequivocal change of possession and that, therefore, the decision of the trial court must be reversed and the case remanded for a trial before a jury. The defendants sought a review of the decision of the court of appeals; but the Supreme Court of California denied it. I understand that the case is now pending trial on the merits and probably will be tried again during September, 1931, unless it is settled out of court.

The court described the warehousing transaction as follows:

"In considering this question it will be necessary to have in mind the circumstances surrounding the dealings between the parties. The canning business of the Ventura County Canning Company was carried on in a workshop or factory at Camarillo, rented from the California Fruit Confection Company, which conducted its business on the other side of a wooden partition in the same building. The rent payable by the canning company was 12½ cents per case, and its output for the canning season was about 50,000 cases. A man named Pace, employed by the canning company, served as its cookroom foreman and superintended the canning operations, at a salary of $60 per week.

"With the consent of its landlord, the canning company, on June 28, 1923, sublet its entire shop, on a month to month tenancy, to the Lawrence Warehouse Company, at a rent of $1 per month, for warehouse purposes. This lease was recorded July 28, 1923.

"Notwithstanding this sublease the canning company continued to conduct its business in the shop as before, using during the apricot season 150 to 200 employees. Pace continued to act as cookroom foreman; and at the same time he acted also as the sole representative of the Lawrence Warehouse Company on the premises. In fact, he drew his salary of $60 a week from the warehouse company, and that company then rendered a bill for the amount to the canning company. Practically all Pace's time was given to superintendence of the canning processes. At night an employee of the canning company slept on a cot in a cubby-hole above a small office partitioned off from the shop, and during the night the premises with its contents were in his care.

"When the cans had been filled and were ready for stacking, they were moved on trucks to another part of the shop and stacked by skilled employees of the canning company, in rows set about four and a half feet apart, and reaching to the ceiling. At the time of the attachment there were three or four such stacks in place. Frames made of slats were placed around the several stacks for the purpose of separating them and simplifying the count. The canning was done at the north end of the shop and the storage at the south end. There was nothing to separate the canning department from the storage department except an intervening space about fifteen feet in width.

"As the cases were stacked, they were inventoried by Pace who kept the records. He then issued nonnegotiable warehouse receipts for the Lawrence Warehouse Company. The form used was an acknowledgment of receipt for storage 'for account of, and to be delivered upon the written order, without surrender of this receipt, to Bank of America, Los Angeles.'

"Referring to these receipts, Heck, one of the partners interested in the cannery, said in his testimony: 'We jumped in the car, as soon as we got them, and went to Los Angeles, and

"to the Bank of America, and got all the money we could.'

"As receipts were issued, stack cards of the Lawrence Warehouse Company were placed on the stacks, about six feet from the floor, each specifying the aisle, stack, and mark, and giving the date, lot number, and quantity. These cards bore, also, the statement, 'Warehoused to Bank of America.'

"When fruit was to be marketed, a release was issued from the Los Angeles office of the Lawrence Warehouse Company on order of the Bank of America; and, upon delivery of the release to Pace, withdrawal of the quantity designated followed. The cans were then labeled, packed in cases, and shipped by the canning company to fill orders obtained through brokers, who appear to have assumed responsibility to the bank for the proceeds of sale.

"The canning company really paid Pace's salary; and though the warehouse company, according to the sublease, was charged the nominal rent of $1 per month, there was an accompanying agreement obligating the canning company to pay the warehouse company for issuing receipts three cents per case for the first 50,000 cases and lesser amounts for additional quantities.

"No sign of the Ventura County Canning Company seems to have been displayed on the building. There was a sign of the California Fruit Confection Company on the outside, and a sign of the Lawrence Warehouse Company inside the shop near the south end. While Mr. Heck said the warehouse company had two of its signs on the outside, his co-partner, Mr. Clarke, said there was none on the outside to his knowledge. For purposes of nonsuit the testimony of Heck on this point must be disregarded."

The Court then stated the point upon which its decision turne as follows:

"If, under the facts of this case, there was a transfer of possession from the canning company to the warehouse company of such exclusive character that it must be declared, as a matter of law, that there was indisputable compliance with the requirements of section 3440, Civil Code, then the judgment of nonsuit was properly entered; but if a contrary conclusion was reasonably deducible from the evidence, the case should have been allowed to go to the jury as the triers of the facts."

After indulging in the best discussion of the decided cases on this subject which I have been able to find anywhere, the court concluded as follows:

> "In the disucssion in which we have indulged, we are not be be understood as intimating any opinion upon the question whether the circumstances in evidence do, or do not, show a change of possession satisfying the law. As is said in Byrnes v. Moore, 93 Cal. 393, 394, 29 P. 70; 'Every case of the kind here involved has its own peculiar features, and must be determined on the particular facts which surround the given transaction or transfer.' We hold merely that the circumstances are not such that it can be said absolutely as a matter of law that there was an actual, open, visible, and unequivocal change of possession. The plaintiff was therefore entitled to the submission of the facts to the jury for their verdict on this point under appropriate instructions as to the rules of law by which they should be guided."

While the matter is thus left to be tried by a jury, under proper instructions in the court, the following passages from the opinion of the District Court of Appeals indicate quite clearly the character of the instructions which should be given to the jury:

> "Whether warehousing is called 'field warehousing' or by any other name, it cannot be effectively conducted in this state without compliance with the law as declared in section 3440 of the Civil Code. Merely colorable constructive change of possession accomplishes nothing in favor of a pledgee. There must be open, visible, unequivocal change of possession, manifested by such substantial outward signs as to make it evident to the world that the control of the owner has wholly ceased, and that another has acquired, and is openly exercising, the exclusive dominion over the property. * * *
>
> "Actual change of possession means existing in act, and truly and absolutely carried out, as opposed to formal, potential, virtual, or theoretical change. * * * The proof required to show actual change of possession is not measured by any fixed set of rules. Dependence must be placed upon the facts and circumstances of each particular case; and usually the determination must rest upon the finding of the court or the jury after hearing

"The evidence adduced on both sides. * * *

"The appointment of the owner, or one of his staff, as a warehouseman's custodian of goods stored, while not conclusively ineffectual, is nevertheless a circumstance to give pause, and must be carefully weighed in connection with the other facts in evidence. * * *

"In this case a foreign element is introduced by the interjection of the warehouse company between the pledgor and the pledgee. If the loans had been made without resort to warehouse receipts, and the fruit had been stacked and kept on the premises as shown in the evidence, with Pace as custodian for the bank, there would then have been the simple question whether the pledgee had been placed in actual exclusive possession and control. Instead of actual possession the bank claims to have obtained symbolic possession by virtue of the warehouse receipts; but these receipts can have no virtue, unless the warehouse company had the same actual and exclusive possession and dominion which would have been essential to the protection of the bank, if it had acted independently in reliance on the goods instead of on the receipts."

As applied to the question now before the Board, two conclusions may be reached with reference to the warehouse receipts involved in the McGaffey Canning Company case:

(1) That the validity of any lien created by the pledge of such receipts is extremely doubtful; and

(2) That there was no semblance of independent custodianship.

The Lawrence Warehouse Company states that the McGaffey

case arose under the procedure followed by that company during the year 1923 and that, since that time the company, has adopted many additional safeguards and refinements in field warehousing which offer much greater safeguards to the parties concerned than under its former procedure. The procedure described in the unpublished findings of the special master in the recent case of William H. Moore, Jr., Trustee in Bankruptcy of Topper-Knewbow v. Pacific Finance Corporation and Lawrence Warehouse Company, copies of which are in the attached file, however, was just as bad in my opinion as the procedure adopted in the McGaffey case, except that there was a better segregation of the goods. Both cases are alike in that the actual custodian of the goods was a person who remained in the employ of the depositor and who was more under the influence of the depositor than under the influence of the warehouse company.

THE TOPPER-KNEWBOW CASE.

The Topper-Knewbow case arose in 1930 and may properly be taken as an example of the methods actually used by the Lawrence Warehouse Company at the present time. The warehousing arrangement was set up June 10, 1929; the Topper-Knewbow Company went into bankruptcy during the month of March, 1930; and the special master's report was rendered December 11, 1930.

The findings of the special master may be summarized as follows: The Topper-Knewbow Company applied to the Pacific Finance Corporation for a loan of $20,000 and was told that it must pledge warehouse receipts for $30,000 worth of merchandise. The Topper-Knewbow Company then removed certain woolen goods from its workrooms on the fourth and fifth floors of the building which it occupied with other tenants to a room on the third floor. It leased to the Lawrence Warehouse Company the room in which these goods were placed and the Lawrence Warehouse Company placed its lock and sign on the only door thereto. The Lawrence Warehouse Company employed as its custodian, one Nat Klitnick, an employee of the Topper-Knewbow Company, and turned the keys over to him. The Lawrence Warehouse Company issued warehouse receipts for the goods and the Pacific Finance Corporation made a loan to the Topper-Knewbow Company against the pledge of such receipts. Goods were frequently removed to the cutting room of the Topper-Knewbow Company and clothing was manufactured therefrom, but it appears that other goods were substituted for the goods so removed. (It does not appear whether the consent of the warehouse company to such removals and substitution was obtained; but Mr. Van Cartmell told me that the warehouse company had to pay the finance company $3200 for goods which were missing, and obtained reimbursement from the bonding company.) The Warehouse Company paid Klitnick $80 per month but he continued to work for the Topper-Knewbow Company and endorsed his pay check each month over to the Topper-Knewbow Company which deposited it to its own account, although this was not known to the Lawrence Warehouse Company. Klitnick sometimes delegated his authority and permitted other employees of the

Topper-Knewbow Company to have access to the warehouse.

The special master concluded that this was a public warehouse; that the warehouse company took actual physical possession of the goods; that such possession was open, notorious and exclusive; and that the warehouse receipts were valid. Therefore, when the Topper-Knewbow Company went into bankruptcy and litigation ensued between the trustees representing the general creditors and the Pacific Finance Company which held the warehouse receipts, the master held that the Pacific Finance Company had a valid lien and was entitled to the goods and the United States District Court approved this finding.

The legality of the lien was thus sustained; but it appears that part of the goods were not there; and, under the practice permitted, it is entirely possible that none of them would be there. Moreover, it is perfectly obvious that in this case, it could not be said that there was any real independent custodianship of the warehoused goods.

FINANCIAL RESPONSIBILITY OF LAWRENCE WAREHOUSE COMPANY.

It may be contended that, since the Lawrence Warehouse Company is independent of the borrower and accepts full legal responsibility for the goods represented by its warehouse receipts, the fact that the actual custodian of the goods is not independent of the borrower is unimportant; because the Lawrence Warehouse Company would be liable to the holder of any warehouse receipt who is damaged by a failure to deliver the goods to him upon presentation of the receipt. The value of the legal responsibility of the Lawrence Warehouse Company, however, depends upon its financial responsibility.

On this subject a balance sheet of the Lawrence Warehouse Company as of December 31, 1930, furnished to Mr. Agnew by that company and enclosed in the attached file, would seem to speak for itself. It lists the following assets and liabilities:

LAWRENCE WAREHOUSE COMPANY.

BALANCE SHEET

DECEMBER 31 1930

A S S E T S :

Cash	$ 14 061 79	
Notes Receivable	5 608 44	
Accounts Receivable	166 956 54	
Supplies	12 743 06	
Equipment	149 481 59	
Real Estate & Improvements	21 373 29	
Stocks & Misc. Investments	5 238 00	
Prepayments	59 474 38	
*Branch Development Cost	129 439 53	
*Leaseholds	77 500 00	
*Good Will	50 000 00	
		$ 691 876 62

L I A B I L I T I E S :

Notes Payable	$ 90 000 00	
Audited Vouchers & Accts. Payable	60 024 92	
Deferred Liabilities	7 211 00	
Accounts with Affiliated Cos.	127 390 93	
Deferred Revenue Credits	240 00	
Reserve for Depreciation	105 141 01	
*Common Stock Outstanding	100 000 00	
*Preferred Stock Outstanding	100 000 00	
*Surplus	101 868 76	
		$ 691 876 62

Attention is invited to the so-called assets marked with asterisks.

With these obviously questionable assets eliminated, the statement would indicate an actual net worth of only $44,929, even if the other assets, such as notes and accounts receivable, are accepted without question. In this connection it must be remembered that the Lawrence Warehouse Company operates approximately 500 field warehouses, although only 250 to 300 are in actual operation at any one time.

Although the Lawrence Warehouse Company would be legally liable to any person holding a negotiable warehouse receipt issued by it, if the goods are not faithfully kept and delivered to such holder, its financial responsibility, or rather its financial ability to discharge such legal liability, is questionable.

It places much emphasis upon the fact that each of its custodians is bonded in the sum of $5,000 and that there is a blanket bond of $100,000 superimposed upon such individual bonds. All of these bonds, however, are merely fidelity bonds to protect the Lawrence Warehouse Company against losses resulting from the fraudulent or dishonest acts of its own employees and they would give the holder of the warehouse receipts no right of action against the bonding company. It may be argued that this protection would enable the Lawrence Warehouse Company to protect its customers; but, if the Lawrence Warehouse Company should get into financial difficulties, it might fail to pay the premiums on these bonds or the bonds might be cancelled.

The Lawrence Warehouse Company is owned and controlled by the Lawrence Warehouse Corporation, a holding corporation which also owns several other companies in California; and this holding company has notified R. G. Dunn & Co., the mercantile credit agency, that its board

of directors has adopted a resolution to the effect that the corporation is responsible for the indebtedness of the Lawrence Warehouse Company contracted in the usual course of business. It is very doubtful, however, whether this action of the directors of the Lawrence Warehouse Corporation would give rise to a valid legal claim against the corporation in favor of creditors of the Lawrence Warehouse Company.

DIFFICULTY OF COMPLIANCE WITH U. S. WAREHOUSE ACT.

It appears that the proposed arrangement between the Lawrence Warehouse Company and the Idaho Bean Growers' Cooperative Association contemplates that the cooperative association will not only pay the warehouse company a monthly storage fee, but will also reimburse the warehouse company under contract for all expenses, including salary of custodian, cost of bond, salaries and expenses of auditors.

Section 13 of the U. S. Warehouse Act provides as follows:

> "That every warehouseman conducting a warehouse licensed under this Act shall receive for storage therein, so far as its capacity permits, any agricultural product of the kind customarily stored therein by him which may be tendered to him in a suitable condition for warehousing, in the usual manner in the ordinary and usual course of business, without making any discrimination between persons desiring to avail themselves of warehouse facilities."

If, therefore, any person other than the Idaho Bean Growers Cooperative Association should demand it, the Lawrence Warehouse Company would be required to receive beans for storage from such other persons; and it would be extremely difficult to work out any measure of compensation for such storage service rendered to persons other than the cooperative

association which would not violate the prohibition against discrimination. If such other persons are charged a storage fee only, it would amount to a discrimination against the cooperative association; and, if such other persons are required to pay a monthly storage fee and also to reimburse the warehouse company for all expenses including salary of custodian, cost of bond, salaries and expenses of auditors, etc., then the charges would seem to be exorbitant.

In this connection, attention is invited to the fact that Section 25 of the U. S. Warehouse Act authorizes the Secretary of Agriculture to revoke the license of any warehouseman "upon the ground that unreasonable or exorbitant charges have been made for services rendered."

ADVISABILITY OF CONDUCTING A HEARING ON THIS SUBJECT.

On July 24, 1931, the Board received the following telegram from Mr. J. Van Cartmell, Executive Vice President of the Lawrence Warehouse Company:

> "Understand that the Federal Reserve Board has been asked for an opinion on certain phases of Field Warehouse procedure I desire to ask that in event any rulings of the Board would appear to be adverse to the Lawrence System of field warehousing as operated by the Lawrence Warehouse Company that the Board would allow us to appear at hearing prior to promulgation of new ruling and would appreciate being notified by wire care of our Chicago office of time of hearing."

Although Mr. Vest and the undersigned have discussed this subject at great length with Mr. Van Cartmell and although he has submitted lengthy documents which are in the attached file describing the methods of the Lawrence Warehouse Company and submitting arguments in support of such methods, it would seem advisable to grant this request, in order to forestall

any possibility of an injustice or charges of injustice.

Inasmuch as the Federal Reserve Banks of New York and San Francisco have heretofore accepted the field warehouse receipts of the Lawrence Warehouse Company without question, and have written the Board that they consider these receipts unobjectionable, it would seem advisable for the Board either to grant them a hearing on this subject or to submit this memorandum to them with a request for a further expression of their views.

If the Board decides to conduct a hearing on this subject, it would also seem appropriate to invite Mr. C. W. Kitchen and Mr. H. S. Yohe of the Department of Agriculture to attend the hearing as observers. I do not think, however, that these gentlemen would care to testify at an open hearing or to participate in any debate with the representatives of the Lawrence Warehouse Company.

In view of the interest which they have manifested in this question, it would also seem advisable to invite Mr. Robert H. Bean, Executive Secretary of the American Acceptance Council, and Mr. Wilson V. Little, Executive Secretary of the American Warehousemen's Association, to attend such hearing.

PRACTICE OF FEDERAL RESERVE BANKS AS TO CHECKING WAREHOUSE RECEIPTS UNDERLYING ACCEPTANCE CREDITS.

It is surprising that warehouse receipts issued under this plan have been accepted and approved by at least two of the Federal Reserve Banks without consultation with the Federal Reserve Board; and I believe that it would be advisable to inquire into the question whether the Board is providing

a sufficient check upon the decisions made by the Federal Reserve Banks on this subject and whether the Federal Reserve Banks are inquiring with sufficient care into the character of warehouse receipts against which bankers' acceptances purchased or discounted by them are issued.

Since bankers' acceptances drawn to finance the storage of readily marketable staples are not eligible for rediscount by Federal reserve banks unless they are secured at the time of acceptance by warehouse receipts conveying good security title and issued by parties independent of the borrowers, it would seem that, before purchasing or rediscounting bankers' acceptances secured by warehouse receipts, Federal reserve banks should inquire as to the character of the underlying warehouse receipts. This would not necessarily involve a separate inquiry as to each acceptance, but the Federal Reserve Bank of the district in which the accepting bank is located could obtain the necessary information as to each acceptance credit granted and could pass the information along to the other Federal reserve banks.

This question could very well be referred to the General Committee on Bankers' Acceptances for study and report. That Committee consists of the officers of the various Federal Reserve Banks who purchase acceptances for them and pass upon all problems pertaining to this subject. The committee's activities, as a whole, set the standard of the acceptance practices of all banks in this country. If the members of this Committee will not purchase the acceptances of particular banks, or acceptances of a particular issue, such acceptances are discriminated against in the market and there is

little if any advantage is using them as a means of providing bank credit.

That Committee and its individual members, therefore, hold the key to the practical administration of this particular problem; and I believe that it would be well worth while for it to have a meeting for the purpose of discussing and giving thorough reconsideration to:

(1) The character of warehouse receipts which should be deemed acceptable as a basis for bankers' acceptance credits, and

(2) The steps which should be taken by the Federal Reserve Banks to assure themselves that the warehouse receipts underlying domestic storage acceptance credits are proper warehouse receipts and comply fully with the Board's regulations and rulings.

I do not believe that the Board's consideration of this particular case should be postponed until after such a meeting, because that would cause too much delay; but I do believe that this general subject should be thoroughly considered by that Committee in the near future.

CONCLUSION.

I agree with the officers of the Federal Reserve Banks that field warehousing actually conducted by bona fide warehousemen regularly engaged in public warehousing is much preferable to subsidiary warehousing and I think it is much more likely to be sustained by the courts. As this particular plan is proposed to be operated, however, I think it is fatally defective; because of the fact that the man actually in charge of the warehouse is taken immediately from the employ of the person whose goods are stored and expects to be reemployed by that person at the termination of the warehouse season, and, therefore, is not in fact independent but is too much subject to the influence of the person whose goods are stored.

This company, however, has worked out many important safeguards for field warehouses; on paper, its plan looks very good except for the fact that it does not employ independent custodians owing allegiance solely to the warehouse company; and I am inclined to believe that the plan would be sound, the company would render a valuable service, and there would be no objection to its warehouse receipts, if:

(1) The warehouse company would place in charge of each field warehouse its own independent custodian owing allegiance solely to the warehouse company;

(2) The warehouse company had an adequate net financial worth to support the large number of field warehouses for which it accepts the legal responsibility; and

(3) It would actually operate all of these warehouses in strict conformity with the plan which it has outlined on paper.

From a careful study of all the documents in the attached file and all other information I have been able to find about this company, however, I believe that its warehouse receipts are not now reliable collateral for banks and that it would be inadvisable for the Board to issue any ruling which could be used by that company as a basis for the statement that the Federal Reserve Board has approved its plan or its warehouse receipts, especially in view of the fact that the company appears to be ambitious to expand its operations all over the United States.

Respectfully,

(Signed) Walter Wyatt

Walter Wyatt,
General Counsel.

X-7258

DIGEST OF STATE LAWS RELATING TO THE PURCHASE OR OWNERSHIP OF BANK STOCK BY HOLDING CORPORATIONS.

(Superseding X-6392)

There is given below a digest of the laws of the several States relating to the purchase or ownership of the stock of banks by holding corporations. This digest has been prepared by the Office of the General Counsel to the Federal Reserve Board, with the assistance of the Counsel to the various Federal reserve banks, and shows the status of the State legislation dealing with this subject as of August 1, 1932.

The States not mentioned in this digest apparently have no legislation affecting this subject directly or indirectly.

ALABAMA.

There does not appear to be any legislation in this State specifically authorizing a holding corporation to purchase or own bank stocks; but Section 7015(10) of the Code of Alabama, which relates to the powers, rights and duties of corporations in general, authorizes a corporation "to subscribe for, acquire, hold, and dispose of the stock, bonds or other evidence of indebtedness of any other corporation of this or any other State or foreign countries, and while owner thereof to exercise the rights, privileges, and powers of ownership, including the right to vote, subject to the limitations of such rights in this chapter contained; * * *."

ARIZONA.

There do not appear to be any statutes in this State specifically dealing with this subject. In these circumstances, it may be that holding corporations are authorized to purchase bank stocks under the provisions of Section 579 of the 1928 Revised Code of Arizona, which became effective July 1, 1929. This section relates to corporations in general and provides that any corporation shall have power "to make contracts, acquire and transfer property, possessing the same powers in such respect as private individuals now enjoy.

ARKANSAS.

There do not appear to be any statutes in this state specifically authorizing or forbidding a holding corporation to purchase or own bank stock, but Section 3 of Act No. 252 of the 1931 Acts of Arkansas, approved March 31, 1931, provides that "any person or persons, and/or any company, co-partnership, corporation or other legal entity in which such person or persons own or control a substantial interest, owning either singly or jointly an aggregate of fifty (50) per cent or more of the capital stock of three or more banks and/or trust companies, thus forming a chain or group of banks and/or trust companies, shall be, and are hereby prohibited from borrowing from, or becoming indebted to, such banks and/or trust companies, thus owned and controlled, in any amount or in any manner"; and this would seem to recognize by implication the right of holding corporations to own bank stocks.

CALIFORNIA.

There does not appear to be any statute in this State which specifically authorizes a holding corporation to purchase or own bank stocks. However, the General Corporation Law enacted by the 1931 Legislature of this State (C.C. 341), provides that "Every corporation heretofore or hereafter organized has power * * * (10) To acquire, subscribe for, hold, own, pledge and otherwise dispose of and vote shares of stock, bonds and securities of any other corporation, domestic or foreign."

IDAHO

There does not appear to be any statute in this State specifically dealing with the purchase or ownership of bank stock by holding corporations; but Section 10 of Chapter 262 of the 1929 laws provides that a corporation formed under the general corporation law may "acquire, purchase, guarantee, hold, mortgage, own, vote, sell, pledge and/or otherwise dispose of and deal in shares * * * of other corporations, domestic or foreign".

There is also no double liability against stockholders of State banks in this State, but the banking law requires that stockholders at the time of the organization of such banks must produce satisfactory evidence that they have a net worth over and above all liabilities and exemptions of at least three times the amount of the capital stock taken by them in the process of such organization. (Sec. 12(e), Bank Act of 1925).

ILLINOIS.

The General Corporation Law of this State provides that corporations organized thereunder may "own, purchase or otherwise acquire * * * stocks, * * of any corporation, domestic or foreign." The statute contains some restrictions, such as forbidding the holding of stock in a building corporation, but there is no express prohibition therein upon the right of a corporation to own stock in a bank, although there may be an implication to that effect. (See Section 2, page 743, of the Illinois Revised Statutes of 1931, (Smith and Hurd) prohibiting the organization of a corporation under the

(Illinois - continued)

provisions of the general corporation law for the purpose of engaging in a banking business and the case of Central Life Securities Company, v. Smith, 236 Fed, 170). Moreover, Section 6 of the Illinois Banking Act, by referring to stockholders of banks by the use of the pronouns "he" or "she", may create the implication that it was intended that such stockholders should be natural and not artificial persons.

INDIANA.

There do not appear to be any statutes in this State specifically authorizing or forbidding corporations to own bank stocks; but section 4 of an act of the Indiana Legislature approved March 2, 1931, provides in part that, "The shareholders in any corporation formed under the provisions of any law of this State for any purpose whatsoever, and the shareholders in any corporation formed under the laws of any other State or country and admitted to do business in this state, shall be held individually responsible for all contracts, debts and engagements of any bank, the shares of which are held by any such corporation, each to the amount which the said shareholder's interests in said corporation, as represented by his shares of capital stock in the same, bears to the total amount necessary to be collected from the holders of shares of stock in any such bank, * * *"; and this would seem to recognize by implication the right of holding corporations to own bank stock.

On the other hand, section 2 of chapter 215 of the 1929

(Indiana - continued)

Acts of Indiana provides that, "corporations may be organized for pecuniary profit under this act for any lawful business purpose or purposes, except * * * corporations for the conduct of a banking, * *, trust * * * business". Section 3 of this chapter also authorizes such corporations "to acquire, guarantee, hold, own and vote and to sell, assign, transfer, mortgage, pledge or otherwise dispose of the capital stock, bonds, securities or evidences of indebtedness of any other corporations, domestic or foreign," but provides that, "No corporation shall, by any implication or construction, be deemed to possess the power of carrying on the business of receiving deposits of money, bullion or foreign coins, or of issuing bills, notes or other evidences of debt for circulation as money."

It thus appears that the provisions of the 1929 statute prohibit the organization and operation thereunder of a corporation to do a banking business; and, in these circumstances, the provisions might be construed as prchibiting a holding corporation from owning a controlling interest in the stock of a bank, since such an interest would permit the corporation to control the operation of the bank and thereby enable it to accomplish indirectly what the law prohibits it from doing directly.

IOWA.

Section 7940 of the 1927 Iowa Code, which authorizes corporations to hold stock in railway corporations, and Section 8434 of this Code, which recognizes the right of holding corporations to own stock in a public utility, contain the only provisions of the Iowa Laws relating to the ownership by corporations of stock in other corporations. However, Section 9 of Article VIII of the Iowa Constitution, which fixes

(Iowa - continued)

the liability of stockholders of banks and refers to such stockholders by using the pronouns "he" or "she", may by implication require stockholders in banks to be natural and not artificial persons.

KANSAS.

There does not appear to be any legislation in this State expressly authorizing or forbidding a holding corporation to own bank stock; but it would seem that the right of corporations to own bank stock is recognized by implication by reason of a statute enacted in the year 1931 (Laws of 1931, ch. 83). This statute authorizes the bank commissioner or his assistants to examine "any investment or holding company or corporation which is affiliated with any bank or trust company". The bank commissioner is also authorized "to examine any copartnership, corporation or association", domestic or foreign, "holding as much as twenty-five per cent of the capital stock of any bank or trust company doing business in Kansas: Provided, That the bank commissioner may require the deposit of bonds of the United States, state of Kansas, or of some county, school district or municipality of the state of Kansas, with the state treasurer to secure the shareholders' liability on said stock held by it: And provided further, That if any such copartnership, corporation or association shall fail or refuse to secure such shareholders' liability as required of it by the bank commissioner, said copartnership, corporation or association shall have no power to vote its stock at a shareholders' meeting nor can said stock thereafter be represented on the board of directors of said bank or trust company".

KENTUCKY.

There is no law in this State limiting the power of cor-

(Kentucky - continued)

porations to hold bank stock unless it be Section 567 of Carroll's Kentucky Statutes, which read as follows:

> "Nor shall any corporation directly or indirectly, engage in or carry on in any way the business of banking, or insurance of any kind, unless it has become organized under the laws relating to banking and insurance * * *".

A double liability is imposed upon stockholders of banks for all contracts and liabilities of such banks by Section 595 of Carroll's Kentucky Statutes.

LOUISIANA.

There are no laws in this State dealing specifically with this subject. Although subdivision II (e) of Section 12, (P. 417), Act No. 250 of the 1928 Acts of the Louisiana Regular Session, permits corporations "to acquire * * * and to hold, * * * shares * * * of any other corporation, domestic or foreign", it is not clear whether this subdivision is an authorization to holding corporations to acquire or hold shares of banking institutions in view of certain other subdivisions of Section 12, namely, I and II, Sections 1 (P. 409) and 2 (P. 411) of the aforesaid 1928 Acts and Sections 1 (P. 1196) and 5 (P. 1203) of Volume 2 of the 1920 Constitution and Statutes of Louisiana.

MICHIGAN.

There do not appear to be any laws in this State specifically authorizing a holding corporation to purchase or own bank stocks; but Section 10 of Act No. 327 of the 1931 Public Acts authorizes corporations in general "to guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of, the shares of the capital stock of, or any bonds, securities or evidence of indebtedness created

(Michigan - continued)

by, any other corporation or corporations of this state or any other state, country, nation or government, and while the owner of the same, to exercise all the rights, powers and privileges of ownership including the right to vote thereon if such right be an incident of the same: * * *"

Section 9968 of the 1929 Compiled Laws of Michigan also provides that a corporation "shall have power in furtherance of the objects of its existence, to purchase and hold shares of stock or memberships of its own or other corporations organized under the laws of this or any other state (jurisdiction or sovereignty)"; and section 9969 of these laws provides that "when any such corporation shall be a stockholder in any other corporation, as in this subdivision provided, its president and other officers or any of its directors shall be eligible to the office of director of such corporation, the same as if they were individually stockholders therein, and the corporation holding such stock shall possess and exercise in respect thereof, all the rights, powers, privileges and liabilities of individual owners or holders of such stock".

MINNESOTA.

There do not appear to be any laws in this State dealing specifically with this subject. Withreference to the liability of a stockholder in a corporation, Section 1 of chapter 210 of an act approved April 18, 1931 (Mason's Minnesota Statutes, 1931 Supplement, Section 7465-1) provides that "except as provided by Section 7465, Mason's Minnesota Statutes of 1927, no stockholder or member of any corporation or of any cooperative corporation or association, however or whenever organized, except a stockholder in a banking or trust

(Minnesota - continued)

corporation or association, shall be liable for any debt of said corporation, cooperative corporation or association". Section 7465 of Mason's Minnesota Statutes of 1927 to which the act of April 18, 1931, refers, provides that "Every stockholder shall be personally liable for corporate debts in the following cases: 1. For all unpaid installments on stock owned by him or transferred for the purpose of defrauding creditors. 2. For failure by the corporation to comply substantially with the provisions as to organization and publicity. 3. For personally violating any of such provisions in the transaction of any corporate business as officer, director, or member, and for fraudulent or dishonest conduct in the discharge of any official duty".

MISSOURI.

There do not appear to be any laws in this State relating specifically to this subject, although trust companies may purchase or hold stock in other banks or trust companies. (Paragraph 9, Section 5429 of the 1929 Revised Statutes of Missouri.)

NEVADA.

There does not appear to be any statute in this State relating directly to the subject of this digest; but the General Corporation Law (Comp. Laws of 1929, Sec. 1608, as amended by the Laws of 1931, Ch. 224, sec. 6) provides that every corporation shall have power "to guarantee, purchase, hold, sell, assign, transfer, mortgage,

pledge or otherwise dispose of the shares of the capital stock of * * * any other corporation or corporations of this state, or any other state or government * * *."

NEW JERSEY.

There does not appear to be any statute in this State prohibiting absolutely the ownership of bank stock by holding corporations. However, section 3 of Chapter 273 of the 1928 laws prohibits corporations that own more than ten per cent of the stock of any bank or trust company in the State from purchasing after the date the statute became effective more than ten per cent of the stock of any other bank or trust company doing business in the State. This statute does not require corporations to dispose of any bank stock that they may have owned before the law became effective and certain institutions (enumerated in Section 14 of the laws above referred to) are specifically exempted by Section 3 from its provisions. Section 3 reads as follows:

> "3. Any corporation, other than corporations specifically exempted from the provisions of this act, which now or hereafter owns more than ten per centum of the number of shares of the capital stock now or hereafter at any time issued and outstanding of any bank or trust company or national bank, now or hereafter doing business in this State, shall not purchase more than ten per centum of the number of shares of capital stock at any time issued and outstanding of any other bank or trust company or national bank, now or hereafter doing business in this State."

(New Jersey - continued)

Section 14, which enumerates the specifically exempted institutions referred to in Section 3, reads as follows:

> "14. The provisions of this Act and the penalties thereof shall not apply to the following corporations, viz.: Banks and trust companies organized under the laws of this State and national banks doing business in this State, nor to such banks, Trust companies and national banks while acting in a fiduciary capacity representing any individual or individuals or the estate of any individual; nor to any other corporation the entire capital stock of which is owned by or held in trust for the shareholders of any bank or trust company organized under the laws of this State or any national bank doing business in this State, in the same relative proportion as the stock held in said bank, trust company or national bank."

Under the laws of New Jersey, stockholders of New Jersey banks and trust companies are not subject to a double liability, as are stockholders of national banks and of banks and trust companies in other States; nor do these laws impose such a liability upon stockholders of holding corporations.

NEW MEXICO.

There apparently are no laws in this State dealing specifically with the subject of this digest; but Section 32-301 of the 1929 Annotated Statutes of New Mexico authorizes corporations in general to "purchase, hold, * * * the capital stock of, * * * any other corporation or corporations, of this or any other territory or state * * * ", and no limitation is placed upon the amount of such stock that may be so purchased or held.

NORTH DAKOTA.

There do not appear to be any statutes in this State expressly authorizing or forbidding a holding corporation to purchase or own bank stock; but section 21 of Chapter 96 of the 1931 Session Laws, which, among other things, pertains to the transfer of the capital stock of a State bank, recognizes that a stockholder in such a bank may be a corporation as well as a natural person. This section provides that "every person or corporation becoming a shareholder by such transfer shall in proportion to his shares succeed to all rights and liabilities of prior holders of such shares existing by reason of ownership thereof." A double liability is also imposed upon stockholders in banks by section 22 of these laws.

OHIO.

There do not appear to be any laws in this State dealing specifically with this subject. Stockholders in banking corporations are subjected to double liabilities for debts of the bank (General Code of Ohio, Section 710-75).

OKLAHOMA.

There do not appear to be any laws in this State dealing specifically with this subject and it may be that holding corporations may purchase and hold stock in banking institutions.

Section 9725 of the 1931 Oklahoma statutes provides that "All corporations organized for any of the purposes authorized by this section shall have the power to own and hold stock of other corporations, except as prohibited by the Constitution of this State".

Section 41, Article 9 of the Constitution of Oklahoma, forbids corporations to own or hold stock in other competitive corporations engaged in the same kind of business and banks or trust companies to own or hold stock in other banks or trust companies, except in those cases where such corporations or banks or trust companies have acquired such stock to secure or satisfy a bona fide indebtedness, and in such cases the stock must be disposed of within twelve months.

Section 12802 of the 1931 Oklahoma Statutes makes it unlawful for corporations to combine to place the control of corporations in the hands of a trustee or a holding corporation, if the intent and purpose of such combination is to restrict or restrain trade.

In view of the above quoted provision of Section 9725 of the 1931 Oklahoma Statutes, and since neither the prohibitions of the Constitution referred to therein, nor the provisions

Oklahoma, continued

of Section 12802 of the 1931 Oklahoma Statutes appear to be specifically applicable, in that the Constitution prohibits only banks or trust companies from owning or holding stock in other banks or trust companies and does not purport to prohibit corporations in general from owning or holding stock in other corporations, if the latter are not engaged in the same kind of business as, and do not compete with, the purchasing corporations, and Section 12802 of the statutes only affects combinations in restraint of trade, it may be that holding corporations may purchase and hold stock in banking institutions.

OREGON.

Under the provisions of an Act of this State approved March 9, 1929 (Chapter 444, General Laws of Oregon, 1929; Oregon Code, 1930, sec. 25-502) any corporation "now or hereafter organized in this state, or licensed to do business herein" may own, hold or control the stock of any bank or trust company and while so owning, holding or controlling such stock the corporation is subject to the following restrictions:

> (1) It shall not borrow money or otherwise secure credit directly or indirectly, from such bank or trust company, unless the loan or credit is adequately secured by collateral other than stock or evidences of indebtedness of any corporation which it controls.

Oregon, continued

> (2) It shall not sell any stock, securities or other evidences of indebtedness of any other corporation which it controls, to or through the bank or trust company in which it owns or holds stock; nor can it use such bank or trust company as an agent for the purpose of selling or otherwise disposing of such stock, securities or other evidences of indebtedness without first obtaining permission from the Oregon Corporation Commissioner.
>
> (3) It shall not carry as an asset any expenses incident to organization or to the sale of stock after organization.

