Ex. 1

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7481

July 1, 1933.

Dear Sir:

For your information there is attached a copy of a letter addressed by the Federal Reserve Board to the president of a member trust company in response to his inquiry as to whether, under the provisions of the Banking Act of 1933, the trust company may continue to hold certain preferred stocks purchased prior to June 16, 1933, and held by it on that date.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

C O P Y.

X-7481-a

July 1, 1933.

Dear Sir:

Your letter of June 19, 1933, addressed to the Comptroller of the Currency, has been referred to the Federal Reserve Board for reply. You inquire whether, under the provisions of the Banking Act of 1933, your trust company may continue to hold certain preferred stocks purchased prior to June 16, 1933, and held by it on that date.

Paragraph "Seventh" of Section 5136 of the Revised Statutes of the United States, as amended by Section 16 of the Banking Act of 1933, which was approved June 16, 1933, provides that "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by" a national bank of any shares of stock of any corporation; and, under section 5(b) of the Banking Act of 1933, this provision is also applicable to State member banks. As contained in an earlier draft of a similar bill considered in the 72nd Congress, this provision read "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase or holding by" any member bank of any shares of stock of any corporation. The words "or holding" are omitted from this provision in the law, however; and, accordingly, it is the view of the Federal Reserve Board that the law does not forbid a member bank of the Federal Reserve System to continue to hold corporate stocks which were lawfully acquired prior to June 16, 1933, and held by it on that date.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7482

July 1, 1933.

SUBJECT: Legality of Agreements, Consolidations or Mergers Involved in Applications Submitted for Board's Approval.

Dear Sir:

Applications of State banks and trust companies for membership and also other applications requiring the Board's approval, are in some instances made by institutions organized to take over assets and assume liabilities of other banking institutions or by institutions which are the result of consolidations or mergers of banking institutions, under agreements executed by the institutions involved. Such applications also frequently involve agreements between the banks and their stockholders or depositors. In all cases of this kind, it is important to determine, before the Board acts on the application, whether any agreement entered into is legally effective under the provisions of the laws of the State in which the bank is located and whether any such agreement, consolidation or merger has been entered into or executed in accordance with the requirements of the State law.

You are accordingly requested when considering an application for membership or other application involving circumstances

such as those described above, to request the counsel for your bank to examine the agreements entered into or to be entered into and the laws of the State covering each such agreement, transfer of assets, consolidation or merger and furnish you with an opinion, to be forwarded to the Board with the application, as to whether such agreement, transfer of assets, consolidation or merger complies with the requirements of the State law and is legally effective under the provisions of the laws of the State in which the bank involved is located.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

C O P Y.

X-7483

TELEGRAM

FEDERAL RESERVE BOARD

Washington

July 3, 1933

Nevin
Pittsburgh

Please advise First National Bank, Pittsburgh, as follows: Letter June 28 to Deputy Comptroller of Currency referred to Federal Reserve Board. Pending issuance of regulations pursuant to Section 11(b) of Banking Act of 1933, Board will not object to payment of interest on deposit represented by certificate referred to in your letter. Attention is called to fact, however, that certificate fails to comply with requirement of definition of time certificate of deposit contained in Board's Regulation D, Section 11(e) 4, that bank retain option to require in writing not less than 30 days' notice before repayment and certificate therefore may not properly be classified as time deposit for purpose of computing reserves.

CARPENTER

C O P Y.

6

X-7484

TELEGRAM

FEDERAL RESERVE BOARD

Washington

June 27, 1933.

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

TRANS 1833

In reply to an inquiry from a Federal reserve bank the Board has advised as follows: "Eighth paragraph of Section 13 of Federal Reserve Act, as amended by section 9 of Banking Act of 1933, does not require a member bank which has obtained advances from Federal Reserve Bank pursuant thereto to refrain from making further loans secured by collateral or to dealers in securities until an official warning is given by the Federal reserve bank of the district or by the Federal Reserve Board as provided in the statute; and an increase by a member bank in the amount of such collateral loans or loans to securities dealers during the life or continuance of an advance under the provision of said paragraph does not subject the bank to the penalties prescribed therein unless occurring after the issuance of such an official warning. In connection with this subject, please see also Section 11 (m) of the Federal Reserve Act as amended by Section 7 of Banking Act of 1933."

MORRILL

C O P Y.

X-7485

June 29, 1933.

Calkins - San Francisco

Your letter of June 20 regarding sugar factors in Hawaii. As section 21 of Banking Act of 1933 does not become effective until expiration of one year after date of its enactment immediate determination of question raised in your letter does not seem to be necessary. You will observe however that this section provides a penalty of fine or imprisonment for violation of its provisions and in the circumstances if sugar factors referred to feel that their business is not subject to provisions of this section the question would appear to fall within jurisdiction of Department of Justice. Therefore an expression of opinion by Federal Reserve Board on question would not afford protection from criminal prosecution if Department of Justice upon consideration of the matter should take position that transactions involved were within statute and should feel it necessary to prosecute for violation of this section.

Morrill

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7486

July 6, 1933.

Dear Sir:

For your information, there is attached a copy of a self-explanatory letter addressed by the Federal Reserve Board to Governor Young of the Federal Reserve Bank of Boston in response to an inquiry received from him with regard to the continuance of certain existing transactions of Federal reserve banks with foreign central banks.

Very truly yours,

Chester Morrill,
Secretary.

Incl.

TO ALL FEDERAL RESERVE AGENTS.

X-7486-a

July 6, 1933.

Mr. R. A. Young, Governor,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Governor Young:

Receipt is acknowledged of your letter of June 20, 1933, with reference to the provisions of Section 14(g) of the Federal Reserve Act, as amended by Section 10 of the Banking Act of 1933, approved June 16, 1933, which reads as follows:

> "(g) The Federal Reserve Board shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the Board may prescribe. No officer or other representative of any Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Federal Reserve Board. The Federal Reserve Board shall have the right, in its discretion, to be represented in any conference or negotiations by such representative or representatives as the Board may designate. A full report of all conferences or negotiations, and all understandings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Federal Reserve Board in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations."

You invite attention to the fact that the Federal Reserve Bank of Boston has participated in many agreements and accounts heretofore entered into by the Federal Reserve Bank of New York with foreign

central banks and that transactions in these accounts are taking place daily; and you inquire whether it would be possible for the Board to grant the Federal Reserve Bank of Boston permission to continue existing transactions until such time as the Board can issue regulations with reference to foreign accounts.

For the present the Federal Reserve Board will interpose no objection to the Federal Reserve Banks continuing to participate in normal transactions in accounts heretofore opened with the approval of the Federal Reserve Board between the Federal Reserve Bank of New York and foreign banks or bankers; but the Federal Reserve Board reserves the right to require changes to be made in the practices in connection with such accounts and the agreements respecting such accounts or to require the discontinuance of such accounts at any time either by regulation or without the issuance of formal regulations governing the subject.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7487

July 6, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

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

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

X-7488

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Agents.

July 6, 1933.

The Pittsfield Third National Bank and Trust Company,
Pittsfield, Massachusetts.

Gentlemen:

Your telegram of June 28, addressed to the Comptroller of the Currency and inquiring whether under the Banking Act of 1933 you may continue to pay interest on postal savings funds, has been referred to the Federal Reserve Board for reply.

Section 11(b) of the Banking Act of 1933 forbids a member bank to pay interest on any deposit (with certain specified exemptions) which is payable on demand, except in accordance with the terms of a contract entered into in good faith prior to June 16, 1933, and in force on that date. No such contract may be renewed or extended unless modified so as to eliminate the provision for the payment of interest on deposits payable on demand, and every member bank is required to take action necessary to eliminate any such provision as soon as possible consistently with its contractual obligations.

The Federal Reserve Board understands that instructions have been sent by the Third Assistant Postmaster General to the various postmasters under date of June 26, 1933, reading in part as follows:

> "Pursuant to the enactment of the Banking Act of 1933, the Postal Savings System will, at an early date, adjust its deposits in all depository banks to a time basis. During the transitional

C O P Y.

X-7488

stage, the administrative officers of the system will hold that its contractual relations with such banks wherein they are bound by the regulations promulgated by the board of trustees are in full force and effect. Accordingly, all postal-savings funds on deposit in local qualified banks to the credit of the board of trustees, Postal Savings System, will continue to earn interest, and the rate of 2½ percent remains unchanged until further notice.

As an initial step toward making all postal-savings deposits in qualified bank time deposits, direct accounting and central accounting postal-savings postmasters shall at once discontinue drawing checks on banks holding their checking accounts and, pending further development of procedure, shall obtain funds to meet postal-savings withdrawals."

It will be observed from those instructions that it is contemplated that the Postal Savings System at an early date will adjust its deposits in all depository banks to a time basis; and, inasmuch as the contract under which postal savings funds are deposited in depository banks requires the payment of interest on such deposits, it is permissible under the law for a member bank, which was a party to such a contract in force on June 16, 1933, to continue to pay interest on postal savings funds until such time as it is possible for the member bank consistently with such contract to eliminate the provision for the payment of interest on these funds or to change them to a time deposit basis.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-7489

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 7, 1933.

SUBJECT: Proposed Regulations and Forms re Voting Permits for Holding Company Affiliates of National and State Member Banks.

Dear Mr.

There are inclosed herewith six copies of a tentative draft of regulations and forms governing the issuance of voting permits authorizing holding companies which own or control National or State member banks to vote the stock held by them at meetings of the stockholders of such banks; and it will be appreciated if you and the officers of your Federal reserve bank will study these documents and give the Federal Reserve Board your comments and suggestions thereon at the earliest practicable date, not later than Monday morning, July 17, 1933.

Under the provisions of section 5144 of the Revised Statutes, shares of stock of a national bank owned or controlled by a holding company affiliate cannot be voted at any meeting of the shareholders of such bank until such holding company has obtained a voting permit. In view of the fact that numerous national banks are now in process of reorganization and some of them are controlled by holding company affiliates, it is important that regulations and forms for this purpose be issued as soon as possible.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO CHAIRMEN OF ALL F. R. BANKS.

COPY

X-7490

July 8, 1933.

McClure

Kansas City.

Re your telegram July 5. Section 2 subparagraph (b), subdivision (2) of the Banking Act of 1933 defines affiliate as including any corporation of which control is held, directly or indirectly, through stock ownership or in any other manner, by trustees for the benefit of the shareholders of any member bank. Since you state trustees hold for benefit of stockholders of a member bank all stock of investment corporation which in turn owns all stock of cattle loan company and all stock of a nonmember bank, it is the opinion of the Board that trustees control the investment corporation directly, and the cattle loan company and nonmember bank indirectly through the medium of the investment corporation, for the benefit of the shareholders of a member bank, and that each of corporations in question is an affiliate of the member bank within the meaning of the statute. Accordingly reports of condition of each such corporation must be obtained as required by section 5(c) of the said Act.

MORRILL

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7491

July 10, 1933.

SUBJECT: Alternates for Members of Federal Open Market Committee.

Dear Sir:

There is attached hereto, for your information, a copy of a letter addressed by the Board to the Secretary of the Federal Reserve Bank of Philadelphia under date of July 8, 1933, with regard to the status of alternates for regularly selected members of the Federal Open Market Committee.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS.

COPY

X-7491-a

July 8, 1933.

Mr. C. A. McIlhenny, Secretary,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. McIlhenny:

Receipt is acknowledged of your letter of June 28, 1933, advising that, at a meeting of the Board of Directors of the Federal Reserve Bank of Philadelphia held on June 21, 1933, Mr. George W. Norris, Governor, was elected a member of the Federal Open Market Committee to represent the Federal Reserve Bank of Philadelphia and Mr. William H. Hutt, Deputy Governor, was elected his alternate.

Under the provisions of Section 12A of the Federal Reserve Act, as amended by Section 8 of the Banking Act of 1933, the Federal Open Market Committee is a statutory committee; the Board of Directors of each Federal reserve bank is authorized to select only one member thereof annually; and no provision is made for an alternate. In the circumstances, it would seem that an alternate would have no legal status as a member of the Committee, even in the absence of the regularly appointed representative of his Federal Reserve Bank, and that the vote of an alternate on any matter coming before the Committee could not be counted, if a point of order were made against it.

There would seem to be no reasonable objection, however,

to an alternate attending the meetings of the Committee and participating in the discussion, in the absence of the regularly appointed representative of his Federal Reserve Bank.

Very truly yours,

Chester Morrill,
Secretary.

X-7492

Statement of Bureau of Engraving and Printing
For furnishing Federal Reserve Bank Notes (National Currency)
Series 1929

June 1-17, 1933.

	$5	$10	$20	Total Sheets	Amount
Boston	18,000	36,000	-	54,000	$5,238.00
New York	18,000	72,000	18,000	108,000	10,476.00
Chicago	-	72,000	36,000	108,000	10,476.00
	36,000	180,000	54,000	270,000	26,190.00

270,000 sheets @ $97.00 per M, . . . $26,190.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7493

July 11, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a letter addressed by the Board to Acting Governor Johns of the Federal Reserve Bank of Atlanta in response to his request for advice as to who is to be considered an executive officer of a member bank within the meaning of Section 22(g) of the Federal Reserve Act as amended by the Banking Act of 1933, which prohibits borrowings from a member bank by an executive officer of such bank and requires reports of borrowings by such executive officer from any other bank.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS.

C O P Y

X-7493-a

July 11, 1933.

Mr. W. S. Johns, Acting Governor,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Johns:

This refers to your letter of June 22, 1933, in which you request advice as to the Board's views on the question who is to be considered an "executive officer" of a member bank within the meaning of section 22(g) of the Federal Reserve Act, as amended by the Banking Act of 1933, which prohibits borrowings from a member bank by an executive officer of such bank and requires reports of borrowings by such an executive officer from any other bank.

The question whether a person is to be considered an executive officer of a member bank within the meaning of this provision would seem to depend primarily upon the character of his duties and the functions which he actually performs rather than upon his official title or the name of the position which he occupies. A person having a certain title or holding a certain position in one bank may have duties and may perform functions which would bring him within the meaning of the term "executive officer", while the duties and functions of a person holding a title or position of the same name in another bank might be of such a different character that he would not be regarded as an

executive officer of such bank. It is believed, therefore, that no classification of persons according to their titles or the names of their positions would be an accurate guide in determining whether they are executive officers within the meaning of the provision of law in question. Each case must depend upon the facts involved, and no general rule can be promulgated with safety.

The law provides a penalty of fine or imprisonment for violations and the determination of the question whether persons should be prosecuted for such violations is a matter entirely within the jurisdiction of the Department of Justice. The Federal Reserve Board is not specifically authorized to prescribe regulations on this subject; and, in the circumstances, an expression of opinion by the Federal Reserve Board on the question who is to be considered an executive officer would not afford protection from criminal prosecution, if the Department of Justice upon consideration of the matter should take the position that such a person was within the statute and should feel it necessary to prosecute for violation of this provision. Accordingly, the Federal Reserve Board does not feel that it would be appropriate for it to undertake to express opinions upon questions of this kind.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7494

July 11, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a letter addressed by the Federal Reserve Board to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, advising, in response to his inquiry, that it appears that a conservator of a national bank is not a director or other officer or employee of the bank within the meaning of the Clayton Act.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS EXCEPT PHILADELPHIA.

C O P Y

X-7494-a

July 11, 1933.

Mr. R. L. Austin,
Federal Reserve Agent,
Federal Reserve Bank of Philadelphia,
Philadephia, Pennsylvania.

Dear Mr. Austin:

Receipt is acknowledged of your letter of June 25, 1933, inquiring as to the status, with respect to the Clayton Act, of an individual who is serving as a director of two national banks, one of which has resources aggregating more than $5,000,000, and as a conservator of a third national bank, whose resources also exceed $5,000,000. You state that the two larger banks are located in the same town but that the smaller one is located in a neighboring town.

In view of the fact that one of the two national banks of which this person is a director has resources aggregating more than $5,000,000, his service of such two banks falls within the prohibitions of section 8 of the Clayton Act, and consequently it is necessary for him to have a permit in order to serve as a director of such banks.

With regard to the question whether it is necessary for him to have a permit covering his service as conservator, you will note that Section 8 of the Clayton Act makes it unlawful for a "director or other officer or employee" of a national bank with resources aggregating more than $5,000,000 to serve as a director, officer or employee of another national bank unless a permit has been issued.

Section 8A of that Act, which was added by section 33 of the Banking Act of 1933, also applies to directors, officers and employees, but does not become effective until January 1, 1934. Neither section refers to receivers, conservators or similar officials.

Section 203 of the Act of March 9, 1933, authorizes the Comptroller of the Currency, under certain conditions, to appoint a conservator for a bank who shall "take possession of the books, records, and assets of every description of such bank, and take such action as may be necessary to conserve the assets of such bank pending further disposition of its business as provided by law. Such conservator shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties, not inconsistent with the provisions of this title, to which receivers are now or may hereafter become subject. During the time that such conservator remains in possession of such bank, the rights of all parties with respect thereto shall, subject to the other provisions of this title, be the same as if a receiver had been appointed therefor."

It appears, therefore, that a conservator is not a director, officer or employee of a bank, but is an official appointed by the Comptroller of the Currency to take possession of the bank, acting under direction of the Comptroller, the effect of his appointment being to remove control of the affairs of the bank from the directors, officers and employees of the bank, and to vest such control in the

conservator, under the direction of the Comptroller. In these respects, the office of a conservator is very similar to that of a receiver of a national bank.

It, therefore, appears that a conservator, who is an official appointed by the Comptroller of the Currency to conserve the assets of a bank pending its reorganization, reopening or liquidation, is not a "director, or other officer or employee" of the bank within the meaning of the Clayton Act. Consequently, it is not necessary for a person to have a permit under the Clayton Act in order to serve as conservator of a national bank, even though he is also a director, officer or employee of another national bank which comes within the prohibitions of the Clayton Act.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7495

July 12, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a letter addressed by the Board to a national bank with regard to the issuance by that bank of new time certificates of deposit with an agreement to pay interest thereon, pending the issuance of regulations by the Federal Reserve Board limiting the rates of interest which member banks may pay on time deposits.

Very truly yours,

Chester Morrill,
Secretary.

(Inclosure)

To all Federal Reserve Agents.

C O P Y.

X-7495-a

July 12, 1933.

Dear Sir:

Your letter of June 26, 1933, inquiring whether your bank may issue new time certificates of deposit and agree to pay interest thereon pending the issuance of regulations by the Federal Reserve Board limiting the rates of interest which member banks may pay on time deposits, has been referred to the Federal Reserve Board for reply.

Pending the issuance of regulations on this subject by the Federal Reserve Board, there is no legal reason why your bank may not issue time certificates of deposit and agree to pay interest thereon at the customary and usual rate; provided that such certificates comply strictly with the definition of time certificates of deposit contained in the Federal Reserve Board's Regulation D, a copy of which is inclosed for your information. In order to avoid any misunderstanding with your depositors, however, it would be advisable for you to place on each time certificate issued since June 16, 1933, a notation to the effect that the rate of interest payable on the deposit represented thereby is subject to adjustment in accordance with such regulations as the Federal Reserve Board may issue, pursuant to the provisions of Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7496

July 13, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

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

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-7497

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 14, 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-7215a), as amended by its letter of January 23, 1933 (X-7329), 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 July 31, 1933. The Board has decided to extend such authorization for an additional six months, and, accordingly, has further amended section II of its circular of July 26, 1932 (X-7215a), 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 January 31, 1934, 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 CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-7498

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 14, 1933.

SUBJECT: Regulations re.(1) Open Market Operations and (2) Relations with Foreign Banks and Bankers.

Dear Sir:

There are inclosed herewith two copies each of tentative drafts of regulations on the above subjects and it would be appreciated if you will deliver one copy of each of them to the representative of your bank who will attend the forthcoming meeting of the Federal Open Market Committee in Washington on July 20, 1933, and request him to study them carefully with a view of discussing them at that meeting.

It will also be appreciated if you will study these tentative regulations and give the Board the benefit of your comments and suggestions at the earliest possible date, not later than Monday, July 24, 1933.

These tentative drafts have not yet been considered by the Federal Reserve Board; but the Board desires to have them discussed during the forthcoming meeting of the Federal Open Market Committee, in order that regulations on these subjects may be issued at an early date, if deemed desirable.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.
TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

..7499

July 15, 1933.

SUBJECT: Interpretations of Banking Act of 1933.

Dear Sir:

In order that the Federal reserve banks may be advised as promptly as possible of the interpretations of the Banking Act of 1933 sent out by the Federal Reserve Board in response to inquiries received by it, arrangements have been made to have the letters and telegrams containing such interpretations mimeographed with the following notation at the top: "Interpretation of Banking Act of 1933. Copies to be sent to all Federal reserve banks." Each communication will be given an X number, and one copy thereof will be sent to the Governor and one copy to the Federal reserve agent at each Federal reserve bank, and the same number of additional copies will be forwarded to your bank as are sent in the case of the regular letters of the Board bearing X numbers.

These interpretations are being sent to you in order that the information contained therein will be available to you in answering inquiries received in regard to the Banking Act of 1933, and, unless otherwise indicated, the communications received from the Board in this form are not for distribution outside of the Federal reserve bank.

Very truly yours,

Chester Morrill,
Secretary.

T

(Interpretation of Banking Act of 1933)

Copies to be sent to all Federal Reserve Banks.

July 12, 1933.

Olson - Denver

President _____ of (a national bank) discussed with Governor Black on July 7 question of payment by a member bank of premium on bonds securing deposits of public funds and left with him a copy of letter addressed to you by _____ Clearing House Association dated June 27 on this subject. Board understands that amount of premium paid by member bank on such a bond is a certain prescribed percentage of the average amount of such funds on deposit with such bank over period covered by the bond with provision for a minimum premium where the average amount is less than a certain amount fixed in advance. In view of fact that amount paid by member bank in form of premium on such bond in usual case is a fixed percentage of the amount of such funds on deposit in the bank, it is Board's opinion that payment of such premium constitutes an indirect payment of interest on such deposit within the meaning of the provision of section 19 of the Federal Reserve Act as amended by section 11(b) of the Banking Act of 1933 prohibiting the payment of interest on deposits payable on demand. Attention is called to the fact, however, that provision in question does not apply to any deposit 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. Please advise Mr. _____ and _____ Clearing House Association of the views of the Federal Reserve Board as above expressed.

MORRILL

X-7501

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 17, 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 July 11, 1933, with which you inclosed a copy of a letter from the Commissioner of Insurance and Banking of the State of Virginia with reference to the operation of branches by State member banks of the Federal Reserve System. Apparently, the Commissioner wishes to be advised as to whether a State bank, which has a paid-in and unimpaired capital stock of less than $500,000, may become a member of the Federal Reserve System and continue to operate, outside of the city in which the parent bank is situated, offices or receiving stations whose functions would be limited to receiving deposits and cashing checks.

Section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, provides in part as follows:

> "Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated. Provided, however,

> That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks."

Section 5155 of the Revised Statutes, as amended by section 23 of the Banking Act of 1933 requires, among other things, that a national bank, located in a State having a population of 1,000,000 or more inhabitants, have a paid-in and unimpaired capital stock of not less than $500,000, in order to establish a branch outside of the city, town or village in which it is situated; and, under the above provision of section 9 of the Federal Reserve Act, a State member bank must also meet this requirement in order to establish a branch outside of the city in which it is situated.

The Federal Reserve Board has given careful consideration to the question raised by the Commissioner of Insurance and Banking and is of the opinion that an office or receiving station of a State bank at which deposits are received and checks are cashed must be considered a branch within the meaning of the above provision of section 9 of the Federal Reserve Act. Accordingly, it is the Board's view that a State bank located in the State of Virginia, which has a population of more than 1,000,000 inhabitants, may not become or remain a member of the System and continue to operate such an office or receiving station established after February 25, 1927 beyond the limits of the city in which the parent bank is situated, unless such

bank has a paid-up and unimpaired capital stock of not less than $500,000 and complies with the other requirements applicable to the establishment and operation of branches by a national bank beyond the limits of the city in which such bank is situated.

Very truly yours,

Chester Morrill,
Secretary.

X-7502

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 17, 1933.

Honorable _____, Judge,
Circuit Court of the City of _____,
_____, _____.

Dear Sir:

Your letter of June 26, 1933, addressed to the Secretary of the Treasury, has been referred to the Federal Reserve Board for reply. You inquire whether, under Section 19 of the Federal Reserve Act as amended by Section 11(b) of the Banking Act of 1933, a member bank of the Federal Reserve System may pay interest on funds deposited to the credit of your Court in various suits or actions at law pending final disposition. These funds remain on deposit for an indefinite period of time and, presumably, are payable on demand.

As you know, Section 19 of the Federal Reserve Act as amended, forbids a member bank, directly or indirectly, to pay any interest on any deposit which is payable on demand, except in accordance with a contract entered into prior to June 16, 1933 in good faith and in force on that date; and member banks are required to eliminate from such contracts provisions for the payment of interest on deposits payable on demand as soon as possible consistently with their contractual obligations. Deposits of certain kinds are excepted from the provision of law in question; but deposits to the credit of your Court in suits or actions at law pending final disposition would not appear to come within any of the exceptions mentioned in the statute and the Federal Reserve Board has no authority to make any additional exceptions to the pro-

hibition of the law against payment of interest on deposits payable on demand. It appears, therefore, that a member bank is forbidden by law to pay interest on deposits of your Court of the kind mentioned which are payable on demand, except in accordance with a contract entered into in good faith before June 16, 1933 and existing on that date, and such a contract must be modified by the bank as soon as possible to eliminate any provision for the payment of interest.

You will note from the statute that member banks may pay interest on time deposits subject to regulations to be prescribed by the Federal Reserve Board. The Board has not as yet prescribed regulations pursuant to this provision of law; but, pending the issuance of such regulations, member banks may continue to pay interest on time deposits in accordance with their usual practice or existing bona fide contracts.

A copy of the Banking Act of 1933 is inclosed herewith for your information and your attention is invited to the provisions of Section 11(b) on page 22.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

X-7503

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 17, 1933.

Mr. W. S. Johns, Acting Governor,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Johns:

Receipt is acknowledged of your letter of June 22, 1933, inclosing a letter dated June 21, 1933, from Mr. _____, President of (a national bank). Mr. _____ requests a definite ruling on the question whether a bona fide oral agreement (or arrangement by correspondence) made prior to June 16, 1933, to pay interest on demand deposits in accordance with clearing house regulations constitutes "a contract heretofore entered into" within the meaning of Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933. If the answer is in the affirmative, Mr. _____ desires to know whether member banks may continue to pay interest on any such account and for what period of time in the future.

The proviso regarding payment of interest "in accordance with the terms of any * * * contract heretofore entered into in good faith" which was in force on June 16, 1933, does not authorize payment of interest until the end of a customary interest period unless there was a definite contract to that effect. In deciding such question, the determinative factor is not whether the alleged agreement to pay interest was oral or written, but whether the bank in question is under a legal obligation to pay interest on any deposit payable on demand in

accordance with a bona fide agreement, whether oral or written, which was in force on June 16, 1933.

Accordingly, if an oral agreement (or arrangement by correspondence) to pay interest on a deposit payable on demand, which was entered into in good faith and was in force on June 16, 1933, is the valid and binding obligation of the bank, interest may be paid in accordance with the terms thereof and for such period as may be provided for therein. Conversely, if a contract in respect to payment of interest on such deposits, whether oral or written, is subject to cancellation at the option of bank and without liability on the part of the bank, it must be canceled as soon as possible, unless the deposit which is the subject of the contract is one payable only at an office of the bank located in a foreign country, or a deposit made by a mutual savings bank, or a deposit 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 by State law.

It seems probable that, in most instances of an alleged oral contract, the agreement or understanding to allow interest would not be sufficiently definite in respect to the interest period, the amount of interest, and other essentials to constitute it a valid and binding contract. Therefore, in any case in which interest on deposits payable on demand is allowed under an alleged oral contract, the bank so allowing interest, if requested to do so, must be able to show clearly to the satisfaction of the examiner duly authorized to

examine such bank, or to the Federal Reserve Board, or to any other duly constituted authority that such agreement could not have been terminated legally by such bank at its option and without liability.

As you were advised by telegram under date of June 20, 1933, member banks are forbidden to renew or extend any contract for payment of interest on deposits payable on demand which are not within a class excepted by statute, unless they eliminate the provision for payment of interest; and they are required to take such action as may be necessary to eliminate payment of interest on such deposits as soon as possible consistently with their contractual obligations.

Very truly yours,

Chester Morrill,
Secretary.

X-7504

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 17, 1933.

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

Dear Mr. Hoxton:

Receipt is acknowledged of your letter of July 12, 1933, inclosing a copy of a letter addressed to you on the same date by Mr. _____, Executive Manager of (a member bank), inquiring whether the provisions of Section 23A of the Federal Reserve Act, as amended by Section 13 of the Banking Act of 1933, are retroactive.

It appears from Mr. _____' letter that the (member bank) has two affiliates and that the investments which it had made in the capital stock of such affiliates, prior to June, 1933, exceed the limits prescribed by Section 23A. To conform to other provisions of the Banking Act of 1933, these affiliates are now being liquidated; but, during the period of liquidation, they desire to borrow reasonable sums for expenses and other purposes, and the bank apparently desires to know whether it may make loans to these affiliates.

The first paragraph of Section 23A, which is the only part of that section pertinent to this inquiry, reads as follows:

> "Sec. 23A. No member bank shall (1) make any loan or any extension of credit to, or purchase securities under repurchase agreement from, any of its affiliates, or (2) invest any of its funds in the capital stock, bonds, debentures, or other such obligations of any such affiliate, or (3) accept the capital stock, bonds, debentures, or other such obligations of any such affiliate as collateral security for advances made to any person, partnership, association, or corporation, if, in the case of any

such affiliate, the aggregate amount of such loans, extensions of credit, repurchase agreements, investments, and advances against such collateral security will exceed 10 per centum of the capital stock and surplus of such member bank, or if, in the case of all such affiliates, the aggregate amount of such loans, extensions of credits, repurchase agreements, investments, and advances against such collateral security will exceed 20 per centum of the capital stock and surplus of such member bank."

In view of the words underlined, it is clear that these provisions do not require a member bank to dispose of any such loans or investments acquired prior to June 16, 1933; but they forbid a member bank to make additional loans or investments of this character, if the addition of the amount of such new loans or investments to the amount of those previously existing will increase the aggregate to an amount exceeding 10% of the capital and surplus of such member bank, in the case of any one affiliate, or 20% of the capital and surplus of such member bank, in the case of all affiliates of such bank.

Since the investments made by the (member bank) in the capital stock of its affiliates, prior to June 16, 1933, exceed the limits prescribed by the law, the (member bank) may not lawfully make loans to such affiliates while it holds such investments.

Very truly yours,

Chester Morrill,
Secretary.

X-7505

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 17, 1933.

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

Dear Mr. Rounds,

Receipt is acknowledged of your letter of June 30, 1933, inclosing copy of your letter of the same date to Mr. _____, Counsel for (a member bank). It appears that Mr. _____ contends that, since the laws of New York do not require publication of reports of condition of affiliates of a trust company in that State, the publication of such reports is not required under section 9 of the Federal Reserve Act, as amended by section 5(c) of the Banking Act of 1933.

After providing that each State bank or trust company which is a member of the Federal Reserve System shall obtain from each of its affiliates other than member banks, and furnish to the Federal reserve bank of its district and to the Federal Reserve Board, not less than three reports during each year, section 9 of the Federal Reserve Act, as amended by section 5(c) of the Banking Act of 1933, provides that, "The reports of such affiliates shall be published by the bank under the same conditions as govern its own condition reports."

In view of the fact that the Federal Reserve Act does not require the publication of reports submitted to the Federal Reserve Board and the Federal reserve banks by State member banks, the only reasonable construction that can be given to the requirement quoted above

is that reports of affiliates of State member banks must be published if the State law requires such State banks to publish their own reports. Even though the State law may not require the publication of reports of affiliates of State banks, therefore, the Federal Reserve Act requires the publication of such reports whenever the State law requires the reports of State member banks to be published.

The conditions governing the method and frequency of publishing such reports depends upon the provisions of the State law regarding the method and frequency of the publication of reports of the State banks; and, therefore, it is not entirely accurate to say that the reports of such affiliates must be published whenever the Federal Reserve Board calls for reports of condition of State member banks.

Very truly yours,

Chester Morrill,
Secretary.

X-7506

(INTERPRETATION OF BANKING ACT OF 1933) July 13, 1933.

Copies to be sent to all Federal Reserve Banks.

Walsh
Dallas

Re your inquiry whether verbal agreement to pay interest on demand deposits for fixed period is QUOTE contract UNQUOTE within meaning of paragraphs B and C of Trans. number 1826. You are advised that the determinative factor is not whether agreement to pay interest is written or oral, but whether the particular bank is under a binding obligation to pay interest on a demand deposit in accordance with a bona fide agreement, whether oral or written. Accordingly, if an oral agreement to pay interest on demand deposits, which was entered into in good faith and in force on June 16, 1933, is a valid and binding obligation of the bank, interest may be paid in accordance with the terms thereof. Conversely, if contract in respect to payment of interest on demand deposits, whether oral or written, is subject to cancellation at option of bank and without liability on part of bank, it must be canceled as soon as possible. However, it seems probable that, in most instances of an alleged oral contract, the agreement or understanding to allow interest would not be sufficiently definite in respect to the interest period, the amount of interest, and other essentials to constitute it a valid and binding contract. Therefore, in any case in which interest on deposits payable on demand is allowed under an alleged oral contract, the bank so allowing interest, if requested to do so, must be able to show clearly to the satisfaction of the examiner duly authorized to examine such bank, or to the Federal Reserve Board, or to any other duly constituted authority

that such agreement could not have been terminated legally by such bank at its option and without liability. Of course, no such contract may be renewed or extended without eliminating the provisions for payment of interest.

Morrill

X-7507

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 12, 1933.

Mr. W. S. Johns, Acting Governor,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Johns:

Reference is made to your letter of June 27, 1933, and your telegram of June 28, in which the question is raised whether a member bank, in view of the provisions of section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, prohibiting the payment of interest by member banks on deposits payable on demand, may absorb exchange or collection charges in connection with checks and other items received by such bank for credit to the account of a correspondent bank.

The Board understands that, unless a sufficient balance is maintained by the correspondent bank to recompense the member bank for the absorption of such charges, a charge will be assessed against such correspondent bank. Presumably, however, there is no fixed ratio between the amount of such charges so absorbed by the member bank and the amount of the balance maintained by the correspondent. The amount of charges absorbed is not based upon the amount of such deposit balance, but depends rather upon the number of items received in the correspondent's account, the time necessary to collect them and the manner of collection necessary. Moreover, it is understood when the amount of such deposit balance is above the minimum required for the absorption of such charges, there is no corresponding increase in the cost of the account to the member bank or in the benefits to the correspondent bank.

X-7507

Upon consideration of the matter, it is the Board's opinion that the absorption of such collection or exchange charges in the circumstances described is not to be regarded as payment of interest directly or indirectly within the meaning of section 19 of the Federal Reserve Act, as amended.

Very truly yours,

Chester Morrill,
Secretary.

COPY THE FIRST NATIONAL BANK OF CHICAGO X-7508

CHICAGO-ILLINOIS

July 14, 1933

Dear Governor Black:

I appreciate highly your permission to file with you objections to several of the recommendations made to the Federal Reserve Board under date of July 10, 1933, by special committees of the American Bankers Association and the Association of Reserve City Bankers. While the members of these two committees are experienced bankers, it is perhaps not unfair to point out that most and possibly all of them are men who have had little or no practical experience in the handling of savings deposits.

Of course, the same is true in my case, but I am merely the mouthpiece of a number of the officers of the savings departments of the larger Chicago banks. The recommendations, in so far as they deal with savings deposits, were submitted by me to men concerned with the actual handling of savings accounts, and while they do not commit their banks officially to the opinions here expressed, they are all of one mind as to the probable effect upon savings bank business in Chicago if some of the recommendations in question are to be embodied in regulations of the Federal Reserve Board.

On page 4 of the letter addressed to you by the two committees, the following observations are made:

"4. Recognizing the several reasons for the distinction between savings deposits and time deposits, and that the element of thrift and its encouragement is necessarily involved in any regulations affecting savings deposits, and believing further that by inference the Federal Reserve Board is charged in the Banking Act of 1933 with the duty of defining savings deposits, the Committee makes the following observations:

"(a) In order to prevent the abuse of savings deposits by shifting from demand or time accounts into savings accounts to obtain the higher rate of interest, the Committee feels that savings accounts should be limited to accounts of individuals and that they should not include deposits of firms, partnerships, corporations or any other business accounts.

"(b) That savings accounts should be limited as to the total amount to be carried in the account, which limit it is recommended shall not exceed $10,000.00.

"(c) That the method of calculating interest and the period within which interest is to be paid on savings accounts should be uniform."

In respect to suggestion (a) the group which I consulted is in entire agreement as to the desirability of preventing the shifting of funds from demand or time accounts into savings accounts for the purpose of obtaining a higher rate of interest. I desire to point out, however, that in Chicago and probably also in other centers, such as St. Louis, Cleveland, Minneapolis, and St. Paul, there are corporations and associations not organized for profit, such as labor unions and fraternal organizations who have maintained for many years true savings accounts which represent the reserves of these organizations. These are not business enterprises, and there would seem to be no valid reasons why they should not be permitted to lay aside funds in savings accounts for the benefit of their members to be drawn upon in time of need just as is true of individuals. Also any regulations to be adopted should be so drawn that it would not become illegal to open and maintain joint savings accounts. After many years of effort the banks in Illinois were successful in having the state laws amended to the end that, e.g., husband and wife could open savings accounts in their joint names. It would be a hardship in many cases if this were made impossible in the future.

In respect to (b) it must be remembered that in Chicago, and in many other centers of this part of the country, there are only a few banks which are in a position to handle savings accounts of sizable amount. In New York City, and in the East generally, where in addition to the commercial banks handling savings accounts in one form or another, there are many mutual savings banks the situation is very different. All the larger Chicago banks have numerous true savings accounts which have been on their books for years and which are in excess of $10,000.00. My own bank had for very many years a single savings account amounting to as much as $200,000.00, of which the capital was left intact, the owner drawing semi-annually the interest to pay for her livelihood. While so large an account is an exception, true savings accounts of $25,000.00-50,000.00 have been by no means uncommon. It need not be pointed out that these large accounts which have been left more or less undisturbed for many years have been over the course of years by far the most profitable savings accounts the Chicago banks have had.

In this connection, it has been suggested that if the Federal Reserve Board should decide to place some limit upon the amount of each savings account, such limitation should bear some relation to the capital and surplus of the bank. In a bank with capital and surplus of $100,000.00 a single savings account of $10,000 might arouse suspicion, while in a bank with capital and surplus of $25,000,000 a savings account of $50,000.00 or even $100,000.00 would be a relatively unimportant item. Finally, in many instances any regulation of this type would simply lead to evasion by the opening of accounts in the name of various members of the same family.

In regard to (c), it is believed by those whom I consulted that every part of the country and almost every city has adopted a different method of computing interest on savings accounts. These various methods have become established usage and custom in nearly all instances. Attempts have been made at various times by committees of the Savings Bank Division of the American Bankers Association to devise some uniform plan of calculating interest, but it has proved impossible to devise any scheme which would harmonize the conflicting views and interests. If there were any great advantage to be gained by imposing a uniform system in this respect upon the banks of the country, it might be desirable to make some regulations to bring about this result, but according to the belief held here, the disadvantages and possible injustices arising from the present lack of uniformity are too slight to justify the adoption of rules which would be regarded as unfair and as a hardship by many member banks.

It is our hope that the Federal Reserve Board will not adopt the recommendations made by the two committees in question in so far as these concern savings accounts without further and careful consideration. It might be well if the Board suggested that a committee be appointed by the Savings Bank Division of the American Bankers Association to confer with the Board. Such a committee should include representatives of the savings departments of the ordinary commercial banks as well as representatives of the mutual savings banks.

I trust it may not be taken amiss if I emphasize the fact that we have a vital interest in these problems. Excepting a few mutual savings banks, the First National Bank of Chicago has a larger amount of savings deposits than any other bank in the country carrying on operations under one roof, and the Continental Illinois Bank and Trust Company of Chicago is a close second in this respect.

I also wish to repeat the thought expressed above that in a city like Chicago with only five large banks and no mutual savings banks the limitations suggested in the recommendations would not merely curtail seriously the earning power of the banks, but would constitute a real and just grievance to important organizations like labor unions.

Thanking you again for your willingness to receive these comments, believe me to be

Sincerely yours,

(Signed) WALTER LICHTENSTEIN

Vice President

Hon. Eugene R. Black,
Governor of the Federal Reserve Board,
Washington, D. C.

X-7509

C O P Y

CHICAGO CLEARING HOUSE ASSOCIATION

FEDERAL RESERVE BANK BUILDING

164 West Jackson Boulevard

CHICAGO

July 15, 1933

My dear Governor Black:

Mr. Walter Lichtenstein, Vice President of the First National Bank of Chicago, has shown me a copy of his letter to you dated July 14, 1933, in which he set forth objections to several of the recommendations made to the Federal Reserve Board under date of July 10, 1933 by special committees of the American Bankers Association and the Association of Reserve City Bankers.

As President of the Chicago Clearing House Association I am writing you to endorse the ideas and objections set forth by Mr. Lichtenstein in his letter of July 14th.

Mr. Lichtenstein's letter to you relates primarily to the subject of savings accounts. He tells me that he feels sure you would be glad to hear from me, as President of the Chicago Clearing House Association, regarding certain other recommendations made to the Federal Reserve Board in the same letter of July 10, 1933 by the above mentioned special committees. Accordingly, I am taking the liberty of sending you this letter by air mail as I understand from Mr. Lichtenstein that the Federal Reserve Board will probably meet on Monday, July 17, to consider these matters.

On page 4 of the said letter addressed to you by said two committees the following observations are made:

> " (5) We recommend that the Board, by regulation, issue a strong caution to all member banks that any changes in existing relationships with depositors, who have heretofore received interest on demand deposits, which waives a previous charge for any service as an offset to interest previously paid, will be construed as a 'device' within the meaning of the Act and that the deposit of current funds and the withdrawal of funds following frequent or standing notice, in or from a newly established special time deposit account, bearing interest under written contract, will be evidence of the purpose to evade the prohibition against interest payments on demand deposits."

* * * * * * * * * * * * * * *

X-7509

COPY

CHICAGO CLEARING HOUSE ASSOCIATION

FEDERAL RESERVE BANK BUILDING

164 West Jackson Boulevard

CHICAGO

" (3) The Committee recommends that no deposit be considered a time deposit if at the time it is accepted or at any subsequent time, the depositor, by agreement with his banker, may be permitted to borrow against said time deposit at a lesser rate of interest than the rate of interest for rediscounts charged by the Federal Reserve Bank in that district."

It seems to us that their suggestion, (5) above quoted, "that any changes in existing relationships with depositors" **** "be construed as a 'device' within the meaning of the Act", would be an unwise regulation for the Federal Reserve Board to issue and might seriously hamper a member bank from conducting its business and its relations with its customers in accordance with what it considers conservative and proper banking policies. Conceivably, a member bank might consider it a wise policy to reduce a depositor's line of credit, or to increase the line of credit, or to require collateral where it had not formerly required security, or to waive security where it had formerly required it, or to charge a lower interest rate or a higher interest rate in accordance with market conditions, and the circumstances of the particular case; but any regulation with such broad wording as recommended by said two committees in (5) above quoted might be construed as preventing the member bank from using its own proper business judgment and discretion.

Certain clearing houses, including the Chicago Clearing House Association, have for years imposed reasonable exchange charges on out-of-town checks deposited for immediate credit and availability, while other clearing houses have not imposed such exchange charges or have abolished them in more recent years since the establishment and wide extension of the Federal Reserve collection system. Such a regulation, as proposed by said two committees in (5) above quoted, might hamper clearing houses or banks which are still imposing exchange charges from changing or reducing or abolishing such exchange charges if they should deem it wise to do so at some later date, and might have the result of giving those clearing houses or banks, which have heretofore abolished such exchange charges, a distinct permanent advantage over those who are still imposing such charges. I don't believe that the Federal Reserve Board would wish to create any such situation.

C O P Y X-7509

CHICAGO CLEARING HOUSE ASSOCIATION

FEDERAL RESERVE BANK BUILDING

164 West Jackson Boulevard

CHICAGO

Governor Black: page 3 July 15, 1933

With regard to recommendation (3) above quoted, the Chicago Clearing House respectfully suggests that if the Federal Reserve Board issues any such regulation, there be added at the end of (3) above quoted, the following words: - "or charged by the Federal Reserve Bank of New York, which ever is lower".

As you know, it has for a long time been the policy of the Chicago Clearing House Association when fixing rates of interest to be paid on commercial deposits, both demand and time, to follow closely the rates fixed by the New York Clearing House, Obviously, this is necessary because many large corporations doing a national business carry accounts both in New York and Chicago, and if there were any substantial variation in rates of interest on deposits, the banks paying the higher rate would have been loaded with money at a time when they could not use it to advantage. Obviously, therefore when the Chicago Clearing House banks are limited to the same rates of interest on time deposits as the New York Clearing House banks they must also be in position to compete on an equal basis with New York when fixing rates for loans and similar accommodations to mutual customers.

If the Chicago Clearing House Association or any of its officers or members can be of assistance to the Federal Reserve Board in any way we shall be very pleased to have you call on us.

Respectfully submitted,

(Signed) Frank R. Elliott

President.

Hon. Eugene R. Black,
Governor of the Federal Reserve Board,
Washington, D. C.

Frank R. Elliott
S

C O P Y

X-7510 56

THE
AMERICAN BANKERS
ASSOCIATION

22 East 40th Street
New York, N.Y.

Branch Office
708-9 Colorado Building, Washington, D. C.

Washington, D. C.
July 11, 1933.

Hon. Eugene Black,
Governor of the Federal Reserve Board,
Washington.

My dear Governor Black:

Referring to the informal conference which you so kindly granted to the Joint Committees of the American Bankers Association and the Association of Reserve City Bankers on Saturday last, I beg to advise that these Committees have carefully debated the questions involved in the new banking law with respect to time and savings deposits, in regard to which regulations must be issued by the Federal Reserve Board. The Committees have approved a report which I am herewith transmitting to you.

Following the suggestion made by Mr. Hamlin, I am also transmitting an additional supply of copies of this report so that the members of the Board as well as of your staff, as for instance, Mr. Wyatt, your General Counsel, may each have a copy.

The Joint Committee has appointed a Sub-Committee from the membership of the two Committees, comprised of gentlemen from nearby points who, if you so desire, will be happy to discuss this report with you and the Board at your convenient opportunity.

On behalf of the Joint Committee, allow me to express our high appreciation of the courtesy extended to us and to assure you of our willingness to cooperate with the Board in every way.

Yours very respectfully,

(Signed) Robert V. Fleming

Chairman of the Joint Meeting of the
Special Committees of the American Bankers
Association and the Association of Reserve
City Bankers.

enclosures

COPY

X-7510-a

57

Washington, D. C.
July 10th, 1933

Hon. Eugene Black,
Governor of the Federal Reserve Board,
Washington.

Dear Governor Black:

The Special Committees of the American Bankers Association and the Association of Reserve City Bankers, appointed by these respective bodies to consider the effect of the interest regulations of the Banking Act of 1933 and which Committees have met jointly in Washington, July 8th and 9th, first wish to express to the Federal Reserve Board our appreciation of the courtesy extended to us in permitting us to meet informally with members of the Board in order to discuss the various problems which this new legislation presents.

Our Committees wish to make it clear that we have no other thought in submitting this report to the Board than that of being helpful in the way of presenting for consideration what we consider to be some of the practical banking and economic questions which will undoubtedly arise with respect to regulations of interest upon time and savings accounts. We believe it essential that the regulations should be drawn so as to prevent any evasion of the law intentionally or unintentionally by bankers or the depositing public. We believe it is equally important that the true intent and purpose of the law shall be served in every particular so that banks shall be encouraged, and perhaps where such measures may be necessary, compelled to so direct their policies of interest payments as to produce as rapdily as may be expedient funds with which to restore depleted surplus and earnings accounts and, at the same time, set up the means wherewith to meet the requirements of the Insurance of Deposits provisions of the Banking Act.

A careful analysis of Section 11(b) of the Banking Act of 1933, in relation to other pertinent sections of the Act to previously existing laws, and in the light of Congressional intent, leads this Joint Committee to three basic conclusions as regards the ends to be sought by Federal Reserve Board regulations concerning the payment of interest on time and savings deposits and the prevention of interest payments on deposits technically in those classes but in reality demand deposits. These conclusions are that the purposes of the Act are as follows:

1. To increase member bank earnings so that they may absorb losses and meet deposit insurance fund assessments.

2. To restore commercial bank practice to a sound basis and reduce interest competition for depositors' funds which tends to force such funds into unwise investments.

3. To place broad powers in the Federal Reserve Board in relation to the foregoing purposes so that the initiation of important changes in banking practice in these and other respects will be accomplished with the least disturbance to commerce and industry

and without undue interruption of the natural flow of deposits.

Pursuant to these conclusions, the broad purposes to be attained are as follows:

(a) Definitions heretofore given of demand, time and savings deposits for purposes of reserve calculations should be revised to lengthen the minimum period for time deposits and to modify existing practices with relation to savings deposits.

(b) Recognizing that the prohibition against interest payments on demand deposits will continue and accelerate the increasing trend to time deposits as evidenced in recent years and, if abused, destroy the needed revenue gains to banks, time deposits should be for periods of not less than 60 or 90 days and not more than one year, and rates of interest fixed on such deposits, particularly under present conditions, should in all probability be substantially lower than heretofore generally paid. Sound reasons exist for the payment of a higher rate on savings deposits in restricted form than the maximum rate to be allowed on time deposits.

(c) Under the phrase in section 11 (b) prohibiting demand interest payment "directly or indirectly by any device whatsoever" the Board will have authority to deal summarily with evasions certain to develop through unsound competitive practice. These evasions may take the form of the absorption of service, exchange or other charges heretofore paid by the depositor, or undue activity both in deposits and frequent withdrawals, after notice, in and from the special time deposit account, making such account in reality a demand deposit, although technically a time deposit subject to notice.

While it is apparent that the Federal Reserve Board would depart from its established policy and assume large responsibilities should it promulgate regulations in great detail, depriving management of its prerogatives, it is nevertheless clearly indicated that the Board must define in general terms practices to be followed by all member banks in these matters, and thereafter, through the power conferred upon it to fix rates by localities and according to conditions in those localities, deal swiftly and surely with every unsound or evasive practice indulged in by any member bank.

To that end, this Committee recommends to the Board:

1. That it explore the possibilities of regulations by the Federal Deposit Insurance Corporation to require, as an essential to their fitness, that non-member banks which are permitted to be covered by the Guaranty Fund should be subjected to regulation in regard to the interest paid; in other words, that all banks in the Fund, member banks and non-member banks, should be subjected to like regulations on that point.

   Similarly, through coordination of the activities and relationships of other Governmental agencies, particularly the Reconstruction Finance Corporation, cooperative agreements should be established with relation to the interest practices and payments by mutual savings banks.

2. That it shall be the policy of the Federal Reserve Board to fix national maximum rates for savings deposits and national maximum rates for time deposits.

In its deliberations on this point, the Committee considered two other methods of fixing the rates: (1) the fixing of rates by Reserve Districts and (2) the fixing of rates by Reserve Cities, Clearing House Cities and Country Banks. While the Committee recognizes that from time to time differences in rates will properly exist as between districts and as among the classes of cities described, it was felt that under present conditions the fixing of rates on a national basis would permit a freedom of action on the part of Clearing House Associations and banks within the maximum rate, at the same time reserving to the Board under its permissive powers full authority to correct inequities or abuses.

3. We recommend that the term Time Deposit shall include all deposits evidenced by written contract, having a fixed maturity of not less than 60 or 90 days, or without fixed maturity but repayable only upon notice of not less than 31 days.

Before arriving at this conclusion the Committee discussed fully whether or not the intent of the Act was to provide that all time deposits should be for a definite amount and of a fixed maturity and if the minimum period for which interest should be paid on such deposits should be longer than the 30 days heretofore contemplated by the definition of time deposits for reserve requirements.

4. We recommend that the term Savings Deposit shall mean those deposits in respect to which -

(a) The passbook must be presented to the bank whenever withdrawal is made;

(b) The depositor may at any time be required by the bank to give notice of intended withdrawal of not less than 31 days before the withdrawal is made; and

(c) The Bank's printed regulations accepted by the depositor at the time the account is opened, include the above requirements.

During the discussion on this subject, several members of the Committee pointed to the possible construction of the Act which would apparently make mandatory notice by the depositor of intention to withdraw, particularly since such notice is definitely required under the terms of the Act in relation to time deposits. The view was expressed, however, that since depositors in the Postal Savings System are permitted withdrawals without notice and upon forfeiture of interest, the regulations on savings deposits of member banks should not be upon a mandatory notice basis.

The Board will observe that in the definition of Savings Deposits, we have followed the language of Regulation D of the Federal Reserve Board, eliminating the words "certificate or other similar form of receipt" as

we believe it is the intent of the law that there should be two separate classifications: (1) Time Deposits, and (2) Savings Deposits strictly of a thrift character.

5. We recommend that the Board, by regulation, issue a strong caution to all member banks that any changes in existing relationships with depositors, who have heretofore received interest on demand deposits, which waives a previous charge for any service as an offset to interest previously paid, will be construed as a "device" within the meaning of the Act and that the deposit of current funds and the withdrawal of funds following frequent or standing notice, in or from a newly established special time deposit account, bearing interest under written contract, will be evidence of the purpose to evade the prohibition against interest payments on demand deposits.

Pursuant to these recommendations, the Committee offers the following observations:

1. In fixing the regulations covering the payment of interest by banks, it is the opinion of the Committee that no balances shall receive any interest unless said funds have remained on deposit at least 60 or 90 days.

2. In the event notice of withdrawal has been given but not exercised at the maturity of such notice, said deposit, or that portion thereof on which notice has been given, shall automatically become a demand deposit, without interest.

3. The Committee recommends that no deposit be considered a time deposit if at the time it is accepted or at any subsequent time, the depositor, by agreement with his banker, may be permitted to borrow against said time deposit at a lesser rate of interest than the rate of interest for rediscounts charged by the Federal Reserve Bank in that district.

4. Recognizing the several reasons for the distinction between savings deposits and time deposits, and that the element of thrift and its encouragement is necessarily involved in any regulations affecting savings deposits, and believing further that by inference the Federal Reserve Board is charged in the Banking Act of 1933 with the duty of defining savings deposits, the Committee makes the following observations:

(a) In order to prevent the abuse of savings deposits by shifting from demand or time accounts into savings accounts to obtain the higher rate of interest, the Committee feels that savings accounts should be limited to accounts of individuals and that they should not include deposits of firms, partnerships, corporations or any other business accounts.

