FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7319

January 6, 1933.

SUBJECT: Assessment for General Expenses of the Federal Reserve Board January 1 to June 30, 1933.

Dear Sir:

Confirming telegraphic advice, there is enclosed herewith copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the several Federal reserve banks of an amount equal to nine hundred fifty-one ten thousandths of one per cent (.000951) of the total paid-in capital stock and surplus of such banks as of the close of business December 31, 1932, to defray the estimated general expenses of the Board from January 1 to June 30, 1933, and specifying how such assessment shall be paid.

Very truly yours,

J. C. Noell
Fiscal Agent.

Enclosure.

SENT TO CHAIRMAN OF EACH FEDERAL RESERVE BANK.

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Federal Reserve Bank of St. Louis

X-7319-a

RESOLUTION LEVYING ASSESSMENT.

WHEREAS, under Section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts and employees, for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year; and

WHEREAS, it appears from estimates submitted to and considered by the Federal Reserve Board that it is necessary that a fund equal to nine hundred fifty-one ten thousandths of one per cent (.000951) of the total paid-in capital stock and surplus of the Federal reserve banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, That:

(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to nine hundred fifty-one ten thousandths of one per cent (.000951) of the total paid-in capital and surplus of each such bank at the close of business on December 31, 1932;

(2) Such assessment shall be paid by each Federal reserve bank in two equal installments on January 7, 1933, and March 1, 1933, respectively; by crediting the amount thereof on the books of the Federal reserve bank in the General Account of the Treasurer of the United States, for credit to the Federal Reserve Board in an account designated and known as "Salaries and Expenses, Federal Reserve Board, Special Fund;"

(3) For each such installment of such assessment, each Federal reserve bank shall issue and send to the Treasurer of the United States a certificate of deposit evidencing said deposit and the fact that it is in payment of the assessment levied by the Federal Reserve Board for its general expenses and is to be credited to the Federal Reserve Board in an account designated and known as "Salaries and Expenses, Federal Reserve Board, Special Fund;" and

(4) A duplicate copy of each such certificate of deposit, together with a statement showing the amount of the capital and surplus of the Federal reserve bank at the close of business on December 31, 1932, shall be sent to the Federal Reserve Board on the date of the payment of each installment.

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X-7321

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

STATEMENT FOR THE PRESS.

For publication in Morning Papers,
Friday, January 6, 1933.

The Open Market Policy Conference of the Federal Reserve System, with representatives from all of the twelve Federal reserve banks in attendance, concluded its meetings with the Federal Reserve Board today. The sessions of the Conference were devoted to a review of economic, business, financial and banking conditions in each of the twelve Federal reserve districts and to the economic and financial situation in the country as a whole. Particular reference was made in the discussions to the workings and effects of the open market policy thus far pursued by the Federal Reserve System during the course of the economic depression. Consideration was also given to the attitude of the System in adjusting its operations to conditions and needs as they may change and develop.

The first and immediate objective of the open market policy was to contribute factors of safety and stability in meeting the forces of deflation. The larger objectives of the System's open market policy, to assist and accelerate the forces of economic recovery, are now assuming importance.

With this purpose in mind, the Conference has decided that there should be no change in the System's policy intended to maintain a substantial amount of excess member bank reserves, the continuance of which is deemed desirable in present conditions. Adjustments in the System's holdings in the open market account will be in accordance with this policy.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7322

January 6, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDIVER" has been designated to cover a new issue of Treasury Bills, dated January 11, 1933, and maturing April 12, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7323

January 13, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDOING" has been designated to cover a new issue of Treasury Bills, dated January 18, 1933, and maturing April 19, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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X-7324

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

December 1 to 29, 1932.

	$5	$10	$20	Total Sheets	Amount
Boston,	37,000	42,000	10,000	89,000	$8,054.50
Philadelphia,	54,000	33,000	25,000	112,000	10,136.00
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	-	10,000	-	10,000	905.00
Kansas City	10,000	-	-	10,000	905.00
San Francisco	58,000	24,000	22,000	104,000	9,412.00
	262,000	216,000	104,000	582,000	$52,671.00

582,000 sheets, @ $90.50 per M, $52,671.00

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7325

January 13, 1933.

SUBJECT: Extension of Provisions of Section 10(b) and the Second Paragraph of Section 16 of Federal Reserve Act, as Amended.

Dear Sir:

For your information there is transmitted herewith copy of a letter dated January 9, 1933, addressed to the Chairman of the Senate Committee on Banking and Currency by Governor Meyer in which the Federal Reserve Board recommended the enactment at this session of the Congress of appropriate legislation extending for at least one year from March 3, 1933, the authority conferred by section 10(b) and by the second paragraph of section 16 of the Federal Reserve Act as amended by the Act of February 27, 1932, known as the Glass-Steagall Act.

A similar letter bearing the same date was addressed to the Chairman of the House Committee on Banking and Currency.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

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

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Federal Reserve Bank of St. Louis

C O P Y

X-7325-a

Jan 9 1933

Honorable Peter Norbeck, Chairman,
Senate Committee on Banking and Currency,
United States Senate,
Washington, D. C.

Dear Mr. Chairman:

The Federal Reserve Board respectfully recommends that appropriate legislation be enacted at this session of the Congress extending for at least one year from March 3, 1933, the authority conferred by section 10(b) and by the second paragraph of section 16 of the Federal Reserve Act as amended by the Act of February 27, 1932, known as the Glass-Steagall Act.

The Glass-Steagall Act amended the Federal Reserve Act by adding thereto section 10(b), which authorizes the Federal reserve banks, until March 3, 1933, in exceptional and exigent circumstances and subject to the affirmative action of not less than five members of the Federal Reserve Board, to make advances to member banks which lack sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations from the Federal reserve banks by the customary methods. While demands upon the Federal reserve banks for accommodations under section 10(b) have not been large, the existence of the authority to extend such accommodations has been a helpful factor in the disturbed situation through which we have been passing and has enabled the Federal reserve banks to render service to individual member banks in a number of instances.

The Glass-Steagall Act amended the second paragraph of

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section 16 of the Federal Reserve Act so as to provide that until March 3, 1933, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as collateral security for Federal reserve notes, direct obligations of the United States. This amendment provides that such authorization shall terminate on March 3, 1933, and such obligations shall be retired as security for Federal reserve notes. On May 5, 1932, the Federal Reserve Board authorized the Federal reserve banks to pledge direct obligations of the United States as collateral for Federal reserve notes and the procedure therefor was set out fully in the Federal Reserve Bulletin for the month of May, 1932, a copy of which is inclosed for your convenience. In the opinion of the Board, the authority granted by section 3 of the Glass-Steagall Act has served a very useful purpose.

In this connection, it may be stated that the Federal reserve agents and the Governors of the Federal reserve banks have recommended unanimously that the authority conferred by these provisions be extended for at least one year and that the Federal Advisory Council, at its meeting in Washington on November 17, 1932, adopted the following resolution:

> "It is the sense of the Federal Advisory Council that Congress be asked to extend for a period of at least one year the provisions of Section 10(b) and Section 3 of the Glass-Steagall Bill, H. R. 9203."

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Honorable Peter Norbeck - (3)

While the Glass-Steagall Act was under consideration in Congress the question of the advisability of limiting to March 3, 1933, the period in which the authority conferred by the second and third sections thereof could be exercised was discussed and it was pointed out then that if experience should indicate the wisdom of extending the period, there would be ample time before its expiration for Congress to take the necessary action. The Federal Reserve Board feels that the Congress might well consider the enactment of these provisions in permanent form, with whatever safeguards may be deemed appropriate as to the exercise of the authority granted by them, but, in any event, it is the opinion of the Board that, in view of existing conditions, it would be highly desirable to extend such authority for at least one year beyond March 3, 1933.

Respectfully,

Eugene Meyer,
Governor.

Inclosure.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7327

January 18, 1933.

SUBJECT: Holidays during February, 1933.

Dear Sir:

As February 12, Lincoln's Birthday, falls on Sunday, the holiday will be observed on Monday, February 13, when there will be neither transit nor Federal reserve note clearing and the books of the Board's Gold Settlement Fund will be closed. For your information, the offices of the Federal Reserve Board and the following Federal reserve banks and branches will be open for business on February 13:

Boston	Atlanta	St. Louis
	New Orleans	Little Rock
Cleveland	Birmingham	
Cincinnati	Jacksonville	Kansas City
	Havana Agency	Oklahoma City
Richmond		
Baltimore		
Charlotte		

On Wednesday, February 22, Washington's Birthday, the offices of the Federal Reserve Board and all Federal reserve banks and branches will be closed.

On Friday, February 24, the Havana Agency of the Federal Reserve Bank of Atlanta will be closed in observance of the anniversary of the Revolution of Baire.

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On Tuesday, February 28, Mardi Gras Day, the New Orleans and Birmingham Branches of the Federal Reserve Bank of Atlanta will be closed. Please include transit clearing credits of February 28 for New Orleans Branch with your credits in the clearing of March 1.

Please notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL GOVERNORS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7328

January 19, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDOWDY" has been designated to cover a new issue of Treasury Bills, dated January 25, 1933, and maturing April 26, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7329

January 23, 1933.

SUBJECT: Discounts for Individuals, Partnerships and Corporations.

Dear Sir:

The authority granted by the Federal Reserve Board to all Federal reserve banks in its circular of July 26, 1932, (X-7329a) 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 that circular, will expire at the close of business on January 31, 1933, and the Board has decided to extend such authorization for an additional six months. Section II of the Board's circular of July 26, 1932, on the subject of "Discounts for Individuals, Partnerships and Corporations" has been amended, therefore, to read as follows:

"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 ending at the close of business on July 31, 1933, 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."

Very truly yours,

Chester Morrill
Secretary

TO ALL CHAIRMEN AND GOVERNORS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7331

January 24, 1933.

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:

"NOWHYNT" 2 5/8% Treasury Notes, Series A-1938, to be dated February 1, 1933, and to mature February 1, 1938.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

X-7333

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 24, 1933.

SUBJECT: Proposed Amendment to the Bankruptcy Laws.

Dear Sir:

The Committee on the Judiciary of the House of Representatives on January 23, 1933 reported favorably H.R. 14359, a bill to amend the Federal bankruptcy statutes so as to provide a procedure whereby, under certain conditions, an individual debtor may obtain a composition or extension of the time of payment of his debts and a corporate debtor may effect a plan of reorganization. A copy of this bill in the form as reported by the Committee and a copy of the Committee's report are transmitted herewith for your information in view of the fact that the rights of Federal reserve banks as creditors may be affected if the bill is enacted into law.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7335

January 25, 1933.

Dear Sir:

I inclose a copy of a memorandum, prepared under my direction at the request of Representative Steagall, Chairman of the House Committee on Banking and Currency, and submitted to him on Monday, relating to the extension of Sections 2 and 3 of the Glass-Steagall Act of February 27, 1932.

On Monday the Committee held a hearing on the bill introduced by Representative Steagall (H. R. 14,252), extending for one year the sections referred to, but the memorandum was not incorporated in the record of the hearing, and I am sending you the inclosed copy merely for your information.

Very truly yours,

Eugene Meyer,
Governor.

Inclosure.

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

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7336

January 27, 1933.

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

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7336-a and X-7336-b, covering in detail operations of the main lines, Leased Wire System, during the month of December, 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.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF DECEMBER, 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	34,985	2,144	37,129	4.17
New York	187,219	-	187,219	21.05
Philadelphia	37,843	1,979	39,822	4.48
Cleveland	64,487	1,711	66,198	7.44
Richmond	56,805	1,607	58,412	6.57
Atlanta	58,448	2,067	60,515	6.80
Chicago	93,122	2,238	95,360	10.72
St. Louis	65,679	2,584	68,263	7.68
Minneapolis	32,785	1,670	34,455	3.87
Kansas City	70,937	1,771	72,708	8.17
Dallas	64,030	2,645	66,675	7.50
San Francisco	99,372	3,311	102,683	11.55
Total	865,712	23,727	889,439	100.00

F. R. Board business	310,452	1,199,891
Reimbursable business Incoming and Outgoing		449,781
Total words transmitted over main lines		1,649,672

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7336-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.

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REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, DECEMBER, 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	$711.37	$260.00	$451.37
New York	1,170.68	2.00	-	1,172.68	3,590.98	1,172.68	2,418.30
Philadelphia	225.00	-	-	225.00	764.26	225.00	539.26
Cleveland	306.66	-	-	306.66	1,269.21	306.66	962.55
Richmond	190.00	-	230.00 (&)	420.00	1,120.80	420.00	700.80
Atlanta	270.00	-	-	270.00	1,160.03	270.00	890.03
Chicago	3,794.71 (#)	11.00	-	3,805.71	1,828.76	3,805.71	1,976.95 (*)
St. Louis	195.00	1.00	-	196.00	1,310.15	196.00	1,114.15
Minneapolis	201.58	-	-	201.58	660.20	201.58	458.62
Kansas City	287.50	-	-	287.50	1,393.74	287.50	1,106.24
Dallas	251.00	-	-	251.00	1,279.45	251.00	1,028.45
San Francisco	380.00	-	-	380.00	1,970.35	380.00	1,590.35
Federal Reserve Board	-	-	15,677.88	15,677.88	-	-	-
Total	$7,532.13	$ 14.00	$15,907.88	$23,454.01	$17,059.30	$7,776.13	$11,260.12
							1,976.95 (a)
							$ 9,283.17

Reimbursable charges:

Treasury Department	$2,889.52
Reconstruction Finance Corporation	3,379.33
Federal Farm Loan Board	26.71
Federal Farm Board	41.81
Compt. of Currency, Insolv. Bank Div.	57.34
Less: Reimbursable charges	6,394.71
	$17,059.30

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

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FEDERAL RESERVE BOARD

WASHINGTON

X-7337

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 31, 1933.

Dear Sir:

From the minutes of the Federal Reserve Agents' Conference held on November 15 and 16, 1932, the Federal Reserve Board notes that during the discussion of the general subject of membership in the Federal Reserve System and what can be done to bring in more eligible nonmember banks, attention was called to the Federal Reserve Board's letter of June 19, 1931 (X-6914), which required that at the time of admission of a State bank or trust company it should be free from all known losses or depreciation, so that its statement would reflect as nearly as possible the value of its assets. It appears that several of the Federal reserve agents stated that on account of bond depreciation and other unsatisfactory conditions very few non-member banks could qualify for membership at the present time.

In this connection the Board desires to call the attention of the Federal reserve agents to its letter of March 9, 1932 (X-7113), transmitting for their information and guidance a copy of a letter to the Federal Reserve Agent at the Federal Reserve Bank of Richmond with regard to the treatment of depreciation in the investment accounts of State banks and trust companies applying for membership in the System. In the letter to Mr. Hoxton it was pointed out that in some recent

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cases the Board had not insisted upon strict observance of the policy outlined in its letter of June 19, 1931, and had approved applications for membership in the System made by banks whose managements were competent and whose affairs otherwise were generally satisfactory, upon condition that they should, prior to admission to the System, charge off all known losses and depreciation on bonds other than those classified in the four highest grades by a recognized investment service organization regularly engaged in the business of rating or grading bonds.

As a number of the Federal reserve agents no doubt are aware, the Board has taken similar action with respect to bond depreciation in acting upon applications for membership which, since the date of the letter to Mr. Hoxton, have been submitted with the favorable recommendations of the directors of the Federal reserve banks of the districts concerned.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7338

February 3, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDOWN" has been designated to cover a new issue of Treasury Bills, dated February 8, 1933, and maturing May 10, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7341

February 9, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDREGS" has been designated to cover a new issue of Treasury Bills, dated February 15, 1933, and maturing May 17, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7342

February 9, 1933.

SUBJECT: Shipment of Treasurer's Transcript with accompanying Checks and Warrants.

Dear Sir:

Conferences have been held with representatives of the Treasury Department with a view to ascertaining the most desirable procedure to be followed in sending the Treasurer's daily transcript and the accompanying checks and warrants to the Treasury Department in Washington. This matter was the subject of the Board's letter of November 30, 1918, (X-1296), but because of the recent correspondence with representatives of the Post Office Department regarding the manner in which cash letters and the accompanying checks should be shipped, it was thought advisable to reopen the matter.

As a result of these conferences, it is suggested that in the future your bank adopt the practice of forwarding Treasury forms 17, 17C, 17H, 17K, and 17M as first class mail, and Treasury forms 17A, 17B, 17E and 17G, together with the accompanying checks and warrants, as express matter.

These last four forms constitute nothing more than adding machine lists, and as you were advised in the Board's letter of November 12, 1932, (X-7290), the Post Office Department has no objection to the shipment of checks and warrants by express when accompanied only by adding machine

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lists. Moreover, it is understood that the Treasury Department contemplates a revision of these four forms omitting some of the matter which now appears on them. This is being done, however, merely out of an abundance of caution, in order to avoid any possible question regarding them.

The Treasury officials have stated that they would prefer to have all of the forms inclosed in the same package with the checks and warrants in so far as this practice is reasonably possible, because receiving them all at the same time would facilitate and expedite handling. It is, therefore, suggested that, in cases where it is practicable to do so, the forms which cannot be sent as express matter be sent as first class mail, inclosed in the same express package with the checks and warrants. In this connection, attention is called to the Board's letter of December 23, 1932, (X-7315), with reference to the provisions of section 1712 of the Postal Laws and Regulations of 1932, which permits the shipping of matter which falls within the category of "letters" in an express package, provided such matter is inclosed in a government stamped envelope of the proper denomination which is directed, sealed and dated, the purpose of this regulation obviously being to require the payment of the necessary first class postage and to prevent the government stamped envelope being used more than once.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7343

February 18, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDRENCH" has been designated to cover a new issue of Treasury Bills, dated February 23, 1933, and maturing May 24, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7344

February 21, 1933.

SUBJECT: Expense, Main Lines, Leased Wire System, January, 1933.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7344-a and X-7344-b, covering in detail operations of the main lines, Leased Wire System, during the month of January, 1933.

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.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1933.

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	32,048	1,323	33,371	4.01
New York	165,168	-	165,168	19.84
Philadelphia	34,478	1,401	35,879	4.31
Cleveland	59,796	1,041	60,837	7.31
Richmond	55,044	1,187	56,231	6.75
Atlanta	55,070	1,225	56,295	6.76
Chicago	87,758	1,406	89,164	10.71
St. Louis	71,778	1,828	73,606	8.84
Minneapolis	31,598	1,013	32,611	3.92
Kansas City	69,895	1,258	71,153	8.54
Dallas	57,856	2,537	60,393	7.25
San Francisco	95,488	2,442	97,930	11.76
Total	815,977	16,661	832,638	100.00

F. R. Board business	292,971	1,125,609
Reimbursable business Incoming and Outgoing		403,507
Total words transmitted over main lines		1,529,116

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7344-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.

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REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, JANUARY, 1933.

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	$686.33	$260.00	$426.33
New York	1,232.80	-	-	1,232.80	3,395.70	1,232.80	2,162.90
Philadelphia	225.00	-	-	225.00	737.68	225.00	512.68
Cleveland	306.66	-	-	306.66	1,251.14	306.66	944.48
Richmond	175.00	-	230.00 (&)	405.00	1,155.29	405.00	750.29
Atlanta	243.00	-	-	243.00	1,157.00	243.00	914.00
Chicago	3,649.15 (#)	2.00	-	3,651.15	1,833.06	3,651.15	1,818.09 (*)
St. Louis	195.00	-	-	195.00	1,513.00	195.00	1,318.00
Minneapolis	200.00	-	-	200.00	670.93	200.00	470.93
Kansas City	273.00	-	-	273.00	1,461.66	273.00	1,188.66
Dallas	251.00	-	-	251.00	1,240.87	251.00	989.87
San Francisco	380.00	-	-	380.00	2,012.78	380.00	1,632.78
Federal Reserve Board	-	-	15,628.35	15,628.35	-	-	-
Total	$7,390.61	$ 2.00	$15,858.35	$23,250.96	$17,115.44	$7,622.61	$11,310.92
							1,818.09 (a)
							$ 9,492.83

Reimbursable charges:

Treasury Department.	$2,319.02
Reconstruction Finance Corporation .	3,663.60
Federal Farm Loan Board.	38.29
Federal Farm Board	48.09
Compt. of Currency, Insolv. Bank Div.	66.52
Less: Reimbursable charges.	6,135.52
	$17,115.44

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

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FEDERAL RESERVE BOARD X-7345

STATEMENT FOR THE PRESS

For immediate release. February 21, 1933.

The first meeting of the Federal Advisory Council for 1933 was held on Tuesday, February 21. Mr. Walter W. Smith was re-elected President and Mr. Melvin A. Traylor was re-elected Vice President. These officers as ex-officio members and Messrs. Davison, Loeb, Ottley and McLucas will comprise the Executive Committee. Mr. Walter Lichtenstein was reappointed Secretary.

The Council is composed of the following members:

Federal Reserve
District No. 1. Thomas M. Steele, of New Haven, Conn.

No. 2. Geo. W. Davison, of New York City, N. Y.

No. 3. Howard A. Loeb, of Philadelphia, Pa.

No. 4. H. C. McEldowney, of Pittsburgh, Pa.

No. 5. Howard Bruce, of Baltimore, Md.

No. 6. John K. Ottley, of Atlanta, Ga.

No. 7. Melvin A. Traylor, of Chicago, Ill.

No. 8. Walter W. Smith, of St. Louis, Mo.

No. 9. Theodore Wold, of Minneapolis, Minn.

No. 10. Walter S. McLucas, of Kansas City, Mo.

No. 11. Joseph H. Frost, of San Antonio, Texas.

No. 12. Henry M. Robinson, of Los Angeles, Calif.

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COPY

X-7346

THE MECHANICS NATIONAL BANK AND TRUST CO.

32

Millville, New Jersey

TO ALL DEPOSITORS: February 13, 1933.

During the past few months there has been an increasing demand for funds from our depositors, far above the usual business requirements. The withdrawal of deposits has exceeded our ability to liquidate investments without severe loss and the general economic condition prevents the immediate collection of notes without possible foreclosure and bankruptcy in some cases.

Realizing the enormous expense always incurred in liquidating assets of a closed institution we feel that the interest of depositors and stockholders must be protected by some plan to prevent suspending business and forced liquidation.

The Board of Directors have therefore, this day declared that a restriction be placed on withdrawals of any deposits as of the close of business on February 9th with the following provisions:

1 - Vacation Club Funds and School Children's Savings Accts. are exempt.

2 - Balances of Time Accounts, Checking Accounts and Certificates of Deposit, at the close of business on February 9th, 1933, will be subject to no further withdrawals.

3 - A portion of these balances may be released from time to time when liquidation of assets warrants.

4 - All deposits made on and after Feb. 10, 1933, will be subject to check and withdrawal without interference.

5 - Interest on Time Account Balances restricted will be continued and payment made semi-annually as usual. New Time Accounts will not be restricted in any way.

6 - No loans will be made while this plan is in effect.

The success of this plan depends entirely on the full cooperation of all depositors for whose benefit the plan is designed.

Further information regarding your particular account and the advantages of the plan in general will be gladly given by any director, officer or employee.

We would suggest that you indicate your intention to cooperate on the form enclosed and mail or leave it at the bank at your earliest convenience.

Yours very truly,

THE MECHANICS NATIONAL BANK AND TRUST CO.

H. H. MELVIN,
President.

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Federal Reserve Bank of St. Louis

THE MECHANICS NATIONAL BANK AND TRUST COMPANY

MILLVILLE, NEW JERSEY.

I approve of the plan to prevent forced liquidation as outlined in your letter of February 13th, and will cooperate in the plan submitted, for the mutual benefit of all.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7347

February 23, 1933.

SUBJECT: Holidays during March, 1933.

Dear Sir:

The Board has been advised that the following holidays will be observed by Federal reserve banks and branches during March, 1933:

Thursday, March 2,	Dallas El Paso Houston San Antonio	Texas Independence Day
Saturday, March 25,	Baltimore	Maryland Day

On the dates indicated the offices affected will not participate in either the Gold Settlement Fund transit or Federal reserve note clearing. Please include credits for the offices affected on the above dates in your transit clearing telegram for the following business day. No debits covering shipments of Federal reserve notes for account of the Federal Reserve Bank of Dallas should be included in your note clearing telegram for March 2.

Saturday, March 4, will be a legal holiday in the District of Columbia, and therefore the offices of the Federal Reserve Board will

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be officially closed, but the clearings through the Gold Settlement Fund will take place as usual.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7348

February 24, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDRESS" has been designated to cover a new issue of Treasury Bills, dated March 1, 1933, and maturing May 31, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL ADVISORY COUNCIL

X-7350

1933

Officers:

Walter W. Smith, President
Melvin A. Traylor, Vice President
Walter Lichtenstein, Secretary

Executive Committee:

Walter W. Smith — Howard A. Loeb
Melvin A. Traylor — John K. Ottley
George W. Davison — Walter S. McLucas

MEMBERS

District		
No. 1	Thomas M. Steele	Pres., First National Bank and Trust Co., New Haven, Connecticut.
No. 2	George W. Davison	Chrm., Central Hanover Bank and Trust Co., New York, New York.
No. 3	Howard A. Loeb	Chrm., Tradesmens National Bank & Tr. Co., Philadelphia, Pennsylvania.
No. 4	H. C. McEldowney	Pres., Union Trust Company, Pittsburgh, Pennsylvania.
No. 5	Howard Bruce	Chrm., Baltimore Trust Company, Baltimore, Maryland.
No. 6	John K. Ottley	Pres., First National Bank, Atlanta, Georgia.
No. 7	Melvin A. Traylor	Pres., First National Bank, Chicago, Illinois.
No. 8	Walter W. Smith	Pres., First National Bank in St. Louis, St. Louis, Missouri.
No. 9	Theodore Wold	Chrm., Northwestern Nat'l.Bk.of Minneapolis, Minneapolis, Minnesota.
No. 10	Walter S. McLucas	Chrm., Commerce Trust Company, Kansas City, Missouri.
No. 11	Joseph H. Frost	Pres., Frost National Bank, San Antonio, Texas.
No. 12	Henry M. Robinson	Chrm., Security-First National Bank, Los Angeles, California.

Address of Mr. Lichtenstein, 38 South Dearborn Street, Chicago, Illinois.

February 25, 1933.

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Federal Reserve Bank of St. Louis

COPY X-7351

FEDERAL RESERVE BANK OF NEW YORK

February 24, 1933.

Dear Governor Meyer:

In order to protect certain banks in New Jersey a law was recently introduced and passed in that state authorizing the supervisor of banks, whenever in his judgment circumstances warrant, to permit banks to defer payment of a specified portion of their deposits for such time as he may determine. Such banks may accept new deposits which will not be subject to restrictions but shall be payable in full upon demand.

So far as we have been informed, this law has been availed of by only one institution in our district, the _____ Trust Company of _____, New Jersey, a member bank. The enclosed photostatic copy (a) of a circular issued under date of February 21, 1933 by the _____ Trust Company to its depositors quotes the New Jersey Act of Assembly #195, known as the "Altman Bill" and notifies its depositors that it is availing itself of the permission granted by the Commissioner of Banking and Insurance to operate under the provisions of the act as of the close of business Tuesday, February 21, 1933. Also enclosed are the following:

(b) Photostatic copy of letter, February 23, 1933, from the _____ Trust Company to Mr. L. F. Sailer, deputy governor of this bank, notifying us that the trust company is operating under the New Jersey Act of Assembly #195, and instructing that all deposits from the beginning of business Thursday, February 23, 1933, be kept separate and apart from the general assets of the company and maintained in liquid funds.

(c) Copy of letter from Mr. Sailer to the _____ Trust Company, under date of February 24, 1933.

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Federal Reserve Bank of New York 2. 2/24/33.

(d) Copy of letter from the Deputy Commissioner of the Department of Banking and Insurance, New Jersey, State of New Jersey, to Mr. R. M. Gidney, assistant deputy governor of this bank, enclosing

(e) Copy of a letter which the department is sending to certain of its institutions re Chapter 27 of the Laws of 1933.

All of the foregoing is sent you so that you may be kept currently informed of what is taking place along the lines of recent legislation which affects banks in our district.

At this juncture it appears probable that only those banks which have practically no liquid resources will avail themselves of the provisions of this act, so that it is difficult to say just what its effect on the public mind will be.

I understand that Mr. Logan has furnished you with copies of the *Robinson bill passed by the Assembly of the State of New York on January 31, 1933.

Faithfully yours,

(Signed) J. H. CASE
Chairman.

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

enclosures (5)

*This bill became law on February 21, 1933, by signature of the Governor.

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Federal Reserve Bank of St. Louis

COPY (A)

_____ TRUST COMPANY
_____, N. J.

TO OUR DEPOSITORS: February 21, 1933.

The Legislature and the Governor of the State of New Jersey, have deemed it advisable to enact the following bill to safeguard the depositors and banking structure of the State of New Jersey:

An Act concerning banks, trust companies and savings banks.

Be it enacted by the Senate and General Assembly of the State of New Jersey:

The Commissioner of Banking and Insurance is hereby authorized and empowered in addition to all other powers, whenever in his judgment the circumstances warrant it, to authorize any and all banks, trust companies and savings banks under his jurisdiction.

(a) To extend for a period of ninety days, and for a further period if he deems it expedient, payment of any time accounts where notice of withdrawal has been given or may hereafter be given.

(b) To authorize the postponement for any length of time of the payment of any proportion of the deposits in demand accounts of any individual, firm or corporation as he may deem necessary and expedient, to be determined by him according to the ability of any bank, trust company or savings bank to pay such withdrawals.

(c) To authorize all such banks, trust companies and savings banks to thereafter receive new deposits which shall be segregated from the old deposits, and said new deposits shall not be subject to the restrictions or limitations herein or that may hereafter be imposed by the Commissioner of Banking and Insurance, pursuant to the provisions herein, and said new deposits shall be invested in such liquid assets as may be approved by the Commissioner of Banking and Insurance in order that banks, trust companies and savings banks may at all times have sufficient funds to meet the demands on such new deposits in accordance herewith.

(d) Whenever the Commissioner of Banking and Insurance shall authorize and empower any bank, trust company or savings bank to act under the provisions of this act, he is hereby empowered to make and adopt such rules and regulations as he may deem proper for the protection of the institution and may require daily reports in detail touching their financial condition.

This act shall take effect immediately.

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STATEMENT

The design of the above act is to permit the Commissioner of Banking and Insurance to make rules and regulations for the purpose of protecting not only the bank but its depositors.

The following statement was issued by Charles H. Plenty, president of the New Jersey Bankers Association, in explaining the purpose of the emergency bank bill:

"The Altman bill, passed by the New Jersey Legislature, Monday, February 20, 1933, is a law somewhat similar to that of New York State, and permits the Bank Commissioner where in his judgment a bank may have too large a percentage of frozen assets, to afford such bank a reasonable time to pay its deposits by requiring such depositors to present a ninety-day notice of intentions to withdraw savings accounts, and permitting checking depositors to withdraw such percentage of their deposits as in his judgment liquid assets would permit.

"The object of the bill is to safeguard the depositors in a perfectly solvent bank where under present business conditions, inability to convert frozen assets into cash might cause the closing of such institution.

"I have been asked to make this statement that there may be no misapprehension as to the purpose of this new law."

The _____ Trust Company has been granted permission by the Commissioner of Banking and Insurance to operate under the provisions of the above act as of the close of business Tuesday, February 21, 1933.

Your cooperation and consideration is solicited.

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COPY

(B)

_____ TRUST COMPANY
_____, N. J.

February 23, 1933.

L. F. Sailer, Esq.,
Deputy Governor,
Federal Reserve Bank of New York,
New York, N. Y.

Dear Sir:

The _____ Trust Company is operating under New Jersey Act of Assembly #195, known as the "Altman Bill" and, under that Act, all deposits from the beginning of business Thursday, February 23, 1933, shall be kept separate and apart from the general assets of the Company, and maintained in liquid funds.

It is the intention of the _____ Trust Company to maintain all funds received from depositors in the Federal Reserve Bank, and we wish to open this account as -

> "The _____ Trust Company of _____, New Jersey, operating under Act of Legislature #195, New Jersey - Approved February 21, 1933."

This account, being distinguished as above outlined, we request that the Federal Reserve Bank advise the _____ Trust Company that no part of this new account will ever be considered as subject to any loans or discounts that the _____ Trust Company now has or might in the future have with the Federal Reserve Bank.

Thanking you for your cooperation, we remain

Very truly yours,

_____
President.

CHF/n-MPC

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Federal Reserve Bank of St. Louis

COPY

X-7351-c

(C)

February 24, 1933.

_____,
President, _____ Trust Company,
_____, New Jersey.

Dear Sir:

Receipt is acknowledged of your letter of February 23, 1933, advising us that the _____ Trust Company is operating under New Jersey Act of Assembly #195, known as the "Altman Bill" and that, under that Act, all deposits from the beginning of business Thursday, February 23, 1933, will be kept separate and apart from the general assets of the Company, and maintained in liquid funds.

As requested by you we have opened a new account designated -

"The _____ Trust Company of _____, New Jersey,
Operating Under Act of Legislature #195, New Jersey -
Approved February 21, 1933."

We agree that funds accepted for deposit in this account will not be applied by us in payment of any loans or discounts heretofore made by us to or for the _____ Trust Company, or to the payment of any loans or discounts hereafter made by us to or for the _____ Trust Company the proceeds of which are not credited to the above account.

Yours very truly,

L. F. SAILER,
Deputy Governor.

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Federal Reserve Bank of St. Louis

COPY

X-7351-d

(D)

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE

TRENTON

February 23, 1933.

Mr. R. M. Gidney, Assistant Deputy Governor,
Federal Reserve Bank of New York,
New York, N. Y.

Dear Mr. Gidney:

As promised you over the telephone this morning, I am enclosing herewith a copy of the letter which we are sending to certain of our institutions re Chapter 27 of the Laws of 1933.

Very truly yours,

(Signed) V. D. Peer,
Deputy Commissioner.

Enc

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COPY

X-7351-e

(E)

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE

TRENTON

Gentlemen:

Pursuant to the power in me vested as Commissioner of Banking and Insurance under the terms of Chapter 27, Laws of 1933 and deeming the circumstances to warrant it in your instance, your institution is hereby authorized to operate commencing , in accordance with the provisions of the said act with the following restrictions and conditions:-

(a) To restrict the withdrawal for a period of ninety days of all deposits as shown by your books as of the close of business excepting school savings and club accounts and such accounts as are held preferred by statute.

(b) To continue to receive new deposits which shall be segregated from the old deposits and said new deposits and the income therefrom shall be invested in such liquid assets as may be approved by the Commissioner of Banking and Insurance in order that the institution may at all times have sufficient funds to meet the demand of such new deposits in accordance herewith.

In view of the authority herein conferred the following rules and regulations are imposed while operating under this act:

(1) No dividends shall be paid to stockholders.

(2) No payment of fees to directors or committees.

(3) No new loans of any kind or character may be made.

(4) That the interest payments on the deferred deposits be continued as heretofore.

(5) That the Commissioner shall be supplied bi-monthly with a complete statement of the institution's financial condition.

(6) That as soon as possible during the above mentioned ninety day period, there shall be made available to all depositors a pro rata portion of their accounts, such percentage to be approved by the Commissioner upon application to him by the institution.

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(7) The costs of protests occasioned by this authorization shall be borne by the institution in all cases where depositors' accounts are sufficient to meet checks presented.

(8) That the authority herein conferred may only receive further extension upon the approval of the Commissioner upon application to him at least ten days prior to the expiration of the term specified.

(9) From time to time the Commissioner reserves the right to change or alter in any way deemed advisable by him the rules and regulations above enumerated.

Please acknowledge receipt.

Very truly yours,

Commissioner.

Received 2/24/33

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X-7352

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 at 3:30 P.M. March 2, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 3 1/2 per cent on all classes of paper of all maturities, effective March 3, 1933.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7353

March 3, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDRIB" has been designated to cover a new issue of Treasury Bills, dated March 6, 1933, and maturing June 7, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

X-7354

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 at 3:00 p.m. March 3, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Chicago has established a rediscount rate of 3 1/2 per cent on all classes of paper of all maturities, effective March 4, 1933.

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FEDERAL RESERVE BOARD

WASHINGTON

X-7355

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 6, 1933.

Dear Sir:

In confirmation of the Board's telegram of this date, there is inclosed herewith, for your information, a copy of the proclamation which was issued by the President of the United States early this morning.

This letter also confirms the later telegram, addressed jointly to the Chairman and Governor of the Bank, requesting immediate wire advice of your suggestions as to provisions that should be included in the regulations to be issued by the Secretary of the Treasury in accordance with clauses lettered (a) (b) and (c) in the President's proclamation, which suggestions should relate to the operations of both the Federal reserve banks and other banking institutions as defined in the proclamation. This telegram also suggested that arrangements be made to send promptly to all other Federal reserve banks and the Board several sets of each plan of procedure and forms that may be devised by clearing houses in principal cities in your district in connection with the use of clearing house script or certificates.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosure.

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

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7356

March 11, 1933.

SUBJECT: Conditions of membership which will be prescribed for State banks hereafter admitted to membership in the Federal Reserve System.

Dear Sir:

It has been the Federal Reserve Board's practice, as you know, to prescribe for State banks applying for membership in the Federal Reserve System the seven conditions of membership contained in the Board's Regulation H and such special conditions as the facts in each individual case indicated were desirable to correct unsatisfactory conditions in the bank and to prevent the exercise of powers which the bank might have under its charter or the State law that were not consistent with the purposes of the Federal Reserve Act and considered undesirable in a commercial banking institution. Some of these special conditions have been of a general nature and the Board feels that it would be advisable hereafter to prescribe for each State bank applying for membership all special conditions of this character which have been approved by the Board and which tend to prevent unsound developments in banks regardless of whether the bank appears to be engaged in practices at the time of admission to membership which may lead to such developments. It is believed that this procedure will be helpful in developing a more effective supervision of banking in the Federal Reserve System and will tend to develop better banking

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practices, and it is contemplated that if the Board's experience indicates that any further conditions of a general nature are desirable they also will be prescribed for State banks subsequently admitted to membership.

Some of the conditions contained in the Board's Regulation H are very broad in their terms and it is possible that there is some overlapping of these conditions and certain of the conditions regarding specific practices or powers; but this is not believed to be objectionable. Accordingly, in the case of each State bank hereafter applying for membership, the Board will prescribe the following conditions of membership which include the seven conditions contained in the Board's Regulation H, with one revision, and other conditions of a general nature that have been approved in substance by the Board as special conditions in individual cases:

1. Except with the permission of the Federal Reserve Board, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. Such bank shall at all times conduct its business and exercise its powers with due regard to the safety of its depositors.

3. Such bank shall maintain its loans within the limits prescribed by the laws of the State in which it is located.

4. The board of directors shall not permit loans to directors, officers, employees, principal stockholders and/or their interests, including loans to, or upon the security of stocks of, corporations in which any of them have substantial interests, to assume unduly large proportions or to endanger the bank's solvency or the liquidity of its assets, and the Board of directors shall give special attention to all such loans.

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5. Such bank shall maintain adequate credit data in connection with all unsecured loans.

6. Such bank shall keep past due paper and overdrafts at a minimum, and shall not hold any checks in cash items to avoid overdrafts.

7. Except with the permission of the Federal Reserve Board, such bank shall not purchase or acquire through any device whatever any stock of any other bank, trust company, or other corporation of any kind or character except in satisfaction or protection of debts previously contracted in good faith; and all stock acquired in satisfaction or protection of debts shall be disposed of within six months from the date on which it was acquired unless the time is extended by the Federal Reserve Board on the application of such bank for good cause shown.

8. Such bank shall not permit any investment in a bank building or in a site for a bank building to assume such proportions as, in the judgment of the Federal Reserve Board, would endanger the bank's solvency or liquidity or would otherwise be unduly large or improper, and before any investment is made in a bank building or a site for a bank building the bank shall refer the matter to the Federal Reserve Board for consideration.

9. Such bank shall not reduce its capital stock except with the permission of the Federal Reserve Board.

10. Such bank shall not pay any dividends which will reduce its surplus below an amount equal to at least 20 per cent of its capital stock, and if at any time its surplus should be less than 20 per cent of its capital stock it shall carry to its surplus account annually, or for any shorter period covered by each closing of its books, not less than 50 per cent of its net earnings for any such period after deducting all losses and providing reserves for depreciation.

11. Such bank shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.

12. Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, engage in the business of issuing or selling, either directly or indirectly (through affiliated corporations or otherwise), notes, bonds, mortgages, certificates, or other evidences of indebtedness representing

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real estate loans or participations therein, either with or without a guarantee, indorsement or other obligation of such bank or an affiliated corporation.

13. Such bank may accept drafts and bills of exchange drawn upon it of any character permitted by the laws of the State of its incorporation; but the aggregate amount of all acceptances outstanding at any one time shall not exceed the limitations imposed by section 13 of the Federal Reserve Act, that is, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank, may increase this limit from 50 per cent to 100 per cent of its capital and surplus; provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank.

14. The board of directors of such bank shall adopt a resolution authorizing the interchange of reports and information between the Federal reserve bank of the district in which such bank is located and the banking authorities of the State in which such bank is located.

The Board will also prescribe for each trust company or bank exercising trust powers at the time of its admission to membership the following conditions of membership which are appropriate for institutions exercising trust powers:

15. Such bank shall not, after the date of its admission to membership, invest trust funds held by it in obligations of the bank's directors, officers, employees or their affiliations or corporations affiliated with the bank.

16. Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, invest the funds of various trusts held by the bank in participations in pools of mortgage bonds or other

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securities, and the funds of all such trusts shall be invested separately from each other: Provided, however, that the Federal Reserve Board will not object to the collective investment of small amounts of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage, if the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary.

17. If trust funds held by such bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

Attention is called to the fact that the condition numbered seven above is a revision of the condition numbered three contained in the Board's Regulation H and prohibits the acquisition of stock in any other corporation except with the Board's permission. As you know, this condition as contained in the Board's Regulation H refers only to the acquisition of stock of other banks and trust companies; but the Board believes that it is desirable in future cases to prescribe a condition which will prohibit the member bank from purchasing stock in any corporation except with the Board's permission.

In connection with the condition numbered 10 it may be noted that if in any case the application of a bank with a surplus of less than 20% of its capital is approved the Board will prescribe an additional requirement that the surplus shall be increased to at least 20% of the bank's capital out of earnings.

One of the conditions contained in the Board's Regulation H and set out above provides that, except with the permission of the Federal Reserve Board, a member bank shall not cause or permit any change to be

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made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership. In some cases State member banks have overlooked this requirement and have made changes in the general character of their assets or in the scope of the corporate powers exercised at the time of their admission to membership without obtaining the Board's permission. Accordingly, in the letter prescribing conditions of membership which is addressed to each State bank whose application is approved hereafter, special attention will be called to the necessity for obtaining the Board's permission under this general condition covering any such change made by the bank after its admission to membership in the System.

You will understand that in particular cases it may be desirable to prescribe special conditions not of a general nature to correct unsatisfactory conditions in the particular bank, and, as a matter of emphasis, to prescribe conditions prohibiting, except with the Board's permission, the exercise of specific powers which a particular bank may be authorized to exercise under its charter or the State law, even though such powers are not exercised at the time of admission to membership and accordingly, under the general condition referred to above, might not be exercised except with the Board's permission. In connection with the submission of applications for membership, the Board would, of course, like to have your recommendation as to any special conditions which should be prescribed in the particular case and as to any conditions of a general

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nature which experience indicates would be desirable as conditions to be prescribed for each State bank thereafter admitted to membership.

Very truly yours,

Chester Morrill,
Secretary.

P. S. This letter is a confirmation of the telegram sent you today.

TO ALL FEDERAL RESERVE AGENTS.

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Federal Reserve Bank of St. Louis

X-7357

March 12, 1933

Curtiss - Boston	Hoxton - Richmond	Bailey - Minneapolis
Case - New York	Newton - Atlanta	McClure - Kansas City
Austin - Philadelphia	Stevens - Chicago	Walsh - Dallas
DeCamp-- Cleveland	Wood - St. Louis	Newton - San Francisco

TRANS. 1628 In cases where you receive an application for membership from an eligible State bank or trust company the condition and management of which are not subject to substantial criticism and you feel that the Board would be fully justified in admitting such institution to membership, Board will upon telegraphic advice from you of essential facts involved in case give prompt consideration thereto and advise you of its action thereon. In such cases your advice should contain a statement of (A) the amount of applicant bank's capital stock, (B) surplus, (C) undivided profits, (D) reserves for losses, depreciation or other contingencies, (E) aggregate amount of deposits, (F) liability to Reconstruction Finance Corporation, (G) other borrowings, (H) total resources, (I) date of last examination and by what authority. On basis of report of such examination (J) amount and character of assets classified as slow, (K) doubtful, (L) losses, (M) amount of depreciation in investments in first four grades of securities as classified by a recognized investment service, (N) amount of depreciation in other securities including stocks and defaulted bonds, (O) any undue concentrations of assets, and (P) liquidity. Also advise (Q) to what extent and in what manner any of such items have been eliminated, and furnish (R) brief summary of examiners comment on condition and management of bank, and (S) concise statement of your own opinion of bank and its management.

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In your wire set out information requested opposite respective symbols used above. Each such telegram should begin with the code word QUOTE ANCHORIST UNQUOTE meaning QUOTE We have application blank bank (use A.B.A. transit number) for membership in the Federal Reserve System, the condition and management of which are not subject to substantial criticism and we feel that the Board would be fully justified in admitting such institution to membership. I concur in recommendation of executive committee of this bank that such action be taken by the Board UNQUOTE. Such telegraphic advice should include advice that your counsel has approved form of application and has executed certificate of counsel usually accompanying membership applications and be accompanied by a statement from him as to what powers, if any, other than usual commercial banking powers the institution is authorized to exercise under its charter or State law, and a statement from you as to which of such unusual powers, if any, are being exercised. Your advice should also include the special conditions of membership if any which in the opinion of yourself and executive committee of your bank should be prescribed in addition to those contained in Trans 1619. In case of banks exercising trust powers, furnish concise statement regarding condition and management of trust department. As last word of telegram restate A.B.A. transit number of bank. In acting upon applications under such circumstances the Board will necessarily rely to an unusually large extent upon your recommendation and that of executive committee of your bank. Accordingly, the most careful consideration should be given to whether or not condition of institution involved is such as to warrant its admission to

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membership. In this connection it may be noted that the Board does not feel usual standards for admission to membership should be relaxed in these cases. It is understood of course that in any such case you will forward to Board as soon as possible bank's application and all of papers usually accompanying such an application. In advising you by wire of approval of any application submitted through telegraphic advices from you, Board will use in such wire word QUOTE ANCHORIVET UNQUOTE following name of bank involved. Such word will mean QUOTE Application of such bank for membership has been approved by Board subject to first 14 conditions set forth in Trans 1619 and special conditions stated hereafter. Please advise such bank of Board's approval and conditions of membership prescribed, together with explanation thereof contained in Board's wire Trans 1619. Letter containing detailed advice regarding such approval will be forwarded bank through you as soon as possible. When you have received certified copy of resolution of board of directors of such bank accepting conditions of membership prescribed by Board together with advice of compliance with any special conditions to be complied with prior to admission to membership, the Federal reserve bank is authorized upon payment therefor to issue appropriate amount of Federal reserve bank stock and to accept required reserves. Please advise Board date upon which membership of bank becomes effective and amount of Federal reserve bank stock issued to it, forwarding copy of resolution accepting conditions of membership and advising of compliance with any conditions to be complied with prior to admission.UNQUOTE

Morrill.

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X-7357

March 12, 1933

Curtiss - Boston
Case - New York
Austin - Philadelphia
DeCamp - Cleveland
Hoxton - Richmond
Newton - Atlanta
Stevens - Chicago
Wood - St. Louis
Bailey - Minneapolis
McClure - Kansas City
Walsh - Dallas
Newton - San Francisco

TRANS. 1630 Information requested in Trans 1628 should include in each case after respective symbol advice as to (T) any affiliations and subsidiaries of bank and (U) Branches, if any, located outside of corporate limits of city in which bank is located and date of establishment of each such branch. Information requested in Trans 1628 with reference to Quote what powers, if any, other than commercial banking powers Unquote are held or exercised by bank is intended to develop whether bank is authorized to exercise and the extent to which it has exercised any powers such as trust powers, surety, title insurance, sale of mortgage securities with or without guarantee or recourse or other broad powers not coming within usual meaning of term banking powers.

Morrill.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7359

March 13, 1933.

SUBJECT: New Issues of Treasury Certificates of Indebtedness.

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:

"NOWHOBEN" Treasury Certificates of Indebtedness, Series TAG-1933 - 4%, to be dated March 15, 1933, maturing August 15, 1933. (five months)

"NOWHOBEST" Treasury Certificates of Indebtedness, Series TD2-1933 - 4¼%, to be dated March 15, 1933, maturing December 15, 1933. (nine months)

These code words should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOWHOBAD" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

X-7330 63

T E L E G R A M

FEDERAL RESERVE BOARD

WASHINGTON

March 10, 1933.

Young - Boston	Seay - Richmond	Geery - Minneapolis
Harrison - New York	Black - Atlanta	Hamilton - Kansas City
Norris - Philadelphia	McDougal - Chicago	McKinney - Dallas
Fancher - Cleveland	Martin - St. Louis	Calkins - San Francisco

TRANS NO. 1613 Section 403 of the Act of March 9, 1933, amends section 13 of the Federal Reserve Act as amended by adding at the end thereof the following new paragraph: QUOTE Subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe, any Federal reserve bank may make advances to any individual, partnership, or corporation on the promissory notes of such individual, partnership, or corporation secured by direct obligations of the United States. Such advances shall be made for periods not exceeding 90 days and shall bear interest at rates fixed from time to time by the Federal reserve bank, subject to the review and determination of the Federal Reserve Board. UNQUOTE Pursuant to a regulation issued by the Secretary of the Treasury under the President's proclamations of March 6 and March 9, 1933, any Federal reserve bank may make advances complying with the foregoing amendment in order to enable individuals, partnerships and corporations to meet their immediate payroll requirements. It will be observed that all such advances must be secured by direct obligations of the United States; that they may not be made for periods longer than ninety days and that the interest rate thereon is subject to review and determination of the Federal Reserve Board. Pending further action the Board approves a discount rate of 5% per annum upon advances made under this section to individuals, partnerships or corporations.

Morrill

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Federal Reserve Bank of St. Louis

X-7361

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

March 10, 1933.

Young - Boston	Seay - Richmond	Geery - Minneapolis
Harrison - New York	Black - Atlanta	Hamilton - Kansas City
Norris - Philadelphia	McDougal - Chicago	McKinney - Dallas
Fancher - Cleveland	Martin - St. Louis	Calkins - San Francisco

TRANS. 1611 Section 10(b) of the Federal Reserve Act was amended by the Act of March 9, 1933, to read as follows: QUOTE: In exceptional and exigent circumstances, and when any member bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10(a), any Federal reserve bank, under rules and regulations prescribed by the Federal Reserve Board, may make advances to such member bank on its time or demand notes secured to the satisfaction of such Federal reserve bank. Each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note. No advance shall be made under this section after March 3, 1934, or after the expiration of such additional period not exceeding one year as the President may prescribe. UNQUOTE. You will note from the foregoing quotation that the authority to make an advance to a member bank under section 10(b) is no longer subject to the condition that such bank have a capital not exceeding $5,000,000 nor to the requirement of consent to such advance by affirmative action by not less than five members of the Federal Reserve Board but that no change has been made in the provision that such advance may be made only in exceptional and exigent circumstances and only when the member bank has no further eligible or

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acceptable assets available to enable it to obtain adequate credit accommodations from the Federal reserve bank through rediscounts or any other method provided by the Federal Reserve Act other than that provided by section 10(a). Likewise there is no change in the requirement that all such advances be secured to the satisfaction of the Federal reserve bank. Your attention is also directed to the fact that obligations of member banks acquired by Federal reserve banks under section 10(b) are not eligible for use as collateral for Federal reserve notes but that under section 401 of the Act of March 9, 1933, they may be used as security for the new issues of Federal reserve bank notes to an extent not more than 90% of the estimated value of such obligations deposited as security. Pending further action the Federal Reserve Board approves a discount rate of 5% per annum upon advances made under this section except where such rate would be less than 1 per centum per annum higher than the highest discount rate in effect at the Federal reserve bank, in which case the Federal Reserve Board approves a discount rate 1 per centum in excess of such highest rate. Until further action by the Board Federal reserve banks may make advances in accordance with section 10(b) under the conditions hereinbefore set out for such purposes as have been or hereafter may be authorized by regulations of the Secretary of the Treasury pursuant to the President's Proclamations of March 6 and March 9, 1933, and the Board's circular letter of March 10, 1932, (X-7115), as far as it relates to section 10(b) is hereby canceled. Reports on Schedule B D four of loans under section 10(b) of the Federal Reserve Act, as amended, should be continued in accordance with the Board's telegram of June 23, 1932 (Trans. No. 1478) and telegraphic advice of such advances should be made in accordance with the Board's letter of March 21, 1932 (B-721).

Morrill.

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TREASURY DEPARTMENT TELEGRAM

March 12, 1933.

To Governors, Federal Reserve Banks.

Boston, Mass.	Chicago, Ill.
New York, N. Y.	St. Louis, Mo.
Philadelphia, Pa.	Minneapolis, Minn.
Cleveland, Ohio.	Kansas City, Mo.
Richmond, Va.	Dallas, Tex.
Atlanta, Ga.	San Francisco, Calif.

Licenses to member banks to reopen should be issued as follows:

1. Member Banks of the Federal Reserve System located in each of the twelve Federal Reserve Bank cities whose applications to reopen have been approved should be licensed to reopen on Monday morning March 13, 1933.

2. Member Banks of the Federal Reserve System located in any city having an active recognized Clearing House Association, whose applications to reopen have been approved should be licensed to reopen on Tuesday morning March 14, 1933.

3. All other Member Banks of the Federal Reserve System whose applications to reopen have been approved shall be licensed to reopen on Wednesday morning March 15, 1933.

4. Care must be taken in the case of banks having branches, that the branches are not permitted to open except in places and at times designated above.

A license in the following form should be delivered:

QUOTE LICENSE

The blank

of blank

is hereby permitted to open on blank 1933 its offices in the following places blank and to perform its usual banking functions except:

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(1) To the extent prohibited in the Executive Order of the President of the United States issued on March 10, 1933 (an extract from which is printed hereon):

(2) To the extent limited or prohibited by any Executive Order of the President or by regulations of the Secretary of the Treasury.

This license may be revoked in whole or in part by the Secretary of the Treasury at any time.

Issued by direction of
W. H. Woodin, Secretary of the Treasury.
Federal Reserve Bank of blank
By blank
Governor

UNQUOTE

Extract to be printed on license form.

QUOTE Extract from Executive Order of the President of the United States, Issued on March 10, 1933.

Until further order, no individual, partnership, association, or corporation, including any banking institution, shall export or otherwise remove or permit to be withdrawn from the United States or any place subject to the jurisdiction thereof any gold coin, gold bullion, or gold certificates, except in accordance with regulations prescribed by or under license issued by the Secretary of the Treasury.

No permission to any banking institution to perform any banking functions shall authorize such institution to pay out any gold coin, gold bullion or gold certificates except as authorized by the Secretary of the Treasury, nor to allow withdrawal of any currency for hoarding, nor to engage in any transaction in foreign exchange except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933.

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Every Federal Reserve Bank is authorized and instructed to keep itself currently informed as to transactions in foreign exchange entered into or consummated within its district and shall report to the Secretary of the Treasury all transactions in foreign exchange which are prohibited. UNQUOTE.

The following should also be printed on the license form: QUOTE Subdivision b of Section 5 of the Act of October 6, 1917, as amended, and Section 4 of the Act of March 9, 1933, prescribe a penalty of a fine of not more than $10,000 and/or an imprisonment for not more than ten years, for violation of the terms of the said sections. UNQUOTE.

W. H. WOODIN
Secretary of the Treasury.

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Federal Reserve Bank of St. Louis

X-7363

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

March 13, 1933.

Young - Boston	Black - Atlanta	Hamilton - Kansas City
Harrison - New York	McDougal - Chicago	McKinney - Dallas
Fancher - Cleveland	Martin - St. Louis	Calkins - San Francisco
Seay - Richmond	Geery - Minneapolis	

TRANS. 1644 Board has replied to inquiry received from another Federal Reserve Bank that in view of Regulation No. 20 of the Secretary of the Treasury authorizing Federal reserve banks to perform usual and normal banking functions, the only restrictions upon advances which may be made in accordance with the provisions of section 10(b) of the Federal Reserve Act, as amended, are those found in that regulation, in the terms of the law itself, and in the Board's telegram of March 10, Trans. 1611; except that in case of advances to member banks which have not been granted licenses to perform their usual banking functions such advances must comply with the restrictions and conditions prescribed in regulation of Secretary of Treasury lettered G.

MORRILL

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Federal Reserve Bank of St. Louis

March 13, 1933.

Young - Boston
Harrison - New York
Fancher - Cleveland
Black - Atlanta
McDougal - Chicago

Martin - St. Louis
Geery - Minneapolis
Hamilton - Kansas City
McKinney - Dallas
Calkins - San Francisco

TRANS. 1645 Board has replied to inquiries from other Federal reserve banks that in view of regulation Number 20 of the Secretary of the Treasury authorizing Federal reserve banks to perform usual and normal banking functions, any Federal reserve bank may, subject to the provisions of that regulation, make advances to any individual, partnership, or corporation, in accordance with the provisions of section 13 of the Federal Reserve Act as amended by section 403 of the Act of March 9, 1933, and at the rate stated in Trans 1613, whether or not such advances are made in order to provide for immediate payroll requirements. Such advances may be made to banks, whether members or non-members, which have been granted licenses to perform their usual banking functions, and subject to the restrictions and conditions prescribed in the regulation of the Secretary of the Treasury lettered G, may also be made to banks, whether members or nonmembers, which have not received such licenses.

Morrill.

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X-7365

Treasury Department
Office of the Secretary
Washington, March 11, 1933.

NOT FOR PUBLICATION

Confidential

TO THE TREASURER OF THE UNITED STATES:
THE COMPTROLLER OF THE CURRENCY:
THE FEDERAL RESERVE AGENTS:
THE FEDERAL RESERVE BANKS, and others concerned.

Pursuant to the authority vested in the Secretary of the Treasury by the sixth paragraph of Section 18 of the Federal Reserve Act, as amended by Section 401 of the Act of March 9, 1933, to prescribe regulations which shall govern the issuance, redemption, replacement, retirement and destruction of circulating notes, which notes are hereinafter referred to as Federal reserve bank notes, authorized to be issued to Federal reserve banks under the provisions of such sixth paragraph of Section 18, as amended, and the release and substitution of security therefor, the following regulations are hereby prescribed:

1. The Federal Reserve Agent accredited to each Federal reserve bank is hereby authorized and required to act as the agent of the Treasurer of the United States or of the Comptroller of the Currency, or both, for the performance of any of the functions which the Treasurer or the Comptroller may be called upon to perform in carrying out the provisions of such sixth paragraph of Section 18, as amended. The term "Federal Reserve Agent" as used in this regulation shall be construed to mean the Federal Reserve Agent as Agent of the

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Treasurer of the United States or of the Comptroller of the Currency, or both, as the case may be.

2. In order to furnish suitable notes for circulation as provided in such sixth paragraph of Section 18, as amended, the Comptroller of the Currency is hereby authorized and directed to cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations and to have printed therefrom and numbered such quantities of Federal reserve bank notes in the denominations of $5, $10, $20, $50, and $100 as may be necessary.

3. When such Federal reserve bank notes have been prepared they shall be deposited in the Treasury and held for the use of the Federal reserve banks subject to the order of the Comptroller of the Currency for their delivery, with the approval of the Federal Reserve Board, to the respective Federal Reserve Agents. The procedure shall be similar to that in effect with respect to Federal reserve notes.

4. Upon deposit with the Federal Reserve Agent of the security required by such sixth paragraph of Section 18, as amended, the Federal Reserve Agent may deliver Federal reserve bank notes to the Federal reserve bank to which he is accredited.

5. The Federal Reserve Agent shall require the Federal reserve bank at all times to maintain the full amount of collateral, as required by such sixth paragraph of Section 18,

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as amended, as security for Federal reserve bank notes issued to such Federal reserve bank.

6. Each Federal Reserve Agent shall hold in joint custody with the Federal reserve bank to which he is accredited all Federal reserve bank notes received by him and all collateral deposited by the Federal reserve bank to secure the Federal reserve bank notes issued under the provisions of such sixth paragraph of Section 18, as amended.

7. Each Federal Reserve Agent shall daily make a report to the Treasurer of the United States, the Comptroller of the Currency and the Federal Reserve Board, of the amount of Federal reserve bank notes issued to the Federal reserve bank and the collateral deposited as security therefor, classifying such collateral so as to show the amounts included therein of (1) direct obligations of the United States, and (2) notes, drafts, bills of exchange and bankers' acceptances, or in such other manner as may be required (a) by the Treasurer of the United States with the approval of the Secretary of the Treasury, or (b) by the Federal Reserve Board.

8. Any Federal reserve bank may at its discretion withdraw collateral deposited with the Federal Reserve Agent under the provisions of this regulation for the security of Federal reserve bank notes issued to it and substitute

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therefor other collateral of the kinds described in such sixth paragraph of Section 18, as amended; Provided, however, that the aggregate acceptable value of the collateral held by the Federal Reserve Agent shall not at any time be less than the amount required by such sixth paragraph of Section 18, as amended.

9. Each Federal Reserve Agent may at any time require the Federal reserve bank to which he is accredited to deposit additional security to the extent required to comply with the provisions of such sixth paragraph of Section 18, as amended; and if any Federal reserve bank shall fail to make such deposit of additional security, or if any such bank shall fail to redeem its Federal reserve bank notes on demand, the Federal Reserve Agent, when required by the Secretary of the Treasury, shall liquidate, in such manner as the Secretary of the Treasury may prescribe, the security, or any part thereof, which he holds under the provisions of such sixth paragraph of Section 18, as amended, and deposit the proceeds with the Treasurer of the United States for the redemption of Federal reserve bank notes issued to such bank.

10. Each Federal reserve bank shall at all times maintain on deposit in the Treasury of the United States, in lawful money of the United States, a sum equal to five per cent of its liability on Federal reserve bank notes

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in actual circulation or such other amount as may from time to time be required by the Treasurer of the United States, with the approval of the Secretary of the Treasury, to be held and used for the redemption of such notes.

These regulations shall become effective immediately and shall be subject to such changes or amendments as may from time to time be deemed advisable by the Secretary of the Treasury, and will be supplemented by other regulations specifically governing redemption, replacement, retirement and destruction of Federal reserve bank notes.

(Signed) W. H. WOODIN

Secretary of the Treasury.

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Federal Reserve Bank of St. Louis

ORDER REQUIRING RETURN OF GOLD.

Pursuant to the power conferred upon me by subsection (n) of Section 11 of the Federal Reserve Act, as amended by section 3 of the Act "To provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933, and finding this action necessary to protect the currency system of the United States, I, W. H. Woodin, Secretary of the Treasury, do hereby require all individuals, partnerships, associations and corporations owning any gold coin, gold bullion or gold certificates, now held within the continental limits of the United States, forthwith to pay over and deliver to the Treasurer of the United States, or to a Federal reserve bank as fiscal agent of the United States, all such gold coin, gold bullion and gold certificates.

Individuals, partnerships, associations and corporations, other than member banks of the Federal Reserve System, shall deliver such gold coin, gold bullion and gold certificates to a member bank, which shall pay therefor an equivalent amount of coin or currency of the United States other than gold or gold certificates. The member bank shall thereupon deliver such gold coin, gold bullion and gold certificates to the Treasurer of the United States or to the Federal reserve bank of its district and receive credit or payment for the amount of gold coin, gold bullion and gold certificates so delivered.

Member banks shall deliver all gold coin, gold bullion and gold certificates owned by them to the Treasurer of the United States or to the Federal reserve bank of their respective districts and receive credit or payment therefor as above provided.

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The Secretary of the Treasury shall pay all reasonable costs of transportation of such gold coin, gold bullion or gold certificates upon production of satisfactory evidence of such costs. Forms of vouchers for this purpose may be procured from the Federal reserve bank.

Any individual, partnership, association or corporation failing to comply with these requirements before 3 P.M. Eastern Standard Time, April 1, 1933, shall be subject to a penalty of twice the value of the gold coin, gold bullion or gold certificates involved; Provided, however, That a member bank receiving gold coin, gold bullion or gold certificates from others shall immediately report the receipt thereof to the Federal reserve bank of its district and make delivery in accordance with instructions from the Federal reserve bank.

Any gold coin, gold bullion or gold certificates now in course of shipment to any individual, partnership, association or corporation in the United States, or which may be received by any individual, partnership, association or corporation after the date of this order shall be, as herein provided, delivered as soon as practicable, but in no event later than three days after receipt thereof, to a Federal reserve bank or to the Treasurer of the United States.

The provisions of this order shall not apply to gold coins included in a bona fide numismatic collection, or to such amount of gold bullion as may be reasonably required for legitimate and customary use in trade, profession or art, or to gold coins having a value, or gold certificates in an amount, not exceeding $100 belonging to any one person.

W. H. Woodin,
Secretary of the Treasury.

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

March 8, 1933.

Young Boston	Fancher Cleveland	McDougal Chicago	Hamilton Kansas City
Harrison New York	Seay Richmond	Martin St. Louis	McKinney Dallas
Norris Philadelphia	Black Atlanta	Geery Minneapolis	Calkins San Francisco

TRANS. NO. 1580

Effective March 1, 1933, the Federal Reserve Board has amended Paragraph numbered Ten of its Regulation O, Series of 1915, establishing a graduated tax on deficiencies in the gold reserves required to be held against Federal reserve notes in actual circulation, to read as follows:

QUOTE (10) If at any time the gold reserves required by law to be held by a Federal Reserve Bank against Federal reserve notes issued to it fall below forty per cent (including therein the gold redemption fund required to be maintained on deposit in the Treasury of the United States) the Federal Reserve Agent shall at once notify the Federal Reserve Board, and thereupon until otherwise directed by the Federal Reserve Board, a graduated tax upon such deficiency as required by subsection (c) of section eleven of the Federal Reserve Act shall be established and shall be computed as follows:

When such reserves fall below forty per cent but are not less than thirty-two and one-half per cent, the tax upon the deficiency shall be at the rate of one tenth of one per cent per annum;

When such reserves fall below thirty-two and one-half per cent but are not less than thirty per cent, the tax

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upon the entire deficiency below forty per cent shall be at the rate of one and six-tenths per cent per annum:

When such reserves fall below thirty per cent but are not less than twenty-seven and one-half per cent, the tax upon the entire deficiency below forty per cent shall be at the rate of three and one-tenth per cent per annum; and so on, increasing the tax at the rate of one and one-half per cent per annum with each further deficiency in such reserves amounting to two and one-half per cent or any fraction thereof. UNQUOTE.