Penalties are prescribed for violations of this act by corporations or their officers or employees, and all corporations heretofore organized under the laws of Oregon or licensed to do business therein must bring themselves within the provisions of this act within six months after the date it became effective.

There is no provision in this act imposing upon the stockholders of corporations owning or holding stock in banks or trust companies the liability imposed upon the stockholders of such banks or trust companies.

PENNSYLVANIA.

There do not appear to be any provisions in the statutes of this State specifically covering the purchase or ownership of stock in institutions engaged in a banking business. However, under Section 1 of an Act of July 2, 1901 (P. L. 603, as amended by an Act of April 18, 1929), and Section XX of paragraph 5598 of West's 1920 Pennsylvania Statute Law, it might be held

Pennsylvania, continued.

that corporations are authorized to exercise this power.

Section 1 of an Act of July 2, 1901 (P. L. 603, as amended by an Act of April 18, 1929), provides that " * * * any corporation created by general or special laws, may purchase, hold, * * * the shares of the capital stock of * * * any other corporation or corporations of this or any other State, and while the owner of said stock may exercise all the rights, powers and privileges of ownership, * * *. "

Section XX of paragraph 5598 of West's 1920 Pennsylvania Statute Law provides that a corporation may be formed "For any lawful purpose not specifically designated by law, as the purpose for which a corporation may be formed."

There does not appear to be any statute in this State expressly providing that stockholders of corporations owning stock in banks are subject to a stockholders' liability similar to the liability imposed upon stockholders of banks. Section 1184 of the Pennsylvania Statutes imposes a double liability upon stockholders of banks and it has been held that stockholders of trust companies are not subject to a double liability. (See cases of DeHaven v. Pratt, (1909), 72 Atl. 1068, 223 Penn. 633, and Gordon, Secretary of Banking v. Winneberger, (1932) 16 District and County 506).

TENNESSEE.

There do not appear to be any provisions in the statutes of this State directly covering the purchase or ownership of stock in banking institutions by holding corporations; but section 4084 of the new Code of Tennessee, which became effective January 1, 1932, provides that "All private corporations for profit organized under the laws of Tennessee for the transaction of any lawful business, or to promote or conduct any legitimate object or purpose, shall have the right, power, privilege, and immunity to purchase, hold, own, sell, transfer, assign, vote, mortgage, pledge, and otherwise deal in stocks, bonds, or evidence of indebtedness of other corporations in the same manner and with all the rights, powers, privileges, and immunities of individual owners, except that this statute shall in no way be construed to give corporations power to create unlawful monopolies, trusts, or combinations in restraint of trade".

TEXAS.

There do not appear to be any statutes in this State dealing specifically with this subject; and, in view of the following, it is not clear whether or not holding corporations may purchase and hold stock in banking institutions.

Article 513 of the 1925 Revised Statutes forbids banks or trust companies "to own more than ten per cent of the capital stock of any other banking corporation, * * * " unless the ownership

Texas, continued

of such excess stock "shall be necessary to prevent loss upon a debt previously contracted in good faith; * * * " , and in such cases the stock must not be owned for a longer period than six months.

Article 1302 of the 1925 Revised Statutes permits private corporations to "purchase, * * * hold, own, * * * shares of capital stock, * * * of foreign or domestic corporations not competing with each other in the same line of business; provided the powers and authority * * * conferred shall in no way affect any provision of the anti-trust laws of this State".

Article 7426 of the 1925 Revised Statutes defines a trust to be "a combination of capital, * * * by two or more persons, firms, corporations, * * * : To create, or which may tend to create, or carry out restrictions in trade or commerce * * * or to create or carry out restrictions in the free pursuit of any business authorized or permitted by laws of this State" or "To prevent or lessen competition in aids to commerce, * * * . "

Article 7427 of the 1925 Revised Statutes states that a monopoly exists when two or more corporations combine or consolidate to bring the "direction of the affairs" of such corporations "under the same management or control for

Texas, continued

the purpose of producing, or where such common management or control tends to create a trust", or where "any corporation acquires the shares * * * of stock * * * of any other corporation or corporations, for the purpose of preventing or lessening, or where the effect of such acquisition tends to affect or lessen competition, whether such acquisition is accomplished directly or through the instrumentality of trustees or otherwise".

UTAH.

There do not appear to be any laws in this State dealing specifically with this subject and it may be that holding corporations are authorized to purchase and own bank stocks under the authority granted to corporations in general by Section 869 of the 1917 Compiled Laws. This section provides that "the corporation * * * shall have power to * * * buy, use, mortgage, sell, or otherwise dispose of personal property * * *".

VERMONT.

There are no laws in this State expressly prohibiting the ownership by holding companies of the stock of banks but there is a provision prohibiting holding companies from holding or acquiring stock in other corporations. Section 4925 of the 1917 General Laws of Vermont contains this prohibition and reads as follows:

Vermont, continued

> "The corporation shall not be permitted to acquire or hold stock in other corporations to such an extent that its primary business is the holding of such stock. A violation of this provision shall be cause for the dissolution of the corporation under the provisions of Section 4944."

There are no laws in this State imposing upon stockholders or holding companies a stockholders' liability similar to that imposed upon holders of bank stock.

WASHINGTON.

There do not appear to be any provisions in the laws of this State expressly authorizing the purchase or ownership of bank stocks by holding corporations; but section 3810 of Remington's 1922 Compiled Statutes provides that "any corporation heretofore or hereafter organized under the laws of this state or of any other state or territory of the United States and doing business in this state shall have power and authority to subscribe for, acquire by purchase or otherwise and to own, hold, sell, assign and transfer shares of the capital stock of any other corporation * * *."

During the 1929 Regular Session of the Legislature of this State, a bill known as "Substitute House Bill No. 72" was introduced to restrict the ownership of bank or trust company stock by corporations, to twenty per cent of the capital stock of such bank or trust company; but this bill did not pass.

WEST VIRGINIA.

Under date of February 28, 1929, an Act was passed by the Legislature of this State affecting the purchase or ownership of stock in banking institutions by firms, associations or corporations. (Section 9, Chapter 23, Acts of 1929). Section 9 of this Act provides in part as follows:

> "It shall be unlawful for any firm, association or corporation to purchase and hold stock in any banking institution organized or authorized to transact business hereunder for the purpose of selling, negotiating or trading participation in the ownership thereof either for the purpose of perfecting control of one or more such banking institutions or for the purpose of inducing other persons, firms or corporations or the general public to become participating owners therein. Nothing herein shall prevent the ownership of stocks in any such banking institution by any corporation for investment purposes."

With reference to the liability imposed upon stockholders in banks, Section 9 provides as follows:

> "Each stockholder of any banking institution organized under the laws of this state, in addition to the liability imposed upon him as stockholder of a corporation under the provisions of the general corporation laws shall be liable to the creditors of the banking institution, on obligations accruing while he is a shareholder, to an amount equal to the par value of the shares of stock held by him."

WISCONSIN.

In 1929 legislation was enacted in this State regulating the ownership of stock in banks and trust companies. (Chapter 445, Wisconsin Laws of 1929 - Published, August 30, 1929). Relevant provisions of this act are summarized briefly as follows:

No corporation organized under the laws of Wisconsin is permitted to hold more than ten per cent of the stock of any bank or trust company, unless seventy-five per cent of the stockholders of both corporations vote in favor thereof at a meeting especially

Wisconsin, continued.

called for that purpose.

No State bank or trust company may vote to authorize a foreign corporation to purchase stock in such State bank or trust company, unless such foreign corporation shall have qualified to do business in Wisconsin.

Whenever the ownership or control of a majority of the stock of any State or national bank doing business in Wisconsin is held by any foreign corporation which has not qualified to do business in the State, such bank shall be disqualified to act as a depositary for any public funds of the State or any subdivision thereof, or as a depositary for reserve funds of State banks until such foreign corporation shall have qualified to do business in the State.

Domestic corporations and foreign corporations authorized to do business in the State which own or control the stock of a State bank or trust company shall be held liable for any assessment made against the stockholders of such bank or trust company to the par value of the stock so owned or controlled; and such holding corporations are required to deposit with the State Treasurer securities equal to fifty per cent of the par value of the stocks of State banks or trust companies owned or controlled by such holding companies, except that the aggregate amount of such securities shall not exceed the largest amount required to be deposited by Wisconsin trust companies.

If the stockholders' liability of any such holding company is not fully paid, the stockholders of such holding company are liable for an assessment sufficient to cover the deficit.

X-7259

DIGEST OF STATE LAWS RELATING TO THE PURCHASE OF CORPORATE STOCKS BY BANKS AND TRUST COMPANIES.

(Superseding X-6608)

- - -

On page 456 of the Federal Reserve Bulletin for July, 1930, there was published a digest of State laws relating to the power of banks and trust companies to invest in or purchase stocks of other corporations, including stocks of other banks and trust companies, which was prepared by the Counsel's office of the Federal Reserve Board with the assistance of the Counsel to the various Federal reserve banks, and which showed the status of the State legislation dealing with this subject as of March 1, 1930. The following digest of the laws of the several states, which was also prepared by the office of the Board's Counsel with the assistance of the Counsel to the various Federal reserve banks, supersedes the digest published in the Federal Reserve Bulletin for July, 1930, and shows the status of the State legislation dealing with the purchase of or investment in corporate stocks by banks and trust companies as of August 1, 1932. The digest does not cover permission granted to banks and trust companies to invest in or purchase stock in municipal or other public corporations, Federal reserve banks, joint stock land banks, corporations engaged principally in foreign banking operations, safe deposit companies, or similar institutions affiliated in some respects with the business of banking.

SUMMARY OF LEGISLATION IN VARIOUS STATES

States Having Legislation Permitting Purchase Of Corporate Stocks.

By Commercial Banks	By Trust Companies	By Savings Banks.
Alabama (1)	Alabama (1) (1a)	Arizona
Arizona	Arizona	Connecticut (3)
California (2)	Arkansas	Delaware (3)
Connecticut (3)	Colorado	Florida (4)
Delaware (3)	Connecticut (3)	Louisiana
Louisiana	Delaware (3)	Maine (5)
New Jersey	Florida (4)	Massachusetts (7)
North Carolina (3)	Georgia (13)	New Hampshire (3)
Pennsylvania	Kansas (1)	North Carolina (3)
South Carolina	Louisiana	Ohio (8)
Tennessee (11)	Maryland	Rhode Island (10)
Texas (1)	Massachusetts (6)	South Carolina
Utah	Missouri (3)	Tennessee (11)
Vermont (12)	Montana	Utah
Virginia	Nebraska	Vermont (12)
	New Hampshire (3)	Virginia
	New Jersey	
	New York (3)	
	Ohio (8)	
	Oklahoma (9)	
	Pennsylvania	
	South Carolina (3)	
	Tennessee (11)	
	Texas (1)	
	Utah	
	Vermont (12)	
	Virginia	
Total...15	Total ... 27	Total ...16

(1) Amount of stock in other banks limited.

(1a) Only trust companies doing a banking business included.

(2) Stock of only one trust company may be purchased.

(3) Limitation placed on amount of stock may be purchased.

(4) Apparent conflict in laws of this State. Other provisions prohibit purchase of corporate stocks.

(5) Limited amount may be invested in stocks of Maine corporations other than banks.

States Having Legislation Permitting Purchase of Corporate Stocks (Continued)

(6) Amount of stock in another trust company limited.

(7) Investment and amount of investment limited to stocks of certain trust companies and national banks.

(8) Purchase of bank stocks prohibited.

(9) Purchase of bank or trust company stocks prohibited.

(10) Stocks of banks and trust companies and certain steam railroads may be purchased. Similar authority is granted to savings departments of banks and trust companies.

(11) Authorized to "deal in" stocks.

(12) Stocks in certain banks only may be purchased.

(13) Only trust companies "operating as investment bankers" included.

States Having Legislation Prohibiting Purchase of Corporate Stocks.

By Commercial Banks	By Trust Companies	By Savings Banks
Colorado	California	Florida (1)
Florida (1)	Florida (1)	Georgia
Georgia	Idaho (2)	Kansas
Idaho (2)	Mississippi (2)	Mississippi (2)
Kansas	Nevada	Montana
Mississippi (2)	Oregon	Nebraska
Montana	South Dakota	Nevada
Nebraska	Washington	North Dakota
Nevada		Oklahoma
North Dakota		South Dakota
Oklahoma		Washington
Oregon		Wisconsin (3)
South Dakota		Wyoming
Washington		
Wyoming		
Total ... 15	Total ...8	Total ...13

(1) Apparent conflict in laws of this State. Other provisions authorize savings banks and trust companies to purchase corporate stocks.

(2) Specific prohibition is against purchase of bank stock.

(3) Specific prohibition is against Mutual Savings Banks purchasing stocks.

States Having No Legislation Specifically Applicable to

Commercial Banks	Trust Companies	Savings Banks
Arkansas	Illinois	Alabama
Illinois	Iowa	Arkansas
Indiana	Indiana	California
Iowa	Kentucky	Colorado
Kentucky	Maine	Idaho
Maine	Michigan	Illinois
Maryland	Minnesota	Indiana
Massachusetts	New Mexico	Iowa
Michigan	North Carolina	Kentucky
Minnesota	North Dakota	Maryland
Missouri	Rhode Island	Michigan
New Hampshire	West Virginia	Minnesota
New Mexico	Wisconsin	Missouri
New York	Wyoming	New Jersey
Ohio		New Mexico
Rhode Island		New York
West Virginia		Oregon
Wisconsin		Pennsylvania (1)
		Texas
		West Virginia
Total ...18	Total ...14	Total ...20

(1) Provision permitting commercial banks and trust companies to purchase corporate stocks has been considered not to apply to savings banks.

ALABAMA.

Banks and trust companies doing a banking business - Purchase of stocks permitted, but amount of stock in bank limited.

The laws of this State provide that banks and trust companies doing a banking business "may * * * buy and sell * * * bonds, stock, * * *." (Civil Code of Alabama, sec. 6365; Combined Banking Laws of Alabama, 1928, sec. 6365, p. 29). However, "No bank shall subscribe for or own exceeding ten per cent of the capital stock of any other bank, or invest or have invested an amount exceeding in the aggregate 25 per cent of its own paid in capital stock in the capital stock of any other bank or banks. Any bank acquiring capital stock in any other bank in the usual course of business in payment of an indebtedness owing to it, must sell such portion of said stock as is in excess of the amount which it is permitted to hold and own as herein provided within one year from the time the same is acquired." (Civil Code of Alabama, sec. 6355; Combined Banking Laws of Alabama, 1928, sec. 6355, p. 25.)

ARIZONA.

Purchase of corporate stocks permitted.

Under the laws of this state, "No bank, trust company or loan association, may purchase, own, hold, or sell or otherwise dispose of the shares of the capital stock of any other corporation, unless, such purchase shall be authorized by the executive committee or approved by the board of directors; and if the purchase is of stock in a bank the approval of said purchase must also be had from the superintendent."

(Revised Code, 1928, sec. 224).

The term "bank" as used above includes savings banks (Rev. Code of 1928, sec. 209); but, in another provision of the laws of this State which enumerates investments that may be made by savings banks, it is provided that "It shall be unlawful for any savings bank to invest or loan any of its capital or any of the money of its depositors, in the shares, stocks or bonds of any mine or mining company or oil company * * *." (Laws of 1929, ch. 32.)

ARKANSAS.

Banks - no specific statutory provisions.

There are no statutes in this State specifically authorizing banks to purchase the kinds of corporate stocks covered by this digest. However, "no bank shall employ its moneys, directly or indirectly, in trade or commerce by buying and selling goods, chattels, wares and merchandise, nor be the purchaser or holder of its own capital stock, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within twelve months of its purchase, be sold or disposed of at private sale; after the expiration of said twelve months any such stock shall not be considered as part of the assets of any bank. Provided, that it may hold and sell all kinds of property that may come into its possession as collateral security for loans or any ordinary collection or debts, in the manner provided by law. Provided, further

that any goods or chattels coming into its possession as aforesaid shall be disposed of as soon as possible, and after twelve months from the date of acquirement shall cease to be reckoned as a part of its assets. " (C. & M. Dig., sec. 695; Banking Laws, 1929, sec. 26, p. 18.)

Trust Companies - Purchase of stocks permitted.

Trust companies are authorized "to buy and sell all kinds of * * * stocks, and other investment securities. " (Act of April 13, 1903, sec. 2, p. 228, as amended by Acts of 1923, Act 627, sec. 10; Banking Laws, 1929, sec. 135, (9), p. 102).

CALIFORNIA.

Banks - General power to purchase corporate stocks denied.

The Bank Act of California provides that "No bank shall, except as otherwise provided in this act, purchase or invest its capital or surplus or money of its depositors, or any part of either, in the capital stock of any corporation unless the purchase or acquisition of such capital stock shall be necessary to prevent loss to the bank on an obligation owned or on a debt previously contracted in good faith. Any capital stock so purchased or acquired shall be sold by such bank within six months thereafter if it can be sold for the amount of the claim of such bank against it; and all capital stock thus purchased or acquired must be sold for the best price obtainable by said bank within three

years after such purchase or acquisition unless the superintendent of banks shall extend the time of its sale for a period not to exceed two years. (California Bank Act, 1931, sec. 37.)

Exception - Stock in one trust company.

However, with the previous written consent of the superintendent of banks, a commercial bank "may purchase or otherwise acquire and hold the whole or any part of the capital stock of not more than one trust company organized and existing under the laws of this state, and doing business in the same county in which the principal place of business of such bank is located; provided, however, that not more than an amount equal to twenty-five per centum of the capital and surplus of any such bank may be at any one time invested in the capital stock of such trust company or such other corporation." (California Bank Act, 1931, sec. 37).

Savings banks are authorized to make investments of their funds only in such stocks as are enumerated in the California Bank Act, and there is not included in this enumeration the kinds of corporate stocks contemplated by this digest. (California Bank Act, 1931, secs. 61, 62 and 145.)

Trust companies - Investment in corporate stocks prohibited.

Trust companies are not authorized to purchase corporate stocks of the kinds contemplated by this digest for the reason that investments of their funds are made subject to the provisions

governing the investment of funds by savings banks. The California Bank Act provides that "every trust company shall invest its capital and surplus * * *, in accordance with the laws relative to the investment * * * of funds deposited with savings banks, * * *." (California Bank Act, 1931, sec. 105.)

COLORADO.

Banks may not purchase corporate stocks.

The laws of this State prohibit a bank from purchasing "the stock of any other corporation, except such as it may necessarily acquire in the protection or satisfaction of previously existing loans made in good faith. Any stock so acquired shall be sold by the bank within three years, and sooner if it can be done without impairing the bank's investment in the same." (Compiled Laws of Colorado, 1921, sec. 2683; Banking Laws, 1928, sec. 33, p. 19.)

Savings banks are authorized to make certain investments, but corporate stocks of the kinds contemplated by this digest are not included in the classes of authorized investments. (Compiled Laws of Colorado, sec. 2685; Banking Laws, 1928, sec. 35, p. 20).

Trust Companies authorized to buy and sell stocks.

Trust companies "incorporated under the provisions of this act are duly authorized: * * * To purchase, invest in and sell stocks * * *". (Compiled Laws of Colorado, 1921, sec. 2765; Banking laws, 1928, sec. 128, p. 66.)

CONNECTICUT.

Purchase of corporate stocks permitted up to certain amount.

Banks and trust companies, under the laws of this State, "may purchase and hold corporate securities of any description, provided the total amount of the purchase price invested in corporate stocks shall at no time exceed ten per centum of its combined capital, surplus and undivided profits, and provided its investment in the stock of any one corporation shall exceed neither five per-centum of the stock of that corporation nor three per centum of such combined capital, surplus, and undivided profits, except that such corporate stocks as were owned on April 1, 1931, may be retained * * *." (General Statutes of Conn., sec. 3885, as amended by P.A. 1931, ch. 508a; Banking Laws, 1931, sec. 3885, p. 17.)

Savings banks and banks and trust companies maintaining savings departments, may make limited investments of their savings deposits in the stock of certain banks and trust companies located in the State of Connecticut and certain cities in other States. (General Statutes of Conn., Revision of 1930, sec. 3908; and sec. 3995 (26); Banking Laws, 1931, sec. 3908, p. 28; and sec. 3995 (26) p. 77.)

DELAWARE.

Banks and Trust Companies may purchase stocks.

The laws of Delaware provide that "No bank or trust company shall invest more than twenty-five per centum of its total capital, surplus and undivided profits in the stock, bonds or other obligations of any one corporation or political entity or political division except bonds or other obligations of the United States, of the State of Delaware, or of any county, city, town or school district in this State. " (Act of March 31, 1921, sec. 13; Banking Laws, 1929, p. 26.)

The term "bank" as used in the above excerpt from the laws of Delaware includes savings banks. (Act of March 31, 1921, sec. 1; Banking Laws, 1929, sec. 1, p. 14.)

FLORIDA.

Banks and Trust Companies may not purchase stocks.

It is unlawful "for any bank or trust company organized under the laws of this State and doing business in this State, to directly or indirectly invest any of the funds of said bank or trust company in stock of any incorporated company in this State or elsewhere * * *." (Compiled General Laws of Florida, 1930 Supp., sec. 6084)

Savings Banks may purchase bank stocks.

The capital and deposits of a savings bank and the income derived therefrom may be invested "in the stock of any bank incor-

porated under the authority of this State, or the stock of any banking association incorporated under the authority of the United States * * *". (Compiled General Laws of Florida, 1927, sec. 6120; Banking Laws, 1926, p. 30.)

Trust Companies may purchase stocks.

A trust company in this state "shall have power: * * * to purchase, invest in and sell stocks, * * *." (Compiled General Laws of Florida, 1930 Supp., sec. 6126 (10))

NOTE: It will be observed that there is an apparent conflict in the laws of this State and it is understood that none of the statutes above referred to has received judicial construction.

GEORGIA.

Banks may not purchase stocks.

Under the laws of this State "No bank shall subscribe for, purchase, or hold stock in any other bank * * * nor in any other corporation unless the same shall have been transferred to it in satisfaction of a debt previously contracted, or shall have been purchased at a sale under a power contained in a note or other instrument by which it was pledged to the bank or under a judgment or decree in its favor, and all such stock shall be disposed of by the bank within six months, unless the Superintendent of Banks shall extend the time for good cause shown." (Amendments to Banking Act of Georgia approved August 25, 1927, sec. 10)

The term "bank" as used in the laws of Georgia includes

savings banks. (Banking Act of Georgia, 1919, as amended, 1925, Article 1, sec. 1.)

Trust Companies operating as investment bankers may deal in stocks and bonds.

"Trust companies, operating as investment bankers, and maintaining departments for the purchase and sale of securities, may purchase for resale whole issues or parts of issues of stocks, bonds and debentures of industrial, railroad and public service corporations and other investment securities, and may resell and deal in the same, under such regulations as may be prescribed by the Superintendent of banks." (Trust Company Act of 1927, sec. 5A)

IDAHO.

Purchase of bank stocks prohibited.

"No bank shall * * * purchase any shares of * * * any other bank wherever organized, or situated * * * unless such * * * purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased * * * shall within six months from the date of acquirement be sold or disposed of at public or private sale; after the expiration of six months any such stock shall not be considered as a part of the assets of such bank." (Laws of 1925, ch. 133, sec. 29; Bank Code, 1925, sec. 29, p. 18.)

Savings banks are empowered to make certain investments of their funds, but they do not have the power to invest in the kinds of corporate stocks contemplated by this digest. (Laws of 1925, ch. 230, sec. 2, as amended by Laws of 1929, ch. 54, p. 73.)

The term "bank " as used in the Idaho laws includes trust companies. (Laws of 1929, ch. 192, p. 353, amending sec. 2, ch. 133, Laws of 1925). There is also an express provision providing that trust companies are authorized to purchase, invest in and sell such securities as are permitted in the case of commercial banks. (Laws of 1929, ch. 192, sec. 2, amending laws of 1925, ch.133, sec. 5.)

ILLINOIS.

No statutory provisions.

The statutes of Illinois contain no provisions authorizing or prohibiting banks or trust companies to purchase corporate stocks.

INDIANA.

Commercial banks or trust companies - No specific statutory provisions.

The statutes of Indiana contain no provisions specifically authorizing or prohibiting commercial banks or trust companies to purchase corporate stocks.

Savings banks not permitted to purchase corporate stocks contemplated by this digest.

Savings banks may "invest the money deposited therein" only in such bonds, notes, etc., as are specifically enumerated, and there is not included in this enumeration any corporate stocks of the kinds contemplated by this digest. (Acts of Extra Session of 1869, p. 104, sec. 19, as amended by Acts of 1875, p. 129, Acts of 1893, p. 273, Acts of 1903, p. 211 and Acts of 1917, p. 416.)

IOWA.

Investment in corporate stocks of the kinds contemplated by this digest prohibited.

The laws of Iowa provide that banks and trust companies shall invest only in such stocks, bonds, and securities as are specifically enumerated therein, and there is not included in this enumeration any stocks of the kinds contemplated by this digest. (Banking Laws, 1929, ch. 413; secs. 9183, 9183-C1; ch. 415, secs. 9269, 9271; ch. 416, sec. 9284; ch. 416-A1, sec. 12772). These laws also provide that "No state bank, savings bank, or trust company shall make any loan or discount on the security of the shares of its own capital stock, or be the purchaser or holder of any shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall be sold at public or private sale, or otherwise disposed of, within one (1) year from the time of its purchase or acquisition unless the time is extended by the superintendent of banking. " (Banking Laws, 1929, ch. 413, sec. 9184).

KANSAS.

Banks may not purchase Corporate Stocks.

A bank " shall not invest any of its funds in the stock of any other bank or corporation * * *." (Session Laws of Kansas, 1927, p. 126; Banking Laws, 1929, sec. 11, p. 6.)

The term "bank" as used in the above excerpt from the laws of Kansas includes savings banks. (Laws of 1897, ch. 47, sec. 35, as amended by Laws of 1907, ch. 64, sec. 1; Banking Laws, 1929, sec. 36, p. 14.)

Trust Companies authorized to purchase stocks.

A trust company in this State may "buy and sell all kinds of * * * securities and stocks: Provided, that the total investment of any such trust company in bank stock shall at no time exceed one-fourth its paid-up capital stock; * * * Provided, that the total investment in bank stock held by any trust company in excess of one-fourth of its capital shall be disposed of within two years from the passage of this act." (Revised Statutes of Kansas, 1923, sec. 17 - 2002; Banking Laws, 1929, sec. 2, pp. 38 and 39.)

KENTUCKY.

No statutory Provisions.

The laws of Kentucky contain no specific provisions with reference to the purchase of corporate stocks by banks or trust companies. With reference to banks, the law does provide that no bank shall employ its moneys, directly or indirectly, in any enterprise or business except as authorized by law; but the right to purchase corporate stocks does not appear to be authorized by law. (Carroll's Kentucky Statutes, 1930, secs. 579, and 582; Banking Laws, 1926, secs. 579 and 582.)

Trust companies are not authorized expressly to purchase corporate stocks, but the law does provide that "the capital stock of a trust company, and the funds in its possession, not held in a fiduciary capacity, may be invested in such manner as the directors deem prudent and safe; * * *." (Carroll's Kentucky Statutes, 1930, secs. 606 and 614; Banking Laws, 1926, secs. 606 and 614).

LOUISIANA.

Purchase of any Corporate Stocks Permitted.

Banks and trust companies are empowered "to receive, hold, purchase, acquire and convey, by and under their corporate name, such property, real and personal, including bonds, stocks and securities of the United States, or of any of the United States, or of any corporation, board or body, public or private thereof, as may be necessary, proper or convenient to the objects of the association, and to exercise in relation thereto, all the direct and incidental rights of ownership. " (Laws of 1902, Act. No. 45, sec. 1 (2) and sec. 7, as amended by Act No. 238 of 1910, and Act No. 179, as amended; Banking Laws, 1928, sec. 1 (2), p. 26, sec. 7, p. 30, secs. 1 -32, pp. 3-21)

MAINE.

"Trust and banking companies" - No specific statutory provisions.

The laws of Maine do not contain any provisions expressly authorizing "trust and banking companies" to purchase corporate

stocks, but the laws do give such companies the power "to hold and enjoy all such estate, real, personal and mixed, as may be obtained by the investment of its capital stock or any other moneys and funds that may come into its possession in the course of its business and dealings, and the same sell, grant and dispose of; * * *." (Public Laws, 1923, ch. 144, sec. 61; Banking Laws, 1927, sec. 61, p. 41.)

Savings banks may invest in stock of Maine corporations other than banking corporations - Amount of investment limited.

"Savings banks and institutions for savings may hereafter invest their funds as follows, and not otherwise:

* *

"(a) In the stock of any Maine corporation, other than a banking corporation, actually conducting in this state the business for which such corporation was created, provided such corporation has for a period of three years next preceding the investment earned and received an average net income equivalent to at least six per cent upon the entire outstanding issue of the stock in question.

"(b) The aggregate of all investments made by any bank in stock shall at no time exceed five per cent of its deposits, and not more than one per cent of the deposits of such bank shall be invested in the stock of any single corporation. No such bank shall hold by way of investment or as security for loans, or both, more than one-fifth of the capital stock

"of any corporation; but this limitation shall not apply to assets acquired in good faith upon judgments for debts or in settlements to secure debts." (Public Laws, 1923, ch. 144, as amended, sec. 27; Banking Laws, 1927, sec. 27, pp. 12 and 22.)

MARYLAND.

Purchase of Corporate Stocks permitted to Trust Companies.

Trust companies are given the power "to exercise, by its directors, duly authorized officers or agents, all such powers as shall be usual in carrying on the business of banking * * * by purchasing, investing in and selling stocks, * * * and other securities * * *". (Bagby's Code, Article 11, sec. 46; Banking Laws, 1927, sec. 46 (9), p. 23.)

Banks - No specific statutory provisions.

There do not appear to be any provisions in the laws of Maryland specifically authorizing or prohibiting banks to purchase corporate stocks.

MASSACHUSETTS.

Purchase of Corporate Stocks by Trust Companies permitted.

A trust company may "invest its money or credits, whether capital or general deposits, in the stocks, bonds or other evidences of indebtedness of corporations or of associations or trusts, * * *" (General Laws, Ch. 172, sec. 33; Trust Company Pamphlet Laws, sec. 33, p. 21.)

Limitation upon Purchase of Stocks in other Trust Companies.

The laws provide, however, that "No trust company shall hold more than ten per cent of the capital stock of any other trust company". (General Laws, Ch. 172, sec. 43; Trust Company Pamphlet Laws, sec. 43, p. 23.)

Savings Banks may Purchase Certain Bank and Trust Company Stocks-Amount limited.

Savings banks may invest their deposits and income derived therefrom "In the stock of a trust company incorporated under the laws of and doing business within this commonwealth, or in the stock of a national banking association located in the New England States and incorporated under the authority of the United States, which has paid dividends of not less than four per cent therein in cash in each of the five years next preceding the date of such investments and the amount of whose surplus is at least equal to fifty per cent of its capital; but a savings bank shall not hold, both by way of investment and as security for loans, more than twenty-five per cent of the stock of any one such company or association, nor shall it hold by way of investment stock of such companies and associations having an aggregate initial cost in excess of fifteen per cent of the deposits of such savings bank, or stock of any one such company or association having an initial cost in excess of one per cent of the deposits aforesaid." (General Laws, ch. 168, sec. 54, (7th), as amended by Acts of 1929, ch. 315, sec. 1; Savings Banks Pamphlet Laws, sec. 54 (7th), p. 39.)

MICHIGAN.

Purchase prohibited of kinds of corporate stocks contemplated by this digest.

The laws of Michigan provide that banks and trust companies may only purchase certain specifically enumerated stocks, bonds and other securities, and this enumeration does not include any of the stocks contemplated by this digest. (Laws of 1919, Act. No. 94, sec. 1; Laws of 1929, Act No. 66, sec. 4 and Act No. 67, sec. 24; Laws of 1931, Acts No. 14 and No. 238.)

MINNESOTA.

Purchase of corporate stocks contemplated by this digest not permitted.

The statutes of Minnesota provide that banks and trust companies may only purchase or invest in such stocks, bonds, etc., as are specifically enumerated, and there is not included in this enumeration any of the stocks contemplated by this digest. (G.S. 1923, secs. 7649, 7663 and 7714, as amended by Laws of 1927, ch. 368 and ch. 422, and by Laws of 1931, ch. 296, and secs. 7716, 7735, 7738, 7740 and 7810).

MISSISSIPPI.

Purchase of bank stocks prohibited.

The laws of this State provide that "No part of the stock of any bank * * * shall be owned by any bank under the provisions of this act. Any such stock owned by any bank at the time this act

takes effect shall be disposed of within twelve months after such time. In cases where such stock is taken as collateral and the purchase thereof shall be necessary to prevent loss upon a debt previously contracted in good faith, then in such cases such stock shall be sold by the bank within twelve months from the time that it was required." (Laws of Mississippi, 1922, Chap. 172, sec. 49; Brown's 1925 Miss. and Federal Statutes pertaining to Banks and Banking, P. 71.)

The term "bank" as used in the laws of Mississippi includes trust companies and savings banks. (Laws of Mississippi, 1914, chap. 124, sec. 66; Brown's 1925 Miss. and Federal Statutes pertaining to Banks and Banking, p. 72.).

MISSOURI.

Purchase by Trust Companies of Corporate Stocks Limited.

A trust company "shall not invest or keep invested in the stock of any private corporation an amount in excess of fifteen per centum of the capital and surplus fund of such trust company; nor shall it purchase or continue to hold stock of another bank or trust company if by such purchase or continued investment the total stock of such other bank or trust company owned and held by it as collateral will exceed fifteen per centum of the stock of such other bank or trust company: Provided, however, that this limitation shall not apply * * * to the ownership by such trust company or its stockholders of a part or all of the capital stock of one bank organized under the laws of the United States or of this State." (Paragraph 9, sec. 5429, Rev. Stats. of Mo., 1929)

There are no statutory provisions in this State governing the purchase of corporate stocks by banks; and the Missouri courts have held that, in the absence of express authority, one bank cannot purchase the shares of stock of another bank.

MONTANA.

Banks prohibited from purchasing stocks.

A commercial or savings bank is prohibited from purchasing or investing "in the capital stock of any corporation, unless the purchase or acquisition of such capital stock shall be necessary to prevent loss to the bank on a debt previously contracted in good faith. Any capital stock so purchased or acquired shall be sold by such bank within six months thereafter, if it can be sold for the amount of the claim of such bank against it; and all capital stock thus purchased or acquired must be sold for the best price obtainable by said bank within one year after such purchase or acquisition." (Laws of Montana, 1927, Chap. 89, sec. 39; Banking Laws, 1927, Sec. 39, p. 32.)

Trust Companies authorized to purchase stocks.

The laws of Montana authorize the organization of trust companies which may invest in corporate stocks and other securities, and also provide as follows: "The board of directors of any such corporation (trust company) is authorized to invest the capital and assets of said corporation * * * in * * stocks and bonds of corporations * * *." (Laws of Montana, 1927, Chap. 89, sec. 4(c) (8), and sec. 26; Banking Laws, 1927, sec. 4 (c) (8), and sec. 26.)

Investment Companies may purchase stocks.

The laws of Montana authorize the formation of investment companies with the power to receive deposits. These companies are authorized to buy and sell stocks as well as other securities. (Laws of Montana, 1927, Chap. 89, sec. 4(d); Banking Laws, 1927, sec. 4(d).)

NEBRASKA.

Banks - Purchase of Corporate stocks prohibited.

The laws of this State provide that no bank "shall * * * be the purchaser or holder of * * * the shares of any corporation, unless such * * * purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and such stock so purchased or acquired shall, within six months from the time of its purchase be sold or disposed of at public or private sale; or in default thereof, a receiver may be appointed to close up the business of the bank: Provided, in no case shall the amount of stock so held exceed ten per cent of the paid-up capital of such bank." (Comp. Stats. of Nebraska, 1929, sec. 8-137; Banking Laws, 1929, sec. 8006, p. 12.)

Savings banks are not permitted to purchase corporate stocks. (Comp. Stats. of Nebraska, 1929, sec. 8-155; Banking Laws, 1929, sec. 8016, p. 18.)

Trust Companies - Purchase of corporate stocks permitted.

Trust companies have the power "to buy, hold and own and sell * * * stocks, * * * and other investment securities". (Comp. Stats. of Nebraska, 1929, sec. 8-206.)

NEVADA.

Purchase of corporate stocks prohibited.

Under the laws of this State, "No bank shall * * * invest any of its funds in the stock of any bank or trust company or corporation, * * * ." (Comp. Laws of 1929, sec. 662.)

The word "bank" as used in the banking law of Nevada includes savings banks and trust companies. (Comp. Laws of 1929, sec. 724)

NEW HAMPSHIRE.

Purchase of Corporate Stocks permitted.

Trust companies are authorized and empowered "to negotiate, purchase and sell stocks, bonds and other evidences of debt; to do a general banking business; and to conduct a savings department." (Public Laws, ch. 265, sec. 31; Banking Laws, 1929, sec. 31, p. 41.)

Limitation upon such purchase.