(b) That savings accounts should be limited as to the total amount to be carried in the account, which limit it is recommended shall not exceed $10,000.

(c) That the method of calculating interest and the period within which interest is to be paid on savings accounts should be uniform.

(d) The Committee further believes that the above regulations with respect to savings accounts must take into consideration the fact that in certain large and important sections of the country commercial and other banks are in competition with mutual savings banks. The Committee therefore believes that the regulations adopted should not be retroactive but should apply only to new accounts opened or to deposits made hereafter in accounts existing at the time the regulations of the Board shall become effective.

The Joint Committee expresses its appreciation of the suggestion made by members of the Board that we continue our study of these or other problems as they may develop in the operation of the amendments to the Federal Reserve Act contemplated in the Banking Act of 1933, and we appreciate the Board's invitation to present to it at any future time such studies, conclusions and suggestions as may develop from our further study of these matters.

Since it will not be possible for the entire membership of the Joint Committees to remain in Washington, there has been appointed a Sub-Committee of this Committee which is authorized to discuss this report with the members of the Board at such time as may be convenient to the Board.

Respectfully submitted,

SPECIAL COMMITTEE OF THE AMERICAN BANKERS ASSOCIATION:

(Signed)
Leonard P. Ayres, Cleveland, O.

(Signed)
Thomas B. McAdams, Richmond, Va.

(Signed)
Robert Strickland, Jr., Atlanta, Ga.

(Signed)
O. Howard Wolfe, Philadelphia, Pa.

(Signed)
Robert V. Fleming, Washington, D.C.
Chairman.

SPECIAL COMMITTEE OF THE ASSOCIATION OF RESERVE CITY BANKERS:

(Signed)
Richard S. Hawes, St. Louis, Missouri

(Signed)
John H. Hogan, Chicago, Illinois.

(Signed)
Hugh H. McGee, New York, N. Y.

(Signed)
James Ringold, Denver, Colorado.

(Signed)
O. Howard Wolfe, Philadelphia, Pa.

(Signed)
H. Lane Young, Atlanta, Ga.

(Signed)
Richard R. Hunter, New York, N. Y.
Chairman.

FEDERAL RESERVE BOARD

WASHINGTON

X-7511

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 19, 1933.

SUBJECT: Code Words in Connection With Shipment of Federal Reserve Bank Notes.

Dear Sir:

The following code words have been designated for use, effective July 24, in connection with requests to the Board for shipment of Federal reserve bank notes and advice from the Board that arrangements are being made for shipment of such notes:

CHINLACE Please request Comptroller of the Currency to ship (Federal Reserve Agent, Assistant Federal Reserve Agent, Bank or Branch) Federal reserve bank notes as follows: (amount) (denomination). Confirmation is being forwarded by mail.

CHINLARK Comptroller of the Currency is arranging with the Bureau of Engraving & Printing for shipment today to (Federal Reserve Agent, Assistant Federal Reserve Agent, Bank or Branch) of Federal reserve bank notes as follows: (amount) (denomination).

These words should be inserted in the Federal reserve Telegraph Code following the word CHINKIRK, on page 49.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

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X-7512

July 19, 1933.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Code Words for Advice to Federal Reserve Bank and Agent of Federal Reserve Bank Notes Redeemed.

Dear Sir:

In order to reduce the phraseology in telegrams sent by the Treasurer of the United States to Federal reserve banks and by the Comptroller of the Currency to the Federal reserve agents covering notification of redemptions of unfit Federal reserve bank notes, the following code words have been designated for use effective July 24:

TO THE FEDERAL RESERVE BANK

DROOPWORT $_____ of unfit Federal reserve bank notes of your bank have today been redeemed and charged to the bank's redemption fund for Federal reserve bank notes.

TO FEDERAL RESERVE AGENT

DROOPYARD $_____ of unfit Federal reserve bank notes of your bank received today from the Treasurer of the United States for destruction (verified and credited to your account).

These words should be inserted in the Federal Reserve Telegraph Code following the word DROOPING, on page 79.

Advice as to the denominational distribution of the Federal reserve bank notes redeemed will be furnished to the bank on Form 6239, R.A., and to the Federal reserve agent on Form 6239A, R. A.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL
F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7513

July 19, 1933.

SUBJECT: Code words for advice to Federal reserve bank and agent of Federal reserve notes redeemed and charged to the bank's gold redemption fund.

Dear Sir:

In order that there may be a synchronization of charges by the Treasurer of the United States and by the Federal reserve banks against the banks' gold redemption funds on account of Federal reserve notes redeemed, beginning July 24, 1933, the National Bank Redemption Agency of the Treasury will advise the Federal reserve banks of such redemptions by wire, using the following code word:

DROPTABLE $_____ of unfit Federal reserve notes of your bank have today been redeemed and charged against the bank's gold redemption fund for Federal reserve notes, and delivered for the account of your agent to the Comptroller of the Currency for verification and destruction.

The Office of the Comptroller of the Currency will advise the Federal reserve agents by wire of the receipt from the Treasurer of the United States of Federal reserve notes for destruction, using the following code word:

DROPTIDE $_____ of unfit Federal reserve notes of your bank received today from the Treasurer of

the United States for destruction (verified and credited to your account).

The above code words should be inserted in the Federal reserve Telegraph Code following the word DROPSY, on page 79.

Advice as to the denominational distribution of the Federal reserve notes redeemed will be furnished, as at present, to the Federal reserve banks on Form 6232-A, R.A. and to the Federal reserve agents on Form 6232-B, R.A.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7514

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 18, 1933.

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

Dear Mr. Newton:

Reference is made to your letter of July 8, 1933, with regard to the capital stock which State member banks located in certain States of the Twelfth Federal Reserve District are required to have in order that they may establish out of town branches under the provisions of Section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933.

Section 9 of the Federal Reserve Act, as amended, provides in part as follows:

> "Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated. Provided, however, That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks."

Section 5155 of the Revised Statutes, as amended by Section 23 of the Banking Act of 1933, requires, among other things, that a national bank, located in a State having a population of one million

or more inhabitants, have a paid-in and unimpaired capital stock of not less than $500,000, in order to establish a branch outside of the city, town, or village in which it is situated. A national bank, located in a State having a population of less than one million and having no cities located therein with a population exceeding one hundred thousand, must have a capital of not less than $250,000, in order to establish such a branch. A national bank, located in a State having a population of less than one-half million, and having no cities located therein with a population exceeding fifty thousand, must have a capital of not less than $100,000, in order to establish such a branch.

Accordingly, under the above provisions of Section 9 of the Federal Reserve Act, a State bank, located in a State with a population of one million or more inhabitants, may not become or remain a member of the Federal Reserve System and operate a branch established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated, unless such bank has a paid-up and unimpaired capital stock of not less than $500,000. A State bank, located in a State having a population of less than one million and having no cities with a population exceeding one hundred thousand, or located in a State having a population of less than one-half million and having no cities with a population exceeding fifty thousand, must likewise have an amount of capital equal

to that required of national banks in such cases, respectively, as above set out, in order to become or remain a member of the Federal Reserve System and operate a branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated.

In any such case, a State member bank must comply with the other requirements applicable to the establishment and operation of branches by a national bank beyond the limits of the city, town, or village in which such bank is situated, including the requirement that the aggregate capital of such bank and its branches shall not be less than the aggregate minimum capital required by law for the establishment of an equal number of national banks situated in the various places where such bank and its branches are situated.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-7515

(INTERPRETATION OF THE BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 18, 1933.

My dear Mr. Newton:

The Federal Reserve Board has referred to me an excerpt from a letter addressed to you by Mr. _____, President of (a national bank), asking for certain interpretations of the Banking Act of 1933.

Please be advised that the word "issued" as used in Section 22 of the Banking Act of 1933 is interpreted by this office not to include stock certificates of existing national banks transferred from seller to buyer, or stock certificates of existing national banks called in and subsequently re-issued, nor does it include stock certificates issued after appropriate corporate action changing the par value of the stock of the bank.

It is the opinion of this office that the word "issued" is limited in its meaning to the issue of stock in a new bank or in an increase of capital stock of an existing national bank.

With respect to the second question raised as to whether or not (a national bank) could own all of the stock of the First National Company as a charged off asset for liquidating purposes, please be advised that a national bank can not legally acquire the stock of a company such as the First National Company.

Very truly yours,

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

(Signed) J. F. T. O'CONNOR,
Comptroller.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7516

July 21, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

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

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

71

X-7517

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 21, 1933.

SUBJECT: Holidays during August, 1933.

Dear Sir:

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

Tuesday, August 1	Denver	Colorado Day	
Saturday, August 26	Dallas	Election Day	
" " "	El Paso	"	"
" " "	Houston	"	"
" " "	San Antonio	"	"

On the dates given the offices affected will not participate in either the transit or the Federal reserve note clearing through the Gold Settlement Fund. Please include transit clearing credits for each of the offices concerned with your credits for the following business day. No debits covering shipments of Federal reserve notes for account of the Federal Reserve Bank of Dallas should be made on Saturday, August 26.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

72

X-7518

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 22, 1933.

SUBJECT: Reports of violations of Section 22(g) of the Federal Reserve Act.

Dear Sir:

Reference is made to the Board's letter of July 11, 1933, (X-7493) with which was inclosed a copy of a letter addressed by the Board to the Acting Governor of the Federal Reserve Bank of Atlanta with respect to the question who is to be considered an "executive officer" of a member bank within the meaning of Section 22(g) of the Federal Reserve Act, as amended by the Banking Act of 1933. The Board stated that the determination of the question whether persons should be prosecuted for violations of this provision of law is a matter entirely within the jurisdiction of the Department of Justice and that, accordingly, the Board does not feel that it would be appropriate for it to undertake to express opinions upon questions of this kind. It should be understood, however, that examiners of member banks will be expected to call attention in their reports of examination to all cases discovered by them where the positions or duties of the officers involved are such as to make it appear to the examiners that there has been a violation of the provisions of Section 22(g) of the Federal Reserve Act, as amended, and

Federal reserve agents are requested to report the facts of any such case coming to their attention to the local United States District Attorney and to send a full report of the matter to the Federal Reserve Board in triplicate, as requested in cases of violations of other criminal statutes by the Board's letters of April 4, 1923, (X-3683) and September 1, 1927 (X-4939).

Very truly yours,

Chester Morrill,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS.

X-7519

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 21, 1933.

Mr. J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Comptroller:

The Federal Reserve Board has been advised by Mr. F. G. Awalt, Deputy Comptroller of the Currency, in a memorandum under date of July 6, 1933, that it is proposed to consolidate the _____ Bank, a territorial banking institution on the Island of Maui, and the (a national bank in Honolulu, T. H.,) under the Act of November 7, 1918, as amended. Both banking institutions are located in the Territory of Hawaii, and neither bank is a member of the Federal Reserve System. Although the (national bank) is a national banking association, it is located in a territory of the United States and is not required by law to become, and has not become, a member of the Federal Reserve System.

From the memorandum submitted by Mr. Awalt, the Board understands that _____ Company, Ltd., owns substantially all the stock of both of these banks, and that Mr. _____ executive vice president of the national bank, desires to know what steps _____ Company, Ltd., must take in order to obtain from the Board a permit to vote the stock of the national bank in connection with the proposed consolidation. Since the (national bank) is not a member of the Federal Reserve System, there is presented the question whether the provisions of Section 5144

of the Revised Statutes, as amended, are applicable to a company that owns a national bank which is not a member bank of the Federal Reserve System.

It is the opinion of the Board that the provisions of the said Section 5144 are not applicable to such a company, and, accordingly, that ___ _____ Company, Ltd., is not required by the said Section 5144 to obtain a permit from the Board as a prerequisite to its voting the shares of stock of the national bank which it owns.

Section 5144 of the Revised Statutes, as amended by Section 19 of the Banking Act of 1933, provides that shares of stock of a national bank which are controlled by a "holding company affiliate" may not be voted unless such "holding company affiliate" first obtains a voting permit from the Board and such voting permit is in force at the time such shares are voted. The provisions of Section 5144 are applicable to every "holding company affiliate" of a national bank and, accordingly, are applicable to ___ _____ Company, Ltd., if that company is a "holding company affiliate" of the national bank within the meaning of the statute.

The definition of the term "holding company affiliate" is found in Section 2 of the Banking Act of 1933, which reads as follows:

> "Sec. 2. As used in this Act and in any provision of law amended by this Act--
> *****
> "(c) The term 'holding company affiliate' shall include any corporation, business trust, association, or other similar organization --
> "(1) Which owns or controls, directly or indirectly, either a majority of the shares of

> capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or
>
> "(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees." (Italics supplied.)

After considering the above definition, it is the opinion of the Board that the term "holding company affiliate", as used in the Banking Act of 1933, means a corporation, business trust, association, or other similar organization which is affiliated with a member bank in any manner set forth in the definition above quoted, and that it does not have reference to, or include, an organization which is not affiliated with a member bank. Although it appears that the word "bank" is twice used in subdivision (1), sub-paragraph (c) of Section 2, without the qualifying word "member", the first reference to a banking institution in this subdivision is to a "member bank", and the reference in the subdivision following is likewise to a "member bank". In view of such references and of the context of the Act, the Board is of the opinion that the word "bank", as used in said subdivision (1), connotes a "member bank"; and that the term "holding company affiliate" is limited in its meaning to an organization which is affiliated with a member bank in the manner set forth in Section 2, sub-paragraph (c) of the Act. Accordingly, although _____ Company, Ltd., owns substantially all the stock of the national bank, and is affiliated with such bank in the manner set forth in Section 2 (c) of the Act, it is not a "holding company affiliate" of such bank by reason of the fact that the national

bank with which it is affiliated is not a member bank of the Federal Reserve System. Therefore, since _____ Company, Ltd., is not a "holding company affiliate" of the national bank, it does not appear to be necessary for the company to obtain a permit from the Board before voting the stock of the national bank which it owns.

The _____ Bank is neither a national banking association nor a member bank of the Federal Reserve System; the law does not require the holding company of any such institution to obtain a permit to vote the stock owned by the holding company in such institution; and, accordingly, it will not be necessary for _____ Company Ltd., to obtain a permit to vote the stock of this bank.

Very truly yours,

(s) CHESTER MORRILL

Chester Morrill,
Secretary.

X-7520

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 22, 1933

Mr. J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Comptroller:

In a memorandum dated June 29, 1933, Mr. F. G. Awalt, Deputy Comptroller of the Currency, requested a ruling on the question whether a member bank, which has purchased certain assets from a conservator or receiver of a national bank, may lawfully pay interest on a deposit of funds representing the unexpended portion of the purchase price credited in a lump sum to the account of such conservator or receiver by the purchasing bank, pursuant to a provision in the contract, reading as follows:

> "From and after the expiration of sixty days from date of delivery of assets hereunder, Purchaser will pay to the Conservator interest upon the unexpended balance remaining in said lump sum credit account at the rate of 1½% per annum upon the daily balance thereof, computed in the same manner in which interest is now computed upon depository accounts of the Comptroller of the Currency, said interest payments, if any so made, to be treated and considered as part of the 'Class B Assets' for all purposes of this contract, and Purchaser will furnish adequate security for such remaining unexpended balance to the satisfaction of the Conservator."

Since the exact effect of such a provision can not be determined without reference to the other provisions of the contract in which it is incorporated, the Board must consider each such case with reference to the provisions of the particular contract, and cannot undertake to express an opinion which could be considered as applicable to all cases

involving contracts containing such a provision. However, it is understood that Mr. Awalt has particular reference to a certain contract between (a national bank) and Mr. _____, Conservator of the _____ _____, which contract was approved by the Supreme Court of _____ on _____, and became effective on such date in accordance with the terms thereof. Under such contract, the national bank purchased certain assets from the conservator of the savings bank, and, in consideration of the transfer of such assets to it, the national bank credited to the conservator, upon its books, a lump sum equal to the amount of the assets purchased, and agreed to pay interest thereon in accordance with the provision quoted.

Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933, does not prohibit the payment of interest on deposits payable on demand in accordance with the terms of a contract which was entered into in good faith and was in force on June 16, 1933. However, it forbids renewal or extension of any contract which includes a provision for the payment of interest on deposits payable on demand which are not within a class excepted by the statute, unless such contract is modified so as to eliminate the provision for the payment of interest, and it requires member banks to take such action as may be necessary to eliminate payment of interest on such deposits as soon as possible consistently with their contractual obligations.

In the instant case, it appears that the contract for the payment of interest by the (national bank) on the "unexpended balance

remaining in said lump sum credit" was entered into in good faith and was in force on June 16, 1933; that it is the valid obligation of the (national bank); that it is not subject to cancellation or modification at the option of the said national bank; and, accordingly, that interest may be paid on such deposit in accordance with the terms of such contract for the period provided for therein.

Very truly yours,

Chester Morrill,
Secretary.

X-7521

(Interpretation of Banking Act of 1933)

Copies to be sent to all Federal Reserve Banks.

July 22, 1933.

Mr. _____, President
_____ Bank,
_____, _____.

Dear Sir:

Your letter of June 23, 1933, addressed to the Comptroller of the Currency and requesting advice as to the effective date of the amendments to the 10th paragraph of Section 9 of the Federal Reserve Act contained in the Banking Act of 1933 and as to the capital which a new State bank located in a city with a population of 800 inhabitants would be required to have in order to be eligible for admission to membership in the Federal Reserve System, has been referred to the Federal Reserve Board for reply.

The amendments to the 10th paragraph of Section 9 of the Federal Reserve Act contained in the Banking Act of 1933 became effective on June 16, 1933, the date of the approval of the Banking Act of 1933. The 10th paragraph of Section 9 as amended reads as follows:

> "No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act, as amended: Provided, That this paragraph shall not apply to State banks and trust companies organized prior to the date this paragraph as amended takes effect and situated in a place the population of which does not exceed three thousand inhabitants and having a capital of not less than $25,000, nor to any State bank or trust company which is so situated and which, while it is entitled to the benefits of insurance under section 12B of this Act, increases its capital to not less than $25,000."

Under the requirements of this provision of law, a State bank organized on or after June 16, 1933, in a place with a population of not exceeding 3,000 inhabitants is required to have a capital of $50,000 in order to be eligible for membership in the Federal Reserve System, unless it is at the time entitled to the benefits of insurance under Section 12B of the Federal Reserve Act, in which event it is eligible for membership in the Federal Reserve System if it has a capital of not less than $25,000. If you decide to organize the new State bank referred to in your letter, it is suggested that you communicate with the Federal Reserve Agent at the Federal Reserve Bank of _____, who will be glad to give you detailed information with regard to the requirements for admission to membership in the Federal Reserve System.

Very truly yours,

Chester Morrill,
Secretary.

X-7522

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

July 22, 1933.

Mr. C. C. Walsh,
Federal Reserve Agent,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Walsh:

Receipt is acknowledged of your letter of July 11, 1933, in which you request to be advised whether, under the provisions of section 9 of the Federal Reserve Act, as amended by section 5(c) of the Banking Act of 1933, it will be necessary for (a member bank) to obtain a report of condition from the _____ _____ State Bank, _____ _____ Texas, and to publish such report under the same conditions as govern its own condition report.

From the copy of the letter signed by _____, President of the (member bank) _____ _____ under date of July 8, 1933, which you inclosed with your letter of July 11, 1933, the Board understands that the _____ _____ State Bank was placed in voluntary liquidation on January 31, 1933, pursuant to appropriate action by its stockholders; that it has no liabilities of any kind except in indebtedness in the amount of $9,900, which represents the balance due on a loan made by the (member bank) to the _____ _____ State Bank; and that it is authorized to do no business of any kind except to collect its loans outstanding and sell its other property, to satisfy its indebtedness to the (member bank) and to distribute any assets remaining to its stockholders.

It has been noted that the Texas statutes provide that, when the requisite number of shareholders of a State bank vote in favor of placing such bank in liquidation, the bank's directors must proceed forthwith to wind up the business of such corporation. In view of such provision, and of the advice that the _____ _____ State bank is in course of voluntary liquidation and is not authorized to engage in any business except such as may be necessary or incidental to the winding up of its affairs, it is the opinion of the Board that the instant situation does not come within the purview of the Banking Act of 1933, and accordingly, that it will be unnecessary for the (member bank) to obtain and publish a report of condition of the _____ _____ State Bank.

Very truly yours,

(s) CHESTER MORRILL

Chester Morrill
Secretary

Copies to be sent to all Federal reserve banks.

July 22, 1933.

Mr. _____, Corporation Counsel,
City of _____,
_____, _____.

Dear Sir:

Receipt is acknowledged of your letter, under date of July 13, 1933, which was addressed to the Honorable _____, United States Senator, and referred by Senator _____ to the Federal Reserve Board for reply. You raise the question whether (a national bank) may pay interest on deposits made by the City of _____ which are payable on demand.

Section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, reads in part as follows:

> "No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand; Provided, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: Provided, however, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply 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 municipality, with respect to which payment of interest is required under State law."

Under the provisions quoted, a member bank may not pay interest on a deposit payable on demand, unless it is obligated to do so under a bona fide and binding contract, which was in force on June 16, 1933, or unless the deposit in question is one of a class excepted by statute. The statutory prohibition against payment of interest on deposits payable on demand does not apply to a deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, provided that payment of interest with respect to such deposit is required under State law.

In accordance with such provisions and in the absence of a State law requiring such payment of interest, the (a national bank) may not pay interest on any deposit of such bank made by or on behalf of the City of _____ which is payable on demand, unless the bank is obligated to do so under a valid and binding contract which was entered into in good faith and was in force on June 16, 1933.

Two copies of the Banking Act of 1933 are inclosed herewith.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7525

July 27, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDYS" has been designated to cover a new issue of Treasury Bills, dated August 2, 1933, and maturing November 1, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7526

July 28, 1933.

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

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7526-a and X-7526-b, covering in detail operations of the main lines, Leased Wire System, during the month of June, 1933.

Please credit the amount payable by your bank for your share of the expense of the Leased Wire System, to the Federal Reserve Bank of Richmond in the transit clearing, for the account of the Federal Reserve Board, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JUNE, 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	40,047	2,190	42,237	4.78
New York	179,905	-	179,905	20.37
Philadelphia	36,001	2,351	38,352	4.34
Cleveland	56,733	2,350	59,083	6.69
Richmond	63,429	2,423	65,852	7.46
Atlanta	57,376	2,539	59,915	6.78
Chicago	92,012	2,816	94,828	10.74
St. Louis	67,188	2,663	69,851	7.91
Minneapolis	37,382	2,303	39,685	4.49
Kansas City	71,092	2,558	73,650	8.34
Dallas	56,812	3,131	59,943	6.79
San Francisco	96,032	3,858	99,890	11.31
Total	854,009	29,182	883,191	100.00

F. R. Board business	354,731	1,237,922
Reimbursable business Incoming and Outgoing		522,351
Total words transmitted over main lines		1,760,273

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7526-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, JUNE, 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	$798.18	$260.00	$538.18
New York	1,180.00	7.00	-	1,187.00	3,401.45	1,187.00	2,214.45
Philadelphia	225.00	-	-	225.00	724.71	225.00	499.71
Cleveland	306.66	-	-	306.66	1,117.12	306.66	810.46
Richmond	211.00	-	230.00 (&)	441.00	1,245.70	441.00	804.70
Atlanta	243.00	-	-	243.00	1,132.15	243.00	889.15
Chicago	4,020.42 (#)	19.00	-	4,039.42	1,793.40	4,039.42	2,246.02 (*)
St. Louis	195.00	-	-	195.00	1,320.84	195.00	1,125.84
Minneapolis	262.67	-	-	262.67	749.76	262.67	487.09
Kansas City	273.00	-	-	273.00	1,392.64	273.00	1,119.64
Dallas	251.00	-	-	251.00	1,133.82	251.00	882.82
San Francisco	380.00	-	-	380.00	1,888.58	380.00	1,508.58
Federal Reserve Board	-	-	15,691.86	15,680.61	-	-	-
Total	$7,807.75	$26.00	$15,921.86	$23,744.36	$16,698.35	$8,063.75	$10,880.62
							2,246.02 (a)
							$ 8,634.60

Reimbursable charges:

Treasury Department.	$3,165.41
Exp. Nat. Bkg. Emergency Act, 3-9-33	510.02
Reconstruction Finance Corporation .	3,245.32
Federal Home Loan Bank Board	2.55
Comp.Currency Div.Insolv.Nat.Banks .	75.26
Farm Credit Administration :	
Federal Farm Loan Bureau	16.98
Federal Farm Board	30.47
Less: Reimbursable charges.	$7,046.01
	$16,698.35

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

FEDERAL RESERVE BOARD

X-7527

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 29, 1933.

SUBJECT: Regulations regarding (1) Open Market Operations and (2) Relations with Foreign Banks and Bankers.

Dear Sir:

The Federal Reserve Board has given careful consideration to the recommendations submitted to it by the Federal Open Market Committee during its meetings in Washington on July 20 and 21, 1933, and to the suggestions which have been received from the various Federal reserve agents, in regard to the tentative drafts of regulations governing open market operations and relations with foreign banks and bankers which were sent to all Federal Reserve Agents in the Board's letter of July 19, 1933 (X-7498). These regulations have been revised in the light of such recommendations and suggestions; and at a meeting of the Board on July 28, 1933, were adopted for issuance on August 10, 1933. They are to be published in the August Bulletin and also printed in separate pamphlets.

A mimeographed copy of each of these regulations is inclosed herewith.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

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

Board of Directors,

Dear Sirs:

The Federal Reserve Board approves the application of

for stock in the Federal Reserve Bank of ,

subject to the numbered conditions hereinafter set forth.

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 exercisedby 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.

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 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.

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.

* * * * * *

If the applicant bank is exercising trust powers, the following three conditions should be included:

16. 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.

17. 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 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.

18. 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. * * * * * *

(Insert special condition).

Under the provisions of the Federal Reserve Act, the Federal Reserve Board is specifically required to consider the financial condition and the character of the management of each bank or trust company applying for membership in the Federal Reserve System and whether or not the corporate powers exercised by it are consistent with the purposes of the Federal Reserve Act, and the conditions of membership described above are designed to maintain a sound condition in banks admitted to membership and to insure that powers exercised after their admission will be consistent with the purposes of the Federal Reserve Act. Your particular attention is called to the condition numbered one above which requires that after your bank is admitted to membership there shall not be any change in the general character of its business or in the scope of the corporate powers exercised at the time of admission except with the permission of the Federal Reserve Board. Accordingly, if after the admission of your bank to membership you should desire to make any change in the general character of your business or in the scope of the corporate powers exercised at the time of admission, it will be necessary for you to obtain the permission of the Federal Reserve Board before making any such change.

* * * * * * If the State law or bank's charter permits it to exercise fiduciary powers but such powers were not being exercised at the time of its application for membership, the following statement should be included in this letter:

In this connection it appears that your bank may under its charter exercise fiduciary powers, but it is not now exercising such powers, and if you hereafter

desire to exercise fiduciary powers, or exercise any other powers not now exercised, you should obtain the permission of the Federal Reserve Board before doing so. * It may also be noted that an acquisition by your bank of the assets of another institution through merger, consolidation or purchase may result in a change in the character of your assets or the scope of your functions within the meaning of the condition numbered one, and if at any time you anticipate making any such acquisition, a detailed report setting forth all of the facts in connection with the transaction should be made promptly to the Federal Reserve Agent, the local representative of the Federal Reserve Board at the Federal Reserve Bank of your district.

* (If sentence regarding fiduciary powers is not included in letter, this sentence should begin: In this connection, it may be noted that an acquisition etc.)

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 thirtieth day of November the average amount of deposit liabilities of your bank during such period, as determined on the basis of reports made by your bank to the Federal Reserve Bank for the purpose of computing its required reserve, exceeds ten times the aggregate amount of your bank's paid-up and unimpaired capital stock and unimpaired surplus, the Board will expect that your 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 per cent of the average amount of its deposit liabilities during such twelve months.

* * Insert any comments to the bank. * *

It is suggested that, if at any time you should make any change in or amendment to your charter, you should advise the Board through the Federal Reserve Agent at the Federal Reserve Bank of your district, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way your status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by your board of directors and spread upon its minutes, and a certified copy of such resolution, together with advice of your compliance with the conditions numbered (prior condition), should be filed with the Federal Reserve Agent at the Federal Reserve Bank of . The Federal Reserve Agent will thereupon arrange for the Federal Reserve Bank to accept payment for an appropriate amount of Federal reserve bank stock, to accept the deposit of your required reserve balance and to issue the appropriate amount of Federal reserve bank stock to you. The time within which your admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to thirty days from the date of this letter, unless you apply to the Federal Reserve Board and obtain an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal reserve bank stock has been issued to your bank, the Board will forward to you a formal certificate of membership in the Federal Reserve System.

Very truly yours,

Secretary.

Mr. ,
Federal Reserve Agent,
Federal Reserve Bank of ,

Dear Mr. :

This is to advise you that the Federal Reserve Board has approved the application of the (name of applicant bank and location), for membership in the Federal Reserve System, subject to the conditions contained in the inclosed letter which you are requested to forward to the board of directors of that institution. Two copies are also inclosed, one of which is for your files and the other of which you are requested to forward to the (Head of the State Banking Department) for his information.

Comments and suggestions to Agent. * * * * * *

* * If officers and employees are not bonded or not adequately bonded, this paragraph should be inserted to conform with the particular circumstances of the case: * *

According to the report of examination of the (name of bank), made by one of your examiners as of (date of examination), (name of officer of officers concerned) appear to be inadequately bonded (or are not bonded). It will be appreciated, therefore, if you will ascertain whether these officers, even though they may be inactive in the management of the bank, have access to its cash and securities, and, if so, it is suggested that you request the board of directors of the bank to give careful consideration to the advisability of having suitable bonds provided.

Very truly yours,

Secretary.

A-7529

July 29, 1933.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

TELEGRAM

Olson - Denver

Please advise President _____ National Bank as follows: Referring your wire July 27 section 19 of Federal Reserve Act as amended by section 11(b) of Banking Act of 1933 does not forbid member bank to pay interest on deposit of public funds payable on demand made by or on behalf of any State, county, school district or other subdivision or municipality with respect to which payment of interest at the time of accrual thereof is required under State law, regardless of whether State law in question was in effect on date of approval of Banking Act of 1933 or is enacted by State legislature at a later date.

MORRILL

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7530

August 1, 1933.

SUBJECT: New Issues of Treasury Notes
and Treasury Bonds.

Dear Sir:

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

"NOWHYRAX" 1 5/8% Treasury Notes, Series B-1935, to be dated August 15, 1933, and due August 1, 1935.

"NOWCEDED" 3 1/4% Treasury Bonds of 1941, to be dated August 15, 1933, and due August 1, 1941.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7532

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

August 2, 1933.

Mr. _____, President,
_____ of _____,
_____, _____.

Dear Sir:

Your letter of July 14, 1933, addressed to the Comptroller of the Currency, has been referred to the Federal Reserve Board for reply.

From the statements and other information in your letter, the Board understands that you own a majority of the outstanding stock of the _____ National Bank of _____, _____, _____, of the _____ National Bank of _____, _____, _____, and of the _____ State Bank of _____, _____, _____, respectively; and that you and your wife, who own 189½ shares of stock of the _____ National Bank of _____, out of a total of ____ shares outstanding, also own a majority of the stock of the State Bank of _____, _____, _____. From the list of stockholders which you submitted, it appears that certain other individuals own stock in more than one of the banks in the group. You state that, notwithstanding such common stock ownership, each bank in the group is operated independently of each other bank in the group, and you request to be advised whether, under the circumstances stated, the national banks and the two State banks, neither of which is a member of the Federal Reserve System, are "affiliates" of each other within the meaning of Section 2, subparagraph (b) of the Banking Act of 1933.

It is the opinion of the Board that the _____ National Bank of _____, the _____ State Bank of _____, and the State Bank of _____, are "affiliates" of the _____ National Bank of _____; and that the _____ National Bank of _____, the _____ State Bank of _____, and the State Bank of _____ are "affiliates" of the _____ National Bank of _____. Neither national bank is an "affiliate" of either State bank, and neither State bank is an "affiliate" of the other.

Section 2, subparagraph (b) of the Banking Act of 1933, provides in part that "Except where otherwise specifically provided, the term 'affiliate' shall include any corporation, business trust, association, or other similar organization -

* * * * * *

"(2) Of which control is held * * * through stock ownership or in any other manner, by the shareholders of a member bank who own or control * * * a majority of the shares of such bank."

Under this definition, in deciding whether a corporation, business trust, association, or other similar organization is an "affiliate" of a member bank, the determinative factor is whether control of such organization is held by shareholders of a member bank who own or control a majority of the shares of such member bank, and not whether such organization and member bank are operated

independently of each other. Accordingly, since shareholders of the _____ National Bank of _____, a member bank, who own a majority of the shares of stock of such bank, own more than 50% of the outstanding stock of the other banks in the group, it appears that control of each such other bank is held through stock ownership by shareholders of a member bank who own more than a majority of the shares of the member bank, and it is the opinion of the Board that each such other bank is an "affiliate" of the _____ National Bank of _____ within the meaning of the Banking Act of 1933. Likewise, it appears that the _____ National Bank of _____, the _____ State Bank of _____, and the State Bank of _____ are each controlled by shareholders of the _____ National Bank of _____, who own a majority of the shares of such member bank, and that such banks are "affiliates" of the _____ National Bank of _____ within the meaning of the Banking Act of 1933.

You will note that the definition quoted above has reference to corporations, business trusts, associations, and other similar organizations which are owned or controlled by shareholders of a member bank, and does not include any such organization which is not controlled by shareholders of a member bank. Accordingly, the national banks are not "affiliates" of the State banks, as that term is used in the definition quoted, even though they are controlled by shareholders of the

State banks who own a majority of the shares of such State banks, for the reason that the State banks are not member banks. For a like reason, neither non-member State bank is an "affiliate" of the other.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7533

August 3, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXEAR" has been designated to cover a new issue of Treasury Bills, dated August 9, 1933, and maturing November 8, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7534

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

August 3, 1933.

Mr. W. H. Dillistin,
Assistant Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Dillistin:

Reference is made to your letter of July 11, 1933, inclosing a copy of a letter from (a member bank) with regard to the time of publication of reports of affiliates of State member banks in the State of _____.

It appears that the _____ State law requires that a report of condition of a State bank or trust company shall be published by such bank or trust company within thirty days after it has been filed with the Superintendent of Banks. The Superintendent of Banks, however, did not issue a call for reports of condition of State banks or trust companies as of June 30, 1933, the date of the Board's recent call for condition reports of State member banks and their affiliates.

In view of the requirement of section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, that reports of affiliates of a State member bank be published by the bank under the same conditions as govern its own condition reports, in view of the fact that the Federal Reserve Act does not require the publication of reports of State member banks rendered pursuant to call of the Federal

Reserve Board, and in view of the requirement of the _____ statute that a bank's report of condition made pursuant to call of the State authorities be published within thirty days after it has been filed, it is the opinion of the Federal Reserve Board, after careful consideration of the subject, that reports of affiliates of a State member bank or trust company in the State of _____, rendered pursuant to the Board's call of June 30, 1933, should be published in the same paper and on the same date as the condition report of such bank or trust company rendered pursuant to the next succeeding call of the State authorities after June 30, 1933.

In order, however, that reports of condition of affiliates of State member banks hereafter rendered may be published, if possible, as of the same date as those of the respective banks, it is suggested that your office endeavor to arrange with the State authorities to issue calls for reports of condition of State banks as of the same dates as the calls made by the Federal Reserve Board.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

X-7535

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 5, 1933.

SUBJECT: Proposed Regulation Regarding Payment of Interest on Deposits by Member Banks.

Dear Mr.

There are inclosed herewith six copies of a proposed regulation governing the payment of interest on deposits by member banks, pursuant to the provisions of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933. This proposed regulation has been tentatively approved by the Federal Reserve Board.

It will be observed that the proposed regulation prescribes a single maximum rate of interest of three per cent per annum on all time and savings deposits. Careful consideration has been given to suggestions that maximum rates of interest, varying according to the maturity of the deposits, the locations of the banks or other factors, be prescribed; but so many factors enter into the determination of rates which may be paid by member banks in different sections of the country on different classes of time or savings deposits that it appears to be impracticable, at this time to undertake to solve all of these varying problems

in a satisfactory manner.

Numerous inquiries with respect to the payment of interest on deposits have been received and the Board is desirous of issuing a regulation on the subject at the earliest practicable date. It will be appreciated, therefore, if you and the officers of your Federal reserve bank will consider this proposed regulation and give the Federal Reserve Board your comments and suggestions thereon not later than Monday, August 14, 1933.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO CHAIRMAN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7536

August 8, 1933.

SUBJECT: Section 33 of Banking Act of 1933.

Dear Sir:

Pursuant to the procedure outlined in the Board's letter of July 15, 1933 (X-7499), regarding the forwarding of interpretations of the Banking Act of 1933, there is attached hereto a copy of a letter to Acting Governor Johns of the Federal Reserve Bank of Atlanta with respect to the effect of section 8A of the Clayton Antitrust Act, as amended by section 33 of the Banking Act of 1933.

In connection with the statement in the attached letter that the director involved may file an application at this time for a permit to serve the two institutions after January 1, 1934, and that the Board's regular forms 94, 94a and 94b may be used for that purpose, your particular attention is invited to the fact that the circumstances of the particular case involved were such as to justify handling it as an emergency matter.

It is requested that, except in cases of great urgency, the filing of all applications for the Board's permission to serve two or more banks affected by the provisions of section 8A of the Clayton Act

as amended by section 33 of the Banking Act of 1933, be deferred pending the issuance of regulations on that subject and the preparation of forms for use in that connection.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

Mr. W. S. Johns, Acting Governor,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Johns:

Reference is made to your letter of July 29, 1933, addressed to Governor Black, regarding the inquiry made by Mr. _____ _____, vice president and director of the _____ Bank of _____, _____, as to whether he may also serve after January 1, 1934, as a director of a new national bank to be organized in _____, _____, in view of the provisions of section 8_A of the Clayton Anti-trust Act, as amended by section 33 of the Banking Act of 1933.

That section in so far as applicable to the present case, prohibits the service of an officer or director of a national bank as an officer or director of any institution (except a mutual savings bank) which makes loans secured by stock and bond collateral. However, under the provisions of the so-called Kern Amendment in section 8 of the Clayton Anti-trust Act, the Board is authorized to grant permission to an officer, director or employee of a national bank to serve at the same time as an officer, director or employee of another banking institution falling within the prohibitions of any provision of the Clayton Act, if in the judgment of the Board it is not incompatible with the public interest.

Therefore, it would be unlawful, after January 1, 1934, for Mr. _____ to serve as an officer or director of both of these national banks if either of them shall make loans secured by stock or bond collateral, unless there is in force a permit covering such services issued by the Federal Reserve Board. The Board, of course, will not be in a position to say whether or not a permit will be issued, until after an application in proper form has been submitted to it. You are requested to advise Mr. _____ that in the event he desires to obtain the permission of the Board covering his service as an officer or director of these banks, he should submit his application for such permission to the Federal Reserve Agent at the Federal Reserve Bank of Atlanta. Pending the issuance of further forms and regulations, it is requested that the Board's regular forms 94, 94a, and 94b be used; and it is also requested that in addition to the information heretofore required in connection with such an application there be submitted a statement showing, as to each of the institutions involved, whether it makes or proposes to make loans secured by stock or bond collateral, the purposes for which such loans are made, and other details so that the Board may be advised fully as to the nature and extent of such business in the case of each of the institutions.

The Board received a telegram from Mr. _____ on this subject under date of July 20, 1933 and this matter was receiving attention before your letter was written. However, the Board's staff is overwhelmed with important matters arising under the Banking Act of 1933 and, in fairness to all concerned, is endeavoring to deal first with those questions

which arise under provisions of the Act which became effective immediately and which are of general interest to all member banks and not merely of special interest to a single member bank or a few member banks. Co-operation in this policy by the Federal reserve banks will be appreciated.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7537

August 7, 1933.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

Upon agreement between the Federal reserve banks affected, the Federal Reserve Board has approved the following changes in the inter-district time schedule:

From	Houston		To	Helena		From	5 days	to 4 days
"	"		"	San Francisco		"	3 "	" 4 "
"	"		"	Spokane		"	5 "	" 4 "
"	"		"	Portland		"	5 "	" 4 "
"	"		"	Denver		"	3 "	" 2 "
"	"		"	Omaha		"	3 "	" 2 "
"	San Antonio		"	Helena		"	5 "	" 4 "
"	"		"	San Francisco		"	3 "	" 4 "
"	"		"	Spokane		"	5 "	" 4 "
"	"		"	Denver		"	3 "	" 2 "
"	"		"	Omaha		"	3 "	" 2 "

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7538

August 7, 1933.

SUBJECT: Regulation P, and Forms for Use in Connection With Applications for Voting Permits by Holding Companies.

Dear Sir:

For your information, there is inclosed herewith one copy each of the Board's Regulation P, regarding holding company affiliates, and of the forms for use in connection with applications for voting permits by holding company affiliates of member banks, and by holding companies of nonmember banks applying for membership in the Federal Reserve System. The regulation and forms were approved by the Board on August 4, 1933, and became effective immediately. Twelve extra mimeographed copies of the regulation and of each form are being furnished to each Federal reserve bank and a limited number of additional copies can be furnished if actually needed.

The regulation and forms are being printed, and printed copies will be furnished to the Federal reserve banks as soon as they are available. Please advise the Board at your earliest convenience as to the number of printed copies of the regulations and forms desired by your bank.

The Board prefers that no application be filed on the

mimeographed copies inclosed herewith except in an emergency; but you may furnish mimeographed copies of the regulations and forms to any prospective applicant with the understanding that no application will be filed on such forms unless the exigencies of the particular situation necessitate the immediate filing of an application for a voting permit.

The Board's Regulation P will be published in full in the August issue of the Federal Reserve Bulletin.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

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

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

August 7, 1933.

Honorable _____,
United States Senate,
Washington, D. C.

Dear Senator _____:

Permit me to acknowledge receipt of your letter of June 28, 1933, addressed to Honorable Eugene R. Black, Governor of the Federal Reserve Board, in which you inclosed a letter to you from Mr. _____, Cashier of _____ Bank, _____, _____. In his letter, Mr. _____ submits the question whether cooperative banks in Massachusetts are "mutual savings banks" within the meaning of section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, which excepts from the prohibition against payment of interest on deposits payable on demand deposits made by a "mutual savings bank".

The Federal Reserve Board has communicated with the Federal Reserve Bank of Boston with respect to this matter, and it appears that cooperative banks in Massachusetts are incorporated under Chapter 170 of the General Laws of Massachusetts as amended by Chapter 144 of the Acts of 1933. Under the provisions of the Massachusetts statutes, such an institution may be incorporated for the declared purpose of "accumulating the savings of its members and loaning such accumulations to them", and such institutions appear to be organized for the primary purpose of making loans to aid in home construction. Capital is

obtained by issuing in series either paid-up shares, or unmatured shares for which payment is made in fixed periodical installments. Under the law, the accumulated funds in any such institution may be loaned in limited amounts to applicant members on the security of real estate or unpledged shares, or may be invested in the manner prescribed by law. Net profits, less certain reserves, are distributed annually, semi-annually, or quarterly to the shares then existing before the close of business on each day when a new series of shares is issued. It does not appear that such institutions accept deposits of moneys, or that they are authorized to engage in any of the primary banking functions of deposit, discount, or circulation.

After careful consideration of the nature of a co-operative bank in Massachusetts, it is the opinion of the Federal Reserve Board that such institutions may not properly be considered "mutual savings banks" within the meaning of section 19 of the Federal Reserve Act, as amended. Cooperative banks in Massachusetts are engaged primarily in making loans on the security of real estate, and do not accept deposits of money, and it would seem clear that they are not "savings banks". On the other hand, they are substantially similar to organizations commonly known as "building and loan associations", and it would appear that they should be so classified. The fact that the corporate structure of such institutions may be similar to that of a "mutual savings bank" cannot affect this conclusion, since the question whether an organization is a "savings bank" ultimately depends upon

the kind of business done, and not merely upon the form of corporate structure. Accordingly, since the character of the business actually engaged in by cooperative banks incorporated under the laws of Massachusetts is so distinct from that of a savings bank, it is the opinion of the Board that such institutions cannot be said to be "mutual savings banks" within the meaning of the Act, and that payment of interest by a member bank on any deposit made by such an institution, which is payable on demand, would be within the prohibition of section 19 of the Federal Reserve Act, as amended.

Mr. _____'s letter is returned herewith for your files.

Very truly yours,

Chester Morrill,
Secretary.

(INTERPRETATION OF BANKING ACT OF 1933)

X-7540

Copies to be sent to all Federal Reserve Banks.

August 7, 1933.

Mr. Frederic H. Curtiss,
Federal Reserve Agent,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Curtiss:

Reference is made to your letter of July 18, 1933, designated "Inquiry No. 29", wherein you inquire whether, under the provisions of Section 23A of the Federal Reserve Act, as amended by Section 13 of the Banking Act of 1933, a member bank may make loans to an affiliate secured by real estate mortgages.

You state that, "The affiliate in question is a company to which the member trust company has transferred assets or property taken over from time to time on debts previously contracted, including certain parcels of real estate, the affiliate managing and operating such properties until they can be disposed of in a satisfactory way. The loans by the member trust company to the affiliate would be secured by mortgages on the real estate, which, in the opinion of the officers of the member trust company, would have a market value of at least 20 per cent in excess of the amount of the credit."

Section 23A reads, in part, as follows:

> "Within the foregoing limitations, each loan or extension of credit of any kind or character to an affiliate shall be secured by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension

> of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any State, or of any political subdivision or agency thereof."

In view of the requirement that each loan to an affiliate be secured by "collateral in the form of stocks, bonds, debentures, or other such obligations" having a certain "market value", the answer to your inquiry depends upon whether the real estate mortgages in question are "other such obligations having a market value" within the meaning of the above provision.

Since it follows the words, "stocks, bonds, debentures", the phrase "other such obligations" clearly includes only obligations which are of the same general character as stocks, bonds and debentures -- i.e., obligations of the kind commonly known as "investment securities", which ordinarily do not arise out of direct loans but are issued for sale to investors on the open market. Furthermore, the phrase "having a market value * * * of at least 20 per centum more than the amount of the loan or extension of credit" indicates strongly that the law refers to obligations for which there are sufficient price quotations on the open market to make it possible to determine their market value with reasonable accuracy.

While it is not impossible for real estate mortgages to conform to the above requirements, it is believed that those arising out of the ordinary type of direct loans on real estate usually are not obligations of the kind contemplated by the statute; and, where a member

bank transfers to an affiliated corporation real estate which the bank has acquired in satisfaction of debts and either takes a mortgage from the corporation as consideration for such transfer or subsequently makes a loan to the affiliate secured by a mortgage on such real estate, such a mortgage is not an obligation of the kind contemplated by the statute.

Very truly yours,

Chester Morrill,
Secretary.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

August 4, 1933.

Mr. W. S. Johns, Acting Governor,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Johns:

Reference is made to your letter of July 26, 1933, in which you make inquiry with regard to the effect of section 9 of the Banking Act of 1933, which amends the eighth paragraph of section 13 of the Federal Reserve Act, as amended.

You point out that section 28 of the Emergency Farm Mortgage Act of May 12, 1933 amended the eighth paragraph of section 13 of the Federal Reserve Act so as to authorize Federal reserve banks to accept Federal farm loan bonds as security for advances to member banks on their promissory notes under the authority of that paragraph; you refer to the fact that the eighth paragraph of section 13, as amended and reenacted by section 9 of the Banking Act of 1933, approved June 16, 1933, omits the reference to Federal farm loan bonds; and you state that, in the opinion of your General Counsel, such omission amounts to a repeal of the authority to accept such bonds as security for such notes. In view of the numerous inquiries which you have received you request a ruling on this point.

The Board concurs in the view expressed by your General Counsel on this subject.

Very truly yours,

(Signed) Chester Morrill,
Secretary.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

August 8, 1933.

Messrs. _____,
_____ Street,
New York City, New York.

Gentlemen:

Reference is made to your letter of July 14, 1933, with inclosures, with respect to the question whether the Philippine Islands and Puerto Rico may be regarded as foreign countries within the meaning of section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, which forbids a member bank to pay interest on any deposit payable on demand, with certain exceptions including "any deposit of such bank which is payable only at an office thereof located in a foreign country". You also state that you would like to be advised of any ruling that the Board may make with respect to the status of the Canal Zone in this connection.

The Federal Reserve Board has given this matter careful consideration and, in view of the decisions of the courts with reference to the status of the territories in question, is of the opinion that none of them may properly be regarded as a foreign country within the meaning of the statute referred to and, accordingly, the prohibition of section 19 of the Federal Reserve Act upon the payment of interest by a member bank on deposits payable on demand, with the exceptions therein stated, applies to deposits payable at an office of such bank located in Puerto Rico, the Philippine Islands or the Canal Zone.

Very truly yours,

Chester Morrill,
Secretary.

X-7543

(INTERPRETATION OF BANKING ACT OF 1933)

(Copies to be sent to all Federal Reserve Banks)

August 8, 1933.

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

Dear Mr. Young:

Receipt is acknowledged of your letter of July 29, 1933, in which you advise the Board that on July 31, 1933, you intend to commence an examination of the _____ State Bank, _____, _____, a member bank of the Federal Reserve System. You state that the _____ State Bank is owned by the _____ _____ Corporation, which also owns 38 other banks, and that the 38 other banks include 23 State nonmember banks and eight national banks in the 7th District in _____, and 3 State banks and 4 national banks in the 9th District in _____. Apparently, it is your opinion that you are required to examine the holding company affiliate; that the examination of the organizations in the group should be confined to the _____ State Bank and its holding company affiliate; and that the requisite information with respect to the 38 other banks owned by the holding company affiliate may be obtained from reports of such banks in the files of the various supervising authorities of these banks.

Section 9 of the Federal Reserve Act, as amended by section 5(c) of the Banking Act of 1933, provides that "In connection with examinations of State member banks, examiners selected or approved by the Federal

Reserve Board shall make such examinations of the affairs of all affiliates of such 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 bank." Although you have furnished the Board with no detailed information as to the ownership or control by the _____ _____ Corporation of the banks in question, it would appear that the national and State banks which are subsidiaries of the _____ _____ Corporation are affiliates of the _____ State Bank within the meaning of section 2, subparagraph (b) subdivision (2) of the Banking Act of 1933, and, therefore, that the Federal reserve bank examiners are required to make such examinations of each such affiliate of the member bank as may be necessary to disclose fully the relations between the member bank and its affiliates, and the effect of such relations upon the affairs of the member bank. Since the nature of the examination which may be necessary to disclose the requisite information will be dependent to a large extent upon the facts of each particular case, the Board is of the opinion that an examination restricted to a review of the reports of the supervising authorities may not meet the requirements of the statute in every case, and accordingly, that the affiliates of the _____ State Bank should be subjected to a more detailed examination if it should appear from the facts developed in the course of examination of the member bank or any of its affiliates that such additional examination should be made. In any such case, the

Board is of the opinion that the extent and form of examination of any affiliate of the member bank should rest in the sound discretion of the examiners duly authorized to examine the member bank.

It is the opinion of the Board that the word "affiliate", as used in that provision of section 9 of the Federal Reserve Act, as amended, which requires examination of each affiliate of a State member bank, may not be construed as including a "holding company affiliate", and that a holding company affiliate of a State member bank (other than a member bank) is not subject to examination unless and until it enters into an agreement to be subject to all the applicable provisions of section 5144 of the Revised Statutes, as amended, and makes an application to the Board for a voting permit under the authority of section 5144. The _____ _____ Corporation has not filed with the Board any such agreement and application, and accordingly, the law does not require an examination of this holding company affiliate by Federal reserve bank examiners at this time.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

X-7544

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 9, 1933.

SUBJECT: Charge for Printing Federal reserve notes and Federal reserve bank notes.

Dear Sir:

The Bureau of Engraving and Printing advises that the charge for printing Federal reserve notes during the fiscal year ending June 30, 1934 has been fixed at $88.50 per thousand sheets and of Federal reserve bank notes at $94.00 per thousand sheets. This is a reduction of $2.00 per thousand sheets on Federal reserve notes and of $3.00 per thousand sheets on Federal reserve bank notes.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7545

August 10, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXEEL" has been designated to cover a new issue of Treasury Bills, dated August 16, 1933, and maturing November 15, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7546

August 11, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a letter addressed by the Federal Reserve Board under date of August 10, 1933, to the Federal Reserve Agent at Minneapolis, with regard to the eligibility of certain renewed paper as security for Federal reserve notes.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS.

X-7546-a

August 10, 1933.

Mr. John N. Peyton,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Peyton:

Reference is made to your letter of June 30, 1933, with regard to the eligibility of certain renewed paper as security for Federal reserve notes.

As the Board understands your inquiry, you wish to be advised whether notes acquired by the Federal reserve bank under the following circumstances are eligible for the purpose mentioned:

(1) Certain notes were rediscounted for and with the indorsement of a member bank which was subsequently placed in the hands of a conservator. These notes were renewed at maturity, and it is assumed that the renewal notes were indorsed by the conservator in the name of the member bank;

(2) Advances were made by the Federal reserve bank to a member bank upon its promissory notes, secured by paper eligible for discount, under the eighth paragraph of Section 13 of the Federal Reserve Act. Subsequently, the member bank was placed in the hands of a conservator, and, upon maturity of the principal obligations, new notes made by the conservator were taken by the Federal reserve bank in lieu of the original notes of the member bank.

After careful consideration of the questions you raise, the Federal Reserve Board is of the opinion that renewal notes of the

kinds described in (1) and (2) above should not be used as collateral security for Federal reserve notes under the provisions of Section 16 of the Federal Reserve Act.

The Board has noted the statement in the third paragraph of your letter that "these loans are renewed for thirty day periods". In view of the status of a bank in the hands of a conservator, the question naturally arises whether the Federal Reserve Bank should accept renewals of obligations of such a member bank or should carry the obligations as past due items. In the circumstances, it is suggested that you consult with your counsel with reference to this matter, if you have not already done so.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-7547

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

August 8, 1933.

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

Dear Sir:

Receipt is acknowledged of your letter of July 18, 1933, inclosing copy of a letter from Mr. _____, President of the _____ Bank of _____, under date of July 17, 1933. Mr. _____ desires to know whether the _____ _____ _____ Company is an "affiliate" of the _____ Bank, and whether the _____ Bank will be required to obtain and publish a report of condition of the _____ _____ Company.