In connection with the Board's letter of April 3, 1920, (X-1880), you are advised that, in lieu of the tax prescribed therein on deficiencies in reserves against deposits received by a Federal reserve bank, the Board has prescribed, effective March 1, 1933, a tax of one-tenth of one per cent per annum upon the amount of such deficiencies, provided, however, that whenever reserves against deposits fall below thirty per cent, the tax upon the amount by which they have fallen below that limit shall be increased by one-tenth of one per cent per annum upon each five per cent or fraction thereof that such reserves fall below thirty per cent.

In this connection, attention is called to the opinion of Counsel transmitted with Board's letter of April 10, 1920 (X-1894) that under provisions of Section 11(c) of Federal Reserve Act, an amount equal to the tax paid by the Federal reserve bank on deficiencies in reserves against Federal reserve notes shall be added to rates of interest and discount fixed by Federal Reserve Board, but that an amount equal to the tax paid

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by the Federal reserve bank on deficiencies in reserves against deposits is not to be added to rates of interest and discount fixed by the Federal Reserve Board.

MORRILL

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X-7369

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

March 13, 1933.

Young - Boston	Seay - Richmond	Geery - Minneapolis
Harrison - New York	Black - Atlanta	Hamilton - Kansas City
Norris - Philadelphia	McDougal - Chicago	McKinney - Dallas
Fancher - Cleveland	Martin - St. Louis	Calkins - San Francisco

TRANS 1650. Refer to trans. 1580, relating to penalties for deficiencies in reserves of Federal reserve banks. In the first sentence of the amended paragraph 10 of Regulation "O", Series of 1915, quoted therein, change the words "Federal reserve notes issued to it" to read "Federal reserve notes in actual circulation." In the sentence which refers to the penalties on deficiencies in deposit reserves strike out all after the words "provided, however," down to the end of that sentence and substitute therefor the following: "That, whenever such reserves fall below 30 per cent but are not less than 25 per cent, the tax upon the deficiency below 30 per cent shall be at the rate of 2/10 of 1 per cent per annum, and when such reserves fall below 25 per cent but are not less than 20 per cent the tax upon the deficiency below 25 per cent shall be at the rate of 3/10 of 1 per cent per annum; and so on, increasing the tax at the rate of 1/10 of 1 per cent per annum with each further deficiency in such reserves amounting to 5 per cent of deposits or any fraction thereof.

Morrill.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7373

March 16, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDROP" has been designated to cover a new issue of Treasury Bills, dated March 22, 1933, and maturing June 21, 1933.

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

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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T E L E G R A M X-7374

FEDERAL RESERVE BOARD
Washington

March 16, 1933

Kimball
New York

Your wire March 15. Office of Comptroller of Currency advises that, notwithstanding appointment of conservator for national bank under Bank Conservation Act, deposits received by such bank prior to appointment of conservator in special trust accounts created under the provisions of Regulation No. 7 of the Secretary of the Treasury issued March 6, 1933, may be withdrawn upon demand without restriction or limitation to the full extent of the amount of cash, Federal reserve bank balances and proceeds of United States obligations in which such deposits have been kept separate or invested in accordance with the provisions of said regulation No. 7.

Morrill

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T E L E G R A M X-7375

FEDERAL RESERVE BOARD
Washington

March 16, 1933

Curtiss - Boston	Hoxton - Richmond	Bailey - Minneapolis
Case - New York	Newton - Atlanta	McClure - Kansas City
Austin - Philadelphia	Stevens - Chicago	Walsh - Dallas
Williams - Cleveland	Wood - St. Louis	Newton - San Francisco

TRANS 1690 In any case where it appears necessary or desirable for the Board to act expeditiously on an application for fiduciary powers received from a national bank newly organized or proposed to be organized to take over the business of state institutions or other national banks exercising trust powers, you should promptly obtain from Chief National Bank examiner of your district or other reliable sources information, including copy of report of any preliminary examination of applicant which may have been made, necessary to enable you to forward to Board, without delay, information which it must have to act in the premises. Such information should include following: (a) your views as to the general condition of new bank; (b) summary statement concerning character of supervision to be given trust department, making particular reference to its trust committee, if any, and general qualifications of its membership; (c) the experience and qualifications of the trust officers; (d) what substantial criticisms, if any, have been made of trust department of the old institution; (e) whether trust department of new bank will continue under same management as that of institution which it succeeds or proposes to succeed and, if so, what changes of policy, if any, in the conduct of the trust department are contemplated. If the old institution is not a national bank such information on these points as you may be able to develop from State Banking Department, or other reliable sources, should be obtained. Please also (f) give any other pertinent facts which may be of value to Board in determining qualifications of applicant

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for exercise of trust powers and adequacy of safeguards surrounding trusts committed to its care. Recommendations of your committee should, of course, accompany application. In any case of the kind referred to above advice of receipt of application and your recommendation and that of your committee may be sent by telegraph and in furnishing the required information the symbols set out above may be used in such transmission. In all such cases care should be taken to see that the information submitted under each such symbol is adequate. If in any case your recommendation is wired to Board before you forward application you should include advice that your counsel has approved the form of application and has executed certificate of counsel usually accompanying fiduciary applications. Your attention is called to conditions 15, 16 and 17 as set forth in Board's Trans 1619 which are prescribed for state institutions exercising trust powers applying for membership, and Board's attitude toward certain types of investments for trust funds as reflected in these conditions should be borne in mind.

MORRILL

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Copy X-7376

March 2, 1933.

Mr. John U. Calkins,
Chairman, Governors' Conference,
c/o Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Calkins:

The Federal Reserve Board has been informed of the action taken by the Governors' Conference during its meetings on November 15 and 16, 1932, at Washington as follows:

> "After a general discussion of the urgent need of some sort of benefit for officers and employees of the Federal Reserve system, it was
>
> "VOTED that it is the sense of the conference that the report of this committee dated February 11, 1932, as well as the supplementary report dated November 7, 1932, be approved by this conference, and that the report be resubmitted formally to the Federal Reserve Board with the request that the Federal Reserve Board advise the conference which form of organization outlined in the plan submitted to the Board in the committee's memorandum of February 11, 1932, it would approve and support."

Since then the Board has also been informed of actions taken by the boards of directors of the Federal Reserve Banks of New York and Richmond looking to the establishment of pension plans for those banks if and when approved by the Federal Reserve Board.

The supplementary report of November 7, 1932, of the Pension Committee referred to in the action of the Governors' Conference above quoted contains a recommendation that the Federal

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Mr. John U. Calkins - (2)

Reserve Board authorize the inauguration of a general retirement plan for the Federal reserve system and that the operation of such a plan be provided for under one of the following possible forms of organization:

(1) A corporation organized by Special Act of Congress; or

(2) A retirement corporation organized under the amendment to the insurance laws of the State of New York; or

(3) A corporation organized under the laws of the District of Columbia; or

(4) A board of trustees to be appointed by the Federal reserve banks, or otherwise, under the supervision of the Federal Reserve Board without incorporation; or

(5) The purchase of retirement annuity insurance from the company or companies with which the Federal reserve banks now carry their group life insurance, to be supplementary to such group life insurance.

In this connection the committee said that it felt that "incorporation under a special act of Congress would provide the most acceptable form of administration of the plan, yet as such a course apparently will still involve delays of a character and duration impossible to foresee in advance, it recommends as an alternative one of the other forms of organization listed". The committee added "that the adoption of any form of organization is preferable to leaving the Federal Reserve System and its officers and employees wholly without the benefit or protection of any pension or retirement plan whatsoever".

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The Board feels that the establishment of a pension system by the Federal reserve banks would be desirable and after giving very careful consideration to the request of the Governors' Conference and the recommendations of the committee, is disposed, for the reasons hereinafter set forth, to favor the procurement from an insurance company or companies of retirement annuities for the personnel of the Federal reserve banks, if obtainable under satisfactory conditions and limitations at a reasonable cost.

The five forms of organization for providing pensions which were suggested by the committee may be divided broadly into two classes: (a) newly created organizations, which would be financed and administered by the Federal reserve banks, solely for the purpose of providing the pensions contemplated; (b) existing life insurance companies, with which arrangements or agreements might be made for purchasing retirement annuities under plans supplementary to the existing group life insurance policies.

The most important consideration in connection with any pension or retirement plan is the definite assurance that at a reasonable cost, determined as closely as possible in advance, the annuities provided thereby will be paid to the beneficiaries when they become due.

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Mr. John U. Calkins - (4)

The administration of any plan included in class (a), whether it be through a corporation or a board of trustees without incorporation, would necessitate the setting up by the Federal reserve banks of a new organization which would require the employment of persons having special training and experience in the administration of pension or retirement plans. Such persons probably could be obtained only from existing organizations and, no doubt, if they were persons of the requisite qualifications, special inducements must be offered to cause them to leave their existing connections. Of course, incidental personnel and office space, together with various other operating expenses, must also be arranged for by the Federal reserve banks, directly or indirectly. The administration of the investments of such a fund would require special attention, apart from the ordinary operations of the Federal reserve banks and the burden of the attendant risks would be concentrated upon a comparatively limited fund, instead of being spread, as in the case of a large insurance company or group of such companies, over a wider field of activity.

Of necessity, the exact cost of such a plan could only be estimated and could not be determined in advance. If the annual outlays should prove to be unexpectedly large because of any miscalculation on the part of the actuaries employed, or unanticipated losses in connection with the investments selected, or excessive

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expenditures or inexperience or inefficiency of the new organization, it might be necessary to increase the contributions required of the banks or the periodical deductions made from the compensation of the persons covered by the plan to amounts substantially greater than those first estimated. In such event the results would be unfortunate and very likely provoke criticism on the part of the employees which, whether justified or not, would be disturbing and might seriously affect their morale.

Passing from these general considerations, which are applicable to all of the first four forms of organization included in class (a), to the particular considerations applicable to a corporation created by special act of Congress to administer a retirement plan, it is apparent from a review of the history of the efforts which have been made in the past to obtain such legislation and the repeated delays encountered in connection therewith, together with the fact that the attention of Congress for some time to come will no doubt be directed to matters of greater interest and concern to it, that the development of the project would be subjected to indefinite further delays.

With respect to the formation of a corporation organized under the laws of the State of New York, it appears that the New York statute authorizing a retirement corporation (Chapter 501 of the Acts of 1926) provides that such a corporation may be formed by "any person, firm, or corporation", by "corporations having business

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interests in common by reason of stock ownership", and by "any organization". It seems clear that the twelve Federal reserve banks are not corporations having business interests in common by reason of stock ownership, and the Board's counsel feels that it is doubtful, to say the least, whether even though acting jointly they could properly be regarded as an "organization" within the meaning of the statute. Such a corporation, of course, would be subject to regulation under State law and to the supervision of the State officials administering the law, which at some time in the future might become impractical or burdensome from the standpoint of the Federal reserve banks, and, as a matter of general policy, it would seem inadvisable, when unnecessary to do so, for the Federal reserve banks, created by Federal law and for Federal purposes, to subject their internal operations and their relationships with their employees, even in an indirect manner, to such uncertainties. The latter considerations would apply also to a corporation organized under the laws of the District of Columbia.

The fifth suggestion of the committee, which constitutes class (b) above mentioned, is confined to the purchase of retirement or annuity insurance from a life insurance company or a group of such companies. This, apparently, would avoid most, if not all, of the objections to the other plans. Under an

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arrangement of this kind the beneficiaries would receive the annuities provided by the plan at a cost to them and the Federal reserve banks which would be worked out and determined definitely in advance. Upon the payment of the agreed premiums all the risks would be assumed by the insurance companies and there would be no further liability on the part of either the banks or their employees. It is of interest, in this connection, to note that, according to a recent newspaper report, a large industrial concern in the Middle West, which had maintained a retirement fund within its own organization, substituted an arrangement with a large life insurance company, by which the retirement benefits would be purchased from the insurance company.

It does not appear whether the Pension Committee has recently canvassed the possibilities of negotiating such an arrangement, and the Board feels that the committee should be instructed to do so.

It would seem that negotiations on behalf of the twelve Federal reserve banks collectively might result in more advantageous terms than would be obtained if negotiations on behalf of any Federal reserve bank were conducted separately. As a basis for such negotiations it would seem that a detailed

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description of the plan worked out by the committee should be submitted to the insurance companies, and that it should consider the feasibility of obtaining competitive bids before entering into a final contract. Such companies should include only those with adequate resources and financial responsibility together with satisfactory experience in providing retirement annuities for employees of other large corporations. Under such a plan the employees of each Federal reserve bank should be required to pay a certain reasonable proportion of the total premiums paid by the bank for the insurance, which should be based of course on the number, age, and compensation of its employees. The benefits of the plan should be limited to the personnel of the twelve Federal reserve banks, and its operation should be confined to reasonable maximum salary rates and retirement annuities.

As indicated by the committee's report, in such negotiations consideration should be given to the feasibility of combining the proposed annuities with, or making them supplementary to, the present group life insurance plans of the Federal reserve banks.

While bills have been introduced in Congress in past years to provide for the establishment of retirement funds or corporations for this purpose for the Federal reserve system, these bills contemplated the inclusion not only of employees of the Federal reserve banks, but also those of the Federal Reserve Board and in most instances those of member banks, and contained other

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features which met with objection on their respective merits. The proposals considered by Congress, therefore, did not have in view the alternative possibility of retirement annuities being purchased from insurance companies for the benefit solely of the personnel of the Federal reserve banks. Consequently, the fact that the proposals considered by Congress were not finally enacted is not regarded by the Board's counsel as limiting the authority of the Federal reserve banks under existing law to enter into such a plan under the conditions and limitations suggested above. It is the opinion of the Board's counsel that the legal authority for such action is well established by court decisions in connection with other corporations, including banking institutions, and that the principles involved are equally applicable to the Federal reserve banks.

When the Pension Committee has inquired fully into the possibilities of proceeding along the lines suggested as to insurance companies and has formulated its views with respect to them, the Board will be pleased to give prompt consideration to its report. If the committee should find that there is a reasonable prospect of obtaining retirement annuities on a satisfactory basis from responsible insurance companies, there should be attached to the report a detailed description of the plan in the form in which the committee would submit it to the companies as a basis for bids.

Very truly yours,

(Signed) Chester Morrill
Secretary.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7377

March 21, 1933.

SUBJECT: Holidays during April, 1933.

Dear Sir:

The Federal Reserve Board has been advised that the following holidays will be observed by Federal reserve banks and branches during April, 1933:

Monday.	April 3	Detroit	Michigan General Election
Wednesday	" 12	Charlotte	Halifax Day
Thursday	" 13	Birmingham	Birthday of Jefferson Davis
Friday	" 14	Philadelphia Pittsburgh Baltimore New Orleans Nashville Jacksonville Memphis Minneapolis	Good Friday
Wednesday	" 19	Boston	Patriots' Day
Friday	" 21	Dallas El Paso Houston San Antonio	San Jacinto Day
Saturday	" 22	Omaha	Arbor Day
Wednesday	" 26	Atlanta Birmingham Jacksonville	Southern Memorial Day

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On the dates indicated the offices named will not participate in either the transit or Federal reserve note clearing through the Gold Settlement Fund. Please include credits for the offices named on each of the foregoing dates in your transit clearing of the following business day. No debits covering shipments of Federal reserve notes for account of the head offices affected should be included in your note clearing on the holidays mentioned.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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STATEMENT FOR THE PRESS

For immediate release

Federal Reserve Board
March 17, 1933

The Federal Reserve Board announces the designation of Mr. Lewis B. Williams as Chairman of the Board of Directors and Federal Reserve Agent at the Federal Reserve Bank of Cleveland, for the remainder of the year 1933, to succeed Mr. George DeCamp, whose resignation was accepted effective at the close of business March 14, 1933. Mr. Williams has served as Class "C" Director and Deputy Chairman of the Board of Directors of the Federal Reserve Bank of Cleveland since January 1, 1920.

Mr. E. C. S. Burke, Jr., has been appointed Class "C" Director of the Federal Reserve Bank of Cleveland for the unexpired portion of the term ending December 31, 1935, vice Mr. DeCamp, and has also been appointed Deputy Chairman of the Board of Directors of the Bank for the remainder of this year.

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X-7380

FEDERAL RESERVE NOTES, SERIES 1928,
FOR THE FEDERAL RESERVE BOARD, FROM FEBRUARY 1 to 28, 1933.

	$5	$10	$20	$50	$100	$500	$1000	Total Sheets	Amount
Boston.....	37,000	44,000	14,000	-	-	-	-	95,000	$8,597.50
Philadelphia.	54,000	33,000	24,000	--	-	-	-	111,000	10,045.50
Cleveland....	72,000	48,000	28,000	-	-	2,000	1,500	151,500	13,710.75
Richmond.....	-	18,000	-	-	-	-	-	18,000	1,629.00
Atlanta.....	12,000	8,000	-	-	-	-	-	20,000	1,810.00
Chicago.....	-	342,000	254,000	20,000	24,000	-	-	640,000	57,920.00
St. Louis....	21,000	-	-	8,000	8,000	1,600	1,000	39,600	3,583.80
Minneapolis..	22,000	8,000	-	-	-	-	-	30,000	2,715.00
Kansas City..	10,000	-	-	-	17,000	1,700	1,700	30,400	2,751.20
San Francisco	58,000	26,000	22,000	-	-	-	-	106,000	9,593.00
	286,000	527,000	342,000	28,000	49,000	5,300	4,200	1,241,500	$112,355.75

1,241,500 sheets @ $90.50 per M ..... $112,355.75.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7381

March 25, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDRUB" has been designated to cover a new issue of Treasury Bills, dated March 29, 1933, and maturing June 28, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

X-7385

T E L E G R A M

FEDERAL RESERVE BOARD

WASHINGTON

March 11, 1933.

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Norris - Philadelphia
DeCamp - Fancher - Cleveland
Hoxton - Seay - Richmond
Newton - Black - Atlanta
Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geery - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

TRANS NO. 1623. The Federal Reserve Board considers that the term "any individual, partnership or corporation" as used in the last paragraph of Section 13 of the Federal Reserve Act as amended by the Act of March 9, 1933, includes banking institutions regardless of whether they are members of the Federal Reserve System or nonmembers.

Morrill

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X-7386

T E L E G R A M

FEDERAL RESERVE BOARD

WASHINGTON

March 12, 1933

Bailey - Minneapolis.

Your wire March 9th. Deposits received by member banks in special trust accounts under authority of Regulation No. 7 of the Secretary of the Treasury issued March 6, 1933, pursuant to the President's Proclamation of that date, are subject to the reserve requirements prescribed by Section 19 of the Federal Reserve Act.

Morrill.

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Federal Reserve Bank of St. Louis

TELEGRAM X-7387

FEDERAL RESERVE BOARD

WASHINGTON

March 15, 1933.

Young - Boston	Seay - Richmond	Geery - Minneapolis
Harrison - New York	Black - Atlanta	Hamilton - Kansas City
Norris - Philadelphia	McDougal - Chicago	McKinney - Dallas
Fancher - Cleveland	Martin - St. Louis	Calkins - San Francisco

Trans. 1676

Federal Reserve Board feels that an advance to an individual, partnership or corporation under the provisions of the last paragraph of the Section 13 of the Federal Reserve Act as amended by Section 403 of the Act of March 9, 1933, should be made only by the Federal reserve bank of the district in which the principal place of business of such individual, partnership or corporation is located.

Morrill.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7388

March 28, 1933.

SUBJECT: Expense, Main Lines, Leased Wire System, February, 1933.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7388-a and X-7388-b, covering in detail operations of the main lines, Leased Wire System, during the month of February, 1933.

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.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1933.

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	35,455	3,118	38,573	4.40
New York	181,865	-	181,865	20.76
Philadelphia	36,751	3,454	40,205	4.59
Cleveland	65,974	2,610	68,584	7.83
Richmond	51,427	3,413	54,840	6.26
Atlanta	51,872	3,771	55,643	6.35
Chicago	112,459	4,202	116,661	13.31
St. Louis	66,856	4,165	71,021	8.11
Minneapolis	32,005	3,441	35,446	4.04
Kansas City	63,124	3,111	66,235	7.56
Dallas	55,531	4.061	59,592	6.80
San Francisco	82,942	4,613	87,555	9.99
Total	836,261	39,959	876,220	100.00

F. R. Board business	291,879	1,168,099
Reimbursable business Incoming and Outgoing		408,611
Total words transmitted over main lines		1,576,710

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7388-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.

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Federal Reserve Bank of St. Louis

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, FEBRUARY, 1933.

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	$762.88	$260.00	$502.88
New York	1,232.80	-	-	1,232.80	3,599.39	1,232.80	2,366.59
Philadelphia	225.00	-	-	225.00	795.82	225.00	570.82
Cleveland	306.66	-	-	306.66	1,357.57	306.66	1,050.91
Richmond	175.00	-	230.00 (&)	405.00	1,085.37	405.00	680.37
Atlanta	243.00	-	-	243.00	1,100.97	243.00	857.97
Chicago	3,658.47 (#)	18.00	-	3,676.47	2,307.70	3,676.47	1,368.77 (*)
St. Louis	195.00	2.00	-	197.00	1,406.12	197.00	1,209.12
Minneapolis	200.00	-	-	200.00	700.46	200.00	500.46
Kansas City	273.00	-	-	273.00	1,310.76	273.00	1,037.76
Dallas	251.00	-	-	251.00	1,178.99	251.00	927.99
San Francisco	380.00	-	-	380.00	1,732.08	380.00	1,352.08
Federal Reserve Board	-	-	15,753.20	15,753.20	-	-	-
Total	$7,399.93	$20.00	$15,983.20	$23,403.13	$17,338.11	$7,649.93	$11,056.95
							1,368.77(a)
							$ 9,688.18

Reimbursable charges:

Treasury Department	$1,925.81	
Reconstruction Finance Corporation	3,988.58	
Federal Farm Loan Board	21.69	
Federal Farm Board	45.61	
Compt. of Currency, Insolv. Bank Div.	83.33	
Less: Reimbursable charges		6,065.02
		$17,338.11

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

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X-7389

CONFIDENTIAL - Tentative Draft of March 29, 1933.

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Norris - Philadelphia
Williams - Fancher - Cleveland
Hoxton - Seay - Richmond
Newton - Black - Atlanta
Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geery - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

H. R. 3757 providing for direct loans by Federal reserve banks to nonmember State banks and trust companies which was quoted in our Trans. 1722 of March 24, and was signed by President on same date, has been given preliminary study here and requirements of bill together with tentative interpretations and suggestions with regard to procedure thereunder are outlined below. (1) Loans may be granted during existing emergency in banking or until by proclamation of President applicable provisions of act shall be declared no longer operative, but in no event after March 24, 1934. (2) Application may be made only to Federal reserve bank of district in which nonmember State bank or trust company is located. (3) Loans may be made in discretion of Federal reserve bank, after inspection and approval of collateral and thorough examination of applying bank or trust company. (4) Loans granted are to be made under terms provided in section 10(b) of Federal reserve act as amended by section 402 of act of March 9, 1933, except that loans may be made upon eligible as well as ineligible security. (5) Each application for loan shall be accompanied by written approval of State Banking Department or Commission of State from which such bank or trust company received

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its charter and statement from such banking department or commission that in its judgment such bank or trust company is in sound condition. (6) Notes representing such loans (whether secured by eligible or by ineligible collateral) will be eligible as security for circulating notes issued under sixth paragraph of section 18 of Federal Reserve Act as amended by section 401 of act of March 9, 1933, to same extent as paper acquired under Federal reserve act, but will not be eligible as security for Federal reserve notes. (7) While such bank or trust company is indebted in any way to any Federal reserve bank it must comply in all respects with provisions of Federal reserve act and Board's regulations applicable to member State banks, except that in lieu of subscribing to stock of Federal reserve bank it must maintain the reserve balance required by section 19 of Federal reserve act. In view of clause four above following conditions should be observed: (a) Advances may be made only in exceptional and exigent circumstances; (b) such advances may be made on demand or time note of applicant institution, but Board feels that maturity should not exceed 90 days; (c) such advances must be secured to satisfaction of Federal reserve bank, and eligible collateral held by applicant bank should be exhausted before utilizing ineligible assets; (d) each advance should bear interest at same rate as that currently applicable to advances to member banks under provisions of section 10(b); (e) in making such advances due regard should be had to claims and demands of member banks as provided in section 4 of Federal reserve act and Board feels that such advances should be made only when applicants have shown to satisfaction of Federal reserve bank that they are unable to secure adequate credit accommodations from other banking institutions.

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In view of clause seven above, borrowing institution, while indebted to Federal reserve bank, (f) must maintain actual realized balance at Federal reserve bank in amount equal to reserve which would be required of it under section 19 and Regulation D if it were a member bank and will be subject to penalties for deficiencies in reserves; (g) must remit at par for checks drawn on it and presented for payment by Federal reserve bank as required of member banks by Federal reserve act and Board's regulations; (h) may be examined at any time by Federal reserve bank or Federal Reserve Board and must pay assessments for expenses thereof in same manner and to same extent as member banks; (i) must make reports of condition and of payment of dividends as required of member State banks and will be subject to same penalties for failure to do so; (j) such bank must comply with capital requirements regarding eligibility of State banks for membership and must conform to provisions of law which prohibit national banks from lending on or purchasing their own stock, which relate to withdrawal or impairment of capital stock and which relate to payment of unearned dividends.

The interpretations and suggestions outlined herein are not intended to be final and if in any actual case you are doubtful as to proper determination of any question upon which you desire Board's ruling it will give prompt consideration to such question when submitted with your recommendation as to action which should be taken accompanied by your counsel's opinion on matters of law involved.

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Federal Reserve Bank of St. Louis

Suggest that your counsel prepare forms of application, promissory notes, resolutions of directors and other papers along lines of those used in connection with advances to member banks under section 10(b) of Federal Reserve Act with such changes and additions as in opinion of your counsel will adequately protect interests of Federal reserve bank including provision in application that at option of Federal reserve bank any failure to comply with applicable provisions of law or regulations of Federal Reserve Board or of agreement with Federal reserve bank shall constitute default upon any or all advances made by Federal reserve bank to applicant and applicant's entire indebtedness to Federal reserve bank shall thereupon become due and payable. In this connection it is suggested that your counsel consider provisions included in application form inclosed in our letter of July 26, 1932, (X-7213).

Suggest also that your counsel and officers who will handle applications of nonmember banks read carefully debates in Congressional Record on this act and especially Senate debates on March 22 and 23 which indicate clearly that Federal reserve banks are not expected to make loans to insolvent banks nor to give nonmember banks more favorable treatment than member banks.

Morrill.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7390

March 30, 1933.

SUBJECT: Procedure Followed and Reports Submitted by Auditing Department.

Dear Sir:

At the present time certain Federal reserve banks send the Board copies of reports of general audits of the banks which are made from time to time by their auditing staffs. Prior to March 26, 1925, when circular X-4306 was sent to the Federal reserve agents, discontinuing report forms X-794 and X-794A, it appears to have been the custom of the Federal reserve agents to submit with these report forms copies of audit reports rendered by the banks' auditing departments. While it is not the desire of the Board that the discontinued report forms be restored, or that copies of all reports of the auditing departments be furnished the Board, it will be appreciated if you will transmit to the Board copies of all reports of general audits that are made by the auditing departments, including the textual part thereof. If, in presenting such reports to the Board of Directors, you make any written comment, a copy of such comment should be included with the report submitted to the Board.

In this connection, the Board will be glad to receive a

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statement setting forth in some detail the manner in which your auditing department is conducted, the nature of its review of the work of each department of the bank, its program as to general audits, the intensiveness of its efforts to ascertain irregularities and develop improvements of a constructive nature, the extent to which it goes in submitting recommendations, and what arrangements have been made for their systematic consideration by the officers and directors of the bank.

Very truly yours,

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7391

March 30, 1933.

Dear Sir:

With further reference to the Board's letter of February 9, 1933 (X-7342) regarding the method of shipment of the Treasurer's Daily Transcript and accompanying checks and warrants, there is inclosed for your information a copy of a letter which the Board has written to the Governor of the Federal Reserve Bank of San Francisco under date of March 23, 1933.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT SAN FRANCISCO.

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Federal Reserve Bank of St. Louis

X-7391-a

March 23, 1933.

Mr. J. U. Calkins, Governor,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Governor Calkins:

Receipt is acknowledged of Mr. Hale's letter of February 15, 1933, with further reference to the Board's letter of February 9, 1933, (X-7342), regarding the method of shipment of the Treasurer's daily transcript and accompanying checks and warrants.

Mr. Hale assumes thatcertificates of deposit and debit vouchers are to be considered as first class mail and are not to be forwarded as express matter, and this assumption is apparently correct.

Mr. Hale advises that ordinarily the postage on the first-class mail matter inclosed with the express package amounts to 12¢ or over, so that it is necessary to use more than one Government stamped envelope. In these circumstances, it is suggested that a proportionate part of the first-class matter be inclosed in each envelope. The envelopes may be numbered consecutively so as to avoid the necessity of re-sorting the contents when they are opened in the Treasury Department. The officials of the Treasury Department state that this arrangement would be satisfactory to them, and it would appear to be more in harmony with the regulations of the Post Office Department than the practice of sending empty addressed sealed

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and dated Government stamped envelopes to make up the necessary amount of postage.

Very truly yours,

Chester Morrill,
Secretary.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7392

March 31, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDRUID" has been designated to cover a new issue of Treasury Bills, dated April 5, 1933, and maturing July 5, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

X-7393

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 31, 1933.

SUBJECT: Procedure in Submitting Applications for Membership by Telegraph.

Dear Sir:

Referring to the Board's telegrams of March 12, 1933, (Trans 1628 and 1630), with regard to applications for membership in the Federal Reserve System, the Board requests that in the future there be handled by telegraph only urgent cases, which for special reasons cannot await submission by mail and on which, in your opinion, the Board would be justified in acting on the basis of a telegraphic report and recommendation. Hereafter, information with respect to such applications should be submitted as indicated in this letter.

Each telegram should begin with the code word "ANCHORIST", meaning

> "We have application _____ bank (Use A.B.A. transit number) for membership in the Federal Reserve System, the condition and management of which are not subject to substantial criticism and we feel that the Board would be fully justified in admitting such institution to membership. I concur in recommendation of executive committee of this bank that such action be taken by the Board".

The section number should be indicated, the symbols A, B, C, etc., should be used in place of captions in each section, and all figures should be stated in even hundreds except the classification of criticized assets which should be given in actual figures. Where there are no figures for any given symbol, the word "None" should appear.

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Section 1.

The figures given in this section should be taken from statement of condition appearing in bank's application.

(A) Date of statement.

(B) Loans and discounts including overdrafts.

(C) Total securities investments.

(D) Banking house.

(E) Furniture and fixtures.

(F) Other real estate.

(G) Cash, exchanges and due from banks. Indicate any balances in closed or non-licensed banks.

(H) Other resources. Explain briefly any unusual or large items.

(I) Total resources.

(J) Capital.

(K) Surplus.

(L) Undivided profits.

(M) Reserves for losses, depreciation or contingencies.

(N) Reserves for interest, taxes, etc.

(O) Deposits, (O1) due to banks, (O2) demand and (O3) time.

(P) Borrowed money, (P1) Reconstruction Finance Corporation and (P2) other.

(Q) Other liabilities. Explain briefly any unusual or large items.

(R) Total liabilities.

(S) Contingent liabilities. If of unusual nature, describe briefly and give amounts.

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(T) Nature and value of assets not shown on books.

Section 2.

The information requested in this section, and in sections 3 and 4 and in 5 where applicable, should be taken from the latest report of examination, giving the date thereof and indicating by what authority the examination was made.

The criticized assets should be classified, giving first the total criticized and then the break-down in slow, doubtful and loss under each of the following headings:

(A) Loans and discounts, (A1) slow, (A2) doubtful and (A3) loss.

(B) Securities investments, (B1) slow, (B2) doubtful and (B3) loss.

(C) Claims and judgments, (C1) slow, (C2) doubtful and (C3) loss.

(D) Banking house, furniture and fixtures, (D1) slow, (D2) doubtful and (D3) loss.

(E) Other real estate, (E1) slow, (E2) doubtful and (E3) loss.

(F) Miscellaneous, (F1) slow, (F2) doubtful and (F3) loss.

(G) Total criticized, (G1) total slow, (G2) total doubtful and (G3) total loss.

Section 3.

Securities investments should be classified and the book value and net depreciation or appreciation given under each of the following headings, using (X) for net depreciation and (Y) for net appreciation.

(A) U. S. Government.

(B) Federal Land Banks.

(C) State, county and municipal.

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(D) Issues in first four grades.

(E) Issues below first four grades, including unrated and defaulted issues and stocks.

(F) Total book value and net depreciation or net appreciation.

In case of any duplication of amounts set out under this section and under 2(B) above, the extent of any such duplication in each instance should be stated.

Section 4.

Miscellaneous: Where the information called for is not available, it should be so stated after the appropriate symbol.

(A) Past due paper, (A1) six months or more past due.

(B) Loans predicated on real estate.

(C) Potential other real estate in loans.

(D) Liability of officers, directors, and their interests, (D1) direct and (D2) indirect.

(E) Public deposits.

(F) Total assets pledged to secure public deposits.

(G) Total assets pledged to secure borrowings.

Section 5.

Brief statements should be included with respect to each of the following:

(A) Liquidity.

(B) Any undue concentrations of assets.

(C) Borrowing record.

(D) Extent to and manner in which any of criticized assets have been eliminated since last examination.

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(E) Bank's earning and dividend record over past few years.

(F) Affiliations or subsidiaries, indicating briefly scope of operations and relations of each with applicant.

(G) Branches, if any, located outside of corporate limits of city in which bank is located and date of establishment of each such branch.

(H) Examiner's comments on condition and management of bank.

(I) Your own opinion of bank and its management, including directors and their activity, financial standing, etc.

(J) Whether bank has been licensed to reopen and whether any restrictions have been imposed upon its usual or normal operations.

Section 6.

General: The telegram should include:

(A) Advice that your counsel has approved form of application and has executed certificate of counsel usually accompanying membership applications and a statement from your counsel as to what powers, if any, other than usual commercial banking powers, the applicant is authorized to exercise under its Charter or State law.

(B) Statement from you as to whether, and to what extent, the applicant is exercising, and the extent to which it has exercised, any unusual powers such as trust powers, surety, title insurance, sale of mortgage securities with or without guarantee or recourse, or other powers not coming within the usual meaning of the term banking powers.

(C) Special conditions of membership, if any, which in the opinion of yourself and executive committee of your bank should be prescribed in addition to those contained in Trans 1619, as amended by Trans 1635.

(D) In case of banks exercising trust powers, concise statement regarding condition and management of trust department, bearing in mind Board's attitude toward trust investments as reflected by conditions 15, 16 and 17 in Trans 1619.

(E) Attitude of applicant toward conditions of membership which are recommended, including charge-offs to be made, new funds to be introduced, etc., prior to admission to membership.

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The A.B.A. transit number of the applicant should be restated as the last word in the telegram.

In acting upon applications received by telegraph, the Board necessarily will reply to an unusually large extent upon your recommendation and that of the executive committee of your bank. Accordingly, the most careful consideration should be given to the question whether or not the condition of the applicant is such as to warrant its admission to membership. In this connection, attention is directed to the Board's telegram of March 23, 1933 (Trans 1720), stating that the Board feels that its usual standards of membership should not be relaxed, and that there has been no change in the usual requirement that, prior to admission to membership, all known losses and all depreciation on securities other than those classified in the four highest grades by a recognized investment service organization regularly engaged in the business of rating or grading securities, including all depreciation on stocks and on defaulted and unrated issues, should be charged off.

You will also observe from Trans 1720 that, although depreciation in the four highest grades is not required to be charged off, the Board feels that any state institution admitted to membership should have sufficient surplus, undivided profits or reserves to cover any such depreciation without impairing its capital stock. It is preferable, of course, to cover such depreciation through the introduction of additional funds when necessary, although, in proper cases, the situation might be met by directors or stockholding interests subordinating their own deposits or furnishing adequately secured guaranties, under agreements that such subordination of deposits or guaranties shall continue in effect until released by

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the Federal reserve bank, with the approval of the Federal Reserve Board, and will be used for the elimination of the depreciation covered thereby, not otherwise removed, either at a stated future date or at the discretion of the Federal reserve bank, with the approval of the Federal Reserve Board, as the circumstances of the particular case appear to warrant. In case any such subordination agreement or guaranty is proposed, its terms should be examined by your counsel to determine that it has been properly executed and is legally binding on the parties thereto.

Careful consideration also should be given to the adequacy of the applicant's capital funds, after required charge-offs, in relation to its present and prospective deposit liabilities and in the light of the liquidity of such capital funds, keeping in mind the investment of the bank in bank building, furniture and fixtures, other real estate, etc.

In any case handled by telegraph, the bank's application and all papers usually accompanying such an application should be forwarded to the Board promptly. In advising you by wire of approval of any application, the Board will use the word "ANCHORIVET" following the name of the applicant. Such word will mean:

> "Application of such bank for membership has been approved by Board subject to first 14 conditions set forth in Trans 1619 and special conditions stated hereafter. Please advise such bank of Board's approval and conditions of membership prescribed, together with explanation thereof contained in Board's wire Trans 1619. Letter containing detailed advice regarding such approval will be forwarded bank through you as soon as possible. When you have received certified copy of resolution of board of directors of such bank accepting conditions of membership prescribed by Board, together with advice of compliance with any special conditions to be complied with prior to admission to membership, the Federal reserve bank

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"is authorized upon payment therefor to issue appropriate amount of Federal reserve bank stock and to accept required reserves. Please advise Board date upon which membership of bank becomes effective and amount of Federal reserve bank stock issued to it, forwarding copy of resolution accepting conditions of membership and advising of compliance with any conditions to be complied with prior to admission."

In connection with any distribution of the Board's Regulation H to banks applying for, or making inquiry regarding, membership in the Federal Reserve System, it is expected that, as suggested in the Board's Trans 1720, you will also furnish information as to the general conditions of membership prescribed by the Board as set out in its telegram of March 11, 1933, (Trans 1619), and letter of the same date (X-7356), as amended by telegram of March 12, 1933, (Trans 1635); that such explanation regarding the general conditions of membership, along the lines set out in X-7356, as you may deem appropriate, will also be furnished to such banks, and that, in any event, the attention of such banks will be called to the Board's practice of prescribing special conditions as indicated in the last paragraph of X-7356.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

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Federal Reserve Bank of St. Louis

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Norris - Philadelphia
Williams - Fancher - Cleveland
Hoxton - Seay - Richmond
Newton - Black - Atlanta
Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geery - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

Trans 1733 H. R. 3757 providing for direct loans by Federal reserve banks to nonmember State banks and trust companies which was quoted in our Trans. 1722 of March 24, and was signed by President on same date, has been given preliminary study here and requirements of bill together with tentative interpretations and suggestions with regard to procedure thereunder are outlined below. (1) Loans may be granted during existing emergency in banking or until by proclamation of President applicable provisions of act shall be declared no longer operative, but in no event after March 24, 1934; (2) application may be made only to Federal reserve bank of district in which nonmember State bank or trust company is located; (3) loans may be made in discretion of Federal reserve bank, after inspection and approval of the collateral and a thorough examination of applying bank or trust company; (4) loans granted are to be made under terms provided in section 10(b) of Federal reserve act as amended by section 402 of act of March 9, 1933, except that loans may be made upon eligible as well as ineligible security; (5) each application for loan shall be accompanied by written approval of State Banking Department or Commission of State from which such bank or trust company received its charter and statement from such banking department or commission that in its judgment such bank or trust company is in sound condition; (6) notes representing such loans (whether secured by eligible or by ineligible collateral) will be eligible as security for circulating notes issued

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(Page 2)

under sixth paragraph of section 18 of Federal Reserve Act as amended by section 401 of act of March 9, 1933, to same extent as paper acquired under Federal reserve act, but will not be eligible as security for Federal reserve notes; and (7) while such bank or trust company is indebted in any way to any Federal reserve bank it must comply in all respects with provisions of Federal reserve act and Board's regulations applicable to member State banks, except that in lieu of subscribing to stock of Federal reserve bank it must maintain the reserve balance required by section 19 of Federal reserve act. In view of clause four above (a) advances may be made only in exceptional and exigent circumstances; (b) such advances may be made on demand or time note of applicant institution, but Board feels that maturity should not exceed 90 days; (c) such advances must be secured to satisfaction of Federal reserve bank, and eligible collateral held by applicant bank should be exhausted before utilizing ineligible assets; (d) each advance should bear interest at same rate as that currently applicable to advances to member banks under provisions of section 10(b); and (e) in making such advances due regard should be had to claims and demands of member banks as provided in section 4 of Federal reserve act and Board feels that such advances should be limited to banks and trust companies which are unable to secure adequate credit accommodations from other banking institutions.

In view of clause seven above, borrowing institution, while indebted to Federal reserve bank, (f) must maintain actual realized balance at Federal reserve bank in amount equal to reserve which would be required of it under section 19 and Regulation D if it were a member bank

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(Page 3)

and will be subject to penalties for deficiencies in reserves; (g) must remit at par for checks drawn on it and presented for payment by Federal reserve bank as required of member banks by Federal reserve act and Board's regulations; (h) may be examined at any time by Federal reserve bank or Federal Reserve Board and must pay assessments for expenses thereof in same manner and to same extent as member banks; (i) must make reports of condition and of payment of dividends as required of member State banks and will be subject to same penalties for failure to do so; and (j) must conform to provisions of law which prohibit national banks from lending on or purchasing their own stock, which relate to withdrawal or impairment of capital stock and which relate to payment of unearned dividends.

The interpretations and suggestions outlined herein are not intended to be final and if in any actual case you are doubtful as to proper determination of any question upon which you desire Board's ruling it will give prompt consideration to such question when submitted with your recommendation as to action which should be taken accompanied by your counsel's opinion on matters of law involved.

Suggest that your counsel prepare forms of application, promissory notes, resolutions of directors and other papers along lines of those used in connection with advances to member banks under section 10(b) of Federal Reserve Act with such changes and additions as in opinion of your counsel will adequately protect interests of Federal reserve bank including provision in application that at option of Federal reserve bank any failure to comply with applicable provisions of law or regulations of Federal Reserve Board or of agreement with Federal reserve bank shall constitute default upon any or all advances made by Federal reserve bank to

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applicant and applicant's entire indebtedness to Federal reserve bank shall thereupon become due and payable. In this connection it is suggested that your counsel consider provisions included in application form inclosed in our letter of July 26, 1932, (X-7213).

Suggest also that your counsel and officers who will handle applications of nonmember banks read carefully debates in Congressional Record on this act and especially Senate debates on March 22 and 23 which indicate clearly that Federal reserve banks are not expected to make loans to insolvent banks nor to give nonmember banks more favorable treatment than member banks.

Morrill

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7398

April 1, 1933.

SUBJECT: Regulations of Comptroller of the Currency re Conservators.

Dear Sir:

The Comptroller of the Currency has prepared instructions to be issued to conservators of national banks appointed pursuant to the provisions of the National Bank Conservation Act (Title II of the Act of March 9, 1933), and there are inclosed herewith copies of the sections relating to Bank's Old Reserve Account, Conservator's Special Account, Conservator's General Account, Conservator's Depositary Account, and Assistants to Conservators. These sections were prepared by the Comptroller's office with the assistance of members of the Board's staff and the following representatives of Federal reserve banks:

Mr. John S. Sinclair, Counsel to the Federal Reserve Bank of Philadelphia

Mr. H. F. Strater, Cashier of the Federal Reserve Bank of Cleveland

Mr. J.S.Walden, Jr., Controller of the Federal Reserve Bank of Richmond

Mr. Robert S. Parker, Counsel to the Federal Reserve Bank of Atlanta

Mr. Charles B.Dunn, of Counsel to the Federal Reserve Bank of Chicago.

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The sections of the instructions inclosed herewith have been approved by the Comptroller of the Currency; but it is necessary that the instructions be approved both by the Comptroller of the Currency and by the Secretary of the Treasury. The latter is out of the city and will not return until Monday. We will advise you promptly by wire as soon as the complete instructions have been finally approved; and the Comptroller of the Currency will furnish you with complete copies of these instructions and request you to handle accounts for conservators of national banks in accordance with the terms and conditions thereof.

The Board considers it desirable that the Federal reserve banks cooperate in this matter by opening and maintaining accounts for conservators in accordance with the terms and conditions of the sections inclosed herewith.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

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X-7396

CERTAIN SECTIONS OF INSTRUCTIONS OF THE COMPTROLLER OF THE CURRENCY TO CONSERVATORS OF NATIONAL BANKS.

402 Bank's Old Reserve Account.

The conservator should make no remittances or transfers for credit to bank's old reserve account and should draw no drafts whatever against such old account. The Federal reserve bank may be requested to make transfers to the conservator's special account, described below, of funds which have been credited to the bank's old reserve account but which the conservator has definitely determined to represent segregated deposits and which should have been credited to a special account in the Federal reserve bank. Where the bank in the hands of a conservator is not indebted to the Federal reserve bank or where the old reserve balance exceeds the amount of the indebtedness to the Federal reserve bank, the Federal reserve bank may be requested to make transfers of such excess amount to the conservator's general account, described below, with the authorization of the Comptroller of the Currency.

These transfers to the conservator's special account or general account may not be made by drafts or checks drawn by the conservator, but must be made with the consent of the Federal reserve bank under special arrangements agreed to by it.

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403 Conservator's Special Account.

If the conservator has been authorized to accept new deposits which are not subject to any limitation as to payment or withdrawal, to be segregated as provided in section 206 of the Bank Conservation Act, the funds received pursuant to such authority may be deposited in the Federal reserve bank of the district in which such bank is located in a special account in the name of the conservator which account may be styled substantially as follows:

" _____ Conservator's Special Account
(Bank and address)

_____
(Conservator) "

The conservator may deposit with the Federal reserve bank in this account cash, Government checks, checks and other cash items which the Federal reserve bank can collect at par.

The Federal reserve bank may receive and handle all cash items deposited in this account subject to the terms and conditions of Regulation J of the Federal Reserve Board and of such bank's current circular regarding the collection of cash items.

The Federal reserve bank will not be expected to give credit for such checks and other cash items in accordance with its published time schedules which are used in giving credit to member banks, but may increase the time of credit availability in such time schedules by a number of days estimated to be suffi-

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cient to obtain mail advice of non-payment of such items. The conservator, however, should bear in mind that all such items are received by the Federal reserve bank subject to final payment and that withdrawals of deposits represented by such checks and other cash items should not be permitted by the conservator until sufficient time has elapsed to permit of the collection of such items in accordance with the foregoing provisions. The conservator may be held accountable for any loss resulting from the payment of such deposits in violation of these instructions.

The conservator may accept maturing notes, drafts, Government obligations and other non-cash items for collection and for credit when collected to the special segregated accounts of depositors. The Federal reserve bank may receive and handle such non-cash items for collection and credit on its books to the conservator's special account, in accordance with its non-cash collection circular. The conservator will be advised of such credit in each instance and should not permit any withdrawals of deposits represented by such non-cash items until he has received such advice.

All deposits by the conservator in the conservator's special account at the Federal reserve bank and all non-cash items sent to the Federal reserve bank for collection and credit of the conservator's special account should be marked so as to indicate clearly to the Federal reserve bank that such items are for the

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credit of such special accounts.

All items sent to the Federal reserve bank by the conservator for credit to this account, whether cash items or non-cash items, should be indorsed, "Pay to the Order of the Federal Reserve Bank of _____ for credit to Conservator's special account

_____
(Bank and address)

By _____
(Conservator)

All prior indorsements guaranteed."

The conservator may draw drafts against this special account at the Federal reserve bank (a) in payment of checks or drafts drawn by depositors against such special segregated deposits when presented to him by other banking institutions; (b) in order to provide himself with cash with which to pay such deposits;. or (c) to provide depositors in such segregated accounts with drafts for exchange purposes.

All drafts against such account should be signed by the conservator and otherwise identified in such manner as to show clearly the account to which they should be charged.

If the bank which is in conservatorship accepted new deposits withdrawable without restriction pursuant to agreement or under State legislation, gubernatorial proclamation or Presidential proclamation and opened and maintained a special account with the

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Federal reserve bank, representing such new deposits, the Federal reserve bank should be requested to transfer the balance now carried in such special account to the Conservator's Special Account at the Federal reserve bank.

404. Conservator's General Account.

Funds received by the conservator in connection with his conservatorship from any source other than from special segregated deposits referred to above may be deposited in the Federal reserve bank of the district in which such bank is located in a general account in the name of the conservator which account may be styled substantially as follows:

"_____ Conservator's General Account
(Bank and address)

_____ "
(Conservator)

Any collections made by the conservator upon the unpledged assets of the bank while in conservatorship may be deposited in this general account.

The conservator may deposit with the Federal reserve bank in this account cash, Government checks, checks and other cash items which the Federal reserve bank can collect at par.

The Federal reserve bank may receive and handle all cash items deposited in this account subject to the terms and conditions of Regulation J of the Federal Reserve Board and of such bank's current circular regarding the collection of cash items.

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The Federal reserve bank will not be expected to give credit for such checks and other cash items in accordance with its published time schedules which are used in giving credit to member banks, but may increase the time of credit availability in such time schedules by a number of days estimated to be sufficient to obtain mail advice of non-payment of such items. The conservator, however, should bear in mind that all such items are received by the Federal reserve bank subject to final payment.

The conservator may deposit in such general account maturing notes, drafts, Government obligations and other non-cash items for collection and for credit when collected. The Federal reserve bank may receive and handle such non-cash items for collection and credit on its books to the conservator's general account, in accordance with its non-cash collection circular, and the conservator will be advised of such credit in each instance.

All deposits by the conservator in the Conservator's General Account at the Federal reserve bank and all non-cash items sent to the Federal reserve bank for collection and credit of the Conservator's General Account should be marked so as to indicate clearly to the Federal reserve bank that such items are for the credit of such general account.

All items sent to the Federal reserve bank by the conservator for credit to this account, whether cash items or non-cash items,

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should be indorsed, "Pay to the Order of the Federal Reserve Bank of _____ for credit to Conservator's General Account

_____
(Bank and address)

By _____
(Conservator)

All prior indorsements guaranteed."

The conservator may withdraw funds from this general account only when and as authorized by the Comptroller of the Currency.

All drafts against such account should be signed by the conservator and otherwise identified in such manner as to show clearly the account to which they should be charged.

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405. Conservator's Depositary Account.

In addition to a Special Account and General Account maintained with the Federal reserve bank, the conservator may open an account with a national or State member bank, licensed to reopen by the Secretary of the Treasury, which account is referred to herein as the "Conservator's Depositary Account."

This account may be utilized for the following purposes:

(a) As an account in which to maintain funds for current operating purposes, including salaries, supplies, and other items of expense.

(b) For the collection, for the account and at the instance of depositors, of checks and other cash items drawn on nonpar banks which will not be accepted by the Federal reserve bank as well as any noncash items which the Federal reserve bank will not handle. Such collections will be undertaken by the depositary at the instance of the conservator, but for the account and as agent of the owners or holders of such items. When and as the conservator may receive actual payment of such items, the proceeds may, with the acquiescence or upon the direction of the depositors, be placed in special segregated accounts to the credit of the depositors and then transferred to the conservator's special account with the Federal reserve bank.

(c) For deposit therein of collections effected by the conservator from assets of the bank and for the deposit of cash and of checks or other items belonging to the bank.

(d) For collection, at the instance and for the account of others, of checks or other items, whether cash or noncash, left or placed with the conservator for that purpose.

The conservator shall make transfers from time to time from the depositary account to the conservator's general account with the Federal reserve bank described on page _____ of these instructions, of such excess of collected funds as will not be needed in this account for current operating purposes.

Withdrawals from this account may be made by the conservator for any purpose authorized herein.

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Chapter V

ASSISTANTS TO CONSERVATORS.

The Conservator may appoint a competent person or persons to serve as his assistant or assistants. An assistant to a conservator shall have the right to sign in the name and on behalf of the conservator checks drawn on any account mentioned herein, to the extent and under the circumstances herein authorized, as well as to perform such other purely ministerial duties and functions of a routine nature and not involving the exercise of discretion, as the conservator may from time to time delegate and authorize.

The name of any such assistant shall upon appointment be promptly certified to the Comptroller of the Currency and to the Federal reserve bank and the conservator's depositary bank. When notifying the Federal reserve bank and depositary bank of the appointment of any such assistant, the conservator shall furnish them respectively with a specimen signature of such assistant.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7399

April 6, 1933.

SUBJECT: Executive Order Prohibiting the Hoarding of Gold.

Dear Sir:

Confirming the telegram sent you yesterday, trans. 1753, there is inclosed herewith a copy of the executive order issued by the President of the United States on April 5, 1933, forbidding the hoarding of gold coin, gold bullion, and gold certificates. A copy of the press statement issued by the Secretary of the Treasury on the same date, and quoted in the Board's telegram of this date, trans. 1755, is also inclosed.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

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

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X-7400

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 at 3:30 P.M. April 6, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 3 per cent effective April 7, 1933.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7401

April 7, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDRUM" has been designated to cover a new issue of Treasury Bills, dated April 12, 1933, and maturing July 12, 1933.

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

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7402

April 7, 1933.

Dear Sir:

One of the Federal Reserve Agents recently submitted to the Board a request made by a State member bank subject to the condition of membership numbered three contained in Section IV of the Board's Regulation H for permission to acquire certain bank stock in satisfaction of debts previously contracted in good faith. This condition as contained in the Board's Regulation and as prescribed for State banks applying for membership prior to revision of the condition as set out in condition numbered 7 in Trans. 1619 did not, as you know, contain any exception covering the acquisition of bank stock for debts previously contracted. The Board granted the permission requested in the case referred to above on the condition that such bank stock be disposed of within six months after the date upon which it was acquired, and in this connection also advised the Federal Reserve Agent generally with regard to cases of this kind as follows:

> "In conformity with regular condition numbered 7 (Trans. 1619) now being imposed on banks applying for membership it will be the policy of the Board, in cases where a bank is subject to a condition

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"similar to the one imposed on the subject bank, not to object to the acquisition of stock by such institution in any other bank or trust company in satisfaction or protection of debts previously contracted in good faith, provided that stock so acquired shall have been disposed of within six months from the date on which it was acquired, unless time is extended by Board. In the absence of unusual circumstances, you need not submit to the Board any case of this kind unless the bank fails to dispose of the stock within six months from the date it was acquired, but you are requested in each such case which comes to your attention to immediately advise the bank involved of the Board's position in cases of this kind and that a failure to dispose of any such stock within six months after it is acquired may be considered a violation of the condition to which it is subject unless an extension of such six months' period is obtained from the Board."

The position taken by the Board in this matter is called to your attention for your information and guidance in connection with any cases similar to the kind described above which come to your attention.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS EXCEPT PHILADELPHIA.

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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

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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

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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, to make advances upon other kinds of security to groups of member banks and, until March 3, 1934, or for such additional period not exceeding one year as the President may prescribe, to individual member banks; to make loans, until the President shall otherwise declare and in no event after March 24, 1934, to nonmember banks or trust companies under certain prescribed conditions upon security which may or may not be eligible for rediscount;

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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 make advances to individuals, partnerships or corporations secured by direct obligations of the United States for periods not exceeding ninety days; 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 and Federal reserve bank 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 are issued against the security of gold and of commercial and agricultural paper discounted or purchased by Federal reserve banks, and until March 3, 1934, 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

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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.

Federal reserve bank notes are the obligations of the Federal reserve bank procuring them and are redeemable in lawful money of the United States on presentation at the United States Treasury or at the bank of issue. They are issued against the security of direct obligations of the United States in an amount equal to the face value of such obligations and against the security of notes, drafts, bills of exchange and bankers' acceptances in an amount equal to not more than ninety per cent of the estimated value thereof. Each Federal reserve bank maintains on deposit in the Treasury of the United States in lawful money a redemption fund equal to five per cent of its liability on Federal reserve bank notes in actual circulation, or such other amount as may be required by the Treasurer of the United States with the approval of the Secretary of the Treasury, and is required to pay a tax of one-fourth of one per cent each half year upon the average amount of its Federal reserve bank notes in circulation. No such Federal reserve bank notes may be issued after the President shall have declared by proclamation that the emergency recognized by him in his proclamation of March 6, 1933, has terminated, unless such notes are secured by the deposit of bonds of the United States of certain classes which are eligible as security for national bank notes.

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

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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 discounts and advances and supervision over 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 State 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;

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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.

April 10, 1933.

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X-7404

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928

FEDERAL RESERVE NOTES DELIVERED IN MARCH, 1933.

	$5	$10	$20	$50	$100	$500
Boston	34,000	44,000	50,000	84,000	42,000	5,000
New York	112,000	166,000	182,000	81,000	81,000	16,800
Philadelphia	54,000	33,000	24,000	50,000	25,000	4,000
Cleveland	72,000	48,000	28,000	50,000	25,000	4,200
Richmond	-	18,000	-	25,000	25,000	2,000
Atlanta	48,000	-	-	34,000	13,000	3,350
Chicago	-	404,000	237,000	114,000	60,000	17,000
St. Louis	141,000	56,000	56,000	9,000	9,000	850
Minneapolis	78,000	92,000	50,000	38,000	27,000	3,000
Kansas City	-	86,000	42,000	30,000	15,000	3,000
Dallas	-	-	32,000	20,000	10,000	3,000
San Francisco	120,000	100,000	122,000	34,000	25,000	5,000
	659,000	1,047,000	823,000	569,000	357,000	67,200

	$1000	$5000	$10000	Total Sheets	Amount
Boston	2,500	-	-	261,500	$23,665.75
New York	8,400	-	-	647,200	58,571.60
Philadelphia	2,000	-	-	192,000	17,376.00
Cleveland	2,100	-	-	229,300	20,751.65
Richmond	2,500	-	100	72,600	6,570.30
Atlanta	-	-	-	98,350	8,900.68
Chicago	8,500	300	200	841,000	76,110.50
St. Louis	850	-	-	272,700	24,679.35
Minneapolis	1,500	-	-	289,500	26,199.75
Kansas City	1,500	-	-	177,500	16,063.75
Dallas	1,500	-	-	66,500	6,018.25
San Francisco	2,500	-	-	408,500	36,969.25
	33,850	300	300	3,556,650	$321,876.83

3,556,650 sheets, @ $90.50 per M, . . . $321,876.83

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FEDERAL RESERVE BOARD

WASHINGTON

X-7406

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 11, 1933.

SUBJECT: Securities' Bill.

Dear Sir:

In its telegram of April 4, 1933, Trans. 1752, the Board quoted, for your information, identical letters addressed to the Chairmen of the Committee on Banking and Currency of the Senate and the Committee on Interstate and Foreign Commerce of the House of Representatives, respectively, with regard to S. 875 and H. R. 4314, to provide for the furnishing of information and the supervision of traffic in investment securities in interstate commerce.

There is inclosed herewith, for your further information, copy of another letter, regarding S. 875, being addressed today to the Chairman of the Committee on Banking and Currency of the Senate. A similar letter, regarding H. R. 4314, is being addressed to the Chairman of the Committee on Interstate and Foreign Commerce of the House of Representatives.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

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

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X-7406-a

April 11, 1933.

Honorable Duncan U. Fletcher, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C.

My dear Chairman:

Reference is made to the request contained in the letter of April 4, 1933, from the acting Clerk of your Committee for a report of the Federal Reserve Board on the bill, S. 875, to provide for the furnishing of information and the supervision of traffic in investment securities in interstate commerce.

On April 3, 1933, the Board had occasion to write to you making certain suggestions with regard to the possible application of the provisions of this bill to bankers' acceptances and short-time commercial paper. As stated in that letter, it appears that the bill is intended to apply to traffic in stocks, bonds, debentures and other similar securities of the kinds commonly known as investment securities which are issued for the purpose of obtaining capital funds and which are purchased as investments, and that it is not intended to apply to bankers' acceptances or to short-time commercial paper issued for the purpose of obtaining funds for current transactions in commerce, industry or agriculture which are purchased by banks, insurance companies and others as a placement for short-term funds. By subsection (a) of Section 2 (page 1, line 7), however, the term "security" as used throughout the bill is defined as including any "note" or "evidence of indebtedness" as well as any stock, bond, debenture, etc., so that

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the definition appears to be broad enough to include such bankers' acceptances and commercial paper.

In its letter the Board suggested that the bill should be amended by adding at the end of line 9 on page 2 a proviso exempting bankers' acceptances and notes, drafts and bills of exchange growing out of current commercial, agricultural or industrial transactions or the proceeds of which have been or are to be used for current commercial, agricultural or industrial purposes, when such paper has maturities not in excess of nine months. However, there are other similar classes of paper, such as paper issued to finance the breeding of live stock, which may be sold on the open market with maturities exceeding nine months; and it would seem desirable in the circumstances that the Federal Trade Commission be given sufficient discretion to enable it to apply the provisions of the bill in harmony with its true intent and meaning. A form of substitute amendment for this purpose is submitted herewith for the consideration of your Committee.

It appears, further, that the provisions of the bill are manifestly not intended to be applicable to Federal reserve notes, Federal reserve bank notes, and Federal reserve bank stock; but the definition of "security" contained in subsection (a) of Section 2 (page 1, line 7), referred to above, appears to be broad enough to include such notes and stock.

It is noted that the National bank notes and National bank stock are exempted from certain of the provisions of the bill by a

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provision contained in the present subsection (b) of Section 11 (page 20, lines 18 and 19); and the provision following immediately thereafter (page 20, lines 19 to 22) apparently was intended to exempt obligations of institutions such as Federal reserve banks. This subsection, however, contains a proviso requiring all organizations mentioned therein to comply with the provisions of Section 8 of the bill, which provides among other things (page 18, lines 13 to 15) that a statement containing detailed information regarding any security sold shall be delivered to each purchaser together with the security to which it relates. Such a provision appears to be unnecessary with respect to Federal reserve banks in view of existing provisions of law relating to these institutions and the fact that Federal reserve bank stock is not offered for public subscription.

In order to make the provisions of the bill inapplicable to Federal Reserve Banks it is suggested that Section 11 (page 20) be amended by adding a new subsection at the end thereof. A form of amendment for this purpose is submitted herewith for the consideration of your Committee.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

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PROPOSED AMENDMENTS TO S. 875

on page 2, line 9, change the period to a colon and insert the following:

"Provided, however, That the term 'security' shall not include any note, draft, bill of exchange or bankers' acceptance which arises out of a commercial, agricultural or industrial transaction or the proceeds of which have been or are to be used for commercial, agricultural or industrial purposes, and which has a maturity at the time of issuance not exceeding nine months, exclusive of days of grace; And provided further, That, it being the intent and purpose of this Act to regulate traffic in investment securities, as distinguished from short-time obligations issued for the purpose of obtaining funds for current commercial, agricultural or industrial purposes and which are purchased by banks, insurance companies and others as a placement for short-term funds, the Commission in its discretion may by regulation or ruling further determine and define from time to time the kinds and maturities of securities which are not included within the said intent and purpose.

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Insert the following additional subsection at the end of Section 11:

"(f) Any security issued by or representing an interest in or a direct obligation of any Federal reserve bank."

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

157

FEDERAL RESERVE BOARD

X-7407

WASHINGTON

April 12, 1933.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Subscriptions to Government Securities by Directors, Officers and Employees of Federal Reserve Banks.

Dear Sir:

In view of the fact that the Federal reserve banks act as fiscal agents of the Government in receiving subscriptions to bonds, notes, Treasury bills, certificates of indebtedness and other obligations of the United States, it is the view of the Federal Reserve Board that, if directors, officers or employees of a Federal reserve bank file subscriptions for such securities directly with such Federal reserve bank, especial care should be taken to make certain that their subscriptions are handled in strict accordance with Treasury instructions and in no respect receive more favorable treatment than is accorded other subscriptions of the same class.

In order to insure strict compliance with this principle, it is suggested that a specific officer of the bank be charged with the responsibility of supervising all subscriptions hereafter received from directors, officers and employees of the bank and that the auditor of the bank also be instructed to prepare a detailed analysis of all such subscriptions, the allotments thereon and other actions taken with respect thereto, and submit a full report thereon to your Board of Directors at the earliest possible meeting following the date of the issuance of such Government obligations.

Very truly yours,

Chester Morrill,
Secretary.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7408

April 12, 1933.

SUBJECT: Deposits of Federal Home Loan Bank.

Dear Sir:

There is inclosed herewith, for your information and guidance, a copy of a letter which the Federal Reserve Board has addressed to the assistant Federal reserve agent at the Federal Reserve Bank of Boston, advising that deposits made by a Federal Home Loan Bank in a member bank may properly be classified by the latter as amounts due to banks in computing its reserves and in preparing its reports of condition.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL F. R. BANKS.

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April 12, 1933.

Mr. Charles F. Gettemy,
Assistant Federal Reserve Agent,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Gettemy:

I regret that, due to pressure of other matters, it has not been possible for me to make an earlier reply to your letters of January 13 and March 30, 1933, inquiring whether deposits made in a member bank by the Federal Home Loan Bank of Cambridge may be classified by the member bank as amounts due to banks in computing its reserve.

A Federal Home Loan Bank is authorized by the Federal Home Loan Bank Act to receive deposits, not subject to check, from its members and nonmember borrowers, and to make loans to its members and nonmember borrowers under certain prescribed conditions. Moreover, the law provides that, when designated for that purpose by the Secretary of the Treasury, it shall be a depositary of public money, and it may be employed as a financial agent of the Government. In the latter capacities, it must perform all such reasonable duties as may be required of it.