The laws of this State provide, however, that "The total liabilities of a person, firm or corporation, including in the liabilities of a firm the liabilities of its several members, for money borrowed of the commercial department of a trust com-

pany or other corporation of a similar character, whether organized under the provisions of this chapter or otherwise, shall at no time exceed ten per cent of its capital stock actually paid in and surplus, nor shall such corporation purchase or hold, by way of investment, the stocks and bonds of any corporation to an amount in excess of said ten per cent". (Public Laws, ch. 265, sec. 37; Banking Laws, 1929, sec. 37, p. 42.)

Savings Banks and Savings Departments of Banks and Trust Companies.

Subject to certain limitations, savings banks and savings departmentsof banking and trust companies may invest in the capital stock of banks, trust companies and certain other corporations. However, such investments are limited, in the case of any one corporation, to 5% of the deposits of the purchasing savings banks or savings departments of banking and trust companies. (Public Laws, ch. 260, sec. 16, ch. 262, secs. 1, 7, 8, 9, 12, 13, 14, 15; Banking Laws, 1929, sec. 16, p. 7, secs. 1, 7, 8, 9, 12, 13, 14, 15 and pp. 20, 23-29.)

NEW JERSEY.

Banks (other than savings banks) and Trust Companies authorized to purchase Corporate Stocks.

Banks (other than savings banks) "in addition to the power and authority now conferred upon them, shall be authorized to purchase, invest in and sell stocks of corporations". (Laws of 1927, ch. 12; Banking Laws, 1930, sec. 10, p. 59.)

Trust companies are authorized "to purchase, invest in and sell stocks * * * and other securities; * * *". (Laws of 1899, ch. 174, sec. 6 (10); Banking Laws, 1930, sec. 6 (10), p. 75.)

Savings banks may only invest in certain specifically enumerated securities, and there is not included in this enumeration any of the corporate stocks contemplated by this digest. (Laws of 1931, 167.)

NEW MEXICO.

Commercial banks and trust companies - No express statutory provisions.

There do not appear to be any provisions in the laws of New Mexico expressly permitting or prohibiting commercial banks and trust companies to purchase stocks in other corporations. Trust companies, however, are authorized "* * * to purchase, invest in and sell all kinds of * * * investment securities". (1929 New Mexico Statutes Annotated, sec. 13-303, paragraph 7; Bank Code, 1929, sec. 60(7), p. 22); and, with reference to commercial banks, the laws of New Mexico provide that " * * * no bank shall at any time have invested more than thirty per cent of its unimpaired capital and surplus in the notes, bonds, or other securities of any person, firm or corporation * * *". (1929 New Mexico Statutes Annotated, sec. 13-137; Bank Code, 1929, sec. 36, p. 15.)

Savings banks may only invest their deposits in certain specifically enumerated securities, and there is not included

in this enumeration any of the corporate stocks contemplated by this digest. (1929 New Mexico Statutes Annotated, sec. 13-201; Bank Code, 1929, sec. 56, p. 20.)

NEW YORK.

Trust companies permitted to purchase stocks.

Trust companies have the power "to purchase, invest in and sell stocks * * * and other securities; * * *". (Banking Law, sec. 185 (9).)

Limitation upon purchase of corporate stocks.

A trust company "Shall not invest or keep invested in the stock of any private corporation an amount in excess of ten percentum of the capital and surplus of such trust company; nor shall it purchase or continue to hold stock of another moneyed corporation if by such purchase or continued investment the total stock of such other moneyed corporation owned and held by it as collateral will exceed ten per centum of the stock of such other moneyed corporation, * * * ". (Banking Law, sec. 190 (9).)

Banks - No statutory provisions, but purchase generally of corporate stocks held prohibited.

Banks proper and savings banks are permitted to purchase certain classes of corporate stocks, but none of these stocks is of the type contemplated by this digest. (Banking Law, secs. 106 and 239.)

The banking department of the State of New York has held that banks have no authority to buy stocks other than those classes above referred to, and the courts in this State have rendered decisions to the effect that banks can not purchase stocks of other corporations for the purpose of selling at a profit, can not become stockholders in a railroad corporation, and can not purchase State stocks to sell at a profit.

NORTH CAROLINA.

Purchase of Corporate Stocks permitted, but amount of purchase limited.

"No bank shall make any investment in the capital stock of any other State or National bank; Provided, that nothing herein shall be construed to prevent the subscribing to or purchasing of the capital stock of * * * central reserve banks, having a capital stock of more than one million dollars; by banks doing business under this chapter, upon such terms as may be agreed upon. To constitute a central reserve bank as contemplated by this chapter, at least fifty per cent of the capital stock of such bank shall be owned by other banks." (Code of North Carolina, 1931, sec. 220(c); Banking Laws, 1931, sec. 220(c), p. 20.)

Limitations upon Purchase of Stocks.

"The investment of any bank in the capital stock of such central reserve bank * * *, shall at no time exceed ten

per cent of the paid-in capital and permanent surplus of the bank making same. No bank shall invest more than fifty per cent of its permanent surplus in the stocks of other corporations, firms, partnership, or companies, unless such stock is purchased to protect the bank from loss. Any stocks owned or hereafter acquired in excess of the limitations herein imposed shall be disposed of at public or private sale within six months after the date of acquiring the same, and if not so disposed of shall be charged to profit and loss account, and no longer carried on the books as an asset. The limit of time in which such stocks shall be disposed of or charged off the books of the bank may be extended by the commissioner of banks if in his judgment it is for the best interest of the bank that such extension be granted." (Code of North Carolina, 1931, sec. 220(c); Banking Laws, 1931, sec. 220(c) p. 20.)

Commissioner of banks may suspend limitations on amount may purchase.

"The board of directors of any bank may, by resolution duly passed at a meeting of the board, request the commissioner of banks to temporarily suspend the limitations on loans and investments as same may apply to any particular loan or investment, which said bank desires to make in excess of the provisions of sections 220(b), 220(c), * * * . Upon receipt of a duly certified copy of such resolution, the commissioner of banks may, in his discretion, suspend the limitations on loans and investments in so far as it would apply to the loan or investment

which such bank desires to make." (Code of North Carolina, 1931, sec. 220(e); Banking Laws, 1931, sec. 220(e), p. 21.)

Purchase of Stock of Corporation Owning Land or Building used by Bank.

A bank may invest "fifty per cent of its unimpaired capital and permanent surplus in the stock or bonds of a corporation owning the land, building or buildings occupied by such bank as its banking home" and a bank may not be compelled "to surrender or dispose of any investment in the stock or bonds of a corporation owning the lands or buildings occupied by such bank as its banking home, if such stocks or bonds were lawfully acquired prior to the ratification of this Act; Provided further, however, that the commissioner of banks may, in his discretion, authorize banks located in cities having a population of more than five thousand, according to the latest United States census, to invest an amount greater than fifty per cent of its unimpaired capital and permanent surplus in the stocks or bonds of a corporation owning the land, building or buildings occupied by such bank as its banking home." (Code of North Carolina, 1931, sec. 220(b); Banking Laws, 1931, sec. 220(b), p. 19.)

Definition of term "bank".

"The term 'bank' shall be construed to mean any corporation, partnership, firm, or individual receiving, soliciting, or accepting money or its equivalent on deposit as a business: Provided, however, this definition shall not be construed to include building and loan associations, Morris plan companies, industrial banks

or trust companies not receiving money on deposit." (Code of North Carolina, 1931, sec. 216(a); Banking Laws, 1931, sec. 216 (a), p. 3.)

NORTH DAKOTA.

Purchase of Corporate Stocks by Banks prohibited.

"No bank except as in this section specifically authorized, shall * * * employ or invest any of its assets or funds in the stock of any corporation, bank, partnership, firm or association, nor shall it invest any of its assets in speculative margins of stocks, bonds, * * *." (Laws of 1931, ch. 96, sec. 33, p. 145.)

The above prohibition is expressly made applicable to savings banks. (Laws of 1931, ch. 96, sec. 49 (i), p. 159.)

OHIO.

Banks (other than savings banks) not permitted to purchase corporate stocks of kinds covered by this digest.

Banks, other than savings banks, are authorized to make certain investments of their capital, surplus, undivided profits and deposits in certain securities, stocks and bonds, but apparently they are not authorized to make investments in the kinds of corporate stocks contemplated by this digest. (Throckmorton's Code of 1929, secs. 710-111, 710-111a, 710-121; Banking Laws, 1928, secs. 710-111, 710-111a, 710-121.)

Savings banks - purchase of bank stocks forbidden, but "stocks of companies" may be purchased.

A savings bank is empowered to invest its funds in "stocks of companies, upon which or the constituent companies

comprising the same, dividends have been earned and paid for five consecutive years next prior to the investment and stocks of companies taken on a refinancing plan involving an original investment, which was legal at the time it was made: provided, every such investment shall be authorized by an affirmative vote of a majority of the board of directors of such savings bank"; but "No purchase or investment shall be in the stock of any other corporation organized or doing business under the provisions of Section 710-41 (concerning incorporation of commercial and savings banks and trust companies) or Section 710-180 (concerning special plan banks) of the General Code or of the National Banking Act of the United States". (114 Ohio Laws, p. 153, sec. 1, amending Throckmorton's Code of 1930, sec. 710-140(b).)

Trust Companies - Purchase of bank stocks prohibited, but other corporate stocks may be purchased.

"A trust company may invest in * * * stocks and bonds of corporations when authorized by the affirmative vote of the board of directors, or of the executive committee of such trust company" but the prohibition against savings banks purchasing bank stocks is also imposed upon trust companies. (Throckmorton's Code of 1929, sec. 710-166; Banking Laws, 1928, sec. 710-166, p. 64.)

OKLAHOMA.

Banks - Purchase of any kind of corporate stocks prohibited.

A bank "shall not invest any of its funds in the stock of any other bank or corporation * * *." (Oklahoma Statutes, 1931,

sec. 9135; Banking Laws, 1926, sec. 11, p. 15.) The Constitution of Oklahoma also provides that "No trust company, or bank or banking company shall own, hold or control in any manner whatever, the stock of any other trust company or bank or banking company, except such stock as may be pledged in good faith to secure bona fide indebtedness, acquired upon foreclosure, execution sale, or otherwise for the satisfaction of debt; and such stock shall be disposed of in the time and manner hereinbefore provided." (within twelve months from the date of acquisition). (Constitution of Oklahoma, Article 9, sec. 41.)

Trust Companies - May purchase any kind of stocks, except in a bank or in another trust company.

Trust companies are given the power "to buy and sell * * * all kinds of * * * stocks, and other investment securities". (Oklahoma Statutes, 1931, sec. 9206; Banking Laws, 1926, sec. 119(9), p. 64.)

In view of the above provision of the Oklahoma Constitution prohibiting a trust company to "hold or control in any manner whatever, the stock of any other trust company or bank or banking company", it would seem that the power given to trust companies to "buy and sell * * * all kinds of * * * stocks, and other investment securities", is restricted in so far as the provisions of the Oklahoma Constitution are applicable.

OREGON.

Purchase of corporate stocks prohibited.

Except for the authority to purchase certain classes of

corporate stocks not contemplated by this digest, the laws of Oregon provide that "Hereafter no bank or trust company shall invest any of its assets in the capital stock of any other corporation". In case stock is purchased or acquired to save loss on a preexisting debt, such stock must be sold "within 12 months of the date acquired or purchased, or within such further time as may be granted by the superintendent of banks". (Oregon Code, 1930, sec. 22-911.)

Savings banks and savings departments of banks or trust companies are not authorized to invest funds in the kinds of corporate stocks contemplated by this digest. (Oregon Code, 1930, sec. 22-1109, as amended by Laws of 1931, ch. 278, p. 454.)

PENNSYLVANIA.

Banks (other than savings banks) and trust companies permitted to purchase corporate stocks.

The laws of Pennsylvania provide that "any corporation created by general or special laws, may purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of, the shares of the capital stock of * * * any other corporation or corporations, public or private, of this or any other State and while the owner of said stock may exercise all the rights, powers, and privileges of ownership, including the right to vote thereon". (Act of July 2, 1901, Public Laws, p. 603 (West's Penna. Statutes, 1920, sec. 5785), as amended by Acts of March 27, 1929, Public Laws, p. 74, and April 18, 1929, Public Laws, p. 544.)

There are no statutory limitations in Pennsylvania upon the right of State banks, other than savings banks, and trust companies to purchase stocks of other corporations, and it has been considered that such institutions have the right, under the provisions of the Act of July 2, 1901, as amended, to purchase corporate stocks.

Savings banks, however, do not possess the right to invest their funds in shares of stock of other corporations. Such banks, by the provisions of Section 17 of the Act of May 20, 1889, P. L. 246 (West's Penna. Statutes, 1920, sec. 19770), are permitted to invest money derived from deposits only as specified in the Act of May 20, 1889, and as there are no provisions in this act or in amendments thereto (Act of June 28, 1923, P. L. 884, and Act of June 22, 1931, P. L. 600) permitting such banks to invest their funds in stocks of other corporations, it has been considered that they are without this power.

RHODE ISLAND.

Banks proper and trust companies - No statutory provisions.

The laws of Rhode Island do not contain any express authority for banks proper and trust companies to purchase corporate stocks, but a trust company is authorized" * * * to invest its capital stock and moneys in its hands in such bonds, obligations, or property, real, personal, or mixed, as it may deem prudent, * * * " (General Laws, 1923, ch. 271, sec. 4; Banking Laws, 1929, sec. 4, p. 16).

Savings banks and banks and trust companies receiving savings deposits - purchase of steam railroad and bank stocks permitted.

Deposits in savings banks and in the savings departments of banks and trust companies, and, in the case of savings banks, the income derived from investments held, may be invested, subject to detailed limitations, in the capital stock of banks and trust companies and certain steam railroad companies. (General Laws, 1923, sec. 1, Clause IV, Clause VII, as amended by Laws of 1927, Ch. 1034, Clause XIV, Clause XV, as amended by Laws of 1925, Ch. 653; Banking Laws, sec. 1, p. 22, Clause IV, p. 30, Clause VII, p. 37, Clause XIV, p. 43, Clause XV, pp. 44-45.)

SOUTH CAROLINA.

Banking Corporations may deal in corporate stocks.

"Every banking corporation may * * * deal in * * * public and other securities, and stocks of other corporations; * * * may purchase and hold such * * * personal property as may be conveyed to it to secure debts to the corporation, or may be sold under execution to satisfy debts due in whole or in part to the corporation, and as may be deemed necessary or convenient for the transaction of its business, and may sell and dispose of the same at pleasure; * * *." (Code of 1922, sec. 3992; Banking Laws, 1928, sec. 62, p. 29.)

Trust companies authorized to purchase corporate stocks, but amount limited.

Trust companies are authorized "to buy, underwrite, in-

vest in and sell all kinds * * * of stocks or other investment securities." (Banking Laws, 1928, sec. 9(10), p. 117.)

Limitation on amount may invest in any one corporation.

A trust company, however, "Shall not invest or keep invested in the stock of any one private corporation an amount in excess of twenty-five per centum (25%) of the capital and surplus fund of such trust company; nor shall it purchase or continue to hold stock of another bank or trust company if by such purchase or continued investment the total stock of such other bank or trust company owned or held by it as collateral will exceed twenty-five per centum (25%) of the stock of such other bank or trust company: Provided, however, That this limitation shall not apply to the * * * ownership by such trust company, or its stockholders, of a part or all of the capital stock of one bank organized under the laws of the United States or of this State, nor to the ownership of a part or all of the capital of one corporation, organized under the laws of this State, for the principal purpose of receiving savings deposits." (Banking Laws, 1928, sec. 12(7), p. 122.)

SOUTH DAKOTA.

Banks prohibited from purchasing corporate stocks.

No bank shall "invest any of its funds in the stock of any other bank or corporation, nor make loans or discounts on the security of the shares of its own capital stock, nor be the

purchaser or holder of any such shares unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; stocks so purchased or acquired shall, within six months of the time of its purchase, be sold or disposed of at public or private sale; and after the expiration of six months any such stock shall not be considered as part of the assets of such bank." (Session Laws of South Dakota, 1919, ch. 125; Banking Laws, 1927, sec. 8983, p. 27.)

Trust Companies prohibited from Purchasing Corporate Stocks.

No trust company shall "invest any of its funds in the stock of any other trust company or corporation, nor make any loans or discounts on the security of the shares of its own capital stock, nor be the purchaser or holder of any shares unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months of the time of its purchase, be sold or disposed of at public or private sale; and after the expiration of six months any such stock shall not be considered as a part of the assets of any trust company." (South Dakota Code, 1919, sec. 9050; Banking Laws, 1927, sec. 9050, p. 68.)

TENNESSEE.

Banks and trust companies authorized to deal in stocks.

Section 3887 of the new Code of Tennessee, which became effective January 1, 1932, authorizes banks and trust companies to "deal in * * * bonds, stocks, or other securities generally, * * * and have and possess all other rights which appertain and belong to a banking institution, except the power to issue notes for the purposes of currency, which power is withheld."

TEXAS.

Purchase of Corporate Stocks Permitted.

Banks (other than savings banks) and trust companies may purchase, invest in, and sell stocks and other securities. (Rev. Stat., 1925, Articles 396, (9) and 1513; Banking Laws, 1929, Article 396 (9), p. 18, and Article 1513, p. 76.)

Limitation upon purchase of bank stocks.

It is unlawful for any State bank or trust company "to own more than ten per cent of the capital stock of any other banking corporation, or to make a loan secured by the stock of any other banking corporation, if by the making of such loan the total stock of such other banking corporation held by it as collateral will exceed, in the aggregate, ten per cent of the capital stock of such other banking corporation, unless the ownership or the taking of a greater percentage of such capital stock as collateral shall be necessary to prevent loss upon a

debt previously contracted in good faith; and any such excess so taken as collateral or owned by such bank shall not be held as collateral nor owned by it for a longer period than six months." (Rev. Stat., 1925, Article 513; Banking Laws, 1925, Article 513, p. 44.)

Savings banks may only invest their deposits in certain specifically enumerated securities, and there is not included in this enumeration any of the corporate stocks contemplated by this digest. (Rev. Stat., 1925, Article 416; Banking Laws, 1929, Article 416, p. 23.)

UTAH.

Purchase of corporate stocks permitted.

Any State bank or trust company "may purchase, own, hold, and sell or otherwise dispose of any of the shares of the capital stock of any other bank, loan, trust, and guaranty association or other corporation; provided, such purchase shall be authorized by the executive committee and approved by the board of directors; and in case the purchase is of stock in any other banking corporation the approval of said purchase must also be had from the state bank commissioner; and provided, further, that nothing in this section shall be so construed as to permit the establishment, maintenance, or control or any branch bank or loan, trust, or guaranty company in the State. All acts or parts of acts in conflict with this section are hereby repealed to the extent of such conflict." (Compiled Laws of 1917, sec. 986, p. 299; Banking Laws, 1927, sec. 986, p. 8.)

The above-quoted provision of the laws of Utah is made applicable to savings banks. (Compiled Laws of 1917, sec. 1016; Banking Laws, 1927, sec. 1016, p. 15.)

VERMONT.

Purchase of bank or trust company stocks permitted.

Banks of all kinds and trust companies are empowered to invest their assets "in the stock of any national bank in the New England States or the state of New York, or in the stock of any banking association or trust company incorporated under the authority of and located in such states, or in the stock of any bank incorporated under the authority of and located in the Dominion of Canada; but a bank shall not hold bank stock both by the way of investment and as security for loans in excess of ten per cent of its assets, nor, in any one bank, more than five per cent of its assets, or more than two hundred thousand dollars, or more than ten per cent of the capital stock of any one bank". (General Laws, sec. 5363, par. (a), subdividion VI, as amended by Acts of 1929, Act No. 90, sec. 5.)

VIRGINIA.

Purchase of corporate stocks permitted.

All banks and trust companies are empowered to purchase and sell "all stocks and bonds". (Acts of 1928, ch. 507, secs. 1 and 12; Banking Laws, 1929, secs. 4149(1), 4149(13), pp. 24 and 30.)

WASHINGTON.

Purchase of corporate stocks prohibited.

The Laws of this State provide that a bank or trust company shall not "subscribe for or purchase the stock of any other banking house or trust company, or of any domestic or foreign corporation of any character, * * *; Provided, That such bank and/or trust company may purchase, acquire and hold shares of stock in any other corporation which shares have been previously pledged as security to any loan or discount made in good faith and such purchase shall be necessary to prevent loss upon a debt previously contracted in good faith and stock so purchased or acquired shall be sold at public or private sale or otherwise disposed of within two years from the time of its purchase or acquisition". (Laws of 1929, sec. 5, p. 101; Banking Laws, 1929, sec. 46, p. 26.). The laws also provide that corporations doing a trust business may not invest trust funds in corporate stocks. (Laws of 1929, ch. 206; Banking Laws, 1929, sec. 77, p. 37.)

Savings banks are covered by the above excerpt from the laws of Washington. (Laws of 1917, sec. 14, p. 275; Banking Laws, 1929, sec. 24, p. 11.)

WEST VIRGINIA.

No Statutory Provisions.

There do not appear to be any provisions in the laws of the State of West Virginia authorizing banking institutions, which term includes trust companies, to purchase corporate stocks.

WISCONSIN.

Mutual savings banks prohibited from purchasing corporate stocks - No statutory provisions covering other banking institutions.

Except for mutual savings banks, the statutes of Wisconsin contain no provisions with reference to the purchase of corporate stocks by banks and trust companies. The provision with reference to mutual savings banks provides that " * * * no mutual savings bank shall invest any part of its deposits in the stock of any corporation * * *." (Wisconsin Statutes, 1929, sec. 222.13, as amended by Laws of 1931, ch. 27, p. 42.)

WYOMING.

Purchase of corporate stocks prohibited.

"Hereafter no State bank shall invest any of its assets in the capital stock of any other corporation * * *, and except such as it may acquire or purchase to save a loss on a pre-existing debt, and stocks so acquired or purchased shall be sold within twelve months from the date acquired or purchased; provided, that

a further time may be granted by the State Examiner." (1931 Wyoming Revised Statutes, sec. 10-133.)

The term "State bank" as used in the above excerpt from the laws of Wyoming includes every individual, firm or corporation doing a banking business, and a banking business is engaged in "where credits are opened by the deposit or collection of money or currency or negotiable paper subject to be paid or remitted upon draft, receipt, check or order". (1931 Wyoming Revised Statutes, sec. 10-110.)

The statutes of Wyoming contain no provisions authorizing trust companies not doing a banking business to purchase corporate stocks.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7260

October 3, 1932.

SUBJECT: Grading Service of United States Department of Agriculture.

Dear Sir:

There is inclosed herewith copy of a letter received by the Governor of the Federal Reserve Board from the Chief of the Bureau of Agricultural Economics of the United States Department of Agriculture, advising of the extension of that bureau's commercial grading service to include canned fruits and vegetables. A copy of the sample grade certificate referred to in the letter is also inclosed for your information. Should you desire additional information regarding this service, the Board will be glad to transmit any request which you may make to the Bureau of Agricultural Economics.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7260-a 355

UNITED STATES DEPARTMENT OF AGRICULTURE

Bureau of Agricultural Economics

Washington, D. C.

September 28, 1932.

Mr. Eugene Meyer,
Chairman, Federal Reserve Board,
Washington, D.C.

Dear Mr. Meyer:

The attention of this Bureau has been drawn at various times to the difficulty experienced by canners and others in financing their operations. Bankers have also indicated to the Bureau at times their lack of interest in canned foods paper owing to their lack of information in connection with the grade and value of the products offered as collateral.

Realizing the interest of the Federal Reserve Board in the character of agricultural paper supporting discounts and acceptances, I am taking the liberty of mentioning to you one of the services of this Bureau.

For a number of years this Bureau has maintained a commercial grading service through which official certificates of grade and condition on lots of agricultural products, such as fresh fruits and vegetables, poultry, meats, hay, etc., may be had by financially interested parties. It has not been until recently that the Bureau has had authority to certificate the grade of canned fruits and vegetables. This additional authority was included in a recent appropriation bill.

The certificates are issued only by employees of this Department. A small fee is charged for the service. A specimon certificate is enclosed for your information. Should you desire additional copies for the various Federal Reserve banks, or copies of the regulations governing the service, and will advise me, I will see that they are furnished you.

The purpose of this letter is merely to advise you that the services mentioned are now available. It is our desire to be of every service possible in the handling and marketing of these products.

Sincerely yours,

(s) Nils A. Olsen
Chief of Bureau.

Enclosure.

F.P.I. - 63a COPY X-7260-b

356

UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS
No 55 CANNED FRUIT AND VEGETABLE GRADE CERTIFICATE

This certificate is admissible in all courts of the United States as prima facie evidence of the truth of the statement therein contained. This certificate does not excuse failure to comply with any of the regulatory laws enforced by the United States Department of Agriculture.

Date Sept. 23, 1932 Hour

To Canners National Bank (Applicant) Address Chicago, Illinois

Shipper or Seller Merchants Warehouse Corp. Address Cannersville, Wisconsin

Receiver or Buyer Address

I certify that in compliance with the regulations of the Secretary of Agriculture governing the inspection and grading of canned fruits and vegetables, pursuant to the act making appropriations for the United States Department of Agriculture, I personally drew at random and graded samples of the lot of canned fruits or vegetables described below and that the quality and condition as shown by the samples on above date were as stated below:

Lot or Car Number 55

Where Located Merchants Warehouse C, Compartment No. 4, 1200 South St., Cannersville, (Wis.

Product graded Canned Peas

Number, size, and kind of containers 1000 cases each containing 24 No. 2 size tins.

Code or other identification marks on cans W I C 3

Principal title of Label (if any) Fine Wisconsin Sweet Peas. Small Size.

Vacuum Readings - 4 to 6 inches

Drained Weight in Ozs. - 13½ to 14

Grade: U. S. GRADE A (Fancy)

Score: 92 to 94 points.

Remarks: Lot stacked in blocks 3 x 4 cases, 11 cases high. Packed in sanitary, enameled tins, neatly labelled. Check samples retained.

(SEAL)

Fee $5.00

Expenses 1.23

Total $6.23

J. W. Petrie Official Grader.

Address

PLEASE REFER TO THIS CERTIFICATE BY NUMBER AND MARKET

U.S. Government Printing Office: 1931 8-7762

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7262

October 4, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDICTED" has been designated to cover a new issue of Treasury Bills, dated October 11, 1932, and maturing January 11, 1933.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDIAL" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7263

October 6, 1932.

SUBJECT: New Issue of Treasury Notes.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code word has been designated to cover a new issue of Treasury Notes:

"NOWHURT" 3% Treasury Notes, Series B-1937, to be dated October 15, 1932, maturing April 15, 1937.

This code word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOWHURL" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7264

October 7, 1932.

SUBJECT: New Code Word Covering New Issue of 3% Treasury Notes, Series B-1937.

Dear Sir:

Referring to the Board's letter of October 6, 1932, X-7263, please substitute the code word "NOWHYDRO" for the code word "NOWHURT", to cover a new issue of 3% Treasury Notes, Series B-1937, to be dated October 15, 1932, maturing April 15, 1937. This substitution is necessary because of the confusion which might result from similarity of telegraphic symbols between the words "NOWHURL" and "NOWHURT".

This new code word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOWHURL" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

QUESTIONS TO BE CONSIDERED BY JOINT CONFERENCE
OF COUNSEL OF ALL FEDERAL RESERVE BANKS
AND STANDING COMMITTEE ON COLLECTIONS,
OCTOBER 10, 1932.

I. QUESTIONS RELATING TO THE RIGHTS, DUTIES AND LIABILITIES OF THE FEDERAL RESERVE BANKS IN "CASHING" GOVERNMENT CHECKS AND WARRANTS.

1. Is it preferable for the Federal reserve banks, in cashing Government checks and warrants, to act:

(a) As fiscal agents of the Government, in which case they are liable only for their own negligence or for exceeding the scope of their authority?

(b) As depositaries, in which case they should be furnished with full information, including facsimiles of signatures, the current balances in respective accounts, etc., payment by them in such case being final payment? or

(c) Only as agents for the banks from which they receive such item?

(d) In the latter event, should the Treasury Department be requested to eliminate all reference to "fiscal agent" and "depositary" from Treasury Circular 176?

2. (a) Is the credit given to member banks for such items merely provisional?

(b) Is there any difference in the result if the Federal r eserve bank:

(1) Actually pays out oash to disbursing agents or banks? or

(2) Merely debits the Treasurer's account and credits the account of a member bank?

3. Should such items be subject:

(a) To immediate credit;

(b) To credit according to the usual time schedule; or

(c) To credit upon "final payment" by the Treasurer?

4. Should such items be subject to immediate withdrawal or only after "final payment"?

5. Within what time must the Treasury Department ascertain whether signatures are forged or whether the items contain any other defects, and notify the Federal reserve bank of any such defects?

6. Should the Treasurer be requested to wire advice of non-payment of all items over $500?

7. When are such items finally paid?

8. Should the Treasury Department be requested to amend Circular 176 so as to define "final payment"?

9. Should the Treasurer be requested to discontinue the practice of attempting to stop payment on such items merely in order to protect the interests of payees who have deposited the checks in banks about to fail?

10. Should the Treasurer be requested to amend Circular 176 so as to provide specifically that the Treasurer will not stop payment or refuse final payment on any item before consulting the reserve bank to see if it has passed credit, and if so, whether it can obtain reimbursement?

11. Should the argument be made to the Treasury officials that Government warrants are in effect bills the drawer and drawee of which are the same, so that, under the Uniform Negotiable Instruments Act, the reserve bank may, at its option, treat the instruments as promissory notes upon which payment cannot be stopped?

12. To what extent is a Federal reserve bank responsible for obtaining reimbursement for the Treasury Department from the banks from which it receives such items?

13. (a) If the Federal reserve bank has allowed the credit to be withdrawn, does it become a holder in due course and accordingly have the right of reimbursement from the Government?

(b) As a practical matter can it obtain such reimbursement?

14. Are the Federal reserve banks authorized to cash Government checks and warrants when presented through clearing houses or only when presented direct by member banks or by Government disbursing officers?

15. Should the Federal reserve banks receive such items only from member banks?

16. Should the expression "responsible incorporated banks and trust companies" be eliminated from the Treasury circular?

17. Should the word "cash" be eliminated?

18. What is the legal significance of cashing a Government warrant or check?

19. (a) Should the Federal reserve bank use the reserve balance to reimburse itself when items are returned by the Treasury after the sending bank has failed?

(b) Should it do so, even if the reserve balance does not contain a sufficient amount arising solely from collected items?

20. Is the Federal reserve bank's lien on the reserve balance superior to the Treasury's right to reimbursement?

21. Should the provisions of the Check Collection Circulars regarding Government checks and warrants be revised?

22. Exactly what changes should be made in the text of Sections 32 and 34 of Treasury Circular No. 176?

23. In what manner should this subject be taken up with the Treasury Department -- by the entire conference or by a small committee appointed for the purpose?

II. QUESTIONS ARISING UNDER THE UNIFORM BANK COLLECTION CODE.

1. Applicability of the Code to national banks;

(a) Is it unanimously agreed that Section 11 of the Code (giving an election to treat as dis - honored) applies in the case of failed national banks?

(b) Is it unanimously agreed that Section 13 (giving a preferred claim) does not apply in the case of failed national banks?

2. Should the forwarding Federal reserve bank make the election to treat as dishonored or to file a claim, without consulting the indorsing bank?

3. If so, which course should it elect:

(a) In the case of national banks?

(b) In the case of State banks?

4. Can one course be adopted as to a part of the items covered by one remittance draft, and the other course as to the remaining part?

5. If the indorsers are not consulted, will the Federal reserve bank be liable to its indorsers for losses resulting from a failure to elect the course which would result in the largest recovery?

6. If the Federal reserve bank consults the indorsers, should it (a) set a time limit within which it must receive a reply, and (b) indicate the course which it will

elect if no reply is received within the time set?

7. If the indorsers are consulted, will the resulting delay affect the question of whether the election to treat as dishonored has been exercised with the "reasonable diligence" required by the Code?

8. If the indorsers are consulted, should the receiver or examiner or Comptroller be notified of the fact?

9. Should an attempt be made by the Federal reserve bank to obtain possession of all the items?

10. If not, which items, if any?

11. When should the request for the items be made, in view of the fact that receivers often return checks to drawers and may do so before a request is made by the reserve bank?

12. (a) Should the Federal reserve banks permit the blanket authorizations to file claims which were exchanged in 1922 to remain in effect?

(b) Should they be renewed?

(c) Should they be modified?

13. Should the Check Collection Circulars of the reserve banks be amended, so as to provide for a uniform procedure in States where the Code is in effect?

14. If so, how should the provision be worded?

III. ACCEPTANCE OF ADVICES OF CREDIT BY FEDERAL RESERVE BANKS.

Should Federal reserve banks in any circumstances accept advices of credit in either cash or non-cash collection transactions?

IV. METHOD OF HANDLING PROTESTED OR DISHONORED CHECKS.

1. Should checks which have previously been presented and dishonored or protested be handled as cash items or as collection items by the Federal reserve banks?

2. May the forwarding bank make a charge for payment or collection and remittance?

V. DECISION IN MIAMI v. FIRST NATIONAL BANK OF ST. PETERSBURG.

In view of the decision of the Circuit Court of Appeals for the Fifth Circuit in the case of City of Miami v. First National Bank of St. Petersburg, Florida, should the Federal reserve banks (a) make formal demand for a preference, and (b) accept dividends payable to general creditors "without prejudice" to the preferred claim?

VI. DECISION IN FEDERAL RESERVE BANK OF ATLANTA v. ANDERSON, RECEIVER.

In view of the decision of the United States District Court in the case of Federal Reserve Bank of Atlanta v. Anderson, Receiver of Central National Bank and Trust Company of St. Petersburg, Florida, what steps, if any, should be taken to protect the interests of the Federal reserve banks?

VII. SUBSTITUTION OF NOTE FOR REDISCOUNT LIABILITY OF NATIONAL BANK BEFORE ITS SUSPENSION.

1. If a Federal reserve bank takes the note of a national bank, for the aggregate amount of the national bank's

rediscount liability, secured by paper already held under rediscount or as additional collateral, and the national bank is closed shortly thereafter, (a) may the reserve bank prove a claim based on the note, or (b) is such claim barred as being a preference either within the provisions of Section 5242 of the Revised Statutes, or under the common law, with the result that the Federal reserve bank must base its claim upon the rediscounted paper?

VIII. INTERLOCKING BANK DIRECTORATES UNDER CLAYTON ACT.

Advisability of Counsel discussing with Federal Reserve Agents questions of law and policy in connection with interlocking bank directorates under Section 8 of the Clayton Act, as amended.

X-7266

Federal Reserve Notes, Series 1928,
For Federal Reserve Board.

1932

Sept. 1 to 29,	$5	$10	$20	$50	$100	Total Sheets	Amount
Boston,.....	37,000	20,000	10,000	-	-	67,000	$6,063.50
Philadelphia,.	50,000	34,000	10,000	10,000	15,000	119,000	10,769.50
Cleveland,....	74,000	36,000	20,000	-	-	130,000	11,765.00
Richmond,.....	10,000	20,000	-	-	-	30,000	2,715.00
Atlanta,.....	14,000	10,000	-	-	-	24,000	2,172.00
Chicago,.....	-	20,000	10,000	-	-	30,000	2,715.00
St. Louis,....	21,000	14,000	5,000	-	-	40,000	3,620.00
Minneapolis,..	5,000	20,000	-	-	-	25,000	2,262.50
Kansas City,..	10,000	10,000	10,000	-	-	30,000	2,715.00
San Francisco,	58,000	25,000	24,000	-	-	107,000	9,683.50
	279,000	209,000	89,000	10,000	15,000	602,000	$54,481.00

602,000 sheets, @ $90.50 per M, . . .$54,481.00

X-7267

EXECUTIVE ORDER

- - -

CONTINUING TEMPORARILY THE PRESENT STANDARDIZED GOVERNMENT TRAVEL REGULATIONS, SUBJECT TO CERTAIN MODIFICATIONS

Part II, sections 207 and 208, of the act entitled "AN ACT Making appropriations for the legislative Branch of the Government for the fiscal year ending June 30, 1933, and for other purposes," approved June 30, 1932, amends the Subsistence Expense Act of 1926 (44 Stat. 688, 689) by amending sections 3 and 7 thereof, and repealing sections 4, 5, and 6 thereof, effective July 1, 1932.

The Standardized Government Travel Regulations, as amended effective July 1, 1931, approved by the President April 21, 1931, shall continue in effect from and including July 1, 1932, until such time as amended standardized regulations are approved, subject to the following conditions, viz:

(1) All provisions relating to reimbursement of actual expenses for subsistence are revoked.

(2) Per diem in lieu of actual expenses for subsistence may be allowed not to exceed the rate of $5 within the limits of continental United States, and not to exceed an average of $6 beyond the limits of continental United States.

(3) Reimbursable transportation charges will not include gratuitous fees or tips of any kind.

The rates of the per diem in lieu of actual expenses for subsistence authorized by the amendatory law and which are set forth above represent the maximum allowable, not the minimum. It is the responsibility of the heads of the departments and establishments to see that travel orders authorize only such per diem rates as are justified by the nature of the travel.

HERBERT HOOVER

The White House,

June 30, 1932.

FEDERAL RESERVE BOARD

WASHINGTON

X-7269

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 11, 1932.

SUBJECT: Meeting of Governors and Federal Reserve Agents.