Mr. _____ states that in December of 1932, the _____ Bank "took the stock of the _____ _____ Company and we now carry it on our books at $1." If this means that the _____ Bank acquired ownership of, and now owns or controls, all or a majority of this stock, it would appear that the _____ _____ company is a corporation of which a member bank owns or controls a majority of the voting shares, and that such company is an affiliate of the member bank within the meaning of section 2(b) of the Banking Act of 1933. In such circumstances, it would appear that the _____ Bank is required to obtain a report of such company, and to publish such report under the same conditions as govern its own condition reports.

As you know, section 9 of the Federal Reserve Act, as amended by section 5(c) of the Banking Act of 1933, is mandatory in its terms, and the Board has no authority to waive the requirement of that section that each State member bank shall publish the reports of its affiliates under the same conditions as govern its own condition reports. However, it is unnecessary for a member bank to publish any such report unless and until it is required to publish its own condition report.

The statement of the _____ ____ _____ Company inclosed in your letter fails to state specifically the character of its business and its relations with the _____ Bank of _____; and you are requested to obtain and forward to the Board another statement furnishing this information specifically in the space provided for that purpose on the Board's form 220a.

Very truly yours,

Chester Morrill,
Secretary.

X-7548

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal Reserve Banks.

August 8, 1933.

Mr. Frederic H. Curtiss,
Federal Reserve Agent,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Curtiss:

Receipt is acknowledged of your letter of July 24, 1933, inclosing the original of a letter, under date of July 24, 1933, addressed to you by Mr. _____, Chairman of the Board of Directors of the _____ Trust Company, _____, _____. Mr. _____ requests that the _____ Trust Company be relieved of the necessity of publishing a report of condition of the _____ _____ _____ Corporation.

From the statements in Mr. _____'s letter, the Board understands that the _____ Trust Company owns all the outstanding stock of the _____ _____ _____ Corporation, an investment corporation which ceased to do business in 1932, and that such corporation is being dissolved as rapidly as possible. It is further understood that on April 25, 1932, the Commissioner of Corporations of _____ ruled that no further certificates of condition would be required from this corporation.

The Board does not consider that the provisions of the Banking Act of 1933, requiring reports of affiliates, are applicable to organizations which have been formally placed in liquidation or receivership prior to the date of the Board's call for condition reports

of State member banks and their affiliates; and, if the _____ _____ _____ Corporation was formally placed in liquidation or receivership on or before June 30, 1933, it will not be necessary for the _____ Trust Company to furnish or publish a report of the securities corporation. However, it does not appear from the information submitted whether the securities company had been formally dissolved or formally placed in liquidation or receivership on that date. The fact that the securities corporation ceased to do business prior to June 30, 1933, would not affect its status as an "affiliate" of the trust company, unless, in addition, formal action had been taken to dissolve the corporation.

Inasmuch as the determination of the question whether an organization has been formally placed in liquidation or receivership depends to a large extent on the applicable State law, it is suggested that you refer the instant question to your counsel for an opinion. If you desire the Board to consider the matter further after receiving the views of your counsel, it is requested that you submit the question to the Board and furnish the Board with a copy of your counsel's opinion.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7549

August 14, 1933.

Dear Sir:

The Federal Reserve Board had occasion recently to consider an application for membership in the Federal Reserve System filed by a state bank which had obtained agreements from depositors under which twenty-five per cent of their deposits were assigned to the bank, in return for which the bank delivered to each depositor making such assignment a deferred certificate of deposit to be retired out of the earnings of the bank, the certificate to have priority over the claims of shareholders upon liquidation of the bank.

A copy of the letter addressed by the Board to the Federal reserve agent, advising that it would not be justified in approving the application for membership, is inclosed, for your information.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

(Inclosure)

To all Federal reserve agents.

August 14, 1933.

Mr. _____,
Federal Reserve Agent,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Receipt is acknowledged of your letter of June 28, 1933, forwarding an application of the _____ State Bank, _____, _____, for membership in the Federal Reserve System, together with a report of examination made by a Federal reserve examiner as of May 16, 1933, and relative data.

From the information submitted it appears that on December 31, 1932, the applicant bank obtained agreements from the depositors whereby 25% of their deposits were assigned to the bank and used, together with a 25% assessment on the stockholders, to eliminate criticized assets, and whereby the time of payment of the remaining 75% of their deposits was deferred until the board of directors of the bank deemed it proper to release such deposits. The restrictions on the 75% of the deposits apparently have been removed, as evidenced by a certified copy of the resolution passed by the board of directors of the bank on June 28, 1933. However, in connection with the 25% of deposits assigned to the bank and used to eliminate criticized assets, it is noted that the bank delivered to each depositor making such assignment a deferred certificate of deposit to be retired out of the earnings of the bank, and these certificates have priority over the claims of stockholders upon liquidation of the bank. It is apparent, therefore, that the institution has a liability

for the payment of these deferred deposits which is not reflected in its books and in its statements. Such liability for the payment of such deferred deposits out of future earnings of the bank would be a serious handicap to the future of the institution, and the liability upon liquidation of the bank to retire these certificates before any distribution to stockholders is sufficient to eliminate substantially all of the capital, surplus and undivided profits of the bank. In this connection, your attention is called to the fact that under the provisions of Section 9 of the Federal Reserve Act, as amended, an applying bank must have an unimpaired capital in order to be eligible for membership in the Federal Reserve System. Your attention is also called to the Board's letter of June 20, 1933, (X-7455), with inclosures, in which circumstances comparable to those here involved were discussed in connection with the reduction of capital of national banks.

In these circumstances, the Board would not be justified in approving the application of the _____ State Bank for membership at this time, and the Board feels that the application should be deferred until the bank is released from the liability for payment of deferred deposits or the impairment in its capital is otherwise eliminated and provision is made for the payment of such deferred deposits, the general character of its assets has been improved materially, and, since the restrictions on the withdrawal of 75% of the deposits have been removed only recently, the public's reaction toward the institution and the possibility for successful operation can be determined more

definitely. It is requested, therefore, that you communicate with the bank and suggest the withdrawal of its application from further consideration at this time, in which event, although the application itself and the accompanying papers will remain a part of the Board's files, no adverse action thereon will be taken. If at a later time you feel that the Board would be justified in considering the matter again, there should be a new application and a new examination as a basis for your recommendation.

There is inclosed for your confidential information, a copy of a memorandum prepared in connection with the bank's application by the Division of Examinations of the Federal Reserve Board.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

X-7550

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 16, 1933.

Subject: Applications for membership involving a holding company owning or controlling the applicant banks.

Dear Sir:

There is attached hereto a copy of a letter the Federal Reserve Board has addressed to one of the Federal Reserve Agents with regard to action on applications by two State banks for membership where it appeared that such banks were owned by a holding company which, under the provisions of the Banking Act of 1933, must obtain a voting permit if the State banks are admitted to membership. This letter is being forwarded to you for your information and guidance in the event that similar cases arise in your district.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

X-7550a

Dear Mr. _____:

Reference is made to the applications of the _____ _____Bank, _____, _____, and the Bank of _____, _____, _____, for membership in the Federal Reserve System and in this connection it has been noted that a majority of the shares of the capital stock of each of these banks is owned by the _____Corporation, _____, _____.

If the banks above referred to are admitted to membership in the Federal Reserve System, it will be necessary for the _____ _____Corporation to agree to accept the same conditions and limitations as are applicable under Section 5144 of the Revised Statutes of the United States, as amended, in the case of holding company affiliates of national banks and to obtain from the Federal Reserve Board a voting permit as required by the provisions of Section 9 of the Federal Reserve Act and 5144 of the Revised Statutes, as amended by the Banking Act of 1933. In acting upon an application for such a voting permit, the Board is required under the law, among other things, to consider the financial condition of the applicant holding company affiliate, the general character of its management and the probable effect of the granting of such permit upon the affairs of the member bank. The Board does not, at this time, have sufficient information with regard

to the _____ Corporation to determine whether or not it should be granted a voting permit, and it does not feel that it should act upon the applications for membership of the _____ and _____ until it is also in a position to determine whether it can properly grant a voting permit to the holding company affiliate of these banks, the _____ Corporation.

Mimeographed copies of the regulations and appropriate forms with regard to the issuance of voting permits to holding company affiliates are being transmitted to you. In view of this fact and the circumstances described above, you are requested to advise the _____ _____ and _____ that the Board will defer action upon their applications for membership and that copies of the regulations and forms relative to voting permits of holding company affiliates will be furnished to the banks as soon as practicable, in order that the _____ Corporation may take appropriate action preparatory to its application for a voting permit. The Board will, therefore, consider the applications for membership of the _____ _____ and the _____ when an application for a voting permit has been received from the _____ Corporation and the Board has given favorable consideration to such an application. It is essential that the voting permit be applied for as soon as possible after receipt of the Board's regulations in order to obviate the necessity of any further examinations of the banks applying for membership, since it is important that the information regarding such condition of the banks be current.

In advising the applying banks of the Board's position in the matter of their applications, it is suggested that you point out to the institutions the undesirable features of their condition, as reflected in the reports of examination of the respective institutions, with the request that in the interim they make every effort to effect correction of or a material improvement in the matters of criticism, advising the Board at the time of the submission of the holding company's application for a voting permit what progress has been made in this direction. In this connection, there are inclosed copies of memoranda prepared by the Board's Division of Examinations in which the unfavorable features of the conditions of the banks are pointed out in detail.

Very truly yours,

(Signed) Chester Morrill,

Chester Morrill,
Secretary.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7551

August 16, 1933.

SUBJECT: Application for cancelation of Federal reserve bank stock by State member bank in hands of conservator.

Dear Sir:

For your information and guidance, in the event similar cases arise in your district, the following quotation is taken from a telegram the Board has forwarded to one of the Federal reserve agents in connection with a request by a conservator of a State member bank for cancelation of the Federal reserve bank stock held by the member bank:

> "Your wire regarding application of conservator of ------- Bank, -------, for cancelation of Federal reserve bank stock. In order to avoid any question as to right of Federal reserve bank to cancel such stock it is suggested that board of directors of------- Bank file notice of intention to withdraw from membership under provisions of Section 9 of Federal Reserve Act and Section VIII of Board's Regulation H and request Board to permit withdrawal immediately waiving usual six months' notice. Conservator must join in such notice of intention to withdraw and request for waiver. Upon ------- advice that you have received such notice and request for waiver in accordance with the provisions of Section VIII of Regulation H and that your counsel is satisfied as to the legal aspects of such notice and request for waiver, together with your recommendation, the Board will take action thereon as soon as possible.

The procedure outlined should also be followed in connection with applications for cancelation of Federal reserve bank stock made by other State officials acting in a capacity similar to that of conservators, as, for example, a custodian appointed to take charge of the

affairs of a State member bank pending the development of a plan of reorganization.

Another letter (X-7552) with regard to the cancelation of Federal reserve bank stock held by a National bank in the hands of a conservator is being sent to you today.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7552

August 16, 1933.

SUBJECT: Cancelation of Federal reserve bank stock of national banks in conservatorship.

Dear Sir:

For your information there is inclosed a copy of a letter sent by the Board to the Acting Comptroller of the Currency under date of May 3, 1933, requesting that, in the instant case and in any other case in which the Comptroller's office desires that the Federal reserve bank stock outstanding in the name of a national bank in conservatorship be canceled, the Federal Reserve Board be furnished a statement of the facts in the case substantially in accordance with a form inclosed with the Board's letter. A copy of the form referred to is also attached.

It is now the Comptroller's practice to furnish the Board a statement in the desired form in each case in which the conservator of a national bank has been authorized by the Comptroller to apply for cancelation of Federal reserve bank stock outstanding in the name of the bank. The Comptroller's office also advises the Federal reserve agent, in the appropriate Federal reserve district, of each instance in which the conservator of a bank has been so authorized, and furnishes the Federal reserve agent a copy of the letter of authorization sent to the conservator.

Accordingly, when you have been advised by the Comptroller of the Currency that the conservator of a given national bank has been authorized to apply for cancelation of Federal reserve bank stock, it is suggested that you furnish the conservator an appropriate number of copies of Federal Reserve Board Form 87 (Application by receiver of insolvent member bank for surrender of stock), with the word "Receiver" changed to "Conservator". The application need not be accompanied by a copy of the authorization above referred to, nor of the commission given by the Comptroller to the conservator. If in any case a conservator of a national bank who has not been duly authorized to do so applies for cancelation of Federal reserve bank stock, please suggest that he request such authority from the Comptroller.

The Board is addressing another letter to you today (X-7551) with regard to the procedure which may be followed in connection with the cancelation of Federal reserve bank stock held by a State member bank which is in the hands of a conservator or similar State authority.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

COPY

X-7552-a

May 3, 1933.

Honorable F. G. Awalt,
Acting Comptroller of the Currency,
Washington, D. C.

Dear Sir:

The Federal Reserve Board has before it for consideration an application from the Conservator of the _____, for the cancelation of Federal reserve bank stock heretofore issued to that bank.

As you know, the Federal Reserve Act provides that when a receiver is appointed for a national bank, Federal reserve bank stock owned by it shall be canceled, and, under the provisions of the Bank Conservation Act, a conservator of a national bank is given the rights, powers and privileges of a receiver of an insolvent national bank and the rights of all parties with respect to the bank, subject to the other provisions of the Bank Conservation Act, are the same as if a receiver had been appointed. A bank in the hands of a conservator, however, may, in the discretion of the Comptroller of the Currency, be permitted to resume its business or, with the Comptroller's approval, may be reorganized. In order that Federal reserve bank stock owned by a national bank in the hands of a conservator may be canceled in any case, the Federal Reserve Board feels that it is necessary to have definite and authoritative advice that your office has decided that the bank is to be liquidated and is not to be permitted to resume business or to reorganize.

Accordingly, if you desire that the Federal reserve bank stock outstanding in the name of the _____ National Bank of _____, _____, be canceled, it will be appreciated if you will transmit to the Federal Reserve Board a statement as to the facts in the case substantially in the form of that inclosed herewith.

It is also requested that, in other cases which may arise in which you may authorize the conservator of a national bank to apply for the cancelation of Federal reserve bank stock, you submit to the Federal Reserve Board a statement similar to that inclosed with such changes as may be appropriate to the facts of the particular case.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

COPY X-7552-b

TO THE FEDERAL RESERVE BOARD.

This is to advise you that _____
(Name of Conservator)
was on _____, 1933, appointed conservator of the _____ National Bank of _____, pursuant to the provisions of the Bank Conservation Act; that approximately _____ per cent of the assets of the bank have been sold to, and approximately _____ per cent of its deposit liabilities have been assumed by, the _____ Bank of _____: that this office has decided that the _____ National Bank of _____, should be liquidated and should not be permitted to resume the transaction of its business or to reorganize under the provisions of the Bank Conservation Act or otherwise to transact any business except such as shall be necessary to liquidate the affairs of the bank; that the affairs of the bank are now being liquidated; that, if by reason of future developments, it should be considered advisable to permit the bank to reorganize or in any other manner to resume the transaction of banking business, it will not be permitted to do so unless it shall have first subscribed and paid for stock in the Federal reserve bank of its district in the amount required by law; that, in view of the facts stated, it is desired that the Federal reserve bank stock heretofore issued to the bank be canceled and proper refund made in accordance with the law; and the Comptroller of the Currency has, therefore, authorized the conservator above named to make application to the Federal reserve bank of the district in which the national bank is located for the

cancelation of Federal reserve bank stock heretofore issued to the bank and for the refund of all moneys, securities or other valuables due by the said Federal reserve bank to the estate of the said national bank as provided by law and to do such other acts as may be necessary to adjust and settle the accounts between the said Federal reserve bank and the said national bank.

Comptroller of the Currency

FEDERAL RESERVE BOARD

WASHINGTON

X-7553

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 18, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXEFE" has been designated to cover a new issue of Treasury Bills, dated August 23, 1933, and maturing Novembet 22, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7554

155

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 19, 1933.

SUBJECT: Holidays during September, 1933

Dear Sir:

On Monday, September 4, Labor 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 banks and branches during September, as follows:

Saturday, Sept. 9,	San Francisco) Los Angeles)	Admission Day (California)
Tuesday, Sept. 12,	Baltimore,	Defenders Day (Maryland)

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 offices affected on each of the holidays with your credits for the following business day. No debits covering shipments of Federal reserve notes for the Federal Reserve Bank of San Francisco should be included in your note clearing of Saturday, September 9.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

X-7555

(INTERPRETATION OF BANKING ACT OF 1933) August 21, 1933.

Copies to be sent to all Federal Reserve Banks.

Mr. Walter S. Logan, Deputy Governor,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Logan:

Reference is made to your letter of June 28, 1933, with inclosure, in which the question is raised whether, under the provisions of Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, a trust company organized under the laws of the State of New York, and a member of the Federal Reserve System, may pay interest on deposits of funds belonging to an estate or trust of which it is acting as executor or trustee and deposited by the trust department in the commercial department of the trust company, subject to immediate withdrawal. In this connection, you refer to a provision of the Banking Law of New York which requires a trust company to pay interest on funds received by it in a fiduciary capacity; but the law does not appear to require that deposits of such funds in another department of the trust company shall necessarily be made payable on demand.

As you know, Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933, forbids a member bank, directly or indirectly, to pay interest on any deposit which is payable on demand, except in accordance with a contract entered into in good faith prior to June 16, 1933, and in force on that date; and a member bank is required to eliminate from any such contract any provision for the payment of interest on deposits payable on demand as soon as

possible consistently with its contractual obligations. Deposits of certain kinds are excepted from the provision of law in question; but deposits of the kind which are the subject of your inquiry would not appear to come within any of the exceptions mentioned in the statute (unless payable only at an office of a member bank located in a foreign country); and the Federal Reserve Board has no authority to make any additional exceptions to the prohibition of the law against the payment of interest on deposits payable on demand. It is the opinion of the Board, therefore, after a consideration of the question which you raise, that a member bank is forbidden by law to pay interest on deposits of funds payable on demand which belong to an estate or trust in which it is acting as executor or trustee and which are deposited by the trust department in the commercial department of the bank, except in accordance with a contract entered into in good faith before June 16, 1933, and existing on that date, and such a contract must be modified by the bank as soon as possible to eliminate any provision for the payment of interest on deposits payable on demand.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

X-7556

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 21, 1933.

Dear Sir:

There is inclosed herewith, for your information, a copy of a letter addressed by the Board to the Federal Reserve Agent at Chicago with regard to the consideration of applications for membership received from State banks which have been reorganized on the basis of plans involving a partial waiver of deposits.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

(Inclosure)

TO ALL F. R. AGENTS EXCEPT CHICAGO.

C O P Y X-7556-a

August 21, 1933.

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

Dear Mr. Stevens:

The Board has received your letters of July 13 and July 31, 1933, with regard to the policy which should be followed in the consideration of applications for membership received from State banks which have been reorganized, with the approval of the State banking department, on the basis of plans involving a partial waiver of deposits, such plans of reorganization giving evidence that the shareholders have forced the depositors to bear the burden of the reorganizations and themselves have not made proper contributions toward rehabilitating the banks. The Board notes that such banks, after reorganization, may be in a position technically to qualify for membership but that you have grave doubts of the continuing confidence of the community in banks which have forced their depositors into reorganizations of this kind and of the future success of such banks, particularly where the management remains unchanged, and that such procedure is at variance with the reorganization policy of the Federal Reserve Bank of Chicago which requires the shareholders first to bear the burden of correction. It is also noted that your general experience over the past ten years with many such banks is that they have been unable to survive, and you inquire whether the general policy which you are following of asking such banks to defer their applications until such time as the possibility of their successful operation can be determined to your satisfaction is in conflict with the rights of the banks asking for membership.

Under the provisions of the Federal Reserve Act, as you know, the Federal Reserve Board is specifically required to consider the financial condition and the character of the management of each bank applying for membership in the Federal Reserve System. Accordingly, in each such case, the Board gives careful consideration to all factors which may affect the financial condition of the applying bank. As it is apparent that the manner in which an existing bank is reorganized may have a decided bearing on the condition of the institution which should be taken into account in connection with an application by such bank for membership, full information should be obtained with regard to the manner in which such reorganization was effected, and careful consideration given to its possible effect on the condition of the bank and the institution's ability to maintain a sound financial condition in the future.

The Board feels that when, after a careful consideration of all the facts involved, the Federal reserve agent is of the opinion in any case that there is grave doubt as to the ability of the applying bank to maintain a sound condition on account of inequities in the plan of its reorganization, or for any other reason, he is fully justified in suggesting that the application for membership be deferred until it can be determined more definitely whether the bank will be able to maintain a sound condition or until appropriate action has been taken to correct the inequities. Of course, if in any such case the applicant bank requests that its application be submitted to the Federal Reserve Board, the Board will be glad to consider the application upon receipt of full information as to all the facts in the case and the recommendation of the

Federal reserve agent, together with that of the Committee of his bank, as to the action which should be taken.

In all of these cases, whether submitted to the Board or not, careful inquiry should be made into the plan of reorganization for the purpose of determining whether, under such plan, the shareholders have been or will be released from any obligation to correct the condition of the bank, the reasons for any such release, whether the management has made full effort to conserve the interests of the depositors, the attitude of the community toward the reorganized institution, the character of the institution's management and whether any changes should have been made therein, the need for the institution in the community and whether the possibilities for its future growth and ability to survive are favorable. In this connection, in any case where the reorganization has not resulted in a change in the management, careful consideration should be given to the responsibility of the management for the condition of the bank which required its reorganization, and a statement which establishes a clear justification for the continuance of such management from the standpoint of the welfare of the institution must be furnished.

There may be some instances where the depositors will benefit through a reorganization of the type mentioned where the shareholders' liability is uncollectible and the liquidation of the institution through receivership proceedings would entail a greater loss than through a waiver of deposits. However, the Board feels that, in the absence of special circumstances, it would not be justified in admitting a bank to membership on the basis of a reorganization plan under which

the shareholders evidently have not assumed a reasonable share of the burden of correcting the bank's unsatisfactory condition and particularly where the management responsible for the bank's unsatisfactory condition remains unchanged, until the bank has demonstrated that it is in sound condition and that it has the confidence of the community.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-7557

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 22, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a letter addressed by the Board under date of July 20, 1933, to the Secretary of the Treasury, together with a copy of a reply dated August 7, 1933, from Under Secretary Acheson, with regard to the admission to membership and the licensing of State banks which have obtained agreements from their depositors restricting the withdrawal of deposits. A copy of the letter to the Governor of Ohio, referred to in this correspondence, is also attached.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL F. R. AGENTS EXCEPT CLEVELAND.

X-7557-a

C O P Y.

July 20, 1933.

Honorable W. H. Woodin,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

There is inclosed a letter, together with a copy thereof for your files, which the Federal Reserve Board has received from the Governor of the State of Ohio, requesting advice as to whether a nonmember State bank which has obtained agreements from its depositors restricting their right to withdraw their deposits would be ineligible for admission to membership in the Federal Reserve System. The Board's proposed reply to this letter is also inclosed for your consideration.

Section 9 of the Federal Reserve Act requires the Federal Reserve Board in acting upon the application of any State bank for membership in the Federal Reserve System, to consider, among other things, the financial condition of the applying bank. Accordingly, in a case of the kind referred to above the Board gives careful consideration to the circumstances out of which the necessity for the restriction agreements arose, their terms and their effect on the condition of the applying bank, and its ability to repay such restricted deposits. In a few such cases, the Board has admitted the bank to membership in the System, where after a careful consideration of all the circumstances involved, the Board found that its condition was satisfactory.

Upon the consideration of Governor White's letter there was brought to the Board's attention the ruling of your Department of April 3, 1933, with regard to licenses granted to member banks to reopen and which reads as follows:

> "Member banks which have been granted Federal licenses to reopen are not permitted to take advantage of any State Stabilization Act providing for limitation of withdrawals or otherwise to operate on restricted basis. Federal reserve banks are authorized and directed to advise any member bank which has been granted a license to reopen that unless it reopens to the full extent permitted by such license it will be necessary to revoke its license. If such member bank fails to reopen to the full extent permitted by its license after being thus advised, Federal reserve banks are authorized and directed to revoke the license of such member bank heretofore granted."

In this connection, however, attention was also called to the following statement contained in a telegram which the Secretary of the Treasury sent to State Banking Authorities in each State on March 11, 1933, with regard to the licensing of member banks:

> "The Secretary of the Treasury will not permit any member bank, state or national, to open in any such Federal Reserve city unless opened for normal business on an unrestricted basis, except so far as affected by legal contracts between the banks and depositors with respect to withdrawals or notice of withdrawals."

The Board, of course, does not wish to approve any applications of State banks for membership in the Federal Reserve System under circumstances which may later subject such banks to the revocation of the license granted by your Department at the time of their admission

to membership. Accordingly, it will be appreciated if you will give consideration to the proposed attached letter to the Governor of the State of Ohio and give the Board any suggestions you may have with regard thereto.

Respectfully,

(signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures

X-7557-b

C O P Y.

August 7, 1933.

My dear Mr. Morrill:

Receipt is acknowledged of your letter of July 20 with which you transmitted for consideration a proposed reply to a letter of June 30 from the Governor of the State of Ohio in regard to the position of the Federal Reserve Board with respect to applications of State banks for membership in the Federal reserve system in cases where such banks have obtained agreements from their depositors restricting to some extent the right to withdraw their deposits. You called attention to a telegram which was sent on March 11, 1933, by the Secretary of the Treasury to the State Banking authorities, and to a ruling of this department of April 3, 1933, the latter containing the following statement:

> "Member banks which have been granted Federal licenses to reopen are not permitted to take advantage of any State Stabilization Act providing for limitation of withdrawals or otherwise to operate on restricted basis. Federal reserve banks are authorized and directed to advise any member bank which has been granted a license to reopen that unless it reopens to the full extent permitted by such license it will be necessary to revoke its license. If such member bank fails to reopen to the full extent permitted by its license after being thus advised, Federal reserve banks are authorized and directed to revoke the license of such member bank heretofore granted."

It is noted that under the Federal Reserve Act the Federal Reserve Board, in acting upon the application of any State bank for membership in the Federal reserve system, considers, among other things, the financial condition of the applying bank; that in any case involving restriction agreements the Board gives careful consideration to the circumstances out of which the necessity for the agreements arose, their terms and their effect on the condition of applying bank, and its ability to repay such restricted deposits; that in a few such cases the Board has admitted banks to membership in the system where, after careful consideration of all the circumstances involved, the condition of the banks was found to be satisfactory; but that the Board does not wish to approve applications under circumstances which may later subject the banks to the revocation of the licenses granted by this department at the time of their admission.

After considering the views set forth in the proposed letter to Governor White, this department has no suggestions to offer regarding it, and the Secretary of the Treasury, upon the appropriate recommendation in each such case, will authorize the issuance of a license to a State bank, when the Federal Reserve Board has approved the bank's application for membership. It may be added that, in similar circumstances, the Secretary of the Treasury will issue a license to a reorganized national bank or a national bank organized to take over the assets of another bank, upon the approval of the Comptroller of the Currency. It follows, therefore, that the Secretary of the Treasury will not revoke a license issued heretofore, because of the existence of agreements of depositors of the kind referred to, restricting their right of withdrawal of deposits, which were in force at the time of the approval granted by the Federal Reserve Board or the Comptroller of the Currency. To this extent the ruling of April 3, 1933, quoted above, may be regarded as having been modified.

As copies of the ruling of April 3, 1933, were sent to the Federal reserve banks, it will be appreciated if you will transmit a copy of this letter to each of the Federal Reserve Banks for their information.

Very truly yours,

(Signed) Dean Acheson

Acting Secretary of the Treasury.

Chester Morrill, Esq.,

Secretary, Federal Reserve Board.

C O P Y

August 21, 1933.

Honorable George White,
Governor, State of Ohio,
Columbus, Ohio.

My dear Governor:

It is evident from your letter of June 30 that you have not been fully advised as to the position of the Federal Reserve Board with respect to applications of State banks for membership in the Federal Reserve System in cases where such banks have obtained agreements from their depositors restricting to some extent their right of withdrawal of their deposits. The Board has taken the position that the fact that there are in existence agreements of depositors waiving their right to demand payment of a portion of their deposits for a specified period of time does not make a bank ineligible for membership in the Federal Reserve System, and the Board, in a few instances of this kind, has admitted banks to membership in the System where their condition was otherwise satisfactory.

Section 9 of the Federal Reserve Act requires the Federal Reserve Board in acting upon the application of any State bank for membership in the Federal Reserve System to consider, among other things, the financial condition of the applying bank. Accordingly, in a case of this kind the Board gives careful consideration to the circumstances out of which the necessity for the waiver agreements arose, their terms and their effect on the condition of the applying bank, and its ability to repay such restricted deposits.

As your letter indicates that you are in agreement with the view that a bank applying for membership in the Federal Reserve System must have an adequate unimpaired capital, it may interest you to know that the Board now prescribes for each bank applying for membership in the Federal Reserve System the following condition:

> "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."

In some cases involving so-called waivers of deposits which have come to the Board's attention, it has been found that, although depositors waived their right to demand immediate payment of their deposits, the bank remained liable to repay such deposits at some future time and, when such liability was taken into consideration, the bank's capital was impaired or wiped out. In such a case, of course, the bank was not eligible for membership in the Federal Reserve System.

You have directed attention to the form of agreement which it appears was exacted by the _____ of _____, Ohio, from its depositors; and it is noted that this agreement places in the hands of the officers of the bank the power either to pay or to withhold any amount due any depositor within the 80% restriction, since the statement is made that "the bank reserves the absolute right to withhold payment of any check and to refuse any withdrawal of funds, whether commercial or savings account or certificate of deposit, when

the officers of the bank, in their sole judgment, determine that such action is in the best interest of the bank and its depositors". The existence of such an agreement in the case of a bank in sound condition and otherwise able to meet all of the requirements of admission to membership in the Federal Reserve System would raise a serious question as to the justification for vesting solely in the discretion of the officers of the bank a power to discriminate among depositors which might be exercised unfairly and arbitrarily and which would leave not only the drawers of such checks but also the subsequent holders in due course in uncertainty as to whether payment might be refused at any time. This would be of especial concern to the Federal reserve banks in view of the fact that they handle for collection practically all checks drawn on member banks and deposited with banks in other cities. In the circumstances, the Board would not admit a bank to membership while it has in force an agreement of this kind.

It is further noted that the agreement inclosed with your letter also involves an agreement by the stockholders of the bank authorizing the payment of any dividends on their stock to depositors who have released the bank from liability for 20% of their deposits until such depositors have been repaid the amount so released. It appears that, in these circumstances, the stock of the bank will have little, if any, value from the standpoint of earnings of the bank for a considerable period and accordingly will not be marketable. It is questionable whether on such basis the people of the community will retain confidence in a bank so as to enable it to maintain or increase its deposits.

As you know, the State of Ohio is within the district of the Federal Reserve Bank of Cleveland. All applications of State banks in Ohio for admission to the Federal Reserve System must be filed with the Federal Reserve Agent at the Federal Reserve Bank of Cleveland; and it is suggested that you refer any bank which may be interested in submitting an application to Mr. L. B. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, who is the Board's official representative in that district, and who, I am sure, will be glad to give detailed information regarding the conditions under which such bank may be admitted to the System and assist it in every way possible in the circumstances.

Very truly yours,

(Signed) E. R. Black

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7558

August 22, 1933.

SUBJECT: Questions relating to requirements of State laws regarding payment of interest on public funds.

Dear Sir:

The provision of Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, which forbids a member bank to pay interest on any deposit payable on demand excepts "any deposit 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". The Federal Reserve Board has been requested to rule upon questions as to whether the payment of interest is required on such public funds under the provisions of particular State statutes.

In view of the numerous and varying provisions of the laws of the States on this subject, the Board feels that, when a question as to whether a particular State law requires the payment of interest on public funds is presented to a Federal reserve bank, it is advisable that it be considered by counsel for the Federal reserve bank and his opinion should be followed in the matter, unless there appears to be doubt as to the proper interpretation to be placed upon the law and it is considered advisable to present the matter to the Federal Reserve Board.

In any case in which a question of this kind is submitted to the Federal Reserve Board, it is requested that there be furnished to the Board copies of all pertinent provisions of the State law, a copy of an opinion of counsel for the Federal reserve bank discussing all aspects of the question fully and in detail, and a copy of an opinion on the question rendered by the State Attorney General or other State official having similar authority, together with any other information which may be relevant.

It will also be appreciated if you will furnish the Board, merely for its information, with a copy of any opinion which may be rendered by counsel for the Federal reserve bank on a question of this kind, even though it is not considered necessary to present the matter to the Federal Reserve Board for a ruling.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7560

August 24, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXEGO" has been designated to cover a new issue of Treasury Bills, dated August 30, 1933, and maturing November 29, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7561

August 25, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a letter addressed by the Board to the Reconstruction Finance Corporation with regard to the question whether debentures issued by a bank under the provisions of the laws of the State of New York may be considered as capital in determining whether or not such bank has a capital sufficient to make it eligible for membership in the Federal Reserve System.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

X-7561-a

C O P Y.

August 25, 1933.

Reconstruction Finance Corporation,
Washington, D. C.

Gentlemen:

Reference is made to the letter addressed by your Counsel, Mr. James B. Alley to the Federal Reserve Board on August 5, 1933, requesting advice as to whether debentures issued by a bank under the provisions of the laws of the State of New York may be considered capital by the Federal Reserve Board in determining whether or not such bank has a capital sufficient to make it eligible for membership in the Federal Reserve System.

It appears that the laws of the State of New York authorize a State banking institution "to issue by its board of directors capital notes or debentures when so specifically authorized by the superintendent of banks". The New York laws apparently do not in terms prescribe any of the qualities or rights and liabilities of such debentures or of the holders thereof. However, it is understood that under the provisions of the Constitution of the State of New York any stock issued by banks located in that State, including preferred stock, is subject to double liability and that the amendment to the laws of the State of New York authorizing banks to issue debentures was enacted in order to enable banks in that State to obtain funds for the protection of depositors without the holders of such debentures being subject to double liability as in the case of holders of capital stock of banks in that State.

It has also been noted that under the provisions of Section 304 of the Act of March 9, 1933, as amended, the Reconstruction Finance Corporation is not authorized to purchase preferred stock in a State banking institution if under the laws of the State in which such institution is located the holders of preferred stock are not exempt from double liability. However, in any State where a State banking institution is not permitted to issue preferred stock exempt from double liability the Reconstruction Finance Corporation is authorized to purchase legally issued capital notes or debentures of State banking institutions located in such State. It has also been noted that under the provisions of R. F. C. From P. S. 2, Form of Bank Debentures, debentures which will be purchased by the Reconstruction Finance Corporation represent promises to pay on a specified date the amount of money paid in on such debentures and to pay the holders of the debentures a prescribed rate of interest semi-annually, and that so long as any of the debentures are outstanding the bank may not, except under certain circumstances, issue additional debentures or incur any "other indebtedness" except for certain specified purposes. Such Form further provides that except under certain circumstances no debentures shall be called for redemption unless the unimpaired capital, surplus and undivided profits of the bank is in excess of a prescribed amount. Under the provisions of the laws of New York and the form of debenture prescribed by the Reconstruction Finance Corporation, the holders of such debentures apparently

are not entitled to voting rights in the management of the corporation.

In the circumstances described above, it seems clear that the New York law and the form of debenture prescribed by the Reconstruction Finance Corporation contemplate that such debentures shall represent borrowed money of the issuing bank and are not intended to represent a proprietary interest in the bank as is usually represented by capital stock of a bank or other corporation.

Under the provisions of the Federal Reserve Act, banks become members of the Federal Reserve System through subscriptions for stock in a Federal reserve bank, and, except in the case of mutual savings banks or similar institutions which are not here involved, the Federal Reserve Act requires that the subscription for Federal reserve bank stock shall be made on the basis of the "paid-up capital stock and surplus" of the subscribing bank. The Federal Reserve Act also provides that a State bank shall not be admitted to membership unless it possesses "a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated", except that banks located in a place having a population of not exceeding three thousand inhabitants may be admitted under certain circumstances with a capital of not less than $25,000. In this connection, attention is called to the fact that, under the provisions of Section 303 of the Act of March 9, 1933, 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." The term "capital", as used in connection with the capital requirements of national banks, therefore, includes only common and preferred stock, and, in view of the facts described above, this definition of "capital", applicable to national banks, is also applicable to capital requirements for admission of State institutions to membership in the Federal Reserve System.

In view of the above circumstances and the provisions of law referred to, it seems clear that, under the provisions of the Federal Reserve Act, the eligibility of a State bank for membership in the Federal Reserve System depends upon the amount of its capital stock and cannot be determined upon the basis of its capital stock plus borrowed money obtained through the issuance of debentures or other methods. In this connection, it may be noted that, under the law and the consistent position of the Board, the surplus of a bank is not included in determining whether the bank has sufficient capital to make it eligible for admission to membership.

You are accordingly advised that, in the opinion of the Federal Reserve Board, debentures issued under the provisions of the laws of the State of New York, as described above, may not be included in determining whether a State bank has a capital sufficient to make it eligible for membership in the Federal Reserve System.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7562

August 26, 1933.

SUBJECT: Opinion of the Attorney General as to meaning of term "Executive Officer".

Dear Sir:

For your information, there is inclosed herewith a copy of an opinion of the Attorney General of the United States rendered under date of August 18, 1933, with regard to the interpretation of the term "executive officer" as used in Section 22(g) of the Federal Reserve Act as amended by the Banking Act of 1933.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN AND GOVERNORS OF
ALL FEDERAL RESERVE BANKS.

C O P Y

X-7562-a

OFFICE OF THE ATTORNEY GENERAL
WASHINGTON, D. C.

August 18, 1933.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

I have the honor to refer to your letter of August 4, 1933, requesting my opinion (1) concerning the legality, under Section 12 of the Banking Act of 1933 (approved June 16, 1933), of the proposed acquisition by a new national bank in the District of Columbia of notes evidencing indebtedness of its executive officers to closed banks whose assets will be taken over by the new bank, and (2) as to what officers of a bank are comprised within the term "executive officer".

Section 12 amends the Federal Reserve Act (U.S.C. Title 12, 221 et seq.) by adding thereto the following paragraph:

> "No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: Provided, That loans heretofore made to any such officer may be renewed or extended not more than two years from the date this paragraph takes effect, if in accord with sound banking practice. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the chairman of the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Any executive officer of any member bank violating the provisions of this paragraph shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both;

and any member bank violating the provisions of this paragraph shall be fined not more than $10,000 and may be fined a further sum equal to the amount so loaned or credit so extended."

If a bank should acquire by purchase a note evidencing an indebtedness of one of its executive officers, the officer would certainly "become indebted to" the bank, within the literal meaning of the words, and it is to be borne in mind that a contrary conclusion might make possible the circumvention of the statute by subterfuges.

However, it is provided that loans made prior to the enactment of the statute may be renewed or extended not more than two years, if in accord with sound banking practice, with evident purpose to avoid the harshness and possible losses consequent upon immediate foreclosures and cancellations; and I do not perceive that there is less reason for application of the principle when, during the two-year period, the bank is affected by a reorganization or other such turn in its affairs which results in the transfer of its assets to another corporation in which some or all of its officers will serve.

Understanding, therefore, that the loans in question were proper and lawful when made and come within the spirit of the proviso authorizing renewals or extensions for not more than two years, if in accord with sound banking practice, I perceive no objection to approval of the proposed organization because of the fact that notes evidencing such loans are among the assets which will be acquired by the new bank.

Upon the question who are executive officers, your Solicitor quotes from Arkansas Amusement Corporation v. Kempner, 33 S.W. (2d) 42, to the effect that "an executive officer or employee is one who assumes

command or control and directs the course of the business, or some part thereof, and who outlines the duties and directs the work of subordinate employees", as usually provided for in the articles of association, the by-laws, or a resolution of the directors. The Supreme Court of Oklahoma, determining that "the cashier of a national bank clearly is an executive officer", derived assistance from statutory provisions concerning his duties. First National Bank v. Mee, 126 Okla. 265, 269.

I approve these general conclusions, but, they permit no categorical answer to the question which you have submitted. "It is not the designation under which one is known but the nature of his duties which characterizes him as an 'executive officer'." Small v. Gibbs Press, 225 N.Y. S. 141, 142.

It is the duty of the banks and of all officers who by any possibility might be affected to keep within the statute and to weigh carefully all the facts and circumstances (peculiarly within their possession) before acting. If cases arise in which it appears that the statute may have been violated, I shall be glad to consider the advisability of prosecutions; and I shall, of course, be glad to advise you in connection with any such cases wherein you may have some duty to perform. In either event, however, it would be necessary that I be fully informed as to the facts.

Respectfully,

(Signed) HOMER S. CUMMINGS

Attorney General.

C O P Y

X-7564

Statement of Bureau of Engraving and Printing

For furnishing Federal Reserve Bank Notes (National Currency)

Series 1929

July 10-31, 1933.

	$5	$10	Total Sheets	Amount
Boston	75,000	53,000	128,000	$12,032.00
New York	66,000	50,000	116,000	10,904.00
Atlanta	-	67,000	67,000	6,298.00
Chicago	82,000	68,000	150,000	14,100.00
	223,000	238,000	461,000	$43,334.00

461,000 sheets @ $94.00 per M, ...$43,334.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7565

August 29, 1933.

SUBJECT: Code Word covering Deposits with the Federal Reserve Bank of Richmond for account of the Federal Reserve Board.

Dear Sir:

In order to reduce phraseology in telegrams sent by the Federal Reserve Board to Federal reserve banks, covering various assessments which are to be credited to the Federal Reserve Bank of Richmond through the Gold Settlement Fund for account of the Federal Reserve Board, the following code word has been designated for use effective August 30th:

CHAGRUST: Credit this amount to the Federal Reserve Bank of Richmond in your daily statement of credits through the Gold Settlement Fund for account of the Federal Reserve Board and wire Richmond the amount and purpose of the credit.

This word should be inserted in the Federal Reserve Telegraph Code book, following the word CHAGRINED on page 47.

Very truly yours,

J. C. Noell,
Assistant Secretary.

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7566

August 29, 1933.

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

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7566-a and X-7566-b, covering in detail operations of the main lines, Leased Wire System, during the month of July, 1933.

Please credit the amount payable by your bank for your share of the expense of the Leased Wire System, to the Federal Reserve Bank of Richmond in the transit clearing, for the account of the Federal Reserve Board, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JULY, 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	37,603	1,830	39,433	4.83
New York	160,337	-	160,337	19.66
Philadelphia	34,189	2,015	36,204	4.44
Cleveland	52,745	1,960	54,705	6.71
Richmond	58,015	1,809	59,824	7.34
Atlanta	55,624	1,793	57,417	7.04
Chicago	85,383	2,109	87,492	10.73
St. Louis	62,267	2,015	64,282	7.88
Minneapolis	30,831	1,845	32,676	4.01
Kansas City	69,833	1,798	71,631	8.78
Dallas	57,582	3,221	60,803	7.46
San Francisco	86,827	3,852	90,679	11.12
Total	791,236	24,247	815,483	100.00

F. R. Board business	314,853	1,130,336
Reimbursable business Incoming and Outgoing		480,911
Total words transmitted over main lines		1,611,247

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7566-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, JULY, 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	$1.00	$ -	$261.00	$806.13	$261.00	$545.13
New York	1,284.14	3.00	-	1,287.14	3,281.25	1,287.14	1,994.11
Philadelphia	225.00	-	-	225.00	741.04	225.00	516.04
Cleveland	306.66	-	-	306.66	1,119.90	306.66	813.24
Richmond	175.00	-	230.00 (&)	405.00	1,225.04	405.00	820.04
Atlanta	243.00	-	-	243.00	1,174.97	243.00	931.97
Chicago	4,086.87 (#)	14.50	-	4,101.37	1,790.83	4,101.37	2,310.54 (*)
St. Louis	195.00	-	-	195.00	1,315.17	195.00	1,120.17
Minneapolis	211.24	-	-	211.24	669.27	211.24	458.03
Kansas City	287.00	-	-	287.00	1,465.38	287.00	1,178.38
Dallas	251.00	-	-	251.00	1,245.07	251.00	994.07
San Francisco	380.00	-	-	380.00	1,855.92	380.00	1,475.92
Federal Reserve Board	-	-	15,637.45	15,637.45	-	-	-
Total	$7,904.91	$18.50	$15,867.45	$23,790.86	$16,689.97	$8,153.41	$10,847.10
							2,310.54 (a)
							$ 8,536.56

Reimbursable charges:

Treasury Department.	$2,737.18
Reconstruction Finance Corporation .	3,808.39
Exp. Nat. Bkg. Emergency Act, 3-9-33	413.27
Federal Home Loan Bank Board	4.90
Agriculture Dept. Disbursing Clerk .	3.81
Comp. Currency, Div. Insolv. Nat.Bks	61.40
Farm Credit Administration:	
Federal Farm Loan Bureau	24.13
Federal Farm Board	47.81
Less: Reimbursable charges.	$7,100.89
	$16,689.97

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

FEDERAL RESERVE BOARD

190

WASHINGTON

X-7567

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 30, 1933.

SUBJECT: Regulation Q - Payment of Interest on Deposits.

Dear Sir:

For your information, there is inclosed herewith a mimeographed copy of the Board's Regulation Q, which relates to the payment of deposits and interest thereon by member banks. The regulation was approved by the Board on August 29, 1933, and became effective immediately, except that, in accordance with Sections III(c) and V(c) of the regulation, the limitation on the rate of interest which may be paid on time deposits or savings deposits will become effective on November 1, 1933.

An official print of the regulation will be made and you are requested to advise the Board at your earliest convenience as to the number of copies which you desire the Board to furnish your bank.

However, in order that member banks may be advised as soon as possible of the provisions of the regulation, it is requested that each Federal reserve bank issue to each member bank in its district as soon as possible a special circular containing the complete text of the regulation as inclosed herewith.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7568

August 30, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a letter addressed by the Board to the Federal Reserve Agent at Chicago with regard to the issuance by member banks of capital stock not subject to assessment.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS EXCEPT CHICAGO.

C O P Y

X-7568-a

August 28, 1933.

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

Dear Mr. Stevens:

I regret that due to pressure of other matters there has not been an opportunity for an earlier reply to your letters of July 19 and August 21, 1933, with regard to whether the Board would object to the issuance of stock not subject to assessment in reorganizations of State member banks. In this connection you forwarded a copy of a letter you had received from the Commissioner of Banking of the State of Michigan, in which he called attention to the fact that under the provisions of Section 22 of the Banking Act of 1933 the additional liability imposed upon shareholders in national banking associations by the provisions of Section 5151 of the Revised Statutes, as amended, shall not apply with respect to shares in a national bank issued after the date of the enactment of the Banking Act of 1933.

The Federal Reserve Board does not require that the capital stock of State banks admitted to membership in the Federal Reserve System shall be subject to assessment where under the laws of the State under which the bank is organized non-assessable stock may lawfully be issued, and in a number of instances it has admitted banks to membership having capital stock not subject to assessment. In the

circumstances, the Board would not object to the issuance of stock not subject to assessment in the reorganization of a State member bank where the issuance of such stock is authorized under the laws under which the bank is organized.

Very truly yours,

Chester Morrill,
Secretary.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

August 29, 1933.

Honorable George H. Dern,
Secretary of War,
Washington, D. C.

My dear Mr. Secretary:

Reference is made to your letter of July 6, 1933, in which you submit the question whether, under the provisions of Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933, the _____ Bank of the City of _____, a member bank of the Federal Reserve System, may pay interest on funds of the Government of the Philippine Islands deposited with such bank, subject to payment on demand, under the provisions of an agreement entered into between the bank and the Secretary of War, a copy of which was inclosed with your letter.

Under the terms of the agreement, the bank agreed to receive on deposit, safely keep, and properly account for all moneys deposited with it from time to time by representatives of the Government of the Philippine Islands, to pay promptly checks against such deposits, and to pay over all balances of funds so received when called upon to do so. The rate of interest paid by the bank on deposits made under this agreement has been changed from time to time by supplementary agreements, effected by letters exchanged between the Chief of the Bureau of Insular Affairs, under authority of the Secretary of War, and the _____ Bank. The agreement contains no provision as to the period for which it shall be effective or as to the date upon which it shall terminate,

but the Government of the Philippine Islands has the right to terminate the agreement at any time without notice or liability to the bank.

Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, provides in part as follows:

> "No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand: Provided, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: Provided, however, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply 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 municipality, with respect to which payment of interest is required under State law."

It will be noted that the law obviously contemplates that any contract of a member bank for the payment of interest on deposits payable on demand, which was entered into prior to the date of enactment of the Banking Act of 1933, June 16, 1933, and in effect on that date, should be terminated by such bank as soon as possible after that date, if legally possible to do so under the contract.

After a careful consideration of this matter, it is the view of the Federal Reserve Board that the _____ Bank may at any time lawfully terminate the agreement submitted with your letter, upon giving reasonable notice to the duly constituted representatives of the Government of the Philippine Islands of its intention to terminate such contract; and that, accordingly, it became the duty of the _____

Bank to terminate or modify the contract as soon as possible after June 16, 1933 so as to eliminate any provision for the payment of interest on deposits payable on demand. After such modification of the contract, no interest may be paid on deposits which have been received under its provisions and which are payable on demand.

The opinion of the Federal Reserve Board on a question of this kind, as you know, does not necessarily constitute a final determination of the rights of the parties to the transaction and does not prevent any party who may desire to do so from obtaining a determination of any such question which may be of a justiciable character in a court of competent jurisdiction.

A copy of this letter is being transmitted to the _____ Bank for its information in this connection.

Very truly yours,

Chester Morrill,
Secretary.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

August 29, 1933.

Mr. T. A. Walters,
First Assistant Secretary,
Department of the Interior,
Washington, D. C.

Dear Sir:

Reference is made to your letters of July 8 and July 15, 1933, addressed to the Governor of the Federal Reserve Board, in which you submit the question whether, under the provisions of Section 19 of the Federal Reserve Act as amended by Section 11(b) of the Banking Act of 1933, a member bank may pay interest on deposits of Indian funds which are payable on demand. It appears from the information which you have submitted that the agreement for the receipt of such deposits and the payment of interest thereon is contained in letters exchanged between the member bank and the Department of the Interior and that the bank also agrees to comply with regulations of the Department on the subject. The member bank is required to give security for the deposits received and to pay interest at a stipulated rate computed on actual daily balances. There is apparently no provision as to the period for which the agreement governing the deposit shall be effective or as to the date upon which it shall terminate, but it appears that the Department of the Interior may effectually terminate the arrangement at any time through withdrawal of the balance with the member bank.

Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, provides, in part, as follows:

> "No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is

> payable on demand: Provided, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: Provided, however, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply 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 municipality, with respect to which payment of interest is required under State law."

It will be noted that the law obviously contemplates that any contract with a member bank for the payment of interest on deposits payable on demand, which was entered into prior to the date of enactment of the Banking Act of 1933, June 16, 1933, and in force on that date, should be terminated by such bank as soon as possible after that date, if legally possible to do so under the contract.

After careful consideration of this matter, it is the view of the Federal Reserve Board that a member bank in which Indian funds have been deposited in accordance with the terms of an agreement such as that exemplified in the inclosures with your letter of July 15 on this subject, may lawfully terminate the contract at any time upon giving reasonable notice to the Department of the Interior of its intention to terminate such contract, and that accordingly it became the duty of such a member bank to terminate or to modify such contract as soon as possible after June 16, 1933, so as to eliminate any provision for the payment of interest on deposits payable on demand. After such modification of the

contract, no interest may be paid on deposits which have been received under its provisions and which are payable on demand.

The opinion of the Federal Reserve Board on a question of this kind, as you know, does not necessarily constitute a final determination of the rights of the parties to the transaction and does not prevent any party who may desire to do so from obtaining a determination of any such question which may be of a justiciable character in a court of competent jurisdiction.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7572

August 30, 1933.

Dear Sir:

Inclosed are ten copies of a memorandum prepared in order to expedite the handling of applications for membership in the Federal Reserve System through obtaining reasonable uniformity in the arrangement and form of data accompanying applications as submitted to the Board.

It will be appreciated if you will instruct your department to prepare such data in the form outlined in the inclosed memorandum. Additional copies of this outline are available for the use of your department if desired.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL F. R. AGENTS.

Exam 2

GENERAL STYLE OF MEMORANDUM TO ACCOMPANY APPLICATIONS FOR MEMBERSHIP

This outline is intended only to obtain reasonable uniformity in the arrangement and form of memoranda covering applications for membership and is not intended to limit the scope of the information to be submitted. Each memorandum should include information relative to any other circumstances which have a significant bearing on the condition of the applicant bank and which should be considered in passing upon the application. The memorandum to be prepared in this general style is not intended to supplant the analysis on Federal Reserve Board Form 212 which should accompany the report of examination and the application.

PLEASE SUBMIT EACH MEMORANDUM IN ORIGINAL AND FOUR CARBON COPIES
(In typewriting the memorandum, please double-space all textual matter)

1. DATA ON CITY OR TOWN IN WHICH BANK IS LOCATED (Include information as to size and character of community, relative location of city or town in the State with respect to other cities, and nature of principal business or agricultural activities. Give number of other banks in community, with comment as to whether open, closed, or operating under restrictions. If located in a large city, give location of bank with respect to principal business district, nature of the district served, and general type of business conducted by the bank).
2. STATUS OF BANK (Is bank now operating free of restrictions, and if not, on what basis? Give full information as to any previous restrictions or waiver plans and date when restrictions were removed. If bank has ever been a member, give period of membership and reason for discontinuance of membership).
3. CONDENSED STATEMENT OF CONDITION (Show from where taken and the date).
   After statement of condition, show following information, where available:
   Past due paper $_____ (Also show portion of this amount which represents paper past due 6 months or more, if available).
   Loans predicated on real estate $_____ (Also show portion of this amount which represents paper secured by junior liens and amount representing debts previously contracted, if available).
   Potential "other real estate" in loans $_____.
   Liability of directors, officers, employees and their interests:

Direct	$_____	
Indirect	_____	
Total		$_____

   Public deposits $_____ Assets pledged to secure:

Borrowings	$_____	
Public deposits	_____	
Total pledged		$_____

4. CLASSIFICATION OF CRITICIZED ASSETS (Show from where taken)
In tabular form show classification of the various assets. Show depreciation on investments in various subheadings: (a) U. S. Government; (b) State, county, and municipal; (c) First four grades; (d) Lower grades; (e) Not rated; (f) Defaulted bonds; (g) Stocks; (h) Any other headings necessary to show proper picture.
Explain any reclassification of assets criticized by examiner.