Upon consideration of this matter, it is the opinion of the Federal Reserve Board that a Federal Home Loan Bank may properly be considered a bank within the meaning of the eighth

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paragraph of section 19 of the Federal Reserve Act and that deposits made by such an institution in a member bank may properly be classified by the latter as amounts due to banks in computing its reserves and in preparing its reports of condition.

Very truly yours,

(Signed) Chester Morrill,
Secretary.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7409

April 14, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDUGIT" has been designated to cover a new issue of Treasury Bills, dated April 19, 1933, and maturing July 19, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7410

April 13, 1933.

SUBJECT: Borrowings of Unlicensed Member Banks From Federal Reserve Banks and Claims of Federal Reserve Banks Against Closed Banks.

Dear Sir:

There is attached hereto, for your confidential information, a copy of a memorandum, together with a copy of the statement referred to therein, prepared under date of April 8, 1933, by Mr. Smead, Chief of the Division of Bank Operations of the Federal Reserve Board, with regard to the amount of borrowings from Federal reserve banks, as of March 31, 1933, by member banks not licensed by the Secretary of the Treasury to reopen, and the amount of claims of Federal reserve banks, on March 28, 1933, against closed banks.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

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

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X-7410-a

FEDERAL RESERVE
BOARD

O F F I C E C O R R E S P O N D E N C E Date April 8, 1933

To Federal Reserve Board Subject

From Mr. Smead

Attached is a statement showing the amount of borrowings from the Federal reserve banks, as of March 31, of member banks not licensed to reopen by the Secretary of the Treasury but which as of that date had not been placed in process of liquidation.

It will be noted from this statement that 892 of such banks were indebted to the Federal reserve banks in an aggregate amount of $124,752,000 of which $48,264,000 was on rediscounted eligible paper, $67,828,000 on advances under Section 13 of the Act and $8,659,000 on advances under Section 10-b.

As of March 28, the last date for which figures are available, the Federal reserve banks also reported $27,738,000 of claims against closed banks. The amount of such claims reported by each Federal reserve bank was as follows:

Boston	$462,000	Chicago	$887,000
New York	3,917,000	St. Louis	894,000
Philadelphia	4,243,000	Minneapolis	1,777,000
Cleveland	269,000	Kansas City	1,060,000
Richmond	6,710,000	Dallas	855,000
Atlanta	4,987,000	San Francisco	1,677,000

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BORROWINGS FROM FEDERAL RESERVE BANK OF MEMBER BANKS NOT LICENSED TO OPEN BY THE SECRETARY OF THE TREASURY, BUT WHICH HAVE NOT BEEN PLACED IN LIQUIDATION.

(Figures as of March 31, 1933)

Federal Reserve Bank	Number of banks	Indebtedness to Federal Reserve Bank			
		Total	Rediscounted eligible paper	Advances under Section 13	Advances under Section 10-b
Boston	38	$7,701,893.06	$3,759,343.58	$3,160,549.48	$782,000.00
New York	119	21,898,781.13	519,367.91	17,565,507.40	3,813,905.82
Philadelphia	87	24,231,022.16	5,334,052.45	18,651,812.33	245,157.38
Cleveland	103	20,542,273.93	8,595,441.50	11,946,832.43	--
Richmond	83	15,228,930.91	9,923,367.13	5,305,563.78	--
Atlanta	41	7,923,424.36	4,972,472.89	1,892,772.96	1,058,178.51
Chicago	201	11,046,650.80	10,135,758.64	--	910,892.16
St. Louis	37	1,669,720.62	10,759.82	1,658,960.80	--
Minneapolis	50	2,977,699.62	1,541,582.01	1,436,117.61	--
Kansas City	69	7,191,986.49	2,554,183.12	3,854,683.37	783,120.00
Dallas	27	588,129.76	442,600.01	145,529.75	--
San Francisco	37	3,751,078.73	475,221.59	2,209,710.42	1,066,146.72
Total	892	124,751,591.57	48,264,150.65	67,828,040.33	8,659,400.59

DIVISION OF BANK OPERATIONS,
APRIL 8, 1933.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7411

April 14, 1933.

SUBJECT: Penalties for Deficiencies in member bank reserves.

Dear Sir:

Section 19, paragraph 7, of the Federal Reserve Act provides that, "The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities," and, pursuant to this provision of the Act, the Federal Reserve Board, has prescribed, in Section IV of Regulation D, rules governing the assessment of penalties for deficiencies in reserves.

Reports received by the Board indicate that member banks which normally maintain their reserves somewhat in excess of the minimum requirements occasionally incur penalties for deficiencies in reserves and that, in such cases, where the amounts involved are nominal, it is the general practice of the Federal reserve banks not to assess the penalties. While the Federal Reserve Board has no objection to the non-assessment of penalties of nominal amounts

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in such cases, it feels that there should be a maximum limit, uniform in all Federal reserve districts, upon the amount which in any case may be assessed or not by the Federal reserve bank in its discretion.

After consideration of this matter, the Board prescribes the following rules for uniform application by each Federal reserve bank:

(a) When the aggregate amount of penalties incurred by a member bank in any calendar month is not in excess of $2.00, such penalties may be assessed or not as the Federal reserve bank may determine upon consideration of the circumstances of the case;

(b) When, for the first time since a bank became a member, there is a deficiency in its reserves which is subject to a penalty, such penalty may be assessed or not as the Federal reserve bank may determine upon consideration of the circumstances of the case.

(c) When, before the assessment of a penalty for a deficiency in the reserves of a member bank, it is placed in receivership or liquidation, such penalty may be assessed or not as the Federal reserve bank may determine upon consideration of the circumstances of the case.

(d) In all cases other than those described in (a), (b) and (c), penalties incurred by a member bank for deficiencies in its reserves shall be assessed unless the Federal Reserve Board,

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after a review of the facts of the case, authorizes the Federal reserve bank not to make the assessment.

The above rules, however, are not to be considered as in any way affecting the instructions relative to the non-assessment of penalties for reserve deficiencies which were contained in the Board's telegrams of March 30, 1933, (Trans. No. 1735) and April 8, 1933 (Trans. No. 1762).

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7412

April 15, 1933.

SUBJECT: Daylight Saving, 1933.

Dear Sir:

The Federal Reserve Board is advised that, beginning Monday, May 1, and ending Saturday, September 23, 1933, the following Federal reserve banks and branches will operate under daylight saving plan:

Boston	Philadelphia
New York	Pittsburgh
Buffalo	
	Chicago.

The Federal reserve branch banks listed below will observe special banking hours as follows:

Helena Branch, from May 1 to August 31, 9:00 A.M. to 2:00 P.M., except Saturday, when the hours will be 9:00 A.M. to 12:00 noon, Mountain time;

Salt Lake City Branch, from May 1 to September 30, 9:00 A.M. to 2:00 P.M. except Saturday, when the hours will be 9:00 A.M. to 12:00 noon, Mountain time.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7413

April 17, 1933.

SUBJECT: Application for membership
by personal loan banks.

Dear Sir:

There is inclosed a copy of a letter the Board has addressed to one of the Federal reserve agents in reply to an inquiry with regard to whether a personal loan bank would be admitted to membership in the Federal Reserve System. The copy of the Board's reply in this case is being furnished for your information and guidance in connection with any similar cases which come to you for consideration.

Yours very truly,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT CHICAGO.

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Copy X-7413-a

April 15, 1933.

Mr. Eugene M. Stevens,
Federal Reserve Agent,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stevens:

Receipt is acknowledged of your letter of March 22, 1933, in which you requested advice as to whether the _____ Bank would be admitted to membership in the Federal Reserve System. It is understood that the institution is engaged in the business of making personal loans repayable in installments and does not do any commercial banking business.

The provisions of Section 9 of the Federal Reserve Act require the Board, when acting on an application by a State bank for membership in the Federal Reserve System to consider not only the financial condition of the institution and the character of its management, which in the present case are understood to be satisfactory, but also whether or not the corporate powers exercised are consistent with the purposes of the Federal Reserve Act.

Under the Federal Reserve Act, the Federal reserve banks may discount paper which is issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which are used for such purposes, and it is evident from the provisions of the Act that it was the intention of Congress that paper eligible for rediscount should be self-liquidating in character and of short matur-

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ity. In other words, it was contemplated that the paper should arise out of commercial or agricultural transactions which ordinarily will be consummated within a comparatively short period of time and out of which will be derived funds to pay the paper at maturity. The paper of personal loan banks, of course, is not of this character, and, it seems clear that the Act did not contemplate the admission to membership of institutions of this class. Accordingly, after careful consideration of all the facts involved, the Board does not feel that it can approve the application of the _____ Bank and requests that you so advise it.

Very truly yours,

Chester Morrill,
Secretary.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7414

April 18, 1933.

SUBJECT: Inter-district time schedules.

Dear Sir:

The Federal Reserve Board concurs in the action taken by the governors of the Federal reserve banks at the conference held in Washington on November 15 and 16, 1932, in adopting and approving the views of the Standing Committee on Collections as expressed in a letter dated November 25, 1931, from the Chairman of the committee to the Federal Reserve Board. The Committee's views as set forth in its letter are (a) that "the inter-district time schedule of each Federal reserve bank or branch should be based upon mail train schedules from it to other Federal reserve banks and branches, and should not take into consideration the direct sendings to the other Federal reserve banks and branches by its member banks" and (b) that "The deferred credit time for the direct sendings of a member bank in one Federal reserve district to the other Federal reserve banks and branches, to which it desires to route direct should be based upon mail train schedules from the town in which the direct sending

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member bank is located to the other Federal reserve banks and branches and should make such items available for reserve purposes when collected without regard to the regular inter-district time schedule of its Federal reserve bank or branch."

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7415

April 24, 1933.

SUBJECT: Holidays during May, 1933.

Dear Sir:

The Federal Reserve Board has been advised that the following holidays will be observed by Federal reserve banks and branches during May, 1933:

Wednesday, May 10,	Charlotte	Confederate Memorial Day
Saturday, May 20,	Charlotte	Mecklenburg Independence Day
" " "	Havana Agency	Cuban Independence Day

On the dates mentioned, Charlotte Branch will not participate in either the transit or the Federal reserve note clearing through the Gold Settlement Fund. Please include transit clearing credits for Charlotte Branch for May 10 and 20 in your transit clearings of the following business days.

On Tuesday, May 30, 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

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and of all Federal reserve banks and branches with the exception of the following, will be closed on that day:

Charlotte	Atlanta	New Orleans	Birmingham
Nashville	Havana Agency	Little Rock	Memphis

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7417

April 20, 1933.

Dear Sir:

In confirmation of the telegram sent you today, there is inclosed herewith a copy of the Executive Order issued by the President of the United States relating to foreign exchange and the earmarking and export of gold coin or bullion or currency.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL F. R. BANKS.

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CONFIDENTIAL

EXECUTIVE ORDER

Relating to Foreign Exchange and the Earmarking and Export of Gold Coin or Bullion or Currency

By virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes," in which amendatory Act Congress declared that a serious emergency exists, I, Franklin D. Roosevelt, President of the United States of America, do declare that said national emergency still continues to exist and pursuant to said section and by virtue of all other authority vested in me, do hereby issue the following executive order:

1. Until further order, the earmarking for foreign account and the export of gold coin, gold bullion or gold certificates from the United States or any place subject to the jurisdiction thereof are hereby prohibited, except that the Secretary of the Treasury, in his discretion and subject to such regulations as he may prescribe, may issue licenses authorizing the export of gold coin and bullion (a) earmarked or held in trust for a recognized foreign government or foreign central bank or the Bank for International Settlements, (b) imported for reexport or gold in reasonable amounts for usual trade requirements of refiners importing gold bearing materials under agreement to export gold, (c) actually required for the fulfilment of any contract entered into prior to the date of this order, by an applicant who in obedience to the

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Executive Order of April 5, 1933 has delivered gold coin, gold bullion or gold certificates, and (d) with the approval of the President, for transactions which he may deem necessary to promote the public interest.

2. Until further order, the Secretary of the Treasury is authorized, through any agency that he may designate, to investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit from any banking institution within the United States or any place subject to the jurisdiction thereof to any foreign branch or office of such banking institution or to any foreign bank or banker, and the export or withdrawal of currency from the United States or any place subject to the jurisdiction of the United States, by any individual, partnership, association, or corporation within the United States or any place subject to the jurisdiction thereof; and the Secretary of the Treasury may require any individual, partnership, association, or corporation engaged in any transaction referred to herein to furnish under oath, complete information relative thereto, including the production of any books of account, contracts, letters or other papers, in connection therewith in the custody or control of such individual, partnership, association, or corporation either before or after such transaction is completed.

3. The provisions relating to foreign exchange transactions contained in the Executive Order of March 10, 1933, shall remain in full force and effect except as amended or supplemented by this order and by regulations issued hereunder.

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4. Applicants who have gold coin, gold bullion or gold certificates in their possession, or who in obedience to the Executive Order of April 5, 1933 have delivered gold coin, gold bullion or gold certificates shall be entitled to licenses as provided in Section 8 of said Executive Order for amounts not exceeding the equivalent of such coin, bullion or certificates held or delivered. The Secretary may in his discretion issue or decline to issue any other licenses under said Executive Order, which shall in all other respects remain in full force and effect.

5. Whoever willfully violates any provision of this Executive Order or of any rule, regulation or license issued thereunder may be fined not more than $10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in any such violation may be punished by a like fine, imprisonment, or both.

This order may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE
April 20, 1933.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7418

April 21, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a bill introduced in the Senate of the United States yesterday by Senator Thomas of Oklahoma as an amendment to the pending Farm Relief Bill, H. R. 3835.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL GOVERNORS AND
FEDERAL RESERVE AGENTS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7420

April 25, 1933.

SUBJECT: New Issue of Treasury Bills.

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:

"NOWHYP" 2 7/8% Treasury Notes, Series C-1936,
to be dated May 2, 1933,
and to mature April 15, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7421

April 25, 1933.

SUBJECT: Expense, Main Lines, Leased Wire System, March, 1933.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7421-a and X-7421-b, covering in detail operations of the main lines, Leased Wire System, during the month of March, 1933.

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.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1933.

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	50,565	4,094	54,659	4.04
New York	260,132	-	260,132	19.23
Philadelphia	69,507	2,889	72,396	5.35
Cleveland	89,495	3,851	93,346	6.90
Richmond	92,818	2,775	95,593	7.07
Atlanta	84,313	2,765	87,078	6.44
Chicago	141,304	5,746	147,050	10.87
St. Louis	97,279	3,621	100,900	7.46
Minneapolis	53,583	3,024	56,607	4.18
Kansas City	98,477	2,649	101,126	7.48
Dallas	85,809	4,897	90,706	6.71
San Francisco	188,370	4,626	192,996	14.27
Total	1,311,652	40,937	1,352,589	100.00

F. R.Board business	692,136	2,044,725
Reimbursable business Incoming and Outgoing		1,096,020
Total words transmitted over main lines		3,140,745

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7421-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.

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REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, MARCH, 1933.

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	$117.00	$ -	$377.00	$767.16	$377.00	$390.16
New York	1,476.18	326.00	-	1,802.18	3,651.62	1,802.18	1,849.44
Philadelphia	225.00	-	-	225.00	1,015.92	225.00	790.92
Cleveland	449.00	-	-	449.00	1,310.25	449.00	861.25
Richmond	295.00	-	230.00 (&)	525.00	1,342.54	525.00	817.54
Atlanta	243.00	-	-	243.00	1,222.90	243.00	979.90
Chicago	4,083.54 (#)	180.05	-	4,263.59	2,064.12	4,263.59	2,199.47 (*)
St. Louis	195.00	46.00	-	241.00	1,416.59	241.00	1,175.59
Minneapolis	356.82	-	-	356.82	793.75	356.82	436.93
Kansas City	273.00	-	-	273.00	1,420.39	273.00	1,147.39
Dallas	251.00	15.60	-	266.60	1,274.17	266.60	1,007.57
San Francisco	380.00	-	-	380.00	2,709.76	380.00	2,329.76
Federal Reserve Board	-	-	19,765.62	19,765.62	-	-	-
Total	$8,487.54	$684.65	$19,995.62	$29,167.81	$18,989.17	$9,402.19	$11,786.45
							2,199.47(a)
							$ 9,586.98

Reimbursable charges:

Treasury Department.	$2,171.89	
Exp. Nat. Bkg. Emergency, Act 3-9-33	2,520.92	
Reconstruction Finance Corporation .	5,401.64	
Federal Farm Loan Board.	17.15	
Federal Farm Board	27.41	
Federal Home Loan Bank Board	7.96	
Comp. Currency, Div. Insolv. Nat.Bks	31.67	
Less Reimbursable Charges		10,178.64
		$ 18,989.17

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

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7422

April 26, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDUKE" has been designated to cover a new issue of Treasury Bills, dated April 26, 1933, and maturing July 26, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7423

April 28, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDULCET" has been designated to cover a new issue of Treasury Bills, dated May 3, 1933, and maturing August 2, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

Copy

X-7424.

April 1, 1933

Curtiss - Boston	Hoxton - Richmond	Bailey - Minneapolis
Case - New York	Newton - Atlanta	McClure - Kansas City
Austin - Philadelphia	Stevens - Chicago	Walsh - Dallas
Williams - Cleveland	Wood - St. Louis	Newton - San Francisco

TRANS. 1744 In future telegraphic advice to you of the approval of applications of state banks for permission to withdraw immediately from membership in the Federal Reserve System, the code word "ANGLO" followed by the name and location of the bank involved will be used. The definition of the word, which is intended to cover all the usual steps to be taken in connection with the withdrawal of state banks from membership, follows:

> Referring application of (name of bank) for permission to withdraw immediately from membership, Board waives usual requirement of six months' notice. Accordingly, upon surrender of the Federal reserve bank stock issued to such bank, the Federal reserve bank is authorized to cancel such stock and make refund thereon. Before such stock is canceled, you should obtain advice of your counsel that notice of desire to withdraw filed with you complies substantially with requirements of Section VIII of Board's Regulation H, prescribed pursuant to provisions of Section 9 of Federal Reserve Act. Please advise Board when cancellation is effected and refund is made, and forward to the Board resolution of bank's board of directors authorizing withdrawal. Certificate of membership issued to bank should also be obtained if possible and forwarded to Board. State banking authorities should be advised promptly when withdrawal from membership has been effected and informed that you will be glad, if desired, to furnish information as to reasons advanced by state bank in support of its request for waiver of usual requirements of six months' notice of intention to withdraw. Confirmation follows.

This word should be inserted in the Federal Reserve Telegraphic Code following the word "ANGLING" on page 11.

McClelland

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7425

April 29, 1933.

SUBJECT: Indebtedness of Officers and Employees.

Dear Sir:

Because of the special relationship that exists with member banks and the high responsibility resting upon the Federal reserve banks in connection therewith, the Board feels that it is especially important that the Federal Reserve Agents and their assistants, including the members of their staffs engaged in audits and examinations, should refrain from incurring any indebtedness, directly or indirectly, to member banks, their subsidiaries or affiliates, or otherwise placing themselves in any position which may result in questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their responsibilities with respect to such banks under the Federal Reserve Act. Furthermore, in order to avoid the possibility of embarrassment in connection with the performance of their official duties, it is the view of the Board that they should refrain from incurring any indebtedness to others except for legitimate and necessary purposes, and that, whenever any indebtedness is incurred by them (excluding, of course,

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current bills for ordinary personal and household expenses, but not excluding indebtedness incurred to others to obtain funds for payment of such bills), there should be prompt disclosure of all the facts to the Federal Reserve Board.

The Board desires that each Federal Reserve Agent prepare and transmit to it as promptly as possible after July 1, 1933, a report showing as of that date any indebtedness of the agent and members of his staff (excluding, of course, current bills for ordinary personal and household expenses, but not excluding indebtedness incurred to others to obtain funds for payment of such bills). The report should set forth the name of the person, firm, corporation, or institution to which the indebtedness is due, the date on which it was originally incurred (indicating whether before or after such officer or employee entered the service), the maturity of the indebtedness, the unpaid balance, a description of the security therefor, if any, a brief statement of the purpose for which the indebtedness was incurred and the progress being made in liquidating it, and any comment that the Agent may wish to make in connection therewith. In addition, there should be a prompt report to the Federal Reserve Board of any indebtedness of the kind referred to incurred by the Agent or any member of his staff after July 1, 1933, and such report should contain information similar to that called for above with respect to indebtedness outstanding on that date.

The Board believes that the directors of the Federal reserve banks will feel that the same general principles should be applied to the members of the staffs of the Federal reserve banks, particularly the officers, the heads of departments, and other employees occupying

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responsible positions, except that the reports mentioned would be made to the Boards of Directors instead of to the Federal Reserve Board. It requests, therefore, that this letter be brought to the attention of the Board of Directors of each bank, with the suggestion that they consider the advisability of adopting these principles if they have not already been established, of taking appropriate steps to obtain from such officers and employees information similar to that called for with respect to the Federal Reserve Agents and the members of their staffs, and of requiring all such officers and employees promptly to report to the Board of Directors any indebtedness of the kind referred to that may thereafter be incurred.

In this connection, the Board desires to call attention to its circular letter of May 7, 1924 (X-4048) which contains the following statement:

> " * * * the Federal Reserve Board believes it will be as obvious to the directors of the Federal reserve banks as it is to itself that the good conduct and repute of the Federal Reserve System require that the officers of the reserve banks shall give their entire time and attention to the affairs of the banks and not be identified with any outside business interests."

The Board feels confident that the directors of the Federal reserve banks will recognize the importance of strict conformity with the principles set forth in that letter. While it refers particularly to the officers of Federal reserve banks, it is equally applicable to heads of departments and employees occupying responsible positions in the banks, as well as to the Federal reserve agents and the members of their staffs. If any of them has any connection with a business concern of any kind, the Board requests that it be promptly advised with respect thereto.

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The Board will be pleased to have an acknowledgment of the receipt of this letter, together with a statement of the action that has been or will be taken in regard to these matters.

Very truly yours,

Chester Morrill,
Secretary.

TO AGENTS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7426

May 1, 1933.

SUBJECT: Proposed Change in Procedure re Violations of the Clayton Act.

Dear Sir:

In the Board's letter of May 28, 1931 (X-6901), a procedure was suggested to be followed in cases where apparent violations of the Clayton Antitrust Act were shown by reports of examination of national banks. It was contemplated that in each such case the Board would write to the person involved, advising him of the situation and forwarding him the necessary forms with the request that he execute them and send them to the Federal Reserve Agent.

On further consideration, it has been decided to alter this procedure so that the Federal Reserve Agent will conduct the correspondence with the director, officer or employee in all cases of apparent violations of that Act.

In the future, therefore, when apparent violations are shown by reports of examination, or are discovered in other ways, the Federal Reserve Agent should investigate the situation and advise the person involved that he must bring his service within the provisions of the Clayton Act by obtaining a permit from the Federal Reserve Board covering such service or by severing the connections which are contrary to the provisions of that Act. If in any case the Federal Reserve Agent feels

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that he is not prepared to recommend the approval of an application after a preliminary investigation, there will be no objection to his communicating his views to the person involved and explaining the nature of the violation being committed and the steps necessary to avoid further violations. If this procedure be followed, it will probably obviate the filing of applications in most cases in which the Agent is not prepared to recommend approval. In each case referred to in this paragraph, the Board desires that the Federal Reserve Agent advise it promptly of the action taken.

In making the investigation suggested above, as well as in other investigations preliminary to a recommendation in connection with an application under the provisions of the Clayton Antitrust Act, the Board will expect the Federal Reserve Agent to consult with the Chief National Bank Examiner or the State banking authorities, to inspect the reports of examination of the bank or banks which the applicant is already serving, to consider any other information in the possession of or available to the Federal reserve bank, and to advise the Federal Reserve Board as to:

(a) The condition and management of the bank or banks with which the applicant is already associated and the extent of his responsibility therefor;

(b) Whether the applicant discharges the duties and responsibilities of his office by attending directors' meetings or otherwise;

(c) Whether the applicant has abused the credit facilities of the bank or banks he is already serving -- e.g., whether the examiners have criticized loans to the

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applicant, his family or his interests as being excessive or unjustified for any other reason;

(d) Whether the applicant's influence upon the banks involved in his application is apt to be helpful or harmful to such banks; and

(e) Any other factors having a bearing upon the desirability of the applicant as an officer, director or employee of each of the banks involved in his application, and upon the desirability of permitting him to serve all of such banks at the same time.

In this connection you are advised that, unless other facts appear which in the judgment of the Board render it incompatible with the public interest, the Board ordinarily will take favorable action on the application if it appears to the satisfaction of the Board, on the basis of the facts presented by the applicant, the banks involved, and the Federal reserve agent, (a) that such banks are not in substantial competition, or (b) that the applicant's service as director, officer or employee of such banks is not likely to result in a restriction of credit or a substantial lessening of competition, or (c) that his services will add needed strength to the management of such banks, will be beneficial to the community or the patrons of such banks, or will otherwise be in the public interest.

In view of the fact that Section 8 of the Clayton Antitrust Act forbids interlocking relationships between banks of certain classes except in cases where the Federal Reserve Board finds specific interlocking relationships not incompatible with the public interest and grants permits therefor, the burden must rest upon each applicant for such a permit, and

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upon the banks involved, to show to the satisfaction of the Board that it would be not incompatible with the public interest to permit him to serve the banks involved.

The Board suggests that each Federal Reserve Agent adopt the practice of making a review during the course of each year of the outstanding Clayton Act permits issued to applicants in his district; and of submitting to the Board his recommendation in each case in which in his opinion the public interest requires the revocation of a permit effective either immediately or at the time of the next annual election of directors, together with his recommendation in each case in which he feels that there is ground for doubt under the Board's instructions as to the action which should be taken.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7427

May 3, 1933.

SUBJECT: Cost of Examinations Under Section 404 of the Act of March 9, 1933, as Amended.

Dear Sir:

There is inclosed herewith, for your information, a copy of a letter addressed to the Assistant Federal Reserve Agent at Chicago in response to his inquiry as to whether a bank applying for a loan under Section 404 of the Act of March 9, 1933, as amended, should be assessed the expense of an examination made by a representative of the Federal reserve bank in connection with the application.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS EXCEPT CHICAGO.

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C O P Y

X-7427-a

May 1, 1933.

Mr. C. S. Young,
Assistant Federal Reserve Agent,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Young:

Mr. Paulger has brought to the attention of the Board your letter of April 13 in which you refer to section 404 of the Act of March 24, 1933, and ask whether a bank applying for a loan under this section should be assessed the expense of an examination by a representative of the Federal reserve bank.

It is the view of the Board that an applicant for a loan under section 404 of the Act of March 24, 1933, should reimburse the Federal reserve bank for the actual expenses of an examination made by its representatives for the purpose of enabling it to pass upon such an application unless the cost to the Federal reserve bank of such an examination be relatively insignificant.

In this connection, it is understood that the Reconstruction Finance Corporation has adopted the policy of requiring that applicants reimburse the corporation for the actual expenses of examinations necessitated by their application for loans.

Very truly yours,

(S) Chester Morrill
Secretary.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7428

May 4, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDUPE" has been designated to cover a new issue of Treasury Bills, dated May 10, 1933, and maturing August 9, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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X-7429

Federal Reserve Bank Notes (National Currency)
Series 1929 - Delivered March 10-30, 1933.

	$5	$10	$20	$50	$100	Total Sheets	Amount
Boston.....	98,000	15,000	81,000	-	-	194,000	18,818.00
New York.....	8,000	46,000	109,000	53,000	40,000	256,000	24,832.00
Philadelphia..	58,000	38,000	84,000	-	-	180,000	17,460.00
Cleveland.....	56,000	17,000	85,000	57,000	23,000	238,000	23,086.00
Richmond.....	-	113,000	136,000	-	16,000	265,000	25,705.00
Atlanta.....	157,000	21,000	-	-	-	178,000	17,266.00
Chicago.....	177,000	-	16,000	-	32,000	225,000	21,825.00
St. Louis.....	23,000	132,000	37,000	-	-	192,000	18,624.00
Minneapolis...	57,000	49,000	72,000	11,000	12,000	201,000	19,497.00
Kansas City...	38,000	107,000	26,000	23,000	8,000	202,000	19,594.00
Dallas.....	83,000	42,000	39,000	14,000	3,000	181,000	17,557.00
San Francisco.	30,000	90,000	74,000	48,000	-	242,000	23,474.00
	785,000	670,000	759,000	206,000	134,000	2,554,000	$247,738.00

2,554,000 sheets @ $97.00 per M, ... $247,738.00

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X-7430

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

STATEMENT FOR THE PRESS

For immediate release
May 8, 1933.

The Federal Reserve Board today announced that the vacancy at the Federal Reserve Bank of Minneapolis resulting from the death of Mr. John R. Mitchell, Chairman of the Board of Directors and Federal Reserve Agent, will be filled through the appointment of Mr. John N. Peyton as a Class C director of the Federal Reserve Bank of Minneapolis for the remainder of Mr. Mitchell's term ending December 31, 1935. Mr. Peyton will be designated chairman of the board of directors and Federal reserve agent, and will assume his new duties on May 15, 1933. For more than two years past he has been serving as Commissioner of Banks of Minnesota.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7431

May 9, 1933.

SUBJECT: Proposed Revision of Federal Reserve Board Forms 94, 94a and 94b.

Dear Sir:

In the Board's letter of May 1, 1933 (X-7426), relating to the administration of the provisions of the Clayton Antitrust Act, a procedure was outlined for the handling of applications which was designed to bring about a more complete presentation of the relevant facts. In this connection consideration is being given to the advisability of revising Federal Reserve Board Forms 94, 94a and 94b so that they will call for the necessary information more specifically and in more detail, and thus facilitate a proper presentation and prevent unnecessary correspondence and delay.

There is inclosed, for your information, a copy of a recommendation and the accompanying statement of facts submitted by the Federal Reserve Agent at Dallas in connection with a recent application, as well as a copy of a letter addressed to the president of one of the banks involved in the application.

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It is felt that these contain several features which might well be adopted in a revision of the Board's printed forms.

The Board would appreciate your suggestions for the improvement of the printed forms and any comments which you may desire to make regarding the procedure to be followed in assembling and presenting the relevant facts.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL F. R. AGENTS EXCEPT DALLAS.

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RECOMMENDATION ON CLAYTON ACT APPLICATION

(Name of Applicant)

FOR PERMISSION OF THE FEDERAL RESERVE BOARD
TO SERVE AS

DIRECTOR, (Bank No. 1)

DIRECTOR, (Bank No. 2)

1. The distance between the two banks is approximately six miles, the (Bank No. 1) being located in the southern part of the City of (_____), while the (Bank No. 2) is located in the center of the down-town financial and retail shopping section. Prior to the extension of the corporate limits of the City of (_____), about six years ago, the village of (_____), in which the (Bank No. 1) is located, was an incorporated town. With the growth of (_____) certain suburbs were taken into the City of (_____). The principal business of the (Bank No. 1) is that of retail merchants in (_____), accounts of employes of the industrial plants located adjacent to the (_____) ship channel, truck growers, and small farmers. It is therefore entirely different from that handled by the (Bank No. 2).

2. The distance between the banks and difference in class of customers served would eliminate the question of their being natural competitors.

3. The attached statement of facts shows that Mr. (_____) has been a director of the (Bank No. 1) for eight years, owning, however, only a small number of shares of stock in that bank. He has regularly attended meetings of the Board of Directors of the (Bank No. 1) and served on the discount and examining committees. This contact enables him to be in very close touch with the affairs of the institution.

4. Mr. (_____) does not unduly "ride" either bank through borrowings, direct or indirect, and he does not own enough stock in either to permit any domination or control of the management.

It is therefore felt that his service would be entirely compatible with the public interest and favorable action on the application is recommended.

(Signed) C. C. Walsh
Federal Reserve Agent
Federal Reserve Bank of Dallas

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Statement of facts in re application of

(Name of Applicant)

for permission of the Federal Reserve Board, under the provisions of the Clayton Act, to serve as

DIRECTOR, (Bank No. 1)

DIRECTOR, (Bank No. 2)

1. Character of management of the banks involved in the application

(a) (Bank No. 1)

(b) (Bank No. 2)

The character of management of both banks is first class, and their affairs are capably handled.

The Managing Director of the (_____) Branch, Federal Reserve Bank of Dallas, makes the following comment: "We have a high regard for the management of both of these banking institutions. We think it safe and efficient."

2. Character of the service rendered by the applicant

(a) The applicant was elected a director of the (Bank No. 2) on February 14, 1933, and has attended one directors' meeting since his election.

He has been a director of the (Bank No. 1) since April 6, 1925, and has been absent at only one directors' meeting during the past two years. He has served on the discount and examining committees of the (Bank No. 1).

(b) There is no evidence that he dominates the banks with which he is connected.

(c) At the present time Mr. (_____) is directly indebted to the (Bank No. 1) for $3,130. He is not a frequent borrower and has never been directly or indirectly indebted to the (Bank No. 2).

(d) The applicant was elected a director of the (Bank No. 2) on February 14, 1933, and has attended one meeting of the directors of that institution since his election. He has been absent at only one meeting of the directors of the (Bank No. 1) during the past two years.

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3. Condition of the banks involved

(a) (Bank No. 1)

This bank was last examined on November 10, 1932. The examiner makes the following comment: "The little bank is about paying expenses, but entirely solvent and it is believed the general character of its assets are sound."

(Bank No. 2)

This bank was last examined on August 30, 1932. The examiner makes the following comment: "A conservatively managed bank."

The classification of its assets does not show excessive ratios subject to criticism. Net depreciation in bonds and securities of $331,622, is amply provided for with the bank's large surplus, undivided profits and reserve accounts.

(b) Since there is no common ownership of stock of either bank, it is not believed their condition would be affected by an interlocking directorate. Only one other director of either bank is a director of another bank.

4. General banking situation

(a) The local banks in (_____) compete for all classes of business, but based on the information developed the competi-
(b) tion between them is friendly and not destructive or unethical.

(c) The banks affected are not under common ownership, or control.

(d) There are five directors of the (Bank No. 1) two of whom (including the applicant) are directors in other banks.

There are twenty-six directors of the (Bank No. 2), two of whom (including applicant) are directors in other banks.

(e) There are fifteen banks in the City of (_____).

(f) None of them are in a chain or group banking system.

(g) The application has not resulted from a situation in which one bank has assisted in the recapitalization or reorganization of another bank.

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5. The management of neither bank needs strengthening in "man-power" or financially.

6. Mr. (_____) owns 10 shares, or 2 per cent of the capital stock of the (Bank No. 1), and 50 shares, or 1/2 of 1 per cent, of the capital stock of the (Bank No. 2).

7. The reasons why Mr. (_____) desires to serve as a director of the (Bank No. 1) and (Bank No. 2) are stated in his letter to Assistant Federal Reserve Agent Hall, dated April 14, attached.

(Note: The letter from the applicant, referred to in No. 7 above, is not inclosed, but it was in response to the attached letter addressed to one of the banks involved by the office of the Federal Reserve Agent.)

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FEDERAL RESERVE BANK OF DALLAS

February 17, 1933

Mr. (_____), President
(Bank No. 1)
(_____,) Texas.

Dear Mr. (_____):

Your letter of February 15, addressed to our (_____) Branch, has been referred to this office by Cashier (_____) for attention. In compliance with your request I am pleased to enclose form 94, "Application for permission of the Federal Reserve Board to serve under the provisions of the Clayton Antitrust Act," and copy of Regulation L, Series of 1930, to which I direct your attention to Section II, paragraph (3).

The Federal Reserve Board has recently announced that it does not consider an application of this kind complete, unless it is accompanied by a statement of the applicant's own reasons why he believes the granting of the application would not be incompatible with the public interest. This is especially applicable to cases wherein the applicant wishes to serve as a director of two or more banks located in the same city and competing for the same general classes of business. Attention is invited, therefore, to paragraph 8 of the application form which reads as follows:

> "The applicant is invited to give, on a separate sheet or in a letter attached hereto, any other information which will tend to prove that the issuance of the permit applied for would not be incompatible with the public interest."

There are also enclosed forms 94a which should be filled out by each of the banks the applicant desires to serve, and accompanied by a copy of the report of condition of the bank as shown on the call of December 31, 1932. The following information from each of the banks should also be furnished:

1. Length of time the applicant has been a director of the bank

2. Amount of stock held in the bank by applicant

3. Record of his attendance at directors' meetings for the past two years

4. Reasons why the bank desires the applicant to serve as a member of its Board of Directors

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5. Whether the two banks are considered natural competitors for any class of business

6. If natural competitors for any class of business, would the applicant's service as a director of both institutions tend to lessen such competition

7. Number of directors in bank who are also directors in other banks

8. Would the applicant's service as a director of both institutions be incompatible with the public interest, as defined in the Federal Reserve Board's Regulation L, Series of 1930, Section 4, paragraph D, page 4

9. Has the applicant ever served as a member of your Executive, Discount, or Examining committees

10. Would the general banking situation in (_____) be strengthened by the applicant continuing to serve as a director of the institution

11. Any other relevant facts, or opinions, the bank desires to submit.

Upon receipt of the application, properly executed forms and supporting data, the file will be transmitted to the Federal Reserve Board for its consideration.

Yours very truly,

(Signed) Chas. C. Hall

Assistant Federal Reserve Agent

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7432

May 11, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDURES" has been designated to cover a new issue of Treasury Bills, dated May 17, 1933, and maturing August 16, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

X-7433

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 13, 1933.

SUBJECT: Counterfeit Federal Reserve Notes.

Dear Sir:

The Secret Service Division of the Treasury Department has requested that the attention of the Federal reserve banks be again directed to its circular letter No. 626, issued under date of June 8, 1929, describing counterfeit $100 Federal reserve notes of the large size. The Secret Service Division makes this request because of the recent appearance of a considerable number of the counterfeits described in the circular. It states, however, that the notes which have come to its attention are on several Federal reserve banks, in addition to the Federal Reserve Banks of New York and Philadelphia, mentioned in the circular, and it is quite possible that notes on all of the Federal reserve banks are now being circulated.

The Board is advised that local representatives of the Secret Service Division will call on the various Federal reserve banks for the purpose of showing the banks a specimen of the counterfeits referred to and explaining how the notes may be detected.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7434

May 18, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDUSK" has been designated to cover a new issue of Treasury Bills, dated May 24, 1933, and maturing August 23, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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X-7435

Statement of Bureau of Engraving and Printing
For furnishing Federal Reserve Notes
Series 1928, April 3 to 29, 1933.

	$10	Total Sheets	Amount
New York	64,000	64,000	$5,792.00
Chicago	196,000	196,000	17,738.00
St. Louis	26,000	26,000	2,353.00
	286,000	286,000	$25,883.00

286,000 sheets @ $90.50 per M, ...$25,883.00

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X-7436

Statement of Bureau of Engraving and Printing
For furnishing Federal Reserve Bank
Notes (National Currency) Series 1929.
April 18 to 22, 1933.

Atlanta . . 80,000 sheets $20 - $97.00 per M . . $7,760.00

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FEDERAL ADVISORY COUNCIL

1933

Officers:

Walter W. Smith, President
Melvin A. Traylor, Vice President
Walter Lichtenstein, Secretary

Executive Committee:

Walter W. Smith — Howard A. Loeb
Melvin A. Traylor — John K. Ottley
Walter E. Frew — W. T. Kemper

MEMBERS

District		
No. 1	Thomas M. Steele	Pres., First National Bank and Trust Co., New Haven, Connecticut.
No. 2	Walter E. Frew	Chrm., Corn Exchange Bank Trust Co., New York, New York.
No. 3	Howard A. Loeb	Chrm., Tradesmens National Bank & Tr. Co., Philadelphia, Pennsylvania.
No. 4	H. C. McEldowney	Pres., Union Trust Company, Pittsburgh, Pennsylvania.
No. 5	Howard Bruce	Chrm., Baltimore Trust Company, Baltimore, Maryland.
No. 6	John K. Ottley	Pres., First National Bank, Atlanta, Georgia.
No. 7	Melvin A. Traylor	Pres., First National Bank, Chicago, Illinois.
No. 8	Walter W. Smith	Pres., First National Bank in St. Louis, St. Louis, Missouri.
No. 9	Theodore Wold	V. P., Northwestern Nat'l.Bk.of Minneapolis, Minneapolis, Minnesota.
No. 10	W. T. Kemper	Chrm., Commerce Trust Company, Kansas City, Missouri.
No. 11	Joseph H. Frost	Pres., Frost National Bank, San Antonio, Texas.
No. 12	Henry M. Robinson	Chrm., Security-First National Bank, Los Angeles, California.

Address of Mr. Lichtenstein, 38 South Dearborn Street, Chicago, Illinois.

May 19, 1933.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7438

May 19, 1933.

SUBJECT: Holidays during June, 1933.

Dear Sir:

The Federal Reserve Board has been advised that the following holidays will be observed by Federal reserve banks and branches during June, 1933.

Saturday, June 3, Birthday of Jefferson Davis and Confederate Memorial Day:

Richmond	Louisville
	Memphis
Atlanta	
New Orleans	Dallas
Birmingham	El Paso
Nashville	Houston
Jacksonville	San Antonio

Tuesday, June 27, Special election in California:

San Francisco
Los Angeles

On the above dates the offices affected will not participate in either the transit or Federal reserve note clearing through the Gold Settlement Fund. Please include transit clearing credits for the offices concerned with your credits for the following business days. No debits covering shipments of Federal reserve notes for account of the head

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offices named should be included in your note clearings on the holidays mentioned.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7438

May 22, 1933.

Dear Sir:

Mr. Floyd R. Harrison, Assistant to the Governor of the Federal Reserve Board, tendered his resignation to be effective as of the close of business on May 15, 1933, and it has been accepted by the Federal Reserve Board.

On May 18, 1933, the Board appointed Mr. E. M. McClelland, formerly Assistant Secretary, to succeed Mr. Harrison as Assistant to the Governor. The Board also on May 18, 1933, appointed Mr. S. R. Carpenter as Assistant Secretary to succeed Mr. McClelland.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL GOVERNORS AND AGENTS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7439

May 23, 1933.

SUBJECT: Expense, Main Lines, Leased Wire System, April, 1933.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7439-a and X-7439-b, covering in detail operations of the main lines, Leased Wire System, during the month of April, 1933.

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.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1933.

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	33,416	1,797	35,213	4.08
New York	170,122	-	170,122	19.72
Philadelphia	33,336	1,970	35,306	4.09
Cleveland	52,358	1,757	54,115	6.27
Richmond	64,576	1,596	66,172	7.67
Atlanta	55,599	1,493	57,092	6.62
Chicago	85,733	2,095	87,828	10.18
St. Louis	67,266	1,561	68,827	7.98
Minneapolis	38,752	1,648	40,400	4.68
Kansas City	71,523	1,588	73,111	8.47
Dallas	64,886	3,040	67,926	7.87
San Francisco	103,071	3,707	106,778	12.37
Total	840,638	22,252	862,890	100.00

F. R. Board business	363,642	1,226,532
Reimbursable business Incoming and Outgoing		531,770
Total words transmitted over main lines		1,758,302

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7439-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.

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REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, APRIL, 1933.

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	$7.00	$ -	$267.00	$701.23	$267.00	$434.23
New York	1,265.05	1.00	-	1,266.05	3,389.29	1,266.05	2,123.24
Philadelphia	225.00	-	-	225.00	702.95	225.00	477.95
Cleveland	306.66	-	-	306.66	1,077.63	306.66	770.97
Richmond	185.03	-	230.00 (&)	415.03	1,318.25	415.03	903.22
Atlanta	243.00	-	-	243.00	1,137.78	243.00	894.78
Chicago	4,617.07 (#)	106.25	-	4,723.32	1,749.64	4,723.32	2,973.68 (*)
St. Louis	195.00	1.00	-	196.00	1,371.53	196.00	1,175.53
Minneapolis	205.25	-	-	205.25	804.36	205.25	599.11
Kansas City	273.00	-	-	273.00	1,455.75	273.00	1,182.75
Dallas	251.00	-	-	251.00	1,352.62	251.00	1,101.62
San Francisco	380.00	-	-	380.00	2,126.04	380.00	1,746.04
Federal Reserve Board	-	-	15,887.31	15,887.31	-	-	-
Total	$8,406.06	$115.25	$ 16,117.31	$24,638.62	$17,187.07	$8,751.31	$11,409.44
							2,973.68(a)
							$ 8,435.76

Reimbursable charges:

Treasury Department.	$2,598.80	
Exp. Nat. Bkg. Emergency Act, 3-9-33	570.23	
Reconstruction Finance Corporation .	4,062.96	
Federal Farm Board	35.79	
Federal Farm Loan Board.	16.69	
Federal Home Loan Bank Board	6.38	
Comp.Currency, Div. Insolv. Nat. Bks.	60.70	
Less: Reimbursable Charges.		7,451.55
		$17,187.07

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

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7442

May 25, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDUTCH" has been designated to cover a new issue of Treasury Bills, dated May 31, 1933, and maturing August 30, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

X-7443

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

STATEMENT FOR THE PRESS

May 25, 1933.

For immediate release.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 2 1/2 per cent effective May 26, 1933.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7444

May 25, 1933

SUBJECT: Changes in Inter-district Time Schedules.

Dear Sir:

Upon request of the Federal reserve banks of New York and Cleveland, the Federal Reserve Board has approved a reduction from two days to one day in the inter-district time schedule for cash items from New York to Cleveland and from Cleveland to New York.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL GOVERNORS

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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release at 3:00 p.m. May 26, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Chicago has established a rediscount rate of 3 per cent, effective May 27, 1933.

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Federal Reserve Bank of St. Louis

X-7446

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release at 2:00 p. m. May 31, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Boston has established a rediscount rate of 3 per cent, effective June 1, 1933.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7447

June 1, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve Banks, the code word "NOXDUTRO" has been designated to cover a new issue of Treasury Bills, dated June 7, 1933, and maturing September 6, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

X-7448

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

STATEMENT FOR THE PRESS

June 1, 1933.

For release at 6:00 p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of San Francisco has established a rediscount rate of 3% effective June 2, 1933.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

X-7449

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 3, 1933.

SUBJECT: Right of unlicensed member banks to vote in elections of Class A and Class B directors.

Dear Sir:

There is inclosed herewith for your information a copy of a letter which the Board is addressing to the Federal Reserve Agent at the Federal Reserve Bank of Richmond, with reference to the question whether member banks which have not been licensed by the Secretary of the Treasury to reopen for the performance of usual banking functions are entitled to nominate candidates for Class A and Class B directors of Federal reserve banks and to vote in the election of such directors.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT RICHMOND.

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Federal Reserve Bank of St. Louis

X-7449a

June 3, 1933.

Mr. W. W. Hoxton,
Federal Reserve Agent,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Hoxton:

Reference is made to your letter of May 18, 1933, inquiring whether member banks which have not been licensed by the Secretary of the Treasury to reopen may participate in elections of Class A and Class B directors of Federal reserve banks.

Upon consideration of this question, it is the opinion of the Federal Reserve Board that member banks, which have not been licensed by the Secretary of the Treasury to reopen for the performance of usual banking functions and which have not been placed in liquidation or in the hands of receivers or conservators or State officials having similar authority, are entitled to nominate candidates for Class A and Class B directors of Federal reserve banks and to vote in the election of such directors. The Board also agrees with your view that banks in the hands of conservators or of State officials having similar authority are not entitled to nominate candidates for Class A and Class B directors or to vote in the election of such directors.

Very truly yours,

Chester Morrill
Secretary

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Federal Reserve Bank of St. Louis

X-7450

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 at 2:00 P. M. June 7, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Philadelphia has established a rediscount rate of 3%, effective June 8, 1933.

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Federal Reserve Bank of St. Louis

X-7451

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

STATEMENT FOR THE PRESS

For immediate release. June 7, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of St. Louis has established a rediscount rate of 3%, effective June 8, 1933.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7452

June 7, 1933.

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:

"NOWHOBIAT" Treasury Certificates of Indebtedness, Series TM-1934, ¾%, dated June 15, 1933, due March 15, 1934;

"NOWHYPNOS" 2-7/8% Treasury Notes, Series B-1938, to be dated June 15, 1933, due June 15, 1938.

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.

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Federal Reserve Bank of St. Louis

X-7453

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 at 3:00 p. m. June 9, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Cleveland has established a rediscount rate of 3%, effective June 10, 1933.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7454

June 13, 1933.

SUBJECT: Topic for Conference of Governors: Federal Reserve Exchange drafts and Transfer drafts.

Dear Sir:

There are inclosed herewith for your information two copies of a memorandum addressed to the Board on the question whether the privilege of issuing Federal reserve exchange drafts and Federal reserve transfer drafts should be withdrawn.

The Board is desirous of discussing this question with the Governors of the Federal reserve banks at their next conference, and the matter is hereby made a topic for inclusion in the program of the conference.

Very truly yours,

Chester Morrill
Secretary

Inclosures.

TO THE GOVERNORS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

May 31, 1933.

To: The Federal Reserve Board.

From: Mr. Chase - Assistant Counsel.

Subject: Suggested topic for Governors' Conference: - Federal reserve exchange and transfer drafts.

The question has been raised as to the desirability of withdrawing the privilege now held by member banks of issuing Federal reserve exchange drafts and Federal reserve transfer drafts; and it has been suggested that this question be given consideration by the Conference of Governors of the Federal reserve banks.

On February 21, 1933, the Governor of the Federal Reserve Bank of San Francisco telegraphed to the Board as follows:

> "In view of the uncertainties of our legal obligation in connection with payment or dishonor of Federal Reserve exchange and transfer drafts in event of suspension of drawer it is our belief that we should withdraw the privilege. Banks availing themselves of use of exchange and transfer drafts are very few and under present conditions it is believed the service is not warranted for the risks involved. Suggest reference to be made to correspondence passing between Wyatt and Agnew on this subject. Use of Federal Reserve exchange and transfer drafts was directed by Federal Reserve Board under date April 25, 1917 see letter X-102."

Under date of March 2, 1933, the following reply was sent:

> "Your wire February 21 regarding privilege of issuing Federal reserve exchange and transfer drafts. In view of questions raised in correspondence referred to it appears that subject is one to which consideration should be given as a matter of system policy by Governors' Conference. Question as to what action should be taken in meantime with respect to withdrawal of privilege in individual cases is one which Board feels should be considered carefully in the light of any disturbance that might be caused in present circumstances but if after such consideration bank feels justified in withdrawing privilege in particular cases Board will not object. Copies of correspondence are being sent to all other Governors for their information in advance of next conference."

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However, in view of the then existing banking emergency, and since it was necessary to obtain additional data by correspondence, the matter could not be submitted to the Governors for their consideration in advance of their next conference, which was held on April 19, 1933; and no time was available during that conference to consider it.

For the information of the Board, the facts relating to this matter are set out in this memorandum.

ORIGIN AND NATURE OF THESE DRAFTS

The use of Federal reserve transfer drafts and Federal exchange drafts was inaugurated in 1917, pursuant to the Board's letter of April 25, 1917, (X-102) and the inclosed memorandum and forms (X-92 to X-96, Incl.) copies of which are attached hereto. As stated in that memorandum, the nature of these drafts is as follows:

A Federal reserve transfer draft is drawn by a member bank on its own Federal reserve bank and is payable only upon receipt of advice from the drawee Federal reserve bank by the Federal reserve bank at which it is payable.

A Federal reserve exchange draft is drawn by a member bank on its own Federal reserve bank and is receivable for immediate availability at par at any Federal reserve bank, although actually payable only at the drawee Federal reserve bank.

In connection with both types of draft, it was contemplated that the drawee Federal reserve bank, immediately upon receipt of advice that the draft had been drawn, would transfer the amount of the draft from the drawer's account to a special account for the

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payment of the draft when presented. This feature distinguishes these drafts from ordinary drafts, in connection with which no such transfer is made.

At first, the maximum amount for which an Exchange draft could be drawn was limited to $250. This limit was later increased to $5,000 (see copy of Board's letter of August 12, 1918, X-1121, attached hereto) and is now $50,000 (see copy of Board's letter of June 19, 1925, X-4362, attached hereto). The minimum amount for which a Transfer draft may be drawn is $250.

As is shown by the above memorandum (X-92), the drawing of these drafts was intended to be a privilege supplementary to the right of drawing ordinary bank drafts upon Federal reserve banks, and it was apparently originally contemplated that the privilege would be extended to all member banks.

In view of the fact that Exchange drafts were subject to immediate availability, the Federal reserve banks adopted the practice of granting the privilege of drawing such drafts only to member banks whose applications for the privilege had been approved by the Federal reserve bank. The Board recognized this practice, as is shown by its letter of June 19, 1925 (X-4362). As an illustration of this practice there is attached hereto a copy of Circular 69 of August 29, 1925, of the Federal Reserve Bank of San Francisco. In some cases the privilege of drawing Transfer drafts was likewise limited to banks whose applications for the privilege had been approved.

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UNCERTAINTIES AS TO LEGAL RIGHTS IN CONNECTION WITH THESE DRAFTS.

As the number of bank failures increased, it became apparent that certain troublesome questions arose in connection with these drafts in the event of the insolvency of the drawer bank; and in order to obtain the views of the other Federal reserve banks, Mr. Agnew, Counsel for the Federal Reserve Bank of San Francisco, suggested to Mr. Hale, Cashier of that bank, that he address a letter to the other Federal reserve banks stating a number of these questions. A copy of Mr. Hale's letter, dated December 2, 1932, is attached hereto.

In a letter to the Board's General Counsel dated February 2, 1933, Mr. Agnew stated that the principal legal question underlying the various questions asked by Mr. Hale was:

> "Does the issuance of an exchange draft by a member bank, the receipt of notice of such issuance by a Federal Reserve Bank and the charging of the draft by the Federal Reserve Bank to the member bank's account constitute such segregation and assignment of the funds necessary to pay the draft as to require the Federal Reserve Bank to honor and pay the draft upon presentation, even after notice of insolvency of the drawer?"

Replies to Mr. Hale's letter were received from almost all of the Federal reserve banks. Copies of these replies are attached hereto. Although not all of the replies state a definite conclusion, the majority express the opinion that the answer to the underlying question stated by Mr. Agnew is that, after receiving advice that the draft has been issued and after transferring funds from the account of the drawer bank to a special account for the payment of the draft, the drawee Federal reserve

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bank should not use the funds for any other purpose, and is justified in using them for the purpose of paying the draft even after notice of the insolvency of the drawer. The reasoning upon which this conclusion is reached, with which I am in agreement, is stated as follows by Mr. Wallace in his memorandum dated December 20, 1932 (which is attached hereto accompanying the reply of the Federal Reserve Bank of Richmond to Mr. Hale's letter).

> "Applying the principles of the above cases to our Circular No. 142 relating to the issuance of Federal Reserve Exchange drafts, I am inclined to the opinion that Federal Reserve Exchange drafts issued under the circular are clearly assignments of the fund against which they are drawn, or rather that the advice of drawing which the drawer bank must give is sufficient to constitute an assignment when read in connection with the circular, for in that case it is plain that the drawer of the draft is placed upon notice that when the draft is drawn and the advice given, its account will be charged. The circular states that Federal Reserve drafts are entirely different from ordinary drafts and are intended to serve a different purpose. The circular indicates that this difference is because ordinary drafts drawn on Federal reserve banks are payable only on presentation, and consequently will not be received by other Federal reserve banks for immediate credit, but that the Federal Reserve Exchange drafts will be received for immediate credit at par by any other Federal reserve bank or branch subject, of course, to final payment by the Federal reserve bank on which they are drawn."

Mr. Parker, counsel for the Federal Reserve Bank of Atlanta and Mr. McConkey, counsel for the Federal Reserve Bank of St. Louis, also reach this conslusion, adding that in their opinion the transaction is analogous to one where the drawee bank issues its cashier's

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check or certifies the original check. (Copies of the memoranda of Mr. Parker and Mr. McConkey are attached hereto accompanying the replies of their Federal reserve banks to Mr. Hale's letter)

The conclusion stated above, however, does not dispose of questions which may arise affecting the Federal reserve bank to which an Exchange draft is presented for payment, since that bank may not know definitely (a) whether the drawer has notified the drawee Federal reserve bank, or (b) whether the drawee bank has actually made the transfer on its books after receiving such notice, either because it was not in possession of sufficient funds with which to make the transfer or for any other reason. In either event, the reasoning upon which the conclusion stated above is based would obviously be inapplicable, and the Federal reserve bank to which the draft was presented for payment might therefore be faced with a loss if it paid the draft on presentation.

Mr. Wallace discusses this question at some length in his letter of February 14, 1933 to Mr. Agnew, a copy of which is attached hereto. Of course, if the Federal reserve bank to which the draft is presented for payment were to delay payment until it had communicated with the drawee Federal reserve bank and ascertained that funds were unconditionally available, all these questions might be avoided, although it would seem that this procedure might in some cases be in conflict with the provisions of the circular, and the statement appearing on the face of the draft itself, that the funds are subject to immediate availability. Moreover, as Mr. Wallace

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points out in his letter to Mr. Agnew, a refusal to honor the draft, no matter what the circumstances, would be most undesirable from the standpoint of the effect which such action would have upon the persons dealing with Federal reserve banks, since the terms of the draft would indicate, at least to an ordinary business man, that the Federal reserve bank had in effect promised that the funds would be immediately and unconditionally available. Technically, neither the paying nor the drawee Federal reserve bank might be liable as a matter of law because the draft had not been accepted by the drawee, but the result might be hardship and practical injustice to the person receiving the draft. Mr. Wallace goes on to say:

> "The operating officers of the bank tell me that these drafts are not used to any large extent by our member banks. In transfers from one bank to another it is more convenient to use the wire transfer. I understand that the drafts are largely used when some individual wishes to purchase from a country bank exchange payable at some point at which the bank has no correspondent. Therefore, as Mr. Clements pointed out, it seems that the chief use of the drafts at present is in the very class of transactions in which their use is likely to mislead the public, and it is far from improbable that they may do more harm than good when used under present conditions.
>
> "You understand, of course, that I have not discussed this matter with the senior officers of the bank and consequently what I have said is merely an expression of my individual views; but I am very positive that from the standpoint of a lawyer, if the use of these drafts is continued the circulars under which they are issued and the forms of the drafts should be carefully reviewed in the light of the experience which we have had in the past few years. One of the operating officers of the bank suggested to me that if no other revision was made, the form of the draft should at least be revised to the extent of changing the phraseology which indicates that any Federal reserve bank will receive this draft for immediate availability at par and the following words added: 'Subject nevertheless to payment by the Federal reserve bank upon which it is drawn'."

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LITTLE USE IS MADE OF THESE DRAFTS

All of the replies which make any comment as to the extent to which transfer drafts and exchange drafts are now used, indicate that at the present time their use is very limited (see replies of Federal Reserve Banks of New York, Atlanta, Chicago, St. Louis and San Francisco), and in some cases has been entirely discontinued (see replies of Federal Reserve Banks of Kansas City and Minneapolis). The principal reason given for their disuse is the practice, which was inaugurated after the inauguration of these drafts in 1917, of making free telegraphic transfers of funds, thus rendering the privilege of issuing these drafts of little practical value.

Several of the replies suggest that, in view of the small extent to which these drafts are used and in view of the danger that their use may result in financial loss or litigation to the Federal reserve banks, it would be advisable to discontinue the use of drafts of both types.

For instance, in his letter of February 2, 1933 to the Board's General Counsel, Mr. Agnew said:

> "It seems to me, and to the officers of the Federal Reserve Bank of San Francisco, that the right to the use of exchange and transfer drafts is superfluous and that without imposing any hardship upon member banks or curtailing the facilities offered by the Federal Reserve System to any appreciable extent, their use could be discontinued."

In his letter of February 14, 1933, to Mr. Agnew, Mr. Wallace said:

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> "I have been considering your suggestion that the use of these drafts should be discontinued, and while I have not had an opportunity to discuss all phases of the situation with the executive officers of the bank, I myself have come to the conclusion that the whole subject is so full of doubtful questions, both of law and policy, that it would certainly be advisable either to discontinue the use of the drafts, or at least to review the situation carefully and endeavor to eliminate some of the weak spots in the system as it operates at present.

The replies to Mr. Hale's letter also contain other similar expressions of opinion.

It appears moreover from the replies to Mr. Hale's letter that there are other matters not discussed in those replies which it would be advisable to discuss in connection with these drafts in the event that it is not decided to withdraw the privilege of issuing them. For instance, Mr. Coleman, Deputy Governor of the Federal Reserve Bank of Dallas states at the conclusion of his reply to Mr. Hale's letter that:

> "There are quite a number of questions that immediately occur to one in considering this matter and it would not be practicable in a letter of this kind to attempt to discuss all of them. We do believe that the matter as now handled in the Federal Reserve System is susceptible to much improvement, and we should be glad to join with you in an attempt to work out a plan by which these drafts could be handled with minimum risks to Federal Reserve Banks."

It is accordingly respectfully suggested that the question whether the privilege of issuing these drafts should be withdrawn, should be made a topic for discussion at the next Conference of Governors, and that a copy of this memorandum and attached papers be forwarded to the Governors of all Federal reserve banks for their information in advance of their next Conference. A letter for this purpose is attached hereto.

Respectfully,

(s) G. Howland Chase
G. Howland Chase,
Assistant Counsel.

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FEDERAL RESERVE BOARD

X-102.

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 25, 1917.

Dear Sir:

Following the last conference with the Governors of the Federal reserve banks in Washington the Committee on Clearings of the Federal Reserve Board took up the matter of Federal Reserve Exchange and has worked out a plan which the Board has approved to become operative May 21. An explanation of the plan and sample forms, are enclosed herewith for your information and guidance.

The Federal reserve banks are requested to issue as soon as possible circulars to their member banks embodying the rules and recommendations which are applicable to them, it being unnecessary, of course, to inform member banks of such details as concern the Federal reserve banks only.

Respectfully,

Governor.

Enclosures.

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F E D E R A L R E S E R V E D R A F T S .

There shall be two special forms of drafts on each Federal Reserve Bank which will be available for immediate credit at other Federal Reserve Banks.

The privilege of drawing these drafts shall be extended to all member banks complying with the regulations formulated by their Federal Reserve Banks.

The drawing of these drafts shall not interfere with member banks drawing the ordinary checks on their Federal Reserve Banks.

The special drafts provided for in this circular must be drawn on forms approved by the Federal Reserve Bank of which the drawing bank is a member. The forms are to be similar to the specimens enclosed herewith.

Any Federal Reserve Bank may, if in the judgment of its officers it becomes necessary, make a reasonable charge against member banks drawing these drafts for the purpose of effecting transfers of funds, such charge not to exceed the rate for transfers prevailing at the time the drafts are drawn.

All of these drafts shall be immediately charged to the drawing member bank's account on receipt of advice by the

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drawee Federal Reserve Bank. Specimen forms of advice are enclosed with this circular.

The two kinds of drafts shall be known as "Federal Reserve Exchange" and "Federal Reserve Transfer" drafts.

FEDERAL RESERVE EXCHANGE DRAFT.

The "Federal Reserve Exchange" drafts shall be the draft drawn by a member bank upon its own Federal Reserve Bank and made receivable for immediate availability at par at any Federal Reserve Bank but actually payable only at the drawee Federal Reserve Bank.

They shall, for the present and until otherwise provided, be drawn for amounts not in excess of $250.00.

The drawing bank shall be required to give advice by mail to its Federal Reserve Bank of the total amount of drafts drawn each day.

These drafts on a Federal Reserve Bank when received for immediate availability by another shall be listed in a special letter and forwarded to the drawee Federal Reserve Bank for credit.

If the total of the letter justifies there can be an advice by wire and entries made on the day the letter goes forward.

FEDERAL RESERVE TRANSFER DRAFT.

The "Federal Reserve Transfer" draft shall be the draft drawn by a member bank upon its own Federal Reserve Bank and made payable on advice of the drawee at any Federal Reserve Bank specified in the draft.

They shall, for the present, be drawn for amounts in excess of $250.00.

The drawing bank shall be required to give advice by mail to its Federal Reserve Bank of the numbers, amounts and total made payable at each Federal Reserve Bank of drafts drawn each day. This advice shall be under an authorized signature and a duplicate shall be forwarded to the Federal Reserve Bank at which the drafts are made payable, the duplicate advice to contain the signature in ink of officers signing the drafts.

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FEDERAL RESERVE TRANSFER DRAFT.
(Continued)

The drawee Federal Reserve Bank shall, upon receipt of advice from the drawing member bank, telegraph the Federal Reserve Bank at which the drafts were made payable, confirming the advice and authorizing a transfer of the aggregate amount from its regular account to an exchange account.

When sending a telegram the arrangement of the code words for name of bank, date of advice and aggregate amount shall be in the order given and shall be understood to mean; Federal Reserve Transfer Drafts drawn by _____ per their advice dated _____ the aggregate amount of which is not more than $_____ are good. Charge our account and credit our exchange account with the total amount advised in this telegram. See specimen telegram enclosed with this circular.

For the purpose of simplifying telegrams it is suggested that each Federal Reserve Bank may make a code so that each of its member banks can be designated by one code word, the first letter of the word to indicate the district in which the member bank is located.

The drafts when paid, by the Federal Reserve Bank specified in the draft, shall be marked paid, listed in a special letter and forwarded to the drawee Federal Reserve Bank. The total of the letter shall be charged to the exchange account of the addressee.

Under existing regulations governing the Gold Settlement Fund any Federal Reserve Bank can, at any time, obtain a settlement on a net balance due from another Federal Reserve Bank.

This plan shall become operative on the 21st day of May, 1917.

Enclosures:

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X-93.

CODE WORD
KERAMIC

48 - 1

FIRST NATIONAL BANK

Waco, Texas. _____

To Federal Reserve Bank,
of Dallas.

We have this day drawn checks on Federal Reserve Transfer form as listed below payable on advice from you at the Federal Reserve Bank of _____

NUMBER	AMOUNT	NUMBER	AMOUNT
		TOTAL	

Charge our account with total and arrange for payment.

Respectfully,

_____
Cashier.

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B. X-94.

CODE WORD 48 - 1
KERAMIC

F I R S T N A T I O N A L B A N K

Waco, Texas _____

To Federal Reserve Bank,
of _____

We have this day drawn checks on Federal Reserve Transfer form as listed below payable by you on advice from the Federal Reserve Bank of Dallas.

NUMBER	AMOUNT	NUMBER	AMOUNT
		TOTAL	

Signature in ink and title of officers signing any of the checks above listed. _____

_____

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250

X-95.