Dear Sir:

A meeting of the Federal Reserve Agents and Governors of the Federal reserve banks with the Federal Reserve Board, in Washington, is hereby called, beginning on Monday, November 14, 1932, and extending over such period as may be deemed necessary at the time.

It is understood that the Chairmen of the Governors' Conference and the Conference of Federal Reserve Agents will submit suggestions as to the program for this meeting, after consultation with the various Governors and Federal Reserve Agents, and the Federal Reserve Board will supplement the program by any topics that it may desire to bring up for discussion at the meeting. An effort will be made to have the complete program in the hands of the Governors and Federal Reserve Agents sufficiently in advance of the conference date to enable them to give advance consideration to the several matters which will come up for consideration.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS AND AGENTS OF ALL F. R. BANKS.

REPORT OF COMMITTEE APPOINTED BY JOINT CONFERENCE OF FEDERAL RESERVE BANK COUNSEL AND THE STANDING COMMITTEE ON COLLECTIONS.
(As amended and adopted by the Conference.)

- - -

Your Committee, appointed to report relative to the rights, duties and responsibilities of the Federal reserve banks in handling Government checks and warrants begs leave to submit its report and findings herewith.

Your committee is of the opinion that the duties and responsibilities of the Federal reserve banks in handling Government checks and warrants should be clearly defined either in Treasury Department Circular No. 176 or in a separate document containing the substance of an agreement between the Federal reserve banks and the Treasury Department. In the opinion of your committee such document need not characterize the Federal reserve banks as fiscal agents or depositaries of the Treasury Department, nor as collecting agents of their member banks. It might be confusing and embarrassing to attempt any such characterization, since the nature of the duties performed by the Federal reserve banks in handling Government checks and warrants is of a mixed character. Up to a certain point in these transactions the Federal reserve banks undoubtedly act as agents of the banks from which they have received the checks and beyond that point they act in some agency capacity in behalf of the Government of the United States.

We are of the opinion that the following specific points should be covered either in amendments to Treasury Department Circular No. 176 or in an agreement to be reached between the Treasury Department and the Federal reserve banks:

(a) That the provisions of Section 32 of Circular 176 should be amended so that the Federal reserve banks will be required to receive Government checks and warrants only from member banks and from nonmember clearing banks.

(b) The Treasury Department should undertake and agree to examine items for forgeries, insufficiency of funds and other material defects which might be discovered upon first examination and to notify the Federal reserve banks of the items on which payment is refused within a definite limited time after their receipt. The time in our opinion should be limited to the business day after the receipt of the items by the Treasury Department.

(c) The Treasurer should be requested to adopt the practice after inspection of checks and warrants handled by a Federal reserve bank of notifying such bank immediately by mail as to all items which have been found good, returning to the Federal reserve bank all items which for any reason are dishonored, and giving telegraphic advice of all dishonored items amounting to $500 or more.

(d) The Treasurer should discontinue the practice of attempting to stop payment of items handled by Federal reserve banks solely in order to protect the interest of payees.

We are of the opinion that the Department should be requested to amend the pertinent portions of paragraph 32 of Circular No. 176 so as to read substantially as follows:

"II. PAYMENT OF GOVERNMENT CHECKS AND WARRANTS

"32. Federal Reserve Banks and branches. - Federal Reserve Banks and branches will make arrangements to cash Government checks and warrants drawn on the Treasurer of the United States for disbursing officers of the War Department and Navy Department, and other Government officers, provided that satisfactory identification of the officers shall be furnished. The Treasurer will upon special request advise Federal Reserve Banks and branches as to whether the balances to the credit of disbursing officers are sufficient for payment of the checks presented.

"Each Federal Reserve Bank and branch will ~~give immediate credit for~~ RECEIVE Government checks and warrants drawn on the Treasurer of the United States ~~which are received~~ from its member and nonmember clearing banks ~~or presented through recognized clearing houses,~~ WHEN properly indorsed with guarantee of all prior indorsements thereon, including the indorsement of the drawer when the check is drawn in his favor. ~~Such Government checks and warrants will be received and credited by each Federal Reserve Bank and branch~~ AND WILL GIVE CREDIT THEREFOR subject to the terms and conditions of its time schedules, of its circular regarding 'Collection of Cash Items' and of Regulation J of the Federal Reserve Board.

"Federal Reserve Banks and branches will not be expected to cash Government checks and warrants presented direct to the bank by the general public.

"Government checks and warrants cashed or credited by Federal Reserve Banks and branches AS PROVIDED HEREIN shall be charged to the account of the Treasurer of the United States, subject to the right of the Treasurer to examine and refuse payment of such checks and warrants ~~as provided in paragraph 34 hereof.~~"

(Deletions indicated ----)
(Additions in CAPS)

This suggested revision of paragraph 32 of the circular follows the recommendations made in the report of the Standing Committee on Collections to the Conference of Governors, dated August 10, 1931, with the changes indicated in the text, certain portions being eliminated and certain other portions being added.

Your committee is further of the opinion that Section 34 of Treasury Department Circular No. 176 should be amended so as to be inapplicable to Federal reserve banks and that the conditions under which the Treasury may look to the Federal reserve banks for reimbursement for checks which have been cashed or received for immediate credit and charged to the Treasurer's account and the conditions under which the Treasury will merely expect the Federal reserve banks to use their best efforts to obtain reimbursement on such checks should be covered either by a separate section in the circular or in a separate document which need not be incorporated in the circular. Such agreement should cover the matter of advice of payment or nonpayment, including telegraphic advice of nonpayment of all items of $500 or more, should exempt the Federal reserve banks from liability except for their own negligence, and should otherwise be in accordance with the recommendations set out above.

If the Treasury Department is not willing to amend its circular and enter into definite understandings in substantial accord with the views set forth above, the Committee is of the opinion that the Federal reserve banks should consider the advisability of discontinuing the present practice of giving immediate credit for such items, and of adopting the practice of handling them

on a deferred credit basis, as if the checks were drawn on a bank in Washington, D. C.

Respectfully submitted

_____ Chairman
(A. C. Agnew)

_____
(J. S. Walden, Jr.)

_____
(Robert S. Parker)

_____
(E. B. Stroud, Jr.)

_____
(C. H. Coe)

_____
(Walter Wyatt)

Washington, D. C.
October 11, 1932.

C O P Y

L-2 376

Washington, D. C.

October 12, 1932.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

S I R :

For some years past the terms and conditions upon which Federal reserve banks handle Government warrants and checks pursuant to the terms of Sections 32 and 34 of Treasury Department Circular No. 176, have been a matter of considerable concern to Federal reserve banks, because of the fact that the provisions of the circular do not define clearly the exact relationship of the Federal reserve banks to the Treasury Department in performing this function and do not establish clearly the rights, duties and responsibilities of the Federal reserve banks. It has been feared that this might lead to confusion and possible misunderstanding.

Several attempts have been made in informal conferences between representatives of your Department and the Federal reserve banks to agree upon a clarification of these provisions of the circular, but satisfactory results have not been obtained.

In April, 1931, the Federal Reserve Board took cognizance of this situation and brought the matter to the attention of the Conference of Governors of all Federal reserve banks, which was then in session in Washington, with the result that the Conference of Governors referred the subject to its Standing Committee on Collections for study

and report. The Standing Committee on Collections rendered a report under date of August 10, 1931, discussing the subject in a general way and suggesting certain changes in the existing practices and certain amendments to the text of the Treasury Circular, but with the recommendation that the suggestions of the Committee be referred to the General Counsel of the Federal Reserve Board and to the Counsel for the several Federal reserve banks for further consideration of the legal aspects of the subject. Upon consideration of this report, the Conference of Governors held in Washington on December 19, 1931, referred the matter to the Conference of Counsel of all Federal reserve banks for consideration and consultation with the Standing Committee on Collections and the officials of the Treasury Department, with a view to obtaining a clarification of the applicable provisions of the Treasury Department circular.

Pursuant to the action taken by the Conference of Governors, a Joint Conference was held on October 10 and 11, 1932, which was attended by Counsel representing all of the Federal reserve banks and by the Standing Committee on Collections. After discussion, the Conference appointed a committee consisting of the following named persons to prepare a report:

Mr. Albert C. Agnew, Chairman,
Counsel,
Federal Reserve Bank of San Francisco.

Mr. J.S. Walden, Jr.,
Controller of the Federal Reserve Bank of
Richmond and Chairman of the Standing
Committee on Collections.

Mr. Robert S. Parker,
Counsel to the Federal Reserve Bank of Atlanta.

Mr. E. B. Stroud, Jr.,
Counsel to the Federal Reserve Bank of Dallas.

Mr. C. H. Coe,
Assistant Deputy Governor of the Federal
Reserve Bank of New York, a member
of the Standing Committee on
Collections.

Mr. Walter Wyatt, General Counsel of the Federal Reserve Board, who was serving as Chairman of the Joint Conference, also served ex officio as a member of the Committee.

This Committee prepared a report which, after careful consideration and discussion, was approved unanimously by the Joint Conference. I have the honor to inclose a copy of that report for your consideration. The Joint Conference also requested the Committee which had prepared the report to consult with the representatives of your Department with a view of obtaining amendments to the Treasury Circular in accordance with the recommendations contained in its report.

In this report no attempt was made to state in detail all the changes which the Joint Conference felt should be made in the provisions of the Treasury Circular and in the existing practices with regard to the handling of Government warrants and checks by the Federal reserve banks. The report merely states the general principles which, in the opinion of the Joint Conference, should be observed. It was expected that detailed changes in the circular would be agreed upon in a conference between the above committee and the representatives of your Department.

The Committee will be glad to meet with such representatives as you may designate as soon as you have had an opportunity to consider the report, and it is respectfully requested that you advise Mr. Walter

Wyatt, General Counsel to the Federal Reserve Board, as to the persons designated by you to represent your Department and as to the time when it would be convenient for them to confer with the Committee representing the Federal reserve banks.

Mr. Wyatt has very kindly consented to act for the Committee in the interim, furnishing your Department with such additional information or data as you may require in your consideration of the matter.

Respectfully,

Albert C. Agnew,
Chairman of the Committee.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7271

October 13, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDIET" has been designated to cover a new issue of Treasury Bills, dated October 19, 1932, and maturing January 18, 1933.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDICTED" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-7272

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 15, 1932.

SUBJECT: Shipment of Canceled Checks, etc., by Express.

Dear Sir:

There is inclosed a copy of a letter dated September 13, 1932, with inclosures, addressed to the Secretary of the Board by the Deputy Governor of the Federal Reserve Bank of Kansas City, together with a copy of a memorandum prepared by the office of the Board's Counsel, relating to an inquiry made by a Post Office Inspector concerning various shipments made by that bank which the Inspector feels should perhaps have been sent by mail rather than by express.

As you will note from the inclosed correspondence, the matter has not yet been acted upon by the Post Office Department. This correspondence is being forwarded to you, however, for your information and with the request that you advise the Board in case you have any comments or information regarding similar incidents.

It would seem that no useful purpose would be served by taking the matter up with the officials of the Post Office with which you deal.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

X-7272-a

FEDERAL RESERVE BANK
OF
KANSAS CITY

September 13, 1932.

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Morrill:

There is attached hereto, for your information, copy of a letter recently received from the Post Office Inspector at this point, together with carbon copy of Mr. Helm's reply under date of Sept. 9. It will be observed that the Post Office Department is objecting to the sending of the daily transcript of the Treasurer's daily account and the warrants listed therein, as well as certain cash letters, by express. In a conversation with the Post Office Inspector, it was indicated that the Post Office Department might attempt to recover postage on all shipments of this character which we have heretofore made by express, and since this is a matter which undoubtedly involves other Federal reserve banks, it is possible you may feel it desirable to consult with some of the officials of the Post Office Department.

In this connection, attention is directed to the fact that, in all cases before making express arrangements for shipments other than the Treasurer's transcripts, the character of the documents to be enclosed, together with the form of printed letter of transmittal, has been submitted to the local Post Office for approval. Such approval, however, has not been in writing and the only written authorization we have is that relating to the Treasurer's transcript contained in Board's letter X-1296 and subsequent communications from the Treasurer's office. It is our understanding that the objection of the Post Office Department is based on the printed letter of transmittal which contains instructions.

Very truly yours,

(S) C. A. Worthington,
Deputy Governor.

CAW:L

C O P Y

X-7272-b

POST OFFICE DEPARTMENT

B. W. Ficken
Inspector

Office of Inspector

Case No. 32426-C

Kansas City, Missouri, September 1, 1932.

SUBJECT: Transmission by express of daily clearance letter, etc.

Federal Reserve Bank,
Kansas City, Missouri.

Attention Mr. J. W. Helm.

Gentlemen:

The Post Office Department has requested an investigation of the reported practice of bank sending their daily clearance letter, accompanied by paid or canceled check, by express instead of by mail, and in this connection the Second Assistant Postmaster General advises as follows: "While the transmission of canceled checks, if not accompanied by anything in the nature of personal correspondence, would not be violative of the law, the fact that a daily clearance letter is enclosed would constitute an apparent violation of the private express statutes."

In order to determine just what is being sent by express by your bank, will you kindly advise to whom you are making express shipments, how often and for how long a period. Also please advise just what is being inclosed in such shipments, submitting samples of all letters and forms used with descriptive explanation of each. It is also desired that you advise from what other banks you are receiving clearance letters and similar matter by express.

Sincerely yours,

/s/ B. W. FICKEN

Post Office Inspector

COPY

X-7272-C

FEDERAL RESERVE BANK
OF
KANSAS CITY

September 9, 1932.

Mr. B. W. Ficken,
Post Office Inspector,
Kansas City, Missouri.

Dear Sir:

Replying further to the inquiry contained in your letter of September 1, 1932, Case No. 32426-C, you are advised that for years our daily transcript of the general account of the Treasurer of the United States has been forwarded by express, accompanied by all supporting papers. This was done in accordance with instructions contained in General Letter X-1296 from the Federal Reserve Board, Washington, D. C., dated November 30, 1918, a copy of which you will find enclosed. As requested, you will find samples of the forms which accompany our paid vouchers drawn on the Treasurer of the United States and which are enclosed daily with the transcript of the Treasurer's general account.

You are also advised that beginning in 1924 and 1925 and continuing until the present time, we have used this method for delivery of checks to the Federal Reserve Bank of St. Louis, the Federal Reserve Bank of Chicago, the Federal Reserve Bank of Dallas, and to our branches at Omaha and Oklahoma City. These shipments have been made daily except Sundays, holidays and election days, except that, during the daylight savings period, shipments to the Federal Reserve Bank of Chicago have usually been sent by mail. We also receive similar items by express from our Omaha and Oklahoma City branches.

You will also find enclosed copies of the forms which are enclosed with the checks which are forwarded to the Federal Reserve Banks of Chicago, Dallas and St. Louis, and to our branches at Omaha and Oklahoma City. With the exception of the forms accompanying the daily transcript of the Treasurer's general account, all other forms enclosed in such shipments have been presented in duplicate to the local post office officials in every case for approval before they were allowed to be sent by express.

Also as requested, you are advised that we are receiving express shipments containing checks and similar advices from the following banks:

Continental Illinois Bank & Trust Co.,	Chicago, Ill.
Federal Reserve Bank of Chicago,	" "
First National Bank,	" "
First National Bank,	Joliet, "
Citizens National Bank,	Emporia, Kans. (Irregularly)
Central National Bank,	Topeka, Kans.
Merchants National Bank,	" "
National Bank of Topeka,	" "
First National Bank,	Wichita, "
Fourth National Bank,	" "

FEDERAL RESERVE BANK
OF
KANSAS CITY

B. W. Ficken, Post Office Inspector
K. C. Mo. 9-9-32 -2-

First National Bank,	St. Joseph, Mo.	(Irregularly)
Tootle-Lacy National Bank,	" " "	"
Federal Reserve Bank of St. Louis,	St. Louis, "	
Exchange National Bank,	Tulsa, Okla.	(Irregularly)

Should any further information be desired on this matter, please be assured that we will be glad to have you advise us.

Very truly yours,

J. W. Helm
Deputy Governor and Cashier

C O P Y

X-7272-d
386

FEDERAL RESERVE
BOARD

OFFICE CORRESPONDENCE

Date Sept. 30, 1932

To The Federal Reserve Board

From Mr. G. Howland Chase

Subject: Question raised by Post Office Department as to whether certain shipments made by the Federal Reserve Bank of Kansas City should be made by mail rather than by express.

The attached correspondence deals with an inquiry made by a Post Office Inspector regarding shipments of cancelled checks and other matters which the Federal Reserve Bank of Kansas City has been sending by express, and which the Inspector feels should perhaps have been sent by mail.

As to a part of these shipments, the daily transcript of general account and supporting papers forwarded to the Treasurer of the United States, the Federal Reserve Bank is following the practice suggested in a circular letter from the Federal Reserve Board (X-1296), which was dated November 30, 1918, and in this respect, at least, it is probably adopting the same practice as all the other reserve banks. As is stated in the attached copy of the bank's letter dated September 9, 1932, the bank has also been sending other matters, including some "cash letters" and the accompanying checks, by express since 1924 or 1925.

The Board's files do not indicate that any question has heretofore been raised in connection with any shipments of this kind.

The Inspector, in his letter of September 1, quotes the Second Assistant Postmaster General to the effect that the objection is not to the sending of cancelled checks by express but to the sending of such matter accompanied by something in the nature of a "letter".

The statute to which the Inspector apparently refers will be found in Title 18, Section 304, United States Code, which makes it a crime for any one to establish a "private express for the con-

veyance of letters or packets". Section 306 makes it a crime for the sender to transmit any letter or packet by such means. The purpose of these statutes (which have been in existence in different forms at least since the first part of the last century) is to give to the Post Office Department a monopoly in the transportation of letters. Apparently the word "letter" has no technical significance, but is used in the commonly accepted meaning. The word "packet" means a packet of letters; in other words, the monopoly granted does not extend to anything except letters (See Postal Laws and Regulations, 1924, Section 1256.)

It is the opinion of this office that no useful purpose would be served by attempting at this time to interview officials in the Post Office Department in Washington in connection with this matter. To date there has been merely an inquiry by an inspector, and it would seem inappropriate to dignify the matter with an attempt to argue the case until something further has been heard from the Post Office Department. It is, of course, possible that this incident is a part of the general attempt by the Post Office Department to correct its annual deficit. It would seem, however, that should the Post Office Department attempt to impose this added cost upon the Federal Reserve System in connection with these shipments, the burden could be avoided by shipping the cancelled checks and the covering letter separately, the former by express and the latter by mail. What will be the attitude of the Department regarding shipments made

in the past, must remain to be seen.

Accordingly, it is suggested that the attached letter, together with copies of the letter and inclosures from the Deputy Governor of the Federal Reserve Bank of Kansas City, and a copy of this memorandum, be sent to the Governors of all Federal reserve banks in case they may have any comments, or information regarding similar incidents.

Respectfully,

G. Howland Chase,
Assistant Counsel.

Letters attached.

FEDERAL RESERVE BOARD

WASHINGTON

X-7274

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 18, 1932.

SUBJECT: Holidays during November, 1932.

Dear Sir:

On Tuesday, November 1, the New Orleans Branch of the Federal Reserve Bank of Atlanta will be closed in observance of All Saints' Day. Please include credits for New Orleans Branch for November 1 in the Gold Fund transit clearing of November 2.

On Tuesday, November 8, General Election Day, there will be neither transit nor Federal Reserve note clearing and the books of the Board's Gold Settlement Fund will be closed. The offices of the Federal Reserve Board and the following Federal reserve banks and branches will be open for business on that day:

Boston

Cleveland) Until 1 P.M.,
Cincinnati) Eastern Standard
) Time

Atlanta
New Orleans
Birmingham

Little Rock
Louisville

Omaha

Salt Lake City

On Friday, November 11, in observance of Armistice Day, and on Thursday, November 24, Thanksgiving Day, there will be neither transit nor Federal Reserve note clearing and the books of the Board's Gold Settlement Fund will be closed. The offices of the Board and of the Federal Reserve Bank of New York and its Buffalo Branch will be open for business on Friday, November 11.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7275

October 20, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDIFFER" has been designated to cover a new issue of Treasury Bills, dated October 26, 1932, and maturing January 25, 1933.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDIET" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7276

October 20, 1932.

SUBJECT: Expenditures of Federal Reserve Banks.

Dear Sir:

Under date of March 16, 1925, the Federal Reserve Board addressed a letter to the Governors of all Federal reserve banks (X-4290) advising that it would not be necessary for the Federal reserve banks to submit annual budgets of their expenditures for welfare and educational work to the Board for approval but stating, however, that expenditures for welfare and educational work, for officers' dinners, entertainment of local and out-of-town bankers and for membership dues in and donations to associations and societies should be kept within a reasonably low limit, and that in case of doubt as to whether a given expenditure is a proper one, the matter should be referred to the Board. In a number of instances the Federal Reserve Board has had occasion to state that it cannot authorize expenditures of Federal reserve bank funds by way of donations to further purposes, no matter how worthy, which are not directly related to the conduct of the affairs of the banks.

In reviewing the expenses of the Federal reserve banks, it has been noted that in a number of instances expenses have been incurred for memorials, testimonials, and floral offerings; for the purchase of portraits, and for other similar purposes. Ordinarily, such expenditures would not seem to bear any reasonably direct relationship to the conduct of the business of the Federal reserve banks and, accordingly, it is the view of the Board that the Federal reserve banks should not make such expenditures. However, if in a particular case and for some special reason it is believed that an expenditure of this general character would be advantageous from the standpoint of the proper conduct of the business of the Federal reserve bank, a statement of the amount and nature of the proposed expenditure, with the reason therefor, should be submitted to the Board for consideration.

For the Board's information and files it will be appreciated if you will kindly furnish it with a list of all associations, clubs, societies, etc., to which membership dues, or donations, are being paid by your bank and by each of its branches, if any. The statement should show what the membership covers; in whose name taken out; the date it expires; the amount of the annual dues or, in case of donations to associations, societies, etc., of which the bank is not a member, the amount of the donations; the special benefit or advantage which it is believed accrues to the bank from the expenditure; and any other pertinent information. In any case

which involves the payment of dues, assessments, or the like on the basis of participation of more than one representative of the bank the names of such representatives and the specific reasons for having more than one should be stated.

It is understood that at some of the banks Federal reserve clubs or societies are maintained from funds contributed in part by the Federal reserve bank and in part by the employees. It is requested that the funds contributed to the club by the Federal reserve bank or branch be accounted for separately from those contributed by employees, and that a statement be sent to the Board at the end of each year showing the purposes for which the funds contributed by the Federal reserve banks were expended.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7277

October 21, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, September, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7277-a and X-7277-b, covering in detail operations of the main lines, Leased Wire System, during the month of September, 1932.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER, 1932.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	28,188	2,056	30,244	3.70
New York	153,096	-	153,096	18.73
Philadelphia	27,804	1,729	29,533	3.61
Cleveland	63,434	1,304	64,738	7.92
Richmond	59,310	1,381	60,691	7.42
Atlanta	57,239	1,552	58,791	7.19
Chicago	87,643	1,977	89,620	10.96
St. Louis	64,865	2,144	67,009	8.20
Minneapolis	30,928	1,280	32,208	3.94
Kansas City	66,302	1,383	67,685	8.28
Dallas	60,316	2,883	63,199	7.73
San Francisco	98,092	2,590	100,682	12.32
Total	797,217	20,279	817,496	100.00

F. R. Board business	289,173	1,106,669
Reimbursable business Incoming and Outgoing		379,030
Total words transmitted over main lines		1,485,699

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7277-b).

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, SEPTEMBER, 1932.

Name of Bank	Operators' salaries	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	$260.00	$ -	$ -	$260.00	$643.97	$260.00	$383.97
New York	1,134.15	1.00	-	1,135.15	3,259.91	1,135.15	2,124.76
Philadelphia	225.00	-	-	225.00	628.31	225.00	403.31
Cleveland	306.66	-	-	306.66	1,378.46	306.66	1,071.80
Richmond	190.00	-	230.00 (&)	420.00	1,291.43	420.00	871.43
Atlanta	270.00	-	-	270.00	1,251.40	270.00	981.40
Chicago	3,778.53 (#)	-	-	3,778.53	1,907.56	3,778.53	1,870.97 (*)
St. Louis	195.00	-	-	195.00	1,427.19	195.00	1,232.19
Minneapolis	200.00	-	-	200.00	685.75	200.00	485.75
Kansas City	287.50	-	-	287.50	1,441.11	287.50	1,153.61
Dallas	251.00	-	-	251.00	1,345.39	251.00	1,094.39
San Francisco	380.00	-	-	380.00	2,144.26	380.00	1,764.26
Federal Reserve Board	-	-	15,656.96	15,656.96	-	-	-
Total	$7,477.84	$ 1.00	$15,886.96	$23,365.80	$17,404.74	$7,708.84	$11,566.87
							1,870.97 (a)
							$ 9,695.90

Reimbursable charges:

Treasury Department	$2,928.89
Reconstruction Finance Corporation	2,890.03
Federal Farm Loan Board	25.30
Federal Farm Board	46.87
Compt. of Currency, Insolv. Bank Div.	69.97
Less: Reimbursable charges	5,961.06
	$17,404.74

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7279

October 21, 1932.

SUBJECT: Shipment of Canceled Checks, etc., by Express.

Dear Sir:

With further reference to the letter of October 15, 1932 (X-7272), relating to the above subject, there is inclosed for your information a copy of a letter dated October 17, 1932, which has been received from Mr. Worthington.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7279-a

FEDERAL RESERVE BANK
OF
KANSAS CITY

October 17, 1932.

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill:

This will acknowledge receipt of your letter of October 15, enclosing a copy of Board's letter X-7272 on the subject: "Shipment of Canceled Checks, etc., by Express." We have received no reply to Mr. Helm's letter of September 9, 1932, to Post Office Inspector Ficken and the only new development is that we have been informed that a member bank in this district was required to pay postage on some shipments of cash items which it made by express prior to the time it was notified that such shipments were in violation of postal regulations. While we still continue to send cash items to certain banks by express, we discontinued more than a month ago the sending of a letter of transmittal along with the items. Our letter listing the items and containing instructions with reference thereto is now forwarded separately by mail and it is observed that this procedure is in line with the suggestion made by the Board's counsel.

Should there by any further developments, you will be promptly informed.

Very truly yours,

(S) C. A. Worthington,
Deputy Governor.

CAW:L

X-7280

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in Morning Papers, Wednesday, October 26, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of September and October, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Industrial activity and shipments of commodities by rail increased from August to September by considerably more than the usual seasonal amount. There was also a more than seasonal increase in the volume of factory employment and payrolls. The general level of prices, after advancing for three months, showed a decline beginning in the early part of September.

Production and employment - Volume of industrial production, as measured by the Board's seasonally adjusted index, based on the 1923-1925 average, increased from a low point of 58 in July to 60 in August and 66 in September. The advance in September reflected chiefly large increases in activity at textile mills, shoe factories, meatpacking establishments, and coal mines. In the steel industry, where activity had shown none of the usual seasonal increase in August, operations expanded considerably during September and the first three weeks of October to about 20 per cent of capacity. Daily average output of automobiles and lumber in September showed little change from recent low levels.

Factory employment increased from 58.8 per cent of the 1923-1925 average in August to 60.3 per cent in September, according to the Board's seasonally adjusted index. Considerable increases were reported in the cotton, woolen, silk, hosiery, and clothing industries, and smaller increases at car building shops, foundries, cement mills, and furniture factories. In the automobile, tire and

electrical machinery industries, employment declined.

During the three months ending with September value of building contracts awarded, as reported by the F. W. Dodge Corporation, was about the same as in the preceding three months, although awards are usually smaller in the third quarter. In the first half of October the daily average of contracts declined somewhat.

Distribution - Volume of freight-car loadings increased by considerably more than the usual seasonal amount in September, reflecting chiefly larger shipments of coal and miscellaneous freight. Department store sales increased from the low level of August by somewhat more than the usual seasonal percentage.

Wholesale prices - Wholesale commodity prices, as measured by the monthly index of the Bureau of Labor Statistics, showed little change from August to September. During August and early September there was a general advance in prices followed by a decline which continued through the first half of October, when the average was 2 per cent below the high point in early September and 1 per cent above the low point of early summer. Substantial decreases occurred after the beginning of September in the prices of many domestic agricultural commodities, including cotton, grains, and livestock, and also in prices of gasoline, nonferrous metals, and imported raw materials; while prices of wool, worsted yarns, coal, and lumber increased somewhat during this period.

Bank credit - During September and the first three weeks of October there were further additions to the reserve funds of member banks, arising from increases in the country's stock of monetary gold, from an unseasonal return flow of currency, and from issues of additional national bank notes. Member bank indebtedness to the reserve banks declined by more than $100,000,000 from September 7 to October 19 and their reserve balances increased by $180,000,000.

During September and the first two weeks of October reporting member banks in leading cities showed a further growth in investment holdings, largely of United States Government securities, but to some extent of other investments. Loans of reporting banks declined further in September; in the early part of October loans at banks in New York City showed an increase. There was considerable growth in Government deposits and in bankers' balances during the period; time deposits also increased.

Money rates in the open market declined to lower levels during the first half of October, the rate on prime commercial paper being reduced from a range of 2-2¼ to a range of 1¾-2 per cent, and the rate on 90-day bankers' acceptances from 3/4 of one per cent to 1/2 of one per cent. Rates for call loans on stock exchange collateral declined from 2 per cent to 1 per cent.

FOREIGN BRANCHES OF AMERICAN BANKING INSTITUTIONS

Bank of America National Trust & Savings Assn., San Francisco, Calif.

Branch:	England	London

Bankers Trust Company, New York, N. Y.

Branches:	England:	London
	France:	Paris

Chase National Bank, New York, N. Y.

Branches:	Cuba:	Havana
	England:	London (two offices)
	Panama:	Panama City
	Canal Zone:	Cristobal

Empire Trust Company, New York, N. Y. (Non-Member)

Branch:	England:	London

First National Bank, Boston, Mass.

Branches:	Argentina:	Avellaneda
		Buenos Aires (four offices)
		Rosario
	Cuba:	Cienfuegos
		Havana (three offices)
		Sancti Spiritus
		Santiago

Guaranty Trust Company, New York, N. Y.

Branches:	Belgium:	Antwerp
		Brussels
	England:	London (three offices)
		Liverpool
	France:	Paris
		Havre

National City Bank of New York, New York, N. Y.

Branches:	Argentina:	Buenos Aires (four offices)
		Rosario
	Belgium:	Antwerp
		Brussels
	Brazil:	Pernambuco
		Rio de Janeiro
		Santos Agency
		Sao Paulo
	Chile:	Santiago
		Valparaiso
	China:	Canton
		Dairen
		Hankow
		Harbin
		Hongkong

National City Bank of New York, New York, N. Y. (continued)

Branches:

China:
Moukden
Peiping
Shanghai
Tientsin

Colombia:
Bogota
Cali
Medellin

Cuba:
Caibarien
Camaguey
Cardenas
Ciego de Avila
Cienfuegos
Guantanamo
Havana (six offices)
Manzanillo
Matanzas
Moron
Nuevitas
Palma Soriano
Pinar del Rio
Sagua la Grande
Sancti Spiritus
Santa Clara
Santiago

Dominican Republic:
Barahona
La Vega
Puerto Plata
San Pedro de Macoris
Santiago de Los Caballeros
Santo Domingo City

England:
London - City Branch
West End Branch (City Bank Farmers Trust Co., 11 Waterloo Place, Ltd., a British Company handling trust operations only, entire stock owned by National City Bank, New York, is also at this address)

National City Bank of New York, New York, N. Y. (continued)

Branches:	India:	Bombay (two offices)
		Calcutta
		Rangoon
	Italy:	Genoa
		Milan
	Japan:	Kobe
		Osaka
		Tokio
		Yokohama
	Mexico:	Mexico City
	Panama:	Colon
		Panama City
	Peru:	Lima
	Philippine Islands:	
		Cebu
		Manila
	Puerto Rico:	Arecibo
		Bayamon
		Caguas
		Mayaguez
		Ponce
		San Juan
		Santurce
	Straits Settlements:	
		Singapore
	Uruguay:	Montevideo
	Venezuela:	Caracas

BRANCHES OF FOREIGN BANKING CORPORATIONS OPERATING
UNDER EDGE ACT OR UNDER AGREEMENT WITH THE FEDERAL RESERVE BOARD

The Chase Bank, New York, N. Y. (Edge Act Corporation stock of which is owned by the Chase National Bank of New York.)

Branches:	China:	Shanghai
		Hongkong
		Tientsin
	France:	Paris (two offices)
	Mexico:	Mexico City

International Banking Corporation (Subsidiary of National City Bank of New York, N. Y.)

Branches:	England:	London
	Spain:	Barcelona Madrid
	France:	International Banking Corporation owns stock of National City Bank of New York, France, S. A., operating branches at: Paris (two offices) Nice
	Haiti:	Bank of Haiti, Inc., subsidiary of the International Banking Corporation, holds stock of Banque Nationale de la Republique d'Haiti, operating at the following points in the Republic of Haiti: Port au Prince (Head Office) Aux Cayes Cape Haitian Gonaives Jacmel Jeremie Petit Goave Port de Paix St. Marc Aquin (Agency) Miragoane (Agency) Fort Liberte (Agency)
	Switzerland:	International Banking Corporation holds stock of Societe Anonyme de Gerances et de Depots, a Swiss corporation, operating at Geneva, Switzerland.

Federal Reserve Board,
October 31, 1932.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7282

October 31, 1932.

SUBJECT: Purchase of bank stock by State member banks.

Dear Sir:

The Federal Reserve Board recently received a request from a State member bank for permission to organize and acquire substantially all of the capital stock of a bank to be located beyond the limits of the city in which the member bank is situated. This request was submitted under the provisions of a condition of membership which requires the member bank to obtain the permission of the Federal Reserve Board before it acquires any stock in another bank or trust company.

After careful consideration of the matter, the Board advised the member bank that it does not look with favor upon the acquisition by a member bank of stock in another bank or trust company and that, in view of the provision of Section 9 of the Federal Reserve Act which forbids a State member bank to retain its membership in the Federal Reserve System if it establishes a branch beyond the limits of the city, town, or village in which the parent bank is situated, the Board did not feel that it could properly grant the member bank the permission for which it had applied. In this connection, attention was called to

the fact that the organization and ownership by a member bank of substantially all of the capital stock of a bank located beyond the limits of the city in which such member bank is situated would have practically the same effect as the establishment of a branch of such bank beyond the limits of the city in which it is located, and would be contrary to the spirit and purpose of the provision of Section 9 of the Federal Reserve Act referred to above.

The position taken by the Board in this matter is called to your attention for your information in the event that cases involving similar circumstances should arise hereafter in your District; and the Board should be advised in detail of the circumstances involved in any such case. In this connection, it may be noted that some State member banks are not subject to the condition of membership requiring them to obtain the Board's permission before acquiring stock in another bank. However, in view of the provision of Section 9 of the Federal Reserve Act which prohibits the establishment of branches beyond the limits of the city, town, or village in which the parent member bank is situated, the Board should also be advised of all the circumstances involved in any case in which such a State member bank desires to acquire a substantial amount of the stock of another bank located outside of the limits of the city in which the member bank is situated.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7283

November 2, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDIFFUSE" has been designated to cover a new issue of Treasury Bills, dated November 9, 1932, and maturing February 8, 1933.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDIFFER" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7384

November 3, 1932.

SUBJECT: Program for Meeting on November 14, 1932.

Dear Sir:

The Board has received from the Chairman of the Federal Reserve Agents' Conference and the Secretary of the Governors' Conference lists of all the topics suggested by the Federal reserve agents and the Governors for consideration at the meeting of the Federal Reserve Board with the Federal reserve agents and Governors which will be held beginning on Monday, November 14, 1932, at 10:30 a.m. Careful consideration has been given to all of these suggestions, and a copy of the program which has been adopted by the Federal Reserve Board for this meeting is inclosed herewith for your information.

While it was not practicable to include all of the suggested topics in the Board's program, which it is hoped will be completed on November 14, it is understood, of course, that at the conclusion of the Board's program, and during the day on November 15, the Federal reserve agents and Governors may, if they so desire, discuss any other subjects in which they are interested, and the members of the Board will be glad, as far as possible, to hear such discussions. At a session on November 15 or 16, following such discussions, the Board will receive any recommendations which the Federal reserve agents or

the Governors may have formulated for its consideration.

In this connection, while a general discussion of open market policy will take place on November 14, as a part of the Board's program, the Board desires that a meeting of the Open Market Policy Conference be held while the members of the conference are in Washington.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS AND AGENTS OF ALL F. R. BANKS.

PROGRAM

CONFERENCE OF THE FEDERAL RESERVE BOARD
with the
FEDERAL RESERVE AGENTS AND GOVERNORS
OF THE FEDERAL RESERVE BANKS
November 14, 1932.

I. Open market policy.

II. Government securities as collateral to Federal reserve notes under section 16, as amended by the Act of February 27, 1932.
   (a) Policy.
   (b) Question of extension of authority beyond March 3, 1933.

III. Activities of Banking and Industrial Committees.

IV. Proposals for changes in banking laws and for reorganization of banking system.

V. Status of report of System Committee on Branch, Group and Chain Banking.

VI. Status of report of System Committee on Reserves.

VII. Policy and procedure in granting permits under the provisions of the Clayton Act relating to interlocking directorates.