5. LIQUIDITY
General comment, with various ratios to -

	Deposits	
	Total	Unsecured
Cash and exchange		
Cash and exchange and unpledged U. S. Government bonds		
Cash and exchange and market value of unpledged securities		

Amount of paper eligible for rediscount.

6. EARNINGS, DIVIDENDS AND CHARGE-OFFS (Earnings and charge-off record of the bank over a period of several years and voluntary contributions made or assessment paid by shareholders of the bank during such period. Set up in tabular form where possible).

7. TREND OF DEPOSITS (List deposits on the last day of the year for a period of several years).

8. ORGANIZATION AND POWERS (Enumerate powers which Federal reserve bank's counsel advises bank is authorized to exercise under charter and State law, pointing out any other or unusual powers being exercised by bank. Make definite statement as to whether or not bank is exercising any powers other than those incident to usual commercial banking operations).

9. TRUST DEPARTMENT (Information as to the operations of the trust department, if any. If the trust department was not covered by the current examination, state when an examination of this department was last conducted and the condition disclosed by such examination. Discuss investment policies; supervision by directors; extent of investment in securities of affiliated interests, directors' interests, or other friendly interests; source of principal purchases of trust investments).

10. AFFILIATIONS (If the institution is controlled by a holding company, give the name of such company, the extent of its control and supervision by such company, and if the subject institution owns, controls, or is closely affiliated in any way with other corporations, give detailed information as to the nature of the affiliation, the condition of the affiliate, and the effect of the affiliation on the affairs of this bank).

11. BRANCHES (Include information whether there are branches outside the city limits, when and where established, etc.).

12. CHARACTER OF MANAGEMENT AND CONTROL (Discuss fully).

13. COMMENTS OF BANK EXAMINER WHO MADE THE EXAMINATION

14. COMMENTS OF EXAMINER WHO PREPARES THIS ANALYSIS (Any comments not covered by examiner under No. 13).

15. COMMENTS OF FEDERAL RESERVE AGENT

16. RECOMMENDATION OF RESERVE BANK COMMITTEE

Note:- Under heading 13, 14, or 15 discuss need of the community for the banking facilities provided by the applicant bank, its competitive position, and the probability of the successful operation of the bank in view of all of the circumstances involved.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7573

August 30, 1933.

SUBJECT: Charge for National Bank Examination Reports.

Dear Sir:

Reference is made to the Board's letter of November 25, 1932, X-7298, approving the payment of a fee of $10.00 for each report of examination of a national bank furnished to the Federal reserve banks until June 30, 1933, it being understood that after that date, in the absence of further action by the Federal Reserve Board, the payment of a fee of $5.00 for each such report of examination would be resumed.

The Comptroller of the Currency has requested that the fee of $10.00 be continued, and at the meeting of the Federal Reserve Agents' Conference on August 16, 1933, it was voted, subject to the approval of the Federal Reserve Board, to continue for one year from July 1, 1933, the payment of a fee of $10.00, in accordance with the Comptroller's request.

The Federal Reserve Board has approved the action taken by the Federal Reserve Agents' Conference and is advising the Comptroller of the Currency accordingly.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

To all Governors and Federal reserve agents.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

August 30, 1933.

Mr. _____, President
The _____ Bank,
_____.

Dear Sir:

Reference is made to your letter of July 15, 1933, in which you raise the question whether your bank is required under the provisions of section 19 of the Federal Reserve Act as amended by section 11(b) of the Banking Act of 1933 to pay interest accruing after June 16, 1933 on deposits of Postal Savings Funds which are payable on demand.

The Federal Reserve Board understands that prior to June 16, 1933, your bank agreed to comply with the regulations of the Postal Savings System governing the deposit of Postal Savings Funds in banks, and that this agreement was in effect on that date. Under the provisions of the regulations (edition of October 1931) relating to the deposit of Postal Savings Funds, banks which have qualified to receive deposits of such funds are required to pay interest thereon at a stipulated rate and a bank surrendering its Postal Savings deposits is required to credit the interest due on the date its account is closed. The Board of Trustees of the Postal Savings System may make changes in the rate of interest to be paid by the banks as it may deem proper. The regulations apparently contain no provision as to the period for which such an arrangement shall continue or the date upon which it shall terminate, but the funds on deposit may be withdrawn by the Board of Trustees at any time. The regulations further provide that whenever a bank desires to relinquish the whole or a part of its Postal Savings deposits it shall

notify the Third Assistant Postmaster General and comply with certain other requirements, and the Third Assistant Postmaster General will direct the bank as to the disposition to be made of the relinquished deposits.

Section 19 of the Federal Reserve Act as amended by the Banking Act of 1933 provides in part as follows:

> "No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand: Provided, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: Provided, however, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply 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 municipality, with respect to which payment of interest is required under State law."

It will be noted that the law obviously contemplates that any contract of a member bank for the payment of interest on deposits payable on demand, which was entered into prior to the date of enactment of the Banking Act of 1933, June 16, 1933, and in effect on that date, should be terminated by such bank as soon as possible after that date, if legally possible to do so under the contract.

After a careful consideration of this matter, it is the view of the Federal Reserve Board that a member bank in which Postal Savings Funds have been deposited subject to the provisions of the regulations of the Postal Savings System (edition of October, 1931) may, at any time, lawfully terminate the contract for the receipt and holding of such deposits and the payment of interest thereon upon compliance with the

provisions of the regulations with respect to the relinquishment by such bank of the whole of its Postal Savings deposits; and that accordingly, it became the duty of such a member bank as soon as possible after June 16, 1933, to take such action as may be necessary to terminate the contract or to eliminate any provision for the payment of interest on deposits payable on demand. After such modification of the contract no interest may be paid on deposits which have been received under its provisions and which are payable on demand.

The opinion of the Federal Reserve Board on a question of this kind, as you know, does not necessarily constitute a final determination of the rights of the parties to the transaction and does not prevent any party who may desire to do so from obtaining a determination of any such question which may be of a justiciable character in a court of competent jurisdiction.

Very truly yours,

(Signed) Chester Morrill,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

208

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7575

August 31, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

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

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

209

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7576

August 31, 1933.

SUBJECT: Employment of Trust Examiners.

Dear Sir:

At its meeting on August 16, 1933, the Federal Reserve Agents' Conference approved a report of a committee of the Conference with regard to the responsibility of Federal reserve agents under the Banking Act of 1933. Paragraph (c) of the report states that "Every Federal reserve agent should have a thoroughly trained man on his force to examine the trust departments of State member banks and his services or those of his staff should also be available for the examination of trust departments of national banks."

The Federal Reserve Board approves this recommendation and requests that the Federal reserve agent at each Federal reserve bank take steps immediately to arrange for the employment of a trust examiner with the qualifications contemplated by the report. The Board feels that special care should be exercised in the selection of such an examiner, and, when a person who clearly meets the requirements is found, the Federal Reserve Agent should submit a specific recommendation to the Federal Reserve Board with regard to his appointment and salary, the recommendation to be accompanied by

a full statement in detail of the experience and qualifications of the appointee for the position of trust examiner on the agent's staff.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7577

September 1, 1933.

SUBJECT: Proposed agreement covering services by Federal Reserve Banks as depositaries, custodians, and fiscal agents for the Federal Emergency Administrator of Public Works.

Dear Sir:

Since the Board's telegram of August 31, 1933 (Trans 1866), on the above subject was transmitted to you, certain changes in the proposed memorandum of agreement covering the services proposed to be rendered by the Federal reserve banks as depositaries, custodians, and fiscal agents for the Federal Emergency Administrator of Public Works were agreed upon as a result of further negotiations between the Treasury Department, the Federal Emergency Administrator of Public Works and the Federal Reserve Bank of New York; and there is inclosed herewith a copy of the proposed memorandum of agreement as further revised so as to incorporate the changes thus agreed upon. The changes consist of the insertion in the proposed agreement of the words underlined on the inclosed copy and they are believed to be self explanatory. You will note that the new paragraph numbered 8 eliminates one of the five points of difference mentioned in the Board's telegram of August 31; and that the Administrator of Public Works has now accepted in substance all but four of the suggestions made by the Federal reserve banks.

As stated in the Board's telegram of August 31, in view of the decision of the Treasury Department, the Federal Reserve Board offers

no objection to any Federal reserve bank acting upon receipt of a request of the Secretary of the Treasury, in the capacities indicated in the inclosed form of agreement, provided such agreement is satisfactory to the contracting Federal reserve bank.

It is understood that the Under Secretary of the Treasury will promptly request each Federal reserve bank to act in the capacities indicated and that the Administrator of Public Works will forward copies of the proposed memorandum of agreement to all Federal reserve banks for execution.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO THE GOVERNORS OF ALL FEDERAL RESERVE BANKS.

MEMORANDUM OF AGREEMENT, effective this day of , 1933, by and between the FEDERAL RESERVE BANK OF _____ (hereinafter called the "Bank"), and THE UNITED STATES OF AMERICA.

Whereas, the Secretary of the Treasury has requested the Bank as fiscal agent of The United States of America to act in accordance with this agreement as depositary, custodian, and fiscal agent for the Federal Emergency Administration of Public Works, an agency of The United States of America organized under Act, Public No. 67, of the 73rd Congress, approved June 16, 1933, (hereinafter called "Public Works"), and the Bank has agreed to act for Public Works in such capacities,

NOW, THEREFORE,

1. The bank shall from time to time make payments of moneys to be loaned, granted, or otherwise transferred by Public Works in accordance with instructions, telegraphic or written, from time to time received from Public Works, provided that the Bank is then authorized to draw checks in the name and on behalf of the disbursing officer of Public Works. Unless otherwise instructed, the Bank shall make such payments by drawing checks upon the Treasurer of the United States, in the name and on behalf of the disbursing officer of Public Works, under Symbol No. 95-100, payable to the order of the proposed recipient of such funds designated by Public Works or to the order of a bank designated by such proposed recipient (hereinafter called the "Borrower") for the credit of the Borrower. If so instructed by Public Works the Bank may make such payments by telegraphic transfer and shall thereupon reimburse itself by drawing checks upon the Treasurer of the United States, in the name and on behalf of the disbursing officer of Public Works, under Symbol No. 95-100, payable to the order of the Bank.

In making payments for Public Works the Bank assumes no liability as to the legality or advisability of payments authorized by Public Works, the financial responsibility of the Borrower, the adequacy of the security, or any other matter affecting the credit risk assumed by Public Works under its arrangements with the Borrower, or the priority or validity of the lien of any instrument deposited with the Bank. The Bank assumes no liability as to the filing or recording, or the refiling or maintaining of record of any instrument executed in connection with any loan, grant or other transfer of funds made by Public Works; or the payment of any tax or assessment, the discharge of any lien, or the existence or maintenance of any insurance with respect to premises referred to in any such instrument; or the performance of any condition or covenant contained in any such instrument other than conditions specifically set forth in instructions to the Bank from Public Works in connection with the payment of any such loan, grant or other transfer of funds.

2. The Bank shall receive and handle as custodian for Public Works, checks, notes, drafts, contracts, bonds, coupons, warrants, debentures, bills of exchange, acceptances, receipts, and other obligations or instruments evidencing loans, grants or other transfers of funds made by Public Works or representing collateral for such loans or other transfers of funds, including all instruments and other documents tendered in connection therewith, and shall keep the same separate and apart from the assets of the Bank, and upon the request of Public Works shall deliver the same or any designated item or items thereof at any time to, or upon the order of, Public Works. The Bank shall handle for collection and credit in the General Account of the Treasurer of the United States,

Symbol No. 95-100, any instruments for the payment of money held by it as custodian and any items sent to it for collection by Public Works. Unless otherwise directed by Public Works the Bank shall handle such items for collection upon the terms and conditions provided in the collection circulars of the Bank then in force with respect to the collection by the Bank of cash and non-cash items for member banks.

If requested by Public Works the Bank shall maintain or secure the maintenance of a fidelity bond or bonds, providing coverage, in addition to any coverage that may be already in effect, for all officers and employees of the Bank engaged in handling such items, under the terms of which Public Works will be protected to its satisfaction. The cost of all additional premiums for such coverage for the benefit of Public Works will be paid by Public Works as part of the expenses of the Bank provided for herein.

3. The Bank shall transmit all items payable to bearer by registered mail, express or otherwise, and shall when reasonably necessary obtain insurance covering such items, and the cost of such insurance, together with mail and express charges, will be paid by Public Works as part of the expenses of the Bank provided for herein.

4. The Bank shall keep separate accounts and records of all its transactions for and on behalf of Public Works under this agreement, shall transmit from time to time such receipts, reports and statements as Public Works may reasonably require, and shall permit Public Works at any reasonable time to examine all such accounts and records, except securities located in the vaults of the Bank. Such securities are ordinarily examined at least once each year by the examiners of the

Federal Reserve Board and by the General Auditor of the Bank, and at the time of such examinations the reports concerning such securities will be reconciled with the records of Public Works.

5. Under no circumstances shall the Bank be held responsible to Public Works for any loss arising from any cause whatsoever in carrying out the provisions of this agreement or any directions or instructions of Public Works hereunder, except such as may arise from its negligence or that of its officers, directors, employees or duly authorized agents. In acting or disbursing any funds hereunder, the Bank shall be entitled to rely on any directions or instructions of Public Works, or any of its duly constituted agents, whether telegraphic, written or otherwise, which the Bank believes to be genuine and duly authorized, and to have been given, made, sent or signed by the proper person, and in so acting and disbursing funds the Bank shall be fully protected and without liability of any kind whatsoever except for its own negligence.

6. Public Works shall reimburse the Bank for all expenses incurred by the Bank on account of or arising out of services rendered by the Bank hereunder, statements of such expenses to be rendered by the Bank monthly.

7. All action to be taken by or on behalf of Public Works hereunder shall be taken by Harold L. Ickes, Federal Emergency Administrator of Public Works, or his successor or successors in office, or his or their duly authorized agent or agents. Public Works shall keep on file with the Bank the names, titles and specimen signatures of all such persons authorized to act hereunder.

8. Either party hereto may terminate this agreement by giving to the other 30 days written notice.

IN WITNESS WHEREOF the Bank, by its duly authorized officer, and The United States of America, by the Federal Emergency Administrator of Public Works, have executed this memorandum of agreement.

ATTEST:

_____

FEDERAL RESERVE BANK OF _____

by _____
Governor

THE UNITED STATES OF AMERICA

by _____
Federal Emergency Administrator of
Public Works.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7578

September 5, 1933.

Dear Sir:

In connection with the Board's letter of August 5, 1925 (X-4397), with regard to estimating population of towns and cities in which banks applying for membership are located, there is inclosed a copy of a telegram recently addressed to one of the Federal Reserve Agents, for your information in the event that a case involving similar circumstances arises in your district.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

To all Federal Reserve Agents.

X-7578-a

COPY

Referring your wire August 3, 1933, in absence of detailed information as to reasons for apparent decrease in population of _____, _____, and as to temporary or permanent character thereof, Board is unable to advise definitely whether evidence submitted is sufficient to determine eligibility of _____ Bank and Trust Company for membership with capital less than $100,000. If estimates of population are to be accepted by Board in lieu of population as shown by 1930 census, such estimates in a case of this kind should be accompanied by detailed advice of cause of decrease since 1930 census and any available local statistics indicating whether estimates are justified. It is suggested that, if you have not already done so, you should obtain independently of State bank involved disinterested estimates of present population of _____, together with the other information above mentioned and forward to Board full information in this matter, together with your opinion of present population of _____ on basis of evidence obtained.

Morrill.

X-7579

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

Mr. _____, Secretary,
_____ Bankers Association,
_____,

_____, _____.

Dear Sir:

The Comptroller of the Currency has referred to the Federal Reserve Board for reply your letter of July 18, 1933, in which you submit an inquiry as to whether a member bank of the Federal Reserve System may lawfully "allow a credit for a balance in a checking account merely for the purpose of arriving at the cost to charge the depositors". From the information in your letter, the Board understands that if the interest computed on any such balance is in excess of the amount of charges against such account, the bank pays no interest to the depositor, but presumably, it does pay or absorb the charges against the account. In the event that the interest computed on any such account is less than the charges against the account, the depositor is required to pay the bank the actual cost of carrying the account in accordance with a schedule of the bank. It does not appear whether the sum the depositor is required to pay is fixed with reference to the amount of interest credited on his balance, or otherwise bears any relationship to the amount of such interest.

The prohibition against the payment by a member bank of interest on any deposit payable on demand which is contained in Section

19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933, applies not only to the direct payment of interest, but also to the indirect payment of interest in any manner or by any method, practice or device whatsoever. The payment or absorption of charges or other expenses by a member bank, in an amount which varies with or bears a substantially direct relation to the amount of a deposit payable on demand, constitutes an indirect payment of interest on such deposit within the meaning of this section and is within the prohibition thereof.

The information contained in your letter is not sufficiently complete to enable the Board to advise you definitely whether the instant situation would come within the prohibition of said Section 19, as amended. However, it seems that in certain cases charges and expenses are absorbed in lieu of the payment of interest; that the question of the absorption of such charges is determined with reference to the amount of the deposit balance; and, therefore, that the absorption of such charges is directly related to the amount of such deposit balance. In such circumstances, it would appear that the absorption of such charges would constitute an indirect payment of interest and would be unlawful.

You are further advised that in any case in which a member bank pays or absorbs charges or other expenses in connection with any deposit payable on demand, it must be prepared to show that such payment or absorption of charges or expenses is not a device to evade the statutory prohibition.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7580

September 9, 1933.

SUBJECT: New Issue of Treasury Certificates of Indebtedness.

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 Certificates of Indebtedness:

"NOWHOBIER" 1/4% Treasury Certificates of Indebtedness, Series TJ-1934, to be dated September 15, 1933, and to mature June 15, 1934.

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

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7581

September 11, 1933.

SUBJECT: Statement of Board's general policy in connection with consideration of applications for membership.

Dear Sir:

You will recall that upon the request of some of the Federal reserve agents during the conferences with the Board on August 15 and 16, 1933, there was submitted a preliminary draft of a statement of the Board's general policy in connection with the consideration of applications for membership in the Federal reserve system. This statement has been revised and amplified in the light of the discussions during those meetings and the suggestions made by the Federal reserve agents with regard thereto. There are attached hereto mimeographed copies of the revised statement which may be used solely for the guidance of the appropriate committee of the Federal reserve bank and members of your staff in considering applications for membership.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

X-7581-a

GENERAL PRINCIPLES APPLICABLE TO CONSIDERATION OF APPLICATIONS FOR MEMBERSHIP IN FEDERAL RESERVE SYSTEM

Under the provisions of the Federal Reserve Act, the Federal Reserve Board, in acting upon an application for membership, is specifically required to consider the financial condition of the bank, the general character of its management and whether or not the corporate powers exercised are consistent with the purposes of the Federal Reserve Act. The Federal Reserve Act further provides that no applying bank shall be admitted to membership unless it has an unimpaired capital.

While no rigid formula can be prescribed for the admission of State banks to the system, the following is an expression of the Board's general policy on the points mentioned. It should be clearly understood that they do not necessarily cover all questions that may be involved in any case, and that each particular case must be determined on its merits after careful consideration of all circumstances involved. In this connection, the standard or customary conditions of membership which the Board now prescribes for all banks admitted to membership are set forth in the circular letters dated March 11, 1933 (X-7356) and June 30, 1933 (X-7469).

1. The bank must be sound with unimpaired capital which, together with the bank's unimpaired surplus, must 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.

2. All amounts classified as losses must be eliminated from the assets prior to admission to membership.

3. All depreciation on stocks and defaulted securities and all depreciation on other securities not in the four highest grades should be eliminated prior to admission to membership.

4. The surplus, undivided profits, and applicable reserves must be sufficient to cover all depreciation on securities in the four highest grades.

5. While, in the absence of special circumstances, it is not the Board's general practice to require chargeoffs on account of assets classified as slow and doubtful, consideration must be given to the fact that substantial losses often develop in the liquidation of such assets, and therefore, the aggregate of such assets should not exceed a reasonable amount when considered in relation to the bank's capital structure, the nature of its other assets, and the stability of the deposits. Consequently, in some cases, provision for loss to the extent of a part or all of the doubtful assets may be required through elimination or establishment of reserves, as circumstances warrant.

6. Investment in banking house, furniture and fixtures should be reasonable, the reasonableness of the investment to be determined in each case after taking into consideration the limitations prescribed by Section 24A of the Federal Reserve Act, as amended by Section 14 of the Banking Act of 1933, the bank's capital structure, the nature of the building, the community, the income produced, the liquidity of the other assets, etc.

7. Other real estate is an undesirable asset for a bank and should be disposed of as soon as practicable. In determining whether

immediate removal of other real estate should be required, consideration should be given to the nature and amount of such assets, taking into consideration the distribution and character of other assets, the soundness of the values, and the length of time the properties have been held. In some cases where the combined investment in banking house furniture and fixtures and other real estate has been large as compared with the total unimpaired capital and surplus of the applicant bank but where the other features of the bank's condition were such that the Board felt justified in approving the Federal Reserve Agent's recommendation that the bank be admitted to membership in the System, the Board has prescribed a condition requiring that a substantial part of the bank's net earnings be carried annually to its surplus account before the payment of any dividend, until such time as its unimpaired capital and surplus has been increased to a prescribed amount which bears a proper relation to its investment in banking house, furniture, fixtures and other real estate or until such investment has been reduced by a corresponding amount.

8. Since, under the provisions of the Federal Reserve Act as amended by the Banking Act of 1933, a member bank may not purchase corporate stocks, except in certain limited classes of cases where national banks are permitted to purchase stocks, a State bank, prior to admission to membership, should be required to dispose of at least all corporate stocks acquired within such a short time previously as to indicate that such stocks were acquired in anticipation of membership. Moreover, the Board has taken the position that an applicant for membership should divest itself of all stocks, no matter how acquired, through which the applicant may have control over any other banking institution or over any corporation which carries on a business in which the applicant would not be permitted to

engage directly as a member bank. In general, it may be observed that the Board feels that stocks are not suitable investments for funds of commercial banking institutions and has suggested to applicants admitted to membership that they consider the advisability of disposing of all stocks held by them as soon as it is feasible to do so.

9. The bank's liquid position, considering the distribution of its assets, its borrowing capacity, and the nature of its deposits, should be satisfactory and such as to indicate that it would not need to resort to emergency loans or to borrow continuously in order to remain in business.

10. Special consideration should be given to the character of the management and control of the institution, and any changes should be effected prior to admission which previous conduct of the bank's management or other circumstances indicate are desirable. When a directorate or management is retained in whole or in part notwithstanding the fact that the record of the institution may have been unsatisfactory, there must be an affirmative showing that the persons retained do not merit substantial criticism for the unfavorable conditions and that confidence may properly be reposed in them in the future. In this connection, particular consideration should be given to whether the directorate and management of the bank have a substantial financial stake in the success of the bank through ownership of its stock.

11. Careful consideration should be given to all corporate powers exercised by the bank and their effect on the bank and whether they are consistent with the purposes of the Federal Reserve Act. Prior to admission to membership, the bank should be required to terminate the

exercise of any powers that are not appropriate for a bank receiving deposits, such, for example, as insuring or guaranteeing titles to real estate, executing surety bonds, acting as warehouseman, or carrying on any class of business covered by the Federal Reserve Board's standard condition number 12, contained in the Board's letter of March 11, 1933 (X-7356).

12. Attention should be directed in each case to the needs of the community for the banking facilities to be provided by subject bank, and to the probability of the successful operation of the bank in view of all circumstances involved in the particular case. In this connection particular consideration should be given to the circumstances involved in any reorganization of the applicant bank which has occurred within a short time prior to its application for admission to the system, and attention is called to the Board's letter of August 21, 1933 (X-7556), with regard to applications involving such circumstances.

It may be added that it has been the consistent policy of the Board not to admit a bank to membership unless the Federal Reserve Agent and the Federal Reserve Bank committee have recommended such admission. As pointed out in its letter of March 11, 1933 (X-7356) the Board would like to have the recommendations of the bank's committee and the Agent as to any special requirements which in their judgment should be prescribed in each particular case with the view to correcting or preventing unsatisfactory conditions. In connection with each such recommendation there should be a clear statement of the circumstances which form the basis of such recommendation. It should also appear that counsel for the Federal reserve bank is satisfied with all legal aspects of each case.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 11, 1933.

Mr. Frederic H. Curtiss, Chairman,
Board of Directors,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Curtiss:

Reference is made to your letter of July 10, 1933, "Inquiry No. 24, Supplementing Inquiry No. 17", in which you state that a nonmember banking institution which has applied for membership in the Federal Reserve System desires to be informed, before completing arrangements for membership, whether Section 8A of the Clayton Act, as amended, prohibits an interlocking directorate between a State member bank and a manufacturing corporation which occasionally makes loans to its employees, secured by its own stock, for the purpose of enabling such employees to become stockholders in the corporation.

As you point out, the answer to this question depends on two other questions: (a) does the phrase "organized or operating under the laws of the United States" apply to State member banks, and (b) does the phrase "corporation * * * organized for any purpose whatsoever" apply to the manufacturing corporation.

Under date of September 10, 1917, the Acting Attorney General of the United States rendered an opinion with respect to Section 8 of the Clayton Act in which he held that the phrase "organized or operating under the laws of the United States" does not include State banks which are members of the Federal Reserve System. The Federal Reserve

Board has decided that the reasoning of the opinion is equally applicable to that phrase as used in Section 8A of the Clayton Act.

Since Section 8A is not applicable to State member banks, it becomes unnecessary to answer the other question which you ask.

Very truly yours,

(Signed) Chester Morrill,

Chester Morrill,
Secretary.

X-7584 231

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 11, 1933.

Mr. _____, Secretary,
_____ Building and Loan Association,
_____, _____.

Dear Sir:

Your letter of August 25, 1933, addressed to the Comptroller of the Currency, has been referred to the Federal Reserve Board for reply. You inquire whether the provisions of Section 8A of the Clayton Antitrust Act as amended by Section 33 of the Banking Act of 1933 apply to a director of a national bank who is serving at the same time as a director of your Association, in view of the fact that your Association makes loans to its shareholders secured by shares of the Association.

You state that your Association is a mutual association, which makes loans to its shareholders secured by its stock or by mortgages on improved real estate, and that the earnings of the Association, less necessary expenses, are allocated to the shareholders.

The Federal Reserve Board is of the opinion that the loans made by a building and loan association to its shareholders on the security of stock of the association, as a part of the general plan under which such associations usually operate, are not the type of loans "secured by stock or bond collateral" contemplated by Section 8A of the Clayton Antitrust Act. Therefore that Section does not prohibit a director of a national bank from serving at the same time as a director of your Association.

Very truly yours,

(Signed) Chester Morrill,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

232

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7585

September 13, 1933.

SUBJECT: Proposed regulation and forms dealing with Section 32 of the Banking Act of 1933.

Dear Sir:

There are inclosed herewith six copies of a tentative draft of a regulation and forms, designated Regulation R, and Forms 99a to 99g, inclusive, pertaining to the provisions of Section 32 of the Banking Act of 1933. There are also inclosed for your information six copies of a memorandum addressed to the Federal Reserve Board discussing certain questions arising in connection with the provisions of Section 32.

In view of the large number of applications which will probably have to be acted upon before January 1, 1934, it is desirable that the revised regulation and forms be issued as promptly as possible, and therefore it will be appreciated if you and the officers and counsel of your Federal reserve bank will consider the proposed regulation and forms and if you will give the Federal Reserve Board the resulting comments and suggestions thereon at your earliest convenience.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

X-7586

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 13, 1933.

SUBJECT: Revision of Regulation L and Forms pertaining to Interlocking Bank Directorates and other Relationships under Sections 8 and 8A of the Clayton Antitrust Act as amended by the Banking Act of 1933.

Dear Sir:

There are inclosed herewith six copies each of a tentative draft of a revision of the Board's Regulation L and of the Board's Forms 94, 94a, and 94b, pertaining to the provisions of Section 8 of the Clayton Antitrust Act, as well as to the provisions of Section 8A thereof, which was added by Section 33 of the Banking Act of 1933.

Your attention is invited to the fact that none of the provisos contained in Section 8, except the last proviso which authorizes the issuance of permits, is applicable to the provisions of Section 8A. Consequently, services for which no permit was required under the provisions of Section 8 because falling within the terms of these provisos, may nevertheless be forbidden by the provisions of Section 8A unless covered by a permit. Moreover, Section 8A contains no limitations with regard to the size or location of the institutions covered by its provisions, with the result that permits will be required in many cases in which no permit was previously required. These differences are pointed out, however, merely by way of illustration, and your attention is directed to the proposed revision of Regulation L

where the provisions of the Act are covered in greater detail.

In view of the large number of applications which will probably have to be acted upon before January 1, 1934, it is desirable that the revised regulation and forms be issued as promptly as possible, and therefore it will be appreciated if you and the officers and counsel of your Federal Reserve Bank will consider the proposed regulation and forms and if you will give the Federal Reserve Board the resulting comments and suggestions thereon at your earliest convenience.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7587

September 13, 1933.

SUBJECT: Establishment of out-of-town branches by State member banks.

Dear Sir:

Under the provisions of section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, a State member bank may establish and operate a branch outside of the city, town or village in which it is situated "on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks"; and a national bank is required, among other things, to obtain the approval of the Comptroller of the Currency in order to establish a branch beyond the limits of the city, town or village in which it is situated. The question has arisen whether, in these circumstances, it is necessary that a State member bank obtain the consent of the Comptroller of the Currency in order to establish and operate an out-of-town branch. The Board's counsel has given careful consideration to this question and has reached the conclusion that it must be answered in the affirmative.

In order that some practical method for the handling of applications or requests of State member banks for the approval of the establishment and operation of out-of-town branches might be arranged, this matter has been taken up with the Comptroller of the Currency and

the following method has been agreed upon:

Such a request or application may be submitted by a State member bank to the Federal Reserve Agent of the district in which the bank is located and transmitted by him, with his recommendation and comments and a copy of the complete report of the most recent examination of the bank, to the Federal Reserve Board. The Board will then consider such request on the basis of the facts and recommendations submitted and of the information which it has in its records with respect to the member bank in question. The Board will then present the request of the State member bank to the Comptroller of the Currency for his consideration, advising him of the recommendation of the Federal Reserve Agent and also of its own views on the question, with the request that the Comptroller inform the Board as to his conclusion in the matter.

It is requested that cases in which State member banks in your district may desire to establish out-of-town branches be handled in accordance with the procedure above set forth.

Yours very truly,

Chester Morrill

Chester Morrill,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

287

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7538

September 14, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXEMA" has been designated to cover a new issue of Treasury Bills, dated September 20, 1933, and maturing December 20, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7589

September 16, 1933.

Dear Sir:

For your information there is inclosed herewith a copy of an opinion of the Attorney General of the United States, which was rendered under date of September 7, 1933, in regard to reports of affiliates of national banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-7589-a 229

C O P Y

OFFICE OF THE ATTORNEY GENERAL

WASHINGTON, D. C.

C O P Y

September 7, 1933.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

I have the honor to refer to your letter of August 23rd, requesting my reconsideration of the questions submitted in your letter of August 11th as arising under the Banking Act of 1933.

I understand from your letters and from conferences between members of our respective Departments that the Comptroller has called upon the national banks to render reports and, in connection therewith, to furnish reports of their affiliates, as provided by Section 27 of the Banking Act, and the banks, finding it burdensome or otherwise objectionable to follow the letter of the statute and conceiving that it may not be literally applied in all instances, have submitted to your Department many questions with requests for rulings. As stated in my letter of August 18th, I cannot properly undertake to resolve such questions for the banks.

You refer to the duty of the Comptroller to determine whether or not the banks have complied with the statutory obligation to furnish reports of their affiliates in response to his call. This question, I think, cannot properly be said to arise except as particular banks may fail or refuse to furnish the reports.

You also call attention to the statutory provision concerning the examination of affiliates in connection with examination of national banks. Section 28 (a) provides for examining affiliates "as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank." The ordinary and preferable course would be to decide the question of the Comptroller's power to examine particular affiliates as occasion may arise and in the light of the facts and circumstances then apparent.

While, as stated, I prefer not to pass upon these questions except as particular cases actually arise, it does not seem objectionable to say that I perceive the force of your Solicitor's conclusion that ownership and control through majority stockholding does not include a holding by a bank merely as executor or in some other such fiduciary or representative capacity, subject to control by a court, or by a beneficiary or a principal, and without the incentive and opportunities which might arise from a holding of the stock by the bank as its own property.

Upon the question of excluding from the operation of the statute classes of concerns which the bank owns or controls, or by which the bank is owned or controlled, or in which a majority of the directors are also directors of the bank, upon consideration of the nature of the business of the concern or the manner in which ownership or control was obtained, the only safe course is to assume that the statute means just what it says, with the burden upon any one assuming an exception in the particular case to establish it. In interpreting the Act of Congress I

could not properly be concerned with the scruples of the banks about literal compliance, but it is nevertheless worthy of note that the Senate Committee which reported the Bill stated a purpose to discourage "affiliates of all kinds." (S. Rept. 77, p. 10.) I am familiar with the statements of members of Congress made to your Department and to mine, that Congress did not intend to go so far as apparently it has in the definition of "affiliates." However this may be, the executive department must accept the law as Congress has written it, leaving it to Congress to correct by amendment any inequities which may appear.

To illustrate the difficulties confronting us in any attempt to distinguish between "affiliates" upon a consideration of the nature of their business, I invite your attention to the following: Section 13 of the Act regulates certain transactions between a bank and its affiliate -- and it is quite probable that the reports by and examinations of affiliates are required largely in aid of this and similar provisions. If an unsecured loan, forbidden without qualification by Section 13, is to be deemed as forbidden when the affiliate is engaged in one business but permissible if the affiliate is engaged in another, perhaps equally hazardous, my attention has not yet been directed to any provision making such a distinction.

I have thus gone into the matter at some length in order that you may understand the difficulties that would be encountered in attempting to answer at this time the questions submitted by you and, aside from that, the apparent inadvisability of doing so. Please be assured,

however, that I shall be glad to advise you promptly and definitely, upon your request, in connection with any particular cases in which banks may fail to submit reports of "affiliates," observing the letter of the statutory definition, or in which it may be desired to make some examination and the right to do so is challenged by the parent bank or by the "affiliate."

Respectfully,

(Signed) HOMER S. CUMMINGS,

Attorney General.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

September 13, 1933.

Mr. _____, Conservator,
The _____ Banking Company,
_____, _____.

Dear Sir:

Reference is made to your letter of June 16, 1933, addressed to the Board's General Counsel, in which you raised the question whether a State member bank of the Federal Reserve System located in the city of _____, Ohio, may lawfully establish a branch in _____, Ohio. I regret that it has not been possible to advise you with reference to this matter at an earlier date but the question presented involved a legal problem of some difficulty which has had the careful consideration of the Board's Counsel.

As you know, under the provisions of section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, a State member bank is authorized to establish and operate branches outside of the city in which it is located "on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks"; and, under the provisions of section 5155 of the Revised Statutes, as amended by the Banking Act of 1933, a national bank, subject to certain prescribed restrictions and conditions, may establish a branch at any point within the State in which it is located "if such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting

such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks."

The Board understands that the statute of the State of Ohio contains the following provision with reference to branches of State banks organized under the laws of that State:

> "Sec. 710-73. * * * * * * * * No branch bank shall be established until the consent and the approval of the superintendent of banks has been first obtained, and no bank shall establish a branch bank in any place other than that designated in its articles of incorporation, except in a city or village contiguous thereto, or in other parts of the county or counties in which the municipality containing the main bank is located. If such consent and approval is refused, an appeal may be taken therefrom in the same manner as is provided in section 710-45 of the General Code."

After careful study of the question presented, it is the view of the Federal Reserve Board that a State member bank, located in the State of Ohio, may lawfully establish and operate a branch in a city or village contiguous to the place designated in its articles of incorporation or in other parts of the county or counties in which the municipality containing the main bank is located, provided that said State bank complies with all requirements of the law applicable to the establishment of out-of-town branches by national banks. Among the requirements in question is that the approval of the Comptroller of the Currency be obtained before the establishment and operation of any such out-of-town branch. Accordingly, it is suggested that if a State member bank located in Ohio desires to establish and operate an out-of-town branch, it communicate its request or application for approval of

the establishment of such branch to the Federal Reserve Agent of the Federal Reserve Bank of Cleveland. The Federal Reserve Agent, after carefully considering the matter and obtaining such information as may appear to be necessary, will transmit the request to the Federal Reserve Board, which will submit it to the Comptroller of the Currency.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Copies to be sent to all Federal reserve banks.

September 16, 1933.

Mr. _____, President,
The _____ Bank of _____,
_____, _____.

Dear Sir:

This refers to your letter of August 17, 1933, inquiring whether you may continue to serve as a director of the _____ National Bank of _____, _____, as a director of the _____ _____ National Bank of _____, _____, and as officer and director of the _____ Bank of _____, _____.

On March 6, 1930, the Federal Reserve Board issued to you a permit to serve the banks named above; and such permits continue in force until revoked.

While Section 8A of the Clayton Antitrust Act, as amended by Section 33 of the Banking Act of 1933, forbids certain relationships which were not forbidden by the provisions of Section 8 of the Clayton Antitrust Act, nevertheless permits heretofore issued covering services within the prohibitions of Section 8 authorize the person to whom they were issued to serve the same banks, although such banks are now within the prohibitions of Section 8A, as well as Section 8. It will not be necessary, therefore, for you to obtain a new permit covering the services described in your present permit.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-7592

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 18, 1933.

Mr. _____,
The _____ National Bank of _____,
_____, _____.

Dear Mr. _____:

Receipt is acknowledged of your letter of September 7, 1933, addressed to the Governor of the Federal Reserve Board, with regard to the Board's Regulation Q, relating to the payment of deposits and interest thereon by member banks of the Federal Reserve System.

This regulation was approved by the Federal Reserve Board on August 29, 1933, and became effective immediately, except that, in accordance with Sections III(c) and V(c) of the regulation, the limitation on the rate of interest which may be paid on time deposits or savings deposits will become effective on November 1, 1933.

Regarding your comments with respect to savings accounts, the Federal Reserve Board does not feel that it should undertake at this time to define in detail the words "bona fide thrift purposes" or further to define the term "savings deposit" as used in the regulation. The Board suggests that each member bank exercise its best judgment in determining whether deposits are of such a nature that they may properly be classified as savings deposits within the meaning of the Board's definition and, if a case arises in which the bank is in doubt as to the correctness of its conclusion, that it submit the matter to the Federal reserve bank of its district for advice on the question.

If the Federal reserve bank feels the question is one which should properly be considered by the Federal Reserve Board, it will submit the matter to the Board for a ruling.

Very truly yours,

(Signed) L. P. Bethea,

L. P. Bethea,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

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X-7593

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 20, 1933.

SUBJECT: Holidays during October, 1933.

Dear Sir:

On Thursday, October 12, Columbus Day, there will be neither transit nor Federal reserve note clearing and the books of the Federal Reserve Board's Gold Settlement Fund will be closed. The offices of the Federal Reserve Board and the following Federal reserve banks and branches will be open for business as usual:

Richmond
Charlotte

Atlanta
Nashville
Jacksonville

Detroit

St. Louis
Little Rock
Memphis

Minneapolis

Kansas City
Denver
Oklahoma City

The Board is also advised that, in addition to the holiday mentioned, the following branches of the Federal Reserve Bank of Atlanta will be closed on the dates indicated:

Tuesday, October 10, Havana Agency (Anniversary of (Revolution of Yara

Friday, October 13, Jacksonville Farmers' Day

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL
F. R. BANKS.

FEDERAL RESERVE BOARD

250

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7594

September 20, 1933.

SUBJECT: Use of Preferred Stock or Debentures by Banks in Obtaining Funds.

Dear Sir:

There is inclosed for your information, a copy of a letter which the Board has addressed to the Federal Reserve Agent at the Federal Reserve Bank of Kansas City, with regard, among other things, to the uses which may be made of preferred stock and capital notes or debentures for the purpose of obtaining funds to improve the condition of banks.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL F. R. AGENTS EXCEPT AT KANSAS CITY.

C O P Y

X-7594-a

September 19, 1933.

Mr. M. L. McClure,
Federal Reserve Agent,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. McClure:

Receipt is acknowledged of your letter of September 5, 1933, enclosing copies of letters you have addressed to the State Banking Departments of Missouri and Colorado and advising of other steps you have taken to obtain information with regard to the condition and needs of banks in Groups 3 and 4 and to suggest to the State Banking Departments of the States in your district that banks in such groups make application to the Reconstruction Finance Corporation for the purchase of such preferred stock as may be necessary to place the banks in sound condition. Your efforts in this connection and the cooperation you are giving in working out the problems involved in this matter are greatly appreciated.

It is noted that you have called the attention of at least one of the State Banking Departments to the fact that the Reconstruction Finance Corporation can supply funds through loans to the purchasers of preferred stock which is subject to double liability, and it is suggested that, if you have not already done so, you call this fact to the attention of the State Banking Departments of the other States located in your district, the

laws of which do not authorize banks to issue preferred stock exempt from double liability.

As you know, the Board has ruled in its letter of August 25, 1933 (X-7561) that capital debentures which represent the indebtedness of the issuing bank for money borrowed rather than a proprietary interest in such bank may not be considered capital stock of the bank for the purpose of determining whether it has sufficient capital to make it eligible for admission to membership in the Federal Reserve System. However, in any case where a bank has sufficient capital stock to make it eligible for membership but the amount of its capital stock and surplus is not adequate from the standpoint of a proper relationship to its deposit liabilities, there would seem to be no objection to the bank obtaining funds for the protection of its depositors through the issuance of capital notes or debentures which would be subject to payment by the bank only after claims of depositors are satisfied. As you know, the Reconstruction Finance Corporation is authorized to purchase legally issued capital notes or debentures of State banks, if the laws of the State in which the bank is located do not authorize the issuance of preferred stock exempt from double liability or if such preferred stock may only be issued by unanimous consent of the stockholders of the bank.

In this connection, it may be noted that lawfully issued capital debentures of the kind referred to above may properly be included in determining whether capital and surplus funds of a bank

are adequate in relation to its total deposit liabilities within the meaning of the Board's usual condition of membership number 15. In any case where capital debentures are issued for protection of depositors, it would be advisable at the time of such issuance to make provision for an appropriate increase of the capital stock of the bank if and when such debentures are retired, in order that the bank may at all times have an adequate amount of capital funds for the protection of its depositors.

It appears from your letter that the constitution of the State of Nebraska forbids the issuance of bank stock which is not subject to double liability; and it would seem advisable to consider the enactment of legislation in that State authorizing the issuance of such capital debentures if they cannot be issued under existing law.

It also appears from your letter that Kansas, New Mexico, Oklahoma and Wyoming have no constitutional provisions forbidding the issuance of preferred stock not subject to the double liability; and it would seem advisable to obtain legislation in those States authorizing the issuance of such preferred stock.

Summarizing the situation, it would seem that:

(1) If the laws of a State permit banks located in such State to issue preferred stock which is exempt from the double liability, the best method of strengthening the capital structure of banks is for them to issue preferred stock and sell the same to the Reconstruction Finance Corporation, if it cannot be sold to other purchasers.

(2) If the laws of the State do not permit the issuance of preferred stock exempt from double liability but there is no consitutional provision forbidding the issuance of such stock, it would seem desirable to seek legislation authorizing the issuance of preferred stock exempt from double liability, in order that the assistance of the Reconstruction Finance Corporation may be obtained through the purchase of such stock.

(3) If the constitution of a State forbids the issuance of preferred stock exempt from double liability but permits the issuance of preferred stock which is subject to double liability, it would seem desirable to issue such preferred stock and seek a loan from the Reconstruction Finance Corporation to enable the purchasers to pay for it; but would not seem proper in any case for a bank to make loans on the security of its own stock.

(4) If preferred stock cannot be utilized in any of the ways suggested above as a means of strengthening the capital structure of a bank, it would seem that relief must be sought through the issuance of capital notes or debentures for sale to the Reconstruction Finance Corporation. It would seem possible through this method to obtain the additional protection needed for depositors and to improve the condition of the bank for the purpose of obtaining admission to the Federal Deposit Insurance Fund; but it is not possible by this method to make a bank eligible for

membership in the Federal Reserve System if it has insufficient capital to comply with the legal requirements of the Federal Reserve Act. This, however, is not the question presented in your letter. That question covers only the means of bettering the condition of banks to enable them to enter the Deposit Insurance Corporation on a sound basis, and that question I have endeavored to answer fully.

Very truly yours,

(Signed) E. R. Black

E. R. Black,
Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-7595

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 20, 1933.

SUBJECT: Appointment of Examiners at Federal Reserve Banks.

Dear Sir:

In view of the necessity for exceptional care in the selection and approval of examiners at Federal reserve banks the Board has decided that the procedure set out in this letter shall be followed hereafter.

Whenever a new examiner is to be added to the examination division in a Federal reserve agent's department, the field of possible appointees should be carefully canvassed in order to obtain the services of the applicant best fitted for the position. When a decision is reached as to such a person, the Federal reserve agent's recommendation should be submitted to the Board with detailed information in regard to the experience and qualifications of the person recommended. In order that the Board may be advised fully it is suggested that the report cover the matter along the following lines:

1. Applicant's name, date of birth, nationality, marital status, condition of health, physical defects if any.

2. Education, including names of schools and colleges attended, periods of attendance, degrees obtained, other training, special examinations and results thereof, and diplomas or certificates received.

3. Previous employment, names and addresses of employers, periods of employment, positions held and nature of work, salary received in each case, reasons for leaving previous positions, and information obtained from previous employers as to quality of applicant's work. In this connection, care should be exercised to ascertain independently of the applicant the attitude of

previous employers with respect to his services and the reasons for termination thereof.

4. All other experience which would have a bearing on applicant's qualifications as an examiner.

5. Information as to applicant's indebtedness, if any, whether indebted to member banks, their subsidiaries or affiliates, when indebtedness was contracted, its original amount, progress being made in liquidation, and whether, if tendered appointment by the Federal reserve bank as an examiner, the applicant will resign any official connection he may have with other business concerns and discontinue any other existing relationship which may have an undesirable effect upon his service as an employee of the Federal reserve bank.

6. Any other information which will be of assistance in the consideration of the recommendation.

Upon receipt of the recommendation, accompanied by the information requested above, it will be referred to the Chief of the Board's Division of Examinations with the request that he make such investigation as may appear to him to be desirable with regard to the qualifications of the applicant and his fitness for the position, and that he submit a recommendation to the Board with regard to approval of the appointment. Upon submission of the recommendation of the Chief of its Division of Examinations, the Board will consider the proposed appointment in the light of the information and recommendations received, and the Federal reserve agent will be advised promptly of the action taken.

Very ~~truly~~ yours,

L. P. Bethea,
Assistant Secretary.

TO ALL F. R. AGENTS.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 20, 1933.

Mr. _____, Vice President,
_____ National Bank,
_____, _____.

Dear Sir:

Your letter of August 14, 1933, addressed to the Comptroller of the Currency, with reference to whether a Pennsylvania building and loan association is a mutual savings bank within the meaning of section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, has been referred to the Federal Reserve Board for reply.

The Board notes that in your letter to the Board of June 30, 1933, in regard to this matter, the particular association to which you refer was described as a "savings and loan association". In view of the fact, however, that associations so titled have, in Pennsylvania, been regarded as building and loan associations (see Folk v. State Capital Savings and Loan Association, 214 Pa. 529, 63 Atl. 1013), it is assumed by the Board that the association here in question is, in fact, a building and loan association within the meaning of the Building and Loan Code of Pennsylvania, which became effective July 3, 1933.

Associations which are subject to the provisions of that Code exist primarily for the purpose of granting loans to their shareholders in order to encourage private building enterprise. Such associations issue to their members in series or non-serially shares

of stock which may be full-paid, prepaid or paid for in installments. They do not appear to have authority to receive deposits or to perform any of the characteristic functions of a mutual savings bank.

The Board does not have detailed information as to the type of business in which the association here involved is engaged. If, however, as the Board assumes, such association is one to which the Building and Loan Code is applicable, it is the opinion of the Board that such association cannot be considered a mutual savings bank for the purposes of section 19 of the Federal Reserve Act as amended.

Very truly yours,

(Signed) Chester Morrill,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7598

September 21, 1933.

SUBJECT: Liability of banks on deferred certificates issued to depositors.

Dear Sir:

There is inclosed herewith for your information a copy of a letter the Federal Reserve Board has addressed to the Auditor of Public Accounts of the State of Illinois with regard to the liability of certain banks in that State on deferred certificates issued to depositors who waive their right to demand immediate payment of a part of their claims against the bank.

Yours very truly,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-7598-a

C O P Y

September 21, 1933.

Hon. Edward J. Barrett,
Auditor of Public Accounts,
State of Illinois,
Springfield, Illinois.

Dear Mr. Barrett:

Reference is made to the conferences which you and members of your staff had with members of the Federal Reserve Board and the Board's staff on September 11, and 12, 1933, with regard to the obligation of reorganized State banks located in the State of Illinois on deferred certificates which they have issued to their depositors who have waived their right to demand immediate payment of their deposits. Reference is also made to your letter of September 12, 1933, inclosing copies of the Depositor's Agreement and the Deferred Certificate which have been used in the reorganization of the State Bank of Collinsville, Collinsville, Illinois. It is understood that the provisions of this agreement and certificate are substantially similar to the provisions of agreements and certificates which have been used in the reorganization of many other State banks in Illinois, and the Federal Reserve Board has given most careful and sympathetic consideration to the problems involved in this matter.

It has been observed that the Depositor's Agreement provides that, in lieu of payment in cash of 50 per cent of his deposit claim, the depositor will accept a deferred certificate issued by the bank for a like amount, payable out of future recoveries on segregated assets and the net profits of the Bank, and before any dividend or

returns of any kind or character are payable to stockholders. The Deferred Certificate which is issued by the bank states that the bank agrees to pay the amount represented by the deferred certificate to the holder thereof solely out of the future net profits of the bank and recoveries, but, in all events, before the payment of any dividends to the stockholders of the bank. It further provides that, in the event of liquidation, the termination of the bank's business, the consolidation with or transfer of all or a major part of its assets to another banking institution prior to the payment of the deferred certificate, the holder of the certificate shall be entitled to share in the proceeds of the liquidation, sale, merger, or consolidation after liabilities of the bank to its depositors and other creditors shall have been paid or provided for and that, in any event, the holder of the certificate shall be entitled to priority over any of the stockholders of the bank.

In these circumstances, it seems apparent that a bank issuing such a deferred certificate assumes a definite obligation to pay the amount of such certificate at some time, and that there is no way by which it can be released from such obligation except by the consent of the certificate holder. The obligation of the bank for the payment of such deferred claim is a liability of the bank, to the same extent as the obligation of the bank to pay the claim of any depositor. The only differences between the two classes of claims are as to time of payment and preference of payment in the event of liquidation, and it

seems clear that these differences do not justify a conclusion that there is no liability on the bank for the payment of the deferred certificates described above.

The Board has considered the suggestion which has been made that the stockholders of the bank have authorized the bank to act merely as agent in distributing to deferred certificate holders future recoveries and earnings, to which the stockholders would normally be entitled, and that, accordingly, the liability for the payment of such deferred certificates is on the stockholders of the bank rather than on the bank itself. However, it does not appear how this can be true, on the basis of the facts involved in the case presented, when the stockholders of the bank are not parties to any of the agreements but such agreements are between the bank itself and the depositors thereof. It may also be noted that there does not appear to be any way in which a stockholder can relieve a bank from its liability to pay the claims of depositors, but that a bank can only be relieved of such liability by the agreement of the depositor and in accordance with the terms of any agreement executed by the depositor. As noted above, the depositors here involved have not relieved the bank of the obligation to pay their deposits but have merely entered into agreements with the bank, permitting a deferment of payment of such claims.

After a careful consideration of all the circumstances involved in this matter, the Federal Reserve Board is of the opinion that a bank which issues deferred certificates such as the one inclosed

in your letter of September 12, 1933, has a liability for the payment of such certificates.

Under the provisions of Section 9 of the Federal Reserve Act, a State bank may not be admitted to membership in the Federal Reserve System unless it has an unimpaired capital. Accordingly, in any case where a bank has issued deferred certificates of the kind described above and the amount of liability on such certificates, together with the other liabilities of the bank to depositors and other creditors, as compared with the amount of the assets of the bank, is sufficient to impair the bank's capital stock, it would not be eligible for admission to membership in the Federal Reserve System.

As suggested when you conferred with members of the Board, the fact that reorganized Illinois State banks may not at this time be eligible for admission to membership in the Federal Reserve System on account of an impairment of their capital, as a result of liability on deferred certificates of the kind described above, need not necessarily result in serious consequences to such banks. It is possible that these banks may obtain the benefits of the Federal Deposit Insurance Corporation and, while entitled to such benefits, eliminate their liability on deferred certificates and become eligible for admission to membership in the Federal Reserve System. It is understood that you have taken this matter up with the Federal Deposit Insurance Corporation.

It would seem that the liability of a bank on such deferred certificates might be eliminated by having the bank transfer all charged off assets to trustees for the benefit of deferred certificate holders and obtain from each certificate holder an agreement releasing the bank from any liability on such certificates and accepting, in lieu thereof, a certificate from the trustees entitling the certificate holder to a pro rata share of any recoveries from the charged off assets transferred to the trustees.

If deemed advisable, agreements might also be obtained from the stockholders of the bank to the effect that, until all certificates issued by such trustees have been paid in full, the stockholders will transfer to the trustees, for the benefit of the certificate holders, any dividends declared on their stock by the bank. The Board questions the advisability of a bank obtaining any such agreement from its stockholders, since it is apparent that, for a considerable period of time, any dividends on the stock of the bank will not be for the benefit of stockholders and that, for such period, the bank's stock will have little, if any, value from the standpoint of the earnings of the bank and, accordingly, will not be marketable. It appears questionable, therefore, whether on such a basis the people of the community will retain confidence in the bank so as to enable it to maintain or increase its deposits in competition with other banking institutions. The Board feels that, in any case of a reorganization of a bank where

the stockholders have done everything possible to discharge their obligation to the bank and to save the depositors from loss, the depositors are not equitably entitled to future earnings of the bank. However, there may be circumstances where the stockholders have not fully discharged their obligation and the depositors have already agreed to a plan of reorganization and accepted the obligation of the bank to conserve future net earnings for the benefit of depositors, until their claims are satisfied, which justify the execution of agreements by stockholders to turn over any dividends to deferred certificate holders, in lieu of the agreement of the bank to conserve earnings for the benefit of such certificate holders.