FIRST NATIONAL BANK

Waco, Texas _____

To Federal Reserve Bank
of Dallas.

Gentlemen:

We have this day drawn checks on Federal Reserve Exchange form, the total amount of which is $_____

_____ Dollars.

Charge our account to cover.

R. P. DUPREE,

Cashier.

X-95.

FIRST NATIONAL BANK

Waco, Texas_____

To Federal Reserve Bank
of Dallas.

Gentlemen:

We have this day drawn checks on Federal Reserve Exchange form, the total amount of which is $_____

_____Dollars.

Charge our account to cover.

R. P. DUPREE,

Cashier.

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TELEGRAM FORM

April 12, 1917.

To Federal Reserve Bank,

Chicago, Ill.

Keramic Eclipse Animal Kronic Export Cursedly Slingcart.

Federal Reserve Bank of Dallas.

Decoded - Federal reserve transfer drafts drawn by First N.B., Waco, Tex. Amer.N. B. Beaumont, Tex.

per their advice dated April 10th April 11th

the aggregate amount of which is not more than $15,000.00 $5,000.00

are good. Charge our account $20,000.00 and credit our exchange account.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 12, 1918.
X-1121

Dear Sir:

At the suggestion and upon invitation of the Federal Reserve Bank of Cleveland, an informal meeting was held on August 7th, at the office of the Federal Reserve Board to discuss Federal Reserve Exchange drafts. The meeting was attended by representatives of six Federal Reserve Banks. The recommendations made, a copy of which is inclosed with this letter, have been considered and approved by the Board.

(1) Federal Reserve Exchange Drafts.

Effective September 3rd, the limit of drawings of such drafts shall be increased from $250 to $5,000. Federal Reserve Banks paying Exchange drafts of other Federal Reserve Banks, will be permitted to deduct the amount paid from the total credits reported in the Gold Settlement clearing for the day. The daily transcript, forwarded to each Federal Reserve Bank, should show the items credited for the day and a deduction therefrom of the Exchange drafts paid for its account. The net credit should agree with the figures reported in the Gold Settlement clearings.

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(2) The Board deems it desirable for the Reserve Banks to adopt the recommendation of the Committee, that all Reserve Banks give immediate credit for Clearing House items on the day such items are received from other Federal Reserve Banks, the balances so credited to be included in the credit balances reported for settlement through the Gold Fund clearings. The actual payment for such balances would then be made on the same day as settlement is received by the paying Federal Reserve Bank for the checks and other items it collects.

(3) With respect to the recommendation that a more detailed analysis be made of the 'float' situation (i. e., the extent to which immediate credit has been given upon uncollected items) there is inclosed herewith a memorandum prepared by the Statistical Division based upon the information which it has at hand. The Board is willing to have a more detailed study of this question made, but to do so will require a call for the necessary data from each Federal Reserve Bank and it is believed that such study could best be made at the different Federal Reserve Banks.

Very truly yours,

Governor.

Inclosures.

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X-1121-a

COPY

Washington, August 7, 1918.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

At a meeting held in the Treasury Department Building in the Board Room of the Federal Reserve Board, August 7, 1918, at which the following were present:

Mr. M. J. Fleming, Asst. Cashier, Federal Reserve Bank, Cleveland.
Mr. S. H. Hendricks, Cashier, Federal Reserve Bank, New York.
Mr. Pierre Jay, Federal Reserve Agent, New York.
Mr. F. J. Carr, Asst. Cashier, Federal Reserve Bank, Chicago.
Mr. Chas. A. Peple, Deputy Governor, Federal Reserve Bank, Richmond.
Mr. Thos. Gamon, jr., Asst. Cashier, Federal Reserve Bank, Philadelphia.
Mr. C. C. Bullen, Cashier, Federal Reserve Bank, Boston.

It is recommended to the Federal Reserve Board that the limit for the drawings of Federal Reserve exchange drafts be increased from $250 to $5,000 and that Federal Reserve Banks holding Federal Reserve exchange drafts of other Federal Reserve Banks be permitted to deduct such Federal Reserve exchange drafts from the total credits reported to the Federal Reserve Board in the Gold Settlement Fund each day.

In order to bring about a daily settlement for clearing house items, it is recommended that all Federal Reserve Banks give immediate credit for clearing house items the day received from other Federal Reserve Banks, without regard to the time of day received, inasmuch as the balance so created is reported to the Gold Settlement Fund at the close of business but is really settled the following day when the checks have been collected.

It is voted that the Federal Reserve Board be asked to cause a more detailed analysis of the "float" situation in each Federal Reserve Bank to be made, for such period as the Board may deem advisable, in order that there may be a more exact knowledge as to what constitutes a large amount of "float" now appearing in the statement of the Federal Reserve system and in order that each Federal Reserve Bank may study in a more detailed way methods of eliminating its own "float".

Respectfully,

M. J. FLEMING.

Chairman.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4362

June 19, 1925.

SUBJECT: Increasing Limit Federal Reserve Exchange Draft.

Dear Sir:

The Federal Reserve Board has approved the action of the recent Governors' conference in voting to raise the limit on the Federal reserve exchange draft from $5,000 to $50,000. This privilege afforded to member banks becomes effective August 1, 1925.

The reserve banks are expected to exercise care in checking up the permits extended to member banks to draw exchange drafts before passing credit on any such draft and to make telegraphic inquiry in any questionable case. The Board understands that whenever a Federal reserve bank withdraws a permit it will immediately advise all other Federal reserve banks.

Very truly yours,

Vice Governor.

To Governors of all F.R.Banks

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X-7454-b

FEDERAL RESERVE BANK OF SAN FRANCISCO

December 2, 1932

Copy of letter to all Federal Reserve Banks

It has occurred to us that many perplexing problems might arise in connection with exchange and transfer drafts in the event of suspension of the bank issuing these drafts before such drafts were presented for payment.

Thinking this problem may have arisen in your district, or that you had given some thought to what action you would take, we are listing a number of questions which have occurred to us and would appreciate your comments thereon.

I. In the event of insolvency of a member bank in its own district,

1. Would a Federal reserve bank have any obligation to pay the holder in due course of such a draft, if presented to it after the suspension of the member bank?

2. Assuming it might refuse to pay the draft so presented, would it have the right to reverse its entries and credit back the amount of the draft to the reserve account?

3. If the answer to 2 is in the affirmative, would it then have the right to apply such funds against any existing indebtedness of the member bank to the reserve bank, or would it be necessary to repay the funds to the receiver?

II. What would be the position of the two respective Federal reserve banks should one reserve bank pay a <u>transfer draft</u> after suspension of an issuing bank in another district,

1. If the paying reserve bank had not received telegraphic advice from the district in which the draft was issued of the suspension of the bank?

2. If such telegraphic advice had been sent but had been overlooked by the paying department of the Federal reserve bank in question?

(In connection with this question, the form of transfer draft provided would seem to clearly indicate that the bank of the district in which it is issued is the drawee, although it states that the draft will be <u>paid</u> by another specified bank.)

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Copy of letter to all Federal Reserve Banks

III. What would be the position of the two respective Federal reserve banks should one reserve bank give credit for an exchange draft after suspension of an issuing bank in another district,

1. If it had not received telegraphic advice of suspension of the drawing bank?

2. If such telegraphic advice had been sent but had been overlooked by the paying department of the Federal reserve bank in question?

(With reference to both II and III, it should be borne in mind that a Federal reserve bank might pay out funds against credit given to its member bank before such draft or notice of its payment had reached the Federal reserve bank of the district in which it was issued.)

Some of these questions present two sides, namely, the proper action which should be taken by a Federal reserve bank of the district in which the drawing bank is located, and the action which should be taken by a reserve bank of another district should such items be presented to it for payment or credit.

We are writing to all of the Federal reserve banks in this respect as it is our feeling that the usefulness or service of these instruments to our member banks is quite problematical, and a reconsideration at this time might lead to the conclusion that it would be advisable to discontinue these facilities.

Yours very truly,

(Signed) W. M. Hale

C A S H I E R.

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FEDERAL RESERVE BANK OF NEW YORK

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December 9, 1932.

Mr. W. M. Hale,
Cashier, Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Hale:

We are in receipt of your letter of December 2, regarding the paying of exchange and transfer drafts in the case of suspended banks.

In this district we have only two banks which are authorized to use transfer drafts and three banks which are authorized to use exchange drafts. We have, therefore, not been very much concerned regarding the problems which you bring up in connection with these drafts. It would appear to us that little risk is involved if instructions governing the issuance and paying of exchange and transfer drafts are followed.

When a member bank issues a transfer draft it sends to both its Federal Reserve bank and also to the Federal Reserve bank on which the draft is drawn, an advice covering such draft. Upon receipt of such advice from one of our member banks we immediately charge their account and credit Transfer Draft Account. After such an entry has been made we believe that we are obligated to pay the draft even though the drawee bank has suspended.

Exchange drafts are accepted by any Federal Reserve bank for collection and immediate availability at par. If any exchange draft is not collected for any reason, it would be charged back to the endorsing bank in the same manner as any other cash item. However, as we also receive an advice from our member bank when they draw an exchange draft,

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an entry is immediately made upon receipt of advice, and we believe we are obligated to pay such draft after the entry is made even though it is presented to us after the bank has suspended.

Inasmuch as only a few banks in our district use exchange and transfer drafts to a very limited extent, it would be no hardship to discontinue such drafts in this district.

Very truly yours,

(Signed) J. M. Rice

J. M. Rice,
Assistant Deputy Governor.

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FEDERAL RESERVE BANK OF PHILADELPHIA
925 Chestnut Street

December 13, 1932.

Mr. William M. Hale, Cashier,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Hale:

This will acknowledge receipt of your letter of December 2nd, and we are answering your questions seriatim:

I. (1) A Federal reserve bank would be obliged, at least morally, to pay the holder in due course of an exchange draft if presented to it after suspension of the member bank, if the advice of the member bank had been received and the funds set aside for that purpose, prior to receipt of suspension notice.

(2) If the reserve bank could refuse to pay the draft so presented, it undoubtedly would have the right to reverse its entries and credit back the amount to the reserve account.

(3) In our opinion if such entries were reversed a Federal reserve bank undoubtedly would have the right to apply such funds against any existing indebtedness of the member bank, as such reversal would simply be a restoration of the account to its original condition.

II. (1) The responsibility of the paying reserve bank would not be governed by the question of whether it had received telegraphic advice of the suspension of the drawing bank, but would depend rather upon the question of whether or not the paying bank had received telegraphic instructions from the reserve bank in the district of the drawing member to pay the draft. Payment without such instructions places full responsibility upon the paying bank.

(2) See #1.

III. (1) It would seem that no question should arise covering this point, as exchange drafts are acceptable at par subject to final payment. If telegraphic or other advice of suspension to the reserve bank in the district of the member had not been received, the debit in the account certainly would be good and would provide funds to pay the draft. If no debit had been made the draft would be dishonored in ordinary course.

(2) It is our opinion that if telegraphic advice had been received, but

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overlooked by the paying department, there would be no obligation to pay the exchange draft presented and responsibility would attach only if the paying bank had made an actual payment from funds derived through a debit made to the reserve account after notice of suspension had been received even though overlooked.

In our opinion the whole situation is governed by the following major points:

1. If the drawing member's Federal reserve bank has received notice that drafts have been drawn, either on exchange or transfer form, and has acted upon that advice to the extent of setting aside the funds prior to receipt of notice of suspension, then such drafts should be honored. Under any other circumstances such drafts should be returned.

2. A Federal reserve bank of another district should not pay a transfer draft without specific instructions to do so from the reserve bank in the district of the drawing bank. Under any other circumstances it makes payment at its own risk.

3. A Federal reserve bank allowing immediate credit for an exchange draft originating in another district assumes no risk in so doing, unless it permits withdrawal of the credit by an irresponsible endorser. If the exchange draft is dishonored at the paying reserve bank, the endorsing reserve bank certainly has the right to return it to its depositor.

I believe your suggestion is a good one - the reconsideration of this service and the practicability of its elimination without embarrassment to the member banks.

Very truly yours,

(Signed) C. A. McIlhenny

C. A. McIlhenny,
Cashier.

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FEDERAL RESERVE BANK OF RICHMOND

January 9, 1933

Mr. W. M. Hale, Cashier,
Federal Reserve Bank of San Francisco,
San Francisco, Cal.

Dear Mr. Hale:

When your letter of December 2, 1932, raising several questions with reference to Federal reserve exchange and transfer drafts, was received I asked our counsel, Mr. Wallace, for his opinion, inasmuch as the problems involved seemed to be primarily legal rather than operating.

Mr. Wallace was quite busy at the time and did not submit his opinion until December 20th. I was away from the bank the last ten days of December and this is the first opportunity I have had to read the opinion and reply to your letter.

A copy of Mr. Wallace's opinion is enclosed herewith, and if the opinion holds - and I can see no reason why it will not - it does not seem to me that it will be necessary for the Federal reserve banks to alter their present practices. I will be very glad to have your opinion regarding the subject and would also like to know the results of your inquiries addressed to the other Federal reserve banks.

Yours very truly,

(Signed) J. S. Walden, Jr.

J. S. Walden, Jr.,
Controller

JSW:N

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FEDERAL RESERVE BANK OF RICHMOND

COPY
December 20, 1932

Mr. J. S. Walden, Jr., Controller

M. G. Wallace, Counsel.

Federal Reserve Exchange Drafts and Federal Reserve Transfer Drafts.

Dear Mr. Walden:

I have before me a letter dated December 2nd addressed to you by Mr. Hale, Cashier of the Federal Reserve Bank of San Francisco. All of the questions asked by Mr. Hale appear to depend upon the determination of one point; that is to say, whether or not the types of drafts mentioned by him are under the circumstances an assignment of the funds in the drawee bank. The drafts in question are, technically speaking, checks, since they are drawn on a bank or banker and payable on demand. Section 189 of the Negotiable Instrument Law reads as follows:

> "A check of itself does not operate as an assignment of any part of the funds to the credit of the drawer with the bank, and the bank is not liable to the holder unless and until it accepts or certifies the check."

Substantially the same rule is applied to drafts by Section 127 of the Negotiable Instrument Law.

You will note that under the above it is stated that a check is not of itself an assignment of any part of the funds to the credit of the drawer. It has, however, been held by the Supreme Court of the United States and many other courts that a check may operate as an assignment of the funds against which it is drawn when it is clear that the drawer intended that it should so operate; (See Fourth Street National Bank v. Yardley, 165 U. S. 634), and, of course, when the drawee has accepted a check, while the accepted check cannot be said to operate, strictly speaking, as an assignment of the funds in the hands of the drawee, it does render the drawee liable to the holder.

The above general principles are almost universally accepted; but there is considerable confusion as to just what is sufficient to denote that the drawer intended the check to operate as an assignment and also some doubt as to just what action on the part of the drawee is sufficient to indicate an unequivocal acceptance of the check of the drawer. An illustration of this uncertainty is to be found in the case of Equitable Trust Company of New York v. First National Bank of Trinidad, Colorado, 275 U. S. 359, 48 S. Ct. 167). In that case the First National Bank of Trinidad had an arrangement with Knauth, Nachod, and Kuhne, bankers of New York, under which the latter had agreed to arrange

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for the protection and payment of drafts drawn by the former on the Bance Commerciale Italiana. A draft was drawn under the arrangement and delivered to a holder. Knauth, Nachod, and Kuhne were advised of the drawing of the draft and in turn advised their Italian correspondent, which debited Knauth, Nachod, and Kuhne, and credited the amount of the draft to a special account termed "drafts payable." The draft was presented, but in the meantime Knauth, Nachod, and Kuhne had been adjudicated bankrupts. The Italian bank therefore dishonored the draft and the Trinidad bank, having been compelled to take it up, claimed that the funds of Knauth, Nachod, and Kuhne on deposit with the Italian bank, which had upon receipt of the advice of the drawing of the draft been deducted from the general account and credited to a special account were impressed with a trust in favor of the holder of the draft, or else had been assigned and transferred to it. The Circuit Court of Appeals sustained the claim of the First National Bank of Trinidad, but the case was taken to the Supreme Court of the United States and the decision reversed, Justice Stone and Justice McReynolds dissenting. In the opinion of the court by Mr. Justice Holmes much stress is laid upon the fact that neither the purchaser of the draft nor the First National Bank of Trinidad were parties to or knew of the arrangement between Knauth, Nachod, and Kuhne and the Italian bank, and that there was no arrangement that any particular fund should be set aside but the method of bookkeeping between the New York bankers and the Italian bank was adopted purely as a matter of convenience, and that it had been the practice of the Italian bank to cancel such advices whenever requested to do so without inquiry as to who was the holder of the drafts or what had become of them. The fact that this case was decided in the Circuit Court of Appeals in one way and reversed by the Supreme Court of the United States by a divided court is of itself sufficient to indicate that there is some uncertainty in all such cases and that the case at bar represents a border line case.

Applying the principles of the above cases to our Circular No. 142 relating to the issuance of Federal Reserve Exchange drafts, I am inclined to the opinion that Federal Reserve Exchange drafts issued under the circular are clearly assignments of the fund against which they are drawn, or rather that the advice of drawing which the drawer bank must give is sufficient to constitute an assignment when read in connection with the circular, for in that case it is plain that the drawer of the draft is placed upon notice that when the draft is drawn and the advice given, its account will be charged. The circular states that Federal Reserve drafts are entirely different from ordinary drafts and are intended to serve a different purpose. The circular indicates that this difference is because ordinary drafts drawn on Federal reserve banks are payable only on presentation, and consequently will not be received by

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other Federal reserve banks for immediate credit, but that the Federal Reserve Exchange drafts will be received for immediate credit at par by any other Federal reserve bank or branch subject, of course, to final payment by the Federal reserve bank on which they are drawn. It is further provided that these drafts may only be drawn by banks which have theretofore obtained permission. This seems to imply that the Federal reserve bank will exercise some degree of responsibility in the matter other than that of a mere drawee, and this responsibility appears to be defined under the heading "Advices of Drafts Drawn," in which it is said, "The total of the amount of this advice will be charged to the reserve account of the member bank upon receipt and credited to a special account for the payment of such drafts when presented." It seems to me, therefore, that in authorizing the issuance of these drafts the Federal reserve bank has definitely undertaken that upon receipt of a proper advice the amount of the draft will be credited to a special account and held for the payment of such drafts when presented, which of necessity means held for the account of the holder of the draft rather than for the account of the drawer. While I believe that the circular implies that a Federal reserve bank, of course, would not be obliged to charge the amount of the draft to the credit of the drawer bank unless it had funds sufficient to support the charge, nevertheless, if such funds were available, it would be obliged to fulfill its contract and charge the account of the drawer bank and hold the funds in a special account for the special purpose of paying the draft when presented, which would of necessity mean hold the funds as due and payable to the lawful holder of the draft whoever he might be.

Applying this principle to the questions in the first section of Mr. Hale's letter, it appears to me:

(1) That a Federal reserve bank would be obliged to pay the amount held for the payment of the draft in question to the lawful holder of the draft regardless of anything that had occurred after the Federal reserve bank had charged the drawer of the draft with the funds and credited them to the especial account.

(2) If I am mistaken in the above conclusion and the funds should not be paid to the holder of the draft, I think it clear that then the funds would be transferred to the general account of the drawer and disposed of accordingly.

(3) If the funds were not payable to the holder of the draft, they would constitute a mere general debt to the original drawer, and would, of course, be subject to all rights of offset as any

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other indebtedness. In other words, it appears to me that no theory could be adopted under which such funds were not either payable to the holder or payable to the drawer. It could never be said that a special trust had arisen, but that that trust was for the use and benefit of the drawer of the draft and not for the holder of it.

Answering the questions in Section II. I wish to say that I am not very familiar with the use of Federal Reserve Transfer drafts, but I understand that such drafts, like Federal Reserve Exchange drafts, are issued only under a general authority from a Federal reserve bank of a district and are payable by another specified Federal reserve bank, and that it is usual for the Federal reserve bank of the district in which the draft is issued to wire an advice to the Federal reserve bank by which the draft is payable.

The questions might in some degree be affected by the forms of advice used. However, assuming that the advice is a definite instruction to pay the draft for the account of the Federal reserve bank of the issuing district, my answers to the questions in Section II. would be:

(1) If the paying Federal reserve bank had not received telegraphic advice from the district in which the draft was issued of the suspension of the drawee bank, then the paying reserve bank should pay the draft, and having paid it, could charge it to the account of the reserve bank in the district of issue, because the paying bank would in so doing act on the express instruction of the Federal reserve bank in the district of issue, which instruction had not been countermanded. The position of the reserve bank in the district of issue would depend upon what instructions it had received and what it had done. If it had been instructed to set aside funds and had done so, it could, I think, apply these funds to the payment of the draft, even though the drawer bank had subsequently suspended.

(2) If the advice of suspension had been received, but overlooked by the paying reserve bank, its position would be the same as if it had been received, but had been wilfully ignored. For the reasons given above, I do not think that a more general advice of suspension should be treated by the paying Federal reserve bank as a stop-payment order on such drafts; but, if the paying Federal reserve bank should receive express directions from the reserve bank in the district of issue to stop payment

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of the draft, the order should be obeyed; and if the paying Federal reserve bank failed to obey the order, whether because it was overlooked or for some other reason, it would be responsible to the Federal reserve bank of the district of issue for the consequences. The rights of the holder in such cases would of course depend upon the circumstances under which the draft was issued and what advice the drawee bank had given the Federal reserve bank of its own district and what had been done upon this advice.

My answers to the questions propounded in Section III., which, of course, are predicated on the assumption that I am correct in my view that Federal Reserve Exchange drafts constitute complete assignments and transfers if advice of the drawing has been properly given and acted upon, are:

(1) It does not appear to me that receipt of telegraphic advice by a Federal reserve bank other than the one on which the Federal Reserve Exchange draft is drawn is material. If the Federal reserve bank on which the Federal Reserve Exchange draft was drawn had received the advice of drawing and made a transfer before receiving the advice of suspension, the funds would be held for the credit of the holder of the draft regardless of whether that holder was another Federal reserve bank or some other person and the holder's knowledge of the completion of the assignment would not be material; but inasmuch as the Federal reserve bank in the other district would probably not know whether an advice of the drawing had been given or not, and if given, whether or not the drawing bank had funds sufficient to permit the draft to be charged to its account and the amount transferred to the especial account, it seems to me that a Federal reserve bank in another district should from motives of prudence avoid paying out any funds if it knew that the drawer bank had suspended, for since such drafts are subject to final payment, there would always be a possibility that when presented to the Federal reserve bank on which drawn, they would be refused because either the advice of the drawing had not been given properly, or, if given, because the drawer bank had no funds available.

(2) In line with the opinion which I have expressed above the situation is the same in all cases, for advice by telegraph has been given and wilfully ignored. In other words, any person receiving notice and then overlooking it is in the same situation as if he had received it and deliberately ignored it.

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December 20, 1932

Mr. J. S. Walden, Jr., Controller. Federal Reserve Exchange Drafts and

M. G. Wallace, Counsel. Federal Reserve Transfer Drafts.

-6-

You will notice, of course, that all of my answers above are based upon the assumption that the contracts under which Federal Reserve Exchange drafts and Federal Reserve Transfer drafts are issued are such as to constitute them assignments of the funds against which they are drawn, provided due notice of the drawing is given to the Federal reserve bank in the district of issue, and a definite appropriation of the funds in the hands of that bank is made before the suspension of the drawing bank. I feel fairly confident that this construction would be placed on the drafts if the question should ever be litigated; but, as you will see from the cases to which I referred, it is almost impossible to express an unequivocal opinion. If the Federal reserve banks desired to avoid any possible doubt, then they should refuse payment of such drafts if they had received notice that the drawing bank had suspended, and unless the receiver of the drawing bank and the holder of the draft could agree as to their rights, the Federal reserve bank should file a bill of interpleader and pay into court the amount of the draft in order that the court might determine whether the money belonged to the receiver of the drawing bank or to the holder.

Very truly yours,

(Signed) M. G. Wallace

M. G. Wallace,
Counsel.

MGW R

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FEDERAL RESERVE BANK OF ATLANTA

Office of
Cashier

December 15, 1932

Mr. W. M. Hale, Cashier,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Hale:

This will acknowledge receipt of your favor of the 2nd instant presenting a number of perplexing problems which you believe may arise in connection with the use of exchange and transfer drafts in the event of suspension of the bank issuing such drafts before the drafts are presented for payment.

A very small number of banks of this district are now authorized to issue exchange drafts and none are authorized to issue transfer drafts.

Thus far, probably due to good fortune, we have not had to deal with any problems of the nature suggested in your letter, though we realize that situations might develop that would call for definite and probably quick handling of matters resulting from the issue of exchange drafts in the event of suspension of the member bank by which they were drawn.

Instead of undertaking to answer your letter myself, I submitted it to our counsel, Mr. Robert S. Parker, and he has favored me with an expression of his opinion concerning all the problems your letter presents. I am enclosing a copy of Mr. Parker's letter, and I agree with the opinions he has expressed.

Several years ago, just how long ago I do not recall, we discontinued the use of transfer drafts because we considered them entirely unnecessary in view of the fact that member banks are afforded ample facilities for the transfer of funds through the medium of our private wire system.

I am inclined to think that the use of exchange drafts should also be discontinued because as you state their usefulness is quite problematical, and I believe their use involves too many hazards and risks that more than offset whatever little service they may be to the very limited number of member banks of the entire Federal Reserve System which are using them.

After you have heard from all the Federal Reserve Banks, if you find it convenient to do so, please let me have a summary or brief synopsis of their views.

Yours very truly,

(Signed) M. W. Bell

M. W. Bell

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COLQUITT, PARKER, TROUTMAN & ARKWRIGHT
Attorneys at Law
Suite 1607 William-Oliver Bldg.
ATLANTA

COPY

December 12, 1932.

Mr. M. W. Bell, Cashier,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Bell:

At your request I have read the letter concerning Federal reserve exchange drafts which Mr. Hale, Cashier of the Federal Reserve Bank of San Francisco wrote you under date of December 2nd. In Mr. Hale's letter he also makes reference to "transfer drafts," but I understand from you that the use of such last mentioned drafts has been discontinued.

You have asked me to indicate the way in which, in my opinion, Mr. Hale's questions should be answered.

In my opinion the rights of the drawer, drawee, payee or other holder of an exchange draft would be determinable by reference to your Circular No. F-4, which sets out the terms and conditions under which such drafts may be issued.

It is contemplated that when one of these drafts is drawn by a bank to which permission so to do has been given, the drawer gives written advice to the Federal Reserve Bank upon a form supplied by the Reserve Bank. Immediately upon receipt of such advice, the reserve account of the drawer is charged with the amount of the draft and there is a corresponding credit to a special account, which is maintained for the payment of the draft upon presentation.

I am of the opinion that, to all intents and purposes, an exchange draft should be treated as the certified check on the Federal Reserve Bank, the "certification" being effective as of the time when the advice of the drawing has been received. If this analogy is correctly drawn, then the answers to Mr. Hale's questions should be, in my opinion, as follows:

I

1. In the event of the insolvency of a member bank, the Federal Reserve Bank of the District would rest under no obligation to pay the holder in due course of an exchange draft

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if the same were presented to it after the suspension of the drawer unless it had, prior to the receipt of the notice of suspension, received advice that the draft had been drawn. If it had received advice of the drawing of the draft prior to notice of suspension, then I think that the draft, upon presentation, should be paid out of the special fund, even though presented after notice of suspension.

2. I am of the opinion that after you had credited the amount of a draft to the special account created "for the payment of drafts when presented," you could not thereafter reverse your entries and credit back the amount of the draft to the Reserve account of the drawer.

3. I think that the "special account" referred to in your Circular, which account is "earmarked" for the purpose of paying exchange drafts upon presentation, could not be applied to the payment of an indebtedness of the member bank to the Reserve Bank. It follows that the funds in this account could not be paid to the receiver but should be retained by the Reserve Bank for the purpose of paying the draft upon presentation.

II

This division of Mr. Hale's letter relates to transfer drafts, the use of which by member banks in this District has been discontinued. It may be, however, that some of the Federal Reserve Banks still permit their members to issue such drafts. I have made no particular study of the legal effect of transfer drafts but believe that the general principles discussed in subdivision "I" would be controlling, viz., if the drawee Federal Reserve Bank charged the amount of the draft to the account of the drawer prior to notice of suspension and credited the amount of the draft in a special account, then it should be paid despite the fact that the drawer might have closed prior to the actual presentation of the draft to the drawee. If there is any doubt about this proposition, such doubt would, in my opinion, be removed in any case where telegraphic advice had been given to the Federal Reserve Bank specified as the bank to make payment.

III

It follows from the above that, in my opinion, the placing of the amount of a transfer draft in the special account

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prior to receipt of notice of suspension of the drawer would render the drawee Federal Reserve Bank liable for the payment of the draft, although, if the Federal Reserve Bank designated as the bank to pay actually knew of the suspension of the drawer when it made payment, the situation might be changed.

SUMMARY.

As stated heretofore, if we can properly analogize one of these drafts, the amount of which has been charged to the account of the drawer, to a check which bears the certification of the Federal Reserve Bank, then, at least in so far as concerns exchange drafts, I feel reasonably sure that the answers set out above are correct. I am not so sure of my ground in the case of a transfer draft. Practically regarded, however, it seems to me that no Federal Reserve Bank would pay one of these drafts unless it had received telegraphic advice from the drawee Federal Reserve Bank. If, after receiving telegraphic advice, it paid the draft, I think that the drawee Reserve Bank should pay the same even though before presentation it had received advice that the drawer had suspended.

I might add that I do not think that that part of Regulation J which prohibits the making of charges to members' reserve accounts after advice of suspension, etc. would affect or control a situation in which the reserve account had actually been charged with the amount of a draft prior to notice of suspension even though the draft itself had not been presented for payment.

Trusting that the above will be of some service to you and Mr. Hale, I am

Sincerely yours,

Robt. S. Parker.

RSP/w.

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FEDERAL RESERVE BANK OF CHICAGO
230 South LaSalle Street

COPY

December 8, 1932

Mr. W. M. Hale, Cashier
Federal Reserve Bank of San Francisco
San Francisco, California

Dear Mr. Hale:

We have your letter of December 2, in which you make inquiry as to our views regarding the position of a Federal reserve bank in connection with exchange and transfer drafts issued by a member bank in the event of the member bank having suspended business previous to the payment of the drafts.

The conditions governing the issuance of Federal reserve exchange drafts and Federal reserve transfer drafts provide that the member bank issuing either form of draft send a special advice to its Federal reserve bank on the date such drafts are issued authorizing the Federal reserve bank to charge its reserve balance with the total amount of the advice, it being understood that the amount be set aside in a special account for the specific purpose of paying the drafts described in the advice if and when presented for payment. Accordingly, it is our opinion that such funds should not be applied for any other purpose. It is also our opinion that, in view of the funds in question having been so segregated, a Federal reserve bank would be obligated to pay a holder in due course of such a draft if and when presented to it for payment, although the member bank had suspended business previous to the presentment of the draft.

Our opinion as above expressed would likewise apply to inquiries in your second paragraph, as we do not believe that either the receipt of notice or failure to receive notice of the closing of the drawer bank by the paying Federal reserve bank would affect the position of the paying Federal reserve bank; that is, once the charge has been made by the drawee Federal reserve bank to the reserve account of the drawer member bank, it is our view that the segregation of the funds is for the specific purpose of putting drawee Federal reserve bank in funds to honor the draft described in the advice if and when the draft is presented for payment. Notice of suspension of the drawer member bank subsequently received would not change the rights of the parties.

If we understand your third question correctly, the foregoing conclusions apply to it. In view of the fact that the member

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bank drawing an exchange draft may fail to notify the drawee Federal reserve bank to charge its account with such amount, obviously the same risk attaches to permitting withdrawal of a balance created by a credit representing a Federal reserve exchange draft on a reserve bank of another district as to any other item credited subject to final payment.

The necessity or usefulness of these forms of exchange has been discussed at length in our bank on many occasions, and, while there may be a few member banks in our district that derive a definite benefit from this service, it is very much a question in our mind as to whether or not they should not both be dispensed with, as our records indicate the majority of our member banks that make use of either of these forms of exchange do not understand the purpose for which they were intended; that is, that the ordinary draft on us would serve the purpose in most cases.

We shall appreciate it if you will let us know the results of your survey on this subject.

Very truly yours,

(Signed) J. H. Dillard

J. H. Dillard,
Deputy Governor

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FEDERAL RESERVE BANK OF ST. LOUIS

December 9, 1932.

Mr. W. M. Hale, Cashier,
Federal Reserve Bank,
San Francisco, California.

Dear Mr. Hale:

We have your letter of December 2. We discontinued the facility of "Federal Reserve transfer" drafts in August of 1918 for the reason that in June of that year the inauguration of free telegraphic transfers, in our judgment, terminated any need for the transfer drafts. This facility has not since been extended to our member banks.

Prior to the receipt of your letter we informally discussed the questions raised and it was our feeling that if an exchange draft was presented after the insolvency of the member bank drawing it that we would decline payment awaiting authority of proper jurisdiction. It was always felt that the balance provided for the payment of such drafts was a fund created for a specific purpose and could not be credited back to the reserve account nor be used to offset indebtedness of the insolvent member bank.

Since receipt of your letter the matter has been presented to our Counsel for his consideration and a copy of his opinion in respect thereto is enclosed.

Yours very truly,

(Signed) O. M. Attebery,

O. M. Attebery,
Deputy Governor.

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December 8, 1932. P

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Memorandum for Mr. Attebery:

In considering the questions suggested by the Federal Reserve Bank of San Francisco, in letter of December 2, 1932, we will have to differentiate between the ordinary draft and the Federal Reserve exchange draft. In this to wit:

In the ordinary draft, the drawee, if he has received no notice of the insolvency of the drawer, honors or dishonors the draft as of the time it is presented and either pays in money or furnishes the payee with other exchange. In the latter case, the drawee becomes a debtor to the payee instead of to the drawer. The transaction, as between the drawer and the drawee, is complete as and from the moment the draft is presented.

Whereas, when the Federal Reserve exchange drafts are used, the drawer, simultaneously with the issuing of the draft, notifies the drawee that such a draft has been issued in favor of the named payee, and upon receipt by the Federal Reserve Bank of the advice of the issuance of such drafts, the Federal Reserve Bank charges the amount against the reserve account of the drawer and credits the amount to a special account for the payment of the drafts when presented. The amount of the draft is withdrawn from the account of the drawer the moment the amount is credited to the special account and thereupon becomes the funds of the payee as and when the draft is actually presented. A transaction similar to one where the drawee bank issues its Cashier's check or certifies the original check.

(1) From the foregoing, it would follow that in the event of the insolvency of the drawer before the actual draft was presented, the answer to sub-section I of Paragraph (L) would be in the affirmative; for, its acts in charging the drawer's account had taken place before it received any notice of insolvency of the drawer, and the drawee bank thereby became a stakeholder of a certain fund to be turned over to the holder of the draft when presented.

(2) Answering the second sub-section of Paragraph (1), the drawee bank, after it had charged the draft to the account of the drawer and had placed the funds in a special account for the payment of the draft, would have no right to reverse its entries so long as the draft in question remained outstanding.

(3) Answering the 3rd sub-section of Paragraph (1), so long as the draft remained outstanding, the drawee - the Federal Reserve Bank - would not have the right to use the special fund to pay the indebtedness of the borrowing bank to the Reserve Bank. Neither could the special fund be applied to the payment of the indebtedness of the drawee bank to the Reserve bank. If later, the Receiver of the drawer bank should

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become the holder in due course of the draft in question, and should present it for payment, - for, the funds paid on the draft would come into the hands of the Receiver after the drawer had failed and it would be like other funds coming into the hands of the Receiver from other sources, - the funds could not be applied to the payment of the indebtedness of the Trust to the Federal Reserve Bank, a creditor of the Trust.

I believe the foregoing answers the questions listed under sections II and III.

Very truly yours,

(Signed) Jas. G. McConkey,

General Counsel.

C O P Y

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FEDERAL RESERVE BANK OF MINNEAPOLIS

December 28, 1932

Mr. W. M. Hale, Cashier,
Federal Reserve Bank,
San Francisco, California.

Dear Mr. Hale:

Upon receipt of your letter of December 2 addressed to Mr. Ziemer, the questions included therein were submitted to our counsel, who today gives answer thereto as per copy of letter herewith. We regret that your communication was not sooner answered.

You will observe from counsel's letter that we are not using "exchange" or "transfer" drafts; therefore specific answers to your questions are not made.

With the Compliments of the Season,

Very truly yours,

(Signed) Harry Yaeger

Harry Yaeger,
Deputy Governor.

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Enc.

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UELAND & UELAND
Attorneys & Counselors

800 Security Building
Minneapolis

December 28, 1932.

Mr. Harry Yaeger,
Deputy Governor.

Please pardon our delay in answering your memorandum dated December 6, 1932 with reference to the letter dated December 2, 1932 from Mr. Hale, cashier of the Federal Reserve Bank of San Francisco.

Your bank does not use the "exchange" or "transfer" draft of the type referred to in Mr. Hale's letter. We have not had an opportunity to examine forms of the draft referred to by Mr. Hale, nor are we advised of the form of notice given by a member bank to its respective Federal reserve bank when such a draft has been drawn. Accordingly, our opinion as to the rights and liabilities arising out of this practice is probably of little, if any, value.

However, as we understand the practice, a transfer draft of this type would probably be taken to constitute an equitable assignment, to the extent of the amount of the draft, of the member bank's reserve balance. When the member bank drawing the draft had notified its Federal reserve bank of that fact, then we are inclined to think the effect would be the same as if the member bank had given a partial assignment of its reserve balance and had notified its reserve bank of such assignment. In other words, after such notice, the reserve bank would have to hold the amount of the draft for the benefit of the owner thereof.

If our understanding is correct, the answer to the questions put in Mr. Hale's letter would be that the Reserve Bank cashing or giving credit for such a draft would be protected in all cases provided the drawee Reserve Bank had received notice of such drawing and at the time of such notice there were sufficient funds in the reserve account to pay the same.

The questions presented by Mr. Hale suggest that the practice under consideration is rather anomalous from the legal viewpoint and might result in litigation and possible loss to a Federal reserve bank.

UELAND & UELAND

By Sigurd Ueland

SU/MG

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FEDERAL RESERVE BANK OF KANSAS CITY

December 10, 1932.

Mr. W. M. Hale,
Cashier, Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Hale:

This will reply to your letter of December 2, with reference to the perplexing problems which arise in connection with the use of exchange and transfer drafts, and while our experience has no doubt been somewhat similar to your own, we have had a very limited use of such facilities in this district and no actual experience under conditions set forth in your letter.

We offered our member banks these facilities in 1917 and 1918, and while a few banks availed themselves of such facilities for a time, they gradually discontinued until during the past five or six years we have had but one bank using such facilities, which bank discontinued their use about a year ago, and at this time we have no bank using them. In view of the fact that we have had so little practical experience in this respect, we hesitate to express opinions on the rather involved hypothetical questions stated in your letter and doubt if such opinions would be of value to you.

We note that you have taken this matter up with all Federal reserve banks and that it is your feeling that the usefulness of the instruments to member banks is quite problematical and a reconsideration at this time might lead to the conclusion that it would be advisable to discontinue such facilities. We heartily agree with this suggestion and as a matter of fact have not embodied such facilities in our general letters in recent years, and have rather discouraged their use when we have had specific inquiries with reference to such service.

Trusting that the information furnished will be of interest to you, and with kind personal regards, I am

Yours very truly,

(Signed) J. W. Helm

J. W. Helm,
Deputy Governor and Cashier.

JWH-s

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C O P Y

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FEDERAL RESERVE BANK OF DALLAS

December 8, 1932

Mr. W. M. Hale, Cashier
Federal Reserve Bank
San Francisco, California

Dear Mr. Hale:

We have your letter of December 2, 1932, addressed to Mr. R. R. Gilbert, who is at present away from the bank on his vacation.

Before answering the specific inquiries in your letter we set forth below briefly the mechanical operations followed in this district in the issuance of exchange and transfer drafts, as well as the practice of other Federal Reserve Banks in handling such drafts presented to them for payment:

FEDERAL RESERVE EXCHANGE DRAFTS.

Certain specified banks in this district are authorized by us to issue Federal Reserve exchange drafts, this authority being given after full consideration by our committee as to the bank's financial condition. Periodically the condition of the banks having been given this authority is reviewed. The names of all banks in this district authorized by us to issue such drafts are furnished to each Federal Reserve Bank. On the date such drafts are issued by the member bank, the bank is supposed to give us detailed advice of the number and amount of the draft so issued. Upon receipt of this advice from a member bank we immediately charge its reserve account and set up a suspense account on our general ledger for the amount of such draft. WHEN THESE DRAFTS ARE PRESENTED TO OTHER FEDERAL RESERVE BANKS IMMEDIATE CREDIT IS GIVEN THEREFOR, BUT THE DRAFTS ARE HANDLED FOR COLLECTION IN THE ORDINARY WAY WITHOUT SPECIAL NOTICE.

FEDERAL RESERVE TRANSFER DRAFTS.

Member banks in this district are authorized to issue Federal Reserve transfer drafts after similar credit investigation of the member bank to whom such privilege is granted. Other Federal Reserve Banks are not advised of the banks in this district authorized to issue Federal Reserve transfer drafts. On the date such drafts are issued the member bank issuing same is supposed to give us detailed advice over the signature in ink of the officer signing said draft, showing the number, amount and the Federal Reserve Bank to which such draft is made payable. Immediately upon receipt of such advice we charge the reserve account of the member bank for the amount of the draft and credit such amount into a suspense account on our general ledger. Immediately upon presentation to any other Federal Reserve Bank of a Federal Reserve transfer draft we are

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given advice by wire of the presentation of such item for payment, and in the event we have not theretofore set aside in the suspense account on our general ledger a sum sufficient to meet this draft we, of course, immediately so notify the Federal Reserve Bank to whom the draft has been presented for payment in time for that bank to reverse its credit.

GENERAL DISCUSSION

Apparently there is no agreement between Federal Reserve Banks as to their respective liabilities in connection with such drafts. Furthermore, in so far as our district is concerned, we do not have any regulation defining the rights and obligations of the member bank and Federal Reserve Bank with respect to these items. Our circular in connection with these items consists only of detailed instructions concerning the issuance of such items.

We think that uniform agreements defining the rights and liabilities as between Federal Reserve Banks and uniform circulars defining the rights and liabilities between Federal Reserve Banks and their member banks should certainly be worked out and put into force if the practice of permitting issuance of these drafts is to be continued.

Assuming that our member banks issuing such drafts gives us the notice which they are supposed to give, and assuming further that this notice is received and their reserve accounts are charged prior to the suspension of the member bank involved, we answer your questions as follows:

I. 1. Yes

2. We do not believe that the Federal Reserve Bank would have the right to refuse to pay the draft when presented, and therefore it would not have the right to reverse the entry.

3. The answer to this question is covered by the answer to I. 2.

II. 1. We do not think that the position of the paying Reserve Bank would be affected by the suspension of the issuing bank, provided the details of the plan had been carried into effect, for the reason that, in our opinion, if the details had been perfected the issuing bank had made an assignment of the funds against which the draft was drawn.

2. The answer to this question is covered in the answer to II. 1.

III. 1. If the mechanics of the plan had been carried fully into effect prior to the suspension of the issuing bank, we do not believe that the position of either Federal Reserve Bank would be affected.

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III. 2. The answer to this question is covered by the answer to III. 1.

We believe that under existing law a bank may assign funds, provided it clearly evidences an intention to do so and that such funds having been assigned before a bank closed would not be affected by the closing of the bank. This, we think, is the case where the mechanics of the arrangement are fully carried out prior to suspension. However, the vice in the present practice, it seems to us, is in the fact that issuing banks might under given circumstances issue such drafts without notifying the Federal Reserve Bank of the district in which it is located, and thus no assignment would take place prior to suspension; and in that event serious questions would arise as to the rights of both the paying Federal Reserve Bank and the Federal Reserve Bank of the district in which the issuing bank was located.

There are quite a number of questions that immediately occur to one in considering this matter and it would not be practicable in a letter of this kind to attempt to discuss all of them. We do believe that the matter as now handled in the Federal Reserve System is susceptible to much improvement, and we should be glad to join with you in an attempt to work out a plan by which these drafts could be handled with minimum risks to Federal Reserve Banks.

Yours very truly,

(Signed) R. B. Coleman

R. B. Coleman
Deputy Governor

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C O P Y

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FEDERAL RESERVE BANK OF RICHMOND

February 14, 1933

Mr. Albert C. Agnew, Counsel,
Federal Reserve Bank of San Francisco,
San Francisco, Cal.

My dear Mr. Agnew:

I received your letter of February 2nd enclosing a copy of your letter of the same date to Mr. Wyatt. Of course, I appreciate highly the comments which you made on my opinion addressed to Mr. Walden. As I understand it, neither of us feel at all confident as to what would be the rights of the various parties in a case in which a bank upon which a Federal Reserve exchange draft was drawn had received notice of the issuance of the draft and had segregated a fund sufficient to pay it or had received notice but had not actually segregated a fund, and certainly it would be highly desirable to remove the doubt on this point if it is practicable.

The Managing Director of our Charlotte Branch was in town a few days ago and in a discussion with me brought up another aspect of Federal Reserve exchange drafts to which I had never given much consideration. In my letter to Mr. Walden I was thinking only of the position of the Federal reserve bank upon which the draft was drawn; probably I was unconsciously following a maxim which used to be much used by a lawyer in this city; that is to say, "I don't care what happens as long as it don't happen to me." Mr. Clements, Managing Director of our Charlotte Branch, however, asked me what I thought would be the position of the bona fide holder of such a draft if it appeared that the member bank which drew it had not notified the Federal reserve bank of the drawing of the draft or had notified the Federal reserve bank but had no available balance which could be charged when the advice was received. Of course, viewing this solely as a question of law, the answer seems fairly simple. The draft could not be treated as an assignment of funds in the hands of the Federal reserve bank because there were no funds to transfer. It could not be regarded as giving the holder a right of action against the Federal reserve bank because obviously the Federal reserve bank has no relation to the draft except that of drawee, and has never accepted or certified the draft. Mr. Clements called my attention, however, to the fact that the forms used bear in very conspicuous letters the words "Federal Reserve Exchange," and the positive statement that any Federal reserve bank or branch will receive this draft for immediate availability at par. The circular of the Federal Reserve Bank of Richmond, which is, I assume, substantially similar to that in use by other Federal reserve banks, expressly provides that the drafts will be received by other Federal reserve banks and their branches "subject, of course, to final payment by the Federal reserve bank upon which it is drawn." An experienced banker or a careful lawyer would immediately recognize that a draft may be receivable for immediate availability by any Federal reserve bank, but that the funds which are thus made available will be paid only conditionally and the payee of the draft or other person receiving the payment will be nevertheless bound as endorser of the draft to repay the funds if the draft is dishonored. Mr. Clements, however, pointed out with much force that a business man, and

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probably many bankers, examining the draft and knowing that the privilege of drawing these drafts was granted to member banks only at the discretion of the Federal reserve bank of their district, would probably conclude that the Federal reserve bank upon which the draft was drawn had assumed some responsibility in the matter. The drawee Federal reserve bank could probably successfully demonstrate that its responsibility was conditioned entirely upon the receipt by it of due notice of the drawing of the draft and upon the existence of a balance to the credit of the drawer of the draft when the notice was received. The holder of the draft, however, who had taken it for value upon the assurance that the amount of it would be made immediately available to him at any Federal reserve bank or branch would probably feel that this condition as to the payment of the draft was rather unjust.

Mr. Clements put the matter to me somewhat in this way: Suppose that you were a broker in California and a man from South Carolina sent you a Federal Reserve exchange draft containing the positive statement that the amount of it would be made immediately available to you at par by the Federal Reserve Bank of San Francisco, and relying on this assurance you accepted the draft and placed it in your local bank, and when the proceeds became available to that bank, released securities or goods to the person who had given you the draft; and a week later you received a notice that the bank which drew the draft was insolvent and that the draft had been dishonored and was returned to you, and you were obliged to take it up as endorser, and when you consulted your attorney you discovered that the draft which you had taken on a form prepared by a Federal reserve bank purported to be issued with the consent and authority of a Federal reserve bank was no better than the check of an unknown individual, except for the fact that your bank could obtain immediate credit for it from a Federal reserve bank, when as a matter of fact you usually obtained immediate credit for checks of individuals which you deposited in your bank and did not know that banks could not obtain immediate credit on such checks from Federal reserve banks. In other words, the fact that many, if not most, banks give immediate credit to their customers for checks deposited with them, means that Federal Reserve exchange drafts differ from ordinary checks in the hands of individuals only in points to which the individual is usually indifferent; but the entire form of the draft is such as to suggest to the individual that it has a value which makes it much more safe and desirable than the check of an individual.

I was obliged to confess that if I were the business man which Mr. Clements mentioned, I should feel that the Federal Reserve System had at least given me good reason to expect that I would receive money for my draft, and had allowed its name in a way likely to mislead the ordinary business man.

While, as I say, in my former memorandum I did not give much consideration to the consequences which might follow from the use of these drafts by individuals, my view that the courts would probably treat them as assignments of any funds in the hands of the Federal reserve bank upon which they were drawn was largely based upon the conviction that the court would feel that the holder of a

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draft had at least some sort of claim, legal or equitable, against the Federal reserve bank, and would endeavor to give to the draft as much effect as could be given to it without violation of the plain language of the circular under which it was issued. It is, of course, entirely within the bounds of possibility that some court would go much further than either you or I expect and hold that inasmuch as the privilege of issuing these drafts was granted only to a selected few banks, the Federal reserve bank which authorized the issuance would be held estopped to deny that it had funds in its hands to meet the draft. Such a decision would, of course, be contrary to the plain language of the circular and would be against the line of decisions which hold that a bank cannot agree to pay drafts drawn on it by a customer regardless of whether or not that customer has funds on deposit; but, as we know, courts have sometimes carried the doctrine of estoppel to extremes when it appeared that it was necessary to do so to prevent a result that amounted to an imposture.

Another point along the same line has occurred to me, which is probably of considerable interest to you. The Federal reserve bank which gives immediate credit for one of these drafts may have the draft returned by the drawee Federal reserve bank after a lapse of several days, and may discover that the bank which deposited the draft has failed as well as the drawer. In such a case the Federal reserve bank which made the proceeds of the draft immediately available will be in the position of the business man which I mentioned above. Of course, the risk which the Federal reserve bank takes is identical with that which they take upon ordinary checks, the proceeds of which under the time schedules become available in the reserve account before actual returns are received; but the time element is likely to be much longer in the case of Federal Reserve exchange drafts than in the case of checks. I realize, however, that the situation of the Federal Reserve Bank of San Francisco and the fact that much of its business is done in the "great open spaces" render all elements of transit time much more important to you than to us and to the Eastern Federal reserve banks.

I have been considering your suggestion that the use of these drafts should be discontinued, and while I have not had an opportunity to discuss all phases of the situation with the executive officers of the bank, I myself have come to the conclusion that the whole subject is so full of doubtful questions, both of law and policy, that it would certainly be advisable either to discontinue the use of the drafts, or at least to review the situation carefully and endeavor to eliminate some of the weak spots in the system as it operates at present.

I believe that the use of these drafts was original instituted before the system of wire transfers had been introduced, or certainly before that system had been elaborated to its present extent, and I am strongly inclined to the opinion that the circular was drawn in a time when there was a tendency to assume almost as an axiom that a draft drawn by a bank which was a member of the Federal Reserve System, and certainly one drawn by a member of the System which had received permission from its Federal reserve bank to use the drafts, could be accepted with little or no doubt that it would be paid; and, therefore, the object of the System was

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merely to give availability to a draft which was regarded as certainly ultimately collectible. Unfortunately, present conditions no longer justify the major premise upon which the system of Federal Reserve exchange drafts was, I believe, based

The operating officers of the bank tell me that these drafts are not used to any large extent by our member banks. In transfers from one bank to another it is more convenient to use the wire transfer. I understand that the drafts are largely used when some individual wishes to purchase from a country bank exchange payable at some point at which the bank has no correspondent. Therefore, as Mr. Clements pointed out, it seems that the chief use of the drafts at present is in the very class of transactions in which their use is likely to mislead the public, and it is far from improbable that they may do more harm than good when used under present conditions.

You understand, of course, that I have not discussed this matter with the senior officers of the bank and consequently what I have said is merely an expression of my individual views; but I am very positive that from the standpoint of a lawyer, if the use of these drafts is continued the circulars under which they are issued and the forms of the drafts should be carefully reviewed in the light of the experience which we have had in the past few years. One of the operating officers of the bank suggested to me that if no other revision was made, the form of the draft should at least be revised to the extent of changing the phraseology which indicates that any Federal reserve bank will receive this draft for immediate availability at par and the following words added: "Subject nevertheless to payment by the Federal reserve bank upon which it is drawn."

In your letter to Mr. Wyatt you suggest the advisability of taking up with the Federal Reserve Board the question of authorizing Federal reserve banks to discontinue the use of exchange and transfer drafts. Since each Federal reserve bank at present has power to withdraw the privilege of issuing Federal Reserve exchange drafts from any member bank, it would seem that each Federal reserve bank could at present discontinue the use of drafts drawn on it merely by revoking the privilege of drawing from any and all of its members. One Federal reserve bank could not discontinue the practice of giving immediate availability to drafts drawn on another Federal reserve bank without seriously disturbing the conditions in the district in which the drawee Federal reserve bank was located, and it seems to me the Federal reserve banks are in more danger of loss from drafts drawn on other Federal reserve banks than they are from the use of drafts drawn on themselves. It therefore occurs to me that a consideration of this matter by the Governors, and perhaps by the Committee on Collections would be appropriate, and after such consideration it might be possible to recommend to the Board that the entire system be discontinued by all Federal reserve banks, or else that such modifications in it might be made as to eliminate some of the difficulties which are now apparent.

I am sending a copy of this letter to Mr. Wyatt, as I know he will be

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X-7454-p

Mr. Albert C. Agnew,
Federal Reserve Bank of San Francisco,
San Francisco, Cal.

February 14, 1933.

interested in the subject; and I think that you have earned the thanks of the System by bringing up for discussion a point which very obviously needs careful review and reconsideration.

Very truly yours,

M. G. Wallace,
Counsel.

MGW R

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FEDERAL RESERVE BOARD

WASHINGTON

X-7455

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 20, 1933.

Dear Mr.

For your information, there are attached copies of three letters, dated May 3, May 18 and June 2, 1933, respectively, addressed to the office of the Comptroller of the Currency, outlining the Board's views in certain cases which involve proposed reductions in the capital stock of national banks. There is also attached a copy of a letter from the office of the Comptroller of the Currency, dated May 25, 1933, asking that the Board reconsider its decision in one of the cases, and a copy of a memorandum from the Board's Assistant Counsel, dated May 31, 1933.

Very truly yours,

Chester Morrill
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

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Federal Reserve Bank of St. Louis

May 3, 1933.

Mr. F. G. Awalt,
Acting Comptroller of the Currency,
Washington, D. C.

Dear Mr. Awalt:

Reference is made to your memorandum dated April 17, 1933, relative to the proposed reduction in the capital stock of the -----
----------, from $100,000 to $50,000.

It is noted that the plan of reorganization of the ----------
------- ----, of which the reduction in its capital stock is a part, also involves the increase of its common capital stock and the issuance of preferred stock. It appears that immediately after the proposed reduction the common capital stock of the bank would be increased to $60,000 by the sale for $45,000 of new common stock having an aggregate par value of $10,000 and that preferred stock having an aggregate par value of $40,000 would be issued to depositors who waived 30%, or $135,000, of their deposits which total $450,000. It is provided in the proposed amended articles of association of the bank that such preferred stock shall be retired out of net earnings at the aggregate subscribed price of $135,000 (although holders of such stock may be invited to tender their stock at lower figures), and that in the event of any liquidation, dissolution, or winding-up of the association, whether voluntary or involuntary, the holders of the preferred stock shall be entitled to receive an amount equal to $33.75 per share plus an amount equal to all unpaid dividends on such preferred stock before any payment shall be made to holders of the common stock. It appears, therefore,

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that, unless in the meantime some of the proposed preferred stock is retired at a lower cost through voluntary action of the preferred stockholders, they will be entitled to an amount aggregating at least $135,000 prior to any payment to the holders of the common stock.

In connection with the provision made in the proposed amendments to the articles of association of the ------ ------- ---- for the retirement of the preferred stock out of net earnings of the bank, it is noted that in 1928 the --------- ------ ---- -- -------- ---- had net earnings, after charge-offs, of $2,316.16; in 1929, had a net loss, after charge-offs, of $4,930.52; in 1930, a net loss, after charge-offs, of $3,185.28; in 1931, a net loss, after charge-offs, of $21,973.79; and in 1932, a net loss, after charge-offs, of $12,621.79. In these circumstances, it does not seem likely the bank will be able to retire any substantial amount of its preferred stock from net earnings at any time in the near future.

It appears from the last report of examination of the -------- ------ ---- -- -------- -----, as of January 12, 1933, that it has loans classified as doubtful or losses and depreciation on securities aggregating $132,411.14, a heavy investment in banking house, furniture and fixtures and real estate amounting to $110,128.57, a liability for borrowed money amounting to $121,672.37 and that its losses, as shown by such report of examination, are sufficient to impair its capital to the extent of $11,098.76. It is proposed, in connection with the adjustments of the bank's capital stock, to charge off all loans classified as losses or doubtful and depreciation on securities and reduce the carrying value of the banking house, furniture and fixtures and real estate by $35,128.57. It appears, however, that after giving effect to such

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adjustments, the bank would still have an investment in banking house, furniture and fixtures and real estate amounting to $75,000, and a liability for borrowed money amounting to $121,672.37. It would also have slow paper aggregating $143,978.41. Moreover, the liability for the retirement of the proposed preferred stock at its subscribed price of $135,000, as provided in the proposed amended articles of association of the bank, is sufficient to eliminate the undivided profits and surplus of the bank and to impair its common capital stock to the extent of approximately $57,372, leaving an unimpaired capital stock amounting to only $2,628.00. In this connection attention is called to the fact that Title III of the Act of March 9, 1933, provides in part that the term "capital" as used in provisions of law relating to the capital of national banking associations shall mean "the amount of unimpaired common stock plus the amount of preferred stock outstanding and unimpaired". It should also be noted that if the preferred stock is set upoon the reports and published statements of the bank at only its par value, aggregating $40,000, such a statement would be misleading and that, if the amount of $135,000 at which the preferred stock must be retired is set out in such reports and statements, it would result in an impairment in the common capital stock, which should be shown in the statement. It seems to the Board that the reflection of a deficit in its statement upon the resumption of business might result in embarassment to the bank and seriously affect its ability to retain the confidence of the community and continue to function.

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While the Board is in sympathy with the desire on the part of the depositors and others interested in the bank to reorganize its affairs, it feels in view of all the circumstances involved in this matter, including the condition of the bank, and the fact that under the proposed plan of reorganization the undivided profits and surplus of the bank would be eliminated and its capital stock impaired as noted above, that it cannot properly grant its approval of the proposed reduction in the capital of the bank as a part of the contemplated plan of reorganization.

Very truly yours,

Chester Morrill
Secretary.

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X-7455-b

May 18, 1933.

Hon. J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Comptroller:

Reference is made to a memorandum of April 12, 1933 from the Acting Comptroller of the Currency, and to Mr. Gough's memorandum of May 10, 1933, relative to the proposed reduction in the capital stock of the ----- ----, ------- ----, ----------, from $100,000 to $50,000.

It is observed that the plan of reorganization of the -------- -------- ----, of which the reduction in common capital stock is a part, contemplates also the sale of preferred stock having an aggregate par value of $100,000 for $250,000. It is our understanding also that the proposed plan of reorganization contemplates the retirement of such preferred stock out of net earnings at the aggregate subscribed price of $250,000 (although holders of such stock may be invited to tender their stock at a lower figure), and that in the event of liquidation, dissolution, or winding up of the association, whether voluntary or involuntary, the holders of preferred stock shall be entitled to receive an amount equal to $25 per share plus an amount equal to all unpaid dividends on such preferred stock before any payments shall be made to the holders of the common stock. It appears, therefore, that unless in the meantime some of the proposed preferred stock is retired at a lower cost through voluntary action of the preferred stockholders, they will be entitled to an amount aggregating at least $250,000 prior to any payment to the holders of the common stock.

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From the last report of examination of the ------- ------ ---- as of December 29, 1932, it appears that at that time it had loans classified as doubtful of $25,469, losses of $34,248, depreciation on securities not included in the foregoing of $284,061, and assets classed as slow of $178,567. The total depreciation in securities alone was sufficient to eliminate the bank's entire capital accounts, undivided profits and reserves. It is proposed in connection with the adjustments of the bank's capital stock incident to the contemplated reorganization of the bank to charge off all losses, doubtful loans, and depreciation on securities aggregating $364,000, as determined in March by the Chief National Bank Examiner's office cooperating with representatives of the bank, using therefor funds which would be made available through the reduction of common stock, no money being returned to shareholders, cash contributions of the common shareholders, premium on the sale of preferred stock and present surplus and profits, the aggregate of such funds totaling $414,000.

However, the bank's agreement to retire preferred stock at its subscription price of $250,000 imposes an obligation which is $50,000 in excess of the total capital structure of the bank after giving effect to the proposed adjustments. In this connection attention is called to the fact that Title III of the Act of March 9, 1933, provides in part that the term "capital" as used in the provisions of the law relating to the capital of national banking associations shall mean "the amount of unimpaired common stock plus the amount of preferred stock outstanding and unimpaired." It should be noted also that a report or statement published by the bank setting out preferred stock at its par value of $100,000

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would be misleading, and that to set out in such report or statement the amount at which the preferred stock must be retired, $250,000, would result in an entire elimination of the bank's surplus and common capital which would be shown in the statement.

It seems to the Board that the reflection of a deficit in its statement upon the resumption of business might result in embarrassment to the bank and seriously affect its ability to retain the confidence of the community and to continue to function.

While the Board is in sympathy with the desire on the part of the depositors and others interested in the bank to reorganize its affairs, it feels, in view of all the circumstances involved in this matter, that it cannot properly grant its approval of the proposed reduction in the capital stock of the bank as a part of the contemplated plan of reorganization.

Very truly yours,

(S) Chester Morrill
Secretary.

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X-7455.c

June 2, 1933.

Honorable J.F.T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Comptroller:

The Federal Reserve Board has given careful consideration to your letter of May 25, 1933, with regard to the Board's disapproval of the proposed reduction in the capital stock of the ----------

----------; but the Board does not feel that it can properly approve the reduction under the plan submitted. There is inclosed for your information a memorandum prepared by an Assistant Counsel of the Federal Reserve Board describing in detail the considerations which influenced the Board's decision in this matter.

Very truly yours,

(S) CHESTER MORRILL

Chester Morrill,
Secretary.

Inclosure.

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X-7455-d

May 25, 1933.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

I have your letter of May 18 referring to the proposed reduction in capital stock of the --------- ------- ----- -- ---------- ----- --, from $100,000 to $50,000, this reduction being contemplated in the plan for reorganization of the bank which was approved by this office shortly after the bank holiday.

The plan of reorganization contemplates briefly the reduction in the common stock to the amount above stated, which reduced amount would be represented by contributions of the old stockholders in the sum of $50,000; the issuance of $100,000 par value of preferred stock sold for $250,000, resulting according to our analysis in the elimination of all doubtful and worthless assets, including all bond depreciation and leaving the reorganized bank with the following capital structure:

Common stock	$50,000
Preferred stock	100,000
Surplus & Undivided Profits	50,000
Total	$200,000

According to your analysis of the case, the bank being obligated to retire the preferred stock at the issue price if earned or if placed in liquidation, the premium at which the stock is sold should appear as a liability in the statement of the bank. Under this analysis the proposed capital structure of the new bank, as above set out, would not be equal to the total sale price of the preferred stock and there would be a deficit in the capital structure of $50,000.

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It is the position of this office that in view of the circumstances under which the preferred stock was sold at a premium, that is, for the purpose of creating a fund with which to restore the bank to solvency, there is no liability on the part of the bank for the premium paid for the preferred stock until and if earned, except in the case of liquidation when the preferred stockholders would have a first claim on the assets of the bank after the depositors and other creditors had been paid in full to the extent of the unretired portion of the preferred stock originally issued, the premium paid on such stock and the accrued dividends. The preference to the extent indicated above with reference to a bank in liquidation is a matter of contract between the common stockholders and the preferred stockholders to which any subsequent purchaser of the common or preferred stock would be bound. If it were considered that the premium at which the preferred stock is being sold must appear as a liability of the bank in that the holders of the preferred stock would to that extent have a claim senior to that of the common stockholders, it would follow that any accumulated dividends on the preferred stock not paid by the bank when due would also have to be included in the statement of the bank as a liability whether or not said dividends had been earned in excess of the necessary reserves. It is our opinion that neither the premium at which the preferred stock is sold nor accumulated unpaid dividends on said preferred stock is a liability of the nature which should appear in the published statement of the issuing bank and that failure to include either of these liabilities in the published statement of the bank would not constitute a false statement of the condition of said bank.

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In this case there appears to be no question but that all shareholders and depositors participating in the plan through the purchase of preferred stock have been in no way misinformed as to the nature of the fund created by the premium on the preferred stock. This is rather clearly set out in letters addressed to the shareholders and depositors by the Reorganization Group and we are enclosing for your further consideration of this matter a copy of the minutes of the special meeting of the shareholders of the bank held April 9, which contains a copy of the letter addressed to the depositors together with a copy of letter which was sent to all shareholders of this bank in connection with the plan. In both of these letters it is clearly shown that the premium paid for the stock is to be treated as a contribution to the bank for the purpose of restoring in part said bank to solvency. The premium is not considered an inflexible amount which cannot be used by the bank for this purpose.

The plan for reorganization of the subject bank has been completed in every respect, the preferred stock having been sold to approximately two thousand of the depositors of the bank and we are informed by the Reorganization Committee that it would be practically impossible for them to go back to the depositors and obtain from them consent to a change in the plan which has been put into effect.

It will be greatly appreciated if you will reconsider your decision in this case and approve the proposed reduction in the common stock from $100,000 to $50,000 under the conditions set out in our memorandum of April 12, in order that the bank may be licensed to resume business at an early date.

date.