VIII. Loans by Federal reserve banks under sections 10(a) and 10(b) of the Federal Reserve Act, as amended by the Act of February 27, 1932.
   (a) Experience and policy.
   (b) Question of extension of authority under section 10(b) beyond March 3, 1933.

IX. Discounts for individuals, partnerships and corporations under section 13, as amended by the Act of July 21, 1932.
   (a) Experience and policy.
   (b) Question of amendment so as to require indorsement or other security in connection with such paper rather than both.

X. Proposed study of acceptance practice.

XI. Finance company paper.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7285

November 4, 1932.

SUBJECT: Shipment of Canceled Checks, etc., by Express.

Dear Sir:

With further reference to the above subject, which was the subject of the Board's letter of October 15, 1932, (X-7272), there are inclosed for your information copies of further correspondence, as follows:

(1) Letter dated October 21, 1932, from the Governor of the Federal Reserve Bank of Cleveland and a copy of the inclosure referred to therein.

(2) Letter dated October 21, 1932, from the Governor of the Federal Reserve Bank of Dallas.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

X-7285-a

FEDERAL RESERVE BANK

OF CLEVELAND

October 21, 1932.

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill:

In response to the board's letter X-7272 of October 15, 1932, subject "Shipment of Canceled Checks, Etc., by Express", we have to report that it has been the practice of this bank and its branches for many years to ship to the Treasury Department by express Government checks and warrants accompanied by the daily transcript of the Treasurer's general account, as well as a limited number of bulky cash letters to our member banks. The shipment of Treasury checks and warrants by express was begun at the suggestion of the Federal Reserve Board contained in its letter of November 30, 1918 (X-1296), and the shipment of bulky cash letters by express was adopted as a measure of added protection afforded by the special handling given express shipments, as well as the saving in transportation charges, which is quite substantial on large packages. The volume of express shipments was not augmented at the time the increased postal rates became effective.

Our experience with the Post Office inspectors has been similar to that of Kansas City; in July of this year, an inspector from the Cleveland district told us that this bank was violating the postal laws by sending cash letters to our member banks by express instead of by mail. He was informed that our interpretation of the law indicated that we were within our rights in using the express company for the shipment of checks, and that the adding-machine list accompanying the checks was in the nature of an invoice such as the Post Office Department approves for enclosure with parcel post shipments.

In September of this year, a Post Office inspector from the Pittsburgh district visited our Pittsburgh Branch, calling attention to an alleged violation of the postal laws in sending cash letters by express and requested that the practice be discontinued. After conferring with our Pittsburgh Branch and obtaining detailed information regarding the number of express shipments, a letter was received from the inspector estimating the amount of revenue of which the Post Office Department was deprived during the period from July 6 to the time the matter was taken up with the branch, as not less than $734.40. A copy of this letter is enclosed. No formal demand has been made by the Post Office Department for re-imbursement. Our Cincinnati Branch has had no communication from the postal authorities on this subject.

FEDERAL RESERVE BANK

OF CLEVELAND

Mr. Chester Morrill, Secretary -2- October 21, 1932.
Federal Reserve Board,
Washington, D. C.

We have been advised that a report regarding the practice of this bank and its Pittsburgh Branch has been forwarded to the Post Office Department in Washington.

Very truly yours,

(S) E. R. Fancher
Governor.

F:S:K

COPY

COPY

X-7285-b

PITTSBURGH BRANCH
FEDERAL RESERVE BANK OF CLEVELAND

POST OFFICE DEPARTMENT

OFFICE OF INSPECTOR.

L. C. Kennedy
Inspector
S

Pittsburgh, Pa., September 24, 1932

Mr. F. E. Cobun
Assistant Cashier
Pittsburgh Branch Federal Reserve Bank
Pittsburgh, Pa.

Dear Sir:

At a conference with you yesterday regarding the transmission of mail matter through express channels you stated that you sent an average of 30 letters a day weighing 12 ounces or more to your correspondent banks. The postage revenue on this would be not less than $10.80. The increased postage rates went into effect July 6, 1932. There were 68 business days between the time of the increase in rates and the time that I called at your office and at this rate the Post Office Department was deprived of revenue to a minimun charge of $734.40, this based on the assumption that each of the 30 letters mailed daily by you weighed at least 12 ounces and the amount estimated is the minimum amount of revenue lost to the Post Office Department through the use of the Railway Express.

Please advise if this estimate is correct. I am enclosing an officially addressed envelope requiring no postage for your use in submitting a reply.

Very respectfully,

L. C. KENNEDY (signed)

Post Office Inspector

C O P Y

X-7285-c

FEDERAL RESERVE BANK

OF DALLAS

B. A. McKinney
Governor

October 21, 1932

Federal Reserve Bank
Washington, D. C.

Gentlemen: Attention of Mr. Chester Morrill

This will acknowledge receipt of your letter X-7272, dated October 15, 1932, subject: "Shipment of Canceled Checks, etc., by Express."

For your information, we are at this time sending daily transcripts of the general account of the Treasurer of the United States by express, accompanied by paid vouchers. We are also forwarding by express daily cash letters to twelve or fifteen banking institutions within the district, as well as the Federal Reserve Bank Branch at Oklahoma City, all of which are now accompanied by letters of transmittal.

Early in September we had an experience here somewhat similar to that of the Kansas City Federal Reserve Bank. An inspector of the Post Office Department called upon us at that time and inquired if we were sending checks by express, accompanied by a printed letter of transmittal. Upon learning of our manner of handling such items, he obtained copies of all transmittal letters, which, according to our understanding, were to be referred to the Office of the Third Assistant Postmaster General for a definite ruling. We had not, prior to the receipt of your letter, heard anything further in connection with the investigation.

We are at this time giving the matter consideration, and without further discussion with the Post Office Department, contemplate instituting at an early date a plan which will comply with the suggestion of counsel in a manner that should protect this bank from any complaint on the part of the Post Office Department.

Very truly yours,

(S) B. A. McKinney
Governor.

CONFIDENTIAL

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7286

November 5, 1932.

SUBJECT: Bankers' Acceptances.

Dear Sir:

For your information you will find inclosed a copy of Governor Meyer's letter of May 6, 1932, to Governor Calkins and a copy of Governor Calkins' reply of May 12 in regard to a proposed study of American acceptance practice and its development. In addition you will find inclosed a copy of a memorandum prepared under date of June 11 in the office of the General Counsel of the Board on the subject of the Board's rulings regarding bankers' acceptances.

The Board's staff and the Committee appointed by Governor Calkins have outlined a tentative course of procedure for initiating this study. In this connection, for your information, the Board has not designated any members of the Committee, but the Board expects that members of its staff and the Committee will jointly carry on the proposed study and the Board's Secretary will act as the medium of communication between the Board's staff and the Committee.

As a part of the tentative procedure it has been suggested that the Governor of each Federal reserve bank

transmit to the proper officer of each of certain member banks in his district which have been engaged in the acceptance business a letter in one of the forms inclosed, together with forms of questionnaires, samples of which are also inclosed, to be filled out by such banks respecting any acceptances on which the experience of the banks has proved unsatisfactory. It is expected that Mr. Kenzel will send you a suggested list of such banks. You will note that there are two forms of letters to accepting banks, one to be sent to banks which are now active in the acceptance market and the other to banks which have either discontinued or considerably curtailed their acceptance credit business.

It has also been suggested that, in addition to the information gained through the replies to the proposed letter and through the responses to the questionnaires, the Governors of the various Federal reserve banks might obtain helpful expressions of views through personal conferences with bankers whose experience in the acceptance field in their respective districts has given them a special knowledge of the subject.

The inclosures are being transmitted to you at this time with the explanation contained in this letter at the suggestion of the Board in view of the forthcoming conference of the Board with the Federal reserve agents and Governors beginning on Monday, November 14, at 10:30 A. M., so that you

may have an opportunity in the meantime to give some thought to the subject and be prepared to discuss it as one of the topics in the Board's program, before steps are taken to carry out the plan.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS AND AGENTS OF ALL F. R. BANKS.

COPY

X-7286-a

May 6, 1932.

Mr. J. U. Calkins, Chairman,
Governors' Conference,
c/o Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Governor Calkins:

Certain phases of the acceptance practice which has grown up under the Federal Reserve Act have been made the subject of comment in recent years and occasionally of criticism. The report which was submitted on behalf of the Committee on Banking and Currency of the Senate, regarding S. 4415, devotes a paragraph to "The Growth of Acceptance Credit", which contains a number of such criticisms. The Board feels that certain of these criticisms may have pertinency and that it would be helpful to make a thorough and discriminating study of American acceptance practice and its development, particularly as influenced by the more liberal attitude adopted by the Federal Reserve System in recent years and reflected both in the rulings and regulations of the Federal Reserve Board and in the operating practices of the Federal reserve banks. The Board, therefore, suggests that a committee be set up to begin an investigation at an appropriate time along the lines indicated and to make recommendations for such correction of procedure and/or revision of the

Board's rulings and regulations, as may be found to be necessary or desirable. Such a committee might be either a committee of the Federal reserve banks alone or a joint committee representing both the banks and the Board. It would be appreciated if you would consider this matter and let the Board have the benefit of your suggestions, made after consultation with the Governors of other Federal reserve banks if you prefer, including your views as to the personnel of such a committee, so far as it involves representation of the Federal reserve banks.

Very truly yours,

(S) Eugene Meyer,
Governor

EMM/CM/fsf

C O P Y

X-7286-b
422

FEDERAL RESERVE BANK OF SAN FRANCISCO

Jno. U. Calkins, Governor

May 12, 1932

Mr. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor Meyer:

In compliance with the suggestion in your letter of May 6th, I have proposed to the Governors of the other Federal Reserve Banks the appointment of a committee, representing the Banks, for the purpose of making a thorough and discriminating study of American acceptance practice and its development, in co-operation with or in collaboration with a committee, or members of a committee, appointed by the Federal Reserve Board, and have asked them to signify their approval or disapproval in messages to be handed to me on Tuesday, May 17.

As members of such committee representing the Banks, I suggest Messrs. Kenzel of New York, McKay of Chicago, and Clerk of San Francisco.

I am, of course, in entire sympathy with the proposal contained in your letter, as many of the developments in the period since the Board's regulations were written have been unsound and much correction in practice is obviously needed.

Yours very truly,

(S) Jno. U. Calkins
Chairman, Governors' Conference

X-7180

June 11, 1932

Dr. Miller

Mr. Vest - Assistant Counsel.

Board's rulings regarding Bankers' Acceptances

In accordance with your request, I have prepared the following memorandum showing the more important changes which the Board has made from time to time in the principles incorporated in its regulations and rulings with respect to bankers' acceptances. The memorandum is not intended to cover the lesser important rulings or regulations of the Board on this subject but its purpose is to give the facts with reference to those rulings of primary importance which represent changes in policy with regard to bankers' acceptances, and particularly as to those cases where such changes have involved a liberalization of the requirements.

ORIGINAL FEDERAL RESERVE ACT AND EARLY REGULATIONS AND RULINGS.

Under the provisions of the original Federal Reserve Act, Federal reserve banks were authorized by section 13 to discount acceptances based on the importation or exportation of goods with maturities of not more than three months, when indorsed by a member bank; and member banks were authorized to accept drafts or bills of exchange arising out of import and export transactions having not more than six months' sight to run. Federal reserve banks were also authorized by section 14 to purchase bankers' acceptances, with or without the indorsement of a member bank.

The Federal Reserve Board in 1915 issued several different regulations regarding bankers' acceptances, gradually expanding and enlarging the provisions with respect to their eligibility for rediscount. As a requisite of eligibility, it was required by the Board's rulings that there be a definite bona fide contract for the shipment of the goods involved in the import or export transaction within a specified and reasonable time after the making of the acceptance, and also that the transaction on account of which the acceptance is drawn must itself involve the importation or exportation of the goods in question.

One of the provisions contained in the Board's early regulations was that an acceptance must have been made "by a member bank, nonmember bank, trust company or by some private banking firm, person, company or corporation engaged in the business of accepting or discounting". This provision recognized as eligible for discount acceptances made, not only by banks and bankers, but also by others engaged in the acceptance business. A similar provision, though in different language, is contained in the present regulations regarding acceptances.

One of the most important of the early rulings on acceptances was one published in the 1915 Bulletin at page 91, in the form of an opinion of the Board's counsel, which held that Federal reserve banks were authorized to discount acceptances, as arising out of the

importation and exportation of goods, which were based on the shipment of goods between any two or more foreign countries and between the United States and certain of its dependencies and possessions, as well as between the United States and foreign countries. The Board's records do not indicate the circumstances under which this ruling was made. The substance of this ruling was subsequently incorporated in the Board's regulations and has been contained in the regulations since that time.

AUTHORITY FOR THE PURCHASE OR DISCOUNT OF ACCEPTANCES ARISING OUT OF DOMESTIC TRANSACTIONS.

In a regulation promulgated in November 1915, the Board authorized Federal reserve banks to purchase bankers' acceptances, when properly secured, covering the domestic shipment of goods or covering the warehouse storage of readily marketable staples. In transmitting this regulation, the Board stated that it had not felt justified, upon admitting State banks and trust companies to the Federal Reserve System, in requiring that they discontinue making acceptances arising out of domestic transactions if kept within reasonable limitations; and that the Board considered such acceptances as of a character to make desirable investments for Federal reserve banks. As uniformly construed by the Board, the authority of Federal reserve banks to purchase bankers' acceptances under section 14 of the Federal Reserve Act is not subject to the limitations applicable in the case of rediscounts of acceptances, and accordingly it was legally possible

to authorize Federal reserve banks by regulation to purchase domestic acceptances although no specific mention of domestic acceptances was made in the law. The Board's records do not disclose at whose instance or suggestion this authorization for the purchase of domestic acceptances was given.

Subsequently in the Act of September 7, 1916, the law was amended so as to authorize member banks to accept drafts or bills growing out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance, or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples; and Federal reserve banks were authorized to discount such acceptances. This amendment was recommended by the Federal Reserve Board in its annual report covering the year 1915, in which it was said, "There can be but little question of the safety of such acceptances, and their use will tend to equalize interest rates the country over and help to broaden the discount market".

Among the principal requirements which the Board has made in its regulations and rulings with respect to acceptances drawn against the storage of readily marketable staples is that the warehouse receipt covering such staples be issued by a party independent of the customer and that such acceptances should not have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment or distribution into the process of manufacture or consumption. In connection with acceptances drawn to finance the domestic shipment of goods, the Board has held that there should be some actual connection between the acceptance of the draft and the transaction involving the shipment of the goods; that is, the draft should be drawn to finance the shipment. The Board has also said that a Federal reserve bank may properly decline to discount any acceptance the maturity of which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of that period reasonably necessary to finance such transaction.

ACCEPTANCES TO FURNISH DOLLAR EXCHANGE.

The amendment of September 7, 1916, also authorized member banks to make, and Federal reserve banks to acquire, acceptances having not more than three months sight to run, drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade.

The Federal Reserve Board adopted regulations requiring member banks which desire to accept drafts drawn by banks or bankers in certain countries for the purpose of furnishing dollar exchange to obtain the permission of the Board. Such permission is granted when the usages of trade in such countries appear to require such acceptance facilities. There have been no important changes in the regulations or in the law with respect to this subject since 1916.

ACCEPTANCES DRAWN UNDER CREDITS EXTENDING OVER A PERIOD OF ONE OR TWO YEARS.

Under date of February 7, 1918, the Board addressed a letter to the Governor of the Federal Reserve Bank of New York (published in the 1918 Bulletin at page 257), stating its policy in dealing with acceptances drawn under credits extending over a period of one or two years. The expression of the Board's policy on this subject was contained in a memorandum accompanying the letter. This letter and memorandum were prepared after correspondence with the Federal Reserve Bank of New York and after conferences between Governor Strong and a number of New York bankers. The principles outlined in the memorandum were summarized in the letter as follows:

> (1) Acceptance credits opened for periods in excess of ninety days should only, in exceptional cases, extend over a period of more than one year, and in no case for a time exceeding two years.
>
> (2) Banks which are members of groups opening these credits, should not buy their own acceptances, and where an agreement is made with the drawer for purchase of acceptances for future delivery, the rate should not be a fixed one, but

should be based upon the rate ruling at the time of the sale.

(3) Transactions covered by these credits should be of a legitimate commercial nature, and acceptances must be eligible according to the rules and regulations of the Board.

(4) Whenever syndicates are formed for the purpose of granting acceptance credits for more than moderate amounts, Federal reserve banks should be consulted with regard to the transaction. The question of eligibility, both from the standpoint of the character of the bill and of the amount involved, will be passed upon by the Federal reserve bank subject to the approval in each case of the Federal Reserve Board.

The introductory paragraph of the memorandum setting forth the principles above summarized is as follows:

"In dealing with the question of acceptances, it is desirable that the Board should not be obliged to adopt inflexible regulations unless absolutely necessary. It should be borne in mind that we are competing in the acceptance field with other countries which have no legal restrictions in which sound business judgment, guided from time to time by the central banks of these countries, constitutes the unwritten, but none the less rigid law. The banks of the United States would greatly assist the Board in its work of developing a modern and efficient system of American bankers' acceptances - and they would best serve their own purposes - if they would study and assimilate the underlying principles which must guide the Board, and observe these principles voluntarily without requiring inflexible rules. Unless the bankers cooperate with the Board in this manner, many transactions - unobjectionable as long as they are engaged in for legitimate purposes and within reasonable limits - will have to be barred because strict regulations do not admit of discrimination."

After a full discussion of the principles which are summarized above, the Board's memorandum concluded as follows:

"These are the principles which the Federal Reserve System must apply. It would be inexpedient to attempt more than to establish the principles. It would be detrimental to formulate definite regulations dealing in minute detail with the various phases of the problem. It would be far better to give some latitude to the banks in dealing with these matters. But this will depend entirely upon the wisdom and discretion of the member banks. The banks will best serve their own interests if, following the example of European institutions, they will adopt these principles as self-imposed, well tried rules of business

prudence rather than by abusing their freedom of action to force the Board to tie their hands by rigid regulations."

ACCEPTANCES AGAINST READILY MARKETABLE STAPLES STORED IN A WAREHOUSE IN A FOREIGN COUNTRY.

In 1919, the response to an inquiry from the Federal Reserve Agent at the Federal Reserve Bank of Boston the Board held that a member bank might properly accept a draft drawn in Canada, payable in the United States in dollars and secured by rice stored in a public warehouse in Canada, and that such an acceptance might properly be rediscounted by a Federal reserve bank. The Board's ruling on this question was published in the 1919 Bulletin at page 740.

PURCHASE OF EXPORT ACCEPTANCES WITH SIX MONTHS MATURITIES.

Under date of May 6, 1921, the Federal Reserve Board amended its Regulation B so as to authorize the purchase by Federal reserve banks of bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities up to six months. This increase in the maturities of such acceptances eligible for purchase was suggested in a letter to the Board from Deputy Governor Harrison of the Federal Reserve Bank of New York. The suggestion was also made in letters from Mr. Paul M. Warburg, in connection with the financing of so-called "finishing credits", a term used to designate a credit to finance both (1) the shipment from the United States of raw materials to be manufactured into finished products and (2) the subsequent process of manufacture in the foreign country and the exportation therefrom of the finished product. This amendment to Regulation B was recommended by

the Federal Advisory Council and also by the Governors of the Federal Reserve Banks.

In its letter transmitting the amended regulation, the Board said:

> Two considerations have led the Board to take this action: (1) The desire to widen the acceptance market by meeting the wants of savings banks and similar purchasers of bankers' acceptances who are now deterred from investing in acceptances of longer than three months' maturity, because of the lack of authority of Federal Reserve Banks to purchase longer maturities up to six months; (2) to provide more ample facilities for financing import and export trade with countries where either normal conditions or present abnormal conditions indicate the desirability of rendering assistance by making acceptances of maturities not exceeding six months eligible for purchase by Federal Reserve Banks.

The Board also stated that it looked to the good banking judgment and discretion of the accepting banks and of the Federal Reserve Banks to avoid any untoward results; and that the effect of this widening of the investment powers of the Federal reserve banks would be followed closely with a view to such modification of the regulations as might be necessary.

Under the Board's present regulation, Federal reserve banks may purchase bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities not in excess of six months.

PURCHASE OF ACCEPTANCES DRAWN BY COOPERATIVE MARKETING ASSOCIATIONS WITH SIX MONTHS' MATURITIES.

Under date of December 19, 1922, the Federal Reserve Board promulgated an amendment to its Regulation B authorizing Federal reserve banks to purchase bankers' acceptances, with maturities not in excess of

six months, which are drawn by growers or by cooperative marketing associations composed exclusively of growers of nonperishable, readily marketable, staple agricultural products, to finance the orderly marketing of such products grown by such growers and secured at the time of acceptance by warehouse, terminal or other similar receipts issued by parties independent of the borrowers and conveying security title to such products.

The Board's records do not indicate upon whose suggestion or recommendation this change in its regulation was made; but the Board stated in its letter of transmittal:

> "The Board was moved to take this action by a desire to provide more ample facilities for financing the orderly marketing of staple agricultural products, especially by cooperative marketing associations. This is in accordance with the principle heretofore recognized by the Board that the carrying of agricultural products for such periods as are reasonably necessary in order to assist the orderly marketing thereof is a proper step in the process of distribution."

By the Act of March 4, 1923, Federal Reserve Banks were authorized to discount acceptances with maturities up to six months when drawn for an agricultural purpose and secured at the time of acceptance by documents of title covering readily marketable staples.

ELIMINATION OF DOCUMENTARY REQUIREMENTS AS TO ACCEPTANCES GROWING OUT OF IMPORT AND EXPORT TRANSACTIONS.

Under date of March 29, 1922, the Board promulgated an amendment to its Regulation A, eliminating the requirements for the attachment or furnishing of documents in connection with acceptances arising out of import and export transactions, and leaving

eligibility to be determined by the Federal reserve banks as a question of fact.

Simplification of the Board's regulations regarding bankers' acceptances had been recommended in May, 1921 by the Federal Advisory Council in a statement as follows:

> * * * * "Moreover, it is impossible for the American bankers' acceptance to establish itself in competition with the British sterling acceptance in world markets if the foreign drawer is bewildered by a mass of regulations which he has to understand fully if he is to be certain that he is issuing an eligible bill which will find a ready market in the United States. The simpler the regulations the better the opportunity for the American bankers' acceptance to become a credit instrument in world markets. If there are competent men whose discretion may be relied upon in charge of the supervision of American acceptors, there is no need for attempting to control by detailed regulations the practice of American accepting banks and bankers. "

It was presumably on the basis of this recommendation that the matter was given consideration by the Board in March, 1922, but the record does not show whether this is a fact. Shortly before the adoption of the amended regulation by the Board, the proposed change eliminating the documentary requirements was discussed at an informal conference in New York by Governor Harding and Mr. Logan with Messrs. Warburg, Kent, Broderick, Kenzel and Harrison. There was apparently another discussion of the matter a few days later by Mr. Kenzel and certain New York bankers with the Federal Reserve Board. Before the change in the regulation was adopted a number of the Federal reserve banks, as well as the President of the Advisory Council,

were asked for their views with respect to the matter.

The Board's letter of transmittal of this amendment to Regulation A stated that there had been a rapid growth of the acceptance business during the war and it had been necessary accordingly for the Board to make frequent rulings and to amend its regulations regarding bankers' acceptances periodically; the Regulation of 1920 on this subject was the last step in the development of such regulations and it contained the substance of the more important rulings previously issued by the Board regarding acceptances arising out of import and export transactions. In view of the experience which the American banks had obtained, the Board considered that detailed regulations on this subject were no longer necessary and also that the general advancement of foreign trade could be furthered most effectually by the substitution of a simpler regulation. Accordingly, the Board eliminated the following sentences from its regulation with respect to acceptances arising out of import and export transactions:

> * * * "While it is not necessary that shipping documents covering goods in the process of shipment be attached to drafts drawn for the purpose of financing the exportation or importation of goods, and while it is not essential, therefore, that each such draft cover specific goods actually in existence at the time of acceptance, nevertheless it is essential as a prerequisite to eligibility either (a) that shipping documents or a documentary export draft be attached at the time the draft is presented for

> acceptance, or (b) if the goods covered by the credit have not been actually shipped, that there be in existence a specific and bona fide contract providing for the exportation or importation of such goods at or within a specified and reasonable time and that the customer agree that the accepting bank will be furnished in due course with shipping documents covering such goods or with exchange arising out of the transaction being financed by the credit. A contract between principal and agent will not be considered a bona fide contract of the kind required above, nor is it enough that there be a contract providing merely that the proceeds of the acceptance will be used only to finance the purchase or shipment of goods to be exported or imported.

In making this amendment, the Board stated that it was not reversing or modifying its former rulings, which were regarded as essential to the proper conduct of the acceptance business, but that its action was intended merely to allow greater latitude to Federal reserve banks for the exercise of their discretion and judgment, observing always the limitations of the law. The Board also stated that the responsibility for passing upon the eligibility of bankers' acceptances rests upon the Federal reserve banks themselves and each bank should satisfy itself that the acceptances conform to the requirements.

ACCEPTANCES BY NATIONAL BANKS AGAINST IMPORT AND EXPORT BILLS.

In rulings published in the 1917 Bulletin at page 28 and in the 1920 Bulletin at page 610, the Board took the position that no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft. The theory underlying these rulings was that such a draft is not drawn for the purpose of financing the importation or exportation of goods but for the purpose of financing the business of the bank which purchased the foreign documentary draft.

During the year 1923, the Board had correspondence with Mr. J. H. Fulton, President of the National Park Bank of New York with reference to the right of a national bank to accept drafts against the security of import or export bills, and also had correspondence with the Federal Reserve Bank of New York on this question. The Federal Reserve Bank considered that acceptances of this kind under proper conditions would be lawful, but it was the Board's position at that time that such acceptances were not proper under the rulings above referred to. In 1924, letters were addressed to the Board by the Governors of the Federal Reserve Banks of New York and San Francisco requesting a final ruling of the Board with respect to this question. The Board gave further consideration to the subject, but for some reason no action was taken at that time. In 1926, however, acceptances of this kind were questioned by a national bank examiner in an examination of the First National Bank of Boston and the Comptroller of the Currency asked

the Federal Reserve Board for a ruling in the matter. The Board again gave consideration to the question and reached the conclusion that its former rulings on the subject contained an unnecessarily strict interpretation of the law. Accordingly, the Board ruled that national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks; provided that such drafts are drawn before the underlying import or export transactions are completed and comply as to maturity and in all other respects with the provisions of the law and the Board's regulations. (1926 Bulletin 854).

ACCEPTANCES AFTER IMPORT OR EXPORT TRANSACTION COMPLETED.

At a meeting of the Subcommittee of the General Acceptance Committee held in New York in October, 1927, it was decided to recommend to the Federal Reserve Board that the Board revoke its previous rulings to the effect that a bill cannot be eligible for acceptance by a member bank, or for rediscount or purchase by a Federal reserve bank, as a bill growing out of the importation or exportation of goods, if it is accepted after the goods have reached their destination; and to rule in lieu thereof that bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when given for the purpose of financing the sale or distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

Shortly before the meeting referred to, Mr. Kenzel, Chairman of the Sub-committee, had appeared before the Federal Reserve Board, in response to an invitation from the Board, to discuss possible amendments to the Board's regulations and rulings regarding bankers' acceptances, and had pointed out the desirability of making a ruling of this kind in order that American acceptances might compete with those of other countries in financing foreign trade.

Subsequent to his appearance before the Board in this connection, Mr. Kenzel conferred with a number of prominent New York bankers engaged in the acceptance business; and the following is an excerpt from his statement on this subject submitted in connection with the recommendation of the sub-committee:

> "They (the bankers consulted) felt that they would not wish to extend credits in Europe for purely domestic purposes, explaining that by that they meant the purchase of goods of domestic origin, the fabrication of such goods and its sale for domestic consumption within any European country, but that they did feel that they should be permitted to finance through acceptance credits the sale within European countries of goods of origin foreign to those countries, and the fabrication and sale of goods for export. Many of them cited the familiar problem of American cotton which is now sent so largely to European countries on consignment by American shippers and is sold to European spinners out of warehouses in Europe. Spinners require credit of ninety days or more. Under the present rules, American banks can give such credits where the cotton crosses a frontier in Europe, that is, where it is exported from one European country to another, but they cannot give such credits if the cotton is sold to spinners located in the same European country in which it is stored pending sale.

"A similar negative position arises with respect to cotton which is sold and shipped from America on terms that have become quite usual, i.e., that at the buyer's option he may pay cash on arrival or give ninety days bankers credit. It frequently happens that the cotton has arrived and so the physical export completed before the buyer elects how he shall pay. If he elects to give ninety days bankers credit the banker may not accept the bill if the cotton has arrived at the foreign destination named in the shipping documents."

"The American bankers consulted felt that the time has certainly arrived in the development of American acceptance business when American accepting bankers should be permitted the free exercise of their discretion within the law and regulations and that, within those limits, full latitude should be granted them in the accommodation of business as it is done in foreign countries. They stressed particularly the point that they regarded it as preferable to give a three months credit with a renewal for a further period, if it were found that a renewal were required at the expiration of the original period, than to grant the credit originally for a period of six months, and that if the rule against accepting a bill after the goods had arrived were rescinded, the end sought would be practically accomplished without a specific ruling in favor of renewal bills. It was pointed out that from the bankers' point of view it was preferable to be able to review credits at more frequent intervals than is the case when credits up to six months are being insisted upon by the borrower as a precaution against being unable to redraw at the end of a shorter period in case of need even for a small part of the credit".

The recommendation made by the subcommittee was considered by the Federal Advisory Council and, with one suggested change, was

approved. After consideration of the matter, the Board reached the conclusion that its previous rulings on this subject contained an unnecessarily strict interpretation of the law; and, in order to facilitate the financing of foreign trade and the sale of American goods abroad, the Board ruled, on November 28, 1927, (1927 Bulletin, p. 860) that bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed. The Board pointed out that due care should be observed to prevent a duplication of financing and that there should not be outstanding at any time more than one acceptance against the same goods. This ruling of the Board reversed all previous conflicting rulings.

ACCEPTANCES DRAWN BY WAREHOUSE OR ELEVATOR COMPANY AGAINST WAREHOUSE RECEIPTS ISSUED BY ITSELF.

In 1924, Governor Young of the Federal Reserve Bank of Minneapolis suggested to the Federal Reserve Board that it give approval to acceptances drawn by a terminal elevator company against the security of warehouse receipts issued by the company which draws the acceptances. He pointed out that in Minnesota such a company is under the strict supervision and control of a State commission, a representative of which checks all grain that is stored in the elevator and all grain that is removed therefrom; and that it is practically impossible to remove grain from such terminal elevators without the knowledge and permission of the representa-

tive of the State commission.

The matter was considered by the Federal Reserve Board from time to time over a period of several years and was twice referred to the Governors' Conference, which recommended that the Board approve acceptances of this character. After consideration of the matter, the Board in April, 1927, voted to disapprove the recommendation of the Governors' Conference and not to amend its regulations so as to make such acceptances eligible for rediscount or purchase by the Federal reserve banks. The Board considered that the principle laid down in its regulations, that warehouse receipts used as security for acceptances must be issued by a party independent of the customer, was essential to the maintenance of the high standard of bankers' acceptances and that any action setting aside this principle might establish a precedent for future action which would result in the lowering of the standard.

The matter was again considered by the Federal Reserve Board in October 1928, however, at which time Governor Young was Governor of the Federal Reserve Board, and the Board decided to adopt an amendment to its regulations making eligible for rediscount or purchase acceptances against warehouse receipts conveying security title to readily marketable staples when such receipts are "issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn."

LIBERALIZATION OF RULINGS REGARDING DOMESTIC BANKERS' ACCEPTANCES.

The General Committee on Bankers' Acceptances at its meeting in March, 1926, adopted a report containing a statement of broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits and recommending specifically that the use of domestic acceptances be broadened, particularly in two respects:

(1) To permit the purchaser of goods under bankers' acceptance credits to draw bills having a maturity consistent with the usual and customary credit time that obtains in the relative trade, instead of requiring the shipper to draw the bill if it has a maturity in excess of the actual transit time of the goods, (the Board's rulings had been understood as making a distinction between the period for which acceptances may be drawn by the seller and the period for which they may be drawn by the purchaser);

(2) To permit the use of bankers' acceptances secured by receipts covering readily marketable staples to finance the carrying of certain staples during the time they are being converted into other forms of readily marketable staples through a converter independent of the drawer, provided that the identity of the goods is not lost and the accepting bank remains secured by the independent converter's receipt.

This report of the General Committee on Bankers' Acceptances was considered by the Governors' Conference in March, 1926, which approved the report and requested the Federal Reserve Board to adopt the rulings contained therein. The Federal Reserve Board acted upon the matter in June, 1928, at which time it approved the report in so far as it contained a statement of the broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits, but with the understanding that such approval should not be construed as revoking or qualifying any of the Board's existing rulings. The Board stated that if the broadened use of domestic bankers' acceptances was found to be hampered by the existing rulings of the Board, it would consider the question of revoking or modifying such rulings provided a statement of specific facts arising in actual cases was submitted to the Board.

The Governors' Conference in November 1928, upon consideration of a report of the subcommittee of the General Committee on Bankers' Acceptances, requested the subcommittee to submit to the Board specific examples of transactions exemplifying the need for a modification of the Board's rulings in the respects above mentioned. This was done and the following is an example of the facts submitted with regard to the Committee's first recom-

mendation:

> "A firm in New York City purchases certain staples from a seller in a western city who ships the same and draws a sight draft on the purchaser in New York with bill of lading attached. This draft and bill of lading attached are sent in the customary way to a bank in New York, Bank A, designated by the purchaser. The latter then draws a 90 day bill on Bank A, which is accepted by the bank, having at the time in its possession the bill of lading covering the staples in process of shipment. The acceptance is then discounted by the purchaser and the proceeds used to pay the sight draft and to obtain the release of the bill of lading. It does not require 90 days for the completion of the shipment of goods, only a relatively short time being necessary for this purpose."

After consideration, the Board ruled in November 1929 that a draft drawn by the purchaser of goods in accordance with the facts above stated is eligible for acceptance by a member bank when it has a maturity consistent with the usual and customary credit time prevailing in the particular business, provided that all other relevant requirements of the law and of the Board's regulations are complied with. (1929 Bulletin, page 811).

This ruling was in some respects inconsistent with certain previous rulings of the Federal Reserve Board to the effect that an acceptance should not be drawn for the purpose of furnishing working capital to the borrower or to the purchaser during the process of the manufacture of goods; and the Board stated that such previous rulings with regard to working capital might be regarded as superseded by this ruling to the extent of any such inconsistencies.

The subcommittee also submitted an example of a specific case designed to show the desirability of permitting the use of bankers' acceptances, secured by receipts covering readily marketable staples, to finance the carrying of these staples during the time they are being converted into other forms through a converter or processer who is independent of the drawer of the acceptance, provided that the identity of the goods is not lost and the accepting bank remains secured by the independent converter's receipt. After consideration, however, the Board voted in March 1930, to disapprove the recommendation made on this point and stated its opinion that bills drawn under such circumstances are not to be considered as eligible for acceptance by member banks.

BOARD'S POLICY OF RULING ON ACCEPTANCE QUESTIONS ONLY AFTER CONSIDERATION OF FEDERAL RESERVE BANKS.

It has been the policy of the Federal Reserve Board for a number of years not to consider and pass upon questions with regard to

bankers' acceptances until such questions have been first submitted to and considered by the Federal reserve bank of the district in which the question arises. It is not clear when this policy was first adopted but it was definitely in force as early as 1922 and probably, at least in some cases, for some time before that.

Many acceptance questions, of course, have arisen in the New York District and accordingly the Federal Reserve Bank of New York has been frequently called upon to consider such questions; and much of the Board's correspondence regarding acceptance matters has been with this Federal reserve bank. In a number of cases where acceptance questions have arisen in other districts, the Federal Reserve Board in considering such questions has taken them up either formally or informally with Mr. Kenzel, the Chairman of the Committee on Bankers' Acceptances.

SUMMARY

For convenient reference there is given below a brief summary of the changes in the law, regulations and rulings regarding acceptances, which have been discussed above.

Provisions of the Federal Reserve Act.

Under the original Federal Reserve Act, member banks were authorized to accept drafts arising out of import and export transactions having not more than six months' sight to run and Federal reserve banks were authorized to discount such acceptances, indorsed by a member bank, with maturities of not more than three months. Federal reserve banks were also authorized to purchase bankers' acceptances with or without the indorsement of a member bank.

By the Act of September 7, 1916, member banks were authorized to make, and Federal reserve banks to discount, acceptances arising out of the domestic shipment of goods or out of the storage of

readily marketable staples; and by this Act, also, member banks were authorized to make, and Federal reserve banks to acquire, acceptances drawn for the purpose of furnishing dollar exchange.

By the Act of March 4, 1923, Federal reserve banks were authorized to discount acceptances with maturities up to six months when drawn for an agricultural purpose and secured at the time of acceptance by documents of title covering readily marketable staples.

Rulings and Regulations of the Federal Reserve Board.

In its regulation of February 8, 1915, the Board recognized as eligible for rediscount acceptances made, not only by banks and bankers, but also by others engaged in the acceptance business.