As you know, the State Bank of Collinsville, Collinsville, Illinois, is now a member of the Federal Reserve System, and the question involved in that case is whether the Secretary of the Treasury should issue a license to that bank to reopen as a member bank. This question is not one for the determination of the Federal Reserve Board, but, since it is understood that the liability of the bank on the proposed deferred certificates would substantially impair, if not entirely eliminate, its capital, it would not seem advisable to reorganize and reopen this member bank until its capital is restored. It is suggested that, in the case of the State Bank of Collinsville and similar cases, the procedure outlined in the first paragraph commencing on page five of this letter be followed prior to the reopening of the bank in order to eliminate the liability of the bank on deferred certificates and the consequent impairment if not entire elimination of its capital. Of course, as you know, this bank might voluntarily withdraw from membership in the Federal Reserve System and reopen as a nonmember State bank and, after its liability on the deferred certificates has been eliminated, apply for readmission to the Federal

Reserve System. The Board feels, however, that it would be more desirable for such elimination of liability to be accomplished prior to the reopening of the bank.

The Board fully appreciates the efforts you are making to effect sound reorganizations of banks in your State, and it desires to be of all possible assistance to you in this connection. Accordingly, if there is any further information you desire or anything that properly can be done by the Board to be of assistance, it will be appreciated if you will advise the Board.

Very truly yours,

(Signed) E. R. Black

E. R. Black,
Governor.

X-7599

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 21, 1933.

Honorable J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. O'Connor:

Reference is made to Mr. Awalt's memorandum of August 9, 1933, asking to be advised whether the Federal Reserve Board approves of the answer which your office proposes to make to a question arising under Section 23A of the Federal Reserve Act, as amended by Section 13 of the Banking Act of 1933.

The memorandum states that a national bank has sold certain of its assets to an affiliate, which has given its note in payment therefor, and states that although it has long been the position of your office that such a transaction would not be considered a "loan" under Section 5200 of the Revised Statutes, you contemplate advising the bank that the transaction is to be considered an "extension of credit" to the affiliate by the bank and that consequently it comes within the prohibition of Section 23A.

Section 5200 of the Revised Statutes places certain limitations upon the total obligations to any national bank of any individual, partnership or corporation, the term "obligation" being defined as the liability of the maker, acceptor, indorser, drawer, or guarantor, who discounts paper with, or sells paper to, or obtains a loan from a

national bank. It appears that it has been the position of your office that this provision has reference to transactions involving the borrowing of money from a national bank, and does not have reference to a transaction involving, for instance, the acceptance of a promissory note by a national bank in payment for bonds sold by the national bank, although the latter transaction would constitute an "extension of credit" within the commonly accepted meaning of that phrase.

Section 23A of the Federal Reserve Act, however, provides that except within certain limitations "no member bank shall (1) make any loan or any extension of credit to" any of its affiliates, (2) invest any of its funds in the stock, bonds or other obligations of any such affiliate, or (3) accept the stock, bonds or other obligations of any such affiliate as collateral for advances to any person. Section 23A therefore covers a broader class of transactions than the discounts and similar transactions involving the borrowing of money which are covered by Section 5200 of the Revised Statutes.

Therefore, the Board is fully in accord with the conclusion referred to in Mr. Awalt's memorandum that the transaction therein described, whereby the member bank accepts the promissory note of its affiliate in payment for assets of the bank sold to the affiliate, should be considered an "extension of credit" within the meaning of Section 23A of the Federal Reserve Act.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7600

September 21, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXENT" has been designated to cover a new issue of Treasury Bills, dated September 27, 1933, and maturing December 27, 1933.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

271

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7601

September 22, 1933.

SUBJECT: Absorption of Exchange Charges by Member Banks.

Dear Sir:

There is inclosed herewith for your information a copy of a letter which the Federal Reserve Board is addressing to the Federal Reserve Agent at Atlanta with respect to the absorption of exchange or collection charges by member banks. It is requested that you take this matter up with any of the clearing house associations located in your district which are following practices in conflict with the spirit or the letter of the law on this subject, and that you endeavor to have any such associations cooperate voluntarily in a modification or adjustment of these practices which will bring them into conformity with the statute.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT ATLANTA.

C O P Y

X-7601-a

272

September 21, 1933.

Mr. Oscar Newton,
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Newton:

Receipt is acknowledged of your letter of September 15, 1933, in response to the Board's letter of August 28, 1933, with regard to the absorption of exchange or collection charges by Atlanta banks in connection with items received by them on deposit from correspondent banks.

It appears that it has heretofore been the practice of the clearing house banks in Atlanta, in connection with deposits received from correspondents and payable on demand, to absorb exchange or collection charges in an amount equivalent to 2 per cent of the amount of the collected balance of a correspondent bank. The Federal Reserve Board is of the opinion that the absorption of such charges is clearly in violation of the provisions of Section 19 of the Federal Reserve Act which prohibit the payment of interest on deposits payable on demand either directly or indirectly by any device whatsoever. The Board is, therefore, gratified to note that the clearing house banks of Atlanta are advising their correspondent banks that it is necessary to discontinue the practice of absorbing such charges and that the clearing house banks will not hereafter absorb charges on items received on deposit but will charge them against the depositing bank.

The prohibition contained in the statute upon the payment of interest on deposits payable on demand was enacted in order to assist

member banks by eliminating some of the expense in connection with deposit balances; and it would, therefore, seem especially incumbent upon the banks to take such action as may be necessary to comply with both the spirit and the letter of the law on this subject. In the circumstances, the Board will expect clearing house associations voluntarily to prescribe rules forbidding the absorption of exchange or collection charges which may be in conflict either with the spirit and purpose or with the letter of the statute and that such rules will be applicable to all members of such clearing house associations whether or not members of the Federal Reserve System.

It is noted that the bankers of Atlanta contemplate calling a conference of bankers from a number of other southern cities in an endeavor to have action taken in such other cities similar to that taken by the clearing house banks of Atlanta; and, in this connection, the Board requests that you cooperate in this matter with a view to having any clearing house practices which do not conform to the spirit or the letter of the law modified or adjusted by voluntary action of the clearing house associations so as to comply with the statute.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-7602

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks.)

September 21, 1933.

Mr. _____,
_____,
_____,
_____.

Dear Sir:

Receipt is acknowledged of your letter of July 20, 1933, addressed to the Board's General Counsel, inclosing an inquiry from the _____ National Bank, _____, Kentucky, with reference to whether the absorption by a member bank of a tax on demand deposits imposed by the laws of Kentucky would constitute a payment of interest prohibited by Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933.

Section 4019a-1 of Carroll's Kentucky Statutes (Baldwin's revision, 1930) provides in effect that every person having a deposit in a bank in the State of Kentucky on the first day of July shall pay to the State a tax assessed at the rate of one-tenth of one per cent, annually upon the amount of such deposit, and that the taxes so imposed shall be paid by the bank "for and on behalf, and as the agent" of the depositor. Section 4019a-2 provides that no other tax shall be assessed on such deposits in the bank or against the depositor of said deposits by the State or its subdivisions. Under the terms of Section 4019a-3, the bank is authorized to charge to, and deduct from, the deposit of each

depositor the amount of the tax so paid "for and on his behalf", and is expressly given a lien on such deposits to secure repayment of the tax. The statute also provides a penalty for willful failure by the bank to make payment for its depositors.

It would seem clear that the Kentucky tax on bank deposits is a tax imposed on the depositor, and that the bank acts only as an agent of the depositor in paying such tax. The requirement of the statute that the tax be paid by the bank, and the provision permitting the bank to deduct the amount of the tax paid from the deposit, are merely aids to collection, and do not necessarily affect the incidence of the tax, which falls on the depositor unless the bank voluntarily absorbs such tax. Accordingly, it is the opinion of the Board that the absorption of any such tax by a member bank would constitute an indirect payment of interest within the prohibition of Section 19 of the Federal Reserve Act, as amended, and would be unlawful. Furthermore, it is the opinion of the Board that the amount or size of the tax does not affect the legal principles involved, or alter the conclusion reached herein.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-7603

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 21, 1933.

Mr. _____, President,
_____,
_____.

Dear Sir:

Reference is made to your letter of July 18, 1933, in which you requested to be advised whether, in the opinion of the Federal Reserve Board, the _____ Company, a _____ corporation, is an "affiliate" of the _____ Bank of _____, _____, _____, within the meaning of the Banking Act of 1933.

From the statements in your letter, the Federal Reserve Board understands that all of the capital stock of the _____ Company, with the exception of directors' qualifying shares, was issued in the names of certain individuals as trustees for the stockholders of the _____ National Bank of _____. The _____ National Bank of _____ was formerly affiliated with the _____ Savings Bank of _____, the present _____ Bank of _____, and is now in the hands of a receiver. It appears that a majority of the directors of the _____ Company were directors of the _____ Bank of _____ _____ on the date of your letter, but in a telegram under date of July 27, signed by "_____, President, _____ National Bank of _____", it is stated that no member of the board of directors of the _____ Company "is now a director of this bank". Although the telegram was signed by you as _____ of the _____ National Bank of _____, it is assumed that you had reference

therein to the _____ Bank of _____, and not to the _____ National Bank of _____.

From the information submitted, it would not appear that the _____ Company is an "affiliate" of the _____ Bank of _____ within the meaning of section 2, subparagraph (b), subdivision (1) or (2) of the Banking Act of 1933, unless the shareholders of the _____ Bank of _____, who own "more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election", and who also own more than 50 per centum of the beneficial interest in the stock of the _____ Company, control the latter company, directly or indirectly, through stock ownership or in any other manner, within the meaning of the Act. You state that such stockholders do not control the _____ Company, notwithstanding that they own a majority of the beneficial interest in the stock of that company. In the absence of additional information and of an opportunity to examine any agreement under which the shares of the _____ Company are trusteed for the benefit of the shareholders of the _____ National Bank of _____, the Board is unable to determine whether your conclusion in this respect is correct, and it cannot at this time undertake to rule on this point.

It appears that a majority of the directors of the _____ Company were directors of the _____ Bank of _____ until July 25, 1933, when an entire new board of directors of the _____ Company was elected. Since a majority of the directors of the _____ Company were directors of the _____ Bank of _____ prior to the

election of new directors, the _____ Company was an "affiliate" of the _____ Bank of _____ during such time, and the _____ Bank of _____ must obtain and furnish a report of such affiliate as of June 30, 1933, unless the subsequent termination of the affiliation is held to relieve the _____ Bank of the duty imposed upon it by law to obtain such report. It is the opinion of the Board that if a State member bank is affiliated with any corporation, business trust, association, or other similar organization, on the date the Board issues a call for condition reports of State member banks and their affiliates, the member bank is required by law to obtain a report of such affiliate as of the date of call, notwithstanding the fact that such affiliation may have been terminated subsequent to that date; and the member bank is also required to publish such report under the same conditions as govern its own condition reports. In this connection, however, you are advised that the Board will offer no objection if the _____ Bank of _____ publishes with any report of condition of the _____ Company an explanatory statement of the relationship existing between the two institutions.

Under date of August 1, 1933, the Board advised you that it understood that a question similar to that discussed above had been submitted by the Comptroller of the Currency to the Attorney General of the United States for an opinion. The Attorney General has now rendered an opinion, but you will note from the copy thereof inclosed herewith that he refused to rule on the matter in question.

For your information, there is also inclosed a copy of a press

release relative to the publication of reports of affiliates of member banks.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7604

September 23, 1933.

Dear Sir:

There is attached hereto, for your information, a copy of a self-explanatory letter addressed by the Federal Reserve Board to Mr. Case, Federal Reserve Agent at New York, under date of September 21, 1933.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT NEW YORK.

COPY

X-7604-a

September 21, 1933.

Mr. J. H. Case, Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Case:

Receipt is acknowledged of your letter of September 14, 1933, recommending that the Federal Reserve Board designate the following employees in the Federal Reserve Agent's Department of your bank as "Assistant Federal Reserve Examiners:"

* * * * * * * * * * * * *
* * * * * * * * * * * * *
* * * * * * * * * * * * *

As you know, each examiner in the employ of the Federal Reserve Board is designated as "Federal Reserve Examiner" or "Assistant Federal Reserve Examiner" as the case may be. The Board feels that, in order to avoid any possible confusion on the part of member banks, or others, the use of such titles should be confined to employees of the Federal Reserve Board. While this aspect of the matter was not brought out in the Board's letter of June 28, 1933, the desirability of drawing a clear cut distinction between examiners in the employ of the Federal Reserve Board and examiners in the employ of the various Federal reserve banks has become increasingly apparent in recent months due largely to the expansion and development of the Board's examining staff.

In the circumstances, the Board approves the designation of Messrs. *******, ******* and ***********, respectively, as "Assistant Examiner" in the Federal Reserve Agent's Department of your bank.

In this connection, it is suggested that you may wish to recall all identification cards which have been issued to employees of the Bank Examinations Department of your bank indicating that any employee has been designated as "Federal Reserve Examiner" or "Assistant Federal Reserve Examiner" and to issue revised identification cards showing their designation as merely "Examiner" or "Assistant examiner" in the employ of the Federal Reserve Bank of New York.

The Board will be pleased to have your advice as to the action taken in the premises.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 22, 1933.

Mr. Frederic H. Curtiss,
Federal Reserve Agent,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Curtiss:

Reference is made to your letter of July 19, 1933, headed Inquiry No. 30, submitting to the Board a request of the President of The _____ Trust Company, _____, _____, for permission not to publish a report of condition of The _____ Real Estate Trust.

From the information which you have furnished to the Board, it appears that certain property was conveyed to trustees, in accordance with the terms of an instrument of trust, to be held and managed for the benefit of such persons as might from time to time be the holders of transferable certificates issued by the trustees. This arrangement is known as _____ Real Estate Trust, and a majority of the trustees of this trust are directors of The _____ _____ Trust Company, a member bank of the Federal Reserve System.

Under Section 9 of the Federal Reserve Act, as amended by Section 5(c) of the Banking Act of 1933, each State member bank is required to obtain a report of condition from each of its affiliates, and to publish such report under the same conditions as govern its own condition reports. Section 2, subparagraph (b), subdivision (3) of the Banking Act of 1933, provides, among other things, that

the term "affiliate" shall include any business trust of which a majority of its trustees are directors of any one member bank. It would seem clear that _____ Real Estate Trust is a business trust, as that term is used in said section; that it is an "affiliate" of the member bank within the language of the Act, since a majority of its trustees are directors of the member bank; and that the member bank is required by said Section 9 to obtain a report of such affiliate and to publish the report under the same conditions as govern its own condition reports.

Your attention is called to the requirement that each state member bank must publish the reports of its affiliates "under the same conditions as govern its own condition reports". In view of the fact that the Federal Reserve Act does not require the publication of reports submitted to the Federal Reserve Board and Federal reserve banks by State member banks, the only reasonable construction that can be given to that requirement is that reports of affiliates of State member banks must be published only if the State law requires such State banks to publish their own reports, and accordingly, it will not be necessary for The _____ Trust Company to publish the report of _____ Real Estate Trust unless publication of its own condition report is required under State law.

You are further advised that there will be no objection to The _____ Trust Company publishing with any report of _____ Real Estate Trust an explanatory statement as to the

actual relationship which exists between the member bank and its affiliate.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-7606

Statement of Bureau of Engraving and Printing
For furnishing Federal Reserve Notes
Series 1928, August 1-30, 1933.

	$5	$10	$20	Total Sheets	Amount
Boston	-	-	20,000	20,000	$1,770.00
New York . . .	-	50,000	25,000	75,000	6,637.50
Philadelphia .	9,000	45,000	10,000	64,000	5,664.00
Cleveland. . .	-	-	25,000	25,000	2,212.50
Richmond . . .	-	10,000	10,000	20,000	1,770.00
Atlanta. . . .	50,000	-	-	50,000	4,425.00
Chicago. . . .	-	50,000	-	50,000	4,425.00
St. Louis. . .	20,000	10,000	12,000	42,000	3,717.00
Kansas City. .	10,000	10,000	10,000	30,000	2,655.00
Dallas	-	-	15,000	15,000	1,327.50
San Francisco.	10,000	10,000	10,000	30,000	2,655.00
	99,000	185,000	137,000	421,000	$37,258.50

421,000 sheets, @ $88.50 per M, . . . $37,258.50

X-7607

Statement of Bureau of Engraving and Printing
For furnishing Federal Reserve Bank Notes (National Currency)
Series 1929.

August 1-31, 1933.

	$5	$10	$20	$50	Total Sheets	Amount
Boston, ...	74,000	-	-	-	74,000	$ 6,956.00
New York, . . .	65,000	50,000	25,000	-	140,000	13,160.00
Cleveland, . . .	39,000	36,000	-	-	75,000	7,050.00
Chicago, ...	80,000	51,000	25,000	25,000	181,000	17,014.00
	258,000	137,000	50,000	25,000	470,000	$44,180.00

470,000 sheets, @ $94.00 per M, . .$44,180.00

X-7608

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 23, 1933.

To all Federal reserve agents:

Trans. 1869

In regard to reports of affiliates of State member banks, it is the opinion of the Board that where a group consists of a large number of member banks and non-member affiliates, the furnishing by each nonmember affiliate of a report containing requisite information in regard to relationship between such affiliate and each member bank in the group would constitute a substantial compliance with the provisions of Section nine of the Federal Reserve Act, as amended, which requires each member bank to furnish the Board a report of each of its affiliates other than member banks. However, each such report should set forth as separate items the information in regard to the relationship between such affiliate and each member bank, and each State member bank in the group should publish that part of the report of each affiliate which pertains to the relations between such affiliate and the member bank making the publication, if publication of reports of such member bank is required by State law. If member bank has already published its own report as of June 30 it should publish it again with report of affiliate.

BETHEA

X-7609

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 23, 1933.

To all Federal reserve agents:

Trans. 1870.

The Federal Reserve Board has issued the following ruling: QUOTE If a State member bank obtains from its holding company affiliate an agreement on Federal Reserve Board Form P-5, and files such an agreement with the proper Federal Reserve Agent on or before October 1, 1933, such filing will constitute a compliance with Section III of Regulation P, and will satisfy the requirements of the statute relative to State member banks obtaining such agreement within such time as the Board may prescribe. UNQUOTE.

BETHEA

FEDERAL RESERVE BOARD

WASHINGTON

X-7611

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 23, 1933.

SUBJECT: Changes in Inter-District Time Schedules.

Dear Sir:

Upon agreement between the Federal reserve banks affected, the Federal Reserve Board has approved the following changes in the inter-district time schedules:

			From	To
Kansas City	to	Baltimore	3 days	2 days
"	"	Philadelphia	3 "	2 "
"	"	Minneapolis	2 "	1 "
Denver	"	Baltimore	4 "	3 "
"	"	Richmond	4 "	3 "
"	"	Seattle	4 "	3 "
"	"	Houston	3 "	2 "
"	"	San Antonio	3 "	2 "
"	"	New York	4 "	3 "
"	"	Philadelphia	4 "	3 "
Oklahoma City	"	Baltimore	3 "	2 "
"	"	Cleveland	3 "	2 "
"	"	Cincinnati	3 "	2 "
"	"	Detroit	3 "	2 "
"	"	San Francisco	4 "	3 "
"	"	Atlanta	2 "	3 "
Omaha	"	Salt Lake City	3 "	2 "
"	"	Los Angeles	4 "	3 "
"	"	San Antonio	3 "	2 "
"	"	New York	3 "	2 "
New York	"	Denver	4 "	3 "
"	"	Omaha	3 "	2 "

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL GOVERNORS.

INTERPRETATION OF BANKING ACT OF 1933.

Copies to be sent to all Federal reserve banks.

September 23, 1933.

Mr. _____,
_____,
_____.

Dear Sir:

Reference is made to your letter of July 7, 1933, in which you requested to be advised whether each bank controlled by the _____ Corporation is an "affiliate", as that term is used in The Banking Act of 1933, of each other bank controlled by such corporation, and of your letter of July 11, 1933, supplementing your letter of July 7, 1933.

Since you have not submitted to the Federal Reserve Board any information as to the form, manner, or extent of control by the _____ Corporation of the banks in question, the Board is unable to rule definitely on the question which you have presented. However, the copy of the letter from Messrs. _____, which was inclosed with your letter to the Board of July 7, 1933, indicates that it is your contention, and that of your counsel, that the banks controlled by the _____ Corporation are not affiliates of the member banks in the group solely on the theory that subdivision (2), sub-paragraph (b), Section 2 of the Banking Act of 1933, contemplates control by "shareholders" of a member bank other than a "holding company affiliate", and that, since the banks in question are controlled by a "holding company affiliate", as distinguished from "shareholders", the banks are not affiliates of the member banks in the group within the meaning of the Banking Act of 1933. In their letter of July 11, 1933, your counsel contend that, if banks controlled by a

holding company affiliate were to be regarded as "affiliates" of the subsidiary member banks within the meaning of the Act, subdivision (4), paragraph (a) of Section 5144 of the Revised Statutes, as amended, which requires a holding company affiliate to agree that individual or consolidated statements of its banks may be required, would be superfluous and serve no useful purpose.

The Board is unable to concur in the conclusion that the term "shareholders", as used in Section 2, sub-paragraph (b), subdivision (2) of the Banking Act of 1933, should be interpreted to exclude from the scope of its meaning a "holding company affiliate". There is no obscurity or ambiguity in the language of this particular section, and there is, therefore, no occasion or justification for considering the word "shareholders" except in its ordinary and usual signification. Moreover, it does not appear that, as a result of such interpretation, the provisions of subdivision (4), paragraph (a) of Section 5144 of the Revised Statutes would be rendered superfluous. Sections 5(c) and 27 of the Act do not require publication by a member bank of reports of condition of its affiliated member banks, but, under the provisions of subdivision (4), paragraph (a) of Section 5144, publication of statements of all banks which are subsidiaries of a holding company affiliate, both member banks and nonmember banks, may be required, if deemed advisable. In addition, such provisions of Section 5144 provide a means whereby the Board or other duly constituted authority may require publication of consolidated statements, in contradistinction to individual statements, of such banks.

It should also be noted that, if the construction for which you contend were adopted, Section 13 of the Banking Act of 1933, and the sections requiring reports, and publications thereof, would be subject to ready evasion.

It is the Board's opinion that the construction which you favor would tend to frustrate the clear purposes of the Act, and that the law cannot properly be construed in such manner.

The Board, therefore, is of the opinion that the word "shareholders", as used in Section 2, sub-paragraph (b), subdivision (2), of the Banking Act of 1933, means any person or organization of any kind whatsoever which holds stock in a member bank, including a "holding company affiliate" of such bank. Accordingly, if the _____ Corporation holds the requisite control of the banks in question, each nonmember bank in the group would appear to be an "affiliate" of each member bank in the group, and the member banks would appear to be "affiliates" of each other, within the meaning of the Banking Act of 1933.

Under date of August 7, 1933, the Board advised you that it understood that a question similar to that discussed above had been submitted by the Comptroller of the Currency to the Attorney General of the United States for an opinion. The Attorney General has now rendered an opinion, but you will note from the inclosed copy thereof that he refused to rule on the matter in question.

For your information, there are also inclosed a copy of a press release relative to the publication of reports of affiliates of member banks, and a copy of a telegram relative to the furnishing of reports of such affiliates. It is believed that the procedure set forth therein will ameliorate somewhat the inconvenience and expense involved in the making and publication of such reports.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

X-7613

INTERPRETATION OF BANKING ACT OF 1933.

Copies to be sent to all Federal reserve banks.

TELEGRAM

September 22, 1933.

McCLURE - KANSAS CITY

Referring your wire September 19, National Bank Act as amended by Banking Act of 1933 requires capital stock of at least $50,000 for organization of new national bank in place having population not exceeding 6,000 inhabitants. If located in place exceeding 6,000 inhabitants and not in excess of 50,000 inhabitants new bank would be required to have capital of at least $100,000 and if located in place which exceeds 50,000 inhabitants new national bank would be required to have capital of at least $200,000. Under provisions Section 5143 Revised Statutes of United States, a national bank may not reduce its capital to any sum below amount required for organization of new national bank. Accordingly, a national bank now in existence with capital of $25,000 would not, under law, be authorized to reduce such capital and a national bank having capital exceeding $25,000 may not reduce its capital below $50,000 when located in place with population not exceeding 6,000 inhabitants. However, if any such bank should increase its capital by issuance of preferred stock to an amount in excess of amount required for organization of new national bank in place in which it is located it might then reduce its common stock if it so desired provided that after such reduction aggregate amount of its common and preferred stock was not less than minimum amount required for organization of new bank. In any such

case bank should issue additional common stock if and when its preferred stock is retired in an amount equivalent to preferred stock so retired so as to maintain minimum capital required. A State bank organized on or after June 16, 1933, date of enactment of Banking Act of 1933, and situated in place with population not exceeding 3,000 inhabitants is eligible for admission to membership in Federal Reserve System if entitled to benefits of insurance under Section 12B of Federal Reserve Act and has capital of not less than $25,000 at time of admission to Federal Reserve System.

BETHEA

(Signed) L. P. Bethea

FEDERAL RESERVE BOARD

WASHINGTON

296

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7614

September 25, 1933.

SUBJECT: Applications by Holding Company Affiliates for Voting Permits.

Dear Sir:

Section V of the Board's Regulation P, relative to applications by holding companies for voting permits, provides in part that the Federal reserve agent of the district in which the applicant's principal office is located shall forward the original and one executed counterpart of each application to the Board with his recommendation and that of the Executive Committee of the Federal reserve bank of such district, and that the Federal reserve agent of any other district in which a subsidiary member bank or a subsidiary nonmember bank applying for admission is located shall similarly forward his recommendation and that of the Executive Committee of the Federal reserve bank of such district.

In order to facilitate the consideration of such applications by the Board, it is requested that all documents, including recommendations and other papers which are submitted by the agents in connection with such applications, be submitted in duplicate.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO BE SENT TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7615

September 26, 1933.

SUBJECT: Agreements of Holding Company Affiliates of State Member Banks.

Dear Sir:

Referring to the Board's telegram of September 16, 1933, there is inclosed herewith a copy of a letter which the Board is addressing to the Federal Reserve Agent at the Federal Reserve Bank of New York with regard to the desirability of communicating by telephone or telegraph with each State member bank known to be a subsidiary of a holding company affiliate, and of calling attention to the necessity of obtaining from its holding company affiliate an agreement that it will be subject to the same conditions and limitations as are applicable to holding company affiliates of national banks.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

X-7615-a

COPY

September 26, 1933.

Mr. J. H. Case,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Case:

Receipt is acknowledged of your letter of September 19, 1933, in which you inclosed a copy of a mimeographed letter which you state has been sent to each State member bank in your district, advising each such bank of the necessity of obtaining from its holding company affiliate, if any, an agreement by such holding company affiliate that it will be subject to all applicable conditions and limitations contained in Section 5144 of the Revised Statutes, as amended.

In view of the fact that certain of the member banks may not realize the importance of this mimeographed circular, it would appear desirable for you to have some one in your department communicate, either by telephone or telegraph, with each State member bank in your district known to be a subsidiary of a holding company affiliate, and to call the attention of each such bank to the necessity of its obtaining and filing the requisite agreement within the time prescribed, if it has not already done so.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

(INTERPRETATION OF BANKING ACT OF 1933.)

Copies to be sent to all Federal reserve banks.

September 21, 1933.

Mr._____,
_____,
_____.

Dear Sir:

Further reference is made to your letter of July 3, 1933, referred by the Comptroller of the Currency to the Federal Reserve Board, in which you inquire whether, in view of the provisions of Section 8A of the Clayton Antitrust Act, as amended by Section 33 of the Banking Act of 1933, a director of a national bank may serve as a director of a savings bank which is authorized by its charter to make loans secured by stock or bond collateral, but which does not actually make such loans.

Inasmuch as Section 8A of the Clayton Antitrust Act specifically applies to corporations "which shall make loans secured by stock or bond collateral", it is the opinion of the Federal Reserve Board that it does not apply to corporations which do not actually make such loans, even though they have the legal power to do so. Accordingly, that section does not prohibit a director of a national bank from serving at the same time as the director of a savings bank which actually does not make loans secured by stock or bond collateral, notwithstanding the fact that such loans are permitted by its charter.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-7617
360

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 20, 1933.

Mr._____,
_____,
_____,
_____.

Dear Sir:

Reference is made to your letter of August 4, 1933, in which you request a ruling on the question whether a corporation, a majority of the stock of which is held by the _____ Trust Company as executor or trustee under a will or deed of trust for the benefit of persons named in such instrument other than the trust company or its shareholders, is an affiliate of the member bank within the meaning of the Banking Act of 1933.

Under date of September 7, 1933, the Attorney General of the United States rendered an opinion to the Secretary of the Treasury, in which he stated that "it does not seem objectionable to say that I perceive the force of your Solicitor's conclusion that ownership and control through majority stockholding does not include a holding by a bank merely as executor or in some other such fiduciary or representative capacity, subject to control by a court, or by a beneficiary or a principal, and without the incentive and opportunities which might arise from a holding of the stock by the bank as its own property." Pursuant to this opinion, the Federal Reserve Board will not require a member bank to obtain and publish a report of a corporation the majority of the stock of which is held by the member bank as executor or trustee, provided that the member

bank holds such stock subject to control by a court, or by a beneficiary or other principal, and that the member bank may not lawfully exercise control of such stock independently of any order or direction of a court, beneficiary or other principal.

For your information, there are inclosed herewith a mimeographed copy of the opinion of the Attorney General to which reference is made herein, and a mimeographed copy of a press release relative to the publication of reports of affiliates of member banks.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal reserve banks.)

September 26, 1933.

Mr. C. A. Worthington, Deputy Governor,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Worthington:

Reference is made to your letter of September 11, 1933, in which you call attention to the fact that the savings pass books of many member banks contain a provision to the effect that deposits made on or before the fifth day of any month will draw interest from the first of such month; and you inquire whether deposits made during the first five business days of a month would be entitled to interest, in accordance with such a provision in a savings pass book, from the first day of such month at the maximum rate prescribed in the Board's Regulation Q.

As you know, the Regulation provides in Section V (c) that

> "(1) No member bank shall pay interest, accruing after October 31, 1933, on any savings deposit or any part thereof at a rate in excess of 3 per cent per annum, compounded semiannually, regardless of the basis upon which such interest may be computed, except as provided in paragraph 2 hereof."

If the amount of interest paid by a member bank upon any deposit exceeds three per cent per annum, compounded semi-annually, for the period during which the deposit is actually in the bank, whether by reason of inclusion in the interest period of days prior to the date on which the deposit was made or days after it was withdrawn, the payment is at a rate in excess of that prescribed by the Regulation and

in violation thereof. Of course, interest may be paid on a deposit at a rate not exceeding the maximum prescribed in the Regulation for the period from the date on which the deposit was actually received by the bank until actually withdrawn.

The maximum rate of interest on savings deposits prescribed in the Regulation, as you know, is applicable only to interest accruing after October 31, 1933.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-7619

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal reserve banks.)

September 26, 1933.

Mr. _____, President,
_____ Bank,
_____.

Dear Sir:

Reference is made to your letter of September 21, 1933, in which you inquire whether, under the provisions of the Federal Reserve Board's Regulation Q, interest at the maximum rate prescribed in the Regulation may be paid from the first day of a month on a savings deposit received by a member bank at any time during the first few days of such month.

It is provided in Section V(c) of Regulation Q that:

> "(1) No member bank shall pay interest, accruing after October 31, 1933, on any savings deposit or any part thereof at a rate in excess of 3 per cent per annum, compounded semiannually, regardless of the basis upon which such interest may be computed, except as provided in paragraph 2 hereof."

If the amount of interest paid by a member bank upon any deposit exceeds three per cent per annum, compounded semi-annually, for the period during which the deposit is actually in the bank, whether by reason of inclusion in the interest period of days prior to the date on which the deposit was made or days after it was withdrawn, the payment is at a rate in excess of that prescribed by the Regulation and in violation thereof. However, interest at a rate less than the maximum prescribed in the Regulation may be paid from the first day of the month on

a savings deposit which is actually received thereafter, provided that the amount of interest paid does not exceed three per cent per annum, compounded semi-annually, for the period from the date on which the deposit was actually received by the bank until actually withdrawn.

As you have probably noted, the maximum rate of interest on savings deposits prescribed in the Regulation is applicable only to interest accruing after October 31, 1933.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7620

September 27, 1933.

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

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7620-a and X-7620-b, covering in detail operations of the main lines, Leased Wire System, during the month of August, 1933.

Please credit the amount payable by your bank for your share of the expense of the Leased Wire System, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Gold Settlement Fund for the account of the Federal Reserve Board, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

Deputy Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST, 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	37,698	2,928	40,626	4.53
New York	165,009	-	165,009	18.39
Philadelphia	35,610	3,072	38,682	4.31
Cleveland	58,206	3,045	61,251	6.83
Richmond	71,639	3,011	74,650	8.32
Atlanta	57,642	2,955	60,597	6.76
Chicago	95,744	3,270	99,014	11.04
St. Louis	70,358	3,237	73,595	8.20
Minneapolis	34,532	2,984	37,516	4.18
Kansas City	74,940	2,966	77,906	8.69
Dallas	63,067	4,371	67,438	7.52
San Francisco	96,072	4,697	100,769	11.23
Total	860,517	36,536	897,053	100.00

F. R. Board business	397,426	1,294,479
Reimbursable business Incoming and Outgoing		499,807
Total words transmitted over main lines		1,794,286

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7620-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, AUGUST, 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	$1.00	$ -	$261.00	$780.88	$261.00	$519.88
New York	1,284.14	6.00	-	1,290.14	3,170.04	1,290.14	1,879.90
Philadelphia	225.00	-	-	225.00	742.95	225.00	517.95
Cleveland	306.66	-	-	306.66	1,177.35	306.66	870.69
Richmond	190.00	-	230.00 (&)	420.00	1,434.19	420.00	1,014.19
Atlanta	270.00	-	-	270.00	1,165.28	270.00	895.28
Chicago	4,130.42 (#)	22.00	-	4,152.42	1,903.06	4,152.42	2,249.36 (*)
St. Louis	195.00	-	-	195.00	1,413.51	195.00	1,218.51
Minneapolis	200.00	-	-	200.00	720.54	200.00	520.54
Kansas City	287.00	-	-	287.00	1,497.97	287.00	1,210.97
Dallas	251.00	-	-	251.00	1,296.29	251.00	1,045.29
San Francisco	380.00	-	-	380.00	1,935.81	380.00	1,555.81
Federal Reserve Board	-	-	15,655.30	15,655.30	-	-	-
Total	$7,979.22	$29.00	$15,885.30	$23,893.52	$17,237.87	$8,238.22	$11,249.01
							2,249.36 (a)
							$ 8,999.65

Reimbursable charges:

Treasury Department	$2,641.41	
Reconstruction Finance Corporation	3,465.21	
Exp. Nat. Bkg. Emergency Act, 3-9-33	393.67	
Federal Home Loan Bank Board	3.01	
Comp. Currency Div. Insolv. Nat'l.Bks	49.20	
Farm Credit Administration:		
Federal Farm Loan Bureau	46.66	
Federal Farm Board	56.49	
Less Reimbursable Charges		$6,655.65
		$17,237.87

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

8002

X-7621

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 27, 1933.

Mr. J. H. Dillard,
Deputy Governor,
Federal Reserve Bank,
Chicago, Illinois.

Dear Sir:

Reference is made to your telegram of September 21st, in which you raise certain questions with regard to the payment of interest on certificates of deposit by member banks under the provisions of the Board's Regulation Q.

The Board understands that your inquiry relates to certificates of deposit with respect to which the member bank reserves the right to require written notice of not less than thirty days before withdrawal of the deposit. You will observe that, under the provisions of footnote 4 of the Board's regulation, interest may not be paid on a certificate of deposit with respect to which the bank merely reserves the right to require notice before payment. However, under other provisions of the regulation, a member bank may pay interest in accordance with the terms of any certificate of deposit which was lawfully entered into in good faith prior to June 16, 1933, and in force on that date and which may not lawfully be terminated or modified by such bank at its option or without liability; but no such certificate of deposit may be renewed or extended unless it be modified to conform to the provisions of the

regulation, and every member bank is required to take such action as may be necessary as soon as possible consistently with its contractual obligations to bring all such certificates of deposit into conformity with the provisions of the regulation.

The certificates of deposit which you describe appear to be of indefinite maturity but, in the absence of a provision in such a certificate to the contrary, it would seem to the Board that a member bank may lawfully terminate the contract contained in the certificate at any time upon paying the amount due to the depositor after giving reasonable notice to him of its intention to terminate the arrangement; and that, accordingly, it is the duty of such a member bank to terminate or to modify such a certificate of deposit as soon as possible so as to bring it into conformity with the provisions of the regulation. If a member bank terminates or modifies its certificates of deposit of the kind described above, as soon as possible, so as to bring them into conformity with the provisions of the regulation, interest may be paid, in accordance with the terms of the regulation, on such certificates which were issued prior to June 16, 1933, and outstanding on that date, until the date on which they are so terminated or modified, provided that the certificates themselves require that interest be paid on such deposits until withdrawn. No interest accruing after such modification or termination of the certificates may be paid on any deposit represented thereby unless the certificates then conform to the requirements of the regulation in this connection.

You also inquire whether interest may be paid on certificates of the kind described above which have been issued since June 16, 1933. In this connection it may be noted that such certificates may be classified as time deposits for the purpose of computing reserves under the provisions of Regulation D; and also that the Board advised all Federal reserve banks in a telegram dated June 21, 1933, Trans. No. 1826, that member banks might continue to pay interest on time deposits in accordance with their usual practice or existing bona fide contracts until the Federal Reserve Board should issue regulations on the subject. In the circumstances, the Board will offer no objection to the payment of interest by member banks in accordance with the terms of the certificates and at a rate not in excess of that prescribed in Regulation Q, on certificates of deposit of the kind described which were issued after June 16, 1933, and not later than August 29, 1933, the effective date of the regulation, provided such member banks terminate or modify such certificates of deposit as soon as possible so as to bring them into conformity with the provisions of the regulation.

While a number of other questions were discussed in a recent telephone conversation between Counsel for your bank and the Board's Assistant Counsel, the Board feels that it should not attempt to pass upon such questions unless submitted in writing and all information necessary to a determination of the questions is given.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-7622

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 27, 1933.

Mr. George J. Seay, Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Governor Seay:

Reference is made to your letter of August 12, 1933, in which you submit certain comments with reference to the tentative draft of the Board's regulation relating to payment of interest on deposits by member banks. You state that the banks in your district have outstanding a large number of certificates of deposit which are of indefinite maturity but in which the banks have reserved the right to require notice of thirty day or more before payment, and you inquire whether under the terms of the Board's regulation on this subject, which as you have been advised in a separate letter has not become effective, interest may be paid on such certificates of deposit. It is understood that, although the banks have the right to require notice before payment of such certificates, it has not been their usual practice to do so.

You will observe that, under the provisions of footnote 4 of the Board's regulation, interest may not be paid on a certificate of deposit with respect to which the bank merely reserves the right to require notice before payment. However, under other provisions of the regulation, a member bank may pay interest in accordance with the terms of any certificate of deposit which was lawfully entered into in good faith prior to June 16, 1933, and in force on that date and

which may not lawfully be terminated or modified by such bank at its option or without liability; but no such certificate of deposit may be renewed or extended unless it be modified to conform to the provisions of the regulation, and every member bank is required to take such action as may be necessary as soon as possible consistently with its contractual obligations to bring all such certificates of deposit into conformity with the provisions of the regulation.

The certificates of deposit which you describe are of indefinite maturity but, in the absence of a provision in such a certificate to the contrary, it would seem to the Board that a member bank may lawfully terminate the contract contained in the certificate at any time upon paying the amount due to the depositor after giving reasonable notice to him of its intention to terminate the arrangement; and that, accordingly, it is the duty of such a member bank to terminate or to modify such a certificate of deposit as soon as possible so as to bring it into conformity with the provisions of the regulation. No interest accruing after such modification or termination of the certificate may be paid on any deposit represented thereby, unless the certificate then conforms to the requirements of the regulation in this connection.

Unless, therefore, there is some provision in the certificates of deposit to which you refer which would indicate an intention of the parties that the bank may not terminate the contract contained in such a certificate at its option and without liability, it is suggested that you advise member banks in your district which have such certificates outstanding that they should terminate or modify such certificates of

deposit as above stated after giving reasonable notice to the depositors of their intention to do so.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7623

September 28, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXEQUE" has been designated to cover a new issue of Treasury Bills, dated October 4, 1933, and maturing January 3, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7624

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 27, 1933.

Mr. _____,
_____,
_____.

Dear Sir:

Receipt is acknowledged of your letter of July 22, 1933, in which you request to be advised (1) whether a time certificate of deposit may be paid before its maturity, provided that no interest is paid thereon; and (2) whether a time certificate of deposit which provides that it is "payable six or twelve months after date" may be paid at the expiration of only nine months from date, with interest thereon.

In regard to the first question which you raise, it is the opinion of the Board that a time certificate of deposit may not lawfully be paid before the maturity thereof, even though no interest is paid thereon. In this connection, your attention is directed to Section IV of the inclosed Regulation Q, relative to the payment of time deposits before maturity.

Since you have not furnished the Board with a copy of the time certificate of deposit which you state is "payable six or twelve months after date", the Board is unable to advise you definitely at this time whether or not such certificate may lawfully be paid nine months after date. It would appear, however, that if such certificate were not paid at the expiration of six months from date, it would automatically be renewed in accordance with its terms for an additional

six months, and, accordingly, that it would then be payable at the expiration of such additional six months period and could not lawfully be paid before the expiration of such period, even though no interest were paid thereon.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 28, 1933.

Mr. J. N. Peyton,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Peyton:

Receipt is acknowledged of your letter of September 19, 1933, and of your letter of August 23, 1933, relative to the participation by subsidiary member banks of the same holding company affiliate within the same Federal reserve district in the nomination and election of directors of a Federal reserve bank.

Section 4 of the Federal Reserve Act contains the following proviso:

> * * * * * Provided, That whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate."

In view of this provision of the law, you request to be advised whether a holding company affiliate having one or more subsidiary member banks in each of the three groups into which member banks of each Federal reserve district are divided for electoral purposes, may designate one such bank in each group which may participate in the nomination and election of the director of Class A and of the director of Class B chosen by the group of which it is a member, or whether it may designate only one such bank in the Federal reserve

district which may participate in the nomination and election of the director of Class A and the director of Class B chosen by the group of which it is a member. In other words, the question is presented whether, in a case in which one or more member banks in each group are subsidiaries of a holding company affiliate, such member banks may lawfully have three of their number participate in the nomination and election of Class A and Class B directors, one bank in each group participating in the nomination and election of the Class A and the Class B director chosen by such group; or whether in such case only one such bank may participate in the nomination and election of directors, such bank, of course, participating only in the nomination and election of the Class A director and the Class B director chosen by the group of which it is a member.

Since only one director of Class A and one director of Class B may be elected by the member banks of any one group and the terms of office of no two Class A directors and no two Class B directors expire in the same year, it is the Board's opinion that the nomination and election of each Class A director and of each Class B director are separate and distinct from the nomination and election of each other Class A or Class B director. Accordingly, it is the Board's view that an organization which is a holding company affiliate of one or more subsidiary member banks in each group may designate one of such banks in each group to participate in the nomination and election of each Class A director and each Class B director chosen by the group of which such bank is a member and that such member bank so

designated may validly participate in such nomination and election.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-7626

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 29, 1933.

Mr. M. L. McClure,
Federal Reserve Agent,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. McClure:

Reference is made to your letter of September 8, 1933, in which you state that subsequent to June 16, 1933, a number of member banks continued to issue time certificates of deposit and other time deposit contracts on the same terms and conditions as theretofore, without making any stipulation in such contracts that the rate of interest stated therein would be subject to adjustment to conform to such regulations as might be issued by the Federal Reserve Board. You state that these agreements for the payment of interest were entered into in good faith, and you present the question whether member banks which issued such time certificates of deposit or other time deposit contracts subsequent to June 16, 1933, providing for payment of interest at a rate in excess of the maximum prescribed in the Board's Regulation Q for a period extending beyond October 31, 1933, may pay interest accruing after that date at the rate prescribed in such certificates or contracts.

Member banks which issued certificates of deposit or other time deposit contracts subsequent to June 16, 1933, did so presumably with knowledge of the provisions of the Banking Act of 1933

requiring the Federal Reserve Board to limit by regulation the rate of interest which may be paid by member banks on time deposits. Such certificates and contracts therefore must be considered to have been made in contemplation of this requirement of the law and with notice that the rate of interest provided therein would be subject to change to conform to the rate to be prescribed by the Board. Accordingly, it is the opinion of the Board that member banks may not pay interest accruing after October 31, 1933, at a rate in excess of that prescribed in Regulation Q, in accordance with certificates or contracts which were entered into after June 16, 1933 although such certificates or contracts provide for the payment of interest at a rate in excess of that prescribed in the regulation

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7628

October 3, 1933.

SUBJECT: Procedure in Connection with Applications for Membership.

Dear Sir:

There is inclosed, for your information, a copy of a letter being addressed to the Federal Reserve Agent at New York with regard to procedure in connection with applications for membership in the Federal Reserve System.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

COPY

X-7628-a

October 2, 1933.

Mr. J. H. Case,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, N. Y.

Dear Mr. Case:

Reference is made to your letter dated September 2, 1933, relative to the procedure in connection with applications for membership in the Federal Reserve System. The Board agrees with you that it is desirable to avoid as far as possible holding applications in abeyance for considerable periods of time pending discussions regarding possible revisions of plans of reorganization or possible corrections of unsatisfactory conditions by other means.

It is noted that you believe that there would be less room for misunderstanding and possible controversy if, as far as possible, all applications for membership which are received by you be either (1) promptly forwarded to the Federal Reserve Board, whether your recommendation is favorable or unfavorable, or, (2) definitely and promptly withdrawn by the applying bank if it desires to do so because discussions with your officers have indicated to the officers and directors of the applying bank that the application will probably not be granted.

Of the two alternatives which you suggest, it seems more desirable that the applying bank withdraw its application if your investigation indicates that the condition of the bank is such that your committee would not feel justified in recommending that the

application be granted. Of course, if in any case the applying bank requests that its application be submitted to the Federal Reserve Board, the Board will be glad to consider the application upon receipt of full information as to all of the facts in the case and the recommendation of the Federal Reserve Agent, together with that of the committee of his bank, as to the action which should be taken.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7629

October 5, 1933.

SUBJECT: Permission to Member Banks in Outlying Districts of Reserve and Central Reserve Cities to Carry Reduced Reserves.

Dear Sir:

The Board has recently reviewed its procedure relating to the granting of permission to member banks in outlying districts of central reserve and reserve cities to carry reduced reserves, as authorized by section 19 of the Federal Reserve Act, and has decided not to require (as provided in its letter X-3977 of February 26, 1924) that it shall be a condition precedent to the filing of an application by a member bank for reduction in its reserve requirements that the applicant shall have been a member of the Federal Reserve System and in operation as such for a period of at least one year prior to the date of such application.

As a matter of general policy, the Board is disposed to grant permission to any member bank located in an outlying district of a central reserve or reserve city, as defined in Regulation D, to carry reduced reserves, provided the character of its business is typical of banks located in and serving primarily outlying communities in such cities. In submitting the application of a member bank for permission to carry reduced reserves, however, a full statement should

be furnished of the facts upon which your board or executive committee bases its recommendation, with particular reference to the location of the bank and to the character of business conducted by it and by other banks located in the same general neighborhood.

In the review of the situation as of the end of each year, in accordance with the Board's letter X-4739 of December 4, 1926, it is requested that, in addition to such other data and comments as the agent may deem it desirable to submit, there be furnished the following information for each bank in lieu of that specified in the letter referred to:

1. Net demand deposits*
2. Time deposits*
3. Bank deposits (items 2 and 3 of Schedule J, item 4 in Schedule K and item 2 in Schedule L, of call report)*
4. Total deposits*
5. Vault cash*
6. Amount of debits to individual deposit accounts for the four-week period ending on the last Wednesday in December for each bank that reports debit figures to the Federal reserve bank.
7. Whether there has been any change, since the previous annual review, in the general character of the bank's business.
8. Distance of the bank from what is generally regarded as the downtown business and financial district of the city.

* As of the last call date in the year.

It is also requested that in the annual review consideration be given to the question whether there has been such a change in the

district in which any bank having permission to carry reduced reserves is located that it might no longer be regarded as an outlying district, and that appropriate comment thereon be included in your letter to the Board.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7630

October 6, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXERT" has been designated to cover a new issue of Treasury Bills, dated October 11, 1933, and maturing January 10, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7631
(Superseding X-7403)

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, the Federal Open Market Committee, and the member banks, which include all national banks and such State banks and trust companies as have voluntarily applied to the Federal Reserve Board for membership and have been admitted to the System.

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

The capital stock of the Federal reserve banks is entirely owned by the member banks and may not be transferred or hypothecated. Every national bank in existence at the time of the establishment of the Federal Reserve System was required to subscribe to the capital stock of the Federal reserve bank of its district in an amount equal to six per cent of the subscribing bank's capital and surplus. A like amount of Federal reserve

bank stock must be subscribed for by every national bank organized since that time and by every State bank or trust company (except mutual savings banks) 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 not been made. A mutual savings bank which is admitted to membership in the Federal Reserve System must subscribe for Federal reserve bank stock in an amount equal to six-tenths of one per centum of its total deposit liabilities; and thereafter such subscription must be adjusted semi-annually on the same percentage basis.

After all necessary expenses of a Federal reserve bank have been paid or provided for, its 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 the surplus fund of the Federal reserve bank. Federal reserve banks, including the capital stock and surplus therein and the income derived therefrom, are exempt from Federal, State and local taxation, except taxes upon real estate.

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

while the Federal Reserve Board appoints the three Class C directors. The term of office of each director is three years, so arranged that the term of one director of each class expires each year.

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

Federal reserve banks are authorized, among other things, to discount for their member banks notes, drafts, bills of exchange and bankers' acceptances of short maturities arising out of commercial, industrial and agricultural transactions, and short term paper secured by obligations of the United States; to make advances to their member banks upon their promissory notes for periods not exceeding ninety days upon the security of paper eligible for discount or purchase and for periods not exceeding fifteen days upon the security of obligations of the United States and certain other securities 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; 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 upon their promissory notes 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 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 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. Such open market operations are conducted under regulations adopted by the Federal Reserve Board with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. The Federal Open Market Committee, which makes recommendations with regard to open market operations, was created by the law and consists of twelve members, one member being selected annually by the board of directors of each Federal reserve bank. The meetings of the Committee are held in Washington at least four times each year upon the call of the Governor of the Federal Reserve Board or at the request of any three members of the Committee.

In connection with its supervision of Federal reserve banks the Federal Reserve 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 exercise special supervision over all relationships and transactions of the Federal reserve banks with foreign banks or bankers.

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 and the affiliates of State member banks; it receives condition reports from State member banks and their affiliates; it limits by regulation the rate of interest which may be paid by member banks on time and savings deposits; it is authorized, in its discretion, to issue voting permits to holding company affiliates of member banks entitling them to vote

the stock of such banks at elections of directors and in deciding questions at meetings of shareholders and to issue permits covering certain relations between member banks and organizations dealing in securities; it has the power to remove officers and directors of member banks, for continued violations of law or unsafe or unsound practices in conducting the business of such bank; it may, in its discretion, suspend member banks from the use of the credit facilities of the Federal Reserve System, for making undue use of bank credit for speculative purposes or for any other purpose inconsistent with the maintenance of sound credit conditions; it passes on applications of national banks for authority to exercise trust powers or to act in fiduciary capacities; it may grant authority to national banks to establish branches in foreign countries or dependencies or insular possessions of the United States, or to invest in the stock of banks or corporations engaged in international or foreign banking; it supervises the organization and activities of corporations organized under Federal law to engage in international or foreign banking; and it issues permits under the authority granted by the provisions of the Clayton Antitrust Act relating to interlocking 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.

October 1, 1933.

FEDERAL RESERVE BOARD

338

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7632

October 9, 1933.

SUBJECT: Absorption by Member Banks of Collection or Exchange Charges.

Dear Sir:

There is inclosed, for your information, a copy of a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of Atlanta under date of October 7, 1933, with regard to the absorption by member banks of exchange or collection charges.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT ATLANTA.

COPY

X-7632-a

October 7, 1933.

Mr. Oscar Newton,
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Newton:

Reference is made to your letter of September 29, 1933, in which you advise that, on September 27, 1933, you attended a conference of bankers from a number of cities in the southeastern section of the country at which one of the matters discussed was the practice of member banks with respect to the absorption of collection or exchange charges in connection with items received by them on deposit. It is noted that the conference, by a majority vote, adopted a resolution on this subject, a copy of which you inclosed with your letter. It is also noted that Mr. _____, Chairman of the meeting, in a letter, a copy of which you inclosed, requests that the Federal Reserve Board issue a definite ruling as to the interpretation of the law with respect to this matter.

The Federal Reserve Board has given careful consideration to this matter but does not feel that it is possible to issue a general ruling by reference to which it could be determined definitely under the circumstances of all cases whether the absorption of exchange or collection charges by member banks is lawful or unlawful. Questions as to whether such an absorption of charges does or does not constitute a payment of interest within the meaning of Section 19 of the Federal Reserve Act, forbidding member banks to pay interest on deposits payable

on demand either directly or indirectly by any device whatsoever, must be determined as and when they arise in particular cases and in the light of the special facts of each such case. As pointed out to you in the Board's letter of September 21, 1933, the absorption of exchange or collection charges in an amount equivalent to a certain percentage of the amount of the balance of the depositor, in the Board's opinion, is clearly in violation of the law on this subject, and no member bank wherever located may lawfully absorb exchange or collection charges on such a basis.

The Board feels that the banks and the clearing house associations should themselves consider whether, in the light of the spirit and purpose of the prohibition of the statute upon the payment of interest, the practice which they wish to follow with respect to the absorption of exchange or collection charges is lawful. If in any case it appears questionable whether the practice proposed conforms to the requirements of the law on this subject, the question may be submitted, if desired, to the Federal Reserve Bank of the district for consideration; and, of course, the Federal Reserve Bank, in cases where it appears necessary, may present the matter to the Federal Reserve Board with a request for a ruling. Such a request should be accompanied by an opinion of the Bank's counsel.

Referring to your suggestion that the substance of the Board's letter to you of September 21, 1933, be communicated to member banks, you are advised that the Board has sent a copy of that letter to each

Federal Reserve Agent, with the request that the matter be taken up with any of the clearing house associations located in his district which are following practices in conflict with the spirit or the letter of the law on this subject and that he endeavor to have any such associations cooperate voluntarily in a modification or adjustment of this practice which will bring them into conformity with the statute. The Board has no objection, however, to your communicating the substance of its letter of September 21 to such member banks as you may deem desirable.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7633
October 9, 1933.