Respectfully,

(S) J. F. T. O'CONNOR

J. F. T. O'CONNOR
Comptroller

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May 31, 1933.

The Federal Reserve Board — Premium on Preferred Stock

Mr. Wingfield - Assistant Counsel — of National Banks.

There is attached hereto a letter from the Comptroller of the Currency requesting the Board to reconsider its decision whereby it recently refused to approve the reduction in the capital stock of the ---------- ---------- from $100,000 to $50,000. The reduction in the capital stock of said bank, which is now closed, is a part of a proposed plan of reorganization and reopening of the bank.

In addition to the reduction in capital stock, the plan of reorganization contemplates the elimination of losses aggregating $364,000. In order to provide for such elimination, it is proposed, among other things, that preferred stock of an aggregate par value of $100,000 be issued and sold for $250,000. The proposed amended Articles of Association of the bank would provide for the retirement of the preferred stock by the bank out of earnings at the issue price of $250,000, (although holders of such stock may be invited to tender their stock at a lower figure); and in the event of liquidation of the bank the holders of preferred stock would be entitled to receive an amount equal to the issue price of such stock, aggregating $250,000, plus any unpaid dividends on the stock, before any payments could be made to common stockholders. According to an analysis by the Comptroller, the reorganized bank upon consummation of the plan would have the following capital structure:

Common stock	$ 50,000
Preferred stock	100,000
Surplus and undivided profits	50,000
Total	$ 200,000

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As indicated above, it is proposed that the preferred stock be carried on the books and published statements of the bank at only the par value, aggregating $100,000, notwithstanding the fact that the bank is under an obligation to retire it at the aggregate subscribed price of $250,000. However, in its letter of May 18, 1933, to the Comptroller of the Currency, the Board took the position that if the bank should set up in a published report or statement the amount at which the preferred stock must be retired, $250,000, it would result in the entire elimination of the bank's surplus and common stock; and that if such a report or statement should set out preferred stock at its par value of $100,000, it would be misleading. Accordingly, the Board advised the Comptroller that it could not properly grant its approval of the proposed reduction in the capital stock of the bank as a part of the plan of its reorganization and reopening.

The Comptroller of the Currency now requests the Board to reconsider this decision. The Comptroller takes the position that the approval of the proposed reduction would be justified for the following reasons:

> It is the position of this office that in view of the circumstances under which the preferred stock was sold at a premium, that is, for the purpose of creating a fund with which to restore the bank to solvency, there is no liability on the part of the bank for the premium paid for the preferred stock until and if earned, except in the case of liquidation when the preferred stockholders would have a first claim on the assets of the bank after the depositors and other creditors had been paid in full to the extent of the unretired portion of the preferred stock originally issued, the premium paid on such stock and the accrued dividends. The preference to the extent indicated above with reference to a bank in liquidation is a matter of contract between the common stockholders and the preferred stockholders to which any subsequent purchaser of the common or preferred stock would be bound.

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> "If it were considered that the premium at which the preferred stock is being sold must appear as a liability of the bank in that the holders of the preferred stock would to that extent have a claim senior to that of the common stockholders, it would follow that any accumulated dividends on the preferred stock not paid by the bank when due would also have to be included in the statement of the bank as a liability whether or not said dividends have been earned in excess of the necessary reserves. It is our opinion that neither the premium at which the preferred stock is sold nor accumulated unpaid dividends on said preferred stock is a liability of the nature which should appear in the published statement of the issuing bank and that failure to include either of these liabilities in the published statement of the bank would not constitute a false statement of the condition of said bank."

In view of the facts involved in this case it is clear that under the proposed amended Articles of Association of the ----------, referred to above, the bank would assume a direct fixed obligation to repay thepreferred stockholders the par value of the preferred stock aggregating $100,000, and also a premium on such preferred stock aggregating an additional $150,000, before any distribution could be made to common stockholders of the bank, other than possibly some dividends on the common stock paid from time to time out of earnings. In so far as common stockholders are concerned, it would not seem to make any substantial difference whether such fixed obligation of the bank would be satisfied out of the bank's earnings or out of its assets in case of liquidation. In any event, it would be a charge against the bank's assets to the detriment of common stockholders. Therefore, any statement made by the bank which did not show the obligation of the bank to pay the premium on the preferred stock might be misleading to persons who would hereafter purchase common stock in the bank.

Moreover, the fact that there is no obligation on the part of the bank to pay the premium on the preferred stock until and if earned, except in

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case of liquidation, does not appear to afford any justification for a failure to show on the bank's published statements its liability for the retirement of the preferred stock at a premium. Similarly there is no obligation on the part of the bank for the repayment of the par value of the preferred stock until and if earned, except in the case of liquidation, and accordingly, if the Comptroller's position were sound, the preferred stock might be practically eliminated from the bank's statements.

That this is not an unwarranted extension of the arguments made in support of the Comptroller's position may be illustrated by a slightly different approach. Assuming the Comptroller is correct, it necessarily follows that legally the par value of the preferred stock could be fixed at whatever figure per share the necessities of the situation might suggest. In the instant case, if it had seemed desirable to do so, there would have been no legal objection to the par value of the stock having been fixed at $1, instead of $10, in which event the statement would show the aggregate par value of the total issue in an amount of only $10,000. If we pursue this thought still further there would be no legal objection if the par value of the preferred stock were fixed at $.0001 in which event the aggregate par value of the total issue could in this case be carried in the bank's statement at $1, notwithstanding the existence of an absolute obligation on the part of the bank to retire the preferred stock at $25 per share, if and when earned, or upon the voluntary or involuntary liquidation of the bank. Clearly the latter situation would be untenable, and the objection to the instant proposal is not obviated merely because the evil is of a lesser degree.

Furthermore, it seems clear that the proposal is no less objectionable because the arrangement is a matter of contract by which the common

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and preferred stockholders are bound and by which any subsequent purchasers of the common or preferred stock would be sound. The very vice in the situation is that subsequent purchasers of the common stock will be bound although their purchases might be made in reliance upon the bank's published statement in this case showing preferred stock at $100,000, and without knowledge that such stock must be retired at a premium of $150,000 more than the liability as shown on the books and published statements of the bank. Admittedly, the present stockholders of the bank may execute such contracts as they deem proper and in their interest, but this affords no justification for the Board's approval of a plan which may operate to the prejudice and injury of innocent third parties.

It has been suggested that future purchasers of common stock could determine their rights by an examination of the amended articles of association of the bank. However, this fact would not seem to justify the publication of a misleading statement by the bank on which innocent parties might rely.

In conclusion, it is interesting to note that the Bank Conservation Act under which preferred stock of national banks may be issued apparently does not contemplate that such preferred stock may be made subject to retirement at a premium. In connection with the liquidation of national banks issuing preferred stock, it is stated that "no payments shall be made to the holders of the common stock until the holders of the preferred stock shall have been paid in full the par value of such stock plus all accumulated dividends". This language evidently contemplates the retirement of preferred stock at par rather than the retirement at par plus a

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premium. Under other provisions of the Bank Conservation Act it is provided that preferred stock of national banks shall be subject to retirement in such manner and on such terms and conditions as may be provided in the Articles of Association with the approval of the Comptroller of the Currency. It is probable, therefore, that no legal objection can be made to the retirement of preferred stock at a premium, but in view of the language of the Act referred to above, it does not appear that provision for retirement at a premium was contemplated by Congress.

In view of all the circumstances involved in this matter it does not appear that the Board can properly approve the proposed reduction in the capital stock of the ----------under the plan submitted, and a letter so advising the Comptroller is attached for the Board's consideration. It is suggested that a copy of this memorandum be forwarded to the Comptroller for his information.

Respectfully,

(S) B. MAGRUDER WINGFIELD

B. Magruder Wingfield,
Assistant Counsel.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

X-7456

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 16, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve Banks, the code word "NOXDWAM" has been designated to cover a new issue of Treasury Bills, dated June 21, 1933, and maturing September 20, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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X-7457

Statement of Bureau of Engraving and Printing
For furnishing Federal Reserve Bank Notes
(National Currency) Series 1929,
May 13-27, 1933.

	$5	$10	$20	Total Sheets	Amount
Boston	-	36,000	-	36,000	$3,492.00
New York.....	18,000	72,000	18,000	108,000	10,476.00
Chicago.....	-	72,000	54,000	126,000	12,222.00
	18,000	180,000	72,000	270,000	$26,190.00

270,000 sheets @ $97.00 per M, . . $26,190.00

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X-7458

Statement of Bureau of Engraving and Printing
For furnishing Federal Reserve Notes
Series 1928, May 1-20, 1933.

	$10	$20	Total Sheets	Amount
Boston.....	-	166,000	166,000	$15,023.00
New York.....	-	8,000	8,000	724.00
Cleveland.....	-	50,000	50,000	4,525.00
St. Louis.....	18,000	7,000	25,000	2,262.50
Kansas City...	36,000	-	36,000	3,258.00
Dallas.....	-	9,000	9,000	814.50
	54,000	240,000	294,000	26,607.00

294,000 sheets @ $90.50 per M, . .$26,607.00

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7459

June 19, 1933.

SUBJECT: Basis for Issuance of Federal Reserve Bank Stock.

Dear Sir:

One of the Federal Reserve Agents recently requested advice from the Federal Reserve Board as to whether a bank whose surplus is impaired by depreciation on securities, in applying for additional Federal Reserve Bank stock on the Board's Form 56, should make such application on the basis of the amount of its surplus as carried on its books or on the amount of its unimpaired surplus. He also inquired whether, in a case where the bank's capital stock is impaired, application for additional Federal Reserve Bank stock on the Board's Form 56 should be based on the amount of issued and paid in capital stock of the bank or on the amount of its unimpaired capital stock.

The Federal Reserve Agent was advised that, while any impairment in the capital stock or surplus of a bank should be corrected as soon as possible, the Board feels that for purposes of determining the amount of Federal Reserve Bank stock for which a bank should subscribe its application should be based on the amount of the issued

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and paid in capital stock of the bank together with the amount at which its surplus is carried on the books of the bank rather than on the basis of the bank's unimpaired capital stock and surplus. Attention was called to the fact that the Board's Form 56 refers only to paid in capital stock and the Agent was advised that if in any case the surplus of the applying bank is impaired the word "unimpaired" after the word "surplus" in Form 56 may be crossed out. In this connection it was noted that it is contemplated that the word "unimpaired" as used in Form 56 will be omitted from that form when it is necessary to re-print the form.

Very truly yours,

Chester Morrill
Secretary

LETTER TO ALL FEDERAL RESERVE AGENTS EXCEPT PHILADELPHIA.

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FEDERAL RESERVE BOARD

WASHINGTON X-7460

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 19, 1933.

SUBJECT: Holidays during July, 1933.

Dear Sir:

On Tuesday, July 4, Independence Day, the offices of the Federal Reserve Board and all Federal reserve banks and branches will be closed.

The Board has been advised that holidays also will be observed by Federal reserve branch banks during July, as follows:

Tuesday, July 11, Oklahoma City	Special election in Oklahoma
Thursday, July 13, Nashville) Memphis)	Birthday of General Bedford Forrest
Friday, July 21, Portland	Special Election in Oregon
Monday, July 24, Salt Lake City	Pioneer Day

On the dates given the offices mentioned will not participate in either the transit or the Federal reserve note clearing through the Gold Settlement Fund. Please include transit clearing credits for the branch affected on each of these holidays with your credits for the following business day.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

X-7461

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 21, 1933.

SUBJECT: Acceptances of conditions of membership by State banks and trust companies.

Dear Sir:

In the case of State banks and trust companies recently admitted to membership in the Federal Reserve System, it has been noted that in some instances there have been discrepancies between the conditions of membership accepted by such institutions and those prescribed by the Federal Reserve Board. In order, therefore, to eliminate the possibility of any doubt or misunderstanding in this connection, you are requested in the case of each State bank or trust company that may hereafter be admitted to membership in your district to have your counsel examine the resolution of the institution's board of directors accepting the conditions of membership prescribed and to have such correction effected therein as may be necessary to bring such conditions into conformity with those prescribed by the Board. A statement from your counsel that he has made such an examination and found the resolution to be in proper form and the conditions as accepted to be in the form prescribed by the Board should accompany the certified copy of the resolution when you forward it to the Board.

It has also been noted that in a number of cases the resolution has referred to the fact that the conditions of membership accepted by the

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particular bank or trust company were contained in a communication addressed to it by the Federal Reserve Agent. While it is assumed that the conditions of membership thus referred to in any future cases would be the same as those prescribed by the Board, it will be appreciated if you will forward to the Board in each such case a copy of any such communication, in order that its records covering the institution involved may be complete.

Very truly yours,

Chester Morrill,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7463

June 23, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDWARF" has been designated to cover a new issue of Treasury Bills, dated June 28, 1933, and maturing September 27, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7464

June 23, 1933.

SUBJECT: Assessment for general expenses of the Federal Reserve Board July 1 to December 31, 1933.

Dear Sir:

The Banking Act of 1933 contains an amendment to Section 10 of the Federal Reserve Act which includes the following provision:

> "The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, * * * * and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys."

In view of the fact that the Board's funds, under this provision of law, are not Government funds or appropriated moneys and inasmuch as the law appears to contemplate that such funds will be left on deposit with Federal reserve banks instead of being placed with the Treasury as has been done heretofore, the Federal Reserve Board has arranged to open an account with the Federal Reserve Bank of Richmond in which the proceeds of its semiannual assessments upon Federal reserve banks to defray its estimated expenses and the salaries of

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its members and employees may be deposited. It is requested, therefore, that the proceeds of such semiannual assessments hereafter made by the Federal Reserve Board upon the Federal reserve banks be deposited by them through the Gold Settlement Fund with the Federal Reserve Bank of Richmond for credit to the account of the Federal Reserve Board.

There is inclosed herewith a copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the several Federal reserve banks in an amount equal to Ninety-two thousandths of one per cent (.00092) of the total paid-in capital stock and surplus of such banks as of the close of business June 30, 1933, to defray the estimated expenses and the salaries of the members and employees of the Board from July 1 to December 31, 1933, and specifying, as indicated above, the manner in which such assessments shall be deposited with the Federal Reserve Bank of Richmond.

Very truly yours,

J. C. Noell,
Fiscal Agent.

Inclosure.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS EXCEPT RICHMOND.

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X-7464-a

RESOLUTION LEVYING ASSESSMENT.

WHEREAS, under Section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts and employees, for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year;

WHEREAS, Section 10 of the Federal Reserve Act, as amended by the Banking Act of 1933, contains the following provision:

> "The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, * * * and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys."

WHEREAS, it appears from estimates submitted to and considered by the Federal Reserve Board that it is necessary that a fund equal to ninety-two thousandths of one per cent (.00092) of the total paid-in capital stock and surplus of the Federal reserve banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, That:

(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to ninety-two thousandths of one per cent (.00092) of the total paid-in capital and surplus of each such bank at the close of business on June 30, 1933;

(2) Such assessment shall be paid by each Federal reserve bank in two equal installments on July 1, 1933, and September 1, 1933, respectively;

(3) Every Federal reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates stated above through the Gold Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Federal Reserve Board on the books of that bank, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Federal Reserve Board on the dates stated above.

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(Stencil recut on 11/10/37
and compared with original)
X-7396

CERTAIN SECTIONS OF INSTRUCTIONS OF THE COMPTROLLER OF THE CURRENCY TO CONSERVATORS OF NATIONAL BANKS.

402 Bank's Old Reserve Account.

The conservator should make no remittances or transfers for credit to bank's old reserve account and should draw no drafts whatever against such old account. The Federal reserve bank may be requested to make transfers to the conservator's special account, described below, of funds which have been credited to the bank's old reserve account but which the conservator has definitely determined to represent segregated deposits and which should have been credited to a special account in the Federal reserve bank. Where the bank in the hands of a conservator is not indebted to the Federal reserve bank or where the old reserve balance exceeds the amount of the indebtedness to the Federal reserve bank, the Federal reserve bank may be requested to make transfers of such excess amount to the conservator's general account, described below, with the authorization of the Comptroller of the Currency.

These transfers to the conservator's special account or general account may not be made by drafts or checks drawn by the conservator, but must be made with the consent of the Federal reserve bank under special arrangements agreed to by it.

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WHEREAS, certain Federal reserve banks have heretofore made general or flat-rate reductions in the salaries of their officers and employees, some in connection with share-the-work plans and others independently of such plans;

WHEREAS, nation-wide efforts are now being made to encourage industrial and business interests to raise salaries and wages in order to increase the purchasing power of the people and thereby to promote business recovery, a movement in this direction is already under way, and it would be well for the Federal reserve banks to participate in this movement;

WHEREAS, all of the Federal reserve banks are operating at a profit, most of them having already realized sufficient net earnings to pay their dividends for the first six months of 1933, and the aggregate net earnings of the twelve banks are far in excess of their aggregate dividend requirements;

WHEREAS, the Banking Act of 1933 amends Section 7 of the Federal Reserve Act so as to relieve the Federal reserve banks of the necessity of paying any franchise tax to the Government, thus eliminating any financial interest of the Government in their earnings;

WHEREAS, the increased duties devolving upon the Federal reserve banks under legislation enacted during 1933, together with the improvement in business conditions, are resulting in a substantial increase in the volume of their work, thereby eliminating the necessity of reducing the number of employees at the various Federal reserve banks, including those where additional employees were taken on in carrying out the share-the-work plans in effect at those banks;

WHEREAS, it appears that the cost of living is advancing;

NOW, THEREFORE, BE IT RESOLVED, That there appears to be no occasion for continuing in effect the emergency reductions in salaries of the officers and employees of the Federal reserve banks;

BE IT FURTHER RESOLVED, That it is the sense of the Federal Reserve Board that the Board of Directors of each Federal reserve bank should give prompt consideration to terminating the emergency reductions in the salaries of their officers and employees, effective July 1, 1933, or as soon thereafter as it is practicable to do so;

BE IT FURTHER RESOLVED, That the Board's Secretary be hereby instructed to transmit a copy of this resolution to the Chairman of the Board of Directors of each Federal reserve bank and request him to bring it to the attention of the Board of Directors at its next meeting.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7466

June 28, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDWEL" has been designated to cover a new issue of Treasury Bills, dated July 5, 1933, and maturing October 4, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7468

June 30, 1933.

SUBJECT: Expense, Main Lines, Leased Wire System, May, 1933.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7468-a and X-7468-b, covering in detail operations of the main lines, Leased Wire System, during the month of May, 1933.

You were advised today by telegram that your pro rata share of the expense of the Leased Wire System be credited to the Federal Reserve Bank of Richmond on July 1, in the transit clearing for the account of the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1933.

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	38,436	1,696	40,132	4.65
New York	166,462	-	166,462	19.27
Philadelphia	34,999	1,716	36,715	4.25
Cleveland	53,512	1,599	55,111	6.38
Richmond	58,114	1,764	59,878	6.93
Atlanta	63,310	1,873	65,183	7.54
Chicago	90,054	2,067	92,121	10.66
St. Louis	72,259	1,757	74,016	8.57
Minneapolis	37,913	1,745	39,658	4.59
Kansas City	73,596	1,608	75,204	8.70
Dallas	57,782	2,593	60,375	6.99
San Francisco	95,406	3,710	99,116	11.47
Total	841,843	22,128	863,971	100.00

F. R. Board business	318,489	1,182,460
Reimbursable business Incoming and Outgoing		432,318
Total words transmitted over main lines		1,614,778

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7468-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.

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REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, MAY, 1933.

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	$799.31	$260.00	$539.31
New York	1,218.40	1.00	-	1,219.40	3,312.39	1,219.40	2,092.99
Philadelphia	225.00	-	-	225.00	730.55	225.00	505.55
Cleveland	306.66	-	-	306.66	1,096.68	306.66	790.02
Richmond	175.00	-	230.00 (&)	405.00	1,191.22	405.00	786.22
Atlanta	243.00	-	-	243.00	1,296.08	243.00	1,053.08
Chicago	3,852.43 (#)	11.00	-	3,863.43	1,832.39	3,863.43	2,031.04 (*)
St. Louis	195.00	-	-	195.00	1,473.13	195.00	1,278.13
Minneapolis	200.00	-	-	200.00	788.99	200.00	588.99
Kansas City	273.00	-	-	273.00	1,495.47	273.00	1,222.47
Dallas	251.00	.60	-	251.60	1,201.54	251.60	949.94
San Francisco	380.00	-	-	380.00	1,971.62	380.00	1,591.62
Federal Reserve Board	-	-	15,651.87	15,651.87	-	-	-
Total	$7,579.49	$12.60	$ 15,881.87	$23,473.96	$17,189.37	$7,822.09	$11,398.32
							2,031.04(a)
							$ 9,367.28

Reimbursable charges:

Treasury Department.	$2,156.88
Exp. Nat. Bkg. Emergency Act, 3-9-33	513.90
Reconstruction Finance Corporation .	3,447.37
Federal Home Loan Bank Board	15.54
Comp.Currency Div.Insolv.Nat.Banks .	82.13
Farm Credit Administration :	
Federal Farm Loan Bureau	27.02
Federal Farm Board	41.75
Less: Reimbursable charges.	6,284.59
	$17,189.37

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

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FEDERAL RESERVE BOARD

WASHINGTON

X-7469

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 30, 1933.

SUBJECT: Condition of Membership - relation of bank's capital and surplus to deposit liabilities.

Dear Sir:

In addition to the 14 conditions contained in the Board's letter of March 11, 1933 (X-7356), and such special conditions as may be desirable in a particular case, the Board now prescribes for each bank applying for membership in the Federal Reserve System the following condition numbered 15:

> "15. Such bank shall maintain an amount of paid-up and unimpaired capital and unimpaired surplus which, in the judgment of the Federal Reserve Board, will be adequate in relation to its total deposit liabilities, having due regard to the general principle that a bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liabilities and, in some circumstances, should be more than one-tenth of such amount."

Hereafter in giving you telegraphic advice of approval of an application for membership by a State bank the word "ANCHORIVETED" following the name of the applicant will be used instead of "ANCHORIVET" and will mean:

> "Application of such bank for membership has been approved by Board subject to first 14 conditions set forth in Board's letter of March 11, 1933 (X-7356), condition numbered 15 set forth in Board's letter of June 30, 1933 (X-7469), and special conditions stated

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"hereafter. Please advise such bank of Board's approval and conditions of membership prescribed, together with explanation thereof contained in Board's letter (X-7356). Letter containing detailed advice regarding such approval will be forwarded bank through you as soon as possible. When you have received certified copy of resolution of board of directors of such bank accepting conditions of membership prescribed by Board, together with advice of compliance with any special conditions to be complied with prior to admission to membership, the Federal reserve bank is authorized upon payment therefor to issue appropriate amount of Federal reserve bank stock and to accept required reserves. Please advise Board date upon which membership of bank becomes effective and amount of Federal reserve bank stock issued to it, forwarding copy of resolution accepting conditions of membership and advising of compliance with any conditions to be complied with prior to admission."

Such a telegram will also contain the code word "ANCHOROME" which will mean:

"In connection with condition numbered fifteen above and in the absence of any special action by the Board, if in any period of twelve months ending on the 30th day of November the average amount of deposit liabilities of the bank during such period, as determined on the basis of reports made by the bank to the Federal reserve bank for the purpose of computing its required reserve, exceeds ten times the aggregate amount of the bank's paid-up and unimpaired capital stock and unimpaired surplus, the Board will expect that such bank, as soon as possible and within the next succeeding six months, will increase the aggregate amount of its paid-up and unimpaired capital and unimpaired surplus to an amount at least equal to 10% of the average amount of its deposit liabilities during such twelve months."

It is contemplated that when you receive telegraphic advice from the Board of approval of a bank's application you will call specific attention to the above comments in connection with condition number 15 when you submit to the bank for consideration and

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acceptance the conditions prescribed by the Board. The comments above referred to will be included also in the letter addressed to the applicant bank containing the conditions of membership.

Whenever an examination is made of a State member bank the Federal reserve examiner should consider whether the relation of the bank's capital and surplus to its deposit liabilities conforms substantially to the principle expressed in condition number 15. While, of course, member banks which have not accepted condition number 15 are not subject to its requirements, the Board feels that it would be proper for the examiner or your office to suggest to any member bank which does not appear to have an adequate amount of capital and surplus the desirability, as a matter of good banking practice, of conforming to the principle laid down in the condition. In the case of any bank subject to condition number 15, where it appears that the relation of its capital and surplus to deposit liabilities does not meet the requirements of that condition, the examiner or your office should request the bank to give prompt consideration to compliance with such requirements.

In addition, the Board desires your office to determine annually by reference to the reserve reports of State member banks subject to condition number 15 whether each such bank in your district is complying with the requirements of that condition.

While you will note that the Board expects each bank subject to condition number 15 to comply with its provisions without any

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special action by the Board, the Board will in special circumstances and upon your specific recommendation consider whether in view of all the facts involved in the particular case it will be justified in not requiring the bank to increase its capital and surplus to an amount at least equal to one-tenth of its deposit liabilities, or whether, on the other hand, a larger proportion of capital and surplus should be required in order to afford adequate protection because of special conditions in the particular bank under consideration.

In the future, when the three conditions relating to the exercise of trust powers by an applicant bank, referred to in the Board's letter of March 11, 1933 (X-7356), are prescribed, such conditions will be referred to in the telegram as conditions numbered 16, 17 and 18, instead of 15, 16 and 17.

Very truly yours,

Chester Morrill,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS.

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Federal Reserve Bank of St. Louis

X-7470

C O P Y.

June 20, 1933.

McKay - Chicago

No interest accruing after June 16, 1933, may be paid by member banks on demand deposits of receivers of insolvent State banks or receivers of insolvent national banks unless payment of such interest is required by contract entered into in good faith which was in force on June 16, 1933. If there was such a contract it may not be renewed or extended and bank must exercise any rights it may have to terminate payment of such interest as soon as possible consistent with its contractual obligations. Not clear what you mean by trust deposits carried in trust department, but if you refer to deposit liabilities of bank payable on demand above principles are applicable.

Chester Morrill

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C O P Y.

X-7471

June 20, 1933.

Johns - Atlanta

Section 19, Federal Reserve Act, as amended by Section 11(b) Banking Act, 1933, does not authorize Federal Reserve Board to grant member banks permission to pay interest on demand deposits. Proviso regarding payment of interest QUOTE in accordance with terms of any certificate of deposit or other contract heretofore entered into in good faith UNQUOTE which was in force on June 16, 1933, does not authorize payment of interest until end of customary interest period unless there was a definite contract to that effect. Member banks are forbidden to renew or extend any such contract without eliminating provision for payment of interest and they are required to take such action as may be necessary to eliminate payment of interest on demand deposits as soon as possible consistently with their contractual obligations.

MORRILL

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Federal Reserve Bank of St. Louis

X-7472

C O P Y.

June 20, 1933.

STEVENS - CHICAGO

Your wire June 17. Section 19 Federal Reserve Act, as amended by Section 11(b) Banking Act of 1933, does not prohibit payment of interest on demand deposits in accordance with terms of contracts entered into in good faith which were in force on June 16, 1933, but forbids renewal or extension of contracts unless modified so as not to provide for payment of interest on demand deposits and requires every member bank to take action to discontinue payment of interest on demand deposits as soon as possible consistently with its contractual obligations. If contract providing for payment of interest on demand deposits is subject to cancellation at option of bank, therefore, bank should cancel the same as soon as possible. Note specific exemptions of deposits made by mutual savings banks and deposits of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality with respect to which payment of interest is required under State law. Board will prescribe regulations as to rates of interest on time deposits as soon as practicable but member banks may continue to pay interest on time deposits in accordance with their usual practice or existing contracts pending issuance of such regulations.

MORRILL.

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C O P Y.

X-7473

June 21, 1933.

Curtiss	Young	Boston	Stevens	McDougal	Chicago
Case	Harrison	New York	Wood	Martin	St. Louis
Austin	Norris	Philadelphia	Peyton	Geery	Minneapolis
Williams	Fancher	Cleveland	McClure	Hamilton	Kansas City
Hoxton	Seay	Richmond	Walsh	McKinney	Dallas
Newton	Johns	Atlanta	Newton	Calkins	San Francisco

TRANS. NO. 1826

Numerous inquiries being received as to effect of provisions of Section 19 Federal Reserve Act, as amended by Section 11(b) Banking Act of 1933 (Glass Bill), regarding payment of interest on deposits. Some of these questions cannot be answered immediately; but the following can be stated at this time:

(a) Except as indicated below, law forbids member banks to pay interest on demand deposits after June 16, 1933; but interest accrued on or before that date may be paid.

(b) Law does not prohibit payment of interest in accordance with terms of any certificate of deposit or other contract previously entered into in good faith and in force on June 16, 1933.

(c) No such certificate of deposit or other contract may be renewed or extended without eliminating provision for payment of interest on demand deposits; and all such contracts must be modified as soon as possible consistently with bank's contractual obligations so as to eliminate payment of interest on demand deposits. If contract is subject to modification or cancellation at option of bank it must be modified as soon as possible.

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C O P Y.

X-7473

(Chairmen and Governors of all Federal Reserve Banks) -- 2

(d) Prohibition against payment of interest on demand deposits, however, not applicable to deposits payable only at an office of a member bank located in a foreign country nor to any deposit made by a mutual savings bank nor to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or minicipality, with respect to which payment of interest is required under State law.

(e) This exemption not applicable to deposits of receivers of insolvent State or national banks, since they are not public funds.

(f) Deposits of public funds of the United States Government not exempted and Treasury has amended its Circular number 92 so as not to require payment of interest on balances in War loan deposit accounts and is considering similar amendments to other circulars.

(g) Federal Reserve Board not authorized to grant member banks permission to pay interest on demand deposits.

(h) Member banks may continue to pay interest on time deposits in accordance with their usual practice or existing bona fide contracts until Federal Reserve Board issues regulations on subject. Preparation of such regulations requires investigation, study and careful consideration of practical and economic effects; but such regulations will be promulgated as soon as practicable. Views of all Federal reserve banks on this subject have been requested and will be given consideration before regulations are promulgated.

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C O P Y.

X-7473

(Chairmen and Governors of all Federal Reserve Banks) -- 3

(i) Meaning of provision re waiving requirement of notice before payment of savings deposits requires further study and will have to be covered by later ruling or by provision of regulation.

(j) Prohibition against payment of interest is applicable only to deposits which are QUOTE payable on demand UNQUOTE and, therefore, subject to such regulations as the Board may prescribe, interest may be paid until maturity on deposits which are originally bona fide time deposits although such deposits have become payable within thirty days and for that reason alone are classified under existing regulations as QUOTE demand deposits UNQUOTE for purpose of computing reserves.

(k) Since provisions regarding payment of interest on deposits are incorporated in Section 19 of Federal Reserve Act, definitions contained in Section II of Board's Regulation D should be considered in determining what are time deposits pending issuance of further regulations on this subject.

Please furnish copies of this telegram to counsel and all officers of your bank and branches.

MORRILL

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C O P Y.

X-7474

June 22, 1933.

Curtiss - Boston
Case - New York
Austin - Philadelphia
Williams - Cleveland
Hoxton - Richmond
Newton - Atlanta
Stevens - Chicago
Wood - St. Louis
Peyton - Minneapolis
McClure - Kansas City
Walsh - Dallas
Newton - San Francisco

TRANS. 1827

In response to inquiry from Governor Young, Board has ruled that under Section 9 of Federal Reserve Act, as amended by Section 5(c) of Banking Act of 1933, examiners selected or approved by Federal Reserve Board must make such examinations of the affairs of all 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 such banks, and such examinations must be made in connection with examinations of State member banks.

MORRILL.

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Federal Reserve Bank of St. Louis

X-7475

C O P Y.

June 22, 1933.

CURTISS	BOSTON	STEVENS	CHICAGO
CASE	NEW YORK	WOOD	ST. LOUIS
AUSTIN	PHILADELPHIA	PEYTON	MINNEAPOLIS
WILLIAMS	CLEVELAND	McCLURE	KANSAS CITY
HOXTON	RICHMOND	WALSH	DALLAS
NEWTON	ATLANTA	NEWTON	SAN FRANCISCO

Trans. _____. Section 19 of Federal Reserve Act, as amended by Section 11(b) of Banking Act 1933, which authorizes the Board QUOTE to limit by regulation the rate of interest which may be paid by member banks on time deposits UNQUOTE authorizes Board to fix maximum rate which may not be exceeded by member banks but does not contemplate that member banks will be required to pay such maximum rate and they could pay lower rates at their option.

Morrill

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C O P Y.

X-7476

June 23, 1933.

Excerpt from telegram to Federal Reserve Agent at Atlanta approving application of Truckers Exchange Bank of Crystal Springs, Mississippi, for membership in Federal Reserve System:

"15. Prior to admission to membership, such bank shall increase its paid-up and unimpaired capital to an amount not less than $25,000.

* * * * * * *

"Please advise Truckers Exchange Bank that condition numbered 15 above is prescribed by Board for reason that under provisions Section 9 of Federal Reserve Act as amended by Section 17(b) of Banking Act of 1933, signed by President June 16, 1933, bank may not be admitted to membership in Federal Reserve System with a capital less than $25,000."

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X-7477

C O P Y.

June 27, 1933.

Conniff,
Atlanta.

Inasmuch as Board's Regulation B governs open market purchases of bills of exchange, trade acceptances and bankers' acceptances under section 14, Federal reserve banks may continue to purchase bankers' acceptances in accordance with that regulation.

MORRILL.

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X-7478

C O P Y.

June 27, 1933.

ATTEBERY
ST.LOUIS

Your wire June 23 re certificates of deposit of Louisville member banks. Board cannot undertake to express opinion on question you present unless advised in detail as to terms of contract mentioned and rights of parties thereunder. If deposit no longer governed by terms of written contract, it would not seem to be time deposit as defined in Regulation D. Please note requirement of law that every member bank take action necessary to conform to prohibition on payment of interest on deposits payable on demand as soon as possible consistently with its contractual obligations. It appears possible that member banks in question may have right to terminate arrangement for payment of interest at any time or that continuance of the arrangement may be an extension of contract within meaning of statute. In either event, payment of interest on deposits payable on demand should be discontinued in accordance with requirements of the law. Suggest you consult your counsel regarding question and if after obtaining his advice you feel Board's opinion is necessary, please submit full information as to contract together with copy of your counsel's opinion on the subject.

MORRILL

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X-7479

C O P Y.

June 28, 1933.

NEWTON
SAN FRANCISCO

Referring your telegram June 23, regarding Nampa State Bank, you were advised on June 23 of approval of such bank's application for membership subject to condition, among others, that prior to admission to membership its capital be increased to at least $100,000. This requirement was necessary under provisions of Section 9 of Federal Reserve Act as amended by Section 17 of the Banking Act of 1933 and fact that bank had filed application for membership and increased its capital to $60,000 prior to effective date of such amendment to section 9 does not eliminate necessity for making such requirement under provisions of the law.

MORRILL.

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C O P Y.

X-7480

June 30, 1933.

WILLIAMS - CLEVELAND

Fletcher's letter June 19 submitting request of Peoples-Pittsburgh Trust Company, Pittsburgh, Pennsylvania, for permission to purchase stock in new national bank being organized to take over certain assets of First National Bank, Wilkinsburg, Pennsylvania. Under provisions of Section 9 of Federal Reserve Act as amended by Section 5(c) of Banking Act of 1933, approved June 16, 1933, State member banks are made subject to same limitations and conditions with respect to purchase of stock in other corporations as are applicable in the case of national banks under paragraph 7 of Section 5136 of Revised Statutes as amended by Section 16 of the Banking Act of 1933. Under such provisions of section 5136 national banks may not purchase stock in another corporation, other than in certain cases permitted by law and in which the circumstances are not similar to those described in letter containing request of Peoples-Pittsburgh Trust Company referred to Board. Accordingly that institution under the law may not purchase stock in new bank referred to. Board also feels, of course, that it would be contrary to provisions of law for Century Securities Company, the wholly owned subsidiary of the Peoples-Pittsburgh Trust Company, to purchase stock in new bank.

MORRILL.

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(Revised Draft of January 5, 1933.)

PROPOSED PRINCIPLES GOVERNING ADMINISTRATION OF CLAYTON ACT.

1. In view of the fact that Section 8 of the Clayton Antitrust Act forbids interlocking relationships between banks of certain classes except in cases where the Federal Reserve Board finds specific interlocking relationships not incompatible with the public interest and grants permits therefor, the burden must rest upon each applicant for such a permit, and upon the banks involved, to show to the satisfaction of the Board that it would be not incompatible with the public interest to permit him to serve the banks involved.

2. Unless other facts appear which in the judgment of the Board render it incompatible with the public interest, the Board ordinarily will take favorable action on the application if it appears to the satisfaction of the Board, on the basis of the facts presented by the applicant and the banks involved, (a) that such banks are not in substantial competition, or (b) that the applicant's service as director, officer or employee of such banks is not likely to result in a restriction of credit or a substantial lessening of competition, or (c) that his services will add needed strength to the management of such banks, will be beneficial to the community or the patrons of such banks, or will otherwise be in the public interest.

3. Before passing upon any such application, the Federal Reserve Board will expect the Federal reserve agent to consult with

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the Chief National Bank Examiner or the State banking authorities, to inspect the reports of examination of the bank or banks which the applicant is already serving, to consider any other information in the possession of or available to the Federal reserve bank, and to advise the Federal Reserve Board as to:

(a) The condition and management of the bank or banks with which the applicant is already associated and the extent of his responsibility therefor;

(b) Whether the applicant discharges the duties and responsibilities of his office by attending directors' meetings or otherwise;

(c) Whether the applicant has abused the credit facilities of the bank or banks he is already serving -- e.g., whether the examiners have criticized loans to the applicant, his family or his interests as being excessive or unjustified for any other reason;

(d) Whether the applicant's influence upon the banks involved in his application is apt to be helpful or harmful to such banks; and

(e) Any other factors having a bearing upon the desirability of the applicant as a bank officer, director or employee.

4. As soon as banking conditions are sufficiently settled to remove the danger that the revocation of existing permits and the resig-

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nation of directors from banks which they are now serving may be misunderstood by the public with harmful results to the banks involved, the Board will adopt the practice of making a general review of the outstanding Clayton Act permits each year, in order to determine whether the public interest requires their revocation either (a) immediately or (b) effective at the time of the next annual election of directors.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

L-16

February 3, 1933.

Dear Sir:

For your information in connection with the proposal to revise Sections 32 and 34 of Treasury Department Circular No. 176 in accordance with the recommendations made by the last Conference of Counsel, I inclose a copy of S. 257, "A Bill authorizing adjustment of the claim of the Baltimore Branch of the Federal Reserve Bank of Richmond", and a copy of the report thereon by the Senate Committee on Claims.

I am informed by the Manager of the Baltimore Branch that the item in question was charged to the account of its indorser, the Merchants National Bank of Baltimore, as soon as it was returned by the Treasury Department but that the Merchants National Bank has never accepted the charge and the item remains in suspense. The Manager of the Branch takes the view that the Federal Reserve Bank had a perfect right to charge the item back to its member bank and has obtained reimbursement by doing so and that, therefore, it does not need any relief. He says the Baltimore Branch did not request the passage of this bill but that its introduction was brought about by the activities of the Merchants National Bank and its successor, the First National Bank of Baltimore.

I am somewhat disturbed by the situation which has been created as a result of the Comptroller General of the United States taking the

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position that the Baltimore Branch of the Federal Reserve Bank of Richmond is the holder in due course for value of this Government check and by the precedent which would be created if this bill is enacted on the theory that the Baltimore Branch has a claim as the bona fide owner of the check. I would greatly appreciate an expression of your views, therefore, as to what steps, if any, should be taken to protect the interests of the Federal reserve banks with respect to the questions of law involved.

In view of the assurances frequently given by officials of the Treasury Department that, in the event of a Federal reserve bank sustaining any loss as a result of "cashing" Government checks, they would obtain the passage of a bill to relieve the Federal reserve bank, it is interesting to note that a bill for the relief of the Federal Reserve Bank of Richmond in the small sum of $643 has not yet been enacted, although it was recommended by the Comptroller General of the United States on May 11, 1928. It is also interesting to note that, although the Comptroller General says that, "It is clearly inequitable and unjust that the holder of this check should suffer loss because of a mistake made in the first instance by the War Department in its erroneous report to the United States Veterans' Bureau", the bill provides for reimbursement of only the face amount of the check and even if the bill is enacted, the owner of the check will lose the use of the money from May 20, 1927, until the date of reimbursement.

Having heard nothing from the Treasury Department regarding the conference with officials of that Department requested by the com-

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mittee appointed at the last Conference of Counsel to negotiate with the Treasury Department with a view of obtaining amendments to Sections 32 and 34 of Treasury Department Circular No. 176, I discussed the subject a week or ten days ago with Mr. Bell, Commissioner of Accounts and Deposits and again yesterday with Mr. Douglas, Assistant Secretary of the Treasury and finally obtained a promise that Mr. Douglas will let me know the first of next week when it will be possible for the officials of the Treasury Department to confer with the committee. It appears that the committee's letter to the Secretary of the Treasury inclosing a copy of its report and requesting a conference was referred to Mr. Bell and that he referred it to two men in his division who have prepared memoranda on the subject, but that Mr. Bell has not yet found an opportunity to study the matter and is not prepared for a conference and does not think he will have time for such a conference until after the present Congress adjourns on the 4th of March. However, I have pointed out to both Mr. Douglas and Mr. Bell the importance of disposing of the matter without further delay, and I think there is some chance of obtaining a conference sometime this month.

Very truly yours,

Walter Wyatt,
General Counsel.

TO COUNSEL FOR ALL FEDERAL RESERVE BANKS (HEAD OFFICES ONLY)

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CONFIDENTIAL L-17

February 9, 1933.

RECOMMENDATIONS OF THE FEDERAL RESERVE BOARD WHICH HAVE NOT BEEN ADOPTED IN THE GLASS BILL.

In its letter of March 29, 1932 addressed to Senator Norbeck, Chairman of the Committee on Banking and Currency of the United States Senate, the Federal Reserve Board made a number of recommendations with reference to the provisions of the Glass Bill, S. 4115. Some of these recommendations have been incorporated in the revised bill, S. 4412, and others have not. There are summarized below the recommendations contained in the Board's report of March 29, 1932, which have not been adopted substantially in the bill, S. 4412, in the form in which it was passed by the Senate on January 25, 1933. No mention is made of provisions of the bill which are substantially as recommended by the Board.

(Page and section numbers refer to the bill S. 4412 as it passed the Senate on January 25, 1933, unless otherwise indicated, and the bill in this form is referred to in this memorandum as "the present bill".)

SECTION 2.

Definition of the term "affiliate". (Pages 2,3)

The Board's recommendations on this subject have been incorporated in the present bill. It may be noted, however, that certain additional changes in the definition of the term "affiliate" have been made. The provision that this term shall include an organization of which a majority of the members of its executive committee are directors of a

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member bank has been stricken from the present bill. Another change is the sub-division in the present bill of the several classes of institutions defined as affiliates so as to make a distinction between "affiliates" generally and "holding company affiliates".

SECTION 3.(b)

Voting by groups or chains in elections of Federal reserve bank directors. (Pages 4,5).

The Federal Reserve Board recommended the omission of a provision (contained in section 4 of S. 4115) which prohibited a bank which belongs to a group or chain or which is not controlled by local residents from voting for Federal reserve bank directors. The present bill provides 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.

In connection with its recommendation on this subject, the Board said that this section "prohibits banks that belong to a group or a chain from voting for Federal reserve bank directors. The wording of the section is such as not to confine the prohibition to group and chain banks, however, but to include all banks that are not controlled entirely by locally resident stockholders. Since the stock of many important banks is widely owned throughout the country, this might restrict the voting privilege to smaller and less important banks that are owned by local stockholders. It is to be feared that this section would bar from participation in the selection of Federal reserve directors many of the

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better managed banks."

SECTION 4.

Distribution of earnings of Federal reserve banks. (Page 5)

The Federal Reserve Board recommended 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 proposed Federal Liquidating Corporation, but the present bill provides that all net earnings of a Federal reserve bank after payment of dividends, claims and expenses shall be paid into the surplus fund of the bank.

In discussing the corresponding section of S. 4115, (Section 5), the Board said: "This section would amend the first paragraph of Section 7 of the Federal Reserve Act so that, after the payment of expenses and dividends, all of the net earnings of a Federal reserve bank over and above any amounts necessary to restore its surplus to the amount on December 31, 1931, would be paid to the Federal Liquidating Corporation. The amendment is also worded in such a way as to prevent the payment of any dividends out of surplus and to prevent the payment of dividends whenever the surplus of a Federal reserve bank is less than it was on December 31, 1931.

"A different method of financing the liquidating corporation is proposed and will be discussed under the appropriate section. For this reason a modification of Section 5 is suggested which would not change the provisions of the present law in regard to the surplus of the Federal reserve banks, but would authorize the Secretary of the Treasury to use the franchise tax received from the Federal reserve banks for the purpose

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of supplementing the funds of the corporation."

SECTION 5(b).

Reports of affiliates of State member banks. (Page 6)

The Board stated in its letter that "With respect to affiliates, the Board believes that important reforms to be accomplished at the present times are the granting of power to the supervisory authorities to obtain reports and to make examinations of all affiliates of member banks and the prescribing of limitations on the loans that a member bank may make to its affiliates. The Board realizes that many evils have developed through the operation of affiliates connected with member banks, particularly affiliates dealing in securities."

The Board also recommended that, in dealing with affiliates, the following principles be observed: "(1) To require them to make reports and to submit to examination at the discretion of the Board or the Comptroller; (2) to limit the loans that can be extended to an affiliate by a member bank; and (3) to prohibit the tying up of capital stock of an affiliate with the capital stock of a member bank. In favoring these limitations, the Board has in mind that it may not be desirable to abolish all the existing relationships between member banks and their affiliates, but that it is desirable to protect the operations of the member banks from being unduly influenced by their affiliates. Recent experience has demonstrated that operations of the affiliates at times have unfavorable effects on the condition of member banks."

The Federal Reserve Board accordingly recommended that reports

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of affiliates of State member banks "be required only when deemed necessary by the Federal Reserve Board." The present bill provides that a State member bank shall obtain from each of its affiliates, other than member banks, and furnish to the Federal reserve bank and the Federal Reserve Board, not less than three reports of condition each year on dates identical with the reports of the affiliated member bank 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. The reports of affiliates are to be published by the bank under the same conditions as govern its own condition reports.

(Substantially the same provisions are contained in Section 24 of the present bill with reference to reports of affiliates of national banks, except that the reports are made to the Comptroller of the Currency instead of the Federal Reserve Board.)

SECTION 5(b).

Dealings in stocks and investment securities by State member banks. (Page 8)

The present 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

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and holding of investment securities and stock. There was no such provision in S. 4115; but the Board recommended that the provision in Section 15 of S. 4115, which restricted dealings in investment securities by national banks, be omitted entirely.

(The provisions on this subject regarding national banks are in Section 15 of the present bill.)

SECTION 5(b).

Divorce of stock of State member bank from stock of other corporations. (Page 8)

The present bill contains a provision to the effect that, after five 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 the stock certificate of such a bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation, except a member bank. S. 4115 contained no such provision regarding the stock of State member banks. There was a similar provision regarding the stock of national banks (Section 17 of S. 4115), which would have become effective immediately, and the Board recommended that it be retained but that it be made effective after three years. The Board also recommended in connection with its discussion of affiliates that the bill "prohibit the tying up of capital stock of an affiliate with the capital stock of a member bank."

(The provision on this subject applicable to the stock of national banks is found in Section 17 of the present bill.)

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SECTION 5 (b).

Right of an affiliate of a State member bank to vote stock held by it in such bank. (Page 8)

Under the present bill, each State member bank affiliated with a holding company affiliate is required to obtain from such affiliate, within a period prescribed by the Board, an agreement that the affiliate will be subject to the same conditions and limitations with respect to voting stock in the bank as are applicable in the case of holding company affiliates of national banks (under Section 18 of the bill); and for failure so to do the membership of the State bank in the Federal Reserve System may be forfeited. If the Board revokes the voting permit (required by Section 18) of any holding company affiliate, the membership of any State member bank affiliated with it may be forfeited.

Section 20 of S. 4115 contained provisions with reference to the conditions under which holding company affiliates of national banks may obtain permits to vote stock owned by them in such banks, but these provisions were not made applicable to State member banks. The Board recommended a number of changes in these provisions, and that substantially the same provisions, with the changes recommended, be made applicable also to affiliates of State member banks. The provisions applicable to affiliates of national banks, however, (to which affiliates of State member banks are also subject) have not, except in a few respects, been made to conform to the recommendations of the Board on the subject.

(The provisions referred to are described below more in detail in Section 18 hereafter.)

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SECTION 5(b).

Examination of the affiliates of State member banks. (Page 9)

The Federal Reserve Board recommended "in order that suitable provision may be made for the examination of affiliates of State member banks when deemed necessary" that such examinations be authorized to be made when deemed necessary in order to inform the Board or the Federal reserve bank of the relations between the affiliate and the member bank and the effect of such relations; that the examiner be authorized to examine officers and employees of the affiliate under oath; that the expenses of the examination be assessed, in the discretion of the Board, against the affiliate; and if not paid by the affiliate, against the member bank; and that a refusal by the affiliate to permit an examination or to give necessary information be penalized by a fine against the member bank of $100 per day.

The present bill requires such examinations of affiliates of State member banks to be made in connection with the examinations of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations; the expenses of such examination may, in the discretion of the Board, be assessed against the bank examined; and, in the event of the refusal of the affiliate to give information or to permit an examination, or in the event of the failure of the bank to pay the cost thereof, the membership of the bank may be forfeited. The provisions recom-

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mended by the Board as to examinations under oath, payment of expenses of examination by the affiliate, and penalties of $100 a day, are omitted.

(Provisions with reference to examinations of affiliates of national banks are contained in Section 25 of the present bill.)

SECTION 6.

Offices of the Federal Reserve Board. (Pages 10-13).

The Federal Reserve Board recommended that if the authority of the Secretary of the Treasury, contained in existing law, to assign quarters to the Federal Reserve Board is repealed, "it would seem that the Board should be authorized to purchase or construct a building for its own use and that, in the interest of convenience and efficiency, space should be provided in such building for the Comptroller of the Currency and his staff and for the proposed Federal Liquidating Corporation." The Board, however, is not given authority to purchase or erect a building in the present bill, and the provision of existing law authorizing the Secretary of the Treasury to assign offices to the Board has been omitted.

SECTION 7.

Open Market Committee. (Page 13)

The provisions of Section 10 of S. 4115 creating the Federal Open Market Committee have, with some changes, been retained in the

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present bill.

The Board said in its letter "With respect to the section of the bill dealing with open market operations, the Board calls attention to the fact that there is already in existence an open market committee on which each of the Federal reserve banks has representation. This has come about as the result of natural development. The Board believes that it would be inadvisable to disturb this development by crystalizing into law any particular procedure. The Board believes that nothing further is necessary or advisable at this time than an amendment clarifying its power of supervision over open market operations of the Federal reserve banks and their relationships with foreign banks, as set out in the memorandum attached."

The Board suggested as a substitute for the provisions on this subject certain amendments to Section 14 of the Federal Reserve Act: (1) clarifying the Board's power over open market operations, and (2) improving and clarifying one of the provisions of the bill with respect to the considerations which should govern purchases and sales on the open market, so as to apply not only to purchases and sales "of paper" but to any open market transactions. The first of these suggested amendments is not incorporated in the

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present bill and while the phraseology of the provision with respect to the considerations governing open market operations has been changed, it has not been altered in the manner suggested by the Board.

The Federal Reserve Board pointed out that the statement in Section 10 of S. 4115 that "No Federal reserve bank shall engage in open market operations * * * except after approval and authorization by the Committee", appears to be too rigid. The Board said that this provision "deprives an individual reserve bank of all authority to make purchases in the open market except after obtaining the consent of both the Board and the committee. The open market committee would have no authority to act without approval of the Board and the Board would have no authority to act without approval of the committee. This would result in the possibility of obstruction of any system program and would tend to make the operation of the Federal reserve system less timely and less efficient." In the present bill the provisions referred to have been changed slightly in form, but little in effect.

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SECTION 7.

Federal Liquidating Corporation. (Pages 14-28).

The Board said in its letter that it "is in favor of establishing a liquidating corporation, but proposes to limit the scope of its operations to member banks and suggests a different method of financing it, together with certain changes in the provisions for its administation."

Accordingly, the Board suggested in lieu of the provisions of section 10 of S. 4115 on this subject, a proposed substitute which provided a number of material changes. In submitting this substitute the Board said: "The substitute would confine the benefits of the liquidating corporation to member banks. Provision is made for assistance to nonmember banks in the Reconstruction Finance Corporation Act, and it would render membership in the System more attractive if the benefits of the Corporation were confined to member banks. In the substitute it is proposed that $100,000,000 of the capital of the liquidating corporation be subscribed by the Treasury. This subscription to capital may be considered as being derived from the franchise tax previously paid to the Treasury by the reserve banks. In addition, it is proposed that the corporation be authorized to issue debentures up to twice the amount of its subscribed capital and that the Federal reserve banks be given authority to purchase those de-

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bentures up to one-fourth of their surplus. This is not a propitious time to ask the member banks to contribute to the liquidating corporation. The banks are going through a very difficult period and to tax them for this purpose would be a considerable hardship on them.

"In order to make the operations of the corporation more easily manageable, it is proposed that the directorate be comprised of five members instead of fourteen as proposed in the bill."

Some of the suggestions of the Board mentioned in the above quotation have been adopted in the present bill. The provisions of the present bill confine the benefits of the liquidating corporation to member banks (paragraph (a)) and debentures may be issued by the corporation up to twice the amount of its capital (and this would seem to mean "subscribed capital", though it is not clear) (paragraph (m)). The directorate of the corporation is to consist of five members (paragraph (b)). The other recommendations of the Board, mentioned in the above quotation, namely, as to capital stock and the purchase of debentures of the corporation by Federal reserve banks, have not been adopted.

The present bill provides for three classes of capital stock; Class A stock, to be subscribed by member banks in an amount equal to one-fourth of one per cent of their deposits; Class B stock, to be subscribed by the Federal reserve banks in an amount equal to one-fourth of their surplus (paragraphs (d) and (e)); and stock in the amount of $125,000,000, to be subscribed by the United States (paragraph (c)). One-half of the

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Class A stock (paragraph (e)) and of the Class B stock (paragraph (d)) is apparently required to be paid in on the organization of the corporation and the remainder is subject to call (paragraphs (d) and (e)). None of the stock subscribed by the United States is to be paid in on organization, but is subject to call by the board of directors of the corporation; and $125,000,000 is authorized to be appropriated for payment for the stock (paragraph (c)).

In addition to the points mentioned above, there are a number of other differences between the provisions of the present bill and the Board's suggested substitute. Many of these are differences of relatively slight importance or of language only. Others, however, are more substantial and those which appear to be material will be noted here:

The Board's suggested substitute provided that debentures issued by the corporation should be guaranteed by the United States and paid by the United States if the corporation should be unable to pay them, but this amendment has not been adopted.

The present bill (paragraph (b)) contains a provision (not found in the Board's proposed substitute) that no member of the board of directors of the corporation (consisting of the Comptroller of the Currency, a member of the Federal Reserve Board and three members appointed by the governors of the Federal reserve banks) shall receive any additional compensation for his services as such member.

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Both under the present bill (paragraph (h)) and the Board's proposed substitute, an officer or employee of the United States may be an officer or employee of the corporation; but the present bill does not specifically authorize an officer or employee of the United States to be a director of the corporation as does the Board's substitute.

The present bill (paragraph (i)) requires the board of directors to administer the affairs of the corporation fairly and impartially and without discrimination among member banks and to extend to member banks such accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks. This provision was not contained in the Board's substitute.

The present bill, in providing for Class A stock to be subscribed by the member banks and Class B stock (paragraphs (d) and (e)) to be subscribed by Federal reserve banks, contains a number of provisions with reference to the attributes of this stock and the manner in which Class A stock shall be increased or decreased according to increases or decreases in the amount of deposits of member banks or in the number of member banks (paragraph (f)).

The Board's proposed substitute authorized the dealing in real or personal property to the extent necessary or convenient for the transaction of the corporation's business, but this provision is not included in the present bill.

The present bill does not contain the provision suggested by the Board that the corporation be authorized to appoint

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its employees without regard to the provisions of other laws applicable to the employment and compensation of officers and employees of the United States.

The present bill contains a provision (not found in the Board's proposed substitute) for a valuation committee (which includes the receiver, a representative of the insolvent bank and a third member, selected by these two, but does not include a representative of the corporation). Loans on and purchases of the assets of the closed member banks by the corporation are to be made on the basis of valuations made by this committee (paragraph (j)).

The present bill does not contain a provision (suggested by the Board) that in no case shall the corporation make any loan or purchase any assets in an amount which shall not fully protect the corporation.

The present bill requires the corporation to pay to the receiver any excess realized upon the assets purchased (paragraph (j)), but does not contain such a requirement as to an excess realized upon assets on which a loan has been made (as provided in the Board's substitute.)

The present bill provides for the deduction of a liquidation fee of 8% of the amount realized upon the assets purchased (paragraph (j)); whereas the Board suggested the deduction of the expenses of

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liquidating the assets and an amount equal to interest at the rate of 6% per annum, and required that all loans made by the corporation to receivers bear interest at 6% per annum.

The present bill contains a provision authorizing the corporation to purchase the assets of banks in the hands of receivers on the date of the organization of the corporation on the same general terms and conditions as are applicable in the case of banks closed after that date (paragraph (k)). This provision appears to be unnecessary; and the same effect is accomplished by the provisions of the Board's proposed substitute, although an express provision of this kind is not found in the substitute.

The present bill also recognizes the right of the corporation to enter into negotiations to secure the reopening of closed member banks (paragraph (k)). Express authority for this purpose is not given in the Board's proposed substitute.

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SECTION 8.

Loans on member banks' collateral notes. (Page 28)

The present bill providesthat, if a member bank, while indebted to a Federal reserve bank on a fifteen day collateral note and despite a warning of the Federal reserve bank or of the Federal Reserve Board, increases its outstanding loans for the purpose of purchasing or carrying stocks or investment securities (except obligations of the United States), its note shall be immediately due and payable and the member bank shall be ineligible to borrow on such fifteen day notes for such period as the Federal Reserve Board shall determine.

The Federal Reserve Board recommended that the provisions of Section 11 of S. 4115 on this subject be omitted and that an amendment be adopted increasing the maximum maturity of advances to member banks on their promissory notes secured by eligible paper from 15 to 90 days; but, except for the omission of two provisions of S.4115 to which the Board objected, the Board's recommendationson this subject have not been adopted.

In this connection the Board said: "The Board is not in sympathy with the provisions of the bill discriminating against member bank collateral notes. Experience shows that the particular instrument on which Federal reserve credit is obtained is not an adequate test of the use to be made by the member bank of the proceeds of the credit and that an attempt to control speculation through restrictions on member bank collateral notes would not be effective in accomplishing the purpose of this section of the bill. Indeed, it probably would interfere seriously with the convenient and economical operation of the system. In this connection, the Federal Reserve Board desires to

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renew the recommendation made in its annual reports for several years, that the maturity for which advances may be made to member banks on their promissory notes secured by paper which is eligible for discount be increased from fifteen to ninety days. Such an amendment would be especially helpful to country banks."

The Board also said that the theory underlying this section (Section 11 of S.4115) namely, "that there is a more direct connection between member bank collateral notes and the use of reserve credit for speculative activity than between other borrowings and this activity is unfounded. Member banks borrow on 15-day notes, because of the greater convenience both to them and to the Federal reserve bank; and, if this form of borrowing were prohibited or made more expensive, they would merely substitute the procedure of rediscounting eligible paper without any change in the use of the proceeds. For these reasons, it is believed that this section would make the operation of the Federal reserve banks less efficient and more expensive."

(It may be noted that the present bill amends the seventh paragraph of Section 13 of the Federal Reserve Act; but, due to the insertion of another paragraph in section 13 by the Act of July 21, 1932, the paragraph intended to be amended is not now the seventh paragraph, but the eighth paragraph. Furthermore, the enactment of the present bill would repeal the amendment to the paragraph in question which was contained in the Act of May 19, 1932, and which authorized the use of obligations of Federal intermediate credit banks as security for member bank 15 day notes.)

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SECTION 9.

Foreign Transactions of Federal reserve banks (Pages 29,30)

The principal recommendations which the Board made with respect to Section 12 of S. 4115 dealing with the supervision of the Federal Reserve Board over foreign transactions and relationships of Federal reserve banks have been adopted in the present bill. One point of difference, however, may be noted. S. 4115 provided that a report of all conferences or negotiations and material facts appertaining thereto be filed with the Federal Reserve Board in writing and signed by all representatives of the Federal reserve bank attending such conferences or negotiations. The Board recommended the omission of the clause requiring the representatives of the Federal reserve bank to sign the report. The present bill requires that a report of such conferences or negotiations be filed with the Board in writing by a duly authorized officer of each Federal reserve bank which shall have participated therein.

SECTION 10.

Reserves of member banks(page 30)

Section 13 of S. 4115 contained a revision of the provisions with reference to the reserve requirements of member banks; and the Board recommended that these provisions be stricken out and that there be substituted a revision of Section 19 of the Federal Reserve Act in accordance with the recommendations of the System's Committee on Reserves, with some modifications. The provisions of S. 4115 have been omitted from the present bill; but the Board's recommended substitute (with the exception of a provision forbidding a member bank to act as the medium

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or agent of a non-banking institution in making collateral loans to brokers or dealers in investment securities) has not been incorporated therein. The present bill does not contain any provision with reference to reserve requirements of member banks.

On this subject the Board stated that it was "of the opinion that the adoption of a system of reserves based on velocity of accounts as well as on their volume as recommended by the System's Committee on Reserves, would be an important step in strengthening the influence that the Federal Reserve System could exert in the direction of sound credit conditions."

The Board also said in this connection, "Any thorough-going revision of Section 19 of the Federal Reserve Act should base required reserves, in so far as practicable, upon the activity of the business handled through each bank, rather than on an arbitrary classification of banks according to location. A proposal submitted in the 'Report of the Committee on Bank Reserves of the Federal Reserve System' embodies a method of calculating required reserves which is believed to be sound in principle and which would make fluctuations in the volume of required reserves exert an influence in the direction of sound credit conditions and would also eliminate many inequitable and unfair features of the present law."

SECTION 11

Loans by Member Banks to Executive Officers or Relatives. (Pages 30-32)

There is a provision in the present bill, not contained in S.4115 and not recommended by the Federal Reserve Board, which forbids a member bank to loan to its executive officers and forbids them to borrow from the bank. It also requires an executive officer of a

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bank who borrows from any other bank to make a report thereof to the chairman of the board of directors of his bank; and further, that if a spouse, brother, sister, lineal ancestor or direct descendant of an executive officer of any member bank borrow from such bank, the officer shall make report thereof to the chairman of the board of directors. Violation of this section is made a crime, subject to fine or imprisonment.

SECTION 12.

Loans to or investments in stock of affiliates. (Pages 32-34)

The provisions recommended by the Federal Reserve Board with respect to the limitations upon loans or extensions of credit to affiliates by member banks and upon investments in the stock or obligations of such affiliates by member banks have been adopted substantially in the present bill. One exception to this statement, however, may be noted.

Among the limitations provided by this section is a requirement that a loan or extension of credit to an affiliate of a member bank be secured by collateral having a market value of at least 20% more than the amount of the loan or extension, except loans or extensions secured by obligations of the United States, Federal intermediate credit banks, Federal land banks or paper eligible for rediscount by Federal reserve banks. The Board recommended that an exception to this limitation be made also in favor of loans secured by obligations of the Reconstruction Finance Corporation, but such an exception is not contained in the present bill.

SECTION 13.

Limitation on Investments in Bank Premises. (Page 34)

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The Federal Reserve Board recommended 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 stock or obligations of, or in loans to, any corporation owning or holding its bank premises, a sum exceeding the amount of the bank's capital stock.

The present bill adopts in substance this provision recommended by the Board, but 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 14.

Jurisdiction of Federal Courts over cases involving foreign banking transactions. (Page 35)

The present bill contains a provision, not found in S.4115 and not recommended by the Federal Reserve Board, which confers upon 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.

SECTION 15.

National Banks granted all powers of State Banks. (Page 36.)

The Federal Reserve Board recommended the omission of a provision of Section 15 of S.4115 authorizing a national bank to engage in all forms of banking business permitted by the laws of the State in which it is located to "banks of deposit and discount" organized under

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such State laws, except to the extent that the exercise of such powers is forbidden by the laws of the United States. The Board said in this connection that this provision "apparently is intended to enable national banks to compete more effectively with State banks. Its tendency would be to lower the standards of banking in the national banking system to the standard of the State banks, where more liberal powers are granted to State banks by State law."

The provision in question, however, has been retained in the present bill, with the qualification that this section shall take effect five years after the date of the approval of the Act.

SECTION 15.

Dealings in investment securities. (Pages 36-38)

The Board recommended that a number of provisions, contained in Section 15 of S.4115, which referred to dealings in investment securities by national banks and prescribed certain limitations thereon, be omitted from the bill. In this connection the Board said: "This section would make it necessary for member banks to dispose of a large amount of securities at this time which would be very unfortunate. Since it is aimed generally at investments in securities, it is believed that its purpose is covered sufficiently by the proposed substitute for Section 3 of the Bill.

"The definition of investment securities which is contained in the law, as amended by the Act of February 25, 1927, would be stricken out and apparently the Comptroller would be given unlimited power to prescribe his own definition except that stocks could not be included. This modification is undesirable.

"For the reasons stated, it is recommended that this section be omitted entirely."

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The definition of investment securities contained in existing law has been restored in effect in the present bill. The other provisions on this subject, however, which the Board recommended be omitted, have been retained in the present bill with certain changes and with the qualification that the section shall not take effect until five years after the approval of the Act. Under Section 5 of the present bill, furthermore, these provisions are applicable also to State member banks.

The present 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 a member bank may purchase and hold for its 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 purchased after this section takes effect 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 purchased after this section takes effect and held by a member bank for its own account shall not exceed 15 per cent of the paid-up unimpaired capital of the bank and 25 per cent of its unimpaired surplus.