In a ruling published in the 1915 Bulletin at page 91, the Board gave approval to acceptances based on the shipment of goods between two or more foreign countries and between the United States and certain of its dependencies and possessions, as well as between the United States and foreign countries.

By regulation dated November 29, 1915, the Board authorized Federal reserve banks to purchase bankers' acceptances, when properly secured, covering the domestic shipment of goods or covering the warehouse storage of readily marketable staples. (This was prior to the amendment to the law permitting the discount of domestic acceptances.)

After the amendment to the law of September 7, 1916, the Board included in its regulations provisions regarding the acceptance by member banks of drafts drawn to furnish dollar exchange.

Under date of February 7, 1918, the Board addressed a letter to the Governor of the Federal Reserve Bank of New York stating its policy in dealing with acceptances drawn under credits extending over a period of one or two years.

In a ruling published in the 1919 Bulletin at page 740, the Board approved acceptances drawn in a foreign country payable in the United States in dollars and secured by staples stored in a foreign warehouse.

Under date of May 6, 1921, the Board amended its regulations so as to authorize the purchase by Federal reserve banks of bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities up to six months.

Under date of December 19, 1922, the Board amended its regulations so as to authorize Federal Reserve Banks to purchase bankers' acceptances with maturities not in excess of six months which are drawn by agricultural growers or by cooperative marketing associations and are properly secured.

On March 29, 1922, the Board amended its regulations so as to eliminate the requirements for the attachment or furnishing of documents in connection with acceptances arising out of import and export transactions.

By ruling published in the 1926 Bulletin at page 854, the Board held that national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks provided that such drafts are drawn before the underlying import or export transactions are completed.

The Board ruled on November 28, 1927, that bankers' acceptances may properly be considered as growing out of import or export transactions when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

On October 9, 1928, the Board amended its regulations so as to make eligible for rediscount or purchase acceptances against warehouse receipts issued by grain elevator or warehouse companies duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn.

By a ruling published in the 1929 Bulletin at page 811, the Board ruled that a draft drawn by the purchaser of staples to finance the shipment of such staples is eligible for acceptance when it has a maturity consistent with the usual and customary credit time prevailing in the particular business.

On March 19, 1930, the Board stated its opinion that bills drawn for the purpose of financing the carrying of staples during the time they are being processed or converted are not eligible for acceptance.

It has been the policy of the Board for a number of years to consider and pass upon acceptance questions only after they have first been considered by a Federal reserve bank.

Respectfully,

George B. Vest,
Assistant Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7287

November 7, 1932.

SUBJECT: Glass Bill, S. 4412.

Dear Sir:

The Federal Reserve Board has previously forwarded to you copies of the so-called Glass Bill, S. 4412, which was reported to the Senate by the Banking and Currency Committee of that body on April 18, 1932, as well as copies of the accompanying majority and minority reports of the Committee. You have also been furnished with copies of the hearings on the bill which were held before the Senate Committee in March when the bill was under consideration as S. 4115. The Board's report to the committee was printed in connection with Governor Meyer's testimony in these hearings and was also included in the Federal Reserve Bulletin for April, 1932. There are inclosed herewith two copies of a memorandum (X-7139) which presents a comparison of the more important features of S. 4412 and S. 4115 with the changes recommended by the Federal Reserve Board.

As the bill may be taken up again at the forthcoming

session of Congress, the Federal Reserve Board will be glad to receive any suggestions regarding its provisions which you desire to submit for the Board's consideration, together with your reasons for such suggestions.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL CHAIRMEN AND GOVERNORS.

S. 4412, INTRODUCED APRIL 18, 1932.

PROVISIONS OF THIS BILL COMPARED WITH S. 4115 WITH CHANGES RECOMMENDED BY FEDERAL RESERVE BOARD.

There is set forth below a comparison of the more important features of S. 4412, which was introduced in the Senate and reported by the Committee on Banking and Currency on April 18, 1932, and S. 4115 with the changes recommended by the Federal Reserve Board in its letter to Senator Norbeck of March 29, 1932.

S. 4115 is referred to herein as the "old bill" and S. 4412 as the "new bill". Section numbers and page numbers refer to the sections and pages of the new bill, unless otherwise indicated. Certain sections of the old bill which have been omitted entirely from the new bill are treated at the end of this memorandum.

SECTION 1.

Title. - (p. 1)

This section merely provides that the short title of the act shall be the "Banking Act of 1932."

SECTION 2.

Definitions. - (pp. 1, 2 and 3)

The definitions contained in section 2, including those of an affiliate and of a holding company affiliate, are, in the new bill, made applicable not only to the provisions of this act but to any pro-

visions of law amended by this act.

The several classes of institutions defined as affiliates in the old bill are subdivided in the new bill so as to make a distinction between "affiliates" generally and "holding company affiliates".

With these exceptions, the definitions contained in the new bill are substantially in the same form as in the old bill with the changes recommended by the Board.

SECTION 3.

(a) Control of Federal reserve bank credit by Federal Reserve Board.(pp.3,4)

On this subject the recommendation of the Federal Reserve Board is adopted in Section 3 (a) of the new bill.

(b) Voting by groups or chains in elections of Federal reserve bank directors. (p. 5)

Section 4 of the old bill prohibited banks that belong to a group or chain from voting for Federal reserve bank directors, and the Board recommended the omission of the provision. The new bill provides (in Section 3(b) that when two or more member banks are affiliated with the same holding company affiliate only one of such banks may participate in the nomination or election of Federal reserve bank directors.

SECTION 4.

Distribution of earnings of Federal reserve banks. (p. 5)

The old bill provided (in Section 5) that net earnings of Federal reserve banks after payment of dividends and expenses should be paid to the Federal Liquidating Corporation. The Board recommended that no

changes be made in the present method of the distribution of earnings of Federal reserve banks but that the Secretary of the Treasury be authorized in his discretion to use the franchise tax received from Federal reserve banks for investment in obligations of the Liquidating Corporation. The new bill provides (in Section 4) that all net earnings of a Federal reserve bank, after payment of dividend claims and expenses, shall be paid into the surplus fund of the Federal reserve bank.

SECTION 5.

(a) Branches of State member banks. (pp. 5, 6)

In connection with Section 21 of the old bill, the Board recommended a new provision to the effect that nothing contained in the bill shall prevent State member banks from establishing branches either in the United States or elsewhere upon the same terms and conditions as those applicable to branches of national banks. This provision as recommended is contained in Section 5(a) of the new bill.

(The provisions of the new bill with reference to branches of national banks are contained in Section 19.)

(b) Reports of affiliates of State member banks. (pp. 6, 7)

The old bill (in section 6) required each affiliate of a State member bank to make three complete reports of condition annually through the president of the bank to the Federal Reserve Board. The Board's recommendation was that such reports be required only when deemed necessary by the Federal Reserve Board. The new bill provides in Section 5(b) that a State member bank shall obtain from each of its affiliates and furnish to the Federal reserve bank and to the Federal Reserve Board not less than

three reports of condition each year and such additional reports as the reserve bank or the Board may deem necessary. The provision requiring such reports to be made is mandatory; but they are required to contain only such information as, in the judgment of the Federal Reserve Board, shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank.

(Substantially the same provisions are contained in Section 23 of the new bill with reference to reports of affiliates of national banks.)

Dealings in stocks and investment securities by State member banks. (p. 8)

Section 5(b) of the new bill contains a provision to the effect that State member banks shall be subject to the same limitations and conditions as are national banks with respect to the purchase, sale, underwriting and holding of investment securities and stock. There was no such provision in theold bill; and the Board recommended that Section 15 of the old bill, which restricted dealings in investment securities by national banks, be omitted entirely.

(The provisions on this subject regarding national banks are in Section 14 of the new bill.)

Divorce of stock of State member banks from stock of other corporations. (p. 8)

Section 5(b) of the new bill contains a provision to the effect that, after three years from the passage of the act, no certificate of stock of a State member bank shall represent the stock of any other corporation, except a member bank, nor shall the ownership or transfer of a stock cer-

tificate of such a bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation, except a member bank.

A similar provision regarding stock of national banks is found in Section 16 of the new bill.

The old bill contained no such provision regarding the stock of State member banks; but Section 17 contained a similar provision regarding the stock of national banks, which would have become effective immediately, and the Board recommended that it be retained but that it be made effective after three years.

Right of an affiliate of a State member bank to vote stock held by it in such bank. (pp. 8 and 9)

Section 5(b) of the new bill provides that the holding company affiliates of State member banks shall be subject to the provisions of Section 5144 of the Revised Statutes (which contains the conditions under which affiliates may vote stock held in national banks) and also provides for the forfeiture of the membership of a State member bank, in the discretion of the Federal Reserve Board, where a voting permit of a holding company affiliate of such a bank is revoked. Under the new bill, therefore, substantially the same provisions are applicable to holding company affiliates of national banks and holding company affiliates of State member banks.

The Board recommended that the provisions of the old bill with reference to the conditions under which holding company affiliates of national banks might obtain permits to vote stock owned by them in such

banks be revised in a number of particulars and also recommended that substantially the same provisions as those suggested for national banks be made applicable to affiliates of State member banks, suggesting a new section of the bill for this purpose. The provisions applicable to affiliates of national banks in this connection are contained in Section 17 of the new bill and are discussed hereafter with reference to that section; but it may be stated briefly at this point that the recommendations of the Board regarding affiliates of national banks have not been adopted in the new bill.

Examination of affiliates of State member banks. (p. 9)

The new bill in Section 5(b) requires such examinations of affiliates of State member banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of the bank; the expense of such examinations may, in the discretion of the Federal Reserve Board, be assessed against the bank examined, (instead of against the affiliates as recommended by the Board); and, in the event of the refusal of the affiliate to give information requested or to permit such an examination, or in the event of the failure of the bank to pay the expenses of such an examination, the membership of any State member bank affiliated with such an affiliate may be forfeited in the discretion of the Federal Reserve Board.

The old bill contained a provision (in Section 28) requiring examinations of affiliates of a State member bank. The Federal Reserve Board recommended that such examinations be authorized to be made only when deemed necessary.

(Provisions of a somewhat similar character are contained in Section

24 of the new bill with reference to examinations of affiliates of national banks.)

SECTION 6.

Membership of the Federal Reserve Board. (pp. 10-12)

The old bill (in Section 7) contained a provision omitting the Secretary of the Treasury from the membership of the Federal Reserve Board and omitting the provision of the Federal Reserve Act authorizing the Secretary to assign quarters to the Federal Reserve Board. The Board recommended certain minor amendments to this section and suggested that authority be given the Board to purchase or erect a building for its offices. In Section 6 of the new bill the provisions of the old bill are repeated with the minor changes recommended by the Board; but the authority for the Federal Reserve Board to purchase or erect a building is omitted.

SECTION 7.

Open Market Committee. (pp. 13, 14)

Section 7 of the new bill adds a new Section 12A to the Federal Reserve Act, which provides for a Federal Open Market Committee along the lines of the existing Open Market Policy Conference.

The Board recommended that the similar provisions of the old bill (Section 10) on this subject be stricken out, and that there be substituted certain amendments to Section 14 of the Federal Reserve Act clarifying the Board's powers over open market operations and containing in revised form one of the provisions of the old bill. The Board's recommendations were not adopted in the new bill.

The chief differences between the new bill and the old bill are: In lieu of the statement in the old bill that no Federal reserve bank may engage in open market operations "except after approval and authorization

by the Committee", there is a provision in the new bill that no Federal reserve bank shall engage in such operations "except in accordance with resolutions adopted by the Committee and approved by the Federal Reserve Board". This applies to all purchases and sales on the open market under Section 14 of the Federal Reserve Act, whether for system account or for the account of an individual Federal reserve bank. The old bill provided that the Governor of the Federal Reserve Board should be a member of the committee in addition to the twelve members appointed by the directors of the Federal reserve banks, but in the new bill the Governor is not made a member of the committee. The new bill also omits the provision of the old bill that the Board's annual report to Congress should include a review of the decisions of the committee with an explanation thereof.

Federal Liquidating Corporation. (pp. 14-27).

Section 7 of the new bill also contains the proposed new Section 12B of the Federal Reserve Act providing for a Federal Liquidating Corporation to expedite the payment of dividends to depositors and creditors of closed member banks. The provisions of the new bill on this subject are a compromise between the provisions of the old bill and the Board's proposed substitute.

The old bill provided (in Section 10) for the creation of a Federal Liquidating Corporation for the purpose of purchasing and liquidating the assets of closed member banks. The Board recommended a number of changes in the provisions with reference to this proposed corporation, and in the new bill some of these changes have been adopted and some have been omitted. Without setting forth all of the detailed differences between the old bill, the recommendations of the Board, and the new bill,

there are stated below the more important of these differences.

In accordance with the recommendation of the Federal Reserve Board, the new bill provides for a board of directors of five members, (the Comptroller of the Currency, a member of the Federal Reserve Board, and three members selected annually by the Governors of the Federal reserve banks), instead of a board of fourteen members (the Comptroller of the Currency and the 13 members of the Federal Open Market Committee) as provided in the old bill.

The old bill provided for two classes of capital stock of the corporation: class A stock, to be subscribed by member banks in an amount equal to one-half of one per cent of their deposits, and class B stock, to be subscribed by Federal reserve banks in an amount equal to one-fourth of their surplus; with an additional provision for annual subscriptions by Federal reserve banks in amounts equal to one-fourth of the annual increase in their surplus accounts. The Board recommended that the capital stock consist of $100,000,000 to be subscribed by the United States. The new bill provides for the appropriation by the United States to the corporation of the sum of $125,000,000, but also provides for two classes of stock: class A stock, to be subscribed by member banks in an amount equal to one-fourth of one per cent of their deposits, and class B stock to be subscribed by Federal reserve banks in an amount equal to one-fourth of their surplus. One-half of each class of stock is apparently to be paid in upon the organization of the corporation, and the remainder is subject to call. The new bill, however, omits the provision for additional annual subscriptions by the Federal reserve banks.

The old bill authorized the Liquidating Corporation to purchase

and liquidate the assets of closed nonmember State banks and to make loans to such banks, for a limited number of years; and also authorized an appropriation of $200,000,000 from the United States Treasury for this purpose. In accordance with the recommendation of the Board, this provision is omitted from the new bill and its provisions are limited to member banks.

The old bill provided for the issuance of debentures by the Liquidating Corporation in amounts aggregating not more than four times its capital. The Federal Reserve Board recommended that debentures be authorized up to twice the amount of capital and that Federal reserve banks be given authority to purchase these debentures up to one-fourth of their surplus. The new bill authorizes the issuance of debentures in an amount aggregating not more than twice the amount of the capital of the corporation and the $125,000,000 appropriation from the Treasury of the United States. The provision recommended by the Board, however, that such debentures be guaranteed by the United States is omitted from the new bill.

The new bill (p. 20, lines 24, 25; p. 21, lines 1-4) contains in a different form the provision for a valuation committee, the elimination of which was recommended by the Board. Loans on and purchases of, assets of closed member banks are to be made "on the basis of" valuations of such assets made by this committee, which includes the receiver, a representative of the insolvent bank, and a third member selected by those two, but does not include any representative of the corporation.

A number of provisions recommended by the Federal Reserve Board of a prohibitive or penal character in connection with the proposed Federal Liquidating Corporation and its operations have been adopted in the new bill and certain unnecessary steps regarding the organization of the corporation and increases and decreases in its capital have been eliminated.

SECTION 8.

Loans on member banks' collateral notes (pp. 27-28)

The old bill (Section 11) provided that the rate at which a Federal Reserve Bank might make advances to its member banks on their 15-day promissory notes should be at a rate 1% higher than the rediscount rate, and also provided that if a member bank, while indebted to a Federal reserve bank on such a 15-day note and despite a warning of the Federal reserve bank or the Federal Reserve Board, should increase its loans made for the purpose of purchasing or carrying investment securities (except obligations of the United States), the note should be immediately due and payable and the member bank should be ineligible to borrow on such 15-day notes for such periods as the Federal Reserve Board might determine. The old bill also provided that the Federal Reserve Board might suspend the provisions of law with reference to loans to member banks on their 15-day notes for periods of 90 days.

In light of these provisions of the old bill, the Federal Reserve Board recommended an amendment increasing the maximum maturity of advances to member banks on their promissory notes secured by eligible paper from 15 to 90 days.

Section 8 of the new bill (pp. 27,28) does not adopt the recommendation of the Board on this point and contains substantially the same provisions as those in the old bill, except that there have been omitted the discriminatory rate of 1% on such 15-day advances to member banks and the provisions for the suspension by the Board of the provisions of law on this subject.

SECTION 9.

Foreign transactions of Federal reserve banks (p. 29)

The Federal Reserve Board suggested certain changes in the provisions of Section 12 of the old bill with reference to the supervision of the Board over foreign transactions of Federal reserve banks, and the more important of these changes have been adopted in the corresponding provisions contained in Section 9 of the new bill. The provisions of the new bill on this subject, which are substantially those of the old bill with the Board's suggested changes, provide that all relationships and transactions by Federal reserve banks with foreign bankers shall be subject to special supervision and regulation by the Federal Reserve Board; that negotiations with foreign bankers shall not be conducted without the permission of the Board; that the Board may be represented in any such negotiations; and that a full report of all such negotiations shall be made to the Board in writing.

SECTION 10.

Reserves of member banks and restrictions on dealings in "Federal Funds" (p. 30).

Section 13 of the old bill contained a complete revision of Section 19 of the Federal Reserve Act with reference to the reserves required of member banks. Chief among its provisions was the requirement that the percentages of reserve against time deposits be increased over a period of years to the same percentages as those required against demand deposits. Another important provision of the old bill prohibited the transfer of balances with a Federal reserve bank from one bank to

another without the authority of the Federal Reserve Board and except upon payment of a fee for the privilege. The Board was also authorized to suspend all dealings in reserve balances for such periods as it might deem best.

The Federal Reserve Board recommended, in lieu of the provisions of the old bill on this subject, a revision of section 19 of the Federal Reserve Act in accordance with the recommendations of the System Committee on Reserves with some modifications; and recommended the omission of the limitations on the use of balances standing to the credit of member banks on the books of the Federal Reserve Banks.

The new bill (in Section 10) omits entirely any revision or amendment of the reserve requirements of member banks, and also omits the restrictions of the old bill on the transfer of balances in Federal reserve banks.

Member banks as mediums in making loans on collateral. (p. 30)

In accordance with a recommendation of the Federal Reserve Board, Section 10 of the new bill adds a new paragraph to Section 19 of the Federal Reserve Act forbidding a member bank to act as the medium or agent of any non-banking corporation or individual in making loans on the security of stocks, bonds and other investment securities to brokers or dealers in such securities, and providing a fine for violation thereof.

The old bill contained a provision for a similar purpose but in different form.

SECTION 11.

Loans to or investments in stock of affiliates. (pp. 30-32)

On this subject the new bill (in Section 11) adopts substantially the recommendations of the Federal Reserve Board and provides that no member banks shall make any loan or extension of credit to, or purchase

securities under repurchase agreements from, any of its affiliates, or invest in the stock or obligations of such affiliates, or accept such stock or obligations as security for advances, if the aggregate amount thereof, in the case of any one affiliate, will exceed ten per cent of the capital stock and surplus of the member bank, or if, in the case of all such affiliates, the aggregate amount thereof will exceed twenty per cent of the capital stock and surplus of such member bank. Each loan or extension of credit to an affiliate shall be secured by collateral, in the form of stocks, bonds, debentures or other such obligations, having a market value of at least twenty per cent more than the amount of the loan or extension of credit or at least ten per cent more than the amount thereof if secured by State or municipal obligations. Loans or extensions of credit secured by obligations of the United States, Federal intermediate credit banks, Federal land banks or paper eligible for rediscount by Federal reserve banks are excepted from the requirement as to marginal collateral (but the suggestions of the Federal Reserve Board that those secured by obligations of the Reconstruction Finance Corporation be also excepted was not adopted). The provisions of this section do not apply to an affiliate engaged solely in holding the bank premises of the affiliated member bank or conducting a safe-deposit business or the business of an agricultural credit corporation or live stock loan company, or to an affiliate in the capital stock of which a national bank is authorized to invest under Section 25 of the Federal Reserve Act, or an affiliate organized under Section 25(a) of the Federal Reserve Act.

The old bill (in Section 9) contained some of the provisions of the new bill on this subject, but the limitations prescribed were applicable only as to affiliates engaged in buying and selling stocks, bonds, real estate or real estate mortgages or organized to hold title to any such property. The old bill did not include the twenty percent limit in the case of all affiliates, on the aggregate of loans, investments and advances, nor did it include any of the above-mentioned exceptions to the limitations prescribed. The old bill required marginal collateral of twenty per cent in all cases except where the security for the loan consisted of paper eligible for rediscount or obligations eligible for investment by savings banks.

SECTION 12.

Real estate loans and investments in bank premises (pp. 32, 33)

The old bill (in Section 14) contained a number of provisions with reference to real estate loans and investments of member banks. It would have required a bank to revise the valuations on which such loans were based at the time of each examination and also, in effect, at the time of each report of its condition. The limitations on the amount of such loans would have been changed, and all unsecured loans whose eventual safety depends upon the value of real estate would have been classified as real estate loans. Time depositors would have been given a preferred claim on all real estate loans and other assets acquired under this section of the old bill.

The Federal Reserve Board recommended that these provisions of the old bill be omitted and that there be substituted therefor a provision that no national bank, without the permission of the Comptroller of the Currency, and no State member bank, without the permission of the Board, shall invest in bank premises, or in the stock or obligations of, or in loans to, any corporation owning or holding its bank premises a sum exceeding the amount of the capital stock of such bank.

The new bill omits the provisions of the old bill in accordance with the recommendation of the Board, and adopts in substance the provision suggested by the Board, although the language of the provision is somewhat changed, and loans upon the security of the stock of any such corporation holding bank premises are included within the investments to which the limitation applies.

SECTION 13.

Jurisdiction of Federal Courts over cases involving foreign banking transactions. (pp. 33,34)

This provision, which was not contained in the old bill and which was not the subject of a recommendation by the Federal Reserve Board, confers upon the district courts of the United States jurisdiction over any case to which a corporation organized under the laws of the United States is a party and which arises out of transactions involving international or foreign banking, either directly or through the agency, ownership or control of branches or of local institutions in foreign countries.

It is understood that the rule in the Federal courts with reference to the valuation of foreign currency in transactions of this kind is more favorable to banks than in the State courts, and it is apparently for this reason that the bill contains the above provision.

SECTION 14.

National banks granted all powers of State banks. (p. 34)

In the old bill (Section 15) national banks were granted power to engage in all forms of banking business permitted by the laws of the State in which they are located to "banks of deposit and discount" organized under such State laws, except to the extent that the exercise of such powers is forbidden by the laws of the United States.

The Board recommended that this provision be omitted; but it is contained in the new bill in substantially the same form in which it appeared in the old bill.

Dealings in investment securities (pp. 34-36)

The old bill (in section 15) contained a number of provisions with reference to dealings in investment securities by national banks and the Board recommended that all these provisions be omitted. They are, however, repeated in the new bill, with certain changes and additions, and with the provision (in Section 4) that the same provisions shall be applicable to State member banks. The new bill provides in effect that:

Dealings in investment securities are limited to the purchase and sale of such securities, without recourse, solely upon the order

and for the account of customers, except that member banks may purchase and hold for their own account investment securities under limitations and restrictions prescribed by regulation of the Comptroller of the Currency.

No member bank shall underwrite any issue of securities.

The total amount of any one issue of investment securities of any one obligor hereafter purchased and held by a member bank for its own account shall not exceed 10 per cent of the total amount of such issue outstanding, but this limitation does not apply to any issue not in excess of $100,000 and not in excess of 50 per cent of the capital of the bank; and the total amount of investment securities of any one obligor hereafter purchased and held shall not exceed 15% of the capital of the bank and 25 per cent of its surplus. (The latter limitation in the old bill was stated in ambiguous terms and might have been construed to apply to the aggregate amount of all investment securities held by the bank.)

No member bank may purchase or hold the stock of any corporation, except as otherwise permitted by law, and except that a bank may invest not more than 15 per cent of its capital and surplus in the stock of safe deposit companies.

These limitations do not apply to obligations of the United States, to general obligations of any State or any subdivision thereof, or to obligations issued under the authority of the Federal Farm Loan Act.

The definition of investment securities contained in existing law would apparently have been stricken out by the old bill and the Comptroller of the Currency given unlimited powers to prescribe his own definition, except that stocks could not be included. The new bill, however, in effect restores the definition contained in the existing law.

SECTION 15

(a) Capital required for organization of national banks. (pp. 36, 37)

The old bill (in section 16) contained an amendment to Section 5138 of the Revised Statutes to provide that no national bank may be organized with a capital of less than $50,000, except that a national bank may be formed, in the discretion of the Comptroller of the Currency, for the purpose of succeeding to the business of an existing bank with a capital of not less than $25,000. The old bill also eliminated the existing requirement that the organization of national banks with a capital of less than $100,000 shall be subject to the approval of the Secretary of the Treasury.

The Board recommended the elimination of the exception in the old bill which permitted the formation of national banks with a capital of less than $50,000 to take over the business of an existing bank. This recommendation was adopted and with this change the provisions of the old bill on this subject are repeated in the new bill.

(b) Capital requirements of State member banks. (p. 37)

Section 15(b) of the new bill contains a provision, not appearing in the old bill and not recommended by the Federal Reserve Board, which amends Section 9 of the Federal Reserve Act so as to eliminate the provision of existing law under which a State bank is permitted to become a member of the Federal Reserve System with a capital equal to only 60% of the amount required for the organization of a national bank in the place in which it is situated. The capital required of State member banks hereafter admitted to the System, therefore, would be required in all cases to be equal to that required of national banks located in places of like size.

SECTION 16.

Shares of stock of $100 each.

The old bill (in Section 17) would have amended section 5139 of the Revised Statutes so as to provide that the capital stock of national banks should be divided into shares of $100 each, thus repealing the provision of the present law for shares of a lesser amount. In accordance with the recommendation of the Federal Reserve Board, however, this provision is omitted in the new bill.

Divorce of stock of national bank from stock of other corporations. (p. 37)

The new bill provides (in Section 16) that, after three years from the date of its passage, no certificate of stock of a national

bank shall represent the stock of any other corporation except a member bank, nor shall the ownership or transfer of a stock certificate of a national bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation except a member bank.

Substantially the same provision was included in the old bill (in Section 17), except that the prohibition apparently was to take effect immediately and no exception was made as to the stock of another member bank. The Board recommended that this provision be made effective three years after enactment and, as stated, the new bill includes this change.

Similar provisions regarding certificates of stock of State member banks are included in section 5(b) of the new bill.

SECTION 17.

Shares of its own stock held by a national bank as trustee. (p. 38)

The old bill (in Section 19) provided that no shareholders of national banks who shall become such through nominal transfer or ownership on behalf of another shall vote at meetings of shareholders of such banks. The Board recommended that shares of its own stock held by any national bank as trustee shall not be voted. The Board's recommendation was adopted in the new bill, and the provision of the old bill was not retained.

Right of an affiliate of a national bank to vote stock held by it in such bank. (pp. 38-43)

The old bill (in Sections 19 and 20) contained provisions requiring an affiliate of a national bank to obtain a voting permit from the Federal Reserve Board before voting any stock held by it in such national bank. Such a voting permit might be issued only upon compliance by the holding company affiliate with a number of detailed provisions. The Federal Reserve Board recommended a number of changes in these provisions of the old bill, but the Board's recommendations on this subject have not been adopted in the new bill.

The salient features of the Board's recommendations on this subject were as follows: Shares owned or controlled by an affiliate shall not be voted unless such affiliate has filed an agreement with the Comptroller of the Currency to comply with the provisions of this section. Within one year from the date of any such agreement each nonmember State bank owned or controlled by such affiliate shall apply for membership in the Federal Reserve System and if not admitted such affiliate shall divest itself of all interest in such bank. Each such affiliate shall hold readily marketable assets, other than bank stocks, equal to 15 per cent of bank stocks held by it and shall reinvest its net earnings above 6 per cent in such assets until they amount to 25 per cent of bank shares held by it; with a proviso that credit shall be given for contributions made during the preceding three years to banks owned or controlled by the affiliate. Failure to comply with the agreement is ground for termination thereof by the Comptroller. No national bank shall make any loan to, or on

the security of the stock of, or be the purchaser of the stock of, any affiliate which owns or controls such bank, unless necessary to prevent loss upon a debt previously contracted in good faith, and stock so acquired shall be disposed of within two years. Officers and employees of affiliates which have entered into an agreement with the Comptroller of the Currency, are made subject to certain criminal provisions, and a penalty is provided for voting the stock held by affiliates, unless such an agreement is in effect.

The provisions of the new bill on this subject, which follow along the lines of the old bill with certain changes and additions and which do not contain the provisions as recommended by the Board, are in brief form set forth in the following paragraphs. (As hereinbefore explained under Section 5, the provisions of the new bill on this subject are applicable also to holding company affiliates of State member banks.)

Shares of a national bank controlled by a holding company affiliate, including those held by a trustee for the benefit of the shareholders of such affiliate, shall not be voted unless such affiliate shall have obtained a voting permit from the Federal Reserve Board; and in acting upon an application for such permit, the Board shall consider the financial condition of the applicant, the general character of its management and the probable effect of the granting of the permit upon the affairs of such bank. No permit shall be granted except upon the following conditions:

(a) Each such holding company affiliate shall agree: to submit to examinations, at its own expense, disclosing fully the relationship

between such affiliate and such bank, that such examinations may be made of each bank owned or controlled by the affiliate, and that publication of statements of condition of such banks may be required.

(b) After January 1, 1935, every such holding company affiliate shall possess unpledged readily marketable assets other than bank stock in an amount not less than 12% of the par value of all bank stocks controlled by such affiliate, which amount shall be increased by not less than 2% annually up to 25% thereof and by reinvesting in such readily marketable assets net earnings in excess of 6% annually until the 25% requirement is reached. (The last of the requirements of this paragraph was recommended by the Board.)

(c) However, where the shareholders of the affiliate are themselves liable under the double liability provisions on the bank stock held by the affiliate, the latter shall be required only to establish, out of its net earnings in excess of 6%, a reserve of readily marketable assets equal to 12% of the par value of bank stocks controlled by it, and readily marketable assets required of such affiliate may be used for replacement of capital in banks affiliated with it; but any deficiency so incurred shall be made up within such period as the Federal Reserve Board may prescribe.

(d) That officers, directors, agents and employees of such a holding company affiliate shall be subject to the same penalties for false entries as officers and employees of member banks are subject to under Section 5209 of the Revised Statutes.

(e) That every such holding company affiliate shall show that it does not have any interest in and is not participating in the management of any securities company; that, if it has such an interest or participation it will, within three years, divest itself thereof; and that it will declare dividends only out of actual net earnings.

If any holding company affiliate violates any of the provisions of this act, the Federal Reserve Board may revoke its voting permit after notice, and thereafter no national bank whose stock is controlled by such affiliate shall receive Government deposits or pay any dividend to such affiliate.

Where such a voting permit of an affiliate has been revoked, the franchise of any national bank controlled by such an affiliate shall be subject to forfeiture.

SECTION 18.

Relationships between Member Banks and Securities Dealers or Corporations making collateral loans. (pp. 43, 44.)

The old bill (in section 18) provided that, after January 1, 1933, no director, officer or employee of a member bank should be an officer or employee of a corporation or association engaged primarily in the securities business and no such officer, director or employee of a member bank should be a director, officer or employee of a corporation making loans secured by collateral to any one except its own subsidiaries. The old bill also provided that no member bank should have correspondent relationships with associations or corporations of the kind mentioned.

The Board recommended that these provisions be omitted and suggested substitute provisions.

The new bill provides, in substantial accordance with the substitute provisions recommended by the Board, that, after three years, no member bank shall be affiliated with a securities corporation in the manner described in Section 2(b) of the bill (where the word "affiliate" is defined so as not to include holding company affiliates). Violations of this provision subjects the member bank to a penalty of $1,000 a day, in the discretion of the Federal Reserve Board, and, if the violations continue for six months after warning from the Board, the bank's franchise may be forfeited, if a national bank, or its membership in the Federal Reserve System may be forfeited, if a State bank.

SECTION 19.

Branches of National banks. (pp. 44,45).

The old bill (in Section 21) provided for State-wide branches of national banks in States where the State law permits State banks to have branches, with a proviso that, if the usual business of the bank extends into an adjacent State, the Federal Reserve Board may permit the establishment of a branch by the bank in such State not more than fifty miles from its head office. In order to have branches outside of the city of its head office, a capital of $500,000 was required. Furthermore, the aggregate capital of a bank and its branches was required to equal the capital required for an equal number of national banks situated where the bank and its branches are respectively located.

The Federal Reserve Board suggested that, if these provisions were to be retained, a change be made which would eliminate the limitations of the present law on the number of branches which may be established in cities of less than 100,000 inhabitants, and the limitation providing that no branch may be established in a city of less than 25,000 inhabitants. This recommendation of the Board was adopted in the new bill.

The provisions of the new bill on this subject are substantially the same as those contained in the old bill, with the change recommended by the Board; except that the establishment of State-wide branches is not limited to those States in which the State law permits State banks to have branches.

(The provisions of the new bill with reference to branches of State member banks are contained in Section 5(a).)

SECTION 20.

Consolidations of national banks with other banks in the same State.(p. 45)

The provisions of the Act providing for the consolidation of two or more national banks or for the consolidation of State banks with national banks would be amended by the new bill so as to permit such consolidations to take place between banks located anywhere in the same State. This section was contained in the same form in the old bill (in Section 22). No suggestion was made by the Board on this point.

SECTION 21.

Rate of interest on loans. (pp. 45,46)

The new bill would amend Section 5197 of the Revised Statutes so that national banks could charge on loans and discounts, (1) the rate of interest allowed by the State law (or 7% where the State law fixes no limit), or (2) a rate 1% in excess of the Federal reserve bank discount rate, which ever may be the greater.

The provision of the new bill on this subject is the same as that contained in the old bill (Section 23) with a minor change suggested by the Board.

SECTION 22.

Limitations on loans to affiliated corporations. (pp.46,47)

The new bill provides an amendment to the first paragraph of Section 5200 of the Revised Statutes, which provides that in computing the amount which a corporation can borrow from a national bank, the corporation and all of its subsidiaries in which such corporation owns or controls a majority interest would be treated as a single borrower.

This provision has been adopted from the old bill (Section 25(a)) with a clarifying amendment suggested by the Board.

In accordance with the Board's recommendations, the following provisions of section 25 of the old bill are omitted from the new bill:
(1) That the amount which any national bank might lend to any broker or member of any stock exchange or similar corporation or any finance company, securities company, investment trust or other similar organization would be limited to 10% of the capital and surplus of such national bank.
(2) that no national bank would be permitted to lend to "an affiliate" an amount exceeding 10% of the capital and surplus of such

national bank or exceeding the capital stock of such affiliate, whichever may be the smaller.

(3) that the aggregate amount which all affiliates of a national bank could borrow from such national bank (including repurchase agreements) would be limited to 10% of the national bank's capital and surplus except that loans secured by Government bonds or by bonds issued by the State in which such bank is situated or by any political subdivision of such State would be excluded altogether from the limitations of Section 5200 of the Revised Statutes, if actually owned by the borrower.

(4) that no national bank might establish or capitalize an affiliate through cash or stock dividend declarations made from its surplus or from undivided profits; and "within three years after this section as amended takes effect", every affiliate should be capitalized through the sale of its own stock which should be paid for in cash in the same manner as required in the case of a national bank.

(5) that for a period of three years, no affiliate of a national bank might hold, or lend upon, more than 10% of the shares of the capital stock of the parent institution.

SECTION 23.

Reports of affiliates of national banks (pp. 47, 48).

The old bill (in Section 27) required each affiliate of a national bank to make three complete reports of condition annually through the president of the bank to the Comptroller of the Currency, and also to make such special reports as the Comptroller might require. The Board's recommendation was that such reports be required only when deemed necessary.

The new bill provides that every national bank shall obtain from each of its affiliates, other than member banks, and furnish to the Comptroller of the Currency not less than three reports of condition each year and such additional reports as the Comptroller may deem necessary. The provision requiring such reports is still mandatory; but they are required to contain only such information as in the judgment of the Comptroller shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The bank is subject to a penalty for failure to render such reports.

Provisions of the old bill requiring an affiliate under certain stated conditions to publish its entire portfolio are omitted from the new bill.

(Substantially the same provisions are contained in Section 5(b) of the new bill with reference to reports of affiliates of State member banks).

SECTION 24.

Examinations of affiliates of national banks. (pp. 48-50)

The new bill requires such examinations of affiliates (other than member banks) of a national bank as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank, and authorizes the forfeiture of the franchise of the bank in the event of refusal of the affiliate to give information or to permit such examination. Publication of the examination report of a national bank or of an affiliate is authorized if the bank or affiliate fails to comply with recommendations of the Comptroller of the Currency based on such examinations.

The old bill contained a provision (in Section 28) requiring examinations of affiliates of national banks and member banks. The Federal Reserve Board recommended that this section provide for examination of affiliates of national banks only (as examinations of affiliates of State member banks are provided for elsewhere in the bill) and that such examinations be authorized to be made only when deemed necessary.