SUBJECT: Relations of Federal Reserve Banks with Foreign Banks and Bankers.

Dear Sir:

Section II of the Board's Regulation N, which became effective August 10, 1933, provides that:

> "* * *each Federal Reserve bank shall promptly submit to the Federal Reserve Board in writing full information concerning all existing relationships and transactions of any kind heretofore entered into by such Federal Reserve bank with any foreign bank or banker or with any group of foreign banks or bankers and copies of all written agreements between it and any foreign bank or banker or any group of foreign banks or bankers which are now in force, unless copies have heretofore been furnished to the Board, in which case the Federal Reserve bank shall inform the Board as to the dates upon which such copies were furnished."

The Board has no record of having received advice from your bank in compliance with this provision of the regulation, and while it is understood that, apart from its participation in agreements entered into by the Federal Reserve Bank of New York, your bank has no existing relationships, transactions or agreements with foreign banks or bankers, it is felt that, in order to complete the records of the Board, definite advice should be forwarded to it. Accordingly, it will

be appreciated if you will address a letter to the Board in accordance with the requirement of Regulation N above referred to.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

To Governors of All F. R. Banks, except
New York, Richmond and Minneapolis.

FEDERAL RESERVE BOARD

WASHINGTON

X-7634

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 11, 1933.

(INTERPRETATION OF BANKING ACT OF 1933)

Dear Sir:

In response to an inquiry from the president of a national bank with respect to whether Section 8A of the Clayton Antitrust Act (Section 33 of the Banking Act of 1933) applies to the service of a director of a national bank as a director of a branch of a Federal Reserve Bank, the Board made the following statement:

"In view of the fact that Federal reserve banks make loans secured by bonds, the service of one of your directors as a director of the _____ Branch of the Federal Reserve Bank of _____ would come within the provisions of Section 8A, since such bank, of course, is 'organized and operating under the laws of the United States'."

Of course, this statement is equally applicable to a Class A director of a Federal reserve bank who is serving at the same time as a director of a national bank.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7635

October 12, 1933.

Dear Sir:

There are inclosed, for your information, copies of the Board's letter of June 21 to the Secretary of the Treasury and of the reply of the Assistant Secretary of the Treasury under date of September 18, with regard to abrasion on gold coin, the holding of gold coin and gold certificates in joint custody for the account of the Treasurer of the United States, the cancelation of and shipment to the Treasury of new and fit gold certificates in denominations of $500 or over, and the shipment to the Treasury of gold coin and standard silver dollars.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

C O P Y

X-7635-a

346

TREASURY DEPARTMENT

WASHINGTON

September 18, 1933.

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

S i r:

Reference is made to your letter of June 21, 1933, advising that the Federal Reserve Banks have on hand large amounts of gold coin and gold certificates. You request to be advised as to (1) whether the Treasury will permit the Federal Reserve Banks to ship United States gold coin to the Treasury or to the mints or assay offices at the Treasury's expense; (2) whether the Treasury will reimburse the Federal Reserve Banks for abrasion on gold coin deposited since March 7; (3) whether the Federal Reserve Banks will be required to determine the amount of such abrasion before shipment to the Treasury or Treasury offices; (4) whether the Treasury will permit the Federal Reserve Banks to hold a portion of their gold coin or gold certificates, or both, in joint custody by the banks and agents for account of the Treasurer of the United States; (5) whether the Federal Reserve Banks will be permitted to cancel and ship to the Treasury new and fit gold certificates of denominations of $500 and over; and (6) as to what policy the Treasury will follow in connection with the disposal of standard silver dollars held by the Federal Reserve Banks in excess of their requirements and whether these dollars may be shipped to Treasury offices at Treasury expense.

Your questions are answered in the order presented.

(1) The Treasury is not in a position to pay the expenses of shipping fit gold coin from the Federal Reserve Banks to the Treasury, the mints, or the assay offices. Moreover, Section 16 of the Federal Reserve Act, as amended, provides that all expenses incident to the handling of deposits of gold coin or of gold certificates for credit in the Gold Settlement Fund shall be paid by the Federal Reserve Banks.

(2) The Treasury has authority to assume the abrasion loss on gold coin only when the weight thereof is not below the limit allowed by statute, and furthermore, there are no funds available with which the Treasury can reimburse the Federal Reserve Banks for the abrasion loss on lightweight gold coin. It is my understanding that the Federal Reserve Board authorized the various Federal Reserve Banks to assume this loss.

(3) It will be necessary for the Federal Reserve Banks to classify the gold coin as to current, uncurrent, and lightweight. In view of the circumstances, however, and in order to avoid the necessity of determining the loss on each piece separately, the banks, upon application to the Treasurer of the United States in the usual manner, will be permitted in this instance to ship the lightweight coin at a bulk-weight value subject to adjustment to the mint's value when verification has been made.

(4) The Treasury will not object to the establishment of joint custody accounts for a portion of the stock of gold certificates

and current gold coin of these banks. It should be understood, however, that if these joint custody accounts are established, the expenses involved in the subsequent shipping of the gold coin to the Treasury offices will be borne by the Federal Reserve Banks.

(5) There has been no permanent policy established with respect to the further paying out of gold certificates. The Treasury, however, has no objection to the redemption, cancellation and shipment to the Treasury in the usual manner of the gold certificates in denominations of $500 and over.

(6) The Treasury is not in possession of funds with which to pay the expenses of shipping standard silver dollars to Treasury offices, and the available storage space at the mints is exceedingly limited. However, the situation with respect to the standard silver dollars is somewhat different from the accumulation of gold. Several years ago the Treasury made an attempt to place the silver dollar in circulation, and because of this attempt large accumulations of silver dollars in the various Federal Reserve Banks resulted. I feel, therefore, that in due course the Treasury should pay the expenses of shipping these silver dollars to Treasury offices. To relieve the Federal Reserve Banks of dead assets in their cash holdings, joint custody accounts for silver dollars were established some time ago, and 13,470,000 silver dollars are now held in joint custody accounts at two-thirds of the parent banks. The total amount held in the cash of all Federal Reserve Banks and

branches is less than $5,000,000, and any surplus therein could also be placed in the joint custody of the banks and the agents until such time as funds are available to pay the expense of shipping the dollars to Treasury offices.

Respectfully,

(Signed) Thomas Hewes

Thomas Hewes
Assistant Secretary of the Treasury

C O P Y

X-7635-b

June 21, 1933.

Honorable William H. Woodin,
Secretary of the Treasury,
Washington, D. C.

Dear Sir:

As a result of recent gold movements, all of the Federal reserve banks have on hand very large amounts of gold coin and gold certificates. At several of the banks, however, the proportion of total gold holdings now maintained in the form of gold settlement fund balances is relatively low, and they are desirous of increasing these balances in order to facilitate payments to other Federal reserve banks and transfers to the Federal reserve agents and the United States Treasury. In order to accomplish this, the banks are considering shipments of gold coin and certificates to the Treasury. Several questions have been raised in this connection, as summarized below, and regarding which the Board will appreciate advice as to the position of the Treasury.

1. Will the Treasury permit the Federal reserve banks to ship United States gold coin to the Treasury, or to the mints or assay offices, at the Treasury's expense?

2. Will the Treasury reimburse Federal reserve banks for abrasion on gold coin deposited with the Federal reserve banks since March 7?

3. Will it be necessary for the Federal reserve banks, especially those not equipped with electric weighing machines, to determine the amount of abrasion on gold coin before shipment to the

Treasury, a mint, or assay office?

4. Will the Treasury authorize such Federal reserve banks as find it desirable to do so, to segregate a portion of their stock of gold coin, or gold certificates, or both, to be held in joint custody by the banks and agents for account of the United States Treasurer?

5. Will the Federal reserve banks be permitted to cancel and ship to the Treasury new and fit gold certificates in denominations of $500 and over?

Inquiry has also been made of the Board as to the policy which the Treasury will follow in connection with the disposal of standard silver dollars held by Federal reserve banks in excess of their requirements, and advice is requested as to whether the Federal reserve banks will be permitted to ship excess holdings of standard silver dollars to the Treasury, a mint, or assay office, at the Treasury's expense.

Respectfully yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7637

October 13, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXESS" has been designated to cover a new issue of Treasury Bills, dated October 18, 1933, and maturing January 17, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7638

October 14, 1933.

SUBJECT: Indebtedness of Officers and Employees.

Dear Sir:

Supplementing the Board's circular letter X-7435, dated April 29, 1933, regarding the above subject, the Board desires to point out the desirability of applying the principles set forth in such letter to the selection of individuals for appointment to positions on the examining staffs of the Federal reserve banks. In view of the growing necessity for examiners of the Federal reserve banks to conduct, or participate in, examinations of nonmember banks in connection with applications for membership in the Federal Reserve System or in the Federal Deposit Insurance Fund, or for other reasons, it is clearly undesirable for employees, in the Federal reserve agent's departments of the respective reserve banks, engaged in audits and examinations to be indebted, directly or indirectly to any bank or banking institution in their respective Federal reserve districts. Attention is called to the fact that the Board's circular letter X-7595, dated September 20, 1933, regarding "Appointment of Examiners at Federal Reserve Banks", required that detailed reports be made concerning persons recommended for appointment including:

"Information as to applicant's indebtedness, if any, whether indebted to member banks, their subsidiaries or affiliates, when indebtedness was contracted, its original amount, progress made in liquidation, and whether, if tendered appointment by the Federal reserve bank as an examiner, the applicant will resign any official connection he may have with other business concerns and discontinue any other existing relationship which may have an undesirable effect upon his service as an employee of the Federal reserve bank."

The Board feels strongly that, in considering applicants for appointment to positions on the examining staffs of the Federal reserve banks, men should not be selected who are involved financially, are heavily in debt or are indebted to banking institutions, particularly to member banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7640

October 16, 1933.

SUBJECT: Absorption of Abrasion Loss on Gold Coin and Shipping Charges on Gold Coin, Gold Bullion or Gold Certificates.

Dear Sir:

There is inclosed for your information a copy of a telegram addressed to Mr. W. W. Paddock, Deputy Governor of the Federal Reserve Bank of Boston, on October 14, 1933, with regard to absorption by Federal reserve banks of abrasion loss on gold coin, and shipping charges on gold coin, gold bullion or gold certificates, delivered to the Federal reserve banks.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

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

C O P Y

X-7640-a

October 14, 1933.

Paddock - Boston

Referring your October 7 telegram, Section 6 of Executive Order of April 5 provided that the Secretary of the Treasury would in all proper cases pay the reasonable costs of transportation of gold coin, gold bullion, or gold certificates delivered to a member bank or Federal Reserve bank in accordance with Sections 2, 3 or 5 of the Executive Order, including the cost of insurance, protection, and such other incidental costs as may be necessary, upon production of satisfactory evidence of such costs. This authorization, however, is not contained in the Executive Order of August 28, Section 11 of which revokes the Executive Order of April 5. Board has also been advised by Treasury that it will not reimburse the Federal Reserve banks for abrasion on gold coin beyond the usual limit of tolerance. In the circumstances, the Board feels that the Federal Reserve banks should no longer assume any abrasion loss on gold coin deposited with them or tendered in exchange for other forms of currency or any shipping charges on gold coin or gold bullion. The Board sees no objection to the Reserve banks assuming shipping charges on gold certificates received from member banks.

(Signed) Chester Morrill

MORRILL

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7641

October 18, 1933.

SUBJECT: New Issue of Treasury Bonds.

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 Bonds:

"NOWCEDILLA" Treasury Bonds of 1943-45, dated October 15, 1933, due October 15, 1945, bearing 4½% interest to October 15, 1934, 3¼% thereafter.

This code word should be inserted in the Federal Reserve Telegraphic Code book following the supplemental code word "NOWCEDED" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7642

October 19, 1933.

Dear Sir:

There is attached hereto, for your information, copy of a letter addressed by the Federal Reserve Board to counsel for a holding company affiliate in connection with the submission of its application for a voting permit.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL F. R. AGENTS

C O P Y

X-7642-a

859

October 17, 1933.

Mr. _____,
_____,
_____.

Dear Sir:

Receipt is acknowledged of your letter of September 29, 1933, in which you request to be advised (1) whether _____ may file Exhibits "I" and "J" on photostat paper 6" x 9" instead of 8" x 10½", and (2) whether it is necessary for it to file with the Federal reserve agent of each district in which a subsidiary member bank is located (other than the district in which the applicant's principal office is situated), a complete copy of the original application, including all exhibits, or whether reports of examinations called for under Exhibit "I" may be omitted in filing copies of the application with the Federal reserve agents of districts other than that in which the applicant's principal office is located.

In regard to your first question, there is inclosed herewith a copy of the Board's letter of October 6, 1933, to Mr. _____, Federal Reserve Agent at _____, which relates to the subject of your inquiry and which is self-explanatory.

Referring to your second question, the original and two executed counterparts of each application for a voting permit, including all exhibits, must be sent to the Federal reserve agent of the district in which the applicant's principal office is located, and the Board's Regulation P contemplates that a copy of each such application, including exhibits, will be filed with the Federal reserve agent of each

other district in which a subsidiary member bank is located. However, in view of the numerous exhibits which an applicant holding company affiliate of a large number of subsidiary member banks and subsidiary nonmember banks must furnish with its application, the Board will not require the filing with the Federal reserve agent of each district in which a subsidiary member bank is located (other than the district in which the applicant's principal office is located) of a copy of each and every exhibit attached to any such application. In any such case, the Board will deem it sufficient if the applicant sends the original and two executed counterparts of the application, with all exhibits, to the Federal reserve agent of the district in which the applicant's principal office is located, and files with the Federal reserve agent of each other district in which a subsidiary member bank is located a copy of the application on F.R.B. Form P-1, together with such exhibits as may be necessary to disclose fully the relations between the applicant and the banks in the district in which such copy of the application is filed and to enable the Federal reserve agent of that district to determine the effect of such relations upon the affairs of such banks.

Accordingly, it would seem that the _____ should file with each copy of the application filed in any district other than that in which the applicant's principal office is located the reports of examinations called for by Exhibit I which contain information pertaining to the subsidiary member banks located in the district in which such copy is filed.

It is understood that the applicant will furnish to any such agent, upon request therefor, any other information which is required under F.R.B. Form P-1 to be submitted with the original application.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

COPY X-7642-b

October 6, 1933.

Mr. _____,
Federal Reserve Agent,
Federal Reserve Bank of _____,
_____.

Dear Mr. _____:

Mr. _____, counsel at _____ for the _____, has submitted the request of the corporation for permission to submit the copies of reports of examinations called for as Exhibits I and J to accompany applications for voting permits as photostat copies on paper six inches by nine inches, instead of on paper eight inches by ten and one-half inches.

The notation on F.R.B. Form P-1 states that in so far as practicable, all exhibits should be furnished on sheets of the same size as the pages of the application form. Such request, however, was not meant to apply to reports of examination, as it was contemplated that actual copies of such reports would be submitted.

While the reduced photostat form submitted by Mr. _____ as a sample is legible, it is questionable whether other pages of the report containing more printed matter and figures more closely spaced could be read without effort. Inasmuch as these exhibits must be reviewed by your office, it is suggested that you discuss the matter with the officials of the _____ and satisfy yourself that the exhibits as submitted will be fully legible. It is not the desire to impose any unnecessary expense upon an applicant in the preparation of these exhibits, but it is essential, of course, that all

exhibits submitted be fully legible and in a form which can be read without undue strain.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7643

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING
FOR FURNISHING FEDERAL RESERVE BANK NOTES (NATIONAL CURRENCY)
SERIES 1929.

September 1-28, 1933.

	$5	$10	$20	Total Sheets	Amount
New York, ...	-	87,000	44,000	131,000	$12,314.00
Cleveland, ...	91,000	64,000	-	155,000	14,570.00
Chicago, ...	80,000	-	38,000	118,000	11,092.00
	171,000	151,000	82,000	404,000	$37,976.00

404,000 sheets, @ $94.00 per M, $37,976.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7644

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING
FOR FURNISHING FEDERAL RESERVE NOTES
SERIES 1928, SEPTEMBER 1-26, 1933.

	$5	$10	$20	Total Sheets	Amount
Boston,	-	35,000	10,000	45,000	$3,982.50
Philadelphia,	-	45,000	15,000	60,000	5,310.00
Richmond,	-	15,000	10,000	25,000	2,212.50
Atlanta,	50,000	10,000	-	60,000	5,310.00
St. Louis,	15,000	15,000	-	30,000	2,655.00
Minneapolis,	-	10,000	15,000	25,000	2,212.50
Kansas City,	10,000	10,000	10,000	30,000	2,655.00
Dallas,	-	-	15,000	15,000	1,327.50
San Francisco,	10,000	10,000	10,000	30,000	2,655.00
	85,000	150,000	85,000	320,000	$28,320.00

320,000 sheets, @ $88.50 per M, . .$28,320.00

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

STATEMENT FOR THE PRESS

For immediate release. October 19, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 2 per cent effective October 20, 1933.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7646

October 20, 1933

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXETER" has been designated to cover a new issue of Treasury Bills, dated October 25, 1933, and maturing January 24, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release at 3:00 p. m. October 20, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Cleveland has established a rediscount rate of 2 1/2%, effective October 21, 1933.

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. October 20, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Chicago has established a rediscount rate of 2 1/2%, effective October 21, 1933.

FEDERAL RESERVE BOARD

WASHINGTON

X-7649

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 21, 1933.

SUBJECT: Holidays during November, 1933.

Dear Sir:

The Federal Reserve Board is advised that the following Federal reserve banks and branches will observe holidays during November:

Wednesday, Nov. 1	New Orleans	All Saints' Day
Tuesday, Nov. 7	New York Buffalo Philadelphia Cleveland * Cincinnati * Pittsburgh Richmond	Election Day

*Will close 1:00 P.M. - E.S.T. Will participate in Clearings.

On Saturday, November 11, in observance of Armistice Day, and on Thursday, November 30, Thanksgiving Day, there will be neither transit nor Federal reserve note clearing and the books of the Board's Gold Settlement Fund will be closed. The offices of the Board and the Federal Reserve Bank of New York and its Buffalo Branch will be open for business on Saturday, November 11.

Please notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

371

COMMITTEE APPOINTMENTS EFFECTIVE OCTOBER 26, 1933.

(The Governor is ex-officio a member of each Committee)

LAW:
Mr. Hamlin, Chairman
Mr. Miller

EXAMINATIONS:
Mr. Thomas, Chairman
Mr. James

RESEARCH AND STATISTICS:
Mr. Miller, Chairman
Mr. Hamlin

SALARIES AND EXPENDITURES OF FEDERAL RESERVE BANKS:
Mr. James, Chairman
Mr. Szymczak

DISTRICT COMMITTEES:

Boston:
Mr. Hamlin, Chairman
Mr. James

New York:
Mr. Miller, Chairman
Mr. Hamlin

Philadelphia:
Mr. Hamlin, Chairman
Mr. Thomas

Cleveland:
Mr. Szymczak, Chairman
Mr. Miller

Richmond:
Mr. Hamlin, Chairman
Mr. Szymczak

Atlanta:
Mr. James, Chairman
Mr. Hamlin

Chicago:
Mr. Szymczak, Chairman
Mr. Miller

St. Louis:
Mr. James, Chairman
Mr. Szymczak

Minneapolis:
Mr. Thomas, Chairman
Mr. Miller

Kansas City:
Mr. Thomas, Chairman
Mr. James

Dallas:
Mr. James, Chairman
Mr. Thomas

San Francisco:
Mr. Miller, Chairman
Mr. Szymczak

FEDERAL RESERVE BOARD

INDIVIDUAL APPOINTMENTS TO DISTRICT COMMITTEES

EFFECTIVE OCTOBER 17, 1933

(The Governor is ex-officio a member of each Committee)

	Chairman:	Member:
MR. HAMLIN:	Boston Philadelphia Richmond	New York Atlanta
MR. MILLER:	New York San Francisco	Cleveland Chicago Minneapolis
MR. JAMES:	Atlanta St. Louis Dallas	Boston Kansas City
MR. THOMAS:	Minneapolis Kansas City	Philadelphia Dallas
MR. SZYMCZAK:	Cleveland Chicago	Richmond St. Louis San Francisco

FEDERAL RESERVE BOARD

WASHINGTON

X-7651

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 23, 1933.

SUBJECT: Forms of Time Certificates of Deposit.

Dear Sir:

Counsel for one of the Federal reserve banks recently submitted to the Federal Reserve Board several forms with the request that he be advised whether they conform to the requirements of Regulation Q with respect to time certificates of deposit. Upon consideration of the matter, the Board advised that the forms submitted, with certain suggested changes, would appear to comply with the definition of time certificates of deposit contained in the Board's Regulation Q, and there is inclosed herewith, for your information, a copy of each of the forms as modified in the manner suggested by the Board. No particular form of time certificate of deposit is required, however, and a deposit evidenced by any form which complies in all respects with the definition of time certificates of deposit set forth in Regulation Q may, of course, be treated as a time deposit for the purposes of the regulation.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS EXCEPT CLEVELAND.

X-7651-a

(Form No. 1)

THE FIRST NATIONAL BANK OF _____

Place _____ Number _____

_____
(Date)

_____ has deposited not subject to

check _____ Dollars ($_____)

payable to the order of _____

in current funds on _____ 19___, upon
(not less than 30 days hence)

surrender of this certificate properly indorsed, with interest at the rate of 3% per annum from date to maturity only.

_____
(Cashier)

X-7651-b

(Form No. 2)

THE FIRST NATIONAL BANK OF _____

Place _____ Number _____

_____
(Date)

_____ has deposited not subject to check

_____ Dollars ($_____)

payable to the order of _____

in current funds _____ after date, upon
(Not less than 30 days)

surrender of this certificate properly indorsed, with interest at the rate of 3% per annum from date to maturity only.

_____
(Cashier)

X-7651-c

(Form No. 3)

THE FIRST NATIONAL BANK OF _____

Place _____ Number _____

_____
(Date)

_____ has deposited not subject to check

_____ Dollars ($_____)

payable to the order of _____

in current funds _____ days after notice in
(Not less than 30 days)

writing of intended withdrawal shall have been given to the bank and upon surrender of this certificate properly indorsed, with interest as herein provided. Interest payable for full months only at _____% per annum if left _____ or _____% if left more than
(days or months)

_____. No interest after expiration of notice of
(days or months)

withdrawal.

_____
(Cashier)

X-7651-d

(Form No. 4)

THE FIRST NATIONAL BANK OF _____

Place _____ Number _____

_____
(Date)

_____ has deposited not subject to check

_____ Dollars ($_____)

payable to the order of _____

in current funds only upon the expiration of a period of

_____ days after notice in writing of intended
(Not less than 30 days)

withdrawal shall have been given to the bank and upon surrender of this certificate properly indorsed, with interest as herein provided. Interest payable for full months only at _____% per annum if left _____ or _____% if left more than
(days or months)

_____. No interest after expiration of notice of
(days or months)

withdrawal.

_____
(Cashier)

INTERPRETATION OF BANKING ACT OF 1933.

Copies to be sent to all Federal reserve banks.

October 20, 1933.

Mr. M. L. McClure,
Federal Reserve Agent,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. McClure:

Receipt is acknowledged of your letter of September 21, 1933, in which you requested advice as to whether an existing State bank with a capital of $25,000 which moves its location to another town having a population of 3,000 or less inhabitants will be eligible for admission to membership in the Federal Reserve System. You called attention to the Board's ruling of July 22, 1933, (X-7521), to the effect that under the provisions of the Banking Act of 1933 a State bank organized on or after June 16, 1933, in a place with a population of 3,000 or less inhabitants with a capital of not less than $25,000 is eligible for admission to membership in the Federal Reserve System if it is at the time entitled to the benefits of insurance under Section 12B of the Federal Reserve Act.

In the circumstances, you are advised that an existing State bank with a capital of not less than $25,000 and located in a town of not exceeding 3,000 inhabitants will be eligible for admission to membership in the Federal Reserve System after its removal to another town having a population of not exceeding 3,000 inhabitants, if the removal was authorized by and in accordance with the law of the State, provided, of course, that the bank complies with all other requirements for admission to membership. If such a bank should decide to apply for membership

in the System while not entitled to the benefits of insurance under Section 12B of the Federal Reserve Act, it should arrange to furnish to the Board a copy of an opinion of the Attorney General of the State, or other State authority having jurisdiction of the matter, with respect to the question whether it was "organized" at the time of removal or at a date prior thereto. In any such case, the Board would also wish to be fully informed as to the facts regarding the removal with particular reference to the question whether it was in contemplation of an application for membership, or for the purpose of evading the requirement that a new State bank situated in a town of 3,000 inhabitants or less upon becoming a member of the Federal Reserve System must be entitled to the benefits of insurance at the time of admission to membership unless it has a capital of at least $50,000.

In connection with the last paragraph of your letter, the Comptroller of the Currency has been requested to advise you as to the position of his office with regard to the removal of a national bank to another town.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF BANKING ACT OF 1933.

Copies to be sent to all Federal reserve banks.

October 21, 1933.

Mr. _____, _____,
_____,
_____, _____.

Dear Sir:

Reference is made to your letter of October 7, 1933, to Mr. ___ _____. It is understood that your bank has a branch established prior to February 25, 1927, located beyond the limits of _____, _____, where the head office of The _____ Bank and Trust Company is situated, and that you desire to be advised whether, if such branch is now removed to another town, it will in any way affect the eligibility of The _____ Bank and Trust Company of _____, _____, for membership in the Federal Reserve System.

Under the provisions of Section 9 of the Federal Reserve Act, a State bank may not retain or acquire stock in a Federal Reserve bank except upon the relinquishment of any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated, unless any such branch is established and operated on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks. The Federal Reserve Board has ruled that a removal of a branch from one town to another in which the parent bank had no branch constitutes the establishment of a branch within the meaning of section 9 of the Federal Reserve Act. Accordingly, if your bank should at this time remove its branch from one town to another in which it has no branch, it would result in the establish-

ment of a branch in the town to which it is removed, and unless such branch should be established and operated on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks, the bank would not be eligible for admission to membership in the Federal Reserve System so long as it retained and operated the same.

There is inclosed for your information a copy of the Federal Reserve Act, and in section 9 thereof you will find the provisions of law with regard to branches of State member banks. If you desire any further information in this matter it is suggested that you communicate with the Federal Reserve Agent of the Federal Reserve Bank of _____ and he will be glad to advise you.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7655

October 26, 1933.

SUBJECT: Regulation L and Forms Pertaining to Interlocking Directorates and Other Relationships under Sections 8 and 8A of the Clayton Antitrust Act, as Amended.

Dear Sir:

There are inclosed six sets of mimeographed copies of the Board's Regulation L and of the Board's Forms 94, 94a, and 94b, pertaining to the provisions of sections 8 and 8A of the Clayton Antitrust Act, as amended.

The regulation and forms have been approved by the Federal Reserve Board, effective November 1, 1933.

Official copies of the regulation and forms will be printed here; but, in view of the large number of applications which probably will have to be acted upon before the middle of next January, and in order to avoid delay, it is requested that you have printed locally enough copies of the regulation and forms to supply your immediate needs and that you make them available as soon as possible to your member banks and to the officers, directors, and employees thereof desiring to file applications.

In having the regulation and forms printed, please exercise the greatest care to see that the text of the copies inclosed

herewith is followed exactly. Please have the forms printed on sheets of exactly the same size as forms 94, 94a, and 94b heretofore in use and have the printer follow the typographical style of those forms as closely as possible. Instead of having the forms printed on both sides of the page, however, please have them printed on only one side of the page and please have each page on a separate sheet, as was done in the case of the forms for use in connection with applications for voting permits pursuant to Regulation P. On Form 94a, please have the complete form for the bank's statement of condition printed on the first page with the assets and liabilities in parallel columns, if practicable.

If several Federal reserve banks desire to join together in having this printing done, the Board will offer no objection.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

X-7656

INTERPRETATION OF BANKING ACT OF 1933.

Copies to be sent to all Federal reserve banks.

October 24, 1933.

Mr. _____, _____,
The _____ National Bank,
_____, _____.

Dear Sir:

Reference is made to your letter of October 9, 1933, requesting an interpretation of Section III(e) of the Federal Reserve Board's Regulation Q, regarding payment of interest on time deposits after maturity.

The Federal Reserve Board is of the opinion that a member bank may not lawfully pay interest for the period intervening between the maturity date of a certificate of deposit and the date on which a renewal certificate of deposit is actually issued, even though such renewal certificate is dated back to the date of maturity of the original certificate.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7657

October 27, 1933.

SUBJECT: Regulation R and Forms Pertaining to Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933.

Dear Sir:

There are inclosed six sets of mimeographed copies of the Board's Regulation R and the Board's Forms 99a to 99g, inclusive, pertaining to the provisions of Section 32 of the Banking Act of 1933.

The regulation and forms have been approved by the Federal Reserve Board, effective November 1, 1933.

Official copies of the regulation and forms will be printed here; but, in view of the shortness of the time remaining before January 1, 1934, the effective date of Section 32, and in order to avoid delay, it is requested that you have printed locally enough copies of the regulation and forms to supply your immediate needs and that you make them available as soon as possible to your member banks and to others desiring to file applications.

In having the regulation and forms printed, please exercise the greatest care to see that the text of the copies inclosed herewith is followed exactly. Please have the forms printed on

sheets of exactly the same size as the Board's Forms 94, 94a, and 94b (pertaining to the Clayton Act), heretofore in use, and have the printer follow the typographical style of those forms as closely as possible. Instead of having the forms printed on both sides of the page, however, please have them printed on only one side of the page and please have each page on a separate sheet, as was done in the case of the forms for use in connection with applications for voting permits pursuant to Regulation P. On Forms 99b and 99c, please have the complete form for the statement of condition printed on the first page with the assets and liabilities in parallel columns, if practicable.

If several Federal reserve banks desire to join together in having this printing done, the Board will offer no objection.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7658

October 27, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXETO" has been designated to cover a new issue of Treasury Bills, dated November 1, 1933, and maturing January 31, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7659

October 27, 1933.

Dear Sir:

There is inclosed for your information, in the event that a case involving comparable circumstances arises in your district, a copy of a letter the Federal Reserve Board has addressed to one of the Federal reserve agents with regard to an application for membership in the Federal Reserve System by a bank reorganized under a State statute which provided that the plan of reorganization should be binding upon all depositors and creditors of the bank upon the consent of owners of a prescribed part of the claims of depositors and other creditors against the bank having been obtained.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

COPY

X-7659-a 389

October 24, 1933.

Mr. _____,
Federal Reserve Agent,
Federal Reserve Bank of _____,
_____.

Dear Mr. _____:

This is to advise you that the Federal Reserve Board has approved the application of the _____, _____ for membership in the Federal Reserve System subject to the conditions contained in the inclosed letter which you are requested to forward to the board of directors of that institution. Two copies are also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banks of _____ for his information.

The Board has given very careful consideration to the questions regarding the validity of the plan of reorganization of the _____ Bank _____, and the validity of the statute under which such reorganization was effected. In view of your recommendations in this case, the fact that the bank has been reopened for considerable period of time without any question being raised with regard to the validity of the plan of reorganization and since the Board understands, in view of all the circumstances involved, that it is improbable that any question will be raised in this case, the Board felt that it could properly approve the application of the _____ Bank of _____ for membership. However, you are requested, in each case where a bank has been

reorganized under the statute under which the reorganization of the _____ Bank was effected and applies for membership, to give particularly careful consideration to the circumstances under which the reorganization was effected, the public reception of the reopening of the bank, whether any question has been raised as to the validity of the reorganization and whether in view of all the circumstances involved it appears probable that any such question will be raised, and advise the Board in detail in each such case. If in any case you should find that it appears probable that questions will be raised with regard to the validity of the organization, you should give consideration to the advisability of deferring submission of the application for the Board's consideration until such time has elapsed as will eliminate the probability of a question being raised. In this connection your attention is called to the Board's letter of August 21, 1933, (X-7556), which contains the Board's views with regard to comparable circumstances.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

X-7660

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

October 27, 1933.

Mr. W. B. Geery, Governor,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Geery:

Reference is made to your letter of September 11, 1933, requesting an interpretation of Section 33 of the Banking Act of 1933.

You state that the employees of a certain corporation had pledged stock owned by them in that corporation as collateral security for loans made to them by various banks and that, when the stock market broke in 1929, the corporation took over these loans and has since been allowing its employees to make payments periodically in reduction thereof. You further state that this corporation does not make a business of making loans on securities, nor does it intend to make any further such loans. In view of these facts, you ask to be advised whether Section 8A of the Clayton Anti-trust Act, as amended by Section 33 of the Banking Act of 1933, prohibits the officers of such corporation from serving at the same time as directors of a national bank after January 1, 1934.

That section refers to organizations, "which shall make loans secured by stock or bond collateral", and it does not, therefore, apply to an organization which shall not actually make loans secured by stock or bond collateral after January 1, 1934, even though such organization is authorized to do so, and although

previously made loans remain outstanding. Accordingly, if the corporation to which you refer shall make no further loans secured by stock or bond collateral, Section 8A would not prohibit its officers from serving at the same time as directors of a national bank.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7661

October 28, 1933.

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

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7661-a and X-7661-b, covering in detail operations of the main lines, Leased Wire System, during the month of September, 1933.

Please credit the amount payable by your bank for your share of the expense of the Leased Wire System, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Gold Settlement Fund for the account of the Federal Reserve Board, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER, 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	33,927	2,299	36,226	4.36
New York	148,135	-	148,135	17.81
Philadelphia	34,132	2,232	36,364	4.37
Cleveland	54,864	2,188	57,052	6.86
Richmond	57,000	2,067	59,067	7.10
Atlanta	51,953	2,312	54,265	6.53
Chicago	88,821	2,939	91,760	11.03
St. Louis	63,993	2,388	66,381	7.98
Minneapolis	36,176	2,126	38,302	4.61
Kansas City	75,852	2,191	78,043	9.38
Dallas	65,374	3,549	68,923	8.29
San Francisco	93,460	3,689	97,149	11.68
Total	803,687	27,980	831,667	100.00

F. R. Board business	327,245	1,158,912
Reimbursable business Incoming and Outgoing		439,435
Total words transmitted over main lines		1,598,347

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7661-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, SEPTEMBER, 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	$2.00	$ -	$262.00	$747.32	$262.00	$485.32
New York	1,284.14	1.00	-	1,285.14	3,052.70	1,285.14	1,767.56
Philadelphia	225.00	-	-	225.00	749.03	225.00	524.03
Cleveland	306.66	-	-	306.66	1,175.83	306.66	869.17
Richmond	226.00	-	230.00 (&)	456.00	1,216.97	456.00	760.97
Atlanta	270.00	-	-	270.00	1,119.27	270.00	849.27
Chicago	3,915.64 (#)	1.00	-	3,916.64	1,890.58	3,916.64	2,026.06 (*)
St. Louis	195.00	-	-	195.00	1,367.80	195.00	1,172.80
Minneapolis	226.24	-	-	226.24	790.17	226.24	563.93
Kansas City	287.00	-	-	287.00	1,607.77	287.00	1,320.77
Dallas	251.00	-	-	251.00	1,420.94	251.00	1,169.94
San Francisco	380.00	-	-	380.00	2,002.00	380.00	1,622.00
Federal Reserve Board	-	-	15,578.97	15,578.97	-	-	-
Total	$7,826.68	$4.00	$15,808.97	$23,639.65	$17,140.38	$8,060.68	$11,105.76
							2,026.06 (a)
							$ 9,079.70

Reimbursable charges:

Treasury Department	$2,006.78	
Reconstruction Finance Corporation	3,577.72	
Exp. Nat. Bkg. Emergency Act, 3-9-33	754.38	
Federal Home Loan Bank Board	2.77	
Comp. Currency Div. Insolv. Nat'l. Bks.	89.66	
Farm Credit Administration:		
Federal Farm Loan Bureau	21.56	
Federal Farm Board	46.40	
Less reimbursable charges		$6,499.27
		$17,140.38

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7663

November 1, 1933.

SUBJECT: Handling of applications under Clayton Act, made on old Forms.

Dear Sir:

There is inclosed for your information a copy of a letter addressed to the Federal Reserve Agent at Cleveland in response to an inquiry as to the proper method of handling applications made on the Board's Forms 94, 94a, and 94b heretofore in use, and which have not yet been forwarded to the Federal Reserve Board.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT CLEVELAND.

X-7663-a

397

November 1, 1933.

Mr. L. B. Williams,
Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Williams:

Reference is made to Mr. Fletcher's letter of October 25, 1933, stating that a number of applications under the provisions of Sections 8 and 8A of the Clayton Antitrust Act are being received, such applications being made on the Board's Forms 94, 94a, and 94b heretofore in use, and asking how such applications should be handled.

In view of the fact that a revised regulation and forms have now been adopted by the Federal Reserve Board and forwarded to all Federal reserve agents, it is felt that it would be desirable in all cases to have such applications made on the new forms, because the information called for by the old forms would usually not be sufficient to permit the Board to act upon the applications. Accordingly, the delay which would result from obtaining the additional information by correspondence would probably be greater, in most instances, than the delay involved in obtaining an application on the new forms.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-7664

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. November 1, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Boston has established a rediscount rate of 2 1/2 per cent, effective November 2, 1933.

FEDERAL RESERVE BOARD

X-7665

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 2, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "Noxeve" has been designated to cover a new issue of Treasury Bills, dated November 8, 1933, and maturing February 7, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

October 30, 1933.

____, _____,
_____,
_____, _____.

Gentlemen:

Your letter of September 13, 1933, addressed to the Comptroller of the Currency has been referred to the Federal Reserve Board.

You ask, first, whether section 32 of the Banking Act of 1933 is applicable to certain directors of the _____ Bank and Trust Company of _____ who are members of the _____ Stock Exchange. That section is applicable to the service of an officer or director of a member bank as "an officer, director, or manager of any corporation, partnership, or unincorporated association" engaged primarily in buying, selling, or negotiating securities. Since the statute refers only to an "officer, director or manager" of the organizations of the kind referred to, the mere fact that the directors to whom you refer are members of the _____ Stock Exchange would not make that section applicable to them.

You also ask whether that section is applicable to directors of that bank who are partners in firms which do a _____ stock exchange business. It appears that the word "manager" in the provision quoted above includes any person who manages, controls, or directs the business of an organization engaged primarily in purchasing, selling or negotiating securities, or who participates in such management or control, either at the main office or at a branch office, branch, etc., of such organization, and therefore includes any general partner in a partnership principally engaged in such business; and this conclusion is strengthened by the reference to

"partnership" in the words immediately following the words "officer, director or manager". However, it also appears that the provision in question is inapplicable to an inactive partner in such a partnership who has no voice in the management or control of its business and whose liability is limited to the amount of his contribution to the partnership.

You also ask whether that section is applicable to directors of that bank who are employed by or associated with a _____ stock exchange firm. Section 32 does not contain a reference to "employees", and unless the persons to whom you refer may properly be classed as "directors", "officers", or "managers" of the _____ stock exchange firms, the provisions of section 32 would not be applicable to them.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-7667

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 6:00 p.m. November 2, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of San Francisco has established a rediscount rate of 2 1/2% effective November 3, 1933.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

November 2, 1933.

Mr. _____, Vice President,
_____ National Bank,
_____, _____.

Dear Sir:

Reference is made to your letter of July 5, 1933, in which you state that your bank's branches in _____, _____, _____ and _____ accept accounts and act as correspondents for corporations and partnerships engaged primarily in the business of purchasing, selling or negotiating securities, and that such branches, at the request of such clients, direct to you orders for the purchase and sale of securities in this country. You inquire whether the provisions of Section 32 of the Banking Act of 1933 prohibit such functions. You comment that your branches are in competition with other institutions located in those cities which extend similar facilities to their clients.

Section 32 contains no exception applicable to foreign branches of national banks. It is true, as you say, that other institutions located in the cities in which your branches are located extend such facilities to their clients and will not be prevented from so doing by the provisions of the Banking Act of 1933. The same, however, is true of banking institutions in this country which are not member banks of the Federal Reserve System, since such banks are not affected by that section. Furthermore, since the section in question is concerned with the effect which certain types of relationships may have upon member banks, the fact

that the dealers in securities are located in foreign cities would not seem to have any conclusive bearing upon the applicability of the section to relationships with them.

However, it is not entirely clear from your letter whether the relationships to which you refer are such as to make your bank and its branches a correspondent bank within the meaning of Section 32.

The Federal Reserve Board is authorized, under certain conditions, to grant permits covering relationships otherwise prohibited by this section. The Federal Reserve Board has recently issued its Regulation R in this connection and a mimeographed copy is inclosed for your information. Your particular attention is directed to the definition of the term "correspondent bank" in Section II of the inclosed Regulation.

In the event that you feel that a permit may be necessary, it is suggested that you consult with the Federal Reserve Agent at the Federal Reserve Bank of _____, who will be in a position to advise you further as to the necessity for obtaining permits and as to the procedure to be followed in applying for such permits.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7669

November 3, 1933.

SUBJECT: Right of National Banks to Establish Branches in California, South Carolina and Tennessee.

Dear Sir:

For your information there is inclosed herewith a copy of an opinion of the Acting Attorney General of the United States, rendered under date of October 27, 1933, with respect to the right of a national banking association located in the State of California, South Carolina, or Tennessee to establish branch banks beyond the limits of the city, town, or village in which the banking association is situated.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal reserve banks)

October 21, 1933.

Mr. John N. Peyton,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Peyton:

Receipt is acknowledged of your letter of October 5, 1933, and inclosures thereto, from which it appears that the State Bank of _____, _____, has applied for membership in the Federal Reserve System; that a serious question has been raised as to whether the bank is legally a corporation or not; and that it has been suggested that, in order to eliminate all doubt on this question, it should obtain a new charter. In view of the fact that such new charter would be obtained after June 16, 1933, however, the question arises whether it would be necessary for the bank to have a capital of at least $50,000 in order to be eligible for membership or whether it might be admitted to membership with a capital of $25,000, in view of the fact that _____, _____, has a population of only 1700 inhabitants.

As you were advised in the Board's letter of July 22, 1933, (X-7521) a State bank organized on or after June 16, 1933, in a place with a population of not more than 3,000 inhabitants is required to have a capital of $50,000, in order to be eligible for membership in the Federal Reserve System, unless it is at the time entitled to the benefits of insurance under Section 12B of the Federal Reserve Act, in which event it is eligible for membership if it has a capital of not less than $25,000.

The Board understands that, in order to be entitled to the benefits of insurance under Section 12B of the Federal Reserve Act between January 1, 1934, and July 1, 1934, a nonmember State bank must have been admitted by the Federal Deposit Insurance Corporation to the Temporary Federal Deposit Insurance Fund, pursuant to the provisions of subsection (y) of Section 12B and that, in order to be entitled to the benefits of insurance between July 1, 1934, and July 1, 1936, a nonmember State bank must have become a member of the Federal Deposit Insurance Corporation either by subscribing for the same amount of Class A stock of the corporation as it would be required to subscribe and pay for upon becoming a member bank, or by depositing with the corporation an amount equal to the amount it would have been required to pay in on account of subscription to such stock, if it is not permitted to subscribe for such stock by the laws under which it was organized.

A State bank organized after June 16, 1933, and having a capital of only $25,000 would not be legally eligible for membership in the Federal Reserve System, therefore, until it has become entitled to the benefits of insurance under the provisions of Section 12B of the Federal Reserve Act by one of the two methods described in the preceding paragraph.

If it is necessary for the State Bank of _____ to obtain a new charter, therefore, and if the new bank has a capital of less than $50,000, it cannot be admitted to the Federal Reserve System until it has been admitted to the Temporary Federal Deposit Insurance Fund, which does not become effective until January 1, 1934. It could, however, submit its application for membership in the Federal Reserve System and that application

could be approved, effective if and when the bank is admitted to the benefits of the Temporary Federal Deposit Insurance Fund; provided the bank is otherwise eligible and acceptable for membership in the Federal Reserve System.

The question whether the _____ State Bank was "organized under the general laws of any State" within the meaning of Section 9 of the Federal Reserve Act is primarily a question of State law, upon which it would be advisable for you to obtain a definite opinion from Counsel for the Federal Reserve Bank of Minneapolis.

In accordance with your request, the papers inclosed with your letter are returned herewith, in order that they may be forwarded to the Board in proper form if and when the application is finally submitted to the Board.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7671

November 6, 1933.

SUBJECT: Withdrawals of Savings Deposits.

Dear Sir:

The Federal Reserve Board has had under consideration the question whether, under the provisions of Section 19 of the Federal Reserve Act and Section VI of the Board's Regulation Q, a member bank may waive notice of intended withdrawal of a specified amount of a savings deposit during any given period provided that during such period it waive notice of intended withdrawal of the same amount of all other savings deposits which are subject to the same requirement.

After careful consideration of this question, the Federal Reserve Board has stated that the word "portion" as used in Section VI of Regulation Q is to be interpreted as including a specified amount and that a member bank may pay any specified amount of the savings deposit of any depositor without requiring notice of intended withdrawal provided that, upon request and without requiring such notice, it shall pay the same specified amount of the savings deposits of every other depositor which are subject to the same requirement. The period during which such specified amount may be

withdrawn under the conditions stated may be prescribed by the bank but the requirements of paragraphs (b) and (c) of Section VI of the regulation relating to changes in the practice of a member bank with respect to the withdrawal of savings deposits, as well as the other provisions of this section, must be observed.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7674

November 9, 1933.

SUBJECT: Report of Committee on Branch, Group and Chain Banking.

Dear Sir:

There is inclosed, for your information, a copy of a letter which is being sent to the Chairman of the Governors' Conference today with regard to the recommendation that the System Committee on Branch, Group and Chain Banking be reconstituted for the purpose of bringing up to date the report previously submitted by it.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

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

C O P Y

X-7674-a

November 9, 1933.

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

Dear Governor Calkins:

At the meeting of the Governors' Conference with the Federal Reserve Board on October 12, 1933, you reported that the Conference had voted to recommend to the Federal Reserve Board the reconstituting of the Committee on Branch, Group and Chain Banking, for the purpose of amending the report previously submitted by the Committee in the light of events which have transpired since the report was prepared.

The Federal Reserve Board has given careful consideration to the recommendation of the Conference, and has decided that it should be held in abeyance, perhaps until after the present emergency is passed. Further consideration will be given to the matter when the Board is in a position, in the light of later circumstances, to determine whether further revision of, and addition to, the Committee report would be desirable.

A copy of this letter is being forwarded to the governors of all other Federal reserve banks.

Very truly yours,

(Signed) Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7675

November 10, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXEZE" has been designated to cover a new issue of Treasury Bills, dated November 15, 1933, and maturing February 14, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7676

November 10, 1933.

SUBJECT: Provisions of Time Certificates of Deposit.

Dear Sir:

Reference is made to the Board's letter of October 23, 1933, X-7651, inclosing certain forms of certificates of deposit which in the Board's opinion constitute time certificates of deposit as defined in Regulation Q.

Under Section 19 of the Federal Reserve Act, the Federal Reserve Board is required from time to time to limit and is authorized to prescribe the rate of interest which may be paid by member banks on time deposits and it is believed desirable that time certificates of deposit and other time deposit contracts hereafter issued or entered into by member banks should refer to this fact, in order that the depositors may have actual knowledge that the rate stated in such certificates or contracts is subject to such modification as may be necessary to conform to the rate on time deposits as limited or prescribed by the Federal Reserve Board from time to time under the law. Accordingly, it is suggested that, in any communications or discussions which you may have with member banks regarding the form of time certificates of deposit or other time deposit contracts which they may

propose to use, you invite their attention to the desirability of printing or stamping upon such certificates of deposit or contracts a provision substantially in the following form:

> "The rate of interest payable hereunder is subject to change by the bank to such extent as may be necessary to comply with requirements of the Federal Reserve Board made from time to time pursuant to the Federal Reserve Act."

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS.

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be Sent to all Federal Reserve Banks)

November 10, 1933.

Mr._____, President,
_____ National Bank,
_____.

Dear Sir:

Further consideration has been given to the inquiry contained in your letter of September 9, 1933, addressed to Mr. _____, as to whether Section 8A of the Clayton Antitrust Act, as amended by Section 33 of the Banking Act of 1933, will make it unlawful, after January 1, 1934, for certain directors of the _____ National Bank to serve at the same time as directors, officers, or employees of local manufacturing corporations which occasionally make loans to their own employees secured by the capital stock of the corporation.

Section 8A applies to any corporation (other than a mutual savings bank), "which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries." The wording of the provision would seem to leave no room for a construction which would make it inapplicable to a corporation making loans to its own employees, secured by its own stock, either for the purpose of enabling such employees to become stockholders of the corporation or for any other purpose.

Under the provisions of Section 8 of the Clayton Antitrust Act, the Federal Reserve Board is authorized, under certain circumstances, to issue permits covering services of the kinds referred to in Sections 8 and 8A. However, the provision of Section 8 which authorizes the Board to issue permits refers only to banking institutions of certain classes and the Board is, accordingly, without authority to issue permits involving relationships between national banks and non-banking organizations which come within the provisions of Section 8A.

You refer in your letter to the difficulties arising out of a statute forbidding the gentlemen in question to serve as directors of your bank, but as you are of course aware, the Federal Reserve Board is not at liberty to construe a statute in a way which would conflict with the plain meaning of the words used by Congress.

It should be noted, however, that Section 8A refers to any corporation which "shall make" loans of the kind described. There is inclosed a mimeographed copy of the Board's regulation dealing with interlocking directorates and other relationships under the Clayton Antitrust Act, and your particular attention is directed to paragraph (3) of Section IV(b). Since the statute does not refer to the business which may have been transacted by a corporation in the past, but refers only to the business currently and presently transacted, the prohibitions of Section 8A are inapplicable to the service of a direc-

tor of a national bank as a director of a manufacturing corporation which in the past has made loans secured by stock or bond collateral, if such corporation shall make no further loans of that character after January 1, 1934, the effective date of Section 8A.

Very truly yours,

(Signed) Chester Morrill,
Chester Morrill,
Secretary.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7678

November 13, 1933.

SUBJECT: Complimentary Copies of Federal Reserve Bulletin for State Bank Examiners.

Dear Sir:

The Federal Reserve Board will furnish a complimentary copy of the Federal Reserve Bulletin during the year 1934 to each State bank examiner who may desire it. Please send to this office, not later than December 15th, a list showing the name and address of each State bank examiner in your district who desires to receive a complimentary copy of each issue.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL F. R. AGENTS.

X-7679

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. November 15, 1933.

The Federal Reserve Board announces that the Federal Reserve Bank of Philadelphia has established a rediscount rate of 2 1/2% effective November 16, 1933.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7680

November 15, 1933.

SUBJECT: Payment of Interest on Deposits of Public Funds by State Banks Applying for Membership.

Dear Sir:

In reviewing applications for membership in the Federal Reserve System submitted to the Federal Reserve Board, it has been noted that in many instances the applicant bank pays interest on certain public accounts. As you know, section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, prohibits a member bank, except as stated therein, from paying interest on deposits which are payable on demand. Accordingly, if the public accounts above referred to are demand deposits and do not come within the exceptions to section 19, the payment of interest thereon by a State bank after it becomes a member of the Federal Reserve System would be unlawful.

In certain letters to the Federal Reserve Agents advising of approval of applications for membership, the Board has called attention to this situation and has requested the Agent to bring the matter to the attention of the management of the applicant bank.

You are requested to take similar action in all such cases arising in your district. In the future, therefore, no comment of this nature will be made in the letters to the Federal Reserve Agents advising of approval of applications for membership.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7681

November 15, 1933.

SUBJECT: Adequacy of Bonds Carried by
Banks Admitted to Membership.

Dear Sir:

In reviewing applications for membership in the Federal Reserve System, it has been noted that in many instances officers and employees of the applicant bank appear to be inadequately bonded, and that in some instances certain officers and employees are not covered by any bond. The Board feels that as a matter of conservative banking practice adequate surety bonds should be carried by all banks. In certain letters to the Federal Reserve Agents advising of approval of applications for membership, therefore, the Board has called attention to the lack, or apparent inadequacy, of the bonds, and has suggested that the Federal Reserve Agents request the boards of directors of the applicant banks to give careful consideration to the advisability of having bonds in adequate amount provided for all officers and employees having access to the banks' cash, securities, or records of account.

You are requested to give careful consideration to the adequacy of the bonds carried by banks applying for membership, and

to make appropriate recommendation to the directors of an applicant bank whenever it seems necessary. In the future, therefore, no comment of this nature will be made in the letters to the Federal Reserve Agents advising of approval of applications for membership. In this connection, it is assumed that the Federal Reserve Agents will give the same consideration to the adequacy of bonds carried by banks already admitted to membership and will make similar recommendation when deemed necessary.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

X-7682

WASHINGTON

November 20, 1933.

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

SUBJECT: Revised Forms 94d and 94e in Connection with Clayton Anti-Trust Act.

Dear Sir:

Reference is made to the Board's letter of October 26, 1933 (X-7655), inclosing mimeographed copies of the Board's Regulation L and the Board's Forms 94, 94a, and 94b, pertaining to the provisions of Sections 8 and 8A of the Clayton Antitrust Act, as amended.

No revision of the Board's Forms 94d and 94e was made at that time since it seemed that those forms would be so little used as to make such revision unnecessary. However, the old forms do not call for all the information which is now required in view of the enactment of Section 8A and the revision of the Board's Regulation L; and, since it now appears that Forms 94d and 94e may be used in more than a few instances, there are inclosed six mimeographed copies of the Board's revised Forms 94d and 94e, which have been approved by the Federal Reserve Board.

It is requested that you have these forms printed in the same manner as Forms 94, 94a, and 94b, referred to in the Board's letter of October 26, 1933.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.
TO ALL FEDERAL RESERVE AGENTS.

X-7683

Statement of Bureau of Engraving and Printing
For Furnishing Federal Reserve Notes
Series 1928, October 2 - 31, 1933.

	$5	$10	$20	Total Sheets	Amount
Boston	-	37,000	10,000	47,000	$4,159.50
New York . . .	-	67,000	-	67,000	5,929.50
Philadelphia .	-	48,000	12,000	60,000	5,310.00
Cleveland. . .	-	-	28,000	28,000	2,478.00
Richmond . . .	-	15,000	10,000	25,000	2,212.50
Atlanta. . . .	45,000	10,000	-	55,000	4,867.50
Chicago. . . .	-	29,000	15,000	44,000	3,894.00
St. Louis. . .	15,000	15,000	-	30,000	2,655.00
Minneapolis. .	-	10,000	15,000	25,000	2,212.50
Kansas City. .	9,000	10,000	10,000	29,000	2,566.50
Dallas	-	-	10,000	10,000	885.00
San Francisco.	10,000	10,000	10,000	30,000	2,655.00
	79,000	251,000	120,000	450,000	$39,825.00

450,000 sheets, @ $88.50 per M, . . . $39,825.00

X-7684

Statement of Bureau of Engraving and Printing
for Furnishing Federal Reserve Bank Notes
Series 1929, October 2 - 27, 1933.