No member bank may purchase the stock of any corporation, except as otherwise permitted by law, and except that a bank may invest not more than

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15 per cent of its unimpaired capital and surplus in the stock of safe deposit companies. These limitations do not apply to obligations of the United States, to obligations (whether general or special) of any State or any subdivision thereof, or to obligations issued under the authority of the Federal Farm Loan Act.

SECTION 16(b)

Capital Requirements of State Member Banks. (Page 39).

The present bill contains a provision, not found in S. 4115 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 per cent of the amount required for the organization of a national bank in the place in which it is situated. The capital 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 17.

Divorce of Stock of National Banks from stock of other corporations. (Page 39).

The present bill provides that, after five years from the passage of the Act, no certificate of stock of a national bank shall represent the stock of any other corporation "except a member bank"; nor shall 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".

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This provision is as recommended by the Federal Reserve Board except that (1) the Board suggested that it become effective three years after the passage of the Act instead of five years thereafter; and (2) the qualifying phrase "except a member bank" was not contained in the Board's recommendation.

(Similar provisions regarding certificates of stock of State member banks are included in Section 5(b) of the present bill).

SECTION 18.

Right of an affiliate of a national bank to vote stock held by it in such bank. (Pages 39-45).

The Federal Reserve Board recommended a number of changes in the provisions which appeared in sections 19 and 20 of S. 4115 with reference to the conditions under which an affiliate of a national bank might vote stock held by it in such bank, and also recommended that a new section be added imposing similar requirements upon affiliates of State member banks. The present bill does not contain the provisions recommended by the Board on this subject, although, as explained heretofore under Section 5(b), a State member bank is required to obtain from its holding company affiliates an agreement to comply with the same requirements which are applicable to national bank affiliates under this section. In this connection the Board said:

"Under the definition of 'affiliate' contained in Section 2 and under the provisions of Sections 6, 27, and 28 of the Bill (S. 4115), if amended in accordance with the recommendations contained in this report, all holding companies which control member banks and all banks owned or

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controlled by such holding companies will be affiliates of such member banks and will be required to make reports and submit to examinations whenever deemed necessary or advisable by the Comptroller of the Currency, the Federal Reserve Board or examiners appointed by them; and, therefore, it is suggested that the provisions regarding examinations and condition reports of holding companies be omitted from this section and from the corresponding sections regarding holding companies which own or control State member banks.

"It is also suggested that there be inserted in Section 19 and in the proposed new Section 20 certain additional provisions providing for the regulation and supervision of holding companies and requiring all eligible State banks controlled by them to be members of the Federal Reserve System."

The salient features of the provisions recommended by the Board on this subject were as follows: Shares owned or controlled by an affiliate of a national bank or any representative or agent of such 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, if eligible, shall apply for membership in the Federal Reserve System and if not admitted or, if after admission, it ceases to be a member, such affiliate shall divest itself of all interest in such bank. Each such affiliate shall, on and after January 1, 1934, hold unpledged readily marketable assets, other than bank stock, equal to 15 per cent of bank stocks held by it and shall

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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, in computing the amount of such assets, credit shall be given for contributions made during the preceding three years to banks owned or controlled by the affiliate. Failure on the part of any such affiliate to comply with the provisions of the section or of the agreement is ground for the termination of the agreement by the Comptroller of the Currency. No national bank shall make any loan on the security of the stock of, or be the purchaser or holder of the stock of, any such affiliate which owns or controls such bank, or make any loan to any such affiliate on the security of the stock of a corporation owned or controlled by such affiliate, unless necessary to prevent loss upon a debt previously contracted in good faith; and stock so acquired shall be disposed of within two years. The voting of stock held by affiliates when an agreement of the kind mentioned is not in effect is made a crime punishable by fine; and officers and employees of affiliates which have entered into such an agreement with the Comptroller of the Currency are made subject to certain criminal provisions with reference to false entries.

The provisions recommended by the Board with reference to affiliates of State member banks were in large measure similar to those with reference to national banks except that the Federal Reserve Board is substituted for the Comptroller of the Currency. Under the Board's recommendations, no State member bank might remain a member after one year unless affiliates of such bank file the required agreements with the Board.

The provisions of the present bill with reference to the voting rights of affiliates of national banks, which do not contain

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the provisions as recommended by the Board, are in brief form set forth in the following paragraphs.

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 five years after the passage of the Act, 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 re-investing in such readily marketable assets net earnings in excess of 6% annually until such 25% requirement is reached.

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(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, or losses incurred by, 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 and that it will not acquire such an interest or participation; that, if it has such an interest or participation it will, within five 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.

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SECTION 19.

Relationships between member banks and securities dealers or corporations making collateral loans. (Pages 45, 46)

Section 18 of S. 4115 contained provisions prohibiting directors, officers or employees of member banks to be directors, officers or employees of certain other specified classes of business enterprises and prohibiting a member bank from clearing checks or doing the ordinary banking business of a correspondent for any business enterprises of the classes mentioned. The Board recommended the omission of these provisions and they are not found in the present bill.

The Board suggested, however, a substitute paragraph on this subject and said in this connection:

"It has been clearly demonstrated that affiliations between member banks and security companies have contributed to undesirable banking developments. There are, however, difficulties in the way of accomplishing a complete divorce of member banks from their affiliates arising from the fact that a law intended for that purpose is likely to be susceptible of evasion or else to apply to many cases to which it is not intended to apply. Therefore, the Board is not prepared at this time to make a definite recommendation, but submits, for the consideration of the Committee on Banking and Currency, a substitute for Section 18 which is designed to provide for the divorce of security affiliates from member banks after three years."

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The present bill provides, in substantial accordance with the provision recommended by the Board, that no member bank shall be affiliated with a securities corporation in the manner described in Section 2(b) of the present bill (where the word "affiliate" is defined so as not to include holding company affiliates). A violation 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 violation is continued 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. The Board recommended that this provision be effective three years after the passage of the Act, but the present bill provides a period of five years before the provision becomes effective. Under the Board's recommendation the franchise of a national bank might be forfeited for violation of this provision in accordance with Section 5239 of the Revised Statutes, but under the present bill the forfeiture would be under Section 2 of the Federal Reserve Act, (under which suit for forfeiture may be brought by direction of the Federal Reserve Board.)

SECTION 20.

Branches of National Banks. (Pages 46, 47)

The recommendations made by the Federal Reserve Board with respect to the provisions of Section 21 of S. 4115 regarding branches of national banks have been incorporated in the present bill. Certain provisions of the present bill, however, regarding

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matters concerning which the Board recommended no changes, may be noted:

1. The present bill requires the approval of the Comptroller of the Currency instead of that of the Federal Reserve Board for the establishment of a new branch by a national bank.

2. Out of town branches may be established only in those States where the law expressly authorizes State banks to establish them and in accordance with the restrictions of State law as to location, and in no case outside of the State in which the bank is located.

3. An exception is made to the requirement that a national bank have $500,000 capital stock in order to establish an out of town branch, so as to provide that where the bank is located in a State having a population of less than 1,000,000 and in which there is no city with a population exceeding 100,000, the required capital for the establishment of an out of town branch shall be $250,000.

(The provisions as to the establishment of branches of State member banks, in the form recommended by the Board, are contained in Section 5(b) of the present bill.)

SECTION 24

Reports of affiliates of national banks. (Pages 49,50).

The Federal Reserve Board recommended a change in Section 27 of S. 4115 on this subject, "in order that reports of affiliates of

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national banks may be required only when deemed necessary and to clarify the provisions of the bill with respect to such reports". The present bill provides that a 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 each year on the same dates on which condition reports are required of the bank and such additional reports as the Comptroller may deem necessary. The term "affiliate" includes holding company affiliate. 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 as to the effect of such relations upon the affairs of such bank. Such reports of affiliates shall be published by the bank on the same conditions as govern its own condition reports. The bank is subject to a penalty for failure to render such reports.

(Substantially the same provisions are contained in Section 5(b) of the present bill with reference to reports of affiliates of State member banks, except that the reports are to be made to the Federal Reserve Board instead of to the Comptroller of the Currency.)

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SECTION 25.

Examinations of affiliates of national banks. (Pages 50-52)

The Federal Reserve Board recommended a substitute for the provisions of Section 28 of S. 4115 with respect to examinations of affiliates of national banks. Some of the provisions of the Board's substitute have been adopted in the present bill and others have not.

The Federal Reserve Board's substitute authorized the examination of affiliates of national banks to be made when deemed necessary to obtain adequate information regarding the relations between the bank and the affiliate and the effect of such relations upon the bank. The present bill requires that examiners in making the examination of any national bank shall include such an examination of the affairs of all of its affiliates, other than member banks, as shall be necessary to disclose fully the relations between the bank and its affiliates and the effect thereof; and authorizes the forfeiture of the franchise of the bank in the event of the refusal of the affiliate to give information or to permit such an examination.

The present bill authorizes the publication of an examination report of a national bank or affiliate after 90 days' notice if the bank or affiliate fails to comply within 120 days with the

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recommendations of the Comptroller of the Currency based on such examination. This provision, while contained in S. 4115, was omitted in the suggestion of the Board on this subject.

The Federal Reserve Board suggested certain other detailed provisions, authorizing the examiner to examine officers and employees of affiliates under oath; providing that the expenses of the examination be assessed by the Comptroller against the affiliate and, if not paid by the affiliate, against the national bank; and providing that a refusal by the affiliate to permit an examination or to give information be penalized by a fine against the national bank of $100 per day. These suggestions of the Board have been substantially adopted in the present bill, but the bill provides that the $100 penalty may be assessed and collected by the Comptroller of the Currency whereas the Board suggested that it be assessed by the Board and collected by the Federal reserve bank.

(Somewhat similar provisions with reference to examinations of affiliates of State member banks are contained in Section 5(b) of the present bill.)

SECTION 26.

Resumption of business by closed national banks. (Pages 52, 53)

The present bill contains a provision, not found in S. 4115

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and not recommended by the Board, under which, in any case where, in the opinion of the Comptroller of the Currency, it would be to the advantage of depositors and unsecured creditors of a closed national bank for it to resume business upon the retention for a reasonable period, of all or a part of its deposits, the Comptroller may permit such resumption of business if 85% in amount of depositors and unsecured creditors consent in writing to such retention of deposits. It is provided that this section shall not affect any powers which the Comptroller now has with respect to the reorganization of national banks.

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CONFIDENTIAL - Tentative Draft of March 25, 1933..

March 25, 1933.

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Norris - Philadelphia
Williams - Fancher - Cleveland
Hoxton - Seay - Richmond
Newton - Black - Atlanta
Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geery - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

H. R. 3757 providing for direct loans by Federal reserve banks to non-member State banks and trust companies, which was quoted in our Trans. 1722 of March 24 and was signed by President on same date, has been given preliminary study here and following tentative interpretations and procedure are suggested: (1) A nonmember bank may apply for loans only to Federal reserve bank of district in which it is located. (2) Suggest that your Counsel prepare forms of applications, promissory notes, resolutions of directors and other papers along lines of those used in connection with loans to individuals, partnerships and corporations; but application forms should also include provision that any failure to comply with any applicable provision of law or regulations of the Federal Reserve Board or of agreement with Federal reserve bank shall constitute a default upon all loans made by Federal reserve bank to applicant and applicant's entire indebtedness to Federal reserve bank shall thereupon become due and payable. (3) Each application must be accompanied by written approval of State authorities having supervision over applicant bank and statement from such authorities that it is in sound condition. (4) Before making first advance to any nonmember bank, Federal reserve bank should make thorough examination of applying bank, after making necessary arrangement to insure payment of expenses therefor. (5) If examination discloses that applicant bank is

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solvent, that it has capital required of member banks, that it has no branches unlawful for member banks, and that its condition is otherwise satisfactory, Federal reserve bank should inspect collateral and advise applicant bank whether or not loan will be granted. (6) Before being permitted to withdraw proceeds of advance, applicant bank should be required to establish actual realized balance with Federal reserve bank in amount equal to reserve balance which would be required of it under Section 19 and Regulation D if it were a member bank. (7) Advances to nonmember banks may be made on the same terms and conditions, and on the same collateral as fifteen day advances to member banks under eighth paragraph Section 13. (8) After nonmember bank has exhausted all collateral eligible for advances under Section 13, it may obtain advances on ineligible assets on same terms and conditions as member banks obtain advances under provisions section 10(b), Federal Reserve Act, as amended March 9, 1933. (9) Rates on all advances of either class should be same as rates on similar advances to member banks. (10) Notes representing advances to nonmember banks (whether on eligible or ineligible collateral) may be used as security for issuance of Federal reserve bank notes under Section 401 Act March 9, 1933, to same extent as paper acquired under Federal Reserve Act, but may not be used as security for Federal reserve notes. (11) Making of advances to nonmember banks is discretionary with Federal reserve bank and in exercising its discretion Federal reserve bank should consider whether proceeds of advance will be

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used for purpose of paying off existing indebtedness to other banking institutions and should also have due regard to claims and demands of member banks, as required by Section 4 Federal Reserve Act. (12) In making advances, Federal reserve banks should not make any commitment to renew or extend, or to grant further or additional advances. (13) Federal reserve bank should advise each nonmember bank applying for advances that, while it is indebted in any way to Federal reserve bank, it must comply with requirements of Federal Reserve Act and Board's regulations applicable to member State banks, including the following: (a) It must maintain reserve balance required by section 19 Federal Reserve Act and Board's Regulation D and will be subject to penalties for deficiencies in reserves; (b) it must remit at par for checks drawn on it and presented for payment by Federal reserve bank as required of member banks by Federal Reserve Act and Board's regulations; (c) it will be subject to examination at any time by Federal reserve bank or Federal Reserve Board and will be subject to assessments for expenses of such examinations to same extent as member banks; (d) it must make same reports of condition and of payment of dividends as required of member State banks and will be subject to same penalties for failure to do so; (e) before becoming indebted to Federal reserve bank, such bank must relinquish any branch or branches established after February 25, 1927, beyond limits city, town or village in which parent bank is situated and must not establish any such branches while indebted to

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such Federal reserve bank; (f) such bank must comply with capital requirements regarding eligibility of State banks for membership and must conform to provisions of law which prohibit national banks from lending on or purchasing their own stock, which relate to withdrawal or impairment of capital stock and which relate to payment of unearned dividends. (14) Suggest that your counsel and officers who are to handle applications of nonmember banks read carefully debates in Congressional Record on this Act and especially Senate debates of March 22 and 23, which indicate clearly that Federal reserve banks are not expected to make loans to insolvent banks nor to give nonmember banks more favorable treatment than member banks.

Morrill.

(Governors and Agents)

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L-28

SUGGESTED CHANGES IN S.245
BASED UPON RECOMMENDATIONS
MADE BY THE FEDERAL RESERVE BOARD
IN ITS REPORT OF MARCH 29, 1932
TO
THE COMMITTEE ON BANKING AND CURRENCY
OF
THE UNITED STATES SENATE

April 8, 1933.

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Section 2(b). Definition of "affiliate".

No changes in this section are recommended; but attention is invited to the fact that the definition of the term "affiliate" is so broad that it would apply to organizations having business interests entirely outside of the field of banking and which do not necessarily have an important effect upon the condition or management of member banks with which they are affiliated. Thus, if the same person or group of persons owns the controlling interest in a cotton compress company, a mercantile company or a manufacturing company and also owns more than 50% of the number of shares voted for the election of directors of a member bank at the preceding election, the cotton compress company, mercantile company or manufacturing company would be an "affiliate" of the member bank within the meaning of this section. It seems impracticable to frame a more restrictive definition which would exclude cases of this kind but include all corporations whose business may affect those of member banks; but it is believed that some of the mandatory provisions of the bill regarding affiliates should be made discretionary, in order to avoid the necessity of making examinations and requiring reports of condition in cases where the business of the affiliate is of such a character that the examinations and reports would serve no useful purpose and involve needless expenses. Changes for this purpose are suggested in connection with other sections of the bill dealing with affiliates.

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Section 5(b). Affiliates of State member banks.

It is recommended that the following changes be made in this section: Page 6, lines 10 and 11, strike out the words "not less than three reports during each year" and substitute the words "such reports as the Federal reserve bank or the Federal Reserve Board shall deem necessary."

Page 6, beginning in line 15, strike out all after the word "reports" down to and including the word "shown" in line 23.

Strike out all of the paragraph commencing on page 9, line 13, and ending on page 10, line 6, and substitute therefor the following:

> "Any examiner selected or approved by the Federal Reserve Board may examine any affiliate of any bank admitted to membership under the provisions of this section when it shall be deemed necessary in order to inform the Federal Reserve Board or the Federal reserve bank of the relations of such affiliate with such member bank or of the effect of such relations upon the management or condition of such member bank. The examiner making the examination of any such affiliate shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine any of the officers, directors, employees, and agents thereof under oath, and shall make a report of his findings to the Federal Reserve Board or to the Federal reserve bank. The expenses of any examination made under the provisions of this paragraph may, in the discretion of the Federal Reserve Board, be assessed against the affiliate examined and, when so assessed, shall be paid by the affiliate examined. If such affiliate shall refuse to pay such expenses or shall fail to do so within sixty days after the date of such assessment, then such expenses may be assessed against the affiliated member bank and, when so assessed, shall be paid by such member bank; Provided, however, That, if the affiliation is with two or more member banks, such expenses may be assessed

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(Section 5(b), continued)

against, and collected from, any or all of such member banks in such proportions as the Federal Reserve Board may prescribe. If any affiliate of a bank admitted to membership under the provisions of this section shall refuse to permit an examiner to make an examination of such affiliate or refuse to give any information required in the course of any such examination, each member bank with which it is affiliated shall be subject to a penalty of not more than $100 for each day that any such refusal shall continue. Such penalty may be assessed by the Federal Reserve Board in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise."

For the reasons indicated in the discussion of section 2, the above changes are recommended in order that the Federal Reserve Board may, in its discretion, avoid the necessity of making examinations of, or requiring reports of condition from, business organizations which are included technically within the definition of "affiliates" but which are engaged in a business which does not bring them within the purpose of the provisions of the bill. It is also believed that the proposed revision of the paragraph regarding examinations of affiliates would facilitate practical administration.

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Section 5(b). Dealings in investment securities by State member banks.

The bill provides that State member banks shall be subject to the same limitations and conditions with respect to the purchase, sale, underwriting and holding of investment securities and stock as are applicable in the case of national banks. In order to make it clear that this provision is not intended to require a bank to dispose of any securities which it holds at the time the bill is enacted into law, it is recommended that the period at the end of line 6 on page 8 of the bill be changed to a colon and the following words inserted:

> "Provided, That nothing herein shall be construed as requiring any bank to dispose of any investment securities or stock which it lawfully holds at the date of the enactment of this Act."

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Section 6. Quarters for the Federal Reserve Board.

It is recommended that the following be inserted between lines 5 and 6 on page 13:

"(d) Section 10 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof a new paragraph reading as follows:

'The Federal Reserve Board is authorized and empowered to acquire by purchase, condemnation or otherwise, a building located in the District of Columbia which will provide suitable and adequate offices wherein the functions of the Board and the Comptroller of the Currency may be carried on, or to acquire by purchase, condemnation or otherwise, such site located in the District of Columbia as it may deem necessary and to cause to be constructed thereon a building which will provide suitable and adequate offices for the purposes of the Federal Reserve Board and the Comptroller of the Currency, and to maintain, repair, enlarge or remodel any building so acquired or constructed. The Federal Reserve Board may assign offices in any such building for the use of the Comptroller of the Currency and the Federal Liquidating Corporation, and nothing contained in the Act of June 3, 1864, or in Section 331 of the Revised Statutes (Title 12, Section 13, U.S.C.), or in any other provision of law, shall be construed as preventing the Comptroller of the Currency from making full use of any offices so assigned and from keeping therein the records and all other valuable things belonging to his department. The Federal Reserve Board may levy upon the Federal reserve banks, in proportion to their capital stock and surplus, assessments sufficient to defray all costs and expenses incurred under the provisions of this paragraph.'"

The amendment to the second paragraph of Section 10 of the Federal Reserve Act contained in Section 6 (b) of the bill (pages 11 and 12) would repeal the provision of existing law authorizing the Secretary of the Treasury to assign offices in the Treasury Department for the use of the Federal Reserve Board; and it would

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(Section 6 continued)

seem that the Board should be authorized to purchase or construct a building for its own use and that, in the interests of convenience and efficiency, space should be provided in such building for the Comptroller of the Currency and his staff and for the proposed Federal Liquidating Corporation.

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Section 7. Federal Open Market Committee.

It is recommended that everything beginning with line 6 on page 13 through and including line 16 on page 14 be stricken out and that the following be inserted in lieu thereof:

> "Sec. 7. Section 14 of the Federal Reserve Act, as amended, is further amended by striking out the words 'Every Federal reserve bank shall have power;' and inserting in lieu thereof the following:
>
> 'Subject to such regulations, limitations, restrictions and procedure as the Federal Reserve Board may prescribe, every Federal reserve bank shall have power:'
>
> "Section 14 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof a new paragraph reading as follows:
>
> 'The time, character and volume of all purchases and sales in the open market under this section shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.'"

There is already in existence an open market committee which has come about as the result of natural development and on which each of the Federal reserve banks has representation; and the Board believes that it would be inadvisable to disturb this development by crystalizing into law any particular procedure. It is also believed that nothing further along this line is necessary at this time than amendments such as those suggested above clarifying the power of the Federal Reserve Board to supervise and regulate the open market operations of the Federal reserve banks and writing into law the principle underlying such operations which has long been observed by the Federal Reserve Board.

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(Section 7, continued)

The provision of subsection (b) of the proposed new Section 12A (page 13, lines 20-24), to the effect that no Federal reserve bank shall engage in open market operations except in accordance with resolutions adopted by the committee and approved by the Federal Reserve Board, would deprive an individual Federal reserve bank of all authority to make purchases in the open market except after obtaining the consent of both the Board and the committee. The open market committee would have no authority to act without the approval of the Board and the Board would have no authority to act without the approval of the committee. This would be too rigid and might make the open market operations of the Federal Reserve System less timely and less efficient.

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Section 7. Federal Liquidating Corporation.

If the amendment first made above regarding the proposed Open Market Committee is adopted, it will be necessary to insert the following before line 17 on page 14:

> "The Federal Reserve Act, as amended, is amended by inserting between Sections 12 and 13 thereof the following new section:"

It is recommended that, on pages 15 to 19, inclusive, all of paragraphs (c), (d), (e), (f) and (g) be stricken out and that the following be substituted therefor:

> "(c) The corporation shall have a capital stock of $125,000,000, all of which shall be subscribed by the United States of America and payment for which shall be subject to call in whole or in part by the board of directors of the corporation.
>
> "There is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated the sum of $100,000,000 for the purpose of making payments upon such subscription. Receipts for payments by the United States for or on account of such stock shall be issued by the corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States.
>
> "Any Federal reserve bank may purchase and hold any debentures or other such obligations of the corporation in an amount not exceeding one-fourth of the amount of its surplus fund."

The proposed section 12(B) of the Federal Reserve Act as set out in section 7 of the bill contemplates that the Federal Liquidating Corporation shall have a capital and surplus composed of (a) funds derived from subscriptions by member banks to the extent of one-fourth of one per cent of their net time and demand deposits; (b) one-fourth of the surplus of the Federal reserve banks as of July 1, 1932; and (c) the sum of $125,000,000 to be subscribed by the United States.

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(Section 7, continued)

In addition, the corporation would be empowered to sell and have outstanding at any one time its obligations in an amount equal to twice its capital and surplus. It has been estimated that the amount thus required of member banks would be about $65,000,000 and the amount required of the Federal reserve banks about an equal amount. Thus the entire capital and surplus of the corporation might be approximately $255,000,000 and its borrowing capacity approximately $510,000,000, or a total of $765,000,000.

Under the amendment proposed herein, the corporation would have a capital of $125,000,000 paid in by the Treasury and would be authorized to sell its obligations in an additional amount equal to twice its capital, or, in other words, it might have approximately $375,000,000 of resources available for carrying on its operations. Bearing in mind that this sum would be in the nature of a revolving fund and that the corporation will be constantly receiving repayments from the liquidation of the assets purchased or held by it as collateral which will be available for further purchases or loans, it seems to the Board that a total of $375,000,000 should be sufficient for all practical purposes. If, however, it should later appear to be inadequate there would be ample opportunity for Congress to amend the law so as to provide means for increasing the resources of the corporation. In these circumstances, it seems unnecessary to impose upon member banks the burden of providing part of the capital of the proposed corporation; and much objection has been made to the imposition of such a requirement, particularly at this time.

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Likewise, no necessity seems to exist for requiring the Federal reserve banks to subscribe to the capital stock of the corporation. On the other hand, the provision permitting the Federal reserve banks to purchase debentures of the corporation would be helpful in facilitating the marketing of the corporation's obligations.

In order that it may be clear that the corporation may issue its obligations in an amount equal to twice the amount of its subscribed capital, it is suggested that the word "subscribed" be inserted before the word "capital" in line 1 on page 24 of the bill.

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(Section 7 continued)

It is further recommended that everything on page 21, after the word "require" in line 14, down through and including the word "directors" in line 19 be stricken out; because it is believed that sound business practice, as well as the need for protecting the Government's investment in the capital of this corporation, requires that the valuations upon which purchases of assets of closed banks or loans to receivers upon the security of such assets are based should be determined by representatives of the Liquidating Corporation.

The bill provides for a liquidation fee of 8 per cent of the amount realized from the sale or other disposition of assets purchased by the corporation. The time required for the liquidation of such assets would vary in different cases from a few months to several years and a fee of 8 per cent might be too great in some cases or too little in others. It is recommended, therefore, that the words "liquidation fee of 8 per centum of" in line 3 of page 22 of the bill be changed to read "reasonable liquidation fee from."

If, notwithstanding the recommendations of the Board above set forth with reference to the capital structure of the corporation, the present provisions of the bill for three classes of stock are to be retained, the Board feels that the stock held by the Federal reserve banks should be accorded the same rights as to dividends as are given the stock held by the member banks and by the Government. There is no reason why the stock paid for by the Federal reserve banks should not be given the same treatment in this respect as the other classes of stock of the corporation.

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It is also believed that a provision should be included which would authorize the return to the member banks and to the Federal Reserve Banks of a portion of the amount paid in by them upon the stock of the corporation if and when it is no longer needed for the purposes of the corporation. If it should develop that the amount of the paid-in capital stock of the corporation is in excess of its needs, the returns on the stock would be small and it would seem equitable that the amount of the excess paid in by the member banks and the Federal reserve banks should be returned to them. In order to accomplish these purposes, it is recommended that the following changes be made in the bill. In line 13 on page 16, strike out the word "not"; in line 14 on page 16, after the word "dividends", omit the period and insert the words "to the same extent as Class A stock"; and at the end of line 23, at page 18, add the following:

"If at any time in the judgment of the board of directors of the Corporation, the amount of the stock of the corporation is greater than is needed in the transaction of its business, the board of directors shall have the power to suspend any of the provisions of this section with respect to the subscription by member banks for Class A stock and to call for the surrender and cancellation on a ratable basis of such an amount of Class A stock held by member banks and of Class B stock held by Federal reserve banks as the board may deem advisable: Provided, however, That such suspension may be terminated by the board of directors of the corporation at any time and in case of such termination all of the provisions of this section with respect to the subscription and payment for Class A and Class B stock shall apply according to their original tenor."

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Section 8. Loans to member banks on their promissory notes

It is recommended that all of Section 8 (i.e. everything commencing with line 8 on page 28 down through and including line 11 on page 29) be stricken out and that the following be substituted therefor:

> "Sec. 8. The eighth paragraph of Section 13 of the Federal Reserve Act, as amended, is amended and reenacted to read as follows:
>
> "'Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal Intermediate Credit Banks which are eligible for purchase by Federal reserve banks under Section 13(a) of this Act; and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board.'"

This section purports to amend the seventh paragraph of Section 13 of the Federal Reserve Act; but, since the bill was reported out by the Banking and Currency Committee of the Senate, a new paragraph was inserted in an earlier part of Section 13 by the Act of July 21, 1932, so that the paragraph referred to is now the eighth paragraph of Section 13 instead of the seventh paragraph of Section 13.

Since this bill was reported out by the Banking and Currency Committee of the Senate, the paragraph of Section 13 referred to was amended by the Act of May 19, 1932, so as to make debentures or other such obligations of Federal Intermediate Credit Banks, which are eligible

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(Section 8, continued)

for purchase by Federal reserve banks under Section 13(a) of the Federal Reserve Act, eligible as collateral security to the promissory notes of member banks evidencing advances made to them by the Federal reserve banks; and that amendment would be repealed by the bill in its present form.

The main purpose of Section 8 of the Bill is to limit the right of member banks to borrow from Federal reserve banks on their own promissory notes when such member banks are making loans on stock exchange collateral and thus to discourage member banks from making loans on stock exchange collateral when they are indebted to the Federal reserve banks. It is believed, however, that this purpose is fully accomplished by the provisions of Section 3(a) of the bill and that no further limitation along this line is desirable. Moreover, the theory underlying this proposed amendment — i.e., that there is a more direct connection between member bank collateral notes and the use of reserve credit for speculative activity than between rediscounts and this activity is unfounded. Member banks borrow on their own promissory notes because of the greater convenience both to them and to the Federal reserve banks; and, if this form of borrowing were restricted or prohibited, they would merely substitute the procedure of rediscounting eligible paper without any change in the use of the proceeds. For these reasons, it is believed that the additional restrictions proposed to be imposed by this section would make the operation of the Federal reserve banks less efficient and more expensive.

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(Section 8, continued)

The Federal Reserve Board has recommended in its annual reports for several years that the maturity of advances which may be made to member banks on their promissory notes secured by paper which is eligible for discount be increased from 15 to 90 days, because it is believed that such an amendment would be especially helpful to country banks and would increase the efficiency and usefulness of the Federal reserve banks without departing in any way from the fundamental principles of the Federal Reserve Act. The amendment recommended above would accomplish this purpose and is believed to be very desirable.

If, notwithstanding the above recommendations, Section 8 of the bill is retained in substantially its present form, then, in order to conform to the situation resulting from the insertion of a new paragraph in an earlier part of Section 13 of the Federal Reserve Act, the word "seventh" in line 8 on page 28 should be changed to "eighth"; and, in order not to repeal the amendment of May 19, 1932, making debentures or other such obligations of Federal Intermediate Credit Banks which are eligible for purchase by Federal reserve banks eligible also as collateral security for the promissory notes of member banks, Section 8 of the bill should also be amended by changing the period after the words "United States" in line 20 on page 28 to a comma and inserting at that point the words "or by the deposit or pledge of debentures or other such obligations of Federal Intermediate Credit Banks which are eligible for purchase by Federal reserve banks under Section 13(a) of this Act."

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Section 10. Member banks acting as mediums or agents in making loans on collatoral.

This section would forbid a member bank to act as the medium or agent of any nonbanking institution or individual in making loans on the security of stocks, bonds and other investment securities to brokers or dealers in such securities. In order that it may be clear that this provision forbids a member bank to act as a medium or agent for this purpose, not only of a nonbanking institution or individual, but also of a nonmember bank which in turn is acting for a nonbanking institution or individual, it is suggested that the words "directly or indirectly" be inserted after the word "act" in line 14 on page 30.

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Section 11. Loans to executive officers of member banks or to their relatives.

One of the provisions of this section requires that an executive officer of a member bank make a report to the chairman of the board of directors of such bank with respect to any borrowing from the bank by relatives of certain specified classes and provides a penalty of fine or imprisonment for failure to do so. In order that this provision may not appear to include a case in which an executive officer is not aware of the borrowing by a relative, it is suggested that the word "knowingly" be inserted in line 5 on page 32 before the word "violating".

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Section 12. Loans to or investment in stock of affiliates.

This section provides limitations upon loans or extensions of credit to affiliates by member banks and upon investments in the stock or obligations of such affiliates by member banks. In order that it may be clear that the limitation upon investments in capital stock of affiliates should not be construed as implied authority for investment in such stock within the limitations of the section, it is suggested that the limiting provision of this section be changed so as not to apply to capital stock of affiliates. Other provisions of the bill forbid member banks to purchase any stock of any corporation (with certain stated exceptions) and, accordingly, the limitation of this section with respect to investments in capital stock of affiliates is unnecessary. It is recommended, therfore, that the words "capital stock" in line 15 of page 32 be stricken out.

Among the limitations provided by this section is a requirement that a loan or extension of credit to an affiliate by a member bank be secured by collateral having a market value of at least 20 per cent more than the amount of the loan or extension of credit or at least 10 per cent more than the amount thereof if it is secured by municipal obligations; but 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 this requirement. It is believed that the exception in favor of loans secured by paper eligible for rediscount by Federal reserve banks would provide a loophole through which the intention of this provision might be evaded. Paper may be technically eligible for rediscount by Federal reserve banks and yet not of a quality

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(Section 12, continued)

to make it desirable from a credit standpoint. A member bank, therefore, might make loans to its affiliates upon the security of paper which is not of a sound quality, although eligible for rediscount, without complying with the spirit of the requirement of this section as to marginal collateral. It is accordingly recommended that in line 16 on page 33 of the bill, the comma after the words "Federal land banks" be changed to a period and the remainder of the sentence down to and including the word "banks" in line 19 be stricken out; and that in line 13 on page 33 of the bill, after the word "thereof", the colon be changed to a comma and the following be inserted: "or by collateral in the form of notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or for purchase by Federal reserve banks having a face value of at least 25% more than the amount of the loan or extension of credit."

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Section 14. Jurisdiction of Federal Courts.

In order to accomplish the purpose of certain recommendations heretofore made by the Federal Reserve Board in its annual reports for the years 1927 (page 48), 1928 (page 41) and 1929 (page 37), and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and the House of Representatives under date of February 14, 1930, it is recommended that, on page 35, line 23, of the Bill the quotation mark be stricken out and the following new paragraph inserted:

> "Notwithstanding any other provision of law, all suits of a civil nature at common law or in equity to which any Federal reserve bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any defendant in any such suit may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. No attachment or execution shall be issued against any Federal reserve bank or its property before final judgment in any suit, action, or proceeding in any State, County, Municipal or United States Court."

Section 14 of the Bill, to which this amendment pertains, would add a new section to the Federal Reserve Act conferring upon the Federal Courts jurisdiction over certain classes of suits to which any corporation organized under the laws of the United States is a party. The principal corporations affected by this section of the bill in the form in which it passed the Senate are national banks and foreign banking corporations organized under Section 25(a) of the Federal Reserve Act; and it is believed that this section of the bill should be amended so as to incorporate certain amendments heretofore recommended by the Federal Reserve Board with regard to suits to which Federal reserve banks are

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(Section 14, continued)

parties.

The amendment proposed would, (1) restore to the Federal courts jurisdiction over suits to which Federal reserve banks are parties, and (2) exempt Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding. Each of these points is discussed separately below.

The Federal courts formerly had jurisdiction of suits by and against Federal reserve banks because of the fact that Federal reserve banks are incorporated under an Act of Congress; but Section 13 of the Act of February 13, 1925, provides that no district court of the United States shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by or under an Act of Congress, except corporations in which the Government of the United States is the owner of more than one-half of the capital stock.

It is not believed that Congress had the Federal reserve banks in mind when this amendment was enacted; but its terms deprive the United States district courts of jurisdiction of all suits by or against Federal reserve banks, unless a question involving the interpretation of the Constitution of the United States or of some Federal statute is raised by the original pleadings of the plaintiff. The provisions of the Federal Reserve Act or the regulations of the Federal Reserve Board are frequently the grounds upon which Federal reserve banks defend suits brought against them; but the fact that such questions are raised in the defendant's pleadings is not a ground of jurisdiction in the United States district courts. The Federal reserve banks are thus forced to defend in the State courts suits which turn upon essentially Federal questions and which result

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in nationally important interpretations of the Federal Reserve Act.

Unlike national banks, the Federal reserve banks cannot remove suits brought against them by persons located in other States to the United States district courts on the ground of diversity of citizenship, because the Supreme Court of the United States has held that a Federal corporation is not a citizen of any State, and there is no provision in the Federal Reserve Act similar to that in the National Bank Act providing that they shall be deemed citizens of the States in which they are located.

The Act of February 13, 1925, makes an exception in the case of corporations in which the Government of the United States is the owner of more than one-half of the capital stock; and it would seem that the exception should logically be extended to include Federal reserve banks, since they act as fiscal agents of the United States and perform certain functions of subtreasuries as well as many other important functions for the Government. Moreover, in the event of the liquidation of the Federal reserve banks, all of their surplus, which amounts to nearly twice their paid-in capital stock, would become the property of the United States.

The proposed amendment would also exempt Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding.

In some instances, suits against a Federal reserve bank brought in a State other than that in which the Federal reserve bank is located have been commenced by attaching or garnisheeing the property of such Federal reserve bank located in such other State. Proceedings which thus

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tie up the property of a Federal reserve bank in advance of final judgment may cause serious difficulty and embarrassment in the proper administration of the affairs of the Federal reserve bank, and there would seem to be no sound reason why this should be permitted.

The purpose of attachment and garnishment proceedings is to insure to the complainant that he will be able to obtain satisfaction of any judgment which may be finally rendered in his favor; and the credit and financial standing of each Federal reserve bankis such that no difficulty may be anticipated in obtaining full satisfaction of any judgment which may be rendered by the courts against it.

Under the provisions of Section 5242 of the Revised Statutes, national banks are exempted from attachment and execution before final judgment in any case or proceeding and the Board feels that the law should be amended so as to give Federal reserve banks the same protection in this respect. It is conceivable that, if large amounts of the funds or credits of the Federal reserve banks should be tied up through attachment or garnishment proceedings, the ability of the reserve banks to perform these functions might be seriously hampered.

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Section 15. Powers of national banks.

It is recommended that this section be amended as follows:

1. On page 36, line 12, change the semicolon to a period and strike out everything thereafter through the word "Congress" in line 18.

2. On page 38, line 2, insert the word "general" between the word "or" and the word "obligations".

3. On page 38, strike out all of lines 12, 13 and 14.

The clause on page 36, lines 12 to 18, inclusive which would confer upon national banks all banking powers granted by State law to banking institutions in the States where such national banks are located, except to the extent expressly forbidden by Congress, would have a strong tendency in the direction of lowering the standard of the National Banking System and would be inconsistent with the general theory of the bill. It would constitute a further step in the competition in laxity which has been permitted to grow up between the National Banking System and the banking systems of the forty-eight States.

The suggested amendment in line 2 of page 38 is intended to make ineligible for purchase by national banks special obligations of States and political subdivisions thereof which are payable out of special funds and not out of the general revenues of the State or political subdivision. Under existing law, national banks may invest in general obligations of a State or any political subdivision thereof, and it is not believed desirable that the authority of national banks in this respect should be extended.

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(Section 15, continued)

The effect of the sentence contained in lines 12, 13 and 14 on page 38 is not clear; and the sentence would seem to be entirely unnecessary, in view of the fact that the limitations on the amount of investment securities which may be purchased by national banks have been clarified so that there is no doubt that they apply only to investment securities purchased after this section as amended takes effect. (See page 37, lines 4, 11 and 12.) With the amendments above suggested, there would seem to be no reason why its effective date should be postponed for one year. Its restrictions would pertain only to future purchases of, or dealings in, investment securities and it would not require any national bank to dispose of any investment security which it now holds.

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Section 18. Holding company affiliates of national banks.

It is recommended that this section be amended as follows: Page 40, line 18, strike out the words "or held" and substitute in lieu thereof the words "or by any officer, director, employee, proxy, nominee, representative, or agent thereof, or".

Page 41, line 1, after the word "same" insert the following new sentence:

> "Such application shall be in such form and shall contain such agreements and undertakings as the Federal Reserve Board in its discretion may prescribe."

Page 41, line 11, strike out the comma after the word "receive" and everything thereafter through and including the word "affiliated" in line 12.

Page 41, line 13, after the word "shall" insert the words "be authorized to".

Page 43. Strike out all of lines 16 to 22, inclusive, and insert in lieu thereof the following:

> "(d) Within a period of one year from the date of the issuance of such voting permit, each nonmember State bank owned or controlled by such holding company affiliate which is eligible for membership in the Federal reserve system shall apply for membership therein in the manner prescribed by, and subject to the terms of, Section 9 of the Federal Reserve Act; if such application is approved by the Federal Reserve Board, such bank shall become a member of the Federal reserve system and shall comply with all of the provisions of law applicable to member banks; if such application is not approved by the Federal Reserve Board, or if any such bank shall fail to become, or shall cease to be, a member of the Federal reserve system at any time while such agreement remains in effect, such affiliate shall divest itself of all stock ownership or other interest in, or control of, such bank within such time as the Federal Reserve Board may determine; and"

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(Section 18, continued)

Page 45, line 1, after the word "any" insert the words "condition prescribed by or".

Page 45, line 20, strike out the quotation mark after the word "amended" and insert the following new paragraphs:

> "Unless there is in effect at the time a voting permit issued pursuant to the terms of this section, any person, firm, corporation, association, business trust, or other organization, which shall vote, or cause, direct, authorize, or permit to be voted, the stock of any national bank owned or controlled by any holding company affiliate, or by any officer, director, employee, proxy, nominee or representative or agent thereof, or by any trustee for the benefit of the shareholders or members thereof, shall be deemed guilty of a misdemeanor and, upon conviction thereof in any district court of the United States, shall be fined not more than $5,000 for each such offense. Each vote cast shall constitute a separate offense within the meaning of this paragraph.
>
> "Any officer, director, agent or employee of any such holding company affiliate for which there is in effect a voting permit issued under the provisions of this section, who shall make any false entry in any book, report or statement of such affiliate with intent in any case to injure or defraud such affiliate, any member bank or any other company, body politic or corporate, or any individual person, or with intent to deceive the Federal Reserve Board or any officer of such affiliate or of any member bank, or the Comptroller of the Currency, or any agent or examiner appointed to examine the affairs of such affiliate, shall be deemed guilty of a misdemeanor and upon conviction thereof in any district court of the United States shall be fined not more than $5,000 or shall be imprisoned for not more than five years, or both, in the discretion of the court.

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(Section 18, continued)

> "No national bank shall, (1) make any loan on the stock of any holding company affiliate which owns or controls such national bank directly or indirectly, (2) make any loan to any holding company affiliate which owns or controls such national bank, directly or indirectly, on the security of any shares of stock of any corporation owned or controlled by such holding company affiliate, or (3) be the purchaser or holder of the stock of such holding company affiliate; unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and any stock so purchased or acquired shall be sold or disposed of at public or private sale within six months from the date of its acquisition, unless the time is extended by the Comptroller of the Currency."

The amendment suggested on page 40, line 18, is intended to guard more completely against evasions.

The amendment suggested on page 41, line 1, is believed necessary for practical administrative purposes.

For the reasons indicated under the discussion of Section 2, the proposed amendments to lines 11, 12 and 13 are intended to make examinations of holding company affiliates discretionary with the supervisory authorities instead of mandatory, in order to avoid the necessity of making examinations of business organizations which are included technically within the definition of "affiliates" but which are engaged in a business which does not bring them within the purpose of the provisions of the bill.

Subsection (d) on page 43 purports to subject to the provisions of Section 5209 of the Revised Statutes, any officer, director, agent or employee of a holding company affiliate who makes false entries in any book, record or statement of such holding company affiliate; but it is doubtful whether the directors, agents and employees of a holding company affiliate can be subjected to a criminal provision of this kind

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(Section 18, Continued)

merely by an agreement made, or a condition accepted, by the holding company affiliate. It is believed that it would be better to cover this subject directly by a provision of law, instead of incorporating it in the conditions to be accepted by the holding company affiliate; and the recommendations made above contemplate the insertion of a new paragraph for this purpose on page 45, near the end of the section.

It is suggested that there be inserted in lieu of sub-paragraph (d) on page 43 (lines 16 to 22) an entirely different paragraph which would provide that, within a period of one year from the date of the issuance of a voting permit to a holding company affiliate, each non-member State bank owned or controlled by such holding company affiliate shall apply for membership in the Federal Reserve System if eligible therefor, and that, in the event such application is not approved or if the bank fails to become or ceases to be a member of the System, the affiliate shall divest itself of all interest in or control of such bank. This is believed to be of great importance; because, without such a provision, the Board would not have any authority over non-member banks controlled by a holding company affiliate which controls member banks except authority to examine them and require them to submit reports of condition. Moreover, without such a provision one or two banks in a group controlled by a holding company affiliate could be members of the Federal Reserve System and the remaining banks in the group could remain outside of the System but obtain the benefits of the System indirectly through the member banks in the group without contributing their proper shares to the resources of the System through subscriptions to the capital stock of the Federal reserve bank and through the maintenance of reserve deposits with the Federal reserve bank.

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(Section 18, continued)

The proposed change in line 1 on page 45 is recommended in view of the fact that many of the regulatory provisions regarding holding company affiliates are in the form of conditions upon which they shall be granted voting permits.

It is believed that the first of the proposed new paragraphs to be inserted on page 45 will greatly strengthen the entire section and make it more easily enforceable.

The second of these proposed new paragraphs is intended as a substitute for the present paragraph (d) on page 43, lines 16 to 22, and has been discussed above.

National banks are now forbidden by law to purchase, or make loans against, shares of their own stock; and the last of the three new paragraphs proposed to be inserted on page 45 is intended to prevent them from doing the same thing indirectly by making loans to, or purchasing or lending against the stock of, another corporation which owns the stock of the national bank.

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It is also suggested that the following be added at the end of line 19 on page 42 of the bill:

> "Provided, however, That, in computing the amount of readily marketable assets, other than bank stock, which any such affiliate is required to possess at any given time, credit shall be given to such affiliate for all contributions which it has made during the preceding three years to banks owned or controlled by it at the time such computation is made. The term 'contribution', as herein used, shall include all such gifts of money, assets or other things of value to any such bank, all such amounts paid for worthless or doubtful assets purchased from any such bank, and all such other similar amounts as the Federal Reserve Board, in its discretion, may permit to be treated as contributions."

The inclusion of this provision would encourage affiliates to aid their affiliated banks which may be in need of assistance by furnishing them with new money or by purchasing from them worthless or doubtful assets.

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Section 24. Reports of affiliates of national banks.

It is recommended that the following changes be made in this section:

1. On page 49, line 13, strike out everything after the word "Currency" through and including the word "form" in line 14 and substitute in lieu thereof the words "such reports".

2. On page 49, line 18, insert a period after the word "for", and strike out everything thereafter through and including the word "association" in line 21.

3. On page 49, line 23, strike out the entire sentence commencing with the word "each" through and including the word "shown" on page 50, line 3.

For the reasons indicated in connected with the discussion of section 2, the above amendments are recommended in order to avoid the necessity of requiring reports of condition from business organizations which are included technically within the definition of "affiliates" but which are engaged in a business which does not bring them within the purposes of this section, and to avoid the necessity of repeated reports of such concerns when the necessary information has been once obtained.

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Section 25. Examinations of affiliates of national banks.

It is recommended that this section be amended as follows:

1. On page 50, line 25, strike out the word "include" and substitute in lieu thereof the words "have power to make".

2. On page 51 strike out everything after the word "amended" in line 10 through and including the word "affiliate" in line 18.

3. On page 52, line 19, change the word "the" to "each".

The proposed change in line 25 on page 50 is intended to make such examinations discretionary instead of mandatory, and thus to avoid the necessity of making examinations of business organizations which are included technically within the definition of "affiliates" but which are engaged in a business of a character not pertaining to the purposes of this section; and also to avoid an unnecessary repetition of examinations.

The two sentences on page 51, the elimination of which is recommended, would authorize the Comptroller of the Currency to publish reports of examinations of member banks and their affiliates in certain circumstances. This is a drastic power which, if exercised, would have a damaging effect upon the banks involved and upon their borrowers and perhaps upon general banking conditions. Furthermore, it is inconsistent with the confidential nature of reports of examination; and it is unnecessary, in view of the fact that other sections of the bill confer adequate powers upon the Comptroller of the Currency to bring about compliance with his requirements -- especially Section 27 which authorizes the removal of officers and directors of national banks who are guilty of continued unsafe or unsound practices or continued violations of the law.

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It is also suggested that on page 52 of the bill, the sentence beginning in line 3 and running to line 7 be changed to read as follows: "The actual expense of examination of any such affiliate examined may be assessed by the Comptroller of the Currency upon such affiliate and when so assessed shall be paid by such affiliate".

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Section 26. Resumption of business by closed national banks.

It is assumed that this section will be omitted from the bill in view of the enactment of the Bank Conservation Act, Title II of the Act of March 9, 1933.

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Reserves of member banks of the Federal Reserve System.

In addition to the comments and recommendations submitted above with reference to specific provisions of the bill, attention is called to the desirability of a thoroughgoing revision of the provisions of section 19 of the Federal Reserve Act with regard to the reserve requirements of member banks. The Board is of the opinion that the adoption of a system of reserves based on velocity of accounts as well as of their volume, as recommended in the report of the Committee on Bank Reserves of the Federal Reserve System, would be an important step in strengthening the influence that the System could exert in the direction of sound credit conditions. The proposals submitted in the Committee's report, a copy of which is transmitted herewith, embody a method of calculating required reserves which is believed to be sound in principle and which would eliminate many inequitable and unfair features of the present law. It is recommended, therefore, that the following new section be added to the bill which would incorporate the proposals of the System's Committee on Bank Reserves with slight modifications:

"Sec. _____. Section 19 of the Federal Reserve Act (United States Code, Title 12, Sections 461 to 466, inclusive, and Section 374), as amended, is further amended and reenacted to read as follows:

'RESERVES OF MEMBER BANKS.

'Section 19, (a) Each member bank shall establish and maintain reserves equal to five per centum (5%) of the amount of its net deposits, plus fifty per centum (50%) of the amount of its average daily debits to deposit accounts; Provided, That any member bank, at its option,

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Reserves--Continued

for any period not less than 90 days, may omit any specific deposit account or accounts from such computation of its reserve requirements if such account or accounts are reported separately to the Federal reserve bank and if a reserve of 50% is maintained against such account or accounts: Provided, however, That, in no event, shall the aggregate reserves required to be maintained by any member bank exceed fifteen per centum (15%) of its gross deposits.

'(b) Each member bank located in the vicinity of a Federal reserve bank or branch thereof shall maintain not less than four-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank, and every other member bank shall maintain not less than two-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank. The remainder of the total required reserves of each member bank, over and above the amount required to be maintained in the form of a reserve balance on deposit with the Federal reserve bank, may, at the option of such member bank, consist of a reserve balance on deposit with the Federal reserve bank, or of cash owned by such member bank either in its actual possession or in transit between such member bank and the Federal reserve bank: Provided, That the Federal Reserve Board may limit the kinds of cash owned by a member bank which may be counted as part of its required reserves; and Provided further, when, in its judgment the public interest so requires, the Federal Reserve Board may limit to an amount less than that permitted hereunder the amount of cash which any member bank or banks may count as reserve: Provided, however, That in prescribing such limi-

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Reserves--Continued

tations, the Federal Reserve Board shall be guided by the general principle that member banks should be permitted to count as reserve, within the limitations of this section, as much cash as they reasonably need in view of the character of their business and their degree of accessibility to the currency facilities of the Federal reserve banks.

'(c) The term "gross deposits", within the meaning of this section, shall include all deposit liabilities of any member bank whether or not immediately available for withdrawal by the depositor, all liabilities for certified checks, cashiers', treasurers' and other officers' checks, cash letters of credit, travelers' checks, and all other similar liabilities, as further defined and specified by the Federal Reserve Board: Provided, however, That, in computing the amount of "gross deposits", (1) amounts shown on the books of any member bank as liabilities of such bank payable to a branch of such bank located in a foreign country or in a dependency or possession of the United States, and (2) liabilities payable only at such a branch, shall be treated as though said liabilities were due to or payable at a nonmember bank.

'(d) The term "net deposits", as used in this section, shall mean the amount of the gross deposits of any member bank, as above defined and as further defined by the Federal Reserve Board, minus the sum of (1) all balances due to such member bank from other member banks and their branches in the United

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Federal Reserve Bank of St. Louis

Reserves - Continued

States and (2) checks and other cash items in process of collection which are payable immediately upon presentation in the United States, within the meaning of these terms as further defined by the Federal Reserve Board.

'(e) The term "average daily debits to deposit accounts," as used in this section, shall mean the average daily amount of checks, drafts, and other items debited or charged by any member bank to any and all accounts included in gross deposits as above defined and as further defined by the Federal Reserve Board, except charges resulting from the payment of certified checks and cashiers', treasurers', and other officers' checks.

'(f) The term "cash" within the meaning of this section, shall include all kinds of currency and coin issued or coined under authority of the laws of the United States.

'(g) The term "reserve balances," as used in this section, shall mean a member bank's actual net balance on the books of the Federal reserve bank representing funds available for reserve purposes under regulations prescribed by the Federal Reserve Board.

'(h) The term "vicinity of a Federal reserve bank or branch thereof," as used in this section, shall mean the city in which a Federal reserve bank or branch thereof is located, until such term is otherwise defined by the Federal Reserve Board: Provided, That, with respect to each Federal reserve bank and each branch thereof, the Federal Reserve Board, from time to time, in its discretion, may either (1) define a specific geographic area

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Reserves - Continued

as comprising the vicinity of such Federal reserve bank or branch thereof, within the meaning of this section, or (2) compile a list of member banks which shall be deemed to be located in the vicinity of such Federal reserve bank or branch thereof, within the meaning of this section, and add banks to, or remove banks from, such list, from time to time: Provided, however, That, in defining such areas and compiling such lists, the Federal Reserve Board shall be guided by the general principle indicated in subsection (b) hereof.

'(i) With respect to each member bank, the term "Federal reserve bank", as used in this section, shall mean the Federal reserve bank of the district in which such member bank is located.

'(j) The Federal Reserve Board is authorized and empowered to prescribe regulations defining further the various terms used in this Act, fixing periods over which reserve requirements and actual reserves may be averaged, determining the methods by which reserve requirements and actual reserves shall be computed, and prescribing penalties for deficiencies in reserves. Such regulations and all other regulations of the Federal Reserve Board shall have the force and effect of law and the courts shall take judicial notice of them.

'(k) Subject to such regulations and penalties as may be prescribed by the Federal Reserve Board, any member bank may draw against or otherwise utilize its reserves for the

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purpose of meeting existing liabilities: Provided, however, That, whenever the reserves of any member bank have been continuously deficient for fourteen consecutive calendar days, the Federal Reserve Agent or Assistant Federal Reserve Agent of the district in which such member bank is located shall send to each director of such bank, by registered mail, a letter advising him of such deficiency and calling attention to the provisions of this subsection; and each director of such bank who after receipt of such a letter, assents to or acquiesces in the making of additional loans or investments by such bank before the reserves of such bank shall have been restored to the amount required by this section, shall be held liable in his personal or individual capacity for any and all losses sustained by such bank on any such loans or investments.

'(l) All penalties for deficiencies in reserves incurred under regulations prescribed by the Federal Reserve Board pursuant to the provisions of this Act shall be paid to the Federal reserve bank by the member bank against which they are assessed.

'(m) No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

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'(n) National banks or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States, may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Federal Reserve Board, become member banks of any one of the Federal reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.

'(o) All acts or parts of acts in conflict with this section are hereby repealed only in so far as they are in conflict with the provisions of this section.'

"There are hereby repealed the provisions of Section 7 of the First Liberty Bond Act, approved April 24, 1917, Section 8 of the Second Liberty Bond Act, approved September 24, 1917, and Section 8 of the Third Liberty Bond Act, approved April 4, 1918 (U.S.Code, Title 31, Section 771) which read as follows:

> 'That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal Reserve Act, and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositaries.'

"This section shall become effective on the first day of the seventh calendar month following the enactment of this Act."

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Copy L-30

April 12, 1933

Parker
Atlanta

Referring your wire April 11 I have every confidence in your ability to handle Gate City Case as well as it can be handled by any one and see no need for immediate conference. If you so desire, however, I shall be glad to confer with you any time or to review your proposed answer and write you any suggestions that occur to me. In view of understanding arrived at during Conference of Counsel June 1930, that any case involving validity of revised Regulation J should be considered of System importance, I am sending copies of our correspondence to Counsel for all Federal reserve banks and inviting their views as to what steps should be taken to protect System interests. Suggest you send Counsel all other Federal reserve banks copies of plaintiff's pleading as soon as possible. Please advise whether you desire to associate System Counsel and also whether it would be possible to obtain extension of time for filing answer in view of great pressure of other matters.

WYATT

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Copy TELEGRAM L-30-a

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

113fmr

Atlanta 310p Apr 11

Wyatt

Washn

Gate City Cotton Mills, has brought suit against reserve bank in state court here based upon check seven thousand and odd dollars involved in closing of East Tennessee National Bank Knoxville. This is matter concerning which I have been writing you. Shall immediately prepare answer. Case must be answered by May first. In view of shortness of time do you think I should come to Washington for conference or shall we undertake to handle matter by correspondence.

Parker.

419p

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Copy L-30-b

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT
ATTORNEYS AT LAW
Suite 1607 William-Oliver Bldg.
ATLANTA, GA.

April 10, 1933.

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Walter:

In re: East Tennessee National Bank,
Knoxville, Tennessee (Closed).

I regret to advise you that a suit directly involving Regulation J will probably be instituted shortly against the Federal Reserve Bank of Atlanta.

As I wrote you several weeks since, the aggregate of checks drawn on the East Tennessee National Bank and involved in the closing of that bank was very considerable.

I am enclosing a copy of a letter which I have just received from Mr. Winfield P. Jones, a lawyer of this Bar, which sets out his contentions.

In the fourth paragraph of Mr. Jones' letter he makes reference to a draft of the Knoxville Bank being "in the hands of the reserve branch prior to the former's suspension." I don't know just what he means by this statement. As a matter of fact, the Nashville Branch did not receive a remittance draft prior to suspension. On the day the Knoxville Bank failed to open the Branch received an authorization to charge its reserve account.

Just as soon as suit is filed I will advise you.

Very truly yours,

(S) Robt. S. Parker.

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Copy L-30-c

WINFIELD PAYNE JONES,

Trust Co. of Georgia Bldg.,

Atlanta, Ga.

April 8th, 1933.

Mr. Robt. S. Parker,
William-Oliver Building,
Atlanta, Georgia.

Dear Bob:

Re: East Tennessee National Bank
Knoxville, Tennessee (closed)

Replying to yours of the 3rd inst., I am constrained to advise that I have found nothing to contravene the doctrine of the Malloy case (264 U. S. 160) that, in the absence of contract, the collecting bank, forwarding the check for collection to the drawee, must secure cash for or the return of the check.

It is, of course, true that a general, established, uniform and certain custom (Transcontinental &c Co. v. Federal Bank (Minn.) 61 A. L. R. 478) or a controlling State statute (Chi. &c Co. v. Federal Bank, (Utah) 61 A. L. R. 456; Hicks Co. v. Bank, (Ark) 61 A. L. R. 482 (n) may modify the rule; but such custom is not established by a regulation, especially one that leaves it optional with the collecting bank whether it takes cash or check (Malloy, supra.).

In the Tennessee case, handled by you and Ed. J. Smith (with whom, by the way, I was graduated at Georgetown in 1903) the point was made that the Regulation relied upon by the bank could not contravene the rule of law applicable in Tennessee, and, while appellant's position is this regard was buttressed by authority, the Court did not pass upon the question but decided the case on other issues. (L & B v. Bank (Tenn.) 10 S. W. (2d) 683).

Nor am I at all clear that, in view of the fact that the Knoxville bank's draft was in the hands of the reserve branch prior to the former's suspension, the Courts will quibble over the application of the rule that the law takes no account of the fractions of a day (In re: Gubelman, 10 F (2d) 926). Had the Knoxville draft been upon some other bank than your client's branch, the rule might have some application (Pascagoula Bk v. Bank 11 F. (2d) 866, cert. den'd in 271 U. S. 685), but the fiction will be disregarded where, as here, its application would defeat the accomplished segregation (In re: Bugleman, Id. 930).

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Be this as it may, there can be little doubt as to the reserve bank's negligence in forwarding the check directly to a bank, whose unsound condition was or should have been known to it, as we believe is readily establishable (Capital &c Co. v. Bank 3 F (2d) 614) and, consequently, under the circumstances no course is open to me except to advise suit against your client.

Yours sincerely,

(Signed) Winfield P. Jones.

WPJ/c.

Copy: Gate City Cotton Mills.

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Copy L-30-d

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT
ATTORNEYS AT LAW
Suite 1607 William-Oliver Bldg.
ATLANTA, GA.

February 20, 1933.

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

In re: East Tennessee National Bank,
Knoxville, Tennessee.

I thank you for yours of February 17th. I am glad to note therefrom that the matter has been taken up informally with the Comptroller's office and that the Receiver will be advised not to do anything which would intimate that the Federal Reserve Bank is under any liability for the checks which were involved in the closing of the East Tennessee National Bank. As I stated in my letter of February 13th, I do not know whether the Receiver has been in fact making such remarks.

I received this morning a letter from one Louis Silverman, a commission merchant of New York, and, by his letterhead, an "Importer of Notions and Novelties," who complains of the handling of a small check and states that if he cannot obtain from the Reserve Bank "this money by return mail, we will have to bring this matter to the attention of the Senior U. S. Senator of New York and ask him to protect our interests." While I rather suspect that I will be able to sleep despite the fact that the Senior Senator is on my trail, I am mentioning Mr. Silverman's letter since it is typical of the persistence with which the Reserve Bank is being besought to charge the unpaid cash letters against the reserve account.

With personal regards, I am

Sincerely yours,

RSP/w (S) Robt. S. Parker.
Copy to:

Mr. W. S. McLarin, Jr.,
Ass't Deputy Governor,
Atlanta, Georgia.

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Copy L-30-e

February 17, 1933.

Mr. Robert S. Parker,
1607 William-Oliver Building,
Atlanta, Georgia.

Dear Mr. Parker:

I have received and read with much interest your letter of February 13, 1933, with regard to the complaints being made because of the handling of items drawn on the East Tennessee National Bank of Knoxville, Tennessee, and involved in the closing of that bank. The letter you wrote Mr. Petree under date of February 13, 1933 is a very excellent letter and I am glad to learn from the footnote to your letter of February 15, that Governor Black has received a letter from Mr. Petree apologizing for his remarks.

In accordance with the suggestion contained in the third paragraph of your letter to me, I am bringing this matter informally to the attention of Mr. Awalt and Mr. Fouts and I sincerely hope that they will correct any erroneous impressions which the receiver may have and will caution him against expressing any opinion regarding the respective rights of the Federal reserve bank and the owners of the items in question.

I sincerely hope that the clear explanations of the law and regulations contained in the letters which you are writing to the owners of the items involved and their attorneys will avoid any litigation in this matter; but, if suit is brought, I shall appreciate it if you will keep me advised of all developments.

With kindest personal regards and all best wishes, I am

WW gc

Cordially yours,

(S) Walter Wyatt,
General Counsel.

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Copy L-30-f

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT
ATTORNEYS AT LAW
Suite 1607 William-Oliver Bldg.
ATLANTA, GA.

February 15, 1933.

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

In re: East Tennessee National Bank,
Knoxville, Tennessee.

The complaints made, because of the handling of items drawn on the East Tennessee National Bank and involved in the closing of that bank, are multiplying and I am having to write many letters with reference thereto. Today I received a letter from the Anderson-Dulin-Varnell Company of Knoxville, which sets up the usual contentions but goes further and characterizes the attitude of the Federal Reserve Bank as being outrageous, etc.

I am enclosing a copy of my reply to that letter, as well as a copy of the letter addressed to my firm, which contains the charges of unfair conduct.

I have been told that, for a time at least, the Receiver took the position that these cash letters had been paid and should be charged by the Reserve Bank to the reserve account of the closed member bank. I do not know whether or not the Receiver made any such statements and I have not wanted to take up the matter formally with the Comptroller's office. The Receiver is said to be a very competent man and it would seem unlikely that he should so far mistake the law, the Regulation of the Federal Reserve Board and the general practice of the Comptroller's office as to encourage claims of the character which are being made. It might not be amiss for you, however, to mention the matter informally either to Mr. Awalt or to Mr. Barse, with a suggestion that they write the Receiver (Jay M. Riley) calling his attention to the demands that are being made on the Federal Reserve Bank and requesting him to make plain the fact that, in the opinion of the Comptroller of the Currency, the Federal Reserve Bank

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L-30-f

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT

CONTINUATION SHEET

Mr. Walter Wyatt - #2. 2-15-33.

would not be authorized to charge any such items against the reserve account after notice of suspension.

There is so much money involved, the prospects of dividends from the liquidation of the East Tennessee Bank are so remote and the necessities of business are so pressing that I am apprehensive of litigation, although we are doing everything possible to make detailed explanations to everyone and are working along other lines to avoid such litigation.

I replied at such length to the Anderson-Dulin-Varnell Company for the reason that Mr. Anderson, of that Company, was a director of the East Tennessee National Bank and is a very influential man in Knoxville. Mr. Black has written Mr. Anderson a personal letter, asking him to review the file, particularly because of the charges made by one of the officers of his Company, Mr. Black adding that he felt that Mr. Anderson would regard such charges as being unjustified.

Very truly yours,

(S) Robt. S. Parker.

RSP/w.

P. S.: Since the above letter was dictated, Gov. Black has received a letter from Mr. L. H. Petree, Vice-President of the Anderson-Dulin-Varnell Company, apologizing for his remarks and stating that he gave vent to his feelings because of the fact that he had been almost "snowed under" with letters and telegrams demanding that he send duplicates for the checks of his Company which had been paid and cancelled on the last day the East Tennessee Bank was open for business.

RSP.

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Copy L-30-g

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT
ATTORNEYS AT LAW
Suite 1607 William-Oliver Bldg.
ATLANTA

February 13, 1933.

Mr. L. H. Petree, Vice-President,
Anderson-Dulin-Varnell Co.,
Knoxville, Tennessee.

Dear Mr. Petree:

In re: East Tennessee Nat'l Bank of
Knoxville, Tennessee.

I have your letter of February 11th, written with further reference to checks of your Company, aggregating some $7,000, which were involved in the closing of the East Tennessee National Bank.