In accordance with certain other suggestions of the Federal Reserve Board on this subject, the new bill has added certain provisions to authorize examiners making an examination of an affiliate of a national bank to administer oaths and to examine officers and employees under oath; to provide that the expenses of such examination may be assessed against the affiliate and, if not paid by the affiliate, then against

the bank; and to provide a penalty of $100 per day to be paid by the bank for refusal of the affiliate to give information required or to permit such an examination.

While examinations of affiliates of national banks in the old bill were limited to a period of three years after its passage, the new bill, in accordance with the Board's suggestion on this point, contains no limit of this kind.

(Provisions of a somewhat similar character with reference to examinations of affiliates of State member banks are contained in Section 5(b) of the new bill.)

SECTION 25.

Removal of bank directors or officers from office.(pp.50-52)

On this subject, the new bill follows substantially the recommendation of the Board and provides a procedure for the removal of a director or officer of a member bank who has continued to violate the law or has continued unsafe or unsound practices in conducting the business of the bank with which he is connected, after being warned by the Comptroller of the Currency (as to a national bank) or the Federal Reserve Agent of his district (as to a State member bank) to discontinue such violations or such practices. After a hearing by the Federal Reserve Board establishing such facts, the Board may order the removal of such director or officer and a copy of such order shall be served upon him and upon the bank with which he is connected. Such order and findings of fact may not be made public or disclosed except

to such director or officer and the directors of his bank, "otherwise than in connection with proceedings for a violation of this section." Participation by such officer or director in the management of such bank after having been removed is punishable by fine or imprisonment.

The old bill placed the power of removal in a committee consisting of the Governor of the Federal Reserve Board, the Comptroller of the Currency and the Federal Reserve Agent, instead of in the Federal Reserve Board as provided in the new bill. The old bill did not contain the provision prohibiting the making public or disclosing the order of removal or findings of fact.

SECTION 26.

Saving clause and reservation of right to amend. (p. 52).

Section 26 contains the usual provisions (which were also in the old bill) reserving the right to alter, amend or repeal the act and limiting decisions holding parts of the act to be invalid, to the specific sections dealt with in such decisions.

SECTIONS OF OLD BILL ENTIRELY OMITTED FROM NEW BILL.

In addition to a number of other provisions of the old bill which have been omitted from the new bill but which have been treated above in connection with certain related topics contained in the corresponding sections of the new bill, (such as the provisions regarding reserves and regarding real estate loans and investments of member banks), there have also been omitted from the new bill the following provisions, each of which constituted an entire separate section of the old bill.

Limitation upon amount of loans on collateral security by member banks.

Section 8 of the old bill authorized the Federal Reserve Board to fix the percentage of the capital and surplus of a member bank which might be represented by loans on collateral security. The purpose of this section apparently was to prevent the undue use of bank loans for speculation in securities, which is fully covered in Section 3. In accordance with the recommendation of the Board, therefore, the provisions of Section 8 of the old bill have been omitted from the new bill.

Interest on deposits.

Section 24 of the old bill would have limited the rate of interest which national and State member banks would be permitted to pay on deposits as follows: (1) interest on balances due to banks would have been limited to 2 1/2% or "the current rate of discount of the Federal reserve bank", whichever is the smaller; (2) on all other deposit balances, the rate would have been limited to one-half the rate of interest which national banks are permitted to charge on loans.

In accordance with a recommendation of the Federal Reserve Board this section is omitted from the new bill.

Limitations on collateral loans to single borrowers.

Section 26 of the old bill provided that no member bank shall lend to any individual or corporation "upon collateral security" an amount exceeding 10% of its own capital and surplus, or an amount exceeding the percentage fixed by the Federal Reserve Board, whichever is the smaller.

In accordance with the recommendation of the Federal Reserve Board this section is omitted from the new bill (as was also Section 8 of the old bill which also provided for limiting collateral loans.)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7289

November 11, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDIRT" has been designated to cover a new issue of Treasury Bills, dated November 16, 1932, and maturing February 15, 1933.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDIFFUSE" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7290

November 12, 1932.

SUBJECT: Shipment of Checks, etc., by Express.

Dear Sir:

There is inclosed herewith for your information, a copy of a letter addressed to the Federal Reserve Bank of Kansas City by a Post Office Inspector, quoting a ruling by the Second Assistant Postmaster General.

You will note that the ruling states that "there would be no objection to checks being forwarded by express" if not accompanied by a letter. Apparently cash letters or similar form letters of transmittal covering such shipments are regarded by the Post Office Department as "letters" within the meaning of the "private express statutes."

Some Federal reserve banks have already adopted the practice of sending such covering letter by mail, and the checks by express. The ruling referred to above, however, indicates that there will be no objection to inclosing with the checks a list prepared on an adding machine, provided such list is not written on a form containing instructions or other communications. Whether or not it would

be permissible to date the adding machine list does not specifically appear from the above ruling.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F.R. BANKS EXCEPT KANSAS CITY.

C O P Y

X-7290-a

(C O P Y)

POST OFFICE DEPARTMENT
Office of Inspector.

B. W. Ficken,
Inspector.

Case No. 32426-C.

Kansas City, Missouri,
November 4, 1932.

SUBJECT: Shipment of clearings by express.

Federal Reserve Bank,
Kansas City, Missouri.

Gentlemen:

Referring to the matter of shipment of checks and clearings by express, I have to advise that I have received the following additional ruling from the Second Assistant Postmaster General:

> "Under the provisions of the private express statutes, it is not permissible to send checks or drafts in process of collection from one bank to another by express without payment of postage if such checks are accompanied by clearance letters or anything else in the nature of correspondence, though there would be no objection to checks being forwarded by express if they are not accompanied by anything other than an adding machine list."

Sincerely yours,

/s/ B. W. Ficken.

Post Office Inspector.

X-7291

Federal Reserve Notes, Series 1928, For Federal Reserve Board.

October 1 to 28, 1932.

	$5	$10	$20	$50	Total Sheets	Amount
Boston,	37,000	20,000	10,000	-	67,000	$6,063.50
Philadelphia,	50,000	34,000	10,000	10,000	104,000	9,412.00
Cleveland,	74,000	36,000	20,000	-	130,000	11,765.00
Richmond,	13,000	20,000	-	-	33,000	2,986.50
Atlanta,	14,000	10,000	-	-	24,000	2,172.00
Chicago,	-	20,000	10,000	-	30,000	2,715.00
St. Louis,	21,000	14,000	5,000	-	40,000	3,620.00
Minneapolis,	5,000	10,000	-	-	15,000	1,357.50
Kansas City,	10,000	13,000	10,000	-	33,000	2,986.50
San Francisco,	58,000	25,000	24,000	-	107,000	9,683.50
	282,000	202,000	89,000	10,000	583,000	$52,761.50

583,000 sheets, @ $90.50 per M, ...$52,761.50

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7292

November 18, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDISABLE" has been designated to cover a new issue of Treasury Bills, dated November 23, 1932, and maturing February 23, 1933.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDIRT" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7293

December 16, 1932.

Dear Sir:

For your further information in connection with the grading and inspection work now conducted by the Bureau of Agricultural Economics of the United States Department of Agriculture, you will find inclosed a copy of a letter dated November 15 from Mr. Nils A. Olsen, Chief of the Bureau of Agricultural Economics, in which he sets forth a clear and concise description of this service. You will also find attached a copy of the inclosure transmitted with his letter showing the inspection markets where this service is conducted. On the reverse side of this list of inspection markets you will find a brief announcement by the bureau regarding the service with respect to canned fruits and vegetables.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS.

Copy X-7293-a

UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS
Washington, D. C.

November 15, 1932.

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill:

Following your conversation the other day with Mr. Wells A. Sherman of this Bureau, it is my understanding that you desire a brief statement of the grading and inspection work now conducted by this Bureau. The legal authority for conducting work of the kind described to you by Mr. Sherman is found in the annual agricultural appropriation Act reading as follows:

"For enabling the Secretary of Agriculture, independently and in cooperation with other branches of the Government, State agencies, purchasing and consuming organizations, boards of trade, chambers of commerce, or other associations of business men or trade organizations, and persons or corporations engaged in the production, transportation, marketing, and distribution of farm and food products, whether operating in one or more jurisdictions, to investigate and certify to shippers and other interested parties the class, quality, and/or condition of cotton, tobacco, fruits and vegetables whether raw, dried, or canned, poultry, butter, hay, and other perishable farm products when offered for interstate shipment or when received at such important central markets as the Secretary of Agriculture may from time to time designate, or at points which may be conveniently reached therefrom, under such rules and regulations as he may prescribe, including payment of such fees as will be reasonable and as nearly as may be cover the cost for the service rendered: Provided, That certificates issued by the authorized agents of the Department shall be received in all courts of the United States as prima facie evidence of the truth of the statements therein contained."

In providing such a service it is necessary to develop official grades or standards of the various products in order that the grade and condition may be accurately reflected in the official certificate of grade. The chief advantages of the development of such standards may be considered briefly in two groups:

(1) The advantages of a common language between buyer and seller and other financially interested parties, like banks, that are interested in loaning money on agricultural products covered by warehouse receipts, and

(2) The advantages of actually separating the various products into different grades of market quality.

The following paragraphs indicate the extent to which grades have been formulated for the principal commodity groups and whether certification service is available.

(1) Raw fruits and vegetables and related products: Grades have been established for practically all of the important fresh fruits and fresh vegetables and an extensive official inspection service is available both at shipping points and important receiving markets.

(2) Canned fruits and vegetables and related products. The grading service on these commodities has only recently been organized and standards have been formulated for several of these products. Certification service is gradually being developed.

(3) Grades have been established and official certification carried on for butter, cheese, eggs, and dressed poultry. The inspection of dressed poultry for condition and wholesomeness is also conducted at a number of poultry canning plants. Likewise all of the carlot receipts of live poultry are inspected for health and crop condition in the city of New York

(4) Hay, beans, soybeans, rice and broomcorn. Grades have been formulated for these products and considerable certification work performed.

(5) Meats. Grades have been established for beef, lamb, mutton, veal and pork and a certification service is available in a number of the important markets.

(6) Livestock. Grades have been formulated for cattle and hogs and sheep but thus far the Bureau has not undertaken to grade and certificate the grade of live animals.

(7) Tobacco. Grades have been established for all of the important types of tobacco and a grading service is conducted both at the time tobacco is sold by growers on auction floors and at tobacco prizeries.

(8) Wool. Limited grades, based on diameter of fiber only, have been formulated for wool but thus far the Bureau has not developed a certification service for this commodity.

(9) Hides. Tentative grades have been formulated for hides but no certification service has yet been developed.

The grading service on the commodities just mentioned is performed only upon request and the availability of the service depends upon the extent to which it has been developed. The scope of the service varies with the different commodities.

The standardization and inspection work conducted for cotton and grain is carried on under specific Acts of Congress such as the United States Cotton Standards Act, and the United States Grain Standards Act. The use of the official grades established for cotton and grain is mandatory in transactions made on the basis of grade. The use of grades for all other commodities is permissive. You are familiar, of course, as I believe all of the members of the Federal Reserve Board are, with the United States warehouse Act and the standardization provision contained therein which requires that the grade of all fungible products stored in Federally licensed warehouses must be shown upon the warehouse receipt but may, at the request of the depositor, be omitted on receipts issued for non-fungible products.

The location of offices performing inspection and grading services is such as to bring them into close proximity with the most important producing areas and with the important receiving markets of the country. A few copies of the list of offices grading fruits and vegetables are enclosed.

Official inspection, grading, and certification may be requested by any party financially interested in a given lot of farm products, including shippers, common carriers, public warehousemen, brokers, bankers, and receivers.

The certificates are useful:

(1) As supporting evidence of quality in making deliveries.

(2) As official evidence of condition and quality to enable bankers to correctly appraise paper offered them as collateral.

(3) To assure receivers and bankers of the compliance or non-compliance of products for which there may be legal minimum requirements of quality when moved in interstate commerce. For example the Federal Food and Drugs Act now requires certain canned products below U. S. Standard to bear certain legends on labels.

(4) Transportation companies use the certificates of grade and condition in settlement of claims.

Official certificates of grade are widely used on staple products which of necessity must remain at warehouses for indefinite periods while awaiting marketing. Many producers of such products are obliged to borrow heavily in order to finance their operations and naturally resort to pledging their warehoused stocks as collateral. Thus the interest of financial institutions and discounting and rediscounting agencies is readily apparent. Quite a number of these institutions find it to their advantage to fortify themselves with official assurance of the character of the merchandise on which they are asked to advance money in addition to the claims of the borrower.

A certificate of grade covering canned fruits and vegetables for example covers at least four salient points:

(1) The size and precise location of the lot graded, if the samples have been officially drawn.

(2) How the samples were drawn and by whom.

(3) An accurate determination of the condition of the lot. By condition we refer not only to the condition of the product but to the condition of the glass or tin container in which preserved and the type of package in which packed.

(4) The statement of grade based upon standards or grades approved for the purpose by this Bureau.

It has been the earnest endeavor of this Bureau in developing the various grades to have in mind the needs of the interested parties. In such commodities as canned fruits and vegetables we have been particularly careful to embody those factors in the grades which make possible their proper evaluation. The interests of the lending agencies are being served, we feel, in our efforts to give as accurate a picture as possible of the condition as well as the grade of stored merchandise.

Very truly yours,

(S) Nils A. Olsen
Chief of Bureau.

Enclosures.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7294

November 21, 1932.

SUBJECT: Holidays during December, 1932.

Dear Sir:

The Havana Agency of the Federal Reserve Bank of Atlanta will be closed on Wednesday, December 7, Cuban Memorial Day.

As Christmas falls on Sunday, the offices of the Federal Reserve Board and all Federal reserve banks and branches will be closed on Monday, December 26.

Please notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-7295

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 22, 1932.

SUBJECT: Member banks which have been continuously deficient in their required reserves for six months or more.

Dear Sir:

It will be appreciated if hereafter in transmitting letters reporting to the Board national banks which have been continuously deficient in their required reserves for six months or more, and subsequent letters regarding the progress made by such institutions in restoring and maintaining their required reserves, you will send with each letter three copies thereof, in addition to the original letter, and attach to each of these copies a copy of each inclosure which accompanied your letter. Your cooperation in this respect will avoid the necessity of a considerable amount of copying here because of the fact that two copies of your letters and inclosures are transmitted to the Comptroller of the Currency and two copies are required for our records.

It will be sufficient if letters with regard to reserve deficiencies of State member banks are forwarded to the Board in duplicate.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGTS.

X-7296

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in Morning Papers,
Friday, November 25, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of October and November will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Volume of industrial output, after increasing considerably during August and September, remained unchanged in October. Factory employment and payrolls reported for the middle of the month, showed a further increase. During October, as in the last three weeks of September, wholesale commodity prices declined, and in the first three weeks of November the general average was at the level of early summer.

Production and employment - Industrial production, as measured by the Board's seasonally adjusted index, continued in October at 66 per cent of the 1923-1925 average, as compared with a low level of 58 per cent in July. In the textile industries, which had shown a rapid expansion in August and September, there was a slight decrease in consumption of raw materials while output of finished products increased somewhat. Shoe production, which also had increased substantially in recent months, showed a seasonal decline. Operations at steel mills expanded from an average of 17 per cent of capacity in September to 19 per cent in October, contrary to seasonal tendency, and, according to trade reports, continued at about this rate through the first three weeks of November. Production of automobiles in October declined further to a new low level. At coal mines activity continued to increase rapidly until the middle of October, but since that time a reduction, largely seasonal in character, has been reported.

Employment in most manufacturing industries increased between the middle of September and the middle of October, and the Board's seasonally adjusted index of factory employment showed an advance from 60 per cent of the 1923-1925 average to 61 per cent. At textile mills working forces increased by considerably more than the usual seasonal amount, and substantial increases were also reported at steel mills, lumber mills and carbuilding shops. In the canning and automobile industries there were decreases in employment.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, continued at low levels during October and the first half of November.

The Department of Agriculture estimate of the cotton crop, based on November 1 conditions, was 11,950,000 bales, about 525,000 bales larger than the estimate a month earlier.

Distribution - From September to October volume of freight traffic increased by more than the usual seasonal amount; after the middle of October carloadings declined, reflecting chiefly seasonal developments. Dollar value of department store sales increased by the usual amount in October.

Wholesale prices - Wholesale commodity prices, as measured by the monthly index of the Bureau of Labor Statistics, declined from 65 per cent of the 1926 average in September to 64 per cent in October. Weekly figures show declines in the general average from early September through the first week in November, reflecting reductions in the prices of many domestic agricultural products and their manufactures, as well as in the prices of steel rails, copper, coffee, rubber, and silk. In the second week of November prices of many leading commodities, including grains, hogs, cotton, silk, zinc, lead, and tin advanced considerably, but later the prices of these commodities declined.

Bank credit - Volume of reserve bank credit showed little change for the four-week period ending November 16. Member bank balances at the reserve banks increased further by $75,000,000, and in the middle of November were about $475,000,000 in excess of legal reserve requirements. This growth in reserve balances reflected an increase of $60,000,000 in the stock of gold and the issue of additional national bank notes. Demand for currency showed little change during the four-week period.

Loans and investments of reporting member banks in leading cities, outside New York City and Chicago, declined further between the middle of October and the middle of November, reflecting a further reduction of loans at these banks. In New York City the investments of member banks increased by an amount larger than the decrease in loans, so that total loans and investments of these banks showed a further increase.

Money rates in the open market continued at low levels during October and the first half of November. Rates on 90-day bankers' acceptances were unchanged at 1/2 of 1 per cent, and rates on prime commercial paper declined from a range of 1 3/4-2 to a range of 1 1/2-1 3/4 per cent.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7297

November 23, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDISPORT" has been designated to cover a new issue of Treasury Bills, dated November 30, 1932, and maturing March 1, 1933.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDISABLE" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7298

November 25, 1932.

SUBJECT: Charge for National Bank Examination Reports.

Dear Sir:

The Federal Reserve Board is informed that at a meeting of the Federal Reserve Agents and the Governors of the Federal Reserve Banks on Tuesday, November 15, the Acting Comptroller of the Currency asked for the payment of an increased fee for copies of reports of examinations of national banks and that it was voted that a fee of $10.00 be paid for each report of examination furnished to Federal reserve banks until December 31, 1933.

After consideration of the matter the Board approves the payment of a fee of $10.00 for each report of examination of a national bank furnished to the Federal reserve banks until June 30, 1933, after which date the present practice of paying $5.00 for each report of examination should be resumed in the absence of further action in the meantime by the Federal Reserve Board.

Very truly yours,

Chester Morrill,
Secretary.

TO AGENTS AND GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7299

November 26, 1932.

SUBJECT: Use of "K" locks on other than authorized shipments.

Dear Sir:

Inclosed is a copy of a letter from the Honorable F. A. Tilton, Third Assistant Postmaster General, with reference to a complaint from the Postmaster at Washington, D. C., of an improper use of "K" rotary locks assigned for the use of the Treasury Department and the Federal reserve banks.

The Board requests that the Federal reserve banks and their branches cooperate to the fullest extent with the Post Office Department and take every precaution to safeguard the special "K" locks and prevent their use except on authorized dispatches made by the reserve banks.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.

Division of Registered Mails Copy

Post Office Department

THIRD ASSISTANT POSTMASTER GENERAL

Washington X-7299-a

November 16, 1932.

The Federal Reserve Board,

Washington, D. C.

Gentlemen:

The postmaster at Washington, D. C., has recently advised this Office in part as follows:

> "It has been noted recently that apparently a number of the special series of 'K' rotary locks assigned for the use of the Treasury Department and Federal Reserve Banks have in some way become mixed with the regular locks of the postal service. They have been used on rotary lock dispatches making it necessary at destination to rip the seams of the pouches in order to extract the contents."

It is requested that such action as is practicable be taken by your Board to prevent any of these "K" rotary locks of special series getting out of the custody of the Federal Reserve Banks except when attached to authorized dispatches made by such banks.

This matter is also being made the subject of a communication to the Treasury Department for proper action in so far as special locks used by that Department or its branches are concerned.

Very truly yours,

(S) F. A. Tilton,
Third Assistant Postmaster General.

GWP:MRS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7300

November 26, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, October, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7300-a and X-7300-b, covering in detail operations of the main lines, Leased Wire System, during the month of October, 1932.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER, 1932.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	28,059	2,040	30,099	3.80
New York	142,327	-	142,327	17.96
Philadelphia	27,856	1,181	29,037	3.66
Cleveland	60,548	1,101	61,649	7.78
Richmond	53,035	1,216	54,251	6.84
Atlanta	57,344	1,168	58,512	7.38
Chicago	84,862	1,333	86,195	10.87
St. Louis	64,841	1,907	66,748	8.42
Minneapolis	33,320	1,074	34,394	4.34
Kansas City	68,040	1,355	69,395	8.76
Dallas	58,604	1,782	60,386	7.62
San Francisco	97,060	2,568	99,628	12.57
Total	775,896	16,725	792,621	100.00

F. R. Board business	290,098	1,082,719
Reimbursable business Incoming and Outgoing		356,687
Total words transmitted over main lines		1,439,406

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7300-b).

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, OCTOBER, 1932.

Name of bank	Operators' salaries	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	$260.00	$ -	$ -	$260.00	$665.02	$260.00	$405.02
New York	1,134.15	-	-	1,134.15	3,143.12	1,134.15	2,008.97
Philadelphia	225.00	-	-	225.00	640.52	225.00	415.52
Cleveland	306.66	-	-	306.66	1,361.55	306.66	1,054.89
Richmond	190.00	-	230.00 (&)	420.00	1,197.04	420.00	777.04
Atlanta	270.00	-	-	270.00	1,291.55	270.00	1,021.55
Chicago	3,737.31 (#)	-	-	3,737.31	1,902.32	3,737.31	1,834.99 (*)
St. Louis	195.00	-	-	195.00	1,473.55	195.00	1,278.55
Minneapolis	200.00	-	-	200.00	759.53	200.00	559.53
Kansas City	287.50	-	-	287.50	1,533.06	287.50	1,245.56
Dallas	251.00	-	-	251.00	1,333.55	251.00	1,082.55
San Francisco	380.00	-	-	380.00	2,199.83	380.00	1,819.83
Federal Reserve Board	-	-	15,599.36	15,599.36	-	-	-
Total	$7,436.62	$ -	$15,829.36	$23,265.98	$17,500.64	$7,666.62	$11,669.01
							1,834.99 (a)
							$ 9,834.02

Reimbursable charges:

Treasury Department	$2,677.32
Reconstruction Finance Corporation	2,961.59
Federal Farm Loan Board	31.08
Federal Farm Board	54.16
Compt. of Currency, Insolv. Bank Div.	41.19
Less: reimbursable charges	5,765.34
	$17,500.64

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7301

November 28, 1932.

Dear Sir:

There is inclosed herewith, for your information, copy of a telegram addressed to the Cashier of the Federal Reserve Bank of San Francisco with regard to the transmission of messages over the main line leased wire system for account of Regional Agricultural Credit Corporations. If and when Regional Agricultural Credit Corporations in your district begin to transmit messages over the leased wires, they should be requested to use the AC symbol and, meanwhile, your telegraph operators should be instructed to guard against dropping the symbol from any messages originating in other districts which they may relay.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT SAN FRANCISCO.

COPY

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

X-7301-a

November 28, 1932.

Hale - San Francisco

Referring your telegrams November 16 and 21, please include telegrams sent over main line leased wires for account of Regional Agricultural Credit Corporations along with other reimbursable business in item three of monthly telegraphic report requested Board's letter X-7100 February 24, 1932. Word count of such messages will be made by Board and bills rendered monthly against Reconstruction Finance Corporation for account of individual Agricultural Credit Corporations. In order that Regional Agricultural Credit Corporation wires may be distinguished from ordinary Reconstruction Finance Corporation telegrams please request local corporations to use symbol AC at beginning of date line in all messages transmitted over leased wires. Also instruct your head office and branch telegraph operators to transmit symbol.

McClelland.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7302

November 29, 1932.

SUBJECT: Federal Reserve Exhibit at Century of Progress Exhibition.

Dear Sir:

There is inclosed herewith, for your information, a copy of a letter which the Federal Reserve Board is addressing today to Mr. F. H. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, advising that in the opinion of the Federal Reserve Board all plans for participation in the Century of Progress Exposition at Chicago in 1933 should be abandoned.

If a representative of your bank served on the committee appointed to report on participation by the System in the Exposition, it is requested that you express to him the Board's appreciation of his participation in the work done by the committee in developing a plan and arriving at an estimate of its cost.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS. (EXCEPT BOSTON)

COPY X-7302-a

November 29, 1932.

Mr. F. H. Curtiss,
Federal Reserve Agent,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Curtiss:

Reference is made to the action taken at the recent Federal reserve agents' conference in recommending the appropriation by the Federal reserve banks of $75,000 to cover the cost of a proposed Federal Reserve System exhibit at the Century of Progress Exposition to be held in Chicago in 1933. You will recall that at the joint meeting of the Federal Reserve Board with the governors and Federal reserve agents on Wednesday, November 16, 1932, the matter was further discussed and it was expressed as the opinion of the members of the Board that an exhibit of the nature suggested in the second report of the committee appointed to consider the question of System participation in the Exposition would not be sufficiently effective in acquainting the general public with the fundamental functions of the Federal Reserve System to justify the expenditure of the amount suggested.

The Federal Reserve Board has since given further consideration to this matter and for the reasons indicated at the joint meeting has reached the conclusion that an exhibit such as suggested by the committee should not be approved.

The Board also discussed the question whether the Federal

Reserve System should prepare a less expensive exhibit, consisting merely of charts and literature, and it was felt that such an exhibit would not be desirable.

Accordingly, I have been requested to advise you that in the opinion of the Federal Reserve Board, all plans for participation in the Century of Progress Exposition should be abandoned. Therefore, the Board has discontinued the committee which was appointed to report on System participation in the Exposition and requests that you express to Mr. Gettemy the Board's appreciation of his participation in the work done by the committee in developing a plan and arriving at an estimate of its cost.

A copy of this letter is being sent to all Federal reserve agents for their information.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7303

December 5, 1932.

SUBJECT: Extended Leaves of Absence With Pay.

Dear Sir:

In the Board's letter of June 14, 1928, X-6069, the board of directors of each Federal reserve bank was authorized to grant leaves of absence with pay to employees on account of sickness in excess of thirty days and it was requested that monthly reports of all such cases be submitted in accordance with the form attached to the letter.

The Board's division of examinations has been requested, as a part of the examination of each Federal reserve bank, to review all cases where it appears that such leave of absence has been taken, for the purpose of ascertaining the facts and whether in each case the approval of the board of directors of the bank has been obtained. In any case where it appears that such approval has not been obtained or where there are other circumstances which create any question, the examiners will take the matter up with the proper officer of the bank and make an appropriate reference to such case in the report of the examination.

The Board therefore feels that it is unnecessary for the Federal reserve banks to continue to render the monthly reports of sick leave in excess of thirty days. However, as pointed out in the letter of June 14, 1928, the Board's advance approval should be obtained in any case where annual leave is extended beyond the regular vacation to any officer or employee.

Very truly yours,

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

(Report adopted by Federal Reserve Agents during their Conference, Nov. 14-16, 1932.) L-10

PERMITS FOR INTERLOCKING DIRECTORATES UNDER CLAYTON ACT

With reference to the question suggested by the Federal Reserve Board with regard to the policy and procedure in granting permits under the provisions of the Clayton Act relating to interlocking directorates, your committee has to report as follows:

We understand that under the present operation of the Kern amendment to the Clayton Act, as amended, the question of approval of permits for interlocking directorates in banks is subject to two major considerations. The first is the factor of lessening competition or restricting credit, and the second is the question of public interest involved.

We consider, therefore, that the Federal Reserve Board may properly weigh against the question of competition the factor of public interest involved, and this we believe to be recognized in the present regulations of the Federal Reserve Board.

We are of the opinion that the final determination by the Federal Reserve Board must necessarily be on the evidence presented in each individual case rather than by general rule. To this end we respectfully suggest:

One. That Section IV, sub-section (d)3 of Regulation "L" be amended to read as follows:

> "Purpose for which services are sought, nature of proposed influence and activity, relationships, competency, and any other facts having a bearing upon the interest of the public in such banks as affected by their having the same directors, officers, or employees."

Two. In order to comply with this suggested amendment to Regulation "L", it is recommended that, as a matter of procedure, the applicant for a permit and the banks which he is serving and proposing to serve, be required to furnish in writing such information and reasons as they may, in support

of their contention that the granting of the permit will not be against the public interest, and thereupon the application follow the usual course of review and recommendation by the Federal Reserve Agent before submission to the Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7304

December 7, 1932.

SUBJECT: New Issues of Treasury Certificates of Indebtedness and Treasury Notes.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Certificates of Indebtedness and Treasury Notes:

"NOWHOBAD" Treasury Certificates of Indebtedness, Series TD-1933, 5/4%, dated December 15, 1932, due December 15, 1933;

"NOWHYMN" 2¾% Treasury Notes, Series B-1936, to be dated December 15, 1932, due December 15, 1936.

These code words should be inserted in the Federal Reserve Telegraph Code book, on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-7305

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 9, 1932.

SUBJECT: Discount of Eligible Paper by Federal Reserve Banks for Regional Agricultural Credit Corporations.

Dear Sir:

You will recall that during the recent conference in Washington, the attention of the Governors of the Federal reserve banks was directed to the reply made by the Federal Reserve Board, under date of October 25, 1932, to a letter, dated October 13, from the Governor of the Federal Reserve Bank of Minneapolis, with regard to the discount by Federal reserve banks of eligible paper offered by regional agricultural credit corporations. Copies of these letters are inclosed herewith, for your information and files, together with copies of telegrams on the same subject exchanged by the Board with the Governor of the Federal Reserve Bank of San Francisco, under dates of November 23 and November 28, 1932.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7305-a

Oct 25 1932

Mr. W. B. Geery, Governor,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Governor Geery:

Reference is made to your letter of October 13, 1932, referring to the authority of the Regional Agricultural Credit Corporations created by the Reconstruction Finance Corporation pursuant to the provisions of Section 201(e) of the Emergency Relief and Construction Act of 1932 to rediscount paper with the various Federal reserve banks, and inquiring whether a Regional Agricultural Credit Corporation located in one Federal Reserve District and having a branch in another Federal Reserve District would be expected to rediscount paper acquired through such branch with the Federal reserve bank of the district in which the head office of the corporation is located or with the Federal reserve bank of the district in which the paper has originated.

The Regional Agricultural Credit Corporations are authorized under the law to rediscount with the Reconstruction Finance Corporation and the various Federal reserve banks and Federal Intermediate Credit Banks any paper that they acquire which is eligible for such purpose, and it is assumed that the corporations, before requesting the Federal reserve banks to rediscount their paper, will consult with the Reconstruction Finance Corporation and also will utilize their authority to rediscount with the Federal Intermediate Credit Banks.

In the event that it should become desirable for the Federal reserve banks to rediscount paper for these corporations, there are a number of questions to be considered with a view to obtaining some uniformity of policy and procedure among the Federal reserve banks in accepting such paper for rediscount.

Replying to your specific inquiry, it is the view of the Federal Reserve Board that, if and when the Federal reserve banks are requested to rediscount paper for the Regional Agricultural Credit Corporations, the offering in each case should be made to the Federal reserve bank of the district in which the head office of the offering corporation is located, unless exceptional circumstances are presented which might render it desirable to follow some other course of procedure.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

GBV gc

C O P Y

X-7305-b

FEDERAL RESERVE BANK

OF MINNEAPOLIS

October 13, 1932.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Under the act of Congress providing for the organization of the Regional Agricultural Credit Corporations, they are given the right of rediscount with the Federal Reserve Bank. Would it be expected that they would rediscount only with the Federal Reserve Bank located in the district in which they are situated?

What prompts this inquiry is the question as to whether, in case the Regional Agricultural Credit Corporation of Spokane desired to rediscount paper taken through its branch in Helena, they would be expected to offer it to the Federal Reserve Bank of San Francisco or to this bank, and whether the Regional Agricultural Credit Corporation located in Minneapolis would expect to rediscount paper taken in Southern Michigan, with us or with the Federal Reserve Bank of Chicago.

Yours very truly,

(s) W. B. Geery
Governor

C O P Y

X-7305-c

T E L E G R A M

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

3gs

San Francisco Nov 23 345 PM -24

Board

Washn

Paragraph "E" Section 201 "A" title 11 Emergency Relief and Construction Act of 1932 provides that Regional Agricultural Credit Corporations may rediscount with Federal Reserve Bank paper acquired by them which is eligible for such purpose. Is it Board's opinion Federal Reserve Bank in absence specific amendment to Federal Reserve Act may discount eligible paper for regional Agricultural Credit Corporation either under statute above referred to or under Section 210 of Act of July 21, 1932 or under any other provision Federal Reserve Act

Calkins

838AM

C O P Y

X-7305-d

T E L E G R A M

FEDERAL RESERVE BOARD

WASHINGTON

November 28, 1932.

Calkins
San Francisco

Your telegram November 23. In view of provisions of Section 201(e) of Emergency Relief and Construction Act of 1932, it is Board's opinion that Federal reserve banks may legally rediscount eligible paper for regional agricultural credit corporations; but inasmuch as such corporations are authorized to rediscount eligible paper also with Reconstruction Finance Corporation and Federal Intermediate Credit Banks, it is assumed that, before requesting Federal reserve banks to rediscount their paper, they will consult with Reconstruction Finance Corporation and will also utilize their authority to rediscount with Federal Intermediate Credit Banks. In the event that it should become desirable for the Federal reserve banks to rediscount paper for regional agricultural credit corporations, there are a number of questions to be considered with a view to obtaining some uniformity of policy and procedure among the Federal reserve banks in accepting such paper for rediscount.

Morrill

X-7306

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

November 1 to 30, 1932.

	$5	$10	$20	$50	Total Sheets	Amount
Boston,	37,000	42,000	10,000	-	89,000	$8,054.50
Philadelphia,	54,000	33,000	25,000	10,000	122,000	11,041.00
Cleveland,	70,000	48,000	27,000	-	145,000	13,122.50
Richmond,	-	18,000	-	-	18,000	1,629.00
Atlanta,	12,000	10,000	-	-	22,000	1,991.00
Chicago,	-	18,000	10,000	-	28,000	2,534.00
St. Louis,	21,000	13,000	10,000	-	44,000	3,982.00
Minneapolis,	5,000	10,000	-	-	15,000	1,357.50
Kansas City,	10,000	-	11,000	-	21,000	1,900.50
San Francisco	58,000	24,000	22,000	-	104,000	9,412.00
	267,000	216,000	115,000	10,000	608,000	$55,024.00

608,000 sheets, @ $90.50 per M, $55,024.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7307

December 13, 1932.

SUBJECT: Right to exercise trust powers of national banks formed through consolidations of national banking institutions previously authorized to exercise such powers.

Dear Sir:

As several of the Federal reserve agents have been advised, in correspondence relating to particular cases, the Federal Reserve Board has decided that where a national bank succeeds to the right to exercise trust powers by virtue of a consolidation of two or more national banks under the provisions of the Act of Congress of November 7, 1918, it is preferable to issue to the consolidated institution a certificate showing that it has the right to exercise trust powers previously granted to the consolidating banks, rather than to grant to the consolidated institution a new permit authorizing it to exercise trust powers. It is accordingly now the practice, when the Board receives advice from the Comptroller of the Currency that two or more national banks have consolidated under the provisions of the Act of November 7, 1918, and one or more of such banks has been granted trust powers previously, to send to the consolidated bank a certificate of the kind described above. A copy of the Board's letter to the consolidated bank and a copy of the

certificate inclosed therewith are also sent to the Federal reserve agent of the district. In these circumstances it is not necessary for the consolidated bank to make a formal application for the certificate, but if in any such case you find that the certificate has not been received the Board should be advised.

When the Board's Regulation F is next revised, Section III thereof will be amended so as to conform to the practice which the Board is following in cases of this kind.

Very truly yours,

Chester Morrill,
Secretary.

To all Federal reserve agents.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7309

December 19, 1932.

SUBJECT: Holidays during January, 1933.

Dear Sir:

As New Year's Day falls on Sunday, the offices of the Federal Reserve Board and all Federal reserve banks will be closed on Monday, January 2, 1933.

In addition, the following Federal reserve banks and branches will observe holidays during the month of January:

Monday, January 9	New Orleans	Anniversary of Battle of New Orleans
Thursday, January 19	Richmond Charlotte	Anniversary of Birthday of General Robert E. Lee
	Atlanta Birmingham Nashville Jacksonville	Dallas El Paso Houston San Antonio
	Louisville Memphis	
Saturday, January 28	Havana Agency	Anniversary of Birthday of Jose Marti

On the dates indicated the banks affected will not participate in either the Gold Settlement Fund Transit or Note clearing.

Please include credits for the offices affected on each of the holidays with your credits in the Transit clearing for the following business day, and make no shipments of Federal reserve notes, fit or unfit, for account of the Federal Reserve Banks of Richmond, Atlanta and Dallas, on January 19.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7310

December 20, 1932.

SUBJECT: Method of Handling Funds of Federal Home Loan Banks.

Dear Sir:

For your information there is transmitted herewith a copy of a letter dated December 17, 1932, addressed by the Comptroller of the Federal Home Loan Bank Board to the Federal Home Loan Bank of Cambridge, Massachusetts, regarding a plan which has been decided upon by the Federal Home Loan Bank Board for the handling of funds of the Federal home loan banks. It is understood that a similar letter has been sent to each of the Federal home loan banks. It is also understood that supplementary instructions will be sent to all Federal reserve banks by the Secretary of the Treasury.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

X-7310-a

December 17, 1932

Mr. Walter H. Neaves, Executive Vice Pres.,
Federal Home Loan Bank of Cambridge,
Kendall Square Building,
Cambridge, Massachusetts.