	$5	$10	Total Sheets	Amount
New York	-	86,000	86,000	$8,084.00
Philadelphia	30,000	20,000	50,000	4,700.00
Cleveland.	84,000	42,000	126,000	11,844.00
Chicago.	80,000	-	80,000	7,520.00
	194,000	148,000	342,000	32,148.00

342,000 sheets @ $94.00 per M, . . . $32,148.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7685

November 17, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXFAB" has been designated to cover a new issue of Treasury Bills, dated November 22, 1933, and maturing February 21, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7686

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

November 16, 1933.

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

Dear Mr. Stevens:

Reference is made to your telegram of November 1, 1933, regarding the applicability of Section 8A of the Clayton Antitrust Act to a director of a national bank serving as an officer or director of a corporation which is not a bank, banking association, or trust company and which occasionally makes loans secured by its own stock or which occasionally makes loans secured by stock or bond collateral through the call loan market or otherwise.

Section 8A applies to any corporation (other than a mutual savings bank) "which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries". The wording of the provision would seem to leave no room for a construction which would make it inapplicable to a corporation making loans secured by its own stock; and, for the same reason, the section is applicable to a corporation making loans through the call loan market or otherwise on stock or bond collateral.

Under the provisions of Section 8 of the Clayton Antitrust Act, the Federal Reserve Board is authorized, under certain circumstances, to issue permits covering services of the kinds referred to in Sections 8

and 8A. However, the provision of Section 8 which authorizes the Board to issue permits refers only to banking institutions of certain classes, and the Board is, accordingly, without authority to issue permits involving relationships between national banks and non-banking organizations which come within the provisions of Section 8A.

Reference has been made to the possible broad effect of a statute forbidding the directors of a national bank to serve as directors of other corporations making such loans, but as you are of course aware, the Federal Reserve Board is not at liberty to construe a statute in a way which would conflict with the plain meaning of the words used by Congress.

It should be noted, however, that Section 8A refers to any corporation which "shall make" loans of the kind described, and, in this connection, your attention is directed to paragraph (3) of Section IV(b) of the Board's Regulation L dealing with interlocking directorates and other relationships under the Clayton Antitrust Act. The statute does not refer to the business which may have been transacted by a corporation in the past, but refers only to the business currently and presently transacted after the effective date of the section; and, therefore, the prohibitions of Section 8A are inapplicable to a director of a national bank who shall serve as a director, officer or employee of a corporation, or as a member of a partnership, which in the past has made loans secured by stock or bond collateral, if such corporation or partnership shall make no loans of that character after January 1, 1934.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7687

November 18, 1933.

SUBJECT: Payment of Interest on Deposits of Postal Savings Funds.

Dear Sir:

There is inclosed herewith a copy of a ruling which has been made by the Federal Reserve Board relating to the payment of interest by member banks on deposits of postal savings funds. It is requested that you bring this ruling to the attention of all member banks in your district which you may have reason to believe have an interest in this matter.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS.

COPY

X-7687-a

PAYMENT OF INTEREST ON DEPOSITS OF
POSTAL SAVINGS FUNDS.

The Federal Reserve Board has received a number of inquiries with respect to the question whether deposits of postal savings funds, subject to the provisions of the regulations of the Postal Savings System governing the deposit of such funds in banks, are deposits on which interest may be paid by member banks under the provisions of Section 19 of the Federal Reserve Act.

By order of the Postmaster General, dated August 30, 1933, paragraph 1 of Section 15 of the regulations of the Postal Savings System on this subject was amended so as to read as follows:

> "All funds deposited prior to July 1, 1933, in depository banks of the Postal Savings System shall be treated as time deposits, to remain on deposit in such banks for one calendar month from July 1, 1933. All funds deposited after July 1, 1933, in such banks shall likewise be treated as time deposits, for the period including the calendar month next following the date of deposit. At the expiration of such periods and in the event that withdrawal is not made of the deposit at the end of such calendar periods by the Board of Trustees of the Postal Savings System, then such funds shall be considered as having been redeposited for the succeeding calendar month; and likewise redeposited for each and every calendar month thereafter until withdrawal is made. All postal-savings funds held by any qualified depository bank in excess of the security value of its collateral shall be promptly disposed of in accordance with the provision of Section 17 of the Banking Regulations."

The Federal Reserve Board understands that, under the provisions of the regulations amended as above quoted, the withdrawal

of postal savings funds from banks was authorized only on the first day of any calendar month and funds not withdrawn on such day were considered as having been redeposited for another full calendar month; and also that no such funds were authorized to be withdrawn except on the first day of any calendar month even though no interest was paid on such deposits. It is the view of the Federal Reserve Board that deposits withdrawable only under these conditions may properly be classified, during the period in which the regulations in the form as amended August 30, 1933, were in effect, as time deposits on which interest may be paid in accordance with the provisions of the Board's Regulation Q.

It is understood that the paragraph of the regulations of the Postal Savings System above quoted was further amended by order of the Postmaster General No. 4420, under date of October 24, 1933, so as to read as follows:

> "In compliance with rulings of the Federal Reserve Board concerning time deposits, and to secure uniformity of procedure among all depository banks of the Postal Savings System, the calendar year is divided into specific periods of not less than thirty days each, with the beginning and termination dates of such periods shown, as follows:

From	To	No. of days	From	To	No. of days
Jan. 1	Jan. 31	31	July 1	July 31	31
Feb. 1	Mar. 2	*30 or 31	Aug. 1	Aug. 31	31
Mar. 3	Apr. 1	30	Sept.1	Sept .30	30
Apr. 2	May 1	30	Oct. 1	Oct. 31	31
May 2	May 31	30	Nov. 1	Nov. 30	30
June 1	June 30	30	Dec. 1	Dec. 31	31

*30 or 31 days, according to whether or not year is Leap Year.

All funds deposited prior to July 1, 1933, in depository banks of the Postal Savings System shall be treated as time deposits, to remain on deposit in such banks for the specified period beginning July 1, 1933. All funds deposited after July 1, 1933, in such banks shall likewise be treated as time deposits from the date of the deposit to and including the date of termination of the specific period next following the period in which the deposit is made, unless such deposit shall have been made on the first day of a period - in other words, the initial time period for deposits made subsequent to July 1, 1933, will be the period from and including the date of the deposit to the expiration of the next succeeding specified period, unless such deposit shall have been made on the first day of a period in which case the initial time period will be the period from and including the date of the deposit to and including the date of termination of the period in which the deposit is made. At the expiration of such periods and in the event that withdrawal is not made of the deposit by the Board of Trustees of the Postal Savings System, then such funds shall be considered as having been redeposited for the succeeding specified period; and likewise redeposited for each and every specified period until withdrawal is made. In accordance with the foregoing, postal-savings funds on deposit in qualified banks, the fixed time period having expired, may be withdrawn by the Board of Trustees of the Postal Savings System or relinquished voluntarily by depository banks only on the first day of a succeeding specified period: Provided, that all unsecured postal-savings funds held by any qualified bank to the credit of the Board of Trustees shall be subject to the provisions of Section 17 of these regulations."

It is the view of the Federal Reserve Board, after careful consideration of the regulations of the Postal Savings System as amended on October 24, 1933, that deposits withdrawable only at the times and under the conditions stated in the regulations as thus amended may be classified as time deposits on which interest may be paid in accordance with the provisions of the Board's Regulation Q, except as noted in the last paragraph hereof.

The Federal Reserve Board advised all Federal reserve banks in a telegram dated June 21, 1933 (Trans. No. 1826) that, since the provisions regarding payment of interest on deposits are incorporated in Section 19 of the Federal Reserve Act, definitions contained in Section II of the Board's Regulation D should be considered in determining what are time deposits pending the issuance of further regulations relating to the payment of interest on deposits and that member banks might continue to pay interest on time deposits in accordance with their usual practice or existing bona fide contracts until the Board should issue regulations on the subject; and it is to be noted that, under the provisions of Section II of Regulation D, deposits of postal savings funds in banks under the terms of the Act of June 25, 1910 as amended constitute time deposits. The Federal Reserve Board's Regulation Q relating to the payment of interest on deposits was adopted and made effective on August 29, 1933; and, as above stated, the regulations of the Postal Savings System, governing the deposits of postal savings funds in banks, were amended by order of the Postmaster General dated August 30, 1933, so that deposits subject to the conditions thereof were time deposits. In the circumstances, the Federal Reserve Board offers no objection to the payment by member banks of interest on postal savings funds accruing during the period from June 16, 1933, until August 30, 1933; except that no member bank, which during such period may have lawfully terminated its agreement with the Postal

Savings System to pay interest on deposits of postal savings funds payable on demand, may pay interest on such deposits payable on demand which accrued after the effective date of the termination of such agreement.

It is to be observed that the regulations of the Postal Savings System, as amended on October 24, 1933, contain the provision that all unsecured postal savings funds held by any qualified bank to the credit of the Board of Trustees shall be subject to the provisions of Section 17 of the regulations, which provides that an amount in a qualified bank in excess of the maximum balance authorized for such bank shall at once be returned in accordance with the procedure prescribed therein to the Board of Trustees. A provision similar in effect was included in the regulations as amended on August 30, 1933. It would appear that an amount in excess of the maximum balance authorized for any qualified bank is not subject to the conditions with respect to withdrawal to which other deposits of postal savings funds are subject under the amended regulations. Such excess amounts, therefore, do not conform to the requirements with respect to time deposits and must be considered deposits payable on demand upon which no interest may lawfully be paid by a member bank.

November 18, 1933.

TO ALL FEDERAL RESERVE AGENTS EXCEPT DALLAS.

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FEDERAL RESERVE BOARD

WASHINGTON

X-7688

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 17, 1933.

SUBJECT: Employment of Trust Examiners.

Dear Sir:

In connection with the employment by the Federal Reserve Agents of trust examiners, referred to in the Board's letter dated August 31, 1933, X-7576, the Federal Reserve Agent at Dallas has raised the following questions:

1. Am I correct in assuming that the person appointed to the position of Federal reserve trust examiner should possess all three of the following qualifications?

   (a) Broad experience (preferably executive) in trust company or trust department work.

   (b) Broad and specialized experience in examination of trust companies and/or trust departments.

   (c) Extensive legal training or education.

2. Does the Board desire us to make regular periodical examinations of the trust departments of all member banks in our district, or does it prefer that we confine these examinations to those member banks whose trust departments we have reason to believe are in need of special attention?

There is attached hereto for your information a copy of a letter addressed by the Board to the Federal Reserve Agent at Dallas in reply.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

November 17, 1933.

Mr. C. C. Walsh,
Federal Reserve Agent,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Walsh:

Reference is made to your letter of October 16 in regard to the employment of a trust examiner at each Federal reserve bank and particularly the qualifications of such an examiner and the scope of his duties.

Assuming that the person who may be under consideration for selection as a trust examiner is familiar with the principles of accountancy and auditing, it is believed that in order to accomplish the best results in trust examination work he should have the qualifications set out in your letter. Of course, the number of men possessing all these qualifications is somewhat limited, and in the circumstances it might be found necessary to forego the requirement of broad experience gained as an executive in a trust department and to select an individual with sound legal training and broad experience in examining trust departments, or it might be necessary to select a man who has not had a great deal of experience in trust examination work. In such a case, however, it would be essential to select one who not only possesses the qualifications as to legal background and experience in operation of a trust department, but also evidences by training, experience and otherwise an aptitude for examination work.

The entire scope of the duties of a trust examiner, of course, cannot be sharply defined, but it is the view of the Board that when an examination is made of a State bank applying for membership in the system which has a trust department, there should be an examination of that department by a qualified trust examiner, and that the trust department of every State member bank should be examined periodically. As to national

banks, the responsibility of examining the trust departments lies, of course, primarily with the Comptroller of the Currency, but in some cases trust departments of national banks may require special attention and it may be found mutually advantageous to have your trust examiner cooperate with the national bank examiners. In addition, there may be cases of national banks applying for permits to exercise trust powers in order that they may be able to take over trust business previously handled by State institutions, and in such instances you should arrange for examinations of the trust departments of the State institutions by your trust examiner, unless the necessary examinations have been made by other competent examiners whose reports are entirely satisfactory.

Aside from the question of responsibility for making examinations in the first instance, the trust examiner should be charged with the duty of reviewing carefully the reports of examination of both State and national banks which have trust powers and of familiarizing himself with the quality of management and methods of operation of such trust departments. He should also draft for your consideration such reports and recommendations as should be made by you to the Federal Reserve Board in connection with trust matters. If, after these duties are performed efficiently, the trust examiner has any spare time, he should be able to render valuable assistance in other work of your office, particularly that relating to affiliates and the handling of applications for voting permits. On the whole, it would seem that a properly qualified trust examiner could be so useful in the Federal Reserve Agent's department in all of the more important phases of examination work that his time would be occupied fully.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-7689

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal reserve banks)

November 17, 1933.

Mr. W. B. Geery, Governor,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Governor Geery:

Reference is made to Mr. _____'s letter of October 17, 1933, addressed to the Chief of the Board's Division of Bank Operations, raising the question whether deposits of receivers of insolvent national banks and deposits of conservators of national banks may be regarded by a member bank in which such funds are deposited as demand deposits "due to banks" within the meaning of Section III(b) of the Board's Regulation D.

The Board has taken the position that a Federal reserve bank has no authority to receive deposits from a receiver of a national bank, on the ground that Section 6 of the Federal Reserve Act requires a member bank, upon the appointment of a receiver, to surrender stock held by it in a Federal reserve bank and that, therefore, a national bank for which a receiver has been appointed can no longer be considered a member bank within the meaning of Section 13 of the Federal Reserve Act, which authorizes a Federal reserve bank to receive deposits from its member banks. If, upon its insolvency, a national bank can no longer be regarded as a member bank, it may be argued that it cannot be considered a bank for any other purpose.

Furthermore, the receiver of an insolvent national bank holds legal title to the assets of the bank as trustee for the benefit of the bank's creditors. Accordingly, upon his appointment, the bank may be said to cease to exist as a going banking organization, and to exist only for the purpose of winding up its affairs.

On the other hand, a national bank in the hands of a conservator may continue to perform characteristic banking functions. Under Section 206 of the Bank Conservation Act of March 9, 1933, as amended, the conservator may, under the direction of the Comptroller of the Currency, receive deposits and allow withdrawal of deposits on a limited basis. Moreover, that act authorizes the Comptroller of the Currency, in his discretion, to terminate the conservatorship and permit the bank to resume the transaction of its business under the management of its own officers. It is clear, therefore, that the appointment of a conservator contemplates not the cessation of banking activities, but the conservation and protection of the bank's assets, temporarily.

For the reasons above indicated, the Board is of the opinion that, while deposits made by a conservator of a national bank may properly be considered deposits "due to banks" within the meaning of Regulation D, deposits made by a receiver of an insolvent national bank may not be so regarded.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-7690

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 20, 1933.

SUBJECT: Holidays during December, 1933.

Dear Sir:

The Federal Reserve Board is advised that the following holidays will be observed by Federal reserve banks and branches during December:

Thursday, Dec. 7,	Havana Agency	Cuban Memorial Day
Tuesday, Dec.19,	San Francisco Los Angeles	(Special Election (in California

Please include transit clearing credits of December 19 for San Francisco and Los Angeles in your credits for December 20. No debits covering shipments of Federal reserve notes for the Federal Reserve Bank of San Francisco should be included in your note clearing of Tuesday, December 19.

On Christmas Day the offices of the Federal Reserve Board and all Federal reserve banks and branches will be closed.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

X-7692

WASHINGTON

November 21, 1933.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Information in Connection with Applications Under Section 32 of the Banking Act of 1933.

Dear Sir:

In Section IV(e) of Regulation R, dealing with the provisions of Section 32 of the Banking Act of 1933, one of the factors which will be considered in determining whether the issuance of a permit will be compatible with the public interest is stated as follows:

> "Whether the proposed relationship will have any undesirable effect upon the member bank's financial condition, its credit or investment policies, or its policies in dealing with its other customers."

There appears to be some likelihood that, in answering questions numbered 1 and 4 on Form 99c, sufficient detail will not be given to permit the Board to determine whether or not the business of the dealer in securities customarily includes the underwriting, flotation and distribution of securities or participations in such transactions, and whether the customary business dealings between the member bank and the dealer involve securities in the underwriting, flotation or distribution of which the dealer has been interested. It is, accordingly, requested that, in submitting applications to the Board involving Section 32, you advise the Board regarding these matters in each case.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS.

X-7695 444

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 24, 1933.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXFEL" has been designated to cover a new issue of Treasury Bills, dated November 29, 1933, and maturing February 28, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

November 28, 1933.

Mr. _____, Chairman,
The Banking Code Committee,
_____, _____.

Dear Mr. _____:

The Federal Reserve Board has given consideration to your letter of November 24, 1933, in which you inquire whether or not the practice therein outlined would be considered contrary to that portion of Section 19 of the Federal Reserve Act, as amended, which provides that, "No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand".

It appears that Article VIII, Paragraph (3), of the Bankers Code of Fair Competition, as approved by the President on October 3, 1933, requires every clearing house, county association, county group, or State bank association to adopt rules fixing uniform service charges to be charged by banks whereby services rendered by banks shall be compensated for either by adequate balances carried or by a scale of charges.

It also appears from your letter that, in order to determine whether the balance carried in an account is sufficient to compensate the bank fairly for services rendered, it is necessary to analyze the account; that this requires the establishment of uniform rules which

must give consideration to the value of the account and proper service charges against the account; and that these charges are of two classes: first, general overhead expenses of the bank, and second, out of pocket expenses, such as exchange, collection and other charges arising out of specific transactions for specific customers and actually paid or credited by the bank on behalf of such customers.

It further appears that, under the Code, it is the duty of the Banking Code Committee to consider the rules which are being submitted for approval by clearing houses and other banking groups provided for in the Code and that, before passing upon these rules, your Committee desires to know whether it would be contrary to that provision of the Federal Reserve Act referred to above for member banks to take into consideration "the reasonable value of their customers' deposit balances in analyzing accounts in accordance with a uniform plan to be approved by the Banking Code Committee for the purpose of determining whether service charges should be assessed against their customers, and, if so, the amount to be assessed: Provided, That (1) the value of each account to the bank is computed in accordance with a uniform plan approved by the Banking Code Committee and (2) the banks require actual reimbursement (without deduction of interest or of the estimated value of the customers' balance to the banks) for exchange charges, collection charges, and other charges arising out of specific transactions for specific customers and actually paid or credited by the bank on behalf of such customers."

After careful consideration, the Federal Reserve Board is of the opinion that a practice such as that outlined in your letter would not be contrary to that provision of Section 19 of the Federal Reserve Act which is quoted above.

In reaching this conclusion the Board has taken particularly into account the fact that it is proposed, in proviso No. 2, among other things, that the banks will require actual reimbursement for exchange and collection charges, without the deduction of interest or of the estimated value of the customers' balances to the banks. Such a practice would eliminate any question of illegality which might be occasioned by the absorption by a bank of exchange or collection charges in an amount bearing a substantially direct relationship to the amount of the balance.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7697

November 29, 1933.

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

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7697-a and X-7697-b, covering in detail operations of the main lines, Leased Wire System, during the month of October, 1933.

Please credit the amount payable by your bank for your share of the expense of the Leased Wire System, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Gold Settlement Fund for the account of the Federal Reserve Board, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER, 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	37,434	2,173	39,607	4.67
New York	152,734	-	152,734	18.02
Philadelphia	35,287	2,403	37,690	4.45
Cleveland	56,049	2,222	58,271	6.88
Richmond	59,191	2,221	61,412	7.25
Atlanta	54,916	2,136	57,052	6.73
Chicago	88,675	2,066	90,741	10.71
St. Louis	63,650	2,664	66,314	7.82
Minneapolis	36,302	2,194	38,496	4.54
Kansas City	76,278	2,259	78,537	9.27
Dallas	63,323	3,062	66,385	7.83
San Francisco	96,238	3,977	100,215	11.83
Total	820,077	27,377	847,454	100.00

F. R. Board business 328,526 1,175,980

Reimbursable business Incoming & Outgoing. 658,888

Total words transmitted over main lines. 1,834,868

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7697-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, OCTOBER, 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	$714.38	$260.00	$454.38
New York	1,284.14	22.00	-	1,306.14	2,756.55	1,306.14	1,450.41
Philadelphia	225.00	-	-	225.00	680.72	225.00	455.72
Cleveland	306.66	-	-	306.66	1,052.45	306.66	745.79
Richmond	358.00	-	230.00 (&)	588.00	1,109.04	588.00	521.04
Atlanta	270.00	-	-	270.00	1,029.50	270.00	759.50
Chicago	3,895.00 (#)	16.00	-	3,911.00	1,638.33	3,911.00	2,272.67 (*)
St. Louis	195.00	-	-	195.00	1,196.24	195.00	1,001.24
Minneapolis	216.90	-	-	216.90	694.49	216.90	477.59
Kansas City	287.00	-	-	287.00	1,418.05	287.00	1,131.05
Dallas	251.00	.60	-	251.60	1,197.77	251.60	946.17
San Francisco	380.00	-	-	380.00	1,809.66	380.00	1,429.66
Federal Reserve Board	-	-	15,670.71	15,670.71	-	-	-
Total	$7,928.70	$38.60	$15,900.71	$23,868.01	$15,297.18	$8,197.30	$9,372.55
							2,272.67 (a)
							$7,099.88

Reimbursable charges:

Treasury Department.	$3,694.68	
Reconstruction Finance Corporation .	3,616.10	
Exp. Nat. Bkg. Emergency Act, 3-9-33	1,015.30	
Comp. Currency Div. Insolv.Nat'l.Bks	81.12	
Department of Agriculture	22.06	
Federal Home Loan Bank Board	2.04	
Farm Credit Administration:		
Federal Farm Loan Bureau	17.81	
Federal Farm Board	121.72	
Less Reimbursable Charges		$8,570.83
		$15,297.18

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

FEDERAL RESERVE BOARD

WASHINGTON

X-7698

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 1, 1933.

SUBJECT: Code Word covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXFIE" has been designated to cover a new issue of Treasury Bills, dated December 6, 1933, and maturing March 7, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 2, 1933.

SUBJECT: Analysis of customers' accounts by member banks for purpose of determining whether service charges should be assessed.

Dear Sir:

You will find inclosed a copy of a letter dated November 24 addressed to the Federal Reserve Board by Mr. Ronald Ransom, Chairman of the Banking Code Committee of the American Bankers Association, and a copy of the Board's reply thereto dated November 28, 1933, in regard to the question whether member banks may take into consideration the reasonable value of their customers' deposit balances in analyzing accounts in accordance with a uniform plan to be approved by the Banking Code Committee for the purpose of determining whether service charges should be assessed against their customers. It will be appreciated if you will advise all member banks in your district of the views of the Federal Reserve Board as expressed in its reply to Mr. Ransom's letter.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

November 28, 1933.

Mr. Ronald Ransom, Chairman,
The Banking Code Committee,
Atlanta, Georgia.

Dear Mr. Ransom:

The Federal Reserve Board has given consideration to your letter of November 24, 1933, in which you inquire whether or not the practice therein outlined would be considered contrary to that portion of Section 19 of the Federal Reserve Act, as amended, which provides that, "No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand".

It appears that Article VIII, Paragraph (3), of the Bankers Code of Fair Competition, as approved by the President on October 3, 1933, requires every clearing house, county association, county group, or State bank association to adopt rules fixing uniform service charges to be charged by banks whereby services rendered by banks shall be compensated for either by adequate balances carried or by a scale of charges.

It also appears from your letter that, in order to determine whether the balance carried in an account is sufficient to compensate the bank fairly for services rendered, it is necessary to analyze the account; that this requires the establishment of uniform rules which must give consideration to the value of the account and proper service charges against the account; and that these charges are of two classes: first, general overhead expenses of the bank, and second, out of pocket expenses, such as exchange, collection and other charges arising out of specific transactions for specific customers and actually paid or credited by the bank on behalf of such customers.

It further appears that, under the Code, it is the duty of the Banking Code Committee to consider the rules which are being submitted for approval

by clearing houses and other banking groups provided for in the Code and that, before passing upon these rules, your Committee desires to know whether it would be contrary to that provision of the Federal Reserve Act referred to above for member banks to take into consideration "the reasonable value of their customers' deposit balances in analyzing accounts in accordance with a uniform plan to be approved by the Banking Code Committee for the purpose of determining whether service charges should be assessed against their customers and, if so, the amount to be assessed: Provided, That (1) the value of each account to the bank is computed in accordance with a uniform plan approved by the Banking Code Committee and (2) the banks require actual reimbursement (without deduction of interest or of the estimated value of the customers' balance to the banks) for exchange charges, collection charges, and other charges arising out of specific transactions for specific customers and actually paid or credited by the bank on behalf of such customers."

After careful consideration, the Federal Reserve Board is of the opinion that a practice such as that outlined in your letter would not be contrary to that provision of Section 19 of the Federal Reserve Act which is quoted above.

In reaching this conclusion the Board has taken particularly into account the fact that it is proposed, in proviso No. 2, among other things, that the banks will require actual reimbursement for exchange and collection charges, without the deduction of interest or of the estimated value of the customers' balances to the banks. Such a practice would eliminate any question of illegality which might be occasioned by the absorption by a bank of exchange or collection charges in an amount bearing a substantially direct relationship to the amount of the balance.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

THE AMERICAN BANKERS ASSOCIATION

22 East 40th Street
New York, N. Y.

Washington, D. C.
November 24, 1933.

The Federal Reserve Board,
Washington, D. C.

Gentlemen:

Article VII, Paragraph (3) of the Bankers Code of Fair Competition, as approved by the President on October 3, 1933, provides that rules shall be adopted by all Clearing Houses fixing uniform service charges whereby services rendered by banks shall be compensated for either by adequate balances carried or by a scale of charges.

In order to determine whether the balance carried in an account is sufficient to fairly compensate the bank for services rendered, it is necessary to analyze the account. This requires the establishment of uniform rules which must give consideration to the value of the account and proper service charges against the account. These charges are of two classes: first, general overhead expenses of the bank, and second, out of pocket expenses, such as exchange, collection and similar charges arising out of specific transactions for specific customers and actually paid or credited by the bank on behalf of such customers.

Under the Code it now becomes the duty of the Banking Code Committee to consider the rules of fair trade practices which are being submitted for approval by Clearing Houses and other banking groups provided for in the Code. Before passing upon these rules of fair trade practices, the Banking Code Committee desires to know whether the Federal Reserve Board will object to member banks taking into consideration the reasonable value of their customers' deposit balances in analyzing accounts in accordance with a uniform plan to be approved by the Banking Code Committee for the purpose of determining whether service charges should be assessed against their customers and, if so, the amount to be assessed: Provided, That (1) the value of each account to the bank is computed in accordance with a uniform plan approved by the Banking Code Committee and (2) the banks require actual reimbursement (without deduction of interest or of the estimated value of the customers' balance to the banks) for exchange charges, collection charges, and other charges arising out of specific transactions for specific customers and actually paid or credited by the bank on behalf of such customers.

In other words, we would like to know whether such a practice would be considered contrary to the following provisions of Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933: "No member shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand".

Very truly yours,

(Signed) Ronald Ransom

Ronald Ransom, Chairman,
The Banking Code Committee.

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal reserve banks.)

December 1, 1933.

Mr. _____,
_____,
_____,
_____, _____.

Dear Sir:

Receipt is acknowledged of your letter of September 16, 1933, addressed to the Governor of the Federal Reserve Board, in which you request to be advised of any ruling of the Federal Reserve Board in respect to the meaning of the words "bona fide owner in his own right", as used in Section 31 of the Banking Act of 1933. The Board has not issued any such ruling, and it does not feel that it should undertake at this time to define in detail the words to which you have reference.

It appears from your letter, however, that one of your subscribers desires to know whether the provisions of Section 31 would render unlawful the pledge by a director of a member bank of his qualifying shares as collateral security for a loan. It is the opinion of the Board that, after one year from June 16, 1933, the effective date of Section 31, a director of a State member bank must own the required qualifying shares in his own right, and that such shares may not lawfully be hypothecated or pledged as security for a loan or debt after that date. This conclusion finds support in the fact that Section 5146 of the Revised Statutes, which has been amended in part by section 31, provides that every director of a national bank must "own in his own right" qualifying shares in stated amounts, and that Section

5147 of the Revised Statutes, which is in full force and effect, requires each director of a national bank to take an oath that he is the "owner in good faith, and in his own right, of a number of shares of stock required by this title, subscribed by him, or standing in his name on the books of the association, and that the same is not hypothecated, or in any way pledged, as security for any loan or debt". The underscored portion of Section 5147 indicates that Congress considered the words "own in his own right", as used in Section 5146, to mean that qualifying shares of a director of a national bank should be unpledged and unhypothecated, and there does not appear to be any reason why the words "owner in his own right", as used in Section 31 of the Banking Act of 1933, should be construed differently.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7702

December 7, 1933.

SUBJECT: Examination of State Member Banks in Connection with the Required Certification to the Federal Deposit Insurance Corporation.

Dear Sir:

Under the provisions of subsection (e) of Section 12B of the Federal Reserve Act, every State member bank must become a class A stockholder of the Federal Deposit Insurance Corporation on or before July 1, 1934, or its membership in the Federal Reserve System must be terminated. Upon receipt by the Federal Deposit Insurance Corporation of an application by a State member bank for class A stock in the Corporation, the Federal Reserve Board will be required under the law "to certify upon the basis of a thorough examination of such bank whether or not the assets of the applying bank are adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank."

This is called to your attention at this time in order that you may make arrangements to have current examinations made of all of the State member banks in your district on the basis of which the Board may discharge the duties imposed by law. A copy of the report of each such examination together with an analysis thereof and your recommendation as to the action to be taken should then be forwarded

to the Board as soon as possible in order that the Board may have adequate opportunity to consider each case and to execute prior to July 1, 1934, an appropriate certificate with respect to each State member bank.

In view of the importance of this matter and the limited time in which the work must be accomplished, it will be appreciated if you will advise the Board as to your plans in this respect.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7703

December 8, 1933.

Dear Sir:

There is inclosed herewith a copy of a letter addressed by the Board on December 5, 1933, to Mr. Harris Creech, President of the Cleveland Clearing House Association, Cleveland, Ohio, with regard to the absorption by member banks in Ohio of the tax levied by the State on deposits in such banks. It will be noted that the ruling set forth in the letter is applicable also to member banks in Kentucky and other States having similar laws regarding the taxation of bank deposits on an ad valorem basis, and that it supersedes the ruling contained in X-7602, dated September 21, 1933.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

C O P Y

X-7703-a

December 5, 1933.

Mr. Harris Creech, President,
Cleveland Clearing House Association,
706 Federal Reserve Bank Building,
Cleveland, Ohio.

Dear Mr. Creech:

This refers to your letter of October 13, 1933, requesting a ruling of the Federal Reserve Board on the question whether that provision of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, which provides that, "No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand", prevents Ohio banks from continuing their present practice of absorbing and paying the Ohio two mill tax upon deposits as an operating expense of each bank.

A ruling upon this question has been delayed by the fact that it bore a very close relation to another question pending before the Board which was of general importance and some difficulty and which required extensive investigation and numerous conferences before it could be disposed of; and it was felt that both questions should be considered together.

The Board has heretofore ruled that the absorption by a member bank of taxes levied by the State of Kentucky upon deposits and paid by such bank "for and on behalf, and as the agent",

of its depositors would constitute an indirect payment of interest within the meaning of section 19 of the Federal Reserve Act, as amended, since the amount of the tax paid by such member bank represented a fixed percentage of the depositors' balances. It was necessary for the Board to reconsider that ruling in the light of the brief filed by your counsel; because the practical effect of the Kentucky statutes regarding taxes on bank deposits seems to be substantially the same as that of the Ohio statutes on this subject.

Upon a careful reconsideration of this subject, in the light of the brief filed by Counsel for the Cleveland Clearing House Association, the Federal Reserve Board has reached the conclusion that the absorption of such taxes should not be regarded as an indirect payment of interest within the meaning of section 19 of the Federal Reserve Act, as amended; because such taxes represent a certain percentage of the funds on deposit on a single day of the tax year and have no relation either to the average amount on deposit for any given period of time or to the length of time for which the bank has the use of the money. These considerations and other considerations pointed out by your counsel make the absorption of such taxes distinguishable from the absorption of such items as exchange and collection charges in an amount equal to a fixed percentage of a deposit balance, which has been held by the Federal Reserve Board to be an indirect payment of interest contrary to section 19 of the Federal Reserve Act.

Mr. Harris Creech - 3

The Federal Reserve Board is of the opinion, therefore, that the absorption by member banks in Ohio of the Ohio two mill tax upon deposits as an operating expense of each bank does not, in itself and in the absence of special factors in particular cases which might indicate the contrary, constitute a payment of interest by such banks and is not inconsistent with that provision of section 19 of the Federal Reserve Act which forbids any member bank, directly or indirectly by any device whatsoever, to pay any interest on any deposit which is payable on demand. The Board is also of the opinion that the amount of taxes so absorbed need not be taken into consideration in determining whether member banks are paying interest on time deposits at a rate in excess of the limitations prescribed by the Federal Reserve Board, pursuant to that provision of section 19 of the Federal Reserve Act which requires the Federal Reserve Board from time to time to limit by regulation the rate of interest which may be paid by member banks on time deposits.

This ruling is also applicable to member banks in Kentucky and other states having similar laws regarding the taxation of bank deposits on an ad valorem basis.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7704

December 9, 1933.

SUBJECT: Code Word Covering New Issue of Treasury Certificates of Indebtedness.

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 Certificates of Indebtedness:

"NOWHOBO" 2¼% Treasury Certificates of Indebtedness, Series TD-1934, to be dated December 15, 1933, and to mature December 15, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7705

December 9, 1933.

SUBJECT: General Policy of Treating Appreciation and Depreciation in Securities in Connection with Applications for Membership.

Dear Sir:

There is inclosed for your information, a copy of a letter which the Board has addressed to the Federal Reserve Agent at the Federal Reserve Bank of Dallas with regard to the general policy of treating appreciation and depreciation in securities in connection with applications for membership.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS EXCEPT DALLAS.

C O P Y

X-7705-a

December 9, 1933.

Mr. C. C. Walsh,
Federal Reserve Agent,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Walsh:

Reference is made to your letter of October 21, 1933, in which you refer to the Board's letter of September 11, 1933, X-7581, containing a statement of general policy with respect to membership applications and ask for advice as to what extent appreciation in securities may be deducted from the depreciation in other securities. Among the principals set forth in the circular letter X-7581 was the following:

> "All depreciation on stocks and defaulted securities and all depreciation on other securities not in the four highest grades should be eliminated prior to admission to membership."

You ask specifically whether, in computing the amount of depreciation which must be eliminated prior to admission to membership, it is permissible to deduct from the depreciation in stocks, defaulted securities and in other securities not in the four highest grades, (1) appreciation in securities within the four highest grades, and (2) appreciation in stocks and such bond issues as are not rated within the four highest grades.

While no general policy applicable to every case can be established, it has been the general policy to divide securities into the following groups and to treat the net depreciation in each group as a unit:

Mr. C. C. Walsh - (2)

Group 1.

(a) Issues of the United States Government.
(b) Issues of Federal Land and Intermediate Credit Banks.
(c) Issues, not in default and considered of good standing, of States and municipalities in the United States.
(d) Miscellaneous issues in the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities.

Group 2.

(a) Miscellaneous issues below the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities.
(b) Issues of Joint Stock Land Banks.
(c) Other issues not rated.

Group 3.

Defaulted issues, including defaulted issues of States and municipalities in the United States.

Group 4.

Stocks.

As a condition of membership, net depreciation in groups 2, 3, and 4 must be charged off or otherwise eliminated prior to admission to membership and net depreciation in group 1 must at least be covered by surplus, undivided profits, and applicable reserves.

Net appreciation in group 1 may be deducted from the depreciation to be charged off in the other groups. Net appreciation in either group 2, 3 or 4, after fully providing for any depreciation existing in group 1, may be deducted from the depreciation to be charged off in other groups.

Mr. C. C. Walsh - (3)

It will be noted that issues of States and municipalities (including various political subdivisions) in the United States may be included in group 1 if not in default, even though such issues may not be rated by a recognized investment service organization. Whether a particular issue should be included in group 1(c) or in group 2(c) depends upon the circumstances involved and the determination by the Federal Reserve Agents and their examiners whether the security is of a nature which the bank should be permitted to carry at book value, or whether it is of a character which should require that it be written down.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

December 6, 1933.

Mr. J. H. Case,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Case:

Reference is made to your letter of November 17, 1933, transmitting a copy of a letter dated November 15, 1933, from Messrs. ____, _____, _____ and _____ asking whether their client, _____, a member bank, is to be regarded as a "correspondent bank" of a certain dealer in securities within the meaning of Section 32 of the Banking Act of 1933, and of the Board's Regulation R.

The letter from Messrs. ____, _____, _____ and _____ states that, among the other transactions which it has with the dealer, the _____ extends credit accommodations to the dealer by purchasing high-grade municipal bonds from the dealer under ordinary repurchase agreements, such bonds having been acquired by the dealer with the approval of the bank, either by purchase on the market or, in the case of new issues, from the municipality which issues them. The dealer is to keep these bonds "marked to the market" by making cash payments to the bank equal in amount to any decrease in the market value of the bonds so purchased. As

part of its compensation for these services, the bank receives the interest on the bonds held under the repurchase agreement, and a percentage of the dealer's net profit on a resale of the bonds by the dealer. The letter states that the bank is not liable for any losses in connection with such transactions and suggests that, under these circumstances, the transactions may be regarded as the performance of ordinary banking functions.

It would seem, however, that these transactions involve more than the performance of ordinary banking functions on behalf of the dealer, that the bank is "regularly associated with" the dealer in connection with the purchase and sale of such bonds and possibly in connection with the underwriting and flotation thereof, and that, therefore, the bank is a "correspondent bank" within the definition of that term in the Board's Regulation R.

Of course, as you know, Section 32 has reference only to business transacted after January 1, 1934, and no permit would be required if the bank should only perform ordinary banking functions for the dealer after that date.

An extra copy of this letter is inclosed in case you desire to transmit it to Messrs. ____, _____, _____ and _____.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

December 7, 1933.

Mr._____,
_____,
_____.

Dear Sir:

Reference is made to your letters of October 13 and October 18, 1933, in which you inquire whether a national bank may adopt a form of certificate of deposit which will mature at the end of six or twelve months and which will give the holder the right to reduce the term of the certificate to an earlier maturity upon giving 30 days' notice, in which event the certificate would be paid on such earlier date but without interest.

The Board does not look with favor upon the use of certificates of deposit of this character. However, since it appears that, under the terms of the certificate itself the deposit cannot be withdrawn until after thirty days from the date of the deposit, the Board is of the opinion that it must be regarded as a time certificate of deposit within the meaning of Section 19 of the Federal Reserve Act and within the meaning of Regulation Q. While it may be withdrawn at any time upon the expiration of thirty days' written notice actually given by the depositor, it would appear that, if such notice is not given, the deposit could not be withdrawn except upon the expiration of six months from the date of the certificate or upon the expiration of twelve months

from the date of the certificate; so that it must be regarded either as a deposit payable only after thirty days' written notice or as a deposit payable at the expiration of a certain specified time, which is not less than thirty days subsequent to the date of the certificate.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal Reserve Banks)

December 11, 1933.

Mr. L. B. Williams,
Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Williams:

This refers to your letter of September 12, 1933, inclosing a copy of a form of notice of intention to withdraw savings deposits from the _____ Trust Company of _____, _____. You state that it is proposed to reprint this form so as to include therein a statement to the effect that, if the intended withdrawal is not accomplished within a specified period after the date of maturity, the funds are to be reinstated as savings deposits to the credit of the depositor's account; and you request to be advised, whether, in the opinion of the Board, a notice of intention to withdraw such deposits containing such a provision would be in harmony with Section V(f) of the Board's Regulation Q.

As you know, the above-mentioned section of Regulation Q provides that, after the expiration of the period of notice given with respect to the intended withdrawal of a savings deposit, such deposit becomes a deposit payable on demand; but that the owner of such deposit may advise the bank in writing that the deposit will not be withdrawn or that it will again be subject to the requirements applicable to savings deposits, in which event such deposit again constitutes a savings deposit after the date upon which such advice is received by the bank. It is not required that such written notice

Mr. L. B. Williams - 2

with respect to the depositor's intention not to withdraw the deposit must be given after the expiration of the period of notice of his intention to withdraw the deposit.

After careful consideration of this matter, the Board is of the opinion that the provision proposed to be added to the inclosed form of notice of intention to withdraw savings deposits would constitute written notice within the meaning of the section in question, and that, if the deposit is not withdrawn within the period specified, it would again become a savings deposit within the meaning of Regulation Q upon the expiration of such period.

It should be noted, however, that no interest may be paid by the bank for the period intervening between the date of the expiration of the period of notice with respect to intended withdrawal and the date on which the deposit again becomes a savings deposit. It should also be noted that, if the provision here under consideration be adopted by the bank, the requirements of Section VI of Regulation Q, relating to the withdrawal of savings deposits, must be observed.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

December 8, 1933.

Mr. C. A. Worthington,
Deputy Governor,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Worthington:

This is in reply to your letters of September 5 and December 1, 1933, inquiring as to the proper classification for reserve purposes of savings deposits with respect to which the requirement of notice of intended withdrawal has been waived.

It is the opinion of the Federal Reserve Board that the payment by a member bank of all or a part of a savings deposit without required notice of intended withdrawal does not affect the classification of other deposits in the bank and accordingly that it does not convert savings deposits into deposits payable on demand. Deposits which constitute savings accounts within the meaning of Regulation D, therefore, remain savings accounts notwithstanding such a waiver of notice of intended withdrawal and are subject to a corresponding reserve requirement.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal Reserve Banks)

December 11, 1933.

Mr. George W. Norris, Governor,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Governor Norris:

Receipt is acknowledged of your letters of November 8 and November 21, 1933, regarding the withdrawal of savings deposits. You state that it is the practice of some banks in _____ to permit withdrawals from savings deposits without notice, in cases of emergency, of an amount sufficient to meet the emergency, and inquire if, after a statement of the emergency and approval by an officer of the bank, the depositor is allowed to withdraw a specified sum of his savings deposit without notice, the bank must permit the withdrawal of the same specified sum by all depositors without notice.

Under the provisions of subsection (a) of Section VI, Regulation Q, the payment by a member bank of any portion or percentage of the savings deposits of any depositor without requiring notice of intended withdrawal can only be made on condition that, upon request and without requiring such notice, it shall pay the same portion or percentage of the savings deposits of every other depositor which are subject to the same requirement. As indicated in the Board's letter of November 6, 1933, (X-7671), the word "portion", as here used, is to be interpreted as including a specified amount. The Board is of the opinion, therefore, that if a member bank pay any specified sum of a savings

deposit of a depositor because of an emergency or for any other reason without requiring notice of intended withdrawal, such bank would be required to pay the same specified amount of the savings deposits of every other depositor which are subject to the same requirement regardless of the purpose for which the withdrawals are made. The fact that an emergency exists which justifies the withdrawal of the deposit cannot be regarded as a "requirement" to which such deposit is subject within the meaning of the regulation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

December 9, 1933.

_____,
_____,
_____,
_____.

Dear Mr._____:

This is in reply to your letter of November 8, 1933, with inclosures, in which you request a ruling upon the question whether the absorption by member banks of the Federal Reserve System of the tax imposed upon bank deposits by the laws of Indiana is in violation of the provision of Section 19 of the Federal Reserve Act which forbids a member bank to pay interest, directly or indirectly by any device whatsoever, on any deposit which is payable on demand.

Under the Indiana Intangibles Tax Acts, a copy of which was inclosed with your letter, it appears that the deposits of every bank in Indiana are assessed to the respective owners thereof and taxed at the rate of 25¢ per annum upon each $100 or fractional part thereof and that such taxes are computed according to the amounts on deposit in such banks on the last day of each month in each year. Each bank, at its election, may pay the taxes assessed against its depositors or, if it elects not to pay such taxes, is required to deduct the amount thereof from the deposits against which such taxes are assessed or from interest thereon and to pay the amount so deducted to the county treasurer. It is understood that such taxes represent a certain per-

centage of the funds on deposit on the last day of each month and have no relation either to the average amount on deposit for any given period of time or to the length of time for which the bank has the use of the money.

After consideration of the matter, the Federal Reserve Board is of the opinion that the absorption by member banks of the Indiana tax on deposits as an operating expense of each bank does not, in itself and in the absence of special factors in particular cases which might indicate the contrary, constitute a payment of interest by such banks and is not inconsistent with that provision of Section 19 of the Federal Reserve Act which forbids any member bank, directly or indirectly by any device whatsoever, to pay any interest on any deposit which is payable on demand. The Board is also of the opinion that the amount of such taxes so absorbed need not be taken into consideration in determining whether member banks are paying interest on time deposits at a rate in excess of the limitations prescribed by the Federal Reserve Board pursuant to that provision of Section 19 of the Federal Reserve Act which requires the Board from time to time to limit by regulation the rate of interest which may be paid by member banks on time deposits.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-7715

December 13, 1933.

The following telegram was sent to all Federal Reserve Agents, under date of December 12, 1933:

TRANS 1921. In advising Board of payments on subscriptions to Federal reserve bank stock by organizing national banks please show number of shares applied for and date application was forwarded to Board. For this purpose the meaning of code word "NARRATEDLY" on page 166 of Federal Reserve Telegraph Code book is changed effective immediately to read as follows: "(Name and location of national bank) has today made required payment on account of subscription to (number of shares) of stock of this bank, application for which was forwarded to Federal Reserve Board on (date) with recommendation that the stock be allotted".

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7716

December 14, 1933.

Dear Sir:

In the Board's letter X-7499 of July 15, 1933, on the subject "Interpretations of Banking Act of 1933" reference was made to the arrangement under which letters and telegrams containing interpretations of the Banking Act of 1933 are mimeographed and sent to all Federal reserve agents, each such mimeographed communication being given an X number, and the statement being made that "* * * unless otherwise indicated, the communications received from the Board in this form are not for distribution outside of the Federal reserve bank".

It has been assumed that it was generally understood that the same rule applied to other X letters, but it has come to the attention of the Board that X letters have been made available to persons outside the Federal reserve banks without prior permission from the Board. For example, in a recent hearing before the Board a representative of a bank applying for membership referred to an X letter by number, date, and name of the Federal reserve agent to whom the letter in its original form had been addressed, and quoted from it. In addition, several service organizations have requested that they be placed on the Board's mailing lists for copies of X

letters. Such requests, of course, have not been granted.

In the circumstances, the Board will appreciate it if you will see that appropriate instructions are issued to all members of your staff and all officers and employees of the Federal reserve bank that, while the information contained in X letters may be utilized to the extent that may be appropriate according to circumstances in answering inquiries and otherwise in performing their duties, such communications, unless otherwise indicated therein or subsequently authorized by the Board, are not to be used for distribution or made available to persons outside of the Federal reserve bank.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7718

December 15, 1933.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXFOX" has been designated to cover a new issue of Treasury Bills, dated December 20, 1933, and maturing March 21, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

December 16, 1933.

Mr. E. R. Woodson, Vice President,
The Railroad Credit Corporation,
805 Transportation Building,
Washington, D. C.

Dear Mr. Woodson:

Receipt is acknowledged of your letter of December 4, 1933, in which you ask whether Section 8A of the Clayton Act applies to directors, officers or employees of banks "organized or operating under the laws of the United States" who are serving at the same time as directors, officers or employees of the Railroad Credit Corporation.

It is understood that pursuant to an understanding reached by a number of railroads and the Interstate Commerce Commission, funds were made available to the Railroad Credit Corporation by certain railroads in order that that Corporation might advance such funds to other railroads which were in need of assistance. The Corporation is prohibited from making any loans after May 31, 1933, but, in order to provide for the orderly liquidation of loans previously made, the Corporation is authorized to extend the time within which loans must be repaid. It is understood that such extensions sometimes take the form of an agreement extending the time, and sometimes take the form of a "renewal" of the obligation. You state that the loans are being reduced from time to time and that renewals are never for an amount greater than the amount then outstanding.

Section 8A applies to a corporation which "shall make" loans secured by stock or bond collateral after January 1, 1934, the effective date of that section. The lender in the present case does not propose to make any "new" loans in the sense of loans to new borrowers or further loans to existing borrowers. Therefore the question now presented is whether the fact that the lender gives to the borrower additional time to repay a loan previously made brings the lender within the provisions of Section 8A. It appears that this question should be answered in the negative.

If the extension of time is accomplished merely by allowing the existing obligation to be past due, it would seem that there could be no question but that Section 8A would be inapplicable, and the same would apparently be true if there were merely an extension of time within which the existing debt might be paid. A question arises when the transaction by which such an extension of time is given takes the form of the delivery of a new note in place of the old note, since such a transaction is in form the making of a new loan. In substance, however, the loan is the same loan and the borrower has merely been given more time to repay it. It would seem that Section 8A, which was designed to prevent the undue use of bank credit for the speculative carrying of or trading in securities, should not be construed so as to prevent the orderly liquidation of loans previously made, particularly in view of the fact that the section has reference only to loans made after the end of the year 1933, and, therefore, obviously has reference to future loans and not loans actually made in the past. Accordingly, it appears that the statute should not

be construed as applying to transactions which, in substance, are merely the extension of time within which loans previously made may be repaid, even though in some instances the form of the transaction granting such an extension of time may take the form of a renewal note.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

December 7, 1933.

Mr. _____, President,
_____ Corporation,
_____,
_____.

Dear Sir:

Receipt is acknowledged of your letter of November 29, 1933, in which you ask whether Section 32 of the Banking Act of 1933 is applicable to a director of a member bank of the Federal Reserve System who is also serving as a director of your corporation.

You state that the sole business of your corporation is the holding for investment of the majority of the capital stock of a trust company in _____ County, the majority of the capital stock of a title and mortgage company, and the majority of the capital stock of an investment company, and that your corporation is, therefore, only a holding company which holds the control of three operating companies.

It does not appear that the phrase "engaged primarily in the business of purchasing, selling, or negotiating securities" in Section 32 is applicable to a corporation whose sole business is that of a holding company. Accordingly, Section 32 would not be applicable to the service of a director of a member bank under the circumstances described above.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7721

December 19, 1933.

SUBJECT: Directors of Federal Reserve Banks and Branches Affected by Section 8A of the Clayton Antitrust Act.

Dear Sir:

The Board has been informed that some of the directors of Federal reserve banks and their branches are serving as directors, officers, employees or partners of non-banking organizations which occasionally make loans secured by stock or bond collateral. As you know, such services are prohibited by Section 8A of the Clayton Act, and the Federal Reserve Board is without authority to issue permits in such cases, as its authority to issue permits with respect to the provisions of the Clayton Act is limited to permits covering the service of banking institutions. In this connection reference is made to the Board's letter of November 10, 1933, X-7677.

The very broad language of the statute has given rise to numerous difficulties; and the Board has decided to recommend to Congress when it convenes in January that this section of the law be amended as soon as possible so as not to apply to directors of Federal reserve banks and their branches, and also so as not to include organizations which occasionally make loans secured by stock or bond collateral only to their own officers or employees, and organizations engaged primarily in agricultural, commercial or industrial enterprises

which occasionally make loans secured by stock or bond collateral only to their own customers.

As you know, the statute does not take effect until January 1, 1934, and does not apply even then unless and until the other organization which the Federal reserve bank director is serving shall make new loans secured by stock or bond collateral, because the statute clearly refers only to corporations which "shall make" such loans after January 1, 1934.

In this connection, attention is also invited to the fact that other sections of the Banking Act of 1933 recognize a clear distinction between loans and other extensions of credit; and Section 8A refers only to organizations which shall make "loans" secured by stock or bond collateral. Of course, the question whether a particular transaction is a loan within the meaning of the statute, as distinguished from an extension of credit in some other form, is a question to be decided upon the facts of each particular case.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

X-7722

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

December 6, 1933.

Mr. _____, Vice-President,
The _____ National Bank _____,
_____, _____.

Dear Sir:

Receipt is acknowledged of your letter of November 29, 1933, in which you ask whether Section 32 of the Banking Act of 1933 will be applicable to the service of certain officers and directors of your bank as officers and directors of _____ Security Company, an affiliate of your bank, in view of the fact that _____ Security Company was placed in dissolution on November 28, 1933.

You state that, under the laws of the State of New York, no business of any kind, except liquidation of the assets held at the date of dissolution, payment of debts and expenses, and distribution of the remainder to the stockholders, may henceforth be conducted by the company.

As is indicated by the footnote on page 1 of the Federal Reserve Board's Regulation R, Section 32 has reference only to the business presently transacted by the organization in question and not to the business which may have been transacted by it in the past. Although it is not entirely clear from your letter what transactions may be involved in a liquidation of the assets now held by _____ Security Company, it would appear that, if such liquidation involves merely the sale of these assets and does not involve the participation

in any new business in connection with such liquidation, Section 32 would not be applicable to the service of the directors and officers referred to in your letter.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-7723

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 19, 1933.

SUBJECT: Holidays during January, 1934.

Dear Sir:

On New Year's Day the offices of the Federal Reserve Board and all Federal reserve banks and branches will be closed.

The Board is advised that the following holidays will also be observed by Federal reserve banks and branches during the month of January:

Monday, January 8	New Orleans	Anniversary of Battle of New Orleans
Friday, January 19	Richmond Charlotte	Anniversary of Birthday of General Robert E. Lee
	Atlanta Birmingham Nashville Jacksonville	Dallas El Paso
	Louisville Memphis	Houston San Antonio

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 offices affected on each of the holidays with your credits for the following business day. No debits covering shipments of Federal reserve notes for the head offices concerned should be included in your note clearing of Friday, January 19.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7724

December 19, 1933.

SUBJECT: Absorption of Abrasion Loss on Gold Coin and Shipping Charges on Gold Coin and Gold Bullion.

Dear Sir:

There is inclosed for your information a copy of a letter addressed to Mr. L. F. Sailer, Deputy Governor of the Federal Reserve Bank of New York, on December 19, 1933, with regard to absorption by Federal Reserve banks of abrasion loss on gold coin and shipping charges on gold coin and gold bullion delivered to the Federal Reserve banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT NEW YORK.