Having heretofore stated the position of the Federal Reserve Bank, I would not burden you with further correspondence about the matter if it were not apparent that you are under a misapprehension as to several important phases of the situation.

So far as concern the legal questions involved, I might state that a number of courts, both State and Federal, including the Supreme Court of the United States, have upheld, as binding, the Regulations of the Federal Reserve Board touching the collection of checks.

Some five or six years ago the L & N Railroad Company brought suit against the Federal Reserve Bank of Atlanta, Nashville Branch, in the Chancery Court at Nashville, based upon contentions very similar to those you are now urging. The specific points were made, (a) that the Federal Reserve Bank had no right to send an item for collection to the bank on which it was drawn, and (b) that it was not authorized to accept in payment for such item anything except cash. The Chancellor at Nashville considered the case thoroughly and had no hesitancy in overruling both contentions and in holding expressly that Regulation J was binding upon all parties, because it had the force and effect of law and was sufficient to constitute a contract between the

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parties to the transaction. The case was afterwards heard in the Supreme Court of Tennessee and the decision of the court below was affirmed, although the higher court based its decision upon the proposition that no damage had been shown which could be the basis of a recovery upon any theory. A determination of the other questions which were involved was held to be unnecessary. That case was one of the earlier cases and since that time the Regulation has been upheld by a number of courts.

I regret that you regard the position of the Federal Reserve Bank as being "outrageous." Feeling sure that you would not hold this opinion, whatever may be your views as to what the law is, or should be, if you understood the real reasons for the Regulation, I want to consider the whole matter with you in some detail.

In the first place, you seem to think that the Regulation was framed primarily for the protection of Federal Reserve Banks. Such is not the case. The paramount reason was to place all general creditors of a failed national bank upon the same basis and, in bringing about this result, the Comptroller of the Currency was primarily interested. To illustrate what I mean: suppose that checks drawn on a national bank reach it just before suspension. These checks are paid, cancelled and charged to the accounts of the drawers. The drawers are released, just as in your case your company has no further liability on its checks which have been paid. The bank, however, closes before remittance has been made for the checks. The owners of the items have claims against the closed bank. Hundreds or thousands of depositors also hold claims against the bank. Were the Federal Reserve Bank to be permitted to reimburse the holders of such checks out of the balance maintained by the closed bank with the Reserve Bank, the result could only be to work a preference in favor of a certain class of creditors and to deplete a fund which should, under the principles of the National Banking Act, be available for the benefit of all creditors. The fact that the Reserve Bank itself may have a prior right to utilize the balance toward the liquidation of the indebtedness to it of the closed member bank is immaterial, since, always theoretically and very often in actual experience, such utilization of the balance results in an earlier "redemption" by the receiver of collaterals held by the Reserve Bank, which redeemed collaterals are, of course, then available for general creditors.

You have seen the current Check Collection Circular of the Federal Reserve Bank, which embodies certain portions of

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Regulation J of the Federal Reserve Board. Some years ago the Federal Reserve Bank of Richmond had in its Check Collection Circular a provision to the effect that it might charge the amount of a cash letter to the account of a member bank at any time. A national bank in South Carolina failed. After suspension the Federal Reserve Bank of Richmond charged an outstanding, unpaid cash letter against the member's account - just what you want the Atlanta bank to do now. The Comptroller of the Currency, administering the affairs of the national bank, objected to this charge and brought suit against the Federal Reserve Bank of Richmond. The Federal Reserve Bank, basing its contention upon the particular provisions of its own Circular, urged that it had the right to make the charge even after notice of suspension. The case was finally determined, favorably to the contentions of the Reserve Bank, by the Supreme Court of the United States (Early v. Federal Reserve Bank of Richmond) and the decision of the court was put upon the proposition that the Regulation was controlling, had the force and effect of a binding obligation, and that, under its express provisions, the Federal Reserve Bank of Richmond had the right to do what it had done, and what it could not have done but for the Regulation. After this decision Regulation J was revised for the primary purpose, as stated, of preventing the preferring of one creditor over another, such preference being contrary to the National Banking Act.

I realize, of course, that many thoughtful men agree with your opinion that it would be fair and equitable (using the word "equitable" in its broad significance) for a preferential status to be accorded claims based upon checks sent to a bank shortly before its suspension for payment and remittance, cancelled and paid upon receipt and not covered by any remittance in available funds. A number of States, including Georgia and Alabama in this Federal Reserve District, have provided for such preferential status by statute, and other States, for example, Virginia, Missouri and Florida, have recognized the right to a preference upon common law principles. By "preference" I mean, of course, that the receiver is authorized by law to pay such claims prior to the claims of other general or unsecured creditors. It has been uniformly held, however, that such statutes and such decisions have no application to the liquidation of national banks. The liquidation of such banks is governed by an Act of Congress, which provides for strict pro rata payment of general creditors of all classes. The Federal courts, which have jurisdiction over causes involving the winding up of the affairs of national banks, have held uniformly, and in a long line of cases (with but one

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exception), that no preference is to be accorded a creditor standing in the same situation as the holders or owners of your checks. We cannot, however, take into account what some may think the law should be. The matter of any change in the controlling statute law can only be addressed to Congress.

It is a general rule of law that after bankruptcy no check of the bankrupt can be honored by the bank upon which it is drawn. The Regulation of the Federal Reserve Board is merely in accordance with this general rule of law. In the instant case, however, we did not even have a check of the East Tennessee National Bank. On January 20th, after suspension, we received what was merely an authorization to charge the account of the East Tennessee Bank with the outstanding cash letter.

You must remember also that the Federal Reserve Bank took your checks from other banks merely for collection and only as agent for the banks from which the checks were received. We had no general authority, by contract, by Regulation or under the law, to charge the checks against the account of the Knoxville bank. Any authorization in that regard had to be specifically given by the Knoxville bank, and no such authorization had been given prior to suspension.

In the absence of an agreement it would be manifestly improper for the deposit liability of the Reserve Bank in favor of the Knoxville Bank to be charged with the amount of checks, drawn on the Knoxville Bank, which the Federal Reserve Bank had held merely as an agent for collection. Such claims are not mutual and could not be, in law, the subject matter of set-off.

Commercial banks may, of course, function somewhat differently. You refer in your letter to the American National Bank of Nashville. This bank sent items drawn on the Knoxville bank direct to the latter. They were not collected through the Federal Reserve Bank. If the American National Bank effected collection of its items drawn on the Knoxville bank, this was doubtless due to reciprocal banking relations between those two banks. I am not undertaking to state the exact facts, because I do not know all of the facts. I do know, however, that the American National Bank sent its items direct to Knoxville for payment and credit to the Nashville bank. There could be no reciprocal banking relations between the Reserve Bank and the

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Knoxville bank. The latter, under the law, was required to maintain an account with the former, but the Reserve Bank could not, even had it so desired, have maintained an account with the Knoxville bank, and, furthermore, the Reserve Bank could have done nothing except, as agent, to undertake the collection of checks pursuant to the terms and provisions of the Regulation.

I want to assure you, furthermore, that the Federal Reserve Bank has never taken a position which is inconsistent with that which is now being set out. You refer to the case of the Holston Union National Bank. I happen to remember the facts involved there. All checks which were in the same situation as your items now are were treated just as your items are now being treated, namely, as being checks for which no remittance was received prior to the closing of the drawee. In the case of the Holston Union Bank (as was also true in the East Tennessee closing) certain items rested on a different basis as to payment. The Holston Union Bank and several of its correspondents had, by agreement and with the permission of the Federal Reserve Bank, effected what is known as an "Immediate Debit" arrangement. That is to say, the Holston Union Bank had agreed that when the Federal Reserve Bank received checks, drawn by such correspondent banks on the Holston Union Bank and sent to the Reserve Bank in payment of the cash letters of such correspondents, these checks could be immediately charged by the Reserve Bank against the account of the Holston Union bank. In other words, by agreement, checks drawn on the Holston Union Bank were treated just as if they had been drawn on the account maintained by the Holston Union Bank with the Reserve Bank. Certain of these immediate debit checks were received by the Reserve Bank while the Holston Union Bank was open. They were charged to the account of the Holston Union Bank and then sent forward to the drawee for inspection. At the time they reached the Holston Union Bank (the drawee) that bank had closed. The Receiver of the Holston Union Bank took the position that the checks should not be regarded as paid despite the arrangement for immediate debit. After the lapse of several weeks, or possibly of a month or so, the Comptroller of the Currency agreed that the checks might be regarded as paid.

You will, of course, see the difference between the Holston Union case and your case. In the former the charge had been actually made against the account of the Holston Union Bank while that bank was open, and that charge, with the assent of the

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Federal Reserve Bank of St. Louis

Comptroller, was allowed to stand. In your case no charge had been made to the account of the East Tennessee National Bank before suspension. In the Holston Union situation the Federal Reserve Bank never at any time contended that the charge to the account of the Holston Union Bank of the "Immediate Debit" checks should be reversed.

I repeat what was said in my former letter, namely, that there is no way in which we can accede to your request that items drawn by you on the East Tennessee National Bank be charged against the account of that bank maintained with the Federal Reserve Bank. I have, however, wanted to present the whole situation in detail, since nothing could be further from the fact than that the Federal Reserve Bank is attempting to "grab" anything. All it is trying to do is to live up to the Regulations of the Federal Reserve Board and to conform to principles of applicable law as construed by the courts. You may be sure that if we were even to undertake to do what you ask us to do, the Comptroller of the Currency would take steps to prevent it; if we "paid" your items we would be met by the demand of the Receiver that we account to him for the amount thereof.

Very truly yours,

Robt. S. Parker.

RSP/w.

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Copy L-30-h

ANDERSON-DULIN-VARNELL-CO.,

KNOXVILLE, TENNESSEE.

February 11, 1933.

Colquitt, Parker, Troutman & Arkwright,
Attorneys,
Suite 1607 William-Oliver Bldg.,
Atlanta, Georgia.

Gentlemen:

Replying to your letter of February 10, we have hundred of checks involved, which, in the aggregate, amount to over $7,000.00.

With the decisions in our courts absolutely on all fours in our favor, would it not seem absurd for us to yield to the position your client has taken, and take upon ourselves such an unjust burden?

I, a mere layman, should not presume to argue such a matter with learned lawyers; but your reasoning is not convincing. We must see whether our statutes will prevail.

I repeat that we do not understand the Federal Reserve Bank to have any powers in Tennessee beyond those granted by our State. Even if it were a part of the executive branch of the National Government, we should be unable to accord any judicial authority to its rules and regulations. We are, therefore, not convinced that its regulations have the force and effect of law, as you suggest. We believe the Federal courts have repeatedly ruled that way.

Our position has already been recognized in two instances, but the checks involved may have been sent through the American National Bank of Nashville. A firm in Lynchburg, Va. and one in Shelbyville, Tenn. have reported their claims paid in full. Their checks were paid and canceled here, on January 17, just as most of those handled by the Federal Reserve Bank were. Payment of these checks was, at first, declined on the same identical grounds.

When the Holston-Union National failed here, over two years ago, the same controversies arose, not only with respect to that bank, but to some others in nearby towns. Those who refused to pay again had their checks honored by the Federal Reserve at Nashville, through which they had been handled in a similar manner.

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As we understand it, the East Tennessee National Bank had ample funds deposited with the Federal Reserve to pay all items received from it. We have, also, been advised by men who are in position to know (and who are not in any way connected with the defunct bank) that loans made by the Federal Reserve to the East Tennessee National are well secured. The action of the Federal Reserve Bank is well understood, but we think its attempt to grab funds belonging to correspondent banks, representing collections it had made as their agent; and, thereby, trying to shunt the burden on merchants, who are struggling as we are today, is outrageous and calculated to break down what little power or resistance may yet be left in us to combat the perils of the day. There can be no justification for such action, and certainly it should not be expected of the Federal Reserve Bank, if it has the slightest interest in the welfare of our citizenry.

We shall pay none of the checks again until our courts have ruled that the Nashville Branch is not liable and that we must sustain an unjust and unwarranted loss of the amount. And other local firms have advised me that their attitude is the same.

Yours very truly,

(Signed) L. H. Petree,

Vice-President.

LHP.M.

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Federal Reserve Bank of St. Louis

L-30-i

February 6, 1933.

Mr. Robert S. Parker,
1607 William-Oliver Building,
Atlanta, Georgia.

Dear Mr. Parker:

I have received and read with much interest your letter of February 3, 1933, with regard to the possibility that the American National Bank of Nashville, Tennessee, may bring suit against the Federal Reserve Bank of Atlanta to collect the amount of two drafts drawn by the American National Bank on the East Tennessee National Bank of Knoxville, Tennessee, and forwarded to the Federal reserve bank for collection but which were not collected because of the failure of the East Tennessee National Bank.

I hope that the letter which you wrote to Mr. Frank A. Berry, Counsel of the American National Bank of Nashville on February 2, 1933, regarding this matter will convince him that the American National Bank has no valid claim against the Federal reserve bank and, therefore, I am not advising counsel for the other Federal reserve banks of this situation pending further developments. I understand, however, that you will keep me advised of all further developments and I agree with your view that, if suit is instituted, the case will involve questions of vital interest to all Federal reserve banks.

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It appears that you have sent Mr. Berry a copy of the check collection circular of the Federal Reserve Bank of Atlanta, which quotes Section V of Regulation J, but it does not appear that you have sent him a complete copy of Regulation J. Permit me to suggest, therefore, that, if you have any further correspondence with Mr. Berry about this subject, it might be advisable for you to send him a complete copy of Regulation J and invite his attention to the provisions of Section IV as well as to the provisions of Section V. The provisions of Section IV may help him to understand the significance of "deferred credits". It might also be advisable to point out to him the exact changes made in Section V - especially the insertion of the last sentence of subsection (7), - in order to get away from the doctrine of the Early Case.

Thanking you for your courtesy in informing me so promptly of the developments in this case, and with all best wishes, I am,

Cordially yours,

Walter Wyatt
General Counsel

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C O P Y

L-30-j

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT

Attorneys at Law

Suite 1607 William-Oliver Bldg.

Atlanta, Ga.

February 3, 1933.

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Walter:

In re: East Tennessee National Bank,
Knoxville, Tennessee.

As stated to you in the course of our telephone conversation of a day or two since, cash items totaling approximately $300,000.00 were involved in the closing of the above mentioned bank. These items were enclosed in two cash letters, sent by the Nashville Branch to Knoxville on January 16th and January 17th, respectively. January 19th (Lee's birthday) was a legal holiday in both Tennessee and Georgia. The Knoxville bank failed to open for business on the morning of the 20th. On that day, and in regular routine, taking the holiday into account, the Branch received in Nashville at the opening of business authorizations to charge the reserve account of the Knoxville bank with the amount of these two cash letters. These authorizations were, of course, not honored.

For some time prior to the closing of the East Tennessee National Bank the American National Bank of Nashville had collected items drawn on the Knoxville bank in the following way: It would send all of its items on Knoxville direct to the East Tennessee Bank, which bank would, upon receipt, give the American Bank credit for all of such items as it paid. contemporaneously with the forwarding of the items to Knoxville, the American Bank would deposit in the Nashville Branch of the Reserve Bank a draft for the full amount of such items. In other words, there were reciprocal banking relations between the Nashville Bank and the Knoxville Bank, but the former immediately checked against the items which it forwarded to Knoxville, depositing its check or draft for collection in the Nashville Branch of the Reserve Bank.

Naturally, upon the suspension of the Knoxville bank, we "charged back" to endorsers the items which were in the unpaid cash letters. Among these items were two drafts

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L-30-j

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT

Continuation Sheet

Mr. Walter Wyatt - #2. 2-3-33.

drawn by the American National Bank upon the East Tennessee National Bank aggregating a substantial amount. When the American National Bank attempted to charge back to its own depositors items which it had taken on deposit or for collection, they were met with refusals to acquiesce in such charges and, in view of the circumstances recited above, it would seem that the Nashville bank had, in fact, no right to charge back the items. It had taken these items either on deposit or for collection and had elected to take in payment a credit in its own favor on the books of the Knoxville bank. I am, of course, not taking into account any equities which might exist between those two banks by reason of the condition of the Knoxville bank at the time it gave the Knoxville bank credit.

At any rate, because of its inability to recoup its own losses from its own depositors, the American National Bank states that it may be forced to bring suit against the Federal Reserve Bank in an effort to force the charging against the reserve balance of the Knoxville bank of the two cash letters. The situation was, for a time at least, complicated by reason of the fact that the Receiver stated to a number of persons interested in the items that the Federal Reserve Bank had been paid for the two cash letters. He apparently based this statement upon the fact that the Knoxville bank had, at the time it paid the items, enclosed with our cash letters, "credited" the account of the Reserve Bank on its own books. Of course this "credit" was a mere bookkeeping entry, made for accounting purposes of the East Tennessee Bank and for its own convenience. I do not see how it could possibly be said that there were reciprocal banking relations between the Federal Reserve Bank and the East Tennessee Bank simply because the latter had, without the knowledge or consent of the former, elected to enter a credit in favor of the Reserve Bank on its books.

In view of the large amount involved, litigation may result. I know very well personally Mr. Frank Berry of the Nashville Bar, who is counsel for the American National Bank. I have written him all of the facts very fully in the hope that litigation will thereby be averted. For your information I am sending you a copy of the letter which I have written Mr. Berry. If a suit is brought, it will, of course, contain a direct challenge of the validity of Regulation J.

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COLQUITT, PARKER, TROUTMAN & ARKWRIGHT

Continuation Sheet

Mr. Walter Wyatt - #3. 2-3-33.

I shall, of course, keep you advised as to any developments.

With personal regards, I am

Very truly yours,

(Signed) Robt. S. Parker.

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C O P Y

L-30-k

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT

Attorneys at Law

Suite 1607 William-Oliver Bldg.

ATLANTA

February 2, 1933.

Mr. Frank A. Berry,
1000 American Trust Building,
Nashville, Tennessee.

Dear Frank:

In re: East Tennessee National Bank,
Knoxville, Tennessee.

In my letter of Tuesday I simply set out the formal facts with reference to the handling by the Federal Reserve Bank of the items which were enclosed with the cash letters of January 16th and 17th, sent by the Nashville Branch to the Knoxville bank. I understood, of course, at the time that letter was written, that the only items forwarded by the Branch, in which your bank was interested, were drafts drawn by your bank upon the Knoxville bank. My letter was sent in response to your request that you have information to furnish your own customers and I did not, therefore, go into the details of your transactions with the East Tennessee Bank.

Gov. Black is today in receipt of a letter from Mr. Williamson, of the American National Bank, in which he refers to the fact that the East Tennessee bank had credited the Reserve Bank, on its own books, with the amounts of the two cash letters. Mr. Williamson seemed to be under the impression that there was some sort of reciprocal banking relations between the Reserve Bank and the East Tennessee Bank. Such, however, was not the case.

A Federal Reserve Bank is permitted to handle checks for collection only for the account of its member banks, other Federal Reserve Banks and the United States, and collections can be effected only upon the terms and under the conditions laid down in Regulation J of the Federal Reserve Board, the pertinent parts of which are embodied in the Check Collection Circular of the Federal Reserve Bank, a copy of which was sent to you on Tuesday. You have doubtless noted therefrom that any checks forwarded for collection are sent upon the condition that re-

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mittance must be made therefor upon receipt in some acceptable medium. There is never any understanding that the Federal Reserve Bank is to be "credited" with the amount of a cash letter on the books of the remitting bank. The Federal Reserve Bank could not lawfully maintain a balance of any kind with any commercial bank even if it desired so to do. Any "credit" in favor of the Reserve Bank on the books of the East Tennessee Bank was merely for the accounting purposes of the East Tennessee Bank and in order that it might keep informed as to the status of its reserve balance. The Regulations are to the effect, and the practice is, that banks, to which cash letters are sent, must remit within the specified transit time, which, in theory, and in practically all instances actually, is the time necessary for the collection to be completed.

You mentioned something on Tuesday about the fact that, upon the receipt of items for collection, the bank forwarding such items is given deferred credit therefor. A word of explanation as to what is meant by "deferred credit" may be helpful.

Under the law, each member bank must maintain with its Federal Reserve Bank a balance in collected funds, the amount of which is computed upon specified percentages of the time and demand deposits of the member. The balance in collected funds mentioned is called the "reserve balance." There is no significance to the word "reserve" except that such balance is supposed to be in the amount of the reserve required to be maintained under the provisions of the Federal Reserve Act. To all intents and purposes, the reserve account does not differ from an ordinary checking account, maintained by a depositor in a commercial bank. I have several times mentioned the fact that the reserve balance must be made up of collected funds. By that I mean, of course, made up of cash or cash items, the proceeds of which have actually been realized on. When a check is deposited with a Federal Reserve Bank and can be immediately collected (i.e. on the day of receipt), it is treated as cash. When the item deposited is drawn on a "time point" or cannot be made immediately available as cash for any other reason, it is termed a "deferred item." Manifestly, some record must be kept of deferred items and, accordingly, they are posted to the credit of the depositing banks and are said to be to the credit of the depositors in "deferred accounts." Actually, however, the items are merely in transit for collection and are not available for withdrawal or for reserve purposes. They are not to the "credit" of the depositing bank at all except in the sense

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that they have been received by the Federal Reserve Bank for collection and are being collected in regular routine.

It is obvious that it would require an enormous amount of work to transfer each deferred item to the reserve account of a member bank upon the day of actual collection, ascertained after investigation. Accordingly, the whole country is divided into zones, as, for example, one-day, two-day and three-day zones, etc., and a city or town is spoken of as being on a one, two or three, etc. day basis. The zones are laid out so as to reflect the actual time required in practically all of the cases for final collection. At the expiration of the transit time fixed by the Time Schedule for a particular item, it is automatically transferred to the reserve account, whether or not it has actually been collected. If collection is not finally effected, then the item is "charged bank." The result is that the banks receive credit in their reserve accounts for items of deferred availability within the time in which such items should be actually collected, although, in isolated instances, collection may be in fact completed before or after the expiration of the period specified in the Time Schedule.

Applying the practice to your case, the drafts which your bank drew on the East Tennessee Bank were posted in the deferred account, but they had not become available to your bank for withdrawal or for any other purpose at the time of the suspension of the drawee.

You will find this question of deferred availability fully discussed and the practice judicially upheld in Pascagoula National Bank v. Federal Reserve Bank, 3 Fed. (2) 465, and Same v. Same, 11 Fed.(2) 866. In this case application was made to the Supreme Court for a writ of certiorari, and the writ was denied.

Under all the circumstances and in view of the general law and of the Regulations of the Federal Reserve Board, I do not see how the Federal Reserve Bank could legally charge the amount of the drafts of your bank against the reserve balance which remained in its hands at the time of the East Tennessee Bank's closing. The Federal Reserve Bank simply held two drafts for collection and it had been unable to effect collection prior to the suspension of the drawee. Again, we held the drafts merely as an agent for collection. I do not believe that, even in the absence of the Regulation, we could offset demands held by the

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Mr. Frank A. Berry - #4. 2-2-33.

Reserve Bank in a fiduciary capacity against a deposit liability of the Federal Reserve Bank to the drawee of the drafts.

You can be certain that the East Tennessee Bank did not pay the Federal Reserve Bank the amount of either cash letter prior to closing. Any entry made upon its books, showing a purported credit in favor of the Federal Reserve Bank, was a mere entry for the convenience of the East Tennessee Bank. The requirement imposed on that bank by the Regulations and by the letter transmitting the items for collection, was to remit therefor. The direction was not to give the Federal Reserve Bank credit and, as stated, neither the East Tennessee Bank nor the Reserve Bank had the right, by contract or otherwise, to vary or alter this requirement.

In investigating the question you will doubtless find the case of Early v. Federal Reserve Bank of Richmond, decided several years since by the United States Supreme Court. The facts in that case were that, after the closing of a national bank in South Carolina, the Federal Reserve Bank of Richmond charged an outstanding and unpaid cash letter to the reserve account of the closed bank. The right of the Reserve Bank to make this charge after suspension was challenged by the Comptroller of the Currency and the Receiver brought suit against the Reserve Bank. It appeared in that case that the Richmond bank had reserved in its Check Collection Circular (pursuant to permission accorded by the then current Regulation of the Federal Reserve Board) the right to charge to the reserve account of its members at any time the amount of an outstanding cash letter. The court held that, under this Circular, which was a contract binding all parties, the Federal Reserve Bank could have charged the cash letter against the reserve account of the member prior to suspension and hence that the actual entry would be permitted even after notice of suspension. Shortly after this decision was handed down, the Regulations of the Federal Reserve Board were revised with the express purpose of precluding the possibility of making charges to reserve accounts after notice of suspension. In other words, the revision of the Regulation was for the explicit purpose of preventing, in future cases, the application of the holding in the Early decision. Among other reasons why it was deemed desirable to adopt the present Regulation was that a contrary practice would work a preference of certain creditors over others. The Comptroller's office wished to see adopted a practice under which the reserve account of a closed national

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bank would be available as a general asset of the trust and not be utilized for the payment of the claims of a few persons, based upon unremitted for cash letters. Of course, in cases where the closed member bank is indebted to the Federal Reserve Bank, the reserve balance is applied toward the liquidation of that indebtedness, but the result is for the benefit (actual or theoretical) of all creditors, since the application of the reserve balances to such indebtedness effects, always in theory and often in actual experience, the earlier release of the equity in the collaterals held under pledge by the Reserve Bank.

I have perhaps gone into this matter in unnecessary detail and have stated a good many things which you know already, but I have wanted to make the position of the Reserve Bank perfectly plain.

In your telephone conversation with me you referred to the fact that a few of the checks drawn on the East Tennessee Bank and sent to the Federal Reserve Bank under what is known as the "immediate debit" plan, were paid by charging the same to the reserve account of the East Tennessee Bank, notwithstanding the fact that the checks themselves actually reached the drawee after it had closed.

The immediate debit arrangement referred to was embodied in a contract, a copy of which is enclosed for your information. You will note that, under the provisions of this contract, the checks of one of the contracting parties, drawn on the East Tennessee Bank, another of the contracting parties, were, to all intents and purposes (at least so far as concerned their immediate availability), the same as if they had been drawn on the reserve account of the East Tennessee Bank. In other words, the East Tennessee Bank had given consent in advance that when the checks of particular banks, drawn upon it, were deposited with the Federal Reserve Bank, they could be immediately charged to the reserve account of the drawee and then forwarded to the drawee in order that they might be charged to the accounts upon which they were drawn. These arrangements were entered into merely for the accommodation of the East Tennessee Bank and certain of its correspondents, the former deeming it to be for its best interests that checks drawn upon it by those correspondents should have the same availability as if such checks had been drawn upon

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Mr. Frank A. Berry - #6. 2-2-33.

banks in Nashville. Of course, however, the checks were charged to the reserve account of the East Tennessee Bank prior to notice of suspension. The practice was, therefore, not inconsistent with the Regulations of the Federal Reserve Board and the same privilege was accorded to other banks besides the East Tennessee National Bank and its correspondents. The question of whether or not the charge against the reserve account, under such circumstances, should stand, was settled in a case arising out of the closing of the Fourth National Bank of Macon, Georgia, (Pearson, receiver, v. National Bank), decided by the Circuit Court of Appeals for the Fifth Circuit some three or four years ago. The opinion of the court is, however, so "sketchy" as to be almost unintelligible to one unfamiliar with the facts in the record.

I add for your personal information, that the balance to the credit of the East Tennessee Bank in its reserve account, as of the time of closing, was somewhat in excess of the aggregate of the two outstanding cash letters. The exact figures can be furnished, but, ordinarily, information as to the affairs of a closed bank is given out by the Receiver.

With personal regards, I am

Sincerely yours,

Robt. S. Parker.

Encl.

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C O P Y

L-31 461

FEDERAL RESERVE BANK

OF NEW YORK

March 22, 1933.

Walter Wyatt, Esq., General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Walter:

I enclose a copy of letter dated March 15, 1933, which Deputy Comptroller Gough wrote to me, and a copy of my reply dated March 18, with reference to a check for $14,000 deposited by Mr. A. Dreyfuss in the Harriman National Bank & Trust Company of New York.

I have discussed this question on the telephone with Mr. Anderson twice and I think he intends to discuss it with you. It seems to me that the banking holiday should be treated like any other holiday and should not prevent the transactions which were permitted within the terms of the regulations from having their normal effect upon the relationship between banks and their depositors and between banks and their correspondent institutions. I hope very much that the Comptroller's office will not take any position to the contrary for it would not only be unsound in principle in my opinion, but would be obviously unfair and embarrassing to Federal Reserve Banks and other banks which, in their effort to cooperate in the general plan, carried on the limited transactions permitted by the Treasury regulations during the holiday.

Faithfully yours,

(Signed) Walter S. Logan,
Deputy Governor and General Counsel.

Encs.

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TREASURY DEPARTMENT

WASHINGTON

Comptroller of the Currency March 15, 1933.

Walter S. Logan, Esq.,
Deputy Governor and General Counsel,
Federal Reserve Bank of New York,
New York, New York.

Dear Sir:

Mr. A. Dreyfuss of New York City, deposited a check in the amount of approximately $14,000.00, drawn on a Rochester, New York, Bank, to his credit in the Harriman National Bank and Trust Company of New York on March 1. As you know, the Harriman National Bank and Trust Company was agent for collection under the New York Law and the Conservator of the Harriman National Bank and Trust Company advises that Mr. Dreyfuss is not in any way indebted to his bank.

We understand that this check was forwarded for collection through the Federal Reserve Bank of New York and credited to the account of the Harriman National Bank and Trust Company. Mr. Dreyfuss asserts that he was refused permission to draw against this provisional credit in the Harriman National Bank and Trust Company of March 3, hence, it would appear, that the relationship between the bank and Mr. Dreyfuss was that of principal and agent when the State Bank Holiday became effective on March 4 and continued during the period the bank operated under the President's proclamation until the appointment of a Conservator.

We are inclined to the view that the proceeds of this item should be surrendered to Mr. Dreyfuss if and when they come into the hands of the Conservator. May we request a statement of the disposition proposed to be made of the balance standing to the credit of the Harriman National Bank and Trust Company and whether or not the Federal Reserve Bank asserts the right to apply the proceeds of this item in reduction of any indebtedness due it by the Harriman National Bank and Trust Company.

Yours very truly,

(Sgd) E. W. Gough
Deputy Comptroller.

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FEDERAL RESERVE BANK

OF NEW YORK

March 18, 1933.

Comptroller of the Currency,

Washington, D. C.

Attention: Mr. Gough, Deputy Comptroller.

Dear Sir:

Receipt is acknowledged of your letter of March 15, 1933, with reference to a check for $14,000 deposited by Mr. A. Dreyfuss in the Harriman National Bank & Trust Company of New York.

On March 1, 1933, we received a check for $14,000 in the cash letter dated February 28, 1933, of the Harriman National Bank & Trust Company. This check was numbered A140, dated March 1, 1933, and was drawn by W. W. Kneath to the order of A. Dreyfuss on the Security Trust Company, Rochester, New York. We forwarded the check for $14,000 in our cash letter dated March 1 to the Security Trust Company, and on March 3 we received and collected through the New York Clearing House the Security Trust Company's remittance draft for the $14,000 item and all other items included in our cash letter with the exception of three small items which were returned unpaid. On March 3 we gave credit to the Harriman National Bank & Trust Company, New York, in its reserve account on our books for the $14,000 item and other items included in the same cash letter.

The collection of the $14,000 item was, therefore, completed on March 3 and on that date the relationship of the Harriman National Bank & Trust Company to the depositor of the item changed from that of agent to debtor, and it would seem to me clear that the depositor is not entitled to receive the proceeds of the item.

Your letter has, however, raised in my mind the question of whether the situation would be any different if the collection of the remittance draft had not been completed on March 3, but had been completed subsequently during the bank holiday. In my opinion this would not make any difference.

You will recall that Regulation No. 8 issued by the Secretary of the Treasury under the President's proclamation declaring a bank holiday provides as follows:

> "Where settlement for checks charged by drawee institutions to the drawers accounts on its books on or before March 4, 1933, is incomplete, settlement may be completed where such settlement does not involve the payment of money or currency."

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In accordance with this regulation most of the remittance drafts which we received on March 4, 1933, and which were, of course, in settlement of checks charged to the accounts of the makers or drawers thereof on the books of the remitting banks on or before March 3, 1933, were paid during the following week while all banks were operating under the Secretary's regulations.

I do not think that the bank holiday, any more than any other holiday, operated to terminate the agency relationship between the depositor and the depositary bank. Consequently, I believe that with respect to an item in process of collection when the bank holiday began, the agency relationship would continue until changed to that of debtor and creditor upon payment of the remittance draft in accordance with Regulation No. 8.

At the opening of business on March 13, 1933, on which date we understand the Conservator of the Harriman National Bank & Trust Company was appointed, the balance in the reserve account in favor of that institution on our books was $992,248.30, and the institution was indebted to us for a total of $1,388,500 secured by $1,041,000 face amount of Government securities and approximately $347,500 face amount of eligible paper. It is apparent from these figures that even without the eligible paper we could liquidate the indebtedness of the Harriman National Bank & Trust Company by the sale of the Government securities and by offset of a part of its reserve balance, and still leave a credit balance of approximately $645,000 in favor of that institution in its reserve account. Under the circumstances, therefore, we are not really interested in the disposition of the proceeds of this particular item of $1,400, except that it might be considered a precedent in other cases.

Very truly yours,

Walter S. Logan,
Deputy Governor and General Counsel.

Copy sent to Mr. John F. Anderson,
Office of the Comptroller
of the Currency.

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Copy L-32

April 14, 1933.

Mr. Sigurd Ueland,
800 Security Building,
Minneapolis, Minnesota.

Dear Sigurd:

Tremendous pressure of urgent business growing out of the recent banking crisis has prevented me from replying more promptly to your letter of March 3, 1933, inclosing for my information copies of three opinions which you had rendered to the Federal Reserve Bank of Minneapolis dealing with the subject of bank holidays. I have just now found an opportunity to read these opinions; and I find them very interesting, although I am not prepared to agree with all of the conclusions which you have expressed.

With reference to the question of the right of a Federal reserve bank to deal with a bank which has gone on a holiday or has otherwise suspended business temporarily but which has been permitted by the supervisory authorities to resume the transaction of a normal banking business, I note that you made no reference to the decision of the Circuit Court of Appeals in the case of Lucas et al v. Federal Reserve Bank of Richmond, wherein it seems to me that the Court intimated very strongly that, if the Comptroller of the Currency permits a national bank to remain open and continue to transact its normal business, the Federal reserve bank is justified in assuming that it is a solvent bank and in dealing with it as such.

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In the light of the events which have transpired since your opinions were rendered, and especially in view of the unprecedented emergency situation confronting our banking system, I am inclined to believe that the courts will be disposed to go as far as possible in upholding the validity of transactions entered into in good faith by the Federal reserve banks in order to meet the emergency, especially where the Federal reserve banks acted reasonably and no great injustice resulted. In other words I think a lot of new case law will grow out of the recent banking emergency and that it is impossible to predict what the courts will hold were the respective rights of various parties in the light of the unprecedented situation that faced the country during the first three months of this year.

I am sending copies of your opinions to Counsel for all of the other Federal reserve banks and I am sure that they will read them with much interest.

Trusting that your Father's health has materially improved and with kindest personal regards to you both, I am,

Cordially yours,

(S) Walter Wyatt
General Counsel

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Copy L-32-a

UELAND & UELAND
Attorneys and Counselors

800 Security Building
Minneapolis
March 3, 1933.

Walter Wyatt, Esq.,
Counsel Federal Reserve Board,
Washington, D. C.

Dear Walter:-

I enclose copies of three opinions I have given the Federal Reserve Bank of Minneapolis dealing with the subject of "bank holidays". I have not forwarded copies of these opinions to the counsel for the Federal reserve banks or to the Acting Comptroller of the Currency, because I am not sure that you agree with the views expressed in these opinions and would not wish to distribute the same except with your approval. If you wish to send out copies, I have no objection whatever.

Owing to the illness of my father, we are deprived of the benefit of his opinion during this vexatious period.

Very sincerely yours,

(Signed) Sigurd Ueland

SU*MS.

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February 24, 1933.

Federal Reserve Bank of
Minneapolis.

We have considered the question of "bank holidays" in our opinions to you dated December 1, 1932 and January 20, 1933. In these opinions we only considered questions arising while a bank is enjoying a "holiday"; we did not consider questions presented after such a bank has resumed ordinary banking business.

In our earlier opinions we came to the conclusion that for a national bank to declare a "bank holiday" was an "act of insolvency" within the meaning of the National Bank Act. The National Bank Act provides:

> "All transfers of the notes, bonds, bills of exchange, or other evidences of debt owing to any national banking association, or of deposits to its credit * * * made after the commission of an act of insolvency * * * made with a view to prevent the application of its assets in the manner prescribed by this chapter, or with a view to the preference of one creditor to another, except in the payment of its circulating notes, shall be utterly null and void * * *." United States Code, Title 12, Sec. 91.

Taking collateral for a present loan of money is not a preference in bankruptcy and the creditor is allowed to enforce the security against the trustee in bankruptcy of the borrower, even though the borrower was known to be insolvent at the time the loan was made. We understand that the lower federal courts have arrived at a similar result in cases of loans made on collateral

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to insolvent national banks. However, under the National Bank Act not only transfers preferring one creditor over another are void; transfers after a national bank has committed an act of insolvency are void if -

> "made with a view to prevent the application of its assets in the manner prescribed by this chapter".

The application of assets here referred to is a ratable distribution among all the creditors of the Bank. Where a loan is made to a national bank the purpose of the borrower is usually, if not always, to use the proceeds to pay off certain depositors or other creditors of the bank. This being so, it seems to us that the Supreme Court might hold a pledge of collateral to secure a loan to a national bank, made after the commission of an act of insolvency, to be "utterly null and void".

In the case of Hirning vs. Federal Reserve Bank of Minneapolis, 52 Fed. (2d) 382, the United States Circuit Court of Appeals for this Circuit held that a person dealing with a national bank after an act of insolvency is liable if such person participates in transactions which result in other creditors receiving a preference. If your Bank should lend money to a national bank knowing that it had committed an act of insolvency, and knowing or having good reason to suspect that the proceeds of the loan would be used to prefer certain creditors of the national bank, we do not feel at all confident that your Bank would

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be able to hold and enforce the collateral given for such loan.

The next question is - when a bank has committed an act of insolvency, how long does that fact operate as a danger signal to all who do business with the bank? Neither the statutes nor the decisions seem to throw much light on this question. Certainly the act of insolvency can be cured by the restoration of the bank to actual solvency. But the situation you will be confronted with is one where there has been an act of insolvency by a bank which subsequently resumes doing business, but remains in fact insolvent. In this situation the fact that the banking authorities have failed to perform their duty and appoint a receiver for the bank would hardly constitute a shield behind which others could hide. On the other hand the courts would hardly assert that a transfer was "utterly null and void" because of an act of insolvency ten years prior thereto. It is a question of degree where no definite boundary line can be drawn. In the earlier stages, however, after an act of insolvency has been committed we think you cannot deal with the bank in question without considerable risk until it has been examined by the proper banking authorities and found to be in a solvent condition.

In conclusion, we think that where a bank has gone on a "holiday" and then resumes the transaction of general banking business, being in fact insolvent, and the banking officials shut their eyes to the situation, you incur considerable risk of legal liabil-

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ity: (1) if you forward checks drawn on such bank direct to it for payment; (2) if you pay drafts drawn by such bank on its reserve account with your bank; or (3) if you make new loans or discounts for such bank. (In the case of drafts drawn on the reserve account you are confronted with a real dilemma because you may incur liability by refusing to pay such drafts, if the member bank is in fact solvent.) As we indicated in our earlier opinions, there may be less risk in cases (2) and (3) where you are dealing with a state bank organized in a state in your district, other than Michigan, than in the case of a national bank.

Whether you should assume any or all of these risks or whether you should take the position that these banks coming out of the "holiday" condition should first have their solvency passed upon by those officials who were charged by law with this duty, are questions of policy outside of our jurisdiction.

UELAND & UELAND,

By

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L-32-c

January 20, 1933

Mr. A. R. Larson,

Assistant Cashier.

Answering your memorandum dated January 18, 1933 with reference to so called bank holidays. Where the banking authorities permit such an anomalous, if not illegal, situation to exist, it creates a very embarrassing situation for your bank.

I should think that in such instance of a member national bank, or a member state bank located in Michigan, which goes on a "holiday", your bank should immediately notify such member that you will not honor drafts on the reserve account and your bank should further ask for instructions as to collections.

I think bonds can safely be surrendered to the bank itself but not to others. Indeed I see no reason why currency payments might not be made to the bank itself, or why moneys in the reserve account might not be paid to the bank itself by means of your bank's draft or cashier's check. In such a case I see no reason why liability should attach to your bank under the preference statute (U.S.C. title 12, sec. 91 in the case of national banks) unless your bank in some way is a party to a plan whereby some creditor or creditors of the member bank are to receive a preference. If your bank should issue its cashier's check to the member bank and it should make a preferential transfer

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of the same which should subsequently be held void, your bank, if it had paid the check, could, I assume, fall back on your endorser.

The reason why your bank cannot safely pay drafts on the reserve account is because in that case you are put on notice that the bank, which has committed an act of insolvency, is transferring funds, presumably to creditors. In the case of payments made to the bank itself no preference would result by reason of such payments, but could arise only by reason of some subsequent disposition made of the money by the recipient bank.

In view of the fact that the situation is loaded with dynamite, it would seem a wise policy to keep transactions with a bank in this moribund condition to a minimum.

UELAND & UELAND

By

SU/MG

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Federal Reserve Bank of St. Louis

L-32-d

December 1, 1932.

Mr. Harry Yaeger, Deputy Governor,
Federal Reserve Bank of
Minneapolis.

In your memorandum dated November 29, 1932, you inquire as to the duties and liabilities of the Federal Reserve Bank of Minneapolis with respect to banks in the Ninth Federal Reserve District which have declared what is termed "a bank holiday". Our understanding is that during a certain period one or more banks in a town endeavor to get their depositors to agree to extend the time of payment of a given percentage of their deposits or to release such given percentage entirely or look only to certain charged off assets for the payment of the same. During such period the banks are not open for ordinary business and do not permit withdrawals through the teller's window. We assume in what follows that the fact that the holiday has been declared is known to the officers of your bank.

In our opinion if your bank continues to forward checks drawn on a bank which is enjoying a "holiday" directly to such bank for payment and remittance by it, your bank may incur liability if loss thereby results. When a bank declares a holiday it is tantamount to an admission that the bank is in an insolvent condition. Forwarding to a bank known to be in a weakened condition, in our opinion, is negligence, and neither Regulation J of the Federal Reserve Board, your current check collection circular, the statute governing bank collections in Minnesota

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(Mason's Statutes, Sec. 7233-1), nor the Uniform Bank Collection Code which is in force in Michigan and Wisconsin, exempts a collecting bank from liability for loss due to negligence.

The next question to be considered is whether when the bank declaring a holiday is a member bank, your bank should continue to honor drafts on the reserve account or permit the transfer of reserve balances by other methods.

The National Bank Act provides that "all transfers * * * of deposits" to the credit of a national banking association and "all payments of money" to its creditors "made after the commission of an act of insolvency, or in contemplation thereof, made with a view * * * to the preference of one creditor to another, * * * shall be utterly null and void". U. S. C., Title 12, Sec. 91. In our opinion when a national bank ceases to pay its depositors in the usual course of business, that is an "act of insolvency" within the meaning of the statute. *

Market National Bank v. Pacific National Bank,
30 Hun. 50, Aff. 93 N. Y. 648;

First National Bank of Ortonville v. Andresen,
57 Fed. (2d) 17 (C. C. A. 8).

Accordingly in the case of a national bank we do not see how your bank can safely continue to honor drafts after knowledge received by the officers of your bank that the national bank in question has declared a holiday. Such drafts and other transfers of credit in the reserve account would almost inevitably have the effect of preferring creditors of the national bank. Under the National Bank Act such payments or transfers would be void and your bank

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Harry Yaeger - #3

might be held liable to a subsequently appointed receiver of the national bank to the same extent as if the drafts had not been paid and the transfers had not been made. See Hirning, Receiver, v. Federal Reserve Bank of Minneapolis, 52 Fed. (2d) 382.

In the case of state banks in states in the Ninth Federal Reserve District, we have made a hasty examination of the state statutes and do not find any provision similar to Title 12, Sec. 91 of the U. S. Code except in Michigan. Section 11946 of the Compiled Laws of Michigan, 1929, is almost identical with the provision in the National Bank Act on the subject of preferences. Accordingly we think you should treat member state banks located in Michigan in the same manner as national banks.

When a national bank or a state member bank in Michigan goes on a bank holiday it would seem advisable to notify the officers by telephone not to draw drafts or attempt to make transfers because the same cannot be honored.

As to state member banks in the other states of the Ninth District, we think you can safely continue to pay drafts until the bank is actually closed by its board of directors or by the banking authorities.

The question remains as to the proper course to be followed by your bank with respect to checks drawn on banks which have declared a holiday. We think it would not be safe for your bank to receive payment of checks drawn on national bank or state

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banks in Michigan. Under the doctrine of the Hirning case your bank might thereby render itself liable for having received an unlawful preference. Accordingly it seems to us that in the case of these banks your bank should return the items to its endorsers advising them that the bank in question is reported on a "bank holiday", or words to that effect. As to checks on other banks, we think you have the alternative of having them presented over the counter by an agent or of returning them to your endorsers, as suggested in the case of national banks. We assume that non-member banks going on a holiday would be taken off your par list.

We do not consider in this opinion under what circumstances or in what manner acts of insolvency of a bank can be cured so that your bank could safely resume the transaction of ordinary business with such bank.

UELAND & UELAND

By

SU*MS.

* In McDonald, Receiver, vs. Chemical National Bank, 174 U. S. 610, it was held that the mere fact that a correspondent of a national bank had refused to pay its draft was not sufficient proof of an "act of insolvency". But in our opinion this is quite a different thing from the refusal of a national bank itself to pay its obligations in the usual course of business.

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C O P Y

L-33

October 6, 1931

Gentlemen:

At the request of your Mr. I have re-examined and considered the question as to the validity of the lien acquired by a bank under a pledge to it of warehouse receipts issued by a warehouse company for goods warehoused under the so-called field storage plan.

In general there are two ways in which a valid lien upon chattel property may be effected. One is by chattel mortgage, in which case the possession of the mortgaged chattel ordinarily remains with the mortgagor. In order to make a chattel mortgage effectual against a subsequent bona fide purchaser from the mortgagor and against execution or attaching creditors, assignees, trustees in bankruptcy, etc. of the mortgagor, it is necessary in Ohio, and probably in all of the other states, that the chattel mortgage be properly filed of record unless the mortgagee takes and holds the open, notorious and exclusive possession and control of the property. The filing of the chattel mortgage is, of course, required in order to give notice of the existence of the lien to those dealing with the mortgagor.

In a pledge of chattel property, actual, open, exclusive and continuous possession of the pledged property by the pledgee is essential to make the pledge valid as against subsequent bona fide purchasers from the pledgor and execution and attaching creditors, assignees and trustees in bankruptcy, etc. of the pledgor. The possession of the pledgee in case of a pledge is to give notice of the lien to those dealing with the pledgor. Legally such possession has the same purpose and effect as the filing for public record of the chattel mortgage when possession is retained by the mortgagor.

In commerce and banking, one of the most important and common methods of obtaining credit is that of pledging bills of lading and warehouse receipts for commodities. Under the law merchant and the common law, bills of lading and warehouse receipts whereby

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the carrier or the warehouseman undertook upon surrender of the receipt properly endorsed and payment of its charges, to deliver the goods to bearer or on the order of the person depositing the same, were regarded and treated as having many of the elements of negotiable paper, and the delivery of an order or bearer bill of lading or a warehouse receipt, properly endorsed, was held to be the equivalent of the actual delivery of the article described in the bill or receipt. However, the exact legal status of warehouse receipts was not the same in all jurisdictions, and in view of the enormous volume of business in which such receipts were used, and the consequent importance of having the legal attributes of such instruments as nearly uniform as possible throughout the states, some years ago a commission was appointed which drafted what is commonly known as the Uniform Warehouse Receipt Act, and secured the adoption of the Act by the legislators of a great many states. Ohio passed and adopted the Act in or about the year 1908, and it will be found in Sections 8457 to 8509 of our General Code.

The Act is largely a codification of what was considered the prevailing common law in respect of such instruments, and it has been held that in the states where adopted, this Act supersedes the common law on said subject.

The Act provides who may issue warehouse receipts, what terms the same must contain, distinguishes between negotiable receipts and non-negotiable receipts, defines the obligations and liabilities of the warehouseman and the effects of negotiation and transfer of the receipts and the rights of a transferee, etc. Without quoting the provisions of the Act in detail, it may be sufficient to say that by the negotiation of a negotiable warehouse receipt the transferee is vested with the same title to the goods as the depositor or person to whose order the warehouse receipt was issued had or had ability to convey to a purchaser in good faith for value, and he has the right upon presenting the warehouse receipt to the warehouseman and paying proper storage charges, to have the goods described in the receipt delivered to him, unless the warehouseman is able to show a valid excuse for failure to make such delivery. You of course understand that a warehouseman is in no sense an insurer nor does he guarantee title to the goods described in his receipt. He is liable only for ordinary care in storing the goods and will not be liable for damages to them unless the damage results from his lack of ordinary care.

If goods in the possession of the warehouseman are claimed by one other than the holder of his warehouse receipt, the warehouseman may protect himself by giving notice to the holder of its receipt or interpleading the parties. While the warehouseman is not, therefore, liable to the holder of the receipt if the goods are taken and claimed by some one having a better title than the depositor, the warehouseman would be responsible to the holder of its negotiable receipt for a voluntary delivery of the goods to any one else without requiring the production and surrender of the receipt.

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The Uniform Warehouse Receipt Act contains no express reference to, or provisions in respect of, field storage, so-called, but the Act applies to all warehousing and all warehouse receipts, and in order to give to warehouse receipts the quasi-negotiable character that makes negotiation and delivery of the same legally equivalent to an actual delivery of the goods, it is necessary that the requirements of the Act, so far as applicable, be complied with.

The difference between ordinary warehousing and field storage is that in ordinary warehousing the goods are kept in the warehouseman's own warehouse premises. In field storage, the goods are ordinarily warehoused in premises that are leased to the warehouseman by the owner of the goods, and usually the warehouseman makes no use of the leased premises other than to warehouse the goods of his lessor. In most cases the building or land leased constitutes a part of the plant of the lessor and in some cases is so located with reference to the remainder of the plant that it is in practice difficult to exclude the lessor's employees therefrom. In some cases only a part of a building is leased, the remainder being used as a part of the lessor's plant.

In order to give notice that the warehouseman is in possession of the leased premises and has the possession, custody and control of the goods, the lease is usually recorded and signs are posted about and in the leased premises stating that the premises are leased to the warehouse company and that all of the merchandise therein is in its exclusive possession, custody and control. The warehouseman also usually has a representative to act as custodian of the leased premises and of the goods therein, and it is understood that no goods shall be stored in or removed from the warehouse premises except under the direction and control of the custodian.

It is well settled law that in order to give to a warehouse receipt a quasi-negotiable character so that a pledge of the receipt properly endorsed will amount to a symbolical delivery of the goods represented thereby, it is necessary that the warehouseman have the actual, complete, exclusive, open and notorious possession of the goods. There is, of course, no question as to such possession and control where the goods are stored in the general warehouse of the warehouseman, but where the goods are stored under the field storage method, the question as to the sufficiency of the warehouseman's possession and control has arisen quite frequently in attacks by creditors, assignees for creditors and trustees in bankruptcy of the pledgor. Many of the cases in which the validity of field storage warehouse receipts has been litigated are in the Federal Courts which have jurisdiction of bankruptcy proceedings, but there is a considerable number of such cases decided by state courts.

In most of the cases the attack is upon the validity of the receipts on the ground that there has been no actual warehousing,

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that the alleged possession and control of the warehouseman is not actual and exclusive but merely a nominal or pretended possession, or at best a joint possession with the pledgor. In some of the cases attack has been made upon the form of the warehouse receipts on the ground that they do not accurately describe and identify the goods.

The question of possession is, of course, largely a question of fact depending upon the peculiar facts and circumstances developed in the case under consideration. Hardly two cases can be found in which the facts are exactly alike, and different courts sometimes come to opposite conclusions upon what appear to be substantially the same state of facts. In some cases the warehousing has been held good while in others which appear to be hardly distinguishable in the facts, the conclusion has been that the warehousing was invalid and the receipts ineffective. It is a fact that the more recent decisions, particularly in Federal Bankruptcy cases, have been less favorable to field storage and evince a growing disposition upon the part of the courts to scrutinize the conduct of the warehouseman very closely and to hold insufficient methods which formerly were considered valid. The courts all hold that there may be valid field storage but that in order to make such storage valid the warehoueman must have the actual, open, notorious and exclusive possession and control of the goods. The possession must be actual, open and exclusive. Merely nominal possession and control will not do nor can the possession be joint or in common with the pledgor. It is this requirement that the warehouseman have the actual, open and exclusive possession and control that makes proper storage warehousing difficult. Any method of such warehousing where the goods are in a building or on a yard which is being used by the pledgor's employes so that such employes have constant access to the warehoused goods is dangerous. The warehoused goods should be in a building or enclosure separated from the remainder of the pledgor's plant, so that the warehouseman can maintain an exclusive possession and control and so that the employes of the pledgor can have access to the pledged goods only in the presence of the warehouseman's representative, and when goods are being removed from or delivered into the warehouse, such representative should be present and in control. I think that it would be possible to devise a set of rules for storage which if strictly followed would make the warehousing safe as against attack, but conditions at different plants are hardly ever the same and in many cases strict compliance with such rules is in practice difficult, expensive and sometimes impossible. I will, however, endeavor to outline my opinion as to what the practice of the warehouseman should be, although you will understand that I do not mean to imply that a failure strictly to comply with some of the details would necessarily result in a decision that the warehousing was invalid.

WHO MAY RECEIPT

The Act provides that warehouse receipts may be issued by any warehouseman, and defines a warehouseman as a person (which of course includes a corporation) lawfully engaged in the business of storing goods for profit. To be of value as a pledge, a warehouse receipt must therefore be issued by a regular warehouseman who is engaged in the business of warehousing goods for profit.

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THE WAREHOUSEMAN'S POSSESSION AND CONTROL

The warehouseman should have a lease of the premises that he is to occupy. In the lease the premises to be occupied should be accurately and definitely described.

The lease should give the warehouseman the right to use the leased premises for a general storage business, and where necessary should also grant him the right to pass over the other premises of the lessor for access to the leased premises and the right to use such loading equipment of the lessor as may be necessary to remove warehoused goods from the leased premises. It should also provide that the lessee may post and maintain in, upon and about the leased premises and the other premises of the lessor such signs and notices as the lessee may desire, to give notice of its occupancy and possession of the leased premises, and its exclusive possession and control of all goods in the leased premises. It should provide that the lessee's possession of the leased premises and its possession and control of the merchandise stored therein shall be exclusive.

In a number of the cases the fact that the lease reserved merely a nominal rent of $1.00 per year has been adversely commented upon, and it is therefore my opinion that it would be safer, although perhaps not absolutely essential, that the lease provide for the payment of a substantial rent at regular stated intervals.

Although in many of the cases it is said that the fact that the lease was recorded was in itself insufficient to give notice of the warehouseman's possession, I think that it is important that the lease be executed with all of the formalities required to entitle it to record, and that it be promptly recorded. When the lease is executed and delivered, if there be at the time any goods in the leased premises which are to be warehoused, I think that the owner and a representative of the warehouse company and the custodian who is to have charge of the warehouse, should go to the warehouse and the owner's representative should then state to the warehouseman that he delivers to him to be warehoused all of the said goods, and that the warehouseman should state that he accepts the possession of the goods in storage and that he then direct his custodian to take charge of the warehouse and of the goods and hold the goods in storage for the warehouse company and subject to its exclusive order and control.

It is in my opinion very desirable that the leased premises be entirely separated from the remainder of the premises occupied by the lessor. Wherever practicable an entire building or an entire storage yard should be leased and occupied exclusively by the warehouseman. I am aware that frequently such an arrangement is as a practical matter impossible. Frequently only a part of a building is used for storage and the remainder used for other purposes in the lessor's business. Such a situation presents an element of danger. If only part of a building or part of a storage yard is to be leased, the leased part of the building should be partitioned off so that it can be kept closed and locked, and the keys held by the warehouseman's custodian. In a storage yard a substantial fence with locked gate is desirable. Any arrangement whereby the premises occupied by the warehousemen are open and not separated from the portion of the plant used by the owner, so that the owner and his employes have

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free access to the part of the premises where the goods are stored, and possibly use and occupy the premises in common with the warehouseman, is very dangerous and makes the warehouseman's alleged exclusive possession and control of the goods very questionable.

The warehouseman should post and at all times keep in place large and comspicuous signs printed in large letters so as to attract the attention of the passer-by and be easily read, stating that the premises are leased to and in the exclusive possession of the warehouseman, and that all of the goods and merchandise therein are in the warehouseman's exclusive possession and control. Such signs should be conspicuously posted at all entrances and all corners of the leased premises, and if the building or yard is large, they should also be placed at intervals along the sides and ends. Such signs should also be posted inside the leased premises at all prominent points so that the same would certainly be seen by any one visiting the premises. If the leased premises constitute a part only of a building, there should be a conspicuous sign outside the entrance to the building giving notice that a portion of the premises is so leased, etc., and another sign inside the entrance to the building, and of course, as previously stated, signs at all entrances of the portion of the building that are occupied by the warehouseman. The purpose of posting and maintaining signs is of course to give notice to the public of the warehouseman's possession. It is extremely important and there can hardly be too many or too prominent signs. The insufficiency of the signs has been a fatal defect in many of the decided cases and the importance of maintaining plenty of large and prominent signs cannot be over-emphasized.

For reasons hereinafter stated, I think inside the warehouse premises there should be posted in a prominent place on each pile or lot of goods a sign stating that all of said goods are in the exclusive possession and control of the warehouseman, and are represented by its outstanding negotiable warehouse receipt Number _____. It is also important to guard against the attaching to any of the warehoused goods of stock or other similar tags bearing the name of the pledgor. I have known of one case where such tags appeared and it was claimed by one visiting the warehouse that seeing the pledgor's name on these tags he supposed that said goods were not warehoused. If such tags are used, it would be better to have the warehouseman's name printed upon them, or if this is not done, that the tags bear no name.

The warehouseman should have a representative or custodian continuously on the premises during business hours. The custodian should have some sort of an office with the name of the warehouse company upon the door, and the custodian should keep posted in the office at all times a list showing the numbers of the warehouse receipts outstanding, and the respective quantities of goods represented thereby. This is a statutory requirement in some of the states. The custodian should at all times keep the keys to the warehouse premises in his possession. The owner

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should not have such keys. No goods should be taken into the warehouse or removed therefrom except under the supervision of the custodian. The compensation of the custodian should of course be paid by the warehouseman. It is important that the custodian be intelligent and conscientious and that he thoroughly understand his duties, that he is the employee and representative of the warehouseman only, and that all of the goods in the warehouse are in his custody as representative of the warehouse company, and that in all matters relating to the placing of goods in the warehouse and the removal of them from the warehouse he is to act under the directions and orders of the warehouse company alone, and that the owner of the plant has no control over him in those matters.

As the officers of the warehouseman are not often at the plant, it is apparent that the maintenance of the exclusive possession and control of the warehoused goods necessary to make the warehousing effective is dependent almost exclusively upon the conduct of the custodian. The custodian should therefore be a man not only of absolute integrity, but should have sufficient strength of character to maintain his actual possession and control of the warehouse and its contents. In many cases it has been the practice to designate as custodian an employe of the plant, and while there are cases in which this practice was followed in which the warehousing was sustained, it has been severely criticized and was no doubt a highly contributing factor to a decision against the validity of the warehousing. In my opinion the employment of such a custodian is very dangerous. Theoretically it is difficult to maintain that a man employed by the pledgor can be holding the exclusive possession and control of the pledgor's goods for another, and as a practical matter it is hardly to be expected that such a man will resist his actual employer in matters relating to the warehouse premises. Where such a custodian is employed it is almost inevitable that a slackness in the management of the warehouse will develop. While no actual dishonesty may result, it will generally occur that the custodian will permit his employer or other employes to have the keys to the warehouse, to take in goods and remove goods in his absence, and thus gradually lose all actual control of the warehouse and its contents.

THE WAREHOUSE RECEIPT

The Uniform Warehouse Receipt Law provides that warehouse receipts need not be in a particular form, but that every such receipt must embody within its written or printed terms the following:

1. The location of the warehouse where the goods are stored.

2. The date of issue of the receipt.

3. The consecutive number of the receipt.

4. A statement whether the goods received will be delivered to the bearer, to a specified person or to a specified person or his order.

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5. The rate of storage charges.

6. A description of the goods or of the packages containing them.

7. The signature of the warehouseman, which may be made by his authorized agent.

8. If the receipt is issued for goods of which the warehouseman is owner, either solely or jointly or in common with others, the fact of such ownership, and

9. A statement of the amount of advances made and of liabilities incurred for which the warehouseman claims a lien. If the precise amount of such advances made or of such liabilities incurred is, at the time of the issue of the receipt, unknown to the warehouseman or to his agent who issues it, a statement of the fact that advances have been made or liabilities incurred and the purpose thereof is sufficient.

A warehouseman shall be liable to any person injured thereby, for all damage caused by the omission from a negotiable receipt of any of the terms herein required."

The Act provides that the warehouseman shall be liable to any person injured thereby, for all damage caused by the omission from a negotiable receipt of any of said terms.

It also provides that the warehouseman may insert in the receipt any other terms and conditions, provided that such terms and conditions shall not be contrary to the provisions of the Act and shall not in any wise impair the warehouseman's obligation to exercise that degree of care in the safe-keeping of the goods entrusted to him which a reasonably careful man would exercise in regard to similar goods of his own.

The Act does not in express words say that the omission of any of the prescribed information will invalidate the receipt or make it non-negotiable, and some courts have held that the omission of certain of the prescribed matters does not invalidate the receipt but merely makes the warehouseman liable to the holder for any damage caused by the omission. However, one of the above provisions does require especial attention.

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Subdivision 6 requires the receipt to contain a description of the goods or of the packages containing them. On the other hand, another section of the Act provides that

> "If authorized by agreement or by custom, a warehouseman may mingle fungible goods with other goods of the same kind and grade. In such case the various depositors of the mingled goods shall own the entire mass in common, and each depositor shall be entitled to such portion thereof as the amount deposited by him bears to the whole."

In the section of the Act containing various definitions, the term "fungible goods" is defined as:

> "Goods of which any unit is, from its nature or by mercantile custom, treated as the equivalent of any other unit."

In view of the above provisions, the question has arisen as to the validity of a warehouse receipt that calls merely for a stated number of packages or a stated quantity of goods without giving distinguishing marks or numbers by which the particular packages of goods can be identified especially in cases where the receipt covers only a part of a larger quantity of such goods in the warehouse. Probably where the goods are clearly fungible and one unit is of the same quality, grade and value as another unit and they are so treated in the trade, a warehouse receipt calling for a stated number or quantity out of a common mass would be valid.

But in the case where the goods are not of the same grade, quality or value, some of the more recent cases have decided that in order to make the warehouse receipt valid it must describe the particular goods covered thereby by distinguishing marks in such a way that the goods called for by the receipt can be readily identified in the warehouse, and the opinions in the cases referred to and the courts deciding them are such that I think it only safe to assume that the rule laid down in them may be followed in subsequent cases.

One of the cases above referred to was decided by the Circuit Court of Appeals of this Sixth Circuit. The case was not a field storage case. A firm of cotton factors had deposited a large number of bales of cotton in a warehouse and had obtained from the warehouseman negotiable warehouse receipts each calling for so many bales of cotton. It had pledged these receipts to various banks. It appeared that for many years it had been the custom at Memphis for banks to loan on such warehouse receipts at the rate of approximately $50.00 per bale. It further appeared that the bales were not all of the same weight nor was the cotton in the various bales of the same quality so that the bales were not of uniform value. Indeed, some bales were worth as much as $90.00, while others were not worth more than $20.00. Our Circuit Court of Appeals held that under these circumstances the bales of cotton could not be treated as fungible, and that the warehouse receipts were therefore invalid and that the pledgee banks had no lien upon any of the cotton.

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In a somewhat similar case that arose in Georgia the Circuit Court of Appeals of that circuit also held that the warehouse receipts calling for a stated number of bales of cotton without further identification were invalid but decided that under the peculiar circumstances of that case the banks were entitled to something in the nature of an equitable lien.

It therefore becomes of great importance to determine whether goods are fungible so that they may be mingled, or are not fungible, so that the warehouse receipt must identify the particular article In the former of the two cases above referred to, Judge Denison who delivered the opinion, in discussing the claim there made that under the section of the Warehouse Receipt Act relating to fungible goods, the bales of cotton were fungible, used the following language:

> "We do not find that this section has been construed by other decisions in a way here helpful, and we must, without such aid, determine its force as applied to the present case. It seems a proper summary of text-book definitions, as modified by this section, to say that fungible goods are those of which each unit is fully equivalent to each other unit; that this equivalency may be inherent or may result from agreement; and that such agreement may be express or may be implied from custom. Further, it seems obvious that goods may be of one of three classes: Inherently fungible, or capable of acquiring that quality by agreement, or quite incapable thereof. Bushels of wheat of the same grade are necessarily the equivalent of each other; barrels of flour may or may not have that mutual relationship- presumptively, they do not (Jones on Collateral Securities, Sections 317, 318) - though the interested parties may intelligibly consent that flour shall be so considered; but that there should be any express agreement or any contract-raising custom whereby a bolt of cloth and a case of boots and shoes should be treated as equivalent to each other is beyond comprehension. We take it, the statute, section 23, must mean only that the right of the warehouseman to mix articles so as to lose their identity and his right to deliver on a receipt, not the thing which he received but other equivalents, are to be confined to the first two classes of articles above mentioned, viz., those inherently equivalent to each other, and those which may be so, and which, therefore, can rightfully be thought of as subject to an agreement or a custom to that effect, but that these rights do not extend to articles where mutual equivalency is inherently impossible. To use the foregoing illustration we cannot comprehend an agreement or custom which would authorize a warehouseman to deliver boots and shoes in satisfaction of his receipt for cloth.
>
> "Bales of cotton certainly do not belong to the first group; their mutual equivalency is not clear and certain. A lot of bales coming from one source might belong to the second group; their

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equivalency would be so possible, if not probable, that an agreement or custom therefor might well exist. The evidence, however, puts beyond controversy that cotton bales in a large mass, such as would accumulate in any general warehouse, and such as did accumulate in this warehouse, are as inherently incapable of acquiring this mutual equivalency as would be the cloth and the boots and shoes. The cotton in such bales is of all varieties, qualities, and grades, and the bales themselves are of various sizes. The actual selling value of the bales involved in this controversy varied from a minimum limit of about $20 to a maximum limit of about $90, and the variation was arbitrary by units, or by small lots. The figures brought here do not show results for each bale, but only as to the lot belonging to each consignor, by which can be stated the average price 2 bales or 5 bales or 10 bales. These figures cover about 1000 bales out of the 2000 involved. There is no reason to think that there was any more uniformity among the other thousand. It necessarily results that this section, 23, has no other bearing on the case. Even if it had, its only effect is to authorize an intermingling which never did in fact take place. No one claims that the identity of any single bale was ever lost, from the beginning to the end.