Dear Mr. Neaves:

Re: Government subscription to stock

The Federal Home Loan Bank Board has arranged with the Treasury Department to act in the capacity of banker for the Federal Home Loan Banks with respect to funds called for on account of the $125,000,000. made available by Congress to enable the Secretary of the Treasury to subscribe to stock in the Federal Home Loan Banks.

Under the procedure contemplated, all of such funds applicable to the various Federal Home Loan Banks will remain on deposit with the Treasurer of the United States until actually required by the banks for the purpose of consummating loans. The Board will, by resolution, call upon the Treasurer from time to time to make available certain sums of money for each bank. At such time as your institution requires funds in order to make loans, after having exhausted all other available funds, it is requested that you kindly sign one of the forms of receipt evidencing purchase by the Government of capital stock in lump sums of $100,000. Such receipts should then be forwarded to the Federal Reserve Bank of your district or the branch which you are now using, with the request that the Treasurer of the United States be advised by wire. Upon receipt of this wire the Treasurer of the United States will telegraph your bank to the effect that a like amount has been placed to your credit on his books. Upon receipt of such telegraphic advice you may then issue your bank's check on the Treasurer of the United States payable to the borrower for the exact amount of the loan. Dividend on such sums thus obtained from the Treasurer of the United States will run only from the date of your receipt. It is requested that you refrain from issuing such receipts in blocks of $100,000. each until you are actually ready to close loans up to such amount. After all other funds have been exhausted, you may also draw on this symbol account for operating purposes, provided in such cases you refrain from drawing in excess of $10,000. at any one time. The proceeds of checks drawn for operating purposes may be deposited in your commercial checking account.

The Treasurer of the United States is forwarding you an emergency supply of 100 checks numbered numerically, and an order has been placed for the printing of 2,000 additional checks numbered from 101 to 2,101. These additional checks will be forwarded you direct from the Bureau of Engraving and Printing and no charge will be made therefor. The Treasurer of the

United States has assigned Symbol No. 79988 to your bank and all correspondence you may have occasion to conduct with the Treasurer should make reference to such symbol number, which number will likewise appear on all checks furnished you. It is suggested that you obtain locally a supply of duplicate checks similar to those being forwarded you in order to enable you to maintain carbon copies of all checks drawn. At the end of each month the Treasurer of the United States will forward to your bank all cancelled checks, together with a transcript of your account, copy of which will also be forwarded to the undersigned.

No entries should be made on your books in connection with these transactions until you have executed your receipts in the manner above indicated and have received a telegram from the Treasurer of the United States indicating that the amounts thereof have been placed to your bank's credit. Careful record should, of course, be maintained of each such receipt in order that you may properly accrue dividend at 2%, as required by the Act, such dividend to accrue only from the date on which your receipts are executed. All checks should be signed only by the officials whose facsimile signatures you have forwarded to the Treasurer of the United States.

We shall be glad if you will acknowledge the receipt of this letter, and call our attention to any points in connection with the contemplated procedure which may not be entirely clear to you.

Very truly yours,

Comptroller.

RRB/myr
cc - Mr. Fort
cc - Dr. Gries
cc - Mr. Best
cc - Mr. Bodfish
cc - Mr. Murray
cc - Mr. Berlin

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7311

December 21, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDITTY" has been designated to cover a new issue of Treasury Bills, dated December 28, 1932, and maturing March 29, 1933.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDISPORT" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7312

December 22, 1932.

SUBJECT: Bonds of Federal Reserve Agents and Assistant Federal Reserve Agents.

Dear Sir:

The Federal Reserve Board recently approved a revision of its forms 181, "Bond of Federal Reserve Agent", and 182, "Bond of Assistant Federal Reserve Agent", and a supply of these revised forms is being forwarded to you today under separate cover.

Your attention is called to the rules, printed on the reverse side of the forms, which must be observed in the execution of bonds by Federal reserve agents and assistant Federal reserve agents, and it is requested that, before sending to the Board the bonds which may be executed in the future by you or by an assistant Federal reserve agent at your bank, you have them examined by your counsel to determine whether their execution complies fully with these rules.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in Morning Papers, Saturday, December 24, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of November and December will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Industrial activity declined in November by somewhat more than the usual seasonal amount. Changes in factory employment and payrolls, reported for the middle of the month, were largely seasonal in character. Prices in wholesale commodity markets were somewhat lower, on the average, in November than in October, and declined further during the first three weeks of December.

Production and employment - Volume of industrial production, as measured by the Board's seasonally adjusted index, declined from 66 per cent of the 1923-1925 average in October to 65 per cent in November, compared with a low level of 58 per cent in July. Output at woolen mills, silk mills, and shoe factories declined in November from the relatively high levels of the autumn, while cotton mills continued active. Lumber production declined by considerably more than the usual seasonal amount. Steel production decreased during November and the first three weeks of December, while automobile output increased considerably in connection with the introduction of new models.

The number employed at factories declined somewhat from October to November, reflecting in large part developments of a seasonal character. Working forces in the woolen, silk, shoe, and canning industries were reduced, while at car-building shops and at factories producing automobiles and agricultural implements there were increases in employment.

Construction contracts awarded up to December 15, as reported by the F. W. Dodge Corporation, indicate for the last three months of the year a decline from the third quarter of somewhat more than the usual seasonal amount, following a non-seasonal increase from the second to the third quarter.

Estimates of the Department of Agriculture, based on December 1 reports, indicate a cotton crop of 12,727,000 bales, about 800,000 bales larger than the estimate a month earlier, but 4,400,000 bales smaller than last year's unusually large crop. Wheat, tobacco, flaxseed, and other leading cash crops are also considerably smaller than a year ago, while feed crops are substantially larger. Acreage of winter wheat planted this fall was slightly smaller than a year ago, and condition of the crop on December 1 was unusually poor, according to the Department of Agriculture.

Distribution - Distribution of commodities by rail decreased seasonally from October to November, while the dollar volume of department store sales, which ordinarily expands at this season, showed a decline.

Wholesale prices - During early November the general level of wholesale commodity prices advanced somewhat, reflecting chiefly increases in prices of domestic agricultural products; in the latter part of the month, however, prices of livestock, cotton, and grains declined considerably; and, during the first three weeks of December, further declines in livestock prices were reported. By the third week of December prices of textiles, copper, and silver, as well as of livestock, were substantially lower than in the middle of November and the general average of wholesale prices was at a level slightly below that prevailing before the advance that occurred last summer.

Bank credit - During the four weeks ended December 14 there was an addition of $85,000,000 to the country's stock of monetary gold. The funds

derived from this source were utilized in meeting an increase in the demand for currency, which was smaller than usual at this season, in further reducing by $23,000,000 the indebtedness of member banks to the reserve banks, and in increasing by $25,000,000 the volume of member bank reserve balances. On December 15 there was a further increase of $95,500,000 in the stock of monetary gold in connection with the current payment by Great Britain on the war debt. This amount of gold was earmarked in London for account of the Federal Reserve Bank of New York, and an equivalent credit was given by that bank to the United States Treasury. This transaction together with other fiscal operations on December 15 resulted in a temporary addition of $100,000,000 to the reserves of member banks, which were subsequently reduced by Christmas currency demands, and an increase in Treasury deposits with the reserve banks.

Loans and investments of reporting member banks declined by more than $100,000,000 between November 16 and December 14, reflecting reductions in the banks' holdings of United States Government securities, and in loans other than security loans. Loans on securities increased, both at New York City and at other reporting member banks.

Money rates in the open market declined further, rates on 90-day bankers' acceptances declining from 1/2 of 1 per cent to 3/8 of 1 per cent, and rates on prime commercial paper from a range of 1 1/2 - 1 3/4 per cent to a range of 1 1/4 - 1 1/2 per cent.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7315

December 23, 1932.

SUBJECT: Shipment of Canceled Checks, etc., by Express.

Dear Sir:

With further reference to the above subject and the Board's letter of November 12, 1932 (X-7290), there is inclosed a copy of a letter dated December 17, 1932, received by the Federal Reserve Bank of New York from the Post Office at New York City. The method of sending the cash letter which is referred to therein may perhaps be found convenient.

For your information, there is quoted below Section 1712 of the "Postal Laws and Regulations, 1932":

> "1712. All letters inclosed in stamped envelopes, if the postage stamp is of a denomination sufficient to cover the postage that would be chargeable thereon if the same were sent by mail, may be sent, conveyed, and delivered otherwise than by mail, provided such envelope shall be duly directed and properly sealed, so that the letter can not be taken therefrom without defacing the envelope, and the date of the letter or of the transmission or receipt thereof shall be written or stamped upon the envelope. But the Postmaster General may suspend the operation of this section upon any mail route where the public interest may require such suspension.
>
> "(NOTE.-'Stamped envelopes' means Government stamped envelopes. (See sec. 140.)"

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT NEW YORK.

COPY X-7315-a

UNITED STATES POST OFFICE

NEW YORK, N. Y.

December 17, 1932.

Federal Reserve Bank of New York,
New York, N. Y.

Gentlemen:

Referring to the letters regarding your inquiry as to whether a form known as a "cash letter" may be enclosed in express shipments of checks if it is placed in a Government stamped envelope, you are advised in accordance with information received from the Department that there will be no objection to this practice.

It is assumed that the requirement of endorsing the date upon the envelope which is prescribed by the Postal Laws and Regulations is understood and will be complied with.

Sincerely yours,

(Signed) J. J. Kiely
Postmaster.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7316

December 23, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, November, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7316-a and X-7316-b, covering in detail operations of the main lines, Leased Wire System, during the month of November, 1932.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER, 1932.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	25,253	1,357	26,610	3.72
New York	123,221	-	123,221	17.23
Philadelphia	26,546	1,087	27,633	3.86
Cleveland	55,201	952	56,153	7.85
Richmond	48,276	1,129	49,405	6.91
Atlanta	47,327	986	48,313	6.76
Chicago	79,463	1,099	80,562	11.27
St. Louis	59,243	1,599	60,842	8.51
Minneapolis	29,758	938	30,696	4.29
Kansas City	63,124	1,071	64,195	8.98
Dallas	54,831	1,832	56,663	7.92
San Francisco	88,545	2,302	90,847	12.70
Total	700,788	14,352	715,140	100.00

F. R. Board business	277,609	992,749
Reimbursable business Incoming and Outgoing		271,992
Total words transmitted over main lines		1,264,741

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7316-b).

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, NOVEMBER, 1932.

Name of Bank	Operators' salaries	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	$260.00	$ -	$ -	$260.00	$679.64	$260.00	$419.64
New York	1,111.48	-	-	1,111.48	3,147.91	1,111.48	2,036.43
Philadelphia	225.00	-	-	225.00	705.22	225.00	480.22
Cleveland	306.66	-	-	306.66	1,434.19	306.66	1,127.53
Richmond	220.00	-	230.00 (&)	450.00	1,262.45	450.00	812.45
Atlanta	270.00	-	-	270.00	1,235.05	270.00	965.05
Chicago	3,724.98 (#)	9.00	-	3,733.98	2,059.02	3,733.98	1,674.96 (*)
St. Louis	195.00	-	-	195.00	1,554.77	195.00	1,359.77
Minneapolis	200.00	-	-	200.00	783.78	200.00	583.78
Kansas City	287.50	-	-	287.50	1,640.64	287.50	1,353.14
Dallas	251.00	-	-	251.00	1,446.98	251.00	1,195.98
San Francisco	380.00	-	-	380.00	2,320.28	380.00	1,940.28
Federal Reserve Board	-	-	15,604.89	15,604.89	-	-	-
Total	$7,431.62	$ 9.00	$15,834.89	$23,275.51	$18,269.93	$7,670.62	$12,274.27
							1,674.96 (a)
							$10,599.31

Reimbursable charges:

Treasury Department.	$1,792.18
Reconstruction Finance Corporation .	3,080.84
Federal Farm Loan Board.	27.48
Federal Farm Board.	53.81
Compt. of Currency, Insolv. Bank Div.	51.27
Less: Reimbursable charges.	5,005.58
	$18,269.93

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7317

December 28, 1932.

SUBJECT: State Member Banks Not Examined During 1932.

Dear Sir:

It will be appreciated if you will send to the Board, as early in January as possible, a list of the State member banks in your district which were not examined either by State authorities or Federal reserve examiners during 1932.

It is also requested that you advise what arrangements are being made by you or the State authorities for an early examination of the banks listed.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7318

December 29, 1932.

SUBJECT: Eligibility of Notes Given in Payment of Insurance Premiums.

Dear Sir:

There are inclosed herewith, for your information, copies of letters exchanged between the Federal Reserve Board and the Federal Reserve Bank of New York on the subject of the eligibility for rediscount at a Federal reserve bank of notes given in payment for premiums for insurance by persons, firms or corporations engaged in the production, manufacture or distribution of goods.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS., EXCEPT NEW YORK.

Copy X-7318-a

Federal Reserve Bank

of New York

December 9, 1932.

S i r s :

We have an inquiry from Mr. Paul L. Haid, President of the Insurance Executives Association, as to the eligibility for rediscount at the Federal Reserve Bank of notes given in payment for premiums for insurance by persons, firms or corporations engaged in the production, manufacture or distribution of goods.

It is our view that if such notes have been made by parties engaged in producing, purchasing, carrying or marketing goods and given in payment for insurance premiums which were a current expense of the business, this would represent an eligible use of the proceeds and if further the financial statements of the makers in each case show a reasonable excess of quick assets over current liabilities, that such notes should be considered eligible for rediscount. In other words, if the maker's straight note discounted at his bank would be eligible, we see no reason why its eligibility would be in any way affected by the endorsement of an insurance company or insurance agent.

We would appreciate your ruling on this subject.

Respectfully,

(S) L. R. Rounds
Deputy Governor

Federal Reserve Board

Washington, D. C.

Copy X-7318-b

December 22, 1932.

Mr. L. R. Rounds,
Deputy Governor,
Federal Reserve Bank of New York,
New York City, New York.

Dear Mr. Rounds:

Reference is made to your letter of December 9, 1932, in which you request a ruling of the Board on a question raised by Mr. Paul L. Haid, President of the Insurance Executives Association, as to the eligibility for rediscount at a Federal reserve bank of notes given in payment for premiums for insurance by persons, firms or corporations engaged in the production, manufacture or distribution of goods.

Upon consideration of this question, it is the opinion of the Federal Reserve Board that notes of such persons, firms or corporations given in payment for premiums for insurance customarily deemed necessary in the business of producing, purchasing, carrying or marketing goods, or the proceeds of which are used for such purposes, are notes issued for commercial or agricultural purposes within the meaning of the Federal Reserve Board's Regulation A; and accordingly, such notes are eligible for discount by Federal reserve banks if they comply in other respects with the applicable provisions of the law and of the Board's regulations. A note which is thus given for an eligible purpose is not

rendered ineligible by the fact that it may subsequently be indorsed by an insurance company or an insurance agent. As in any other case, a statement of the maker showing a reasonable excess of quick assets over current liabilities may be required as evidence that the note is not one the proceeds of which have been or are to be used for a capital purpose.

Very truly yours,

(S) Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 6, 1932.
B-772.

SUBJECT: Operating Efficiency at the Federal reserve banks.

Dear Sir:

For your information there is inclosed herewith a copy of our usual annual statement relating to the cost of handling work in the principal operating departments of the head offices of the Federal reserve banks.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO GOVERNORS AND CHAIRMEN
OF ALL FEDERAL RESERVE BANKS.*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 23, 1932.
B-513.

SUBJECT: Functional Expenses,
First Half, 1932.

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense Exhibit for the half year ending June 30, 1932. A copy of the exhibit is also being mailed to the Governor of the bank.

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

Enclosure.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 28, 1932.
B-831.

SUBJECT: Preliminary classification of loans and investments of member banks as of June 30, 1932.

Dear Sir:

There is enclosed for your information and confidential use, a copy of a memorandum and statement prepared for the Board with respect to changes in the loans and investments of member banks during the first half of 1932 and the last two years, as disclosed by the June 30 condition reports. Figures for the June 1932 call are based on the preliminary data furnished by the Federal reserve agents and will be published in the forthcoming August issue of the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 15, 1932.
B-833.

SUBJECT: Condition of member banks
as of June 30, 1932.

Dear Sir:

For your information there is enclosed a statement showing the resources and liabilities of all member banks in each Federal reserve district as of June 30, 1932, also a statement giving a classification of loans, investments, deposits and borrowings of member banks in each district on the same date.

The Board's Member Bank Call Report (No. 55) giving detailed figures by states, cities and classes of banks, which will include the data shown in the enclosed statements, will be ready for distribution about the middle of September.

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 26, 1932
B-836

SUBJECT: Abstracts of Condition Reports
of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if, in accordance with your usual practice, you will furnish the Federal Reserve Board with a copy of the abstract of condition reports of state banks and trust companies in your state on June 30, 1932, or on the call date nearest thereto.

A franked and addressed envelope, requiring no postage, is inclosed for use in transmitting the data requested.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO SELECTED STATE BANKING DEPARTMENTS.*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 2, 1932.
B-838.

SUBJECT: Member Bank Call Report
for June 30, 1932.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 55, showing the condition of all member banks on June 30, 1932. Please forward a copy to each member bank in your district that has expressed a desire to receive copies of call reports as issued.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 13, 1932.
B-839.

SUBJECT: Reports of Member Banks Borrowing from Federal Reserve Banks.

Dear Sir:

Since April, 1929, each Federal reserve bank has been sending the Board quarterly reports on Form St. 6170 covering member banks borrowing 80 per cent or more of the time during the quarter.

The Board feels that a report which would require considerably less time to compile would answer its purposes satisfactorily at the present time and, accordingly, requests that these reports be submitted semi-annually hereafter, in accordance with the attached form, covering all member banks which were borrowing 80 per cent or more of the time during the twelve-month periods ending June 30 and December 31, respectively. You will note that the form calls for the average daily borrowings of each such member bank during the last month of the period covered by the report; the number of days on which each bank was in debt to the Federal reserve bank during the last month and year; and the amount of the bank's capital and surplus.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS*.

MEMBER BANKS BORROWING FROM THE FEDERAL RESERVE BANK OF _____

FOUR-FIFTHS OF THE TIME* DURING THE YEAR ENDING _____

Location	Name of bank	Capital and surplus at end of report period	Average daily borrowings during last month of report period	Number of days bank was in debt to F. R. Bank during	
				Last month of report period	Year covered by report

*On 292 or more days, including Sundays and holidays.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 16, 1932.
B-840.

SUBJECT: Call Condition Reports of Member Banks.

Dear Sir:

There have been forwarded to you under separate cover copies of Form 105 to be used by State bank members in submitting their condition reports as of the next call date. Kindly hold the blanks at your bank until you are advised by the Board to forward them to the State bank members, whereupon please mail three copies to each such bank with the request that they be held pending receipt of a call for condition reports.

It will be appreciated if you will kindly arrange to have the usual preliminary classification of loans and investments of reserve city and of country banks in your district wired to the Board within three weeks, if practicable, from the date of the next call report. It is suggested that the figures be compared with corresponding data for the preceding call before they are telegraphed to the Board, in order that any obvious discrepancies may be detected and promptly reconciled.

It will also be appreciated if you will kindly have your staff make a special check of Schedule AA, in view of the fact that quite a number of banks did not properly complete the schedule on the June 30, 1932 call.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 19, 1932.
B-844.

SUBJECT: Forms for use during 1933.

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1933.

Form	Title
34	Daily balance sheet. (Please state the number required for the head office and each branch separately, and indicate any special punching that may be desired).
F.R.A.-5	Daily statement of Federal reserve agent.
38	Classification of discounted and purchased bills held at the end of the month.
44	Monthly report of Federal reserve notes showing the number of each denomination and aggregate amount received, issued to bank, and returned to the Comptroller of the Currency.
95	Monthly report of earnings.
96	Monthly report of current expenses.
160	Monthly report of receipts and payments of paper currency.
194	Monthly report of Federal reserve notes received and issued; also stock on hand at beginning and end of month.
E	Semi-annual functional expense report.

Please show separately the number of copies of each form, except form 34, required if it is revised and the number if not revised.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS*.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 28, 1932.
B-845

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

In accordance with a request of the Federal Reserve Bank of Chicago, the Federal Reserve Bank of San Francisco having agreed thereto, the Federal Reserve Board has approved a reduction from 4 days to 3 days in the inter-district time schedule for cash items from Chicago to San Francisco and from Chicago to Los Angeles.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS*.

FEDERAL RESERVE BOARD

WASHINGTON

November 4, 1932.
B-846.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Earnings and Expenses of
Federal Reserve Banks.

Dear Sir:

The general instructions governing the preparation of reports of earnings and expenses of Federal reserve banks, issued by the Board in December, 1922, have been revised for the purpose of incorporating therein instructions issued since that date, and instructions relating to depreciation allowances, reserves, etc. The revised instructions also indicate the form in which profit and loss statements should be submitted to the Federal Reserve Board, and the procedure to be followed in connection with certain other end-of-year reports. One copy of the instructions is inclosed and a copy is being forwarded to the Federal reserve agent. Additional copies may be had upon request.

The instructions should be made effective as of December 1, 1932.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS*.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 10, 1932.
B-847.

SUBJECT: Preliminary classification of loans and investments of member banks as of September 30, 1932.

Dear Sir:

There is inclosed for your information and confidential use, a copy of a memorandum and statement prepared for the Board with respect to changes in the loans and investments of member banks during the third quarter of 1932 and the last year, as disclosed by the September 30 condition reports. Figures for the September 30, 1932 call are based on the preliminary data furnished by the Federal reserve agents and will be published in the forthcoming November issue of the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 17, 1932
B-849.

SUBJECT: Condition of member banks as of September 30, 1932.

Dear Sir:

For your information there is inclosed a statement showing the resources and liabilities of all member banks in each Federal reserve district as of September 30, 1932, also a statement giving a classification of loans, investments, deposits and borrowings of member banks in each district on the same date.

The Board's Member Bank Call Report (No. 56) giving detailed figures by states, cities and classes of banks, which will include the data shown in the inclosed statements, will be ready for distribution about the middle of December.

Very truly yours,

E. L. Smead, Chief
Division of Bank Operations.

Inclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 30, 1932.
B-852.

SUBJECT: Data for 1932 Annual Report of the Federal Reserve Board.

Dear Sir:

It will be appreciated if you will kindly furnish us with the following data for use in the Board's forthcoming annual report:

1. Classification of U. S. securities held by your bank (1) under repurchase agreement and (2) in own investment account, as at close of business December 31, 1932, giving the kind of securities, interest rate, maturity date, and par value. The total only need be shown for the bank's participation in securities held in Special Investment Account.

2. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during the calendar year 1932.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT NEW YORK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 30, 1932.
B-853.

SUBJECT: Salaries of officers of
Federal reserve banks.

Dear Sir:

In accordance with the usual practice, a statement showing the 1933 salary provided by your Board of Directors at its first meeting in January for each officer of your bank and branches, if any, subject to the approval of the Federal Reserve Board, should be forwarded to the Board as early in January as practicable. Please list the officers and their salaries in the manner indicated in the attached form. In case the bank's counsel is not an officer of the bank his annual retainer fee and any additional compensation for clerk hire should be shown separately.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

OFFICERS' SALARIES FOR 1933 AT THE FEDERAL RESERVE BANK OF _____

AND ITS BRANCHES, IF ANY, AS PROVIDED BY THE BOARD OF DIRECTORS

SUBJECT TO APPROVAL BY THE FEDERAL RESERVE BOARD

Name	Title	Departments or functions supervised (Form A classification)	Annual Salary	
			Dec. 31, 1932	1933, for approval of F.R. Board

_____

Total, _____ officers _____

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 30, 1932.
B-854.

SUBJECT: Salaries of employees of
Federal reserve banks.

Dear Sir:

Will you kindly furnish the Board as early in January as practicable with a statement showing the name of each employee of your bank and its branches (if any) on January 1, 1933, and the salary paid to each as of January 1, 1932 and January 1, 1933. The list should be prepared in accordance with the sample form attached in order to facilitate checking with the approved personnel classification plan for your bank on file with the Federal Reserve Board.

As in the past the schedules should cover all employees on the bank's payroll including those whose salaries are reimbursed to the bank in whole or in part.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure

TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

EMPLOYEES OF THE FEDERAL RESERVE BANK OF _____ AND ITS BRANCHES (IF ANY) ON JANUARY 1, 1933

Name of employee	Classification symbol	Title of job	Salary range	Salary on Jan. 1	
				1932*	1933

NOTE: Employees should be listed by functions or departments and the positions or jobs arranged in the same order as they appear in the personnel classification plan, Form A, on file with the Federal Reserve Board. The total number of employees including employees whose salaries are reimbursed to the bank in whole or in part and the total salaries paid should be shown for each function or department. Extra help or temporary employees should be listed with the regular employees of the bank and designated by the letter "T" after the classification symbol. In case of employees on a per diem or hourly basis, the estimated total annual compensation should also be shown.

*If hired during 1932, please show the initial salary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 30, 1932.
B-855.

SUBJECT: 1933 Budget for Statistical and Analytical Work.

Dear Sir:

In accordance with your usual practice, a statement of the budget for the Statistical and Analytical function of your bank (including branches, if any), for the calendar year 1933 should be forwarded to the Federal Reserve Board as soon after January 1 as practicable. The budget should be prepared in accordance with the attached form.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BANK OF_____(including branches)

Proposed budget for the Statistical and Analytical function (as defined in the Manual of Instructions covering functional expense reports, Form E)

(All figures to be shown to the nearest dollar, cents omitted)

	BUDGET for 1932	EXPENSES during 1932	BUDGET for 1933
ADMINISTRATION:			
Salaries - officers			
Salaries - employees			
Traveling expenses			
Printing & stationery & other supplies			
Telephone and telegraph			
All other*			
TOTAL			
STATISTICAL:			
Salaries - employees			
Traveling expenses			
Printing & stationery & other supplies			
Telephone and telegraph			
Postage			
All other*			
TOTAL			
MONTHLY LETTER:			
Printing and stationery			
Postage			
TOTAL			
LIBRARY:			
Salaries - employees			
Traveling expenses			
Printing & stationery & other supplies			
Telephone and telegraph			
News service - subscriptions to periodicals, etc.			
Books			
All other*			
TOTAL			
GRAND TOTAL			

MEMORANDA:

Number of copies of monthly letter printed, December 1932_____

Receipts from monthly letters sold: Year 1932 $_____ Estimated, Year 1933 $_____ Do not deduct from expenses

*Classify, if in excess of $100.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 30, 1932.
B-856.

SUBJECT: 1933 Budget for Federal reserve bank.

Dear Sir:

In accordance with the usual practice, a statement of the budget approved for the head office and each of its branches, if any, for the calendar year 1933 should be forwarded to the Federal Reserve Board as soon after January 1 as practicable.

The budget statement as submitted to the Board should be prepared in accordance with the sample form attached and should show totals for each separate unit (department, function, division, section or expense unit) for which separate figures are shown in the budget approved by the bank's budget committee.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 30, 1932.
B-857.

SUBJECT: Summary Statement of Federal Reserve Bank Personnel.

Dear Sir:

In accordance with the usual practice, please furnish the Board with a summary statement showing the number and salaries of the officers and employees of your bank (including branches, if any) as of December 31, 1932, and January 1, 1933, made out in accordance with the attached form. The figures for December 31, 1932, which should not include any changes in either the number or salaries of officers or employees that become effective on January 1, 1933, will be published in the Board's 1932 annual report and should be comparable with corresponding figures published on pages 238-240 of the Board's 1931 annual report. The figures for January 1, 1933, should represent the number and annual salaries of employees after all changes effective as of January 1 have been made, and the number and annual salaries of officers as submitted to the Board for its approval.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

LETTER TO ALL CHAIRMEN*

B-857a

FEDERAL RESERVE BANK OF _____

(Including branches)

	Number		Annual Salaries	
	Jan. 1 1933	Dec. 31 1932	Jan. 1 1933	Dec. 31 1932
Officers:				
Chairman and Federal Reserve Agent				
Governor				
Other officers				
Employees by departments:				
Banking department				
Federal Reserve Agent's department				
Auditing Department				
Fiscal Agency Department				
Total				
Employees whose salaries are reimbursed to bank:				
Fiscal Agency department				
Other employees*				
Grand Total				
Temporary employees (not to be included above)				

*Subdivide by functions and units on separate sheet.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 30, 1932.
B-858.

SUBJECT: Description of Federal reserve districts.

Dear Sir:

The 1931 Annual Report of the Federal Reserve Board, beginning on page 286, contains a description of the territory constituting each Federal reserve district and each branch zone. It will be appreciated if you will kindly have the data shown for your district, except that relating to land area and population, checked as of December 31, 1932, and advise the Board of any necessary changes therein.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 30, 1932.
B-859.

SUBJECT: Abstracts of Condition Reports of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if, in accordance with your usual practice, you will furnish the Federal Reserve Board with a copy of the abstract of condition reports of state banks and trust companies in your state for September 30, 1932, or for the call date nearest thereto.

A franked and addressed envelope, requiring no postage, is inclosed for use in transmitting the data requested.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

To State Banking Departments.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 21, 1932
B-860

SUBJECT: Earnings and Dividends Reports of
State Bank Members, Form 107

Dear Sir:

There is inclosed a copy of revised form 107, Report of Earnings and Dividends of state bank members of the Federal Reserve System, and of instructions governing the preparation of such reports. Corresponding revisions have been made in the Comptroller of the Currency's form 2129, Report of Earnings and Dividends of National banks, and the Comptroller's office is also issuing similar instructions to national banks governing the preparation of their reports. A supply of revised form 107, for the use of state bank members in submitting their reports of earnings and dividends for the six months ending December 31, 1932, together with a supply of instructions, is being sent to you under separate cover.

It is requested that you include the following paragraphs in your letter transmitting the blank forms 107 to state bank members for use in submitting their reports for the six months ending December 31, 1932:

"The form heretofore used by member banks in submitting their semi-annual earnings and dividends reports has been rearranged in order to simplify its preparation by member banks, as well as to facilitate its

use by the Federal Reserve System. Instructions governing the preparation of the report are inclosed.

"It will be noted from an examination of the revised form and accompanying instructions that dividends declared but not payable until after the end of the report period are to be included with 'Deductions from Undivided Profits' and reported against item 12-c of earnings and dividends reports, and included in 'Other liabilities' in condition reports; that reserves for depreciation on banking house, furniture and fixtures, and other real estate, which are deducted from asset accounts in condition reports, form 105, are not to be included in 'Reserves for contingencies' in earnings and dividends reports, form 107; and that amounts set aside to cover 'Interest, taxes and other expenses accrued and unpaid' are to be included in item 2, 'Expenses,' of earnings and dividends reports in the period in which they are set aside, regardless of when paid, and reported against item 29 of 'Liabilities' in condition reports.

"If the 'reserve' items as reported by your bank in its earnings and dividends report for the six months ended June 30, 1932, included any reserves for dividends, for depreciation on banking house, furniture and fixtures and other real estate, or for interest, taxes and other expenses accrued and unpaid, it will be necessary for you to make certain adjustments in reserve accounts when preparing your report for the six months ending December 31, 1932. It is realized that these adjustments will result in a reduction in the amount which would otherwise be reported against item 7, 'Net addition to profits for current period.'

In order that the reason for any such reduction in net profits may appear on the report itself, and to make it possible to eliminate the adjustments in summarizing the figures for publication, the adjustments should be reported as follows:

"Reserves for dividends. Dividends declared but not payable until after June 30, 1932, if included in item 21, 'Net amount reserved for --,' in the report of earnings and dividends submitted for the six months ended June 30, 1932, should be included in the report covering the six month period ending December 31, 1932, with amounts withdrawn from reserves, items 10-a and 17, and also shown separately following item 12-c as 'Dividends paid, declared during prior periods.'

"Reserves for depreciation on real estate. Any depreciation reserves on banking house, furniture and fixtures, and other real estate, that were included in item 21, 'Net amount reserved for --,' in the report of earnings and dividends submitted for the six months ended June 30, 1932, should be included in the report covering the six months ending December 31, 1932, with amounts withdrawn from reserves, items 10-a and 17, and also shown separately under item 6-d as 'Withdrawals from depreciation reserves on banking house, furniture and fixtures' or 'Withdrawals from depreciation reserves on other real estate,' as the case may be.

"Interest, taxes and other expenses accrued and unpaid. If item 21, 'Net amount reserved for --,' as shown in the report of earnings and dividends submitted for the six months ended June 30, 1932, included any

amount set aside for expenses payable after June 30, 1932, such amount should be included in the report covering the six months ending December 31, 1932, with amounts withdrawn from reserves, items 10-a and 17, and also shown separately under item 2-f as 'Withdrawals from reserves for expenses.' In addition, a memorandum should be attached or shown at the bottom of the report, classifying this amount in accordance with the subdivisions of item 2, 'Expenses.'"

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 13, 1932.
B-862.

SUBJECT: Forms for use during 1933.

Dear Sir:

There are being forwarded to you today under separate cover a supply of the following forms for use during 1933:

Form 38,	copies
Form 95,	copies
Form 96,	copies
Form 160,	copies
Form E,	copies

A supply of Form 34 and additional copies of form 160 will be mailed when received from the printer.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL F. R. BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 14, 1932.
B-863.

SUBJECT: Member Bank Call Report
for September 30, 1932.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 56, showing the condition of all member banks on September 30, 1932. Please forward a copy to each member bank in your district that has expressed a desire to receive copies of call reports as issued.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 19, 1932.
B-865.

SUBJECT: Forms for use during 1933.

Dear Sir:

There are being forwarded to you today under separate cover, by registered mail, a supply of the following forms for use during 1933:

Form F.R.A.-5	copies
Form 44	copies
Form 194	copies

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 22, 1932.
B-867.

SUBJECT: Call Condition Reports of Member Banks.

Dear Sir:

There have been forwarded to you under separate cover copies of form 105 to be used by State bank members in submitting their condition reports as of the next call date. Kindly hold the blanks at your bank until you are advised by the Board to forward them to the State bank members, whereupon please mail three copies to each such bank with the request that they be held pending receipt of a call for condition reports.

Certain revisions have been made in form 105, as well as in the Comptroller of the Currency's form 2130, most of them made necessary by the Board's recent ruling (see page 714 of Federal Reserve Bulletin for November 1932) that certificates of deposit payable to other banks within 30 days are demand deposits within the meaning of Section 19 of the Federal Reserve Act. Changes have also been made in the two reserve items, Nos. 17 and 18 on the last edition of the form, in connection with a revision of the semi-annual report of earnings and dividends, form 107. In view of these changes, the supply of form 105 forwarded to you is accompanied by revised definitions for some of the items contained in the August, 1928 edition of form 105-a, "Instructions for preparation of condition reports."

A copy of these revised definitions should be furnished each State bank member.

At the time of the next call for condition reports the Board desires to obtain certain information with respect to (1) affiliates of member banks, and (2) real estate mortgages, mortgage bonds, and mortgage participation certificates sold either by the member banks themselves or by their affiliates. For this purpose, it is requested that, in your letter transmitting blank forms 105 to State bank members for use in submitting their next condition reports, you incorporate therein the attached request for such information. A supply of the schedules on which the data are to be reported has been mailed to you with the supply of form 105. The attention of the banks should also be called to this request at the time the call for condition reports is made. The Comptroller of the Currency is asking national banks to furnish similar information.

It will be appreciated if you will kindly arrange to have the usual preliminary classification of loans and investments of reserve city and of country banks in your district wired to the Board within three weeks, if practicable, from the date of the next call report. It is suggested that the figures be compared with corresponding data for the preceding call before they are telegraphed to the Board, in order that any obvious discrepancies may be detected and promptly reconciled.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS*

(TO BE INCLUDED IN FEDERAL RESERVE AGENT'S LETTER SENDING OUT FORM 105 TO STATE BANK MEMBERS FOR THEIR NEXT QUARTERLY CONDITION REPORTS)

"By direction of the Federal Reserve Board, you are requested to submit with, and as of the date of, your next condition report, form 105, the information called for by inclosed schedules 'X,' 'Y' and 'Z.' Schedule 'X,' it will be noted, relates to 'affiliates' as defined on the reverse side of the schedule. Schedule 'Y' relates to real estate mortgages, mortgage bonds, and mortgage participation certificates sold by affiliates, and schedule 'Z' relates to similar obligations, if any, sold by your bank.

"A separate schedule, both 'X' and 'Y,' should be submitted covering each affiliate. If your bank has no affiliates, as defined for the purpose of this request, schedules 'X' and 'Y' should be returned with the word 'none' clearly written or stamped thereon. Likewise, if your bank has no real estate mortgages, mortgage bonds, or mortgage participation certificates to report on schedule 'Z,' the schedule should be returned with the word 'none' clearly written or stamped thereon.

"All of the information called for by schedules 'X,' 'Y' and 'Z' should be submitted in duplicate, over the signature of an officer of the bank. Three copies of each schedule are inclosed. If your bank has more than one affiliate and, therefore, requires additional copies of schedules 'X' and 'Y,' they should be prepared on your own stationery."