"It is only illustrative of the difficulty which the receipt holders here have, in standing upon section 23 and the supposed custom, to query what would happen if the holder came to the warehouse and demanded the bales of cotton called for by his receipt. Who could say what bales he should have? If he had loaned $50 per bale, must he take those bales that were worth $20 or could he take the $90 bales and leave the poorer ones for later comers? If the warehouseman were indifferent, an execution creditor or a consignor would not be. No theory of fungibility can answer these questions."

You will observe that Judge Denison said that there were certain classes of articles which are by their nature clearly fungible, and, on the other hand, that there are other classes of articles which are clearly not fungible, and could not be made so by any trade custom, and that there is a third class of articles which while not exactly alike and interchangeable unit for unit, sufficiently approximate that condition so that in the trade they are so regarded and treated, and that in such cases the articles may by custom be treated as fungible.

There are, of course, many articles which are by their nature and the usages of business fungible which fall into the first class described by Judge Denison. For instance, Number 2 wheat or similar grades of other grains are commonly mingled in grain elevators and one bushel is recognized and treated as being of exactly the same value as any other bushel, so that the owner of the grain delivering it to an elevator is not concerned whether he receives the identical bushel that he deposited,

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or another bushel of grain of the same grade. No doubt the same is true of various grades of sand, stone, coal and a great many other articles. However, in order to be fungible, all of the units would have to be of the same grade, quality and value. For instance, it would be improper to consider lump coal, run-of-mine coal and slack coal as mutually fungible, but one ton of slack coal would no doubt be fungible as respecting any other ton of slack coal of the same grade and value, and would be so treated in the trade. Similarly, in the case of manufactured articles in cases or other containers, if all cases contain the same number of articles of the same grade and value so that in the trade one case is treated as the equivalent of any other case, such cases would be fungible, but if the cases or other containers contained unequal quantities or goods of different grades and values, such cases and containers could not properly be treated as fungible.

In determining whether any class of goods is fungible or non-fungible, I think a safe rule would be to say that goods in bulk which are of uniform grade, quality and value, so that in the particular trade one bushel, pound or other similar unit is treated as the equivalent of any other such unit, are fungible and may properly be mingled in the warehouse. Similarly, if the goods are packed in cases or other containers, if each case or container contains the same quantity and the goods in each such container are of the same grade, quality and value so that if a purchase were made of a given quantity, any of such containers would be deliverable under the usages of the trade, I think that such goods could be treated as fungible. All other goods in which the different units vary in grade, quality or value should not be treated as fungible. When I referred above to the usages of the trade, I of course referred to the trade engaged in buying, selling and using the articles. Goods not in themselves fungible could not be made fungible merely by a usage of bankers or lenders to treat the articles as interchangeable by establishing some sort of uniform storage loaning rate.

Where the goods are fungible there appears to be no objection to mingling them in the warehouse and in such cases I think that the warehouse receipt would be sufficient if it gave the proper number or quantity without attempting to identify the particular articles by distinguishing marks.

Where the goods are not fungible it is my opinion that the receipt should identify the particular goods covered by it by distinguishing marks, and that the goods themselves should bear such distinguishing marks so that one taking the receipt could go into the warehouse and definitely locate the particular goods covered by the receipt.

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SUBSTITUTION OF GOODS

Closely related to the question next above discussed is that of permitting the substitution of goods in the warehouse. In many field storage cases the goods warehoused consist either of raw materials or of the manufactured product of the pledgor. In such cases the goods in the warehouse are necessarily changing from day to day. Goods are shipped or taken for use and new goods are manufactured or purchased and stored in the warehouse. In such cases it has frequently been the practice for the warehouseman to issue what may be called blanket warehouse receipts calling for certain specified quantities of goods without any identification of the particular goods covered, it being understood by the parties that the warehouseman should permit substitutions of goods from day to day as the pledgor's business might require, provided there were at all times in the warehouse a sufficient quantity of goods to satisfy the outstanding receipts, and that in case of demand for delivery by the holder of a warehouse receipt, the warehouseman should select and deliver to the claimant the required quantity of goods from the general mass of such goods in the warehouse at the time of demand. In other words, the warehouse receipt was not intended to cover any particular article, but in effect merely to require the warehouseman to see that he at all times had in his possession sufficient of such articles to satisfy all of his outstanding receipts. Sometimes provisions expressing this understanding have been incorporated in the warehouse receipts themselves.

The method just outlined for handling warehoused goods is unquestionably the most convenient and inexpensive method that could be devised. Indeed, in many cases the issuance of receipts definitely identifying the articles called for, will in practice involve much more trouble and some added expense, because in such cases it will be necessary that the receipt specifically calling for each article to be removed be presented to the warehouseman and either surrendered or the delivery of the article properly noted thereon. Similarly, as new articles come in, new warehouse receipts covering them will have to be issued, so that in an active business the details of handling the warehouse receipts may be troublesome and expensive. Such a method involves inconvenience not only to the pledgor and warehouseman but also to the pledgee bank because its warehouse receipts must be constantly changing, and some arrangement must be made so that the pledged receipts may be promptly presented to the warehouseman for cancellation or endorsement as deliveries of goods are required in the pledgor's business.

There is quite a number of field storage cases in which the use of blanket receipts and the substitution of goods were held not to affect the validity of the warehousing, although even before the adoption of the Uniform Warehouse Receipt Act, it had been held by some very high authorities, that under the common law the warehouse receipt must definitely describe the article. For instance, it was held that if the warehouseman had permitted the particular article called for by

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his receipt to get out of his possession, he could not compel the holder of the receipt to accept another article although it were of precisely the same grade and value. However, this question had not apparently been very much litigated, and it was not until sometime after the adoption by most of the states of the Uniform Warehouse Receipt Act that the provision in the Act requiring the receipt to contain a description of the goods or of the packages containing them was raised in an attack upon warehouse receipts. In view of the authorities to which I have called your attention it is my opinion dangerous to use a blanket form of warehouse receipt and permit the substitution of goods in cases where the goods are not fungible. Probably there is no objection to a substitution of goods where they are clearly fungible. But in the case of non-fungibles, I think that the only safe course is to have the receipts definitely identify the particular goods covered. This would of course entirely preclude substitution.

THE WAREHOUSEMAN'S BOND

In some field storage transactions the pledgee bank has been furnished a surety bond guaranteeing to some extent due performance by the warehouseman. Your Mr. showed me one that you received in a field storage case, but as I now remember it, the bond was made to the bank and the storage company as obligees and merely guaranteed them against loss by reason of any misrepresentation by the pledgor as to the quantities of goods delivered by it to, and received by it from, the warehouseman; that is, in effect it was a guaranty that there would be no shortgage of the warehoused goods resulting from any misrepresentations or fraudulent conduct on the part of the pledgor. That bond could hardly afford protection as against a shortage resulting from misconduct of the warehouseman or its employees or as against claims that the warehouse receipts were invalid because the warehouseman had failed to do a valid job of warehousing. I would suggest that from the banker's standpoint it would be more desirable that the bond be made to the bank alone and indemnify the bank against loss by reason of shortage in goods resulting not only from the misconduct of the pledgor as stated in the bond, but also from acts of dishonesty on the part of the warehouseman, its officers, agents or employes. Of course even that coverage would not be by any means complete. Of course a much more valuable protection would be afforded you if the bond were in such form that it guaranteed the performance by the warehouseman of all the terms of its warehouse receipts and its prompt delivery to you upon demand of all articles called for by your receipts, and cast upon the surety the entire burden, expense and risk of any litigation involving the bank's rights and lien. Such a bond would in effect guarantee the legal sufficiency of the warehouseman's conduct of his warehouse business. I have never seen such a bond

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and I doubt whether a surety company could be induced to assume such an obligation unless it were given substantial indemnity by the warehouseman.

I have endeavored to outline fully the opinion to which I have come from an examination of a large number of cases in which the validity of field warehousing has been involved. I think that I have covered practically all of the questions that have been raised in the cases that I have been able to find. If I have omitted anything or have not made entirely clear any of the points that I have endeavored to make, please let me know.

Yours very truly,

WCM-K

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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.

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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 (2a)	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.

(2a) Stock of another trust company and of certain other corporations may not 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 certain banks and other corporations.

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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 or trust company 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.

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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.

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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."

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(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 do not appear to be any statutes in this State specifically authorizing banks to purchase the kinds of corporate stocks covered by this digest. However, the laws provide that "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

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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, 1931, sec. 28, p. 24.)

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, 1931, sec. 163, (9), p. 131.)

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

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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

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governing the investment of funds by savings banks. In this connection, 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." (Compiled Laws of Colorado, 1921, sec. 2683; Banking Law Pamphlet, 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, 1921, sec. 2685; Banking Law Pamphlet, 1928, sec. 35, p. 20.)

Trust Companies authorized to buy and sell stocks.

Trust companies "incorporated under the provisions of this act" are authorized "To purchase, invest in and sell stocks * * * ". (Compiled Laws of Colorado, 1921, sec. 2765; Banking Law Pamphlet, 1928, sec. 128, p. 66.)

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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 at 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, sec. 508a; Banking Law Pamphlet, 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 in Boston, Mass., New York, N. Y., and Philadelphia, Pa., (General Statutes of Conn., Revision of 1930, sec. 3908; and sec. 3995 (26); Banking Law Pamphlet, 1931, sec. 3908, p. 28; and sec. 3995 (26) p. 77.)

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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, * * * of any one corporation * * * ." (Act of March 31, 1921, sec. 13; Banking Laws, 1929, p. 26.)

The term "bank" as used above includes savings banks. (Act of March 31, 1921, sec. 1; Banking Law Pamphlet, 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-

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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 Law Pamphlet, 1930, sec. 4179, p. 35)

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 above includes

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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.

The laws of this State prohibit a bank from purchasing "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; Banking Law Pamphlet, 1931, sec. 29, p. 19.)

Savings banks are empowered to make certain investments of their deposits; but they do not have the power to invest in the kinds of corporate stocks contemplated by this digest. (Laws of 1929, ch. 54, p. 73; Banking Law Pamphlet, 1931, sec. 2, p. 53.)

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The term "bank" as used in the Idaho laws includes trust companies. (Laws of 1929, ch. 192, p. 353; Banking Law Pamphlet, 1931, sec. 2, p. 5.) 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; Banking Law Pamphlet, 1931, sec. 5, p. 7.)

ILLINOIS.

No Statutory provisions.

The statutes of Illinois do not appear to contain any 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.)

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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, 1931, 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, 1931, 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 * * *." (Laws of 1897, ch. 47, sec. 11, as amended by Laws of 1915, ch. 88, sec. 1; Laws of 1921, ch. 70, sec. 1; Laws of 1927, ch. 88, sec. 2; Banking Law Pamphlet, 1931, sec. 30, p. 12.)

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The term "bank" as used above includes savings banks. (Laws of 1897, ch. 47, sec. 33, as amended by Laws of 1907, ch. 64, sec. 1; Banking Law Pamphlet, 1931, sec. 43, p. 16.)

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." (Laws of 1901, ch. 407, sec. 2, as amended by Laws of 1903, ch. 528, sec.1; Laws of 1907, ch. 425, sec. 1; Banking Law Pamphlet, 1931, sec. 136(8), p. 42.)

KENTUCKY

No statutory Provisions.

The laws of Kentucky contain no specific provisions with reference to the purchase by banks and trust companies of the kinds of corporate stocks contemplated by this digest. With reference to banks, the laws do 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 Law Pamphlet, 1930, secs. 579 and 582.)

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Trust companies are not authorized expressly to purchase corporate stocks, but the laws do 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, sec. 614; Banking Law Pamphlet, 1930, sec. 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 banking laws of Maine do not contain any provisions expressly authorizing "trust and banking companies" to purchase corporate

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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, 1931, sec. 61, p. 30.)

Savings banks may invest in stock of certain corporations and banks. - Amount of investment limited.

With reference to savings banks, the laws provide that they "may hereafter invest their funds as follows, and not otherwise:

* *

"XIII *** (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

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"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 Law Pamphlet, 1931, sec. 27, pp. 9 and 18.)

"XX. ** In the capital stock of any bank in this state incorporated under the laws of this state or the United States; and in the capital stock of any bank in any of the other states of New England or in the state of New York incorporated under the laws of any of those states or the United States and located in a city having a population of not less than two hundred and fifty thousand; provided, that any such bank located outside of this state shall be a member of the Federal Reserve Bank System and shall have a capital and undivided profits of not less than ten million dollars.

"A savings bank shall not hereafter acquire bank stock, both by way of investment and as security for loans, which, together with its present holdings, shall be in excess of seven and one-half per cent of its deposits; nor shall hereafter acquire stock in any one bank which, together with its present holdings shall have a book value of more than one per cent of its deposits; nor shall hereafter acquire bank stock, which, together with its present holdings, shall exceed ten per cent of the capital of any one bank." (Banking Law Pamphlet, 1931, sec. 27, p. 19.)

MARYLAND.

Purchase of Corporate Stocks permitted to Trust Companies.

A trust company is 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 * * *". (Laws of 1910, ch. 219,

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as amended by Laws of 1931, ch. 429, sec. 46; Banking Law Pamphlet, 1931, sec. 46 (9), p. 25.)

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.)

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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; Savings Banks Pamphlet Laws, sec. 54 (7th), p. 39.)

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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 and 7663; sec. 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

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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 banking 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 permitted but amount limited.

A trust company in this State is authorized "To buy, invest in and sell all kinds of * * * stocks or other investment securities." (Rev. Stats. of Mo., 1929, sec. 5421). The laws provide, however, that such a 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

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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 by banks of the kinds of corporate stocks contemplated by this digest.

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 a trust company which may invest in corporate stocks and other securities, and also provide that: "The board of directors of any such corporation 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.)

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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 Law Pamphlet, 1931, sec. 8-137, p. 11.)

Savings banks are not permitted to purchase corporate stocks. (Comp. Stats. of Nebraska, 1929, sec. 8-155; Banking Law Pamphlet, 1931 sec. 8-155, p. 14.)

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NEBRASKA.

Trust companies - Except for stock in other trust companies and certain corporations, may purchase corporate stocks.

Trust companies in this State have the power "To buy, hold and own and sell * * * stocks, * * * and other investment securities, * * * except * * * stocks of any corporation that have not earned annual dividends of at least four per cent per annum for at least three years just prior to the date of such purchase and stock of any corporation organized under this article" (trust company). (Comp. Stats. of Nebraska, 1929, sec. 8-206; Banking Law Pamphlet, 1931, sec. 8-206, p. 27.)

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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; Banking Law Pamphlet, 1931, sec. 13, p. 8.) the word "bank" as thus used includes savings banks and trust companies. (Comp. Laws of 1929, sec. 724; Banking Law Pamphlet, 1931, sec. 75, p. 24.)

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 Law Pamphlet, 1931, sec. 31, p. 46.)

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-

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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 Law Pamphlet, 1931, sec. 37, p. 47.)

Savings Banks and Savings Departments of Banks and Trust Companies.

Subject to certain conditions, savings banks and savings departments of banking and trust companies may make limited investments in the capital stock of banks, trust companies and certain other corporations. (Public Laws, ch. 260, sec. 16; ch. 262, as amended by ch. 89, Laws of 1927, ch. 122, Laws of 1929, and ch. 96, Laws of 1931, secs. 1, 7, 8, 9, 12, 13, 14, 15; Banking Law Pamphlet, 1931, sec. 16, p. 8, secs. 1, 7, 8, 9, 12, 13, 14, 15, pp. 21, 25-32.)

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 Law Pamphlet, 1932, sec. 10, p. 58.)

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Trust companies are authorized "to purchase, invest in and sell stocks * * * and other securities; * * *". (Laws of 1899, ch. 174, sec. 6 (10); Banking Law Pamphlet, 1932, sec. 6 (10), p. 79.)

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, ch. 167.)

NEW MEXICO.

Commercial banks and trust companies - No express statutory provisions.

There do not appear to be any provisions in the banking 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 banking 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

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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.)

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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

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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

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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

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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.

Except for the authority to invest in the kinds of corporate stocks not contemplated by this digest, the laws of North Dakota provide that "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 1930, secs. 710-111, 710-111a, 710-121; Banking Law Pamphlet, 1931, 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

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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); Banking Law Pamphlet, 1931, sec. 710-140(b), p. 59)

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 or trust company stocks is also imposed upon trust companies. (Throckmorton's Code of 1930, sec. 710-166; Banking Law Pamphlet, 1931, sec. 710-166, p. 68.)

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,

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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

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corporate stocks not contemplated by this digest and except for stock acquired or purchased to save a loss on a preexisting debt, 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; Banking Law Pamphlet, 1930 sec. 22-911, p.46)

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, as amended by Acts of March 27, 1929, Public Laws, p. 74, and April 18, 1929, Public Laws, p. 544.)

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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 such stocks.

Savings banks, however, do not possess the right to invest their funds in stocks 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 specific 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).

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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 and Laws of 1927, Ch. 1034; Banking Law Pamphlet, 1929, 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 and trust companies may purchase corporate stocks.

Sec. 4301 of the 1922 Code of this state provides that "Two or more persons desiring to form a corporation for any purpose or purposes whatsoever" (except for certain purposes not of a banking or trust company character) may do so upon filing "a written declaration" setting forth certain required information; and, if certain other prescribed condtions are met, the Secretary of State will issue a charter.

Section 4319 of this Code (Banking Law Pamphlet, 1930, sec. 10, p. 7) provides that "Every corporation chartered under this Article shall have the following powers, to wit: * * 5. To make contracts, to loan money, to acquire and to transfer property, both real and personal, including shares of stock in

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other corporations, possessing the same powers in such respects as individuals now enjoy."

Section 3992 of the Code (Banking Law Pamphlet, 1930, sec. 71, p. 33) provides that "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 deemed necessary or convenient for the transaction of its business, and may sell and dispose of the same at pleasure; * * *."

Additional authorization to trust companies to purchase corporate stocks.

Trust companies are also specifically authorized "to buy, * * * invest in and sell all kinds * * * of stocks or other investment securities." (Banking Law Pamphlet, 1930, sec. 9(10) p. 158)

Limitation on amount trust company may invest in stock of any 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

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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 * * * or investing in other securities in which trust companies may invest" under the laws of this State. (Banking Law Pamphlet, 1930, sec. 12(7), p. 164.)

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

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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." (South Dakota Revised Code, 1919, sec. 8983; Banking Law Pamphlet, 1932, sec. 8983, p. 33.)

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 Revised Code, 1919, sec. 9050; Banking Law Pamphlet, 1932, sec. 9050, p. 82.)

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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.

In this State 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, 1932, Article 396 (9), p. 14, and Article 1513, p. 74.)

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

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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 Law Pamphlet, 1932, Article 513, p. 40.)

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. (Acts of 1929, 1st C.S., S.B. No. 50; Banking Law Pamphlet, 1932, Article 416, p. 22.)

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.)

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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 certain bank or trust company stocks permitted.

Banks 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), subdivision VI, as amended by Acts of 1929, Act No. 90, sec. 5.)

VIRGINIA

Purchase of corporate stocks permitted.

Banks and trust companies in this State 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.)

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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.)

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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 banking 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; Banking Law Pamphlet, 1932, sec. 222.13, p. 109.)

WYOMING

Purchase of corporate stocks prohibited.

The laws of the State of Wyoming provide that not State bank shall invest any of its assets in the capital stock of any other corporation," except for such stock "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

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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.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 12, 1933.
B-813.

SUBJECT: Functional Expenses,
Second Half, 1932.

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense Exhibit for the half year ending December 31, 1932. A copy of the exhibit is also being mailed to the Governor of the bank.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 19, 1933
B-869

SUBJECT: Bank suspensions during 1932

Dear Sir:

It will be appreciated if you will kindly have the number of banks shown for your district in the attached preliminary statements of bank suspensions and reopenings during 1932 checked against your records, and advise us whether or not they are in agreement therewith. If any differences are found, kindly give the name, location, capital and deposits of each bank that should be added to or eliminated from the statements. The names of the banks included in the inclosed summary tables may be ascertained by referring to the lists of banks suspended and reopened, furnished you each month for checking purposes, as the summary is based on such monthly statements, after taking into account the corrections that are also shown therein.

The deposit figures for State banks, as given in the tables, include preliminary data for December in the case of most of such banks, and accordingly will be revised upon receipt of additional reports on form St. 6386b. If, however, the deposit

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figures for any state in your district, as shown in the attached statement, differ materially from corresponding figures compiled by your bank, it will be appreciated if you will furnish us a statement showing the deposits of each suspended State bank in the State. The deposit figures for national banks, in accordance with the arrangement described in our letter B-701 of March 4, 1932, were furnished by the Comptroller's office.

In compiling the Board's statistics of bank suspensions it has been our policy to include every bank closed either temporarily or permanently on account of financial difficulties, whether on a so-called moratorium basis or otherwise, unless the closing was under a special bank holiday declared by civil authorities. If a bank closed under a special holiday declared by civil authorities and remained closed only during such holiday or part thereof, it has not been included with bank suspensions in our records. In order, however, that there may be no doubt that the record for 1932 corresponds with this policy, it is requested that the monthly lists of bank suspensions during 1932 be checked in this respect.

On the basis of the data submitted in response to our telegram of November 3, 1932, TRANS 1524, the attached list has been prepared of banks in your district that closed during the period (or part thereof) of a special holiday declared by civil authori-

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ties, and it will be appreciated if this list is checked against the records of your bank. It will be noted that in a number of instances some of the data called for in the attached statement are not shown, and it is hoped that you will be able to supply the missing data in the case of each bank.

In addition to banks actually closed, which should be included either in the list of suspended banks or in the list of banks closed under special holidays declared by civil authorities, we should like to have a list of all banks which, during 1932, without actually closing, (1) obtained agreements from depositors to waive or surrender a portion of their deposits, or (2) with or without signed agreements of depositors, restricted demand deposit withdrawals in any way or time deposit withdrawals beyond the terms of their by-laws. It is realized, of course, that it is difficult to obtain complete data with regard to such banks, but we should like to have you submit as complete a list thereof as can be prepared from your records. The list should show, so far as practicable, the information called for by the attached form.

It will be appreciated if in the future you will furnish the Board wire advice of all banks closed under special holidays declared by civil authorities, as well as of suspensions and reopenings. Telegrams reporting bank suspensions should contain the word "suspended" and the date of suspension, and telegrams reporting banks closed under special holidays declared by civil

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authorities should contain the term "special holiday," the date of closing, and the dates of the beginning and ending of the holiday. Any extensions of the periods of such holidays should also be reported to the Board. In case a bank reported as having closed under a special holiday is later taken over by the banking department, it should, of course, be reported as having suspended. It is also requested that you furnish the Board with a monthly report, in the same form as requested herein for the year 1932, giving such information as may be available with regard to banks which during the month, without actually closing, obtained depositors' waiver agreements, or which, with or without signed agreements of depositors, restricted demand deposit withdrawals in any way or time deposit withdrawals beyond the terms of their by-laws.

As it is proposed to publish final figures on bank suspensions, for the year 1932, in the forthcoming February issue of the Federal Reserve Bulletin, it will be appreciated if you will advise us as early as convenient of any necessary changes in the figures shown in the attached statements of bank suspensions and reopenings.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosures.

(B-869

TO F. R. AGENTS AT SAN FRANCISCO AND CHICAGO -- KANSAS CITY, inclusive

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BANKS WHICH DURING 1932, WITHOUT ACTUALLY CLOSING, OBTAINED DEPOSITORS' WAIVER AGREEMENTS, OR WHICH RESTRICTED DEPOSIT WITHDRAWALS

Name and location of bank	Obtained depositors' waiver agreements	Demand deposit withdrawals restricted *	Time deposit withdrawals restricted beyond terms of by-laws*
	Effective date	Period during which effective	

*Either with or without signed agreements of depositors.

(B-868)

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 19, 1933
B-869-a

SUBJECT: Bank suspensions during 1932

Dear Sir:

It will be appreciated if you will kindly have the number of banks shown for your district in the attached preliminary statements of bank suspensions and reopenings during 1932 checked against your records, and advise us whether or not they are in agreement therewith. If any differences are found, kindly give the name, location, capital and deposits of each bank that should be added to or eliminated from the statements. The names of the banks included in the inclosed summary tables may be ascertained by referring to the lists of banks suspended and reopened, furnished you each month for checking purposes, as the summary is based on such monthly statements, after taking into account the corrections that are also shown therein.

The deposit figures for State banks, as given in the tables, include preliminary data for December in the case of most of such banks, and accordingly will be revised upon receipt of additional reports on form St. 6386b. If however, the deposit

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figures for any state in your district, as shown in the attached statement, differ materially from corresponding figures compiled by your bank, it will be appreciated if you will furnish us a statement showing the deposits of each suspended State bank in the State. The deposit figures for national banks, in accordance with the arrangement described in our letter B-701 of March 4, 1932, were furnished by the Comptroller's office.

In compiling the Board's statistics of bank suspensions it has been our policy to include every bank closed either temporarily or permanently on account of financial difficulties, whether on a so-called moratorium basis or otherwise, unless the closing was under a special bank holiday declared by civil authorities. If a bank closed under a special holiday declared by civil authorities and remained closed only during such holiday or part thereof, it has not been included with bank suspensions in our records. In order, however, that there may be no doubt that the record for 1932 corresponds with this policy, it is requested that the monthly lists of bank suspensions during 1932 be checked in this respect.

On the basis of the data submitted in response to our telegram of November 3, 1932, TRANS 1524, lists have been prepared of banks that closed during the period (or part thereof) of a special holiday declared by civil authorities. As no such banks were reported in your district in response to our telegram of November 3, a blank form is inclosed for your use in advising the Board whether

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any banks in your district closed during the calendar year 1932 under special holidays declared by civil authorities.

In addition to banks actually closed, which should be included either in the list of suspended banks or in the list of banks closed under special holidays declared by civil authorities, we should like to have a list of all banks which, during 1932, without actually closing, (1) obtained agreements from depositors to waive or surrender a portion of their deposits, or (2) with or without signed agreements of depositors, restricted demand deposit withdrawals in any way or time deposit withdrawals beyond the terms of their by-laws. It is realized, of course, that it is difficult to obtain complete data with regard to such banks, but we should like to have you submit as complete a list thereof as can be prepared from your records. The list should show, so far as practicable, the information called for by the attached form.

It will be appreciated if in the future you will furnish the Board wire advice of all banks closed under special holidays declared by civil authorities, as well as of suspensions and reopenings. Telegrams reporting bank suspensions should contain the word "suspended" and the date of suspension, and telegrams reporting banks closed under special holidays declared by civil authorities should contain the term "special holiday," the date of closing, and the dates of the beginning and ending of the holiday. Any extensions of the periods of such holidays should also be reported to the Board. In case a bank reported as having closed under a special holiday is later taken over by the banking department, it should, of course, be reported as

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having suspended. It is also requested that you furnish the Board with a monthly report, in the same form as requested herein for the year 1932, giving such information as may be available with regard to banks which during the month, without actually closing, obtained depositors' waiver agreements, or which, with or without signed agreements of depositors, restricted demand deposit withdrawals in any way or time deposit withdrawals beyond the terms of their by-laws.

As it is proposed to publish final figures on bank suspensions, for the year 1932, in the forthcoming February issue of the Federal Reserve Bulletin, it will be appreciated if you will advise us as early as convenient of any necessary changes in the figures shown in the attached statements of bank suspensions and reopenings.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosures

B-869-a

TO FEDERAL RESERVE AGENTS AT BOSTON -- ATLANTA, inclusive, and DALLAS.

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F. R. DISTRICT 551

BANKS WHICH DURING 1932, WITHOUT ACTUALLY CLOSING, OBTAINED DEPOSITORS' WAIVER AGREEMENTS, OR WHICH RESTRICTED DEPOSIT WITHDRAWALS

Name and location of bank	Obtained depositors' waiver agreements	Demand deposit withdrawals restricted *	Time deposit withdrawals restricted beyond terms of by-laws*
	Effective date	Period during which effective	

*Either with or without signed agreements of depositors.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 24, 1933.
B-871.

SUBJECT: Corrections in Weekly Statements.

Dear Sir:

For your information, and in order that correct comparative figures may be published in the consolidated weekly condition statement of the Federal reserve banks for 1933, if issued at your bank, there are shown in the attached statement corrections made in the weekly Federal reserve bank press statements issued during 1932, which were received too late to be shown in the comparative column of the following week's statement and of which you have not heretofore been advised.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

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CORRECTIONS IN CONSOLIDATED WEEKLY STATEMENT OF CONDITION OF FEDERAL RESERVE BANKS IN 1932, NOT SHOWN IN THE COMPARATIVE COLUMN OF THE FOLLOWING WEEK'S STATEMENT

	CHANGE FROM	CHANGE TO
	(In thousands of dollars)	
May 4 - Uncollected items	370,840	370,850
Total resources	5,603,918	5,603,928
All other liabilities	31,659	31,669
Total liabilities	5,603,918	5,603,928
Sept. 14 - Bills discounted:		
Secured by U.S. Government obligations	144,302	144,229
Other bills discounted	257,631	257,704
Oct. 5 - Uncollected items	374,122	374,170
Total resources	5,903,577	5,903,625
Deferred availability items	360,165	360,213
Total liabilities	5,903,577	5,903,625
Nov. 30 - U. S. Government securities:		
Treasury notes	377,687	377,693
Certificates and bills	1,052,365	1,052,359

B-871a

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 28, 1933.
B-872.

Dear Sir:

In accordance with the plan outlined on page 38 of the Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements, there are inclosed herewith statements for your bank covering its earnings, current expenses, and profit and loss account for the year 1932 and its resources and liabilities as of the end of the year.

These statements should be checked against the bank's records and the Board advised by wire of any necessary changes therein. Four copies of the statements should then be prepared in accordance with the requirements of the Board's letter St. 3863 of January 2, 1924, the original and one copy of which should be forwarded to the Secretary of the Treasury, one copy forwarded to the Federal Reserve Board, and one copy retained in your files. It is important that these statements be prepared in a uniform manner by all Federal reserve banks and, accordingly, it is requested that the captions used be identical in every instance with those used in the attached statements.

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The statement which shows the amount, if any, payable as a franchise tax should contain the certification referred to on page 38 of the instructions.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

COPY TO GOVERNORS OF ALL F. R. BANKS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 28, 1933.
B-873.

SUBJECT: Preliminary classification of loans and investments of member banks as of December 31, 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 loans and investments of member banks during the fourth quarter of 1932 and during the year, as disclosed by the December 31 condition reports. Figures for the December 31, 1932, call are based on the preliminary data furnished by the Federal reserve agents and will be published in the forthcoming February 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*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 1, 1933.
B-875.

SUBJECT: Deficiencies in reserves of member banks.

Dear Sir:

There is inclosed a copy of revised form B-5, semi-annual summary report of deficiencies in reserves of member banks, for use beginning with 1933. This form takes the place of the quarterly report submitted on the present form B-5. A supply of the revised form is being sent you under separate cover.

All Federal reserve banks which formerly assessed progressive penalties for deficiencies in reserves have now discontinued that practice. You are accordingly authorized to discontinue the preparation of the lists that accompany the present form of quarterly report, showing member banks that would have been subject to a maximum progressive penalty of 10 per cent if progressive penalties had been assessed, copies of which are sent to the Comptroller of the Currency and to the Chief National Bank

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Examiner in the case of National banks, and to State banking departments in the case of State member banks. However, the semi-annual report to the Board on revised form B-5 should be accompanied by a list of the banks that had a net deficiency in reserves in every reserve computation period, in accordance with the note appearing at the bottom of the form.

The Board desires that you continue to watch closely the reserve records of the member banks in your district, to consult with the Chief National Bank Examiner and the State authorities, and to furnish full information to the Federal Reserve Board regarding reserve deficiencies which continue over a period of six consecutive months in accordance with the Board's letters of June 2, 1932 (X-7171) and November 22, 1932 (X-7295).

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS*

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Form B-5
Federal Reserve Board
(Revised Feb. 1933)

DEFICIENCIES IN RESERVES OF MEMBER BANKS DURING THE SIX-MONTH PERIOD ENDING _____, 193 ____

Federal Reserve Bank of _____, including branches, if any.

	Number of banks	Aggregate net deficiencies* during six-month period
1. Banks that had a net deficiency in reserves in every reserve computation period**:		
a. In Federal reserve bank or branch cities		
b. In other reserve cities		
c. Outside of reserve cities (country banks)		
2. Banks that had a net deficiency in reserves in one-half or more (but not all) of the reserve computation periods:		
a. In Federal reserve bank or branch cities		
b. In other reserve cities		
c. Outside of reserve cities (country banks)		
3. Banks that had a net deficiency in reserves in less than one-half of the reserve computation periods:		
a. In Federal reserve bank or branch cities		
b. In other reserve cities		
c. Outside of reserve cities (country banks)		

	Number of banks	Amount of penalties incurred but not assessed
4. Banks which were not assessed penalties incurred during one or more reserve computation periods:		
a. In Federal reserve bank or branch cities		
b. In other reserve cities		
c. Outside of reserve cities (country banks)		

*By "net deficiency" is meant the excess of aggregate daily reserve requirements over aggregate daily reserves actually carried with the Federal reserve bank during the reserve computation period, without reference to whether or not penalties were assessed on such deficiency.

**This report should be accompanied by a list of the banks that had a net deficiency in reserves in every reserve computation period, showing the daily average required reserve of each such bank during the six-month period and its daily average deficiency in reserves (the aggregate net deficiencies divided by the number of calendar days in the six-month period).

B-875a

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 4, 1933
B-876

SUBJECT: Monthly reports of bank holidays.

Dear Sir:

It has been the custom to ask each Federal reserve bank by telegram, around the middle of each month, for a list of the holidays to be observed during the following month by the bank and by each of its branches (if any). The information thus obtained has been transmitted to all Federal reserve banks in a circular letter, with advice as to which Federal reserve banks and branches would be closed and would not, therefore, participate in the Gold Settlement Fund and Federal Reserve Note clearings. It has also been the custom, in connection with the compilation of the monthly statement of debits to individual accounts, to obtain similar information from the Federal reserve agents at the beginning of each year with respect to holidays observed in each state around the beginning and end of each month.

In order that the information for the above purposes may be supplied regularly and without special request, it will be appreciated if hereafter you will mail to the Board, not later than the fifteenth of each month, a list of all holidays scheduled to be observed by banks in your district in the following calendar month, giving the day, date,

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and nature of the holiday, and the states or cities in which it is to be observed. In the case of holidays to be observed by banks in Federal reserve bank or branch cities, please indicate in each case whether the Federal reserve bank or branch itself will be closed. The Board should be advised promptly by telegraph of any additional holidays that are declared after the submission of the original report, except special or "moratorium" holidays proclaimed by civil authorities for the purpose of enabling banks to reorganize or obtain depositors' waiver and/or deferment agreements, which are to be reported by Federal reserve agents in accordance with the provisions of the sixth paragraph of our letter of January 19, 1933. It will also be appreciated if statements covering the months of January and February, 1933, are mailed to the Board promptly upon the receipt of this letter.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL GOVERNORS EXCEPT ST. LOUIS --
special letter to St. Louis

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 9, 1933.
B-878.

Dear Mr.

In connection with a study of currency movements, we are interested in knowing the extent to which the circulation of bills of large denomination has increased since the end of 1929. In order to complete this part of the study we need a classification, by denominations, of gold certificates held by the Federal reserve agents. We should appreciate it, therefore, if you would send us a statement of your holdings at the end of each month from December 31, 1929 to January 31, 1933, by denominations, as indicated on the enclosed form. The totals on this form should agree with the totals reported on Form 44-a.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

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DENOMINATIONS OF GOLD CERTIFICATES HELD BY FEDERAL RESERVE AGENT

Federal Reserve Bank of _____

(In thousands of dollars)

End of month dates	Tens	Twenties	Fifties and over	Total
1929-Dec.				
1930-Jan.				
Feb.				
Mar.				
Apr.				
May				
June				
July				
Aug.				
Sept.				
Oct.				
Nov.				
Dec.				
1931-Jan.				
Feb.				
Mar.				
Apr.				
May				
June				
July				
Aug.				
Sept.				
Oct.				
Nov.				
Dec.				
1932-Jan.				
Feb.				
Mar.				
Apr.				
May				
June				
July				
Aug.				
Sept.				
Oct.				
Nov.				
Dec.				
1933-Jan.				

(B-878a)

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 14, 1933.
B-879.

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 December 31, 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.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 17, 1933.
B-880.

SUBJECT: Condition of member banks as of December 31, 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 December 31, 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. 57) 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 March.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 24, 1933.
B-881.

Dear Sir:

There is inclosed a copy of Form B-15, "Computation of reserve to be carried with the Federal reserve bank." This form is to take the place of Form St. 6059, inclosed with the Board's letter St. 6064 of January 21, 1929. The revisions in the form were made necessary by the Board's recent ruling (see page 714 of the 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.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 17, 1933.
B-885.

SUBJECT: Member Bank Call Report
for December 31, 1932.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 57, showing the condition of all member banks on December 31, 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*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 21, 1933.
B-890.

SUBJECT: Revision of Form 44a.

Dear Sir:

Inclosed herewith is a stock of revised Form 44a, classification of money held by the Federal reserve bank and of gold held by the Federal reserve agent on the last day of the month.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

COPY TO ALL FEDERAL RESERVE AGENTS*.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 3, 1933,
B-891.

Dear Sir:

For your information we are enclosing copies of correspondence between the Post Office Department and the Federal Reserve Board relative to a revision of Post Office Order No. 3738, dated December 16, 1919, together with a copy of a letter from the Third Assistant Postmaster General to all local Postmasters enclosing a copy of Post Office Order No. 3433 which became effective April 15th and supersedes Order No. 3738.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

LETTER TO GOVERNORS OF ALL F. R. BANKS

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Federal Reserve Bank of St. Louis

OFFICE OF THE POSTMASTER GENERAL

WASHINGTON, D.C.

February 4, 1933

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

My dear Mr. Meyer:

Reference is had to Order No. 3738 of the Postmaster General, dated December 16, 1919, which reads as follows:

Parcels containing currency of one or two dollar denomination or coin put up in fixed quantities as original sealed packages, offered for mailing by the Treasury Department, or its field service, or by Federal Reserve Banks or their branches, shall, if insured at the ten cent rate of insurance, be accepted at the fourth-class rate of postage and accorded the same treatment as registered mail. Similar parcels containing currency of five dollar denomination shall be given like treatment on payment of maximum insurance fee and the fourth-class rate of postage.

Prior to the issuance of Order No. 3738, the Postmaster General issued Order No. 9100, dated August 20, 1915, covering the acceptance of coin and currency of the one and two dollar denominations for insurance but to be handled as registered mail, and Order No. 9128, dated September 2, 1915, covering coin and currency of the one, two and five dollar denominations. A copy of each of these Orders is attached.

At the time Order No. 3738 was promulgated the domestic insurance fees were 3 cents for indemnity not exceeding $5; 5 cents for indemnity not exceeding $25; 10 cents for indemnity not exceeding $50; and 25 cents for indemnity not exceeding $100. The registry fees were 10 cents for indemnity in connection with first-class mail not exceeding $50 and 10 cents for indemnity in connection with third-class registered mail not exceeding $25.

The present domestic insurance fees and limits of indemnity are 5 cents for indemnity not exceeding $5; 10 cents for indemnity not exceeding $25; 15 cents for indemnity not exceeding $50; 25 cents for

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indemnity not exceeding $100; 30 cents for indemnity not exceeding $150; and 35 cents for indemnity not exceeding $200. These fees and limits of indemnity were embodied in an Act of Congress of June 28, 1932, effective July 1, 1932.

The present minimum domestic registry fee is 15 cents, providing indemnity up to not exceeding $5, in lieu of the 10-cent registry fee which was in force at the time Order No. 3738 of the Postmaster General was promulgated and which carried an indemnity at that time up to $50.

The wording of Order No. 3738 seems to clearly contemplate that the maximum insurance fee, which is now 35 cents providing indemnity up to not exceeding $200, shall be paid on mailings of the Treasury Department and Federal Reserve Banks and branch Federal Reserve Banks, consisting of currency of the five dollar denomination, which are accepted as insured mail but given all the protection of the registry service.

It is understood that the Treasury Department at Washington and the Federal Reserve Banks or branch Federal Reserve Banks at a number of cities where Federal Reserve Banks or branches are located are now paying the maximum insurance fee of 35 cents on mailings of currency of the five dollar denomination, but it appears that at other offices where Federal Reserve Banks or branch Federal Reserve Banks are located the Federal Reserve Banks and branch Federal Reserve Banks have been paying the old maximum domestic insurance fee of 25 cents on mailings of currency of the five dollar denomination accepted for insurance but treated as registered mail.

At the time Orders Nos. 9100, 9128 and 3738 of the Postmaster General, bearing on the subject of acceptance of coin and currency of certain denominations from the Treasury Department and its branches and Federal Reserve Banks and branch Federal Reserve Banks, were issued the maximum registry fee was 10 cents and the domestic insurance fee, providing indemnity up to not exceeding $50, was 10 cents. At the present time, however, there is no minimum registry fee of less than 15 cents, and the domestic insurance fee of 15 cents is required in order to provide for indemnity up to not exceeding $50, which was the amount of indemnity provided for by a 10-cent fee at the time the last Order of the Postmaster General, No. 3738 quoted above, was issued.

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On September 2, 1915, at the time the arrangement was entered into for the acceptance for insurance of coin and currency of the one, two and five dollar denominations to be treated as registered mail, the weight limit applicable to domestic fourth class mail was 50 pounds for the first, second and third zones and 20 pounds for the other zones. The weight limit of fourth-class parcel post mail for all zones, with the exception of certain destinations in the Philippine Islands, is now 70 pounds and as the insurance fees are based on units of weight under the arrangement referred to, the adoption of the uniform weight limit of 70 pounds has resulted in a reduction, to some extent, in the amount of revenue from insurance fees received when the limits of weight were 50 pounds for the first, second and third zones, and 20 pounds for the other zones.

In view of the fact that these shipments of coin and currency of one and two dollar denominations are accorded the same safeguards as registered mail, and as a 15-cent insurance fee is at present required by law in order to provide a limit of indemnity which corresponded with the limit of indemnity payable for a 10-cent insurance fee at the time Order No. 3738 was issued, it is believed that the Department would be fully warranted in issuing an amended Order requiring the payment of an insurance fee of 15 cents on coin and currency of the one and two dollar denominations, accepted as insured mail from the Treasury Department and its branches, or from Federal Reserve Banks and their branches, but accorded registry treatment and to make it plain that the present maximum insurance fee of 35 cents is to be collected on such mailings consisting of currency of the five dollar denomination. These mailings are, of course, at present accorded the fourth-class rate of postage whereas the mailings of fourth-class matter by the general public are required to be sealed and first-class postage paid thereon if they are accepted for registration and accorded the protection of the registry service.

Furthermore, it is believed that the maximum registration or insurance fee charged on any matter mailed by the Treasury Department and its branches, or by the Federal Reserve Banks or their branches, under special arrangements which have been made with the Treasury Department and the Federal Reserve Banks, and accorded registry treatment, should be 15 cents instead of 10 cents.

As you are doubtless aware, for a number of years the expense of conducting the registry service has been considerably in excess of the revenue derived therefrom. The Cost Ascertainment Report for the year ended June 30, 1932, shows a loss in connection with paid registrations of $9,356,475.40.

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While provision has been made for the collection of additional fees (surcharges) on domestic registered mail and domestic insured mail accorded registry treatment, information so far received indicates that the additional revenue from this source will be considerably less than the deficit.

Before taking further action in regard to the matter the Department will be pleased to receive and consider such comments as you may desire to offer.

By direction of the Postmaster General.

Very truly yours,

Harold N. Graves,
Executive Assistant to the
Postmaster General.

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COPY

Order No. 9100 of the Postmaster General dated August 20, 1915:

"Parcels containing currency of one or two dollar denomination or coin when put up in fixed quantities as original packages and sealed only with wax or lead seals when offered for mailing by the Treasury Department at Washington, D. C., or its field service, shall, if insured at the maximum rate of insurance, be accepted at the fourth-class rate of postage and accorded the same treatment as registered mail."

Order No. 9128 of the Postmaster General dated September 2, 1915:

"Parcels containing currency of one or two dollar denomination or coin when put up in fixed quantities as original packages and sealed only with wax or lead seals when offered for mailing bythe Treasury Department at Washington, D. C., or its field service, shall, if insured at the ten-cent rate of insurance, be accepted at the fourth-class rate of postage and accorded the same treatment as registered mail. Similar parcels when containing currency of five dollar denomination shall be given like treatment on payment of maximum insurance fee and the fourth-class rate of postage."

The above Order referred only to mail sent by the Treasury Department or its branches for which postage is required and did not refer to official mail.

Order No. 3738 of the Postmaster General dated December 16, 1919:

"Parcels containing currency of one or two dollar denomination or coin put up in fixed quantities as original sealed packages, offered for mailing by the Treasury Department, or its field service, or by Federal Reserve Banks or their branches, shall, if insured at the ten cent rate of insurance, be accepted at the fourth-class rate of postage and accorded the same treatment as registered mail. Similar parcels containing currency of five dollar denomination shall be given like treatment on payment of maximum insurance fee and the fourth-class rate of postage."

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POST OFFICE DEPARTMENT

THE EXECUTIVE ASSISTANT TO THE POSTMASTER GENERAL

WASHINGTON

April 24, 1933

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

My dear Sir:

Reference is had to the communication which this Department addressed to you under date of February 4, 1933, and your reply of February 28, 1933, relative to special arrangement which has been made between the Post Office and Treasury Departments for the handling as registered mail at the forth-class rate of postage, of certain matter mailed by the Treasury Department and its field service and by Federal Reserve Banks and Branch Federal Reserve Banks.

Order No. 3433 of the Postmaster General has now been issued, effective April 15, 1933, stipulating that the insurance fees for parcels containing currency of one or two dollar denomination or coin or bullion mailed by the Treasury Department or its field service or by Federal Reserve Banks or Branch Federal Reserve Banks shall be 15 cents; that the insurance fee on similar parcels containing currency of the five dollar denomination shall be 35 cents; that these fees are in addition to the postage and the prescribed surcharges; that the postage on such parcels shall continue to be at the fourth-class rates; and that such insured parcels shall continue to be handled as registered mail. The Order further provides that the minimum regular registry fee on any matter registered for the Treasury, when not entitled to free registration, and on that registered by its field service, or Federal Reserve Banks or Branch Federal Reserve Banks, is 15 cents.

A copy of Order No. 3433 of the Postmaster General together with copy of a multigraph letter on the subject which has been addressed to the postmasters concerned, is inclosed herewith. It is assumed that you will furnish the Federal Reserve Banks and Branch Federal Reserve Banks appropriate information as to the provisions of this new Order. Copies of the Order are inclosed for this purpose. The postmasters involved have been appropriately advised.

By direction of the Postmaster General.

Yours very truly,

HARLLEE BRANCH,
Executive Assistant
to the Postmaster General.

B-891

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as against indemnity not exceeding $100 provided by the fee of 25 cents now being paid on such mailings.

The 15-cent insurance fee on shipments of coin and currency of one and two dollar denominations and the 35-cent insurance fee on mailings of currency of the five dollar denomination appear to be in accordance with the principle on which Order No. 3738 was based, and accordingly the Board has no suggestions to make with regard thereto.

In this connection, however, attention is directed to the letter addressed to the Postmaster General under date of August 12, 1932, expressing the view of the Board that the present registry surcharges on currency shipments are excessive and that the theory upon which they appear to be based is unsound when applied to the Federal Reserve System.

Very truly yours,

Eugene Meyer,
Governor.

ELS/EMM/acw

B-891

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FEDERAL RESERVE BOARD

WASHINGTON

February 28, 1933

Mr. Harold N. Graves,
Executive Assistant to the Postmaster General,
Post Office Department,
Washington, D. C.

Dear Mr. Graves:

Receipt is acknowledged of your letter of February 4, 1933, with regard to insurance fees paid by the Federal Reserve System on shipments of coin and of currency of the one, two and five dollar denominations.

You state that "In view of the fact that these shipments of coin and currency of one and two dollar denominations are accorded the same safeguards as registered mail, and as a 15-cent insurance fee is at present required by law in order to provide a limit of indemnity which corresponded with the limit of indemnity payable for a 10-cent insurance fee at the time Order No. 3738 was issued, it is believed that the Department would be fully warranted in issuing an amended Order requiring the payment of an insurance fee of 15 cents on coin and currency of the one and two dollar denominations, accepted as insured mail from the Treasury Department and its branches, or from Federal reserve banks and their branches, but accorded registry treatment and to make it plain that the present maximum insurance fee of 35 cents is to be collected on such mailings consisting of currency of the five dollar denomination."

While not specifically so stated in your letter, it is understood that the maximum insurance fee of 35 cents will provide indemnity not exceeding $200 on mailings of currency of the five dollar denomination,

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Division of Registered mails

20487-R-S.E.
In your reply refer to

578

POST OFFICE DEPARTMENT

THIRD ASSISTANT POSTMASTER GENERAL

WASHINGTON

Postmaster,

My dear Sir:

Inclosed is a copy of Postmaster General's Order No. 3433, from which you will note that effective April 15, 1933, the insurance fee on parcels accepted for insurance at the forth-class rates of postage but treated as registered mail containing currency of the $1 or $2 denomination or coin or bullion mailed by the Treasury Department or its field service or by Federal Reserve Banks or Branch Federal Reserve Banks shall be 15 cents; and that the insurance fee on similar parcels containing currency of the $5 denomination shall be 35 cents.

Please also note that the minimum registry fee on any matter regularly registered for the Treasury Department (as distinguished from the parcels referred to above as being accepted for insurance and treated as registered mail) when not entitled to free registration, as well as that registered for its field service or for Federal Reserve Banks or Branch Federal Reserve Banks, is 15 cents.

Please be governed accordingly and appropriately advise such patrons of your office as may be concerned.

Inasmuch as Order No. 3433 of the Postmaster General became effective April 15, 1933, you should collect such additional amounts in insurance or registry fees on matter of the character mentioned in Order No. 3433, mailed at your office on and after April 15, 1933, as will, together with the amounts collected at the time of mailing, equal the fees prescribed by Order No. 3433.

In connection with this subject, you are requested to furnish the Third Assistant Postmaster General, Division of Registered Mails, information as to just what matter, mailed under this special arrangement, is being accepted for registration, or for insurance but treated as registered mail, at your office, stating separately matter which is accepted from the Treasury Department, its field service, or any Federal Reserve Bank or Branch Federal Reserve Bank, and the amount of registry or insurance fee and rate of postage being collected thereon.

Very truly yours,

Third Assistant Postmaster General.

GWP:MRS
Inclosure.

B-891

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B-891

ORDER NO. 3433

Effective April 15, 1933, the insurance fee for parcels containing currency of one or two dollar denomination, or coin or bullion, mailed by the Treasury Department, or its field service, or by the Federal Reserve Banks or Branch Federal Reserve Banks, under the provisions of Departmental Order 3738, dated December 16, 1919, shall be 15 cents. The insurance fee on similar parcels containing currency of the five dollar denomination mailed under the provisions of that Order shall be 35 cents. These fees are in addition to the postage and the prescribed surcharges. The postage on such parcels shall continue to be at the fourth-class rates, and such insured parcels shall continue to be handled as registered mail.

The minimum registry fee on any matter registered for the Treasury Department, when not entitled to free registration, and on that registered for its field service, or for Federal Reserve Banks or Branch Federal Reserve Banks, is 15 cents.

(Signed) James A. Farley,

Postmaster General.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 17, 1933.
B-893.

SUBJECT: Payment of Dividends on
June 30, 1933.

Dear Sir:

In accordance with established practice, please submit to the Federal Reserve Board, at your early convenience, a certified copy of the resolution of your Board of Directors with reference to the payment of the semi-annual dividend to member banks on June 30.

Very truly yours,

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL BANKS EXCEPT MINNEAPOLIS*

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FEDERAL RESERVE BOARD

WASHINGTON

May 17, 1933.
B-894.

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

SUBJECT: Circulars of Federal reserve banks.

Dear Sir:

It will be appreciated if you will forward to this Division a complete set of all currently effective circulars, general letters of instructions, forms, etc., issued by the Federal reserve bank, together with a list giving the dates, numbers and titles thereof.

In order that our files may be kept up to date, it is requested that, in addition to the six copies of all new circular letters forwarded to the Board in response to its letter of August 4, 1921 (X-3180), one copy of all new circulars, instructions, forms, etc., be mailed to the

"Division of Bank Operations,
Federal Reserve Board,
Washington, D. C."

It is further requested that at the beginning of each year you furnish this Division with a list of all circulars, instructions, and forms issued, revised, and discontinued during the preceding year.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations

TO ALL FEDERAL RESERVE AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 23, 1933.
B-895.

SUBJECT: Revision of Form 194.

Dear Sir:

Under separate cover there is being forwarded a supply of Form 194, which has recently been revised. It will be noted that this form, which should be used in submitting reports beginning with the month of May, 1933, calls for information as to the amount of gold certificates, by denominations, on hand at the end of the report month in addition to the data heretofore furnished in regard to Federal reserve notes. For the Board's records it is requested that a statement be submitted showing the amount of gold certificates, by denominations, on hand on the last day of the month from January to April, 1933, inclusive.

It is requested that the supply of the old Form 194 now on hand be used, with an appropriate amendment in the title, in reporting Federal reserve bank notes received, issued and on hand.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON

May 25, 1933.
B-896.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Revision of Form 160.

Dear Sir:

Under separate cover there is being forwarded a supply of revised form 160, including special forms 160a, 160b and 160c covering National bank notes, Federal reserve notes, and Federal reserve bank notes, respectively. Only one report on Form 160 should be submitted for the head office and for each branch, if any, which report should cover all United States paper currency in the aggregate, i.e., gold certificates, silver certificates, United States notes, and Treasury notes of 1890.

Your attention is invited to the change in the form to provide for showing separately currency received from and currency paid into circulation during the report month. The item "Received from circulation (counted during month)" represents the amount of currency received from circulation that was sorted into fit and unfit during the month and should be adjusted by adding the increase, or deducting the decrease, in unassorted currency to arrive at the amount received from circulation during the month.

You will also note that gold certificates held by the Federal reserve agent are to be included in reports submitted on Form 160, and that Federal reserve notes and Federal reserve

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bank notes held by the Federal reserve agent are to be included in reports submitted on Forms 160b and 160c, respectively. The purpose of this arrangement is to have the amount of gold certificates, Federal reserve notes and Federal reserve bank notes on hand, as reported on Forms 160, 160b, and 160c, represent the entire stock of these classes of currency at the Federal reserve banks.

The amount of United States paper currency on hand at the end of the month, as reported on Form 160, should agree with the sum of items "Gold certificates," "Legal-tender notes" and "Silver certificates," as reported on Form 34, plus "Gold certificates" as reported on Form FRA 5. The combined amount of national bank notes and of Federal reserve bank notes on hand at the end of the month, as reported on Forms 160a and 160c, should agree with the sum of the items "National and Federal reserve bank notes" and own "Federal reserve bank notes held by bank and branches" as shown on Form 34, plus Federal reserve bank notes held by the Federal reserve agent as reported on Form FRA 6, and any Federal reserve bank notes in transit from the Comptroller of the Currency. The amount of Federal reserve notes on hand at the end of the month, as reported on Form 160b for the head office and branches, if any, should agree with the sum of own "Federal reserve notes held by bank and branches" as reported on the combined Form 34, Federal reserve notes held by Federal reserve agent as reported on Form FRA 5, and any Federal reserve notes in transit from the Comptroller of the Currency.

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It is very important that care be taken in estimating the composition of the unassorted currency on hand, as regards both kinds and denominations, in order that the data reported on Forms 160 to 160c may be as nearly correct as possible. This is especially desirable because the figures will be used in determining the estimated amount of each kind of currency in circulation by denominations. In order to make such estimates it is necessary to have the distribution by denominations of Federal reserve notes of other Federal reserve banks held by your bank and branches on the last day of the month, also of own Federal reserve notes and Federal reserve bank notes forwarded for redemption, as reported on Form 34. Accordingly, it is requested that Form 160b be accompanied by a statement showing the distribution by denominations of such notes, as reported on form 34, for the last day of the report month.

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL F. R. BANKS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 21, 1933.
B-902.

SUBJECT: Revision of Form 44a.

Dear Sir:

Inclosed herewith is a stock of revised Form 44a, classification of money held by the Federal reserve bank and of gold held by the Federal reserve agent on the last day of the month.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

COPY TO ALL FEDERAL RESERVE AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 30, 1933
B-903

SUBJECT: Call condition reports of State bank members and their affiliates.

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the seven forms and schedules attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

Number of copies	Form
	Form 105, Report of condition of State bank members.
	Schedule "O," Loans and advances to affiliates and investments in and loans on securities issued by affiliates.
	Schedule "P," Rates of interest paid on deposits.
	Form 220, Report of affiliate other than holding company affiliate.
	Form 220-a, Publisher's copy of and publisher's certificate covering report of affiliate other than holding company affiliate.
	Form 221, Report of holding company affiliate.
	Form 221-a, Publisher's copy of and publisher's certificate covering report of holding company affiliate.

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Kindly mail three copies of Form 105 and of Schedules "O" and "P", four copies of Forms 220 and 221, and two copies of Forms 220-a and 221-a, to each State bank member that has not been formally placed in liquidation or receivership, or possession of which has not been taken by a conservator or other State official, with the request that the forms be held pending receipt of a call for condition reports.

In view of the rearrangement of the liability side of Form 105 and of the provision for reporting capital accounts in the manner indicated thereon, it is requested that, in your letter transmitting the blank forms to State bank members, you incorporate the two paragraphs on this subject contained in the attached sheet, B-903-a. It is also requested that you call the attention of State bank members to new Schedule "P", which has been printed separately but must accompany the bank's condition report on Form 105 when transmitted to you. It is believed that this schedule and the changes in Schedules K, L and A are self-explanatory.

In view of the provisions of the Banking Act of 1933, requiring member banks to submit reports covering their affiliates (other than member banks), you are also requested to incorporate in your letter transmitting the blank forms the seven paragraphs on this subject contained in the attached sheets, B-903-b. You will note therefrom that State bank members are to ask your office for such additional copies of Forms 220, 220-a, 221 and 221-a as may be needed for use in preparing the required reports of affiliates, and that, if it is not practicable

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for them to obtain and transmit the reports of affiliates at the same time as they transmit their own condition reports, they are to make prompt request to the Federal Reserve Board, through your bank, for an extension of time, this request to set forth the additional time required and the specific reasons why additional time is necessary. If you are satisfied that additional time is needed for the preparation of the report of an affiliate, you are authorized on behalf of the Federal Reserve Board to grant an extension not to exceed 20 days, in addition to the original period of 10 days from the receipt by the member bank of the call for the reports. Please furnish the Board with a copy of each letter granting an extension of the time within which such reports must be submitted. If an extension exceeding 20 days is desired, kindly transmit the request to the Board promptly with your recommendation. The publishers' certificates covering reports of affiliates should be forwarded to the Board.

In order that the Board may have statistical data regarding the aggregate loans and investments, deposits, etc., of State bank members in the hands of conservators or other similar State officials, pending a decision on the question whether they should be reopened, reorganized or liquidated but which have not been formally placed in liquidation or receivership, please also forward three copies of Form 105 to each of such banks with the request that the conservator, or other State official in charge of the bank, fill in the data called for by the form (upon receipt of a call therefor) and mail the report to your bank in duplicate.

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Where it is necessary to reflect special deposit accounts of such banks, such interlincations as may be necessary should be made in Schedules "J", "K" and "L". Officials in charge of such banks should not be asked to furnish the data called for by Schedules "O" and "P", nor should they be asked to have the report attested by any of the directors of the bank.

Since we have never considered that the law requires reports from banks in the hands of State officials and as we do not require at this time statistical information regarding the affiliates of such banks, it will not be necessary to obtain reports from such affiliates.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures

TO ALL FEDERAL RESERVE AGENTS*

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B-903a

PARAGRAPHS TO BE INSERTED IN FEDERAL RESERVE AGENT'S LETTER TRANSMITTING BLANKS FOR USE OF STATE BANK MEMBERS IN SUBMITTING THEIR NEXT CONDITION REPORTS ON FORM 105

It will be noted that the capital accounts, instead of being shown at the beginning of the liability side of the statement, are shown at the end thereof and that, in addition to the net book value of such capital accounts, the number of shares, par value, and retirement value of preferred stock, and the number of shares and par value of common stock, are required to be shown. The single amount to be shown in the short column opposite the items of preferred and common stock must represent the actual net book value of all capital stock. This amount, plus the bank's surplus, undivided profits and reserves for contingencies, as shown in the short column, will be the total of the capital account as extended into the long column. The total capital account added to other liabilities as reported against items 14 to 26, inclusive, will give the "Total, including capital account," which total must agree with total assets.

The amount to be extended opposite the capital stock accounts will, therefore, not necessarily represent the number of shares of preferred stock multiplied by the par value (or by retirement value in case the retirement value is in excess of par value), plus the number of shares of common stock multiplied by its par value, but rather the actual net book value of all capital stock without any offsetting item of any kind being included among the bank's assets. For example, if total par or retirement value of the preferred stock plus the par value of the common stock amounts to $500,000, but the actual net book value to $347,612.35, the bank should show $347,612.35 against the capital stock accounts.

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B-903b

SECTION ON AFFILIATES TO BE INCLUDED IN FEDERAL RESERVE AGENT'S LETTER TRANSMITTING BLANKS FOR USE OF STATE BANK MEMBERS IN SUBMITTING THEIR NEXT CONDITION REPORTS

In addition to the usual condition reports required of State bank members, the Banking Act of 1933, approved June 16, 1933, requires each such bank to furnish a report of each of its affiliates, other than member banks, to the Federal Reserve Board and the Federal reserve bank, and to publish each such report under the same conditions as govern its own condition reports. The definitions of affiliates as given in the Banking Act of 1933 are contained in Section 2-(b) and (c) thereof, which is printed on the reverse side of the forms to be used by affiliates in preparing their reports. The part of Section 5 of the Banking Act which requires the submission and publication of the reports is also printed on the reverse side of such forms.

For your use in preparing the required reports there are inclosed four copies of Form 221 covering holding company affiliates and four copies of Form 220 covering other affiliates. There are also inclosed two copies each of Forms 221-a and 220-a to be used in preparing reports of affiliates for publication and in furnishing proof of publication to the Federal reserve bank, if such reports are to be published under the conditions hereinafter stated.

If the number of forms to be used in preparing the reports of affiliates of your bank, inclosed herewith, is not sufficient to cover your requirements, additional copies should be obtained promptly from this bank.

At the direction of the Federal Reserve Board you are requested to obtain and transmit to this bank, at the same time as you submit the next

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condition report of your bank on form 105, and as of the same date, a report covering each of your affiliates, other than a member bank, on Form 221 if a holding company affiliate and on Form 220 if not a holding company affiliate. If it is not practicable for you to obtain and transmit to this bank the reports covering your affiliates at the same time you transmit the condition report of your bank, i.e., within ten days from the receipt of the call for your report, prompt request should be made to the Federal Reserve Board, through this bank, for an extension of such time. Such request should set forth the additional time required and the specific reasons why additional time is necessary.

Under the provisions of Section 5 of the Banking Act of 1933, each State bank member of the Federal Reserve System is required to publish the report of each of its affiliates, other than member banks, under the same conditions as govern its own condition reports. As the condition reports submitted to the Federal reserve banks by State bank members of the Federal Reserve System are not required to be published, the reports of affiliates must be published under the same conditions as govern the publication of condition reports rendered by State bank members to State authorities, if such reports are required to be published. In such case, a copy of the printed report of each affiliate must be submitted to this bank, attached to the publisher's certificate on Form 221-a if a holding company affiliate and on Form 220-a if not a holding company affiliate, in accordance with the instructions appearing on those forms. If the reports of affiliates are not published, a copy of Form 221-a or 220-a must be submitted to this bank with a statement thereon reading as follows: "Condition reports submitted by this bank to State authorities are not required to be published."

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The report of each affiliate (if required to be published) should be printed in the same paper and on the same day as the condition report rendered by your bank to State authorities. If this is not possible the report of each affiliate should be published as soon as possible thereafter.

You are also requested to submit as a part of your condition report the information called for by the inclosed Schedule "O" covering loans and advances to affiliates, other than member banks, of your bank as well as investments by your bank in, and loans made by your bank, on securities issued by each of such affiliates. Every affiliate other than a member bank (including holding company affiliate) must be listed on this schedule. If your bank has no affiliates, other than member banks, under the terms of the Banking Act of 1933, the following words should be written across Schedule "O": "This bank has no affiliates (or no affiliates other than member banks) within the meaning of the Banking Act of 1933."

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 26, 1933
B-904

SUBJECT. Earnings and dividends reports of State bank members, Form 107.

Dear Sir:

There have been forwarded to you today under separate cover copies of Form 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending June 30, 1933.

It is requested that reports on this form be obtained not only from State bank members licensed by the Secretary of the Treasury to conduct normal banking operations but also from those which, although not so licensed, have not been formally placed in liquidation or receivership.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

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