COPY X-7724-a 494

December 19, 1933.

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

Dear Mr. Sailer:

In your letter of November 22 you make reference to the Board's letter X-7640 of October 16 and review the policy followed by your bank with reference to the absorption of abrasion loss on gold coin and transportation costs on gold coin and bullion shipped to your bank, and ask the Board whether it does not agree with you that it would be preferable for your bank to continue to absorb abrasion loss on gold coin up to $1.00 on any one shipment and shipping charges on gold coin and bullion received by your bank from member and par remitting nonmember banks.

In view of the special circumstances surrounding the gold situation at this time and particularly of the fact that the authority given the Treasury in the Executive Order of April 5 to reimburse the Federal Reserve banks in all proper cases for the reasonable cost of transportation of gold coin and bullion delivered to a Federal Reserve bank in accordance with Sections 2, 3 and 5 of the Executive Order is not contained in the Executive Order of August 28, Section 11 of which revoked the Executive Order of April 5, and of the fact that the Treasury will not reimburse Federal Reserve banks for abrasion on gold coin beyond the usual limit of tolerance, the Board feels that the Federal Reserve banks should no longer be expected to absorb

abrasion loss on gold coin deposited with them or tendered in exchange for other forms of currency or shipping charges on gold coin or bullion.

However, the Board has no objection to the absorption by a Federal reserve bank of abrasion and transportation costs in small amounts not exceeding a total of $1.00 in connection with any one shipment, in view of the expense and inconvenience to the bank of obtaining reimbursement for such small amounts.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

December 20, 1933.

X-7725

PROFESSOR SPRAGUE'S CRITICISM OF FEDERAL RESERVE BOARD

Answers.

Professor Sprague, in Article #4 published in the New York Times of December 8th, stated among other things:

> "Heavy responsibility rests upon those conducting the Federal Reserve System for failure to effect needed restraint during the two years preceding the collapse of 1929."

> In another place in this article, he criticises those economists who preached the New Era as being in part responsible for the collapse of 1929.

In this connection, the following statement of facts may be found interesting:

-I-

The Board gave very serious consideration in 1928 to its responsibility and duty with regard to the control of speculation in securities, based materially on brokers' loans, and early in March requested Professor Sprague, as an economist, to come to Washington and advise the Board as to whether, in his opinion, discount rates should be increased and Government securities sold to check this speculative movement.

In response to this request, Professor Sprague came before the Board, or certain members of the Board, on March 7, 1928. He was present for about two days, and received an expert fee for his advice.

He advised members of the Board not to increase discount rates, nor to sell Government securities, stating that he was perfectly satisfied with what the Board was doing, and that by slow, constant pressure, it was doing all that could be done.

Later, on that day, Professor Sprague appeared before the Senate Banking and Currency Committee and discussed the whole subject of brokers' loans. He told the Committee that these loans could be controlled by increasing discount rates, and selling Government securities, but that such a course would have a reaction on commercial loans, and if persisted in would be more severe on legitimate business than on brokers loans.

He further made the surprising statement that brokers loans are a minor evil, and their expansion is a matter of secondary significance; that it is not too high a price to pay for the strengthening of the gold standard on the other side, and for stimulation of our export trade.

Sc. bk. 179, p. 15.
At (54) (55) (62).

Such was the advice Professor Sprague gave to the Board on March 7, 1928.

-II-

In startling contrast to this advice, Proffessor Sprague published an article in The Annalist of April 20, 1928, - only 6 weeks later - in which he took the position that brokers' loans were dangerous and that the Federal reserve banks were considerably responsible for the situation. He advised sharp and drastic action to correct the situation in the security market, and stated that even if such drastic measures should precipitate a spectacular collapse in the security market, the consequences might well prove far less damaging than those which may be anticipated if the market continues in its present mood until it collapses from its own weakness and excess.

In this article he further stated that if, in the latter part of February or early in March, the reserve banks had sold rapidly 100 or even 200 millions of Governments, an immediate advance in call money to 6% might have been brought about; that an abrupt advance of this extent would have exerted a far greater influence upon the speculative temper of the community than the gradual advance that has been experienced.

He also stated that an advance in the discount rate to 4½% in March might further have been advisable as a means of emphasizing the policy of effective control.

He further stated that had measures along these lines been followed, it is reasonable to believe that the situation would now be far more satisfactory from every standpoint.

Comparing brokers loans and security prices on the above date, April 20, 1928, with the date March 7, 1928, on which Professor Sprague gave the above advice to the Federal Reserve Board, we find that brokers' loans had increased, taking 1926 as 100, from 136.1 on or about March 7, to 152.0 on or about April 20, while security prices had increased from 135.8 on March 7, to 145.3 on or about April 20, 1928.

These advances were relatively slight as compared with the very great increase which occurred later.

In other words, Professor Sprague, on April 20, 1928, criticized the Board for not having done the very things he advised them not to do on March 7, 1928, - just 6 weeks before!

-III-

Professor Sprague, in the above article in the New York Times, also criticized those economists who endorsed the New Era, so-called, and stated that they were in part responsible for the crash of 1929.

He does not disclose the fact that he was one of those economists.

On may 29, 1929, Professor Sprague published an article in "Trust Companies" taking the position that the discount rate should be increased to 6%, and used the following significant language:

> "Now you may say that a 6% rate would create a panic. Those who think that must believe that the security prices are too high. Well I do not know that they are too high; in fact, I rather doubt if they are, and so I do not anticipate that there would be a panic."

Sc. bk. 193, p. 31.

On the date this article was published, May 29, 1929, security prices had increased from 145.3 on or about April 20, 1928, to 180.2 on May 29, 1929.

On April 20, 1928, he pointed out the danger of the security market collapsing from its own weakness and excess, and yet, after the startling increase up to May 29, 1929, he expresses the opinion that he doubts whether security prices are too high.

-IV-

To sum up:

Professor Sprague, on March 7, 1928, advised against increasing discount rates, and against sale of Government securities.

On April 20, 1928, he had shifted his ground, and advocated both an increase in discount rates and sales of Government securities, criticizing the Board for not having done this in March.

On April 20, 1928, he advocated sharp and drastic action to control brokers' loans, and stated that even if it caused a spectacular collapse in the security market, it would be no worse than the collapse which may be anticipated if the market continues in its present mood until it collapses from its own weakness and excess.

On May 20, 1929, he makes the inconsistent statement that he does not know that security prices are too high; that, in fact, he rather doubts whether they are too high.

-V-

The above would seem to show that any responsibility upon the Federal Reserve Board for, to quote Professor Sprague's words, - "failure to effect needed restraint during the two years preceding the collapse of 1929", must be shared in material measure by Professor Sprague himself.

C. S. HAMLIN

X-7727

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Bank Notes
(National Currency) Series 1929,
November 1-22, 1933.

	$5	$10	Total Sheets	Amount
Philadelphia, ...	85,000	20,000	105,000	$9,870.00
Cleveland, ...	83,000	42,000	125,000	11,750.00
	168,000	62,000	230,000	$21,620.00

230,000 sheets, @ $94.00 M, . . $21,620.00

X-7728

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
Series 1928, November 1-29, 1933.

	$5	$10	$20	Total Sheets	Amount
Boston, ...	10,000	35,000	10,000	55,000	$4,867.50
New York, ...	-	150,000	34,000	184,000	16,284.00
Philadelphia, . .	-	48,000	12,000	60,000	5,310.00
Richmond, ...	-	15,000	10,000	25,000	2,212.50
Atlanta, ...	42,000	10,000	-	52,000	4,602.00
Chicago, ...	11,000	60,000	36,000	107,000	9,469.50
St. Louis, . . .	15,000	15,000	-	30,000	2,655.00
Minneapolis, . .	-	10,000	12,000	22,000	1,947.00
Kansas City, . .	-	10,000	10,000	20,000	1,770.00
San Francisco, .	10,000	10,000	10,000	30,000	2,655.00
	88,000	363,000	134,000	585,000	$51,772.50

585,000 sheets, @ $88.50 M, . . . $51,772.50

X-7729

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks.)

December 16, 1933.

Mr. W. B. Geery, Governor,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Governor Geery:

In your letter of September 11, 1933, you inquire whether Section 21 of the Banking Act of 1933 is applicable to a large corporation in your district which has been permitting its employees to leave funds with the corporation, upon which it has paid such employees interest at a higher rate than savings banks would pay, and which has permitted withdrawals of such funds on demand, the plan having been adopted for the purpose of encouraging thrift among the employees of the corporation.

The applicable portion of Section 21 provides in substance that after June 16, 1934 it shall be unlawful for any corporation other than a financial institution or private banker subject to examination and regulation under State or federal law to engage to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit or other evidence of debt, or upon request of the depositor, unless such corporation shall submit to periodic examination by the Comptroller of the Currency or by the Federal Reserve Bank of the district and shall publish periodic reports of condition.

It will be noted that the section does not give to the Federal

Reserve Board any jurisdiction or discretion regarding the matters with which it deals. The provision excepting corporations which shall submit to periodic examination by the Comptroller or Federal Reserve Bank of the district relates to corporations which "shall submit" to such examination, and does not give to the Comptroller, the Federal Reserve Bank, or the Federal Reserve Board any discretion or power to require a corporation to submit to examination or to determine what corporations should submit to examination.

On the other hand, the section provides a penalty of fine or imprisonment for any violation of its provisions and the determination of the question whether a person should be prosecuted for such violation is a matter entirely within the jurisdiction of the Department of Justice.

In view of these circumstances, an expression of opinion by the Federal Reserve Board on the question whether the section is violated would not afford protection from prosecution if the Department of Justice upon consideration of the matter should take the position that a corporation had violated the statute and should feel it necessary to prosecute for such violation.

Accordingly, the Federal Reserve Board does not feel that it would be appropriate for it to undertake to express opinions upon questions of this kind.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7730.

December 21, 1933.

SUBJECT: Issuance of Limited Voting Permits to Holding Company Affiliates.

Dear Sir:

There are pending before the Federal Reserve Board numerous applications for voting permits by holding company affiliates of member banks and by holding companies of State banks applying for membership in the Federal Reserve System, and it is apparent that final action on many of such applications cannot be taken before the annual meetings which ordinarily take place in January. However, since voting permits will be needed in connection with the election of directors of subsidiary member banks at the annual meetings of stockholders in January, and in many cases in connection with the immediate issuance of preferred stock and the reduction of common stock, and similar matters of an urgent nature, the Board has adopted a procedure designed to expedite the issuance of limited voting permits in time to meet the emergencies which exist.

The Board will issue limited permits entitling the applicants to vote the stock which they own or control in their subsidiary member banks in cases in which the granting of such

permits appears to be in the public interest and the applicants have complied with the requirements of Section 5144 of the Revised Statutes. Such permits will entitle the applicants to vote only for the purposes set forth therein. It is anticipated that it will be necessary to authorize the granting of the majority of such permits subject to certain conditions, and in each case the conditions prescribed will be set forth in a letter or telegram which the Board will send direct to the Federal Reserve Agent.

Ordinarily, one of the conditions prescribed by the Board in approving the issuance of a limited voting permit will be that, before the permit is issued, the applicant file with the Federal Reserve Agent a duly executed agreement to take certain actions. The clauses set forth in the Board's letter or telegram prescribing the matters to be agreed to should be incorporated verbatim in written agreements drawn by your counsel in accordance with a form inclosed herewith. It is expected that your counsel will also examine the agreements when they have been executed and will be satisfied that they have been properly executed and that each agreement is the valid and binding obligation of the organization executing the same. Each agreement should be executed by officers of the applicant duly authorized to execute the same by an appropriate resolution of the board of directors of the applicant. The form of resolution contained in Exhibit C attached to each application is broad enough to authorize the officers named therein to

execute such agreements, however, and a separate resolution for this purpose will not be necessary if the agreement is executed by the officers named in Exhibit C.

In each case a limited permit will be forwarded to the Federal Reserve Agent with instructions to issue the same as soon as all requirements prescribed by the Board have been complied with. Such permit will be undated and before delivery to the applicant the Federal Reserve Agent should date it as of the date of issuance. The Federal Reserve Agent should advise the Board as soon as the permit has been issued and give the date of issuance.

When the Federal Reserve Agent advises the Board of the issuance of the voting permit, he should forward a copy of the agreement executed by the applicant, together with an opinion of counsel for the Federal Reserve Bank that the agreement is the valid and binding obligation of the applicant in accordance with its terms, and a copy of any resolution (other than Exhibit C), adopted by the board of directors of the applicant authorizing the execution of the agreement aforesaid.

In any case in which a State bank is involved either as applicant or as subsidiary, you are requested to advise the proper State banking authority of the issue of the limited permit and to furnish him with such other information with respect thereto as may be of interest to him.

If in any case it is necessary to advise a Federal Reserve Agent by telegraph of the approval of an application for a limited permit, the code word "ANCIGAR" will be used and will mean:

> "The Board has considered the application of the holding company affiliate named below after the letter 'A' for a voting permit under authority of Section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in the banks named below after the letter 'B' and has authorized the issuance of a limited permit to the applicant, subject to the conditions stated herein after the letter 'C'. The permit authorized hereunder is for the sole purpose stated after the letter 'D'. Please proceed in accordance with instructions contained in Board's letter of December 21, 1933 (X-7730)".

When such a telegram is sent, the permit will be mailed to the Federal Reserve Agent with a confirmation of the telegram; but ordinarily no covering letter will be written.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

To all Federal Reserve Agents.

AGREEMENT

In consideration of the granting by the Federal Reserve Board, under authority of Section 5144 of the Revised Statutes of the United States, as amended, and pursuant to an application heretofore filed with the Board by the undersigned, of a limited voting permit for the sole purpose of entitling the undersigned to vote each share of stock which it owns or controls of its subsidiary member banks for the purposes specified in the limited voting permit aforesaid, the undersigned hereby represents, undertakes, and agrees as follows:

(Here insert clauses prescribing matters to be agreed to in exact language prescribed by Board)

The undersigned understands and agrees that, in authorizing the issuance of the limited voting permit aforesaid, the Federal Reserve Board shall not be deemed to have waived its right to require the applicant to furnish, as a condition precedent to the issuance of any further permit, such additional data and agreements, if any, as may be necessary in order to complete the application heretofore filed and to satisfy the requirements of the statute and of the Board's Regulations, or to prescribe in connection with the granting of any further permit such conditions as may appear to be desirable upon further consideration of the application aforesaid.

This agreement is executed in triplicate.

Dated:_____

_____

(SEAL) By_____

ATTEST:

_____
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

508

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7731

December 21, 1933.

SUBJECT: Annual Review of Outstanding Clayton Act Permits.

Dear Sir:

The last paragraph of the Board's letter of May 1, 1933, X-7426, on the subject of procedure with regard to violations of the Clayton Act, reads as follows:

> "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."

It will be appreciated if you will advise what procedure you have adopted and what progress you have made in carrying out the Board's suggestion.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7732.

December 21, 1933.

SUBJECT: Code Word Covering New Issue of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXFUN" has been designated to cover a new issue of Treasury Bills, dated December 27, 1933, and maturing March 28, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7734

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal Reserve Banks)

December 22, 1933

Mr._____, President,
_____,
_____.

Dear Sir:

Your letter of December 6, 1933, addressed to Governor Black states that three directors of your bank are partners in a firm engaged in dealing in securities, and raises several questions regarding the applicability of Section 32 of the Banking Act of 1933 and Section 8A of the Clayton Act (Section 33 of the Banking Act of 1933) to the service of such directors.

You ask first whether any distinction is made between national banks and State member banks in connection with an application by a director for permission to be at the same time a partner of a firm dealing in securities. This question relates to the provisions of Section 32 of the Banking Act of 1933 which contains certain prohibitions which are applicable to an officer or director of "any member bank". The section therefore makes no distinction between national banks and State member banks.

Your second question is whether a director of a member bank who is a partner in a firm which carries margin accounts for its customers may obtain a permit pursuant to the provisions of Section 32. That section authorizes the Board to issue permits, and provides that

the prohobitions contained in that section shall not be applicable to any case in which such a permit has been issued.

However, as you indicate by your third question, the provisions of Section 8A of the Clayton Act must also be taken into consideration. Your letter does not describe the exact manner in which the margin accounts to which you refer are carried, but if they involve the making of "loans secured by stock or bond collateral", the service of these directors would come within the prohibitions of Section 8A also. Accordingly, a permit issued under Section 32 of the Banking Act of 1933, although it would take the service of these directors out of the prohibitions of Section 32, would serve no useful purpose in such a case unless Section 8A of the Clayton Act were likewise not applicable to them.

Section 8A of the Clayton Act is not applicable in any case in which a permit has been issued by the Federal Reserve Board. However, the Board's authority to issue permits covering relations within the prohibitions of the Clayton Act is limited, by Section 8 of that Act, to the issuance of permits covering relationships between banking organizations of certain types, with the result that, unless the partnership to which you refer is an organization of that kind, the Board is without authority to issue a permit exempting the service in question from the provisions of the Clayton Act.

The principal question in your letter therefore is whether a permit issued pursuant to the authority granted in Section 32 will also exempt the relationship which it covers from the provisions of the Clayton Act.

In considering this question, it should be noted that permits issued by the Board under the provisions of the Clayton Act clearly apply only to the prohibitions of that Act, since the provision in Section 8 authorizing the issuance of permits provides that "nothing in this Act shall prohibit" relationships of certain types "if in any case there is in force a permit therefor issued by the Federal Reserve Board; and the Federal Reserve Board is authorized to issue such permits" under certain circumstances.

Section 32 applies to certain specified relationships, which are not the same as those covered by Section 8A of the Clayton Act, and renders unlawful the relationships to which it applies "unless in any case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest". There is no reason to assume that the Board is authorized by this provision in Section 32 to issue permits which will make the service in question lawful regardless of any other provision of law which might be applicable in a particular case. It is felt that an interpretation which would reach such a result would be an unwarranted extension of the authority contained in Section 32.

Accordingly, a permit issued under Section 32 would serve no useful purpose in a case where the relationship was prohibited by the Clayton Act and no permit had been issued pursuant to the provisions of that Act.

As you know, the phrase "organized or operating under the laws of the United States" in Section 8 and Section 8A of the Clayton Act is not applicable to State member banks of the Federal Reserve System.

Very truly yours,

(Signed) Chester Morrill,
Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

514

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7735

December 22, 1933.

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

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-7735-a and X-7735-b, covering in detail operations of the main lines, Leased Wire System, during the month of November, 1933.

Please credit the amount payable by your bank for your share of the expense of the Leased Wire System, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Gold Settlement Fund for the account of the Federal Reserve Board, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER, 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	34,485	2,307	36,792	4.57
New York	140,274	-	140,274	17.44
Philadelphia	33,718	2,328	36,046	4.48
Cleveland	54,801	2,148	56,949	7.08
Richmond	56,582	2,387	58,969	7.33
Atlanta	50,161	2,439	52,600	6.54
Chicago	84,359	2,229	86,588	10.76
St. Louis	61,790	2,612	64,402	8.01
Minneapolis	39,765	2,432	42,197	5.25
Kansas City	67,989	2,593	70,582	8.78
Dallas	59,161	3,763	62,924	7.82
San Francisco	91,998	4,001	95,999	11.94
Total	775,083	29,239	804,322	100.00

F. R. Board business	318,795	1,123,117
Reimbursable business Incoming & Outgoing		515,326
Total words transmitted over main lines		1,638,443

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7735-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, NOVEMBER, 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	$742.09	$260.00	$482.09
New York	1,284.14	-	-	1,284.14	2,831.96	1,284.14	1,547.82
Philadelphia	225.00	-	-	225.00	727.48	225.00	502.48
Cleveland	306.66	-	-	306.66	1,149.67	306.66	843.01
Richmond	232.00	-	230.00 (&)	462.00	1,190.27	462.00	728.27
Atlanta	270.00	-	-	270.00	1,061.99	270.00	791.99
Chicago	3,955.20 (#)	1.00	-	3,956.20	1,747.24	3,956.20	2,208.96 (*)
St. Louis	195.00	2.25	-	197.25	1,300.69	197.25	1,103.44
Minneapolis	200.00	-	-	200.00	852.51	200.00	652.51
Kansas City	287.00	-	-	287.00	1,425.72	287.00	1,138.72
Dallas	251.00	-	-	251.00	1,269.84	251.00	1,018.84
San Francisco	380.00	-	-	380.00	1,938.85	380.00	1,558.85
Federal Reserve Board	-	-	15,609.78	15,609.78	-	-	-
Total	$7,846.00	$ 3.25	$15,839.78	$23,689.03	$16,238.31	$8,079.25	$10,368.02
							2,208.96 (a)
							$ 8,159.06

Reimbursable charges:

Treasury Department	$2,266.44	
Reconstruction Finance Corporation	4,250.94	
Exp. Nat. Bkg. Emergency Act, 3-9-33	713.63	
Federal Home Loan Bank Board	4.55	
Department of Agriculture	8.12	
Federal Deposit Insurance Corporation	1.84	
Civil Works Administration	20.00	
Comp. Currency Div. Insolv.Nat.Bks	88.85	
Farm Credit Administration:		
Federal Farm Loan Bureau	18.23	
Federal Farm Board	78.12	
Less Reimbursable charges		$7,450.72
		$16,238.31

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

FEDERAL RESERVE BOARD

WASHINGTON

X-7736

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 22, 1933.

SUBJECT: Assessment for General Expenses of the Federal Reserve Board, January 1 - June 30, 1934.

Dear Sir:

There is inclosed herewith a copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the various Federal reserve banks in an amount equal to one hundred fifty-six thousandths of one per cent (.00156) of the total paid-in capital stock and paid-in surplus of the Federal reserve banks as of the close of business November 30, 1933, to defray the estimated expenses and salaries of the members and employees of the Board from January 1 to June 30, 1934.

The resolution specifies the manner in which the assessment shall be deposited with the Federal Reserve Bank of Richmond, the procedure being the same as that adopted by the Board with respect to the assessment for the period from July 1 to December 31, 1933, as set forth in the Board's letter of June 23, 1933, X-7464.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO CHAIRMEN OF ALL F. R. BANKS.

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 one hundred fifty-six thousandths of one per cent (.00156) 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 one hundred fifty-six thousandths of one per cent (.00156) of the total paid-in capital and surplus of each such bank at the close of business on November 30, 1933;

(2) Such assessment shall be paid by each Federal reserve bank in two equal installments on January 2, 1934, and March 1, 1934, 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, with telegraphic advice to Richmond of the purpose and amount of the credit, 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.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7737

December 22, 1933

SUBJECT: Continuance of employees on rolls of Federal reserve banks after termination of active service.

Dear Mr.

The Governors' Conference which convened on October 10, 1933, voted that Federal reserve banks may, with the approval of the Federal Reserve Board, continue officers or employees of the banks on their rolls with or without compensation, depending on the circumstances, in order that they may not be removed from the banks' rosters and thereby become ineligible for the benefits of any pension plan which may be adopted in the near future.

Attention is invited to the fact that the proposed retirement plan which has been recommended by the Pension Committee of the Governors' Conference will apparently render officers or employees no longer actively connected with a Federal reserve bank ineligible to obtain the benefits of the plan because such benefits are limited to officers and employees "in active service"; and accordingly, it is doubtful whether the continuance of employees on the rolls of Federal reserve banks after the discontinuance of their active service will effectuate the purpose which is intended. There is also a question as

to the advisability of permitting officers or employees who are no longer actively connected with the service of a Federal reserve bank to obtain the benefits of the retirement plan. However, the Federal Reserve Board will offer no objection to the continuance on the rolls of a Federal reserve bank of officers or employees no longer actively in its service for a reasonable period of time without payment of salary or other compensation of any kind pending the adoption of the proposed retirement plan in the near future and with a view to the settlement, after the retirement plan may have been adopted, of questions as to whether they should be permitted to obtain, or are eligible to receive, the benefits of the plan. The Board feels, however, that a Federal reserve bank would not be justified in paying salary or other compensation to such an officer or employee who may be carried on its rolls merely in an endeavor to preserve his eligibility for the benefits of the proposed retirement plan.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

To Governors of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

521

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7738

December 28, 1933

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXGAT" has been designated to cover a new issue of Treasury Bills, dated January 3, 1934, and maturing April 4, 1934.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 28, 1933.
B-813.

SUBJECT: Functional Expenses,
First Half, 1933.

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense Exhibit for the half year ending June 30, 1933. 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 12, 1933
B-905

SUBJECT: Safekeeping of securities by
Federal reserve banks

Dear Sir:

As questions have arisen regarding the extent and cost of service rendered by Federal reserve banks to member banks and others in the safekeeping of securities, the Board will appreciate it if you will submit the following information pertaining thereto as of July 31, 1933, this date being selected with a view to allowing ample time for the preparation of the desired data:

1. Number of member banks in district for which securities are held in safekeeping, showing separately the number located in each Federal reserve bank and branch city and the number outside such cities.

2. Amount of securities held in safekeeping for member banks, showing separately the amounts held for banks located in each Federal reserve bank and branch city and for banks located outside such cities.

3. Number of outstanding individual vault custody receipts issued to member banks, or acknowledgements when no formal receipts are issued, covering securities held in safekeeping, showing separately figures for banks located in each Federal reserve bank and branch city and for banks located outside such cities.

Figures in paragraphs 1, 2 and 3 should be exclusive of securities held as collateral to loans and to public deposits.

4. Statement of bank's policy with respect to acceptance of securities from member banks for safekeeping, with separate comment on such service, if any, rendered member banks in Federal reserve bank and branch cities, and with particular reference to precautions taken to prevent the deposit, for safekeeping, of securities which are the property of customers of member banks.

5. Copy of latest general circular furnished member banks covering the safekeeping of securities, and all supplements thereto.

6. Statement showing amount of securities held in safekeeping for others than member banks, including securities of member banks, if any, held in escrow to secure public deposits, giving in each case name and address of party for whom held, amount held in each account and number of individual vault custody receipts outstanding; and statement of policy with respect to acceptance of such securities for safekeeping.

7. Percentage increase in current holdings of cash and securities (cubic contents, not dollar value) that can be accommodated in vaults at head office and at each of your branches, if any.

In addition, the Board desires an estimate of cost, prepared in accordance with the attached form, of the various operations performed in the Securities function at the head office and at each branch, if any, during 1932, and your opinion as to whether there has been any substantial change in such costs since last year.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNOR OF EACH FEDERAL RESERVE BANK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 7, 1933
B-907

SUBJECT: Change in instructions re personnel classification plans.

Dear Sir:

In view of existing conditions, the Federal Reserve Board, in accordance with a suggestion received from one of the Federal reserve banks, has amended paragraph 5 of the instructions governing the operation of the personnel classification plans of the Federal reserve banks so as to increase from three to six months the period for which, without the approval of the Board, an employee may be temporarily assigned without a reduction in salary to a position calling for a lower maximum salary than he is receiving.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON July 15, 1933
B - 909

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: List of State Bank Members Published in Connection with Par List.

Dear Sir:

Beginning with the forthcoming July 1, 1933, issue of the Par List, it is proposed to limit the list of State bank members appearing at the end of the par list to those banks which have been licensed by the Secretary of the Treasury to conduct normal banking operations. The proof copy of the list of State bank members has, therefore, been revised to exclude non-licensed banks, but before the revised list is published we should like to have it checked by the Federal reserve banks. Accordingly, a revised copy of that part of the proof of the July 1 par list which contains a list of the licensed State bank members in your district is inclosed, and it will be appreciated if you will check the list promptly and advise the Board not later than Wednesday morning, July 19, by telegraph if necessary, what changes, if any, should be made therein in order that it may agree with your records.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 18, 1933
B-906

SUBJECT: Compensation of executive officers and directors of Federal reserve and member banks.

Dear Sir:

Senate resolution 75, adopted during the first session of the 73rd Congress, reads in part as follows:

> "Resolved, That the Federal Reserve Board is requested to prepare and transmit to the Senate, as soon as practicable, a report showing the salary schedule of the executive officers and directors of each Federal reserve bank and member bank of the Federal Reserve System." x x x "For the purposes of this resolution, the term 'salary' includes any compensation, fee, bonus, commission, or other payment, direct or indirect, in money or otherwise, for personal services."

In order that the Federal Reserve Board may comply with this resolution, it is requested that you submit a report to the Board giving the information called for by the attached form B-906-a. The directors of the bank should be listed first, followed by the list of the executive officers. The Chairman of the Board of your bank and the managing director of each branch (if any) should be listed among both directors and officers, with an appropriate note calling attention to the fact.

There is also attached a copy of a letter which you are requested to send to each National and State member bank in your district which, on June 30, 1933, was operating under a license issued by the Secretary of the Treasury, calling for a similar report in duplicate on form B-906-c covering its directors and executive officers, both copies of which should be forwarded by you to the Federal Reserve Board. Please have each report examined to see that the names of all directors given in Schedule A of the June 30, 1933, condition report of the bank are shown on form B-906-c, and that the report as a whole appears to be properly prepared. A supply of the form has been sent you under separate cover and an adequate number of copies thereof should be furnished to each licensed member bank.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures

TO EACH FEDERAL RESERVE AGENT*

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS B-906-a

of F. R. Bank of _____

(Executive officers and directors of each branch should be shown separately under the name of the branch)

Name of each director and of each executive officer of bank on June 30, 1933	Official title	Salary rate per annum in effect on June 30, 1933	Amount of salary and/or any other compensation received from bank during year ended June 30, 1933, for personal services		Exact period of service covered by payments shown in two preceding columns*
			Salary	Fees, bonuses, commissions, or other payments (except salary), direct or indirect, in money or otherwise	

(Signed) _____ _____
Name Title

*If service covers full year indicate by "One year." If service covers less than full year indicate by "Service began _____."

B-906-b

Dear Sir:

In order to enable the Federal Reserve Board to furnish the Senate the information regarding compensation of executive officers and directors of each member bank requested in Senate resolution 75, which was adopted during the first session of the 73rd Congress and reads in part as follows:

> "Resolved, That the Federal Reserve Board is requested to prepare and transmit to the Senate, as soon as practicable, a report showing the salary schedule of the executive officers and directors of each Federal reserve bank and member bank of the Federal Reserve System." x x x "For the purposes of this resolution, the term 'salary' includes any compensation, fee, bonus, commission, or other payment, direct or indirect, in money or otherwise, for personal services,"

you are requested, at the direction of the Federal Reserve Board, to submit a report in duplicate to this office, giving the information called for by the attached form. The directors of the bank should be listed first, followed by the list of the executive officers. If a director is also an executive officer of the bank he should be listed among both directors and officers, with an appropriate note calling attention to the fact.

Very truly yours,

Federal Reserve Agent.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 5, 1933
B-911

SUBJECT: Audit of Reserve Stock of Incomplete Federal Reserve Notes and Federal Reserve Bank Notes

Dear Sir:

For your information there is inclosed a copy of the recapitulations of an audit of the stock of incomplete Federal reserve notes and Federal reserve bank notes held at the Bureau of Engraving and Printing as of close of business June 30, 1933, forwarded to the Secretary of the Treasury by Mr. H. M. Pearson, Acting Chief, Division of Public Debt Accounts and Audit.

In his letter forwarding the report of the audit to the Secretary of the Treasury, Mr. Pearson stated that: "The audit extended from July 1 to 12, inclusive, and consisted of a piece count of the entire stock of faces of both classes and a package count of the uniform backs allocated to Federal reserve notes. In view of the fact that a recent piece count has been made by this office of the entire stock of each denomination of uniform backs on hand in the Bureau, a package count and inspection of

the uniform backs allocated to Federal reserve notes was deemed sufficient at this time. The total sheets of Federal reserve notes faces and backs, were found to be in excess of the required reserve of 4,250,000 sheets, as authorized in the letter of the Governor of the Federal Reserve Board to the Under Secretary of the Treasury dated December 2, 1929."

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

Inclosures

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 6, 1933
B-914

SUBJECT: Condition of licensed member banks

Dear Sir:

There is inclosed, for use pending the printing of Member Bank Call Report No. 58, a statement showing the resources and liabilities and a classification of loans, investments, deposits and borrowings, on June 30, 1933, of all licensed member banks, together with corresponding data by Federal Reserve districts and by classes of banks.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure

TO ALL GOVERNORS AND F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 18, 1933.
B-915

SUBJECT: Changes in Instructions governing the preparation of Earnings and Expense reports and Profit and Loss statements.

Dear Sir:

There are inclosed the following pages of the "Instructions governing the preparation of earnings and expense reports and profit and loss statements" which have been revised to take care of the recent changes in the Federal Reserve Act, principally that relating to the payment of a franchise tax by the Federal Reserve banks:

Page 27	Page 33	Page 38
" 27-a	" 34	" 39
" 28	" 35	" 40
" 32	" 36	" 41
Table of contents		

It will be noted that former page 38 headed "Franchise tax certification" has been omitted and the succeeding pages renumbered.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures

TO ALL GOVERNORS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 26, 1933
B-917

SUBJECT: Changes in Manual of Instructions, Form E.

Dear Sir:

There are inclosed copies of each of the following pages of the Manual of Instructions governing the preparation of functional expense reports which have been revised effective as of July 1, 1933:

Pages	1-2	Page	31	Pages	63
"	2-a	"	35	"	63-a
"	5-7	"	47	"	67
"	9	"	54	"	70-a
"	17	"	60	"	71
"	29	"	61	"	73-76
Table of contents					

The necessary changes will be made in Form E when reprinted.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosures

TO ALL GOVERNORS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 28, 1933.
B-920.

SUBJECT: Member Bank Call Report
for June 30, 1933.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 58, showing the condition of licensed member banks on June 30, 1933. 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

E. L. Smead, Chief
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 26, 1933.
B-923.

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 eight 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 member.
	Schedule "O", Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Schedule "P", Rates of interest paid on deposits.
	Schedule "Q", Number of depositors and amount of deposits.
	Form 105e, Instructions for preparation of Schedule "Q".
	Form 220, Report of affiliate or holding company affiliate.
	Form 220a, Publisher's copy of report of affiliate or holding company affiliate.
	Form 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

Kindly mail an appropriate number of copies of these forms and schedules, based on the number required at the time of the last call for reports, 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 and accompanying schedules be held pending a call for condition reports.

In sending the forms to the banks, please call attention to the changes made in items 9 and 14-18 on the face of form 105 and to those in Schedules I, K and L, all of which are self-explanatory. Attention should also be called to the fact that changes have been made in the forms to be used by affiliates. One single form (Form 220), to be used by both affiliates and holding company affiliates, has been substituted for two separate forms, used at the time of the last call, and instructions for the preparation of the reports have been amplified.

Please incorporate in your letter transmitting the blank forms the six paragraphs contained in the attached sheets, B-923 -a, pertaining to reports of affiliates and to Schedules O, P and Q. You will note therefrom that State bank members are to ask your office for such additional copies of Forms 220 and 220a as may be needed for use in preparing the required reports of affiliates, and that, if it is not practicable 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 requests to the Federal Reserve Board, through yourbank, for extensions of time, such requests 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. Please request the officials in charge of such banks to interline the amount of special or segregated deposits, subject to unrestricted withdrawal, against the caption "Unrestricted deposits" following the items affected in Schedules J, K and L, and to interline assets

segregated against such deposits opposite appropriate captions on the face of the report and in Schedule I. Officials in charge of such banks should not, however, be asked to furnish the data called for by Schedules "O", "P" and "Q", nor to have the reports attested by any of the directors of the banks. Since we have never considered that the law requires reports from banks in the hands of State officials and since 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.

It is requested that as promptly as possible after the issue of the call you inform the Board, with respect to each State whose capital city lies in your district, (a) whether or not State authorities issued calls for condition reports as of the same date as the call issued by the Board, and, if not, the date of the nearest call thereto issued by the State authorities; and (b) whether or not and under what conditions reports of condition made to State authorities are required to be published (1) by State law or (2) by regulations of the banking department.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS*

PARAGRAPHS TO BE INCLUDED IN THE LETTER TO BE SENT BY THE FEDERAL RESERVE AGENTS TO STATE BANK MEMBERS TRANSMITTING FORMS FOR CONDITION REPORTS AND REPORTS OF AFFILIATES

At the direction of the Federal Reserve Board, you are requested to obtain and transmit to this bank at the same time you submit the condition report of your bank on form 105 and as of the same date as the condition report of your bank, a report on form 220 covering each of your affiliates and holding company affiliates, if any, as defined in section 2(b) and (c) of the Banking Act of 1933. Instructions regarding the preparation of the forms, together with extracts from the law, are printed on a separate sheet accompanying the forms. The original and one copy of form 220 are to be sent to this bank; the second and third copies are to be retained by the affiliate or holding company affiliate and the member bank.

If it is not practicable for you to obtain and transmit to this bank the reports of your affiliates and holding company affiliates, if any, at the same time you transmit the condition report of your bank, i.e., within ten days from receipt of the call for such report, prompt request should be made to the Federal Reserve Board through this bank for an extension of the time within which to transmit such reports. Such requests should set forth the additional time required and the specific reasons why additional time is necessary.

Form 220-a is to be used in preparing reports of affiliates and holding company affiliates for publication and in furnishing proof of publication to the Federal Reserve bank if such reports are required to be published under the conditions set forth on the reverse side of the form.

Schedule O covering loans and advances to affiliates and holding company affiliates of your bank as well as investments by your bank in, and loans made by your bank on the security of, obligations of such affiliates and holding company affiliates should be prepared in triplicate; the original and one copy are to be submitted to this bank and the third copy is to be retained for your files.

Every affiliate and holding company affiliate must be listed on this schedule. If your bank has no affiliates or holding company affiliates under the terms of the Banking Act of 1933, the following statement should be written across the schedule and signed:

> "This bank has no affiliate or holding company affiliate within the meaning of the Banking Act of 1933".

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.

You are also requested to prepare three copies of Schedule P, showing interest rates paid, and three copies of Schedule Q, showing the number of depositors and the amount of deposits, by size and class of deposit balances. The original and one copy of each of these schedules should be forwarded to this bank along with the condition report submitted on form 105 and one copy should be retained for your files. Instructions relating to the preparation of Schedule Q are inclosed.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 15, 1933.
B-929.

Dear Sir:

For your information there are inclosed copies of correspondence with the Treasury Department with reference to the redemption of twelve $100 Federal Reserve notes of the Federal Reserve Bank of Minneapolis which disappeared from the Bureau of Engraving and Printing on March 11 and which are now being presented for redemption with counterfeit seals and serial numbers.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT MINNEAPOLIS*

TREASURY DEPARTMENT

544

Washington

November 2, 1933

Mr. L. P. Bethea,
Assistant Secretary,
Federal Reserve Board.

Sir:

Receipt is acknowledged of your letter of September 27, 1933, addressed to the Under Secretary concerning certain incomplete Federal Reserve notes for the Federal Reserve Bank of Minneapolis, of the $100 denomination, with counterfeit seals and serial numbers, which have been honored by the Federal Reserve Banks of New York and Minneapolis.

You call attention to the fact that the incomplete notes disappeared from the Bureau of Engraving and Printing, and suggest that liability for their redemption devolves upon that Bureau. The only manner in which the Bureau can satisfy that liability is by placing an assessment on the employees of the section from which this sheet of notes disappeared. Many of these employees can ill afford to pay such an assessment, and the Department is reluctant to impose such a penalty on innocent employees.

I understand that some question was raised in the New York bank concerning the validity of the four notes first submitted by that bank to the Treasury for redemption, or at least concerning the validity of the first one presented, and that even after the Federal Reserve Banks were apprised of the situation, two notes from this sheet were forwarded for redemption by the Federal Reserve Banks of New York and Minneapolis. Under those circumstances it would appear that the presenting banks might properly be held responsible for these six notes.

The Department will rely upon your judgment in this matter, and if you still feel that the Bureau should be held responsible for these notes, the Department will take steps to have the amount involved collected from employees in the manner outlined above, for the relief of the Federal Reserve Banks concerned.

Respectfully,

(Signed) Thomas Hewes

Thomas Hewes
Assistant Secretary of the Treasury.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 15, 1933.
B-929b

Honorable Thomas Hewes,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Hewes:

Your letter of November 2, relating to incomplete Federal Reserve notes of the Federal Reserve Bank of Minneapolis, of the $100 denomination, with counterfeit seals and serial numbers, has been carefully considered by the Board. In view of the statements contained in your letter the Board will suggest to the Federal Reserve banks that in the circumstances they absorb the loss on these notes. The Board feels, however, that any liability in connection with the circulation of incomplete notes should be assumed by the Treasury Department and hopes that the Treasury will carry out the intention expressed in Assistant Secretary Dewey's letter of July 7, 1925, of asking relief from Congress for incomplete Federal Reserve notes which get into circulation and are subsequently presented for redemption.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 23, 1933
B-930.

Dear Sir:

There is inclosed for your information a copy of a memorandum recently prepared in the Board's Division of Bank Operations with regard to branch banking in the United States. A copy of this memorandum is also being furnished to the governor of your bank.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures

TO ALL FEDERAL RESERVE AGENTS* (Copy for Governors of all Federal Reserve Banks)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 27, 1933
B-931

SUBJECT: Federal Reserve Bank Balance Sheet, Form 34, for use during 1934.

Dear Sir:

There is inclosed, for your information, an unruled proof copy of the 1934 edition of the daily balance sheet, Form 34. Your bank's supply of the form for use during 1934 will be forwarded to you by registered mail as soon as received from the printer.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO ALL GOVERNORS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 29, 1933
B-933

SUBJECT: Data for 1933 Annual Report of the Federal Reserve Board.

Dear Sir:

It will be appreciated if you will kindly furnish us with the following data for use in the Board's forthcoming annual report:

1. Classification of U. S. Government securities held by your bank (1) under repurchase agreement and (2) in own investment account, as at close of business December 31, 1933, giving the kind of securities, interest rate, maturity date, and par value. The total only need be shown for the bank's participation in securities held in Special Investment Account.

2. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during the calendar year 1933.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT NEW YORK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 2, 1933
B-934

SUBJECT: Salaries of employees of
Federal Reserve banks.

Dear Sir:

Will you kindly furnish the Board as early in January as practicable with a statement showing the name of each employee of your bank and its branches (if any) on January 1, 1934, and the salary paid to each as of January 1, 1933 and January 1, 1934. The list should be prepared in accordance with the sample form attached in order to facilitate checking with the approved personnel classification plan for your bank on file with the Federal Reserve Board.

As in the past the schedules should cover all employees on the bank's payroll including those whose salaries are reimbursed to the bank in whole or in part.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure

TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

EMPLOYEES OF THE FEDERAL RESERVE BANK OF _____ AND ITS

BRANCHES (IF ANY) ON JANUARY 1, 1934

Name of employee	Classification symbol	Title of job	Salary range	Salary on Jan. 1	
				1933*	1934

NOTE: Employees should be listed by functions or departments and the positions or jobs arranged in the same order as they appear in the personnel classification plan, Form A, on file with the Federal Reserve Board. The total number of employees including employees whose salaries are reimbursed to the bank in whole or in part and the total salaries paid should be shown for each function or department. Extra help or temporary employees should be listed with the regular employees of the bank and designated by the letter "T" after the classification symbol. In case of employees on a per diem or hourly basis, the estimated total annual compensation should also be shown.

*If hired during 1933, please show the initial salary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 2, 1933
B-935

SUBJECT: Salaries of officers of
Federal Reserve banks.

Dear Sir:

In accordance with the usual practice, a statement showing the 1934 salary provided by your Board of Directors at its first meeting in January for each officer of your bank and branches, if any, subject to the approval of the Federal Reserve Board, should be forwarded to the Board as early in January as practicable. Please list the officers and their salaries in the manner indicated in the attached form. In case the bank's counsel is not an officer of the bank his annual retainer fee and any additional compensation for clerk hire should be shown separately.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure

TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

OFFICERS' SALARIES FOR 1934 AT THE FEDERAL RESERVE BANK OF _____ 552

AND ITS BRANCHES, IF ANY, AS PROVIDED BY THE BOARD OF DIRECTORS

SUBJECT TO APPROVAL BY THE FEDERAL RESERVE BOARD

Name	Title	Departments or functions supervised (Form A classification)	Annual Salary	
			Dec. 31, 1933	1934, for approval of F. R. Board

Total, _____ officers _____

B-935a

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 2, 1933
B-936

SUBJECT: 1934 Budget for Statistical and Analytical Work.

Dear Sir:

In accordance with your usual practice, a statement of the budget for the Statistical and Analytical function of your bank (including branches, if any), for the calendar year 1934 should be forwarded to the Federal Reserve Board as soon after January 1 as practicable. The budget should be prepared in accordance with the attached form.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BANK OF _____(Including branches)

Proposed budget for the Statistical and Analytical function (as defined in the Manual of Instructions covering functional expense reports, Form E)

(All figures to be shown to the nearest dollar, cents omitted)

	BUDGET for 1933	EXPENSES during 1933	BUDGET for 1934
ADMINISTRATION:			
Salaries - officers			
Salaries - employees			
Traveling expenses			
Printing & stationery & other supplies			
Telephone and telegraph			
All other*			
TOTAL			
STATISTICAL:			
Salaries - employees			
Traveling expenses			
Printing & stationery & other supplies			
Telephone and telegraph			
Postage			
All other*			
TOTAL			
MONTHLY LETTER:			
Printing and stationery			
Postage			
TOTAL			
LIBRARY:			
Salaries - employees			
Traveling expenses			
Printing & stationery & other supplies			
Telephone and telegraph			
News service - subscriptions to periodicals, etc.			
Books			
All other*			
TOTAL			
GRAND TOTAL			

MEMORANDA:

Number of copies of monthly letter printed, December 1933 ____

Receipts from monthly letters sold: Year 1933 $____ Do not deduct from expenses
Estimated, Year 1934 $____

*Classify, if in excess of $100.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 2, 1933
B-937

SUBJECT: Summary Statement of Federal Reserve Bank Personnel

Dear Sir:

In accordance with the usual practice, please furnish the Board with a summary statement showing the number and salaries of the officers and employees of your bank (including branches, if any) as of December 31, 1933, and January 1, 1934, made out in accordance with the attached form. The figures for December 31, 1933, which should not include any changes in either the number or salaries of officers or employees that become effective on January 1, 1934, will be published in the Board's 1933 annual report. The figures for January 1, 1934, should represent the number and annual salaries of officers and employees after all changes effective as of January 1 have been made.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

LETTER TO ALL CHAIRMEN*

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF THE
FEDERAL RESERVE BANK OF _____ (INCLUDING BRANCHES)

	Dec. 31, 1933	Jan. 1, 1934
Annual salary of -		
Chairman and Federal Reserve Agent	$_____	$_____
Governor	$_____	$_____
Other officers:		
Number	_____	_____
Annual salaries	$_____	$_____
Employees, both permanent and temporary, (except those whose salaries are reimbursed to bank):		
Number	_____	_____
Annual salaries	$_____	$_____
Employees, both permanent and temporary, whose salaries are reimbursed to bank:		
Number	_____	_____
Annual salaries	$_____	$_____

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 2, 1933
B-938

SUBJECT: 1934 Budget for Federal Reserve Bank.

Dear Sir:

It will be appreciated if you will forward to the Board, as soon after January 1 as practicable, a statement of the budget approved for the head office and each of its branches, if any, for the calendar year 1934 with separate figures for the first half and the second half of the year. If any material changes are subsequently made in the budget for the second half of the year the Board should be advised of such changes on or about July 1, 1934.

The budget statement as submitted to the Board should be prepared in accordance with the sample form attached and should show totals for each separate unit (department, function, division, section or expense unit) for which separate figures are shown in the budget approved by the bank's budget committee.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF THE FEDERAL RESERVE BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 29, 1933.
B-941.

SUBJECT: Fiscal Agency and Depositary Expenses.

Dear Sir:

The October 1933 Governors' Conference considered Under Secretary of the Treasury Acheson's letter of August 21, 1933, suggesting that the Treasury hereafter reimburse the Federal Reserve banks only for fiscal agency expenses which represent direct additional expenses, such as printing and postage, incurred solely on account of new issues of securities at the time of issue, and appointed a committee of three governors to confer with the Federal Reserve Board and the Treasury with a view to arriving at some equitable basis for reimbursement. Following a conference with this committee, consisting of Governors Fancher, Martin and McKinney, the Board requested the Division of Bank Operations to work out a uniform formula for use in determining fiscal agency expenses, to assemble data showing the amount of such expenses absorbed by each Federal Reserve bank, and to obtain an estimate of the additional amount which each bank would be required to absorb if the suggestion contained in the Under Secretary's letter of August 21 were adopted.

Inasmuch as the question of reimbursement for fiscal agency expenses has arisen on several occasions in the past and as to comply

with the request of the Under Secretary of the Treasury would result in the Federal Reserve banks assuming a large proportion of the cost of new issues of securities in addition to the cost of all other services rendered the Treasury, it is felt that complete information should be available as to the cost of the various classes of operations performed by the Federal Reserve banks for the Treasury in the several capacities of fiscal agent, depositary, and custodian, and particularly their out-of-pocket expenses in this connection. Such figures are not now available.

Accordingly, we have prepared the attached forms on which it is requested that the Federal Reserve banks report their expenses during the last half of 1933 in connection with their fiscal agency and depositary operations. Forms are also included covering services performed for the Reconstruction Finance Corporation and the Farm Credit Administration in order that we may have data similarly compiled covering all fiscal agency and depositary services performed for the Government and all its agencies. The cost of services, if any, performed for Government agencies not specifically mentioned should be reported on the inclosed blank forms. It will be noted that the expenses are classified in accordance with Bulletin No. 1 of the General Accounting Office and are subdivided into reimbursable expenses and expenses not reimbursable; also that in addition there is to be shown the part of the total expenses representing direct, or out-of-pocket expenses, such as salaries of employees regularly assigned, compensation paid extra help, supper money, travel expenses, printing, postage, etc., which would not be incurred in connection with other activities of the banks.

It is hoped to obtain figures for the last half of 1933, based on careful estimates where actual figures are not available, covering the total expense to the Federal Reserve banks of all services performed for the Treasury and for other Governmental agencies, and to have this information compiled on as nearly a uniform basis as practicable. Accordingly, it is requested that in preparing the information called for in the attached forms special attention be given to the description at the top of each form of the operations, the cost of which is to be included in the report. Attention is invited to the fact that while some of the operations are identical with those included in certain "expense units" of Form E, the total expense will not agree with Form E figures because of the inclusion in the attached forms of certain expenses that are not distributed in Form E reports.

As it has been the policy of the Treasury Department for a number of years to reimburse the Federal Reserve banks for expenses incurred in connection with new issues only, your comment is particularly invited on Exhibit A defining the operations which for present purposes are to be regarded as being connected with new issues. Please indicate any amendment of this exhibit that you would recommend for any future compilation of expenses connected with new issues and also the extent, if any, to which the operations described therein differ from the operations which you have included heretofore in determining the cost of new issues for the purpose of obtaining reimbursement from the Treasury.

It is believed that all of the items on the attached forms except those commented on specifically below are self-explanatory. Salaries of bank officers should include an appropriate part of the salary of any officer who devotes an appreciable amount of time to supervision

of the operations covered in any given statement. The items "Furnishing of heat, light, power, water and electricity" and "Furnishing of janitor, elevator and cleaning service" should be shown for all operations to which definite space has been assigned and in most instances will represent an estimated part of the total expenses of the Federal Reserve bank for such purposes.

It is contemplated that the expense reports submitted on the attached forms shall show combined figures for the head office and branches, if any. As regards the statement on space utilized, however, it is requested that a separate report be submitted for the head office and for each branch, if any. Special attention is called to the footnote on this form providing that rent received shall include any expenses incurred by the bank for heat, light, power, water and electricity and for janitor, elevator and cleaning service, the cost of which is reimbursed to the Federal Reserve bank.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosures.

COPY TO ALL GOVERNORS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 20, 1933.
B-942.

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 December 31, 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

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 20, 1933
B - 943

SUBJECT: Federal Reserve Exchange and Transfer Drafts.

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 October 10, 11 and 12, 1933, in voting that the use of Federal Reserve transfer drafts be abolished, and fixes January 1, 1934, as the effective date. The Board also concurs in the view expressed by the Governors that the use of Federal Reserve exchange drafts should be continued, with no change in form or procedure, pending further consideration at a future conference.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 26, 1933.
B-944.

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 six 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 member.
	Schedule "O", Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Schedule "P", Rates of interest paid on deposits.
	Form 220, Report of affiliate or holding company affiliate.
	Form 220a, Publisher's copy of report of affiliate or holding company affiliate.
	Form 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

Kindly mail an appropriate number of copies of these forms and schedules, based on the number required at the time of the last call for reports, 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 and accompanying schedules be held pending a call for condition reports. Your letter transmitting the blank forms should include general instructions with respect to the preparation of the reports, similar to those given the banks in connection with the last call for reports. Please also incorporate in your letter the two following paragraphs:

> "Payments made to the Temporary Federal Deposit Insurance Fund should be included in 'Other assets', Item 13 on the face of Form 105, and shown separately as 'Payment to Temporary Federal Deposit Insurance Fund' in Schedule M.
>
> "Outstanding capital notes or capital debentures, if any, sold to the Reconstruction Finance Corporation, should be included in 'Capital account', Item 28 on the face of Form 105, and reported separately against the caption 'Capital notes' or 'Capital debentures', as the case may be, immediately after the sub-item 'Common stock'".

You are authorized to grant extensions of time for the preparation of reports of affiliates under the same terms and conditions as you were authorized to grant such extensions at the time of the last call for such reports.

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 of 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. Please request the officials in charge of such banks to interline the amount of special or segregated deposits, subject to unrestricted withdrawal, against the caption "Unrestricted deposits" following the items affected in Schedules J, K and L, and to interline assets segregated against such deposits opposite appropriate captions on the face of the report and in Schedule I. Officials in charge of such banks should not be asked to furnish the data called for in Schedules O and P, nor to have the reports attested by any of the directors of the banks. Since we have never considered that the law requires reports from banks in the hands of State officials and since 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.

It is requested that as promptly as possible after the issue of the call you inform the Board, with respect to each State whose capital city lies in your district, whether or not State authorities issued a call for condition reports as of the same date as the call issued by the Board, and, if not, the date of the nearest call thereto issued

by the State authorities.

It is further requested that you obtain and furnish the Board a list showing, as of the date of the call made by State authorities nearest to the Board's call date, the name, location and total deposits of every banking institution under State supervision, whether member or nonmember, located in each State whose capital city lies in your district. This list should be subdivided into (1) banks operating without restrictions, and (2) banks operating under restrictions or not in operation but not formally placed in liquidation or receivership. In the case of States embraced partly in other districts, please designate the banks located either in your district or in the other districts.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 9, 1933
B-976

SUBJECT: Forms for use during 1934.

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1933.

Form	Title
34	Daily balance sheet. (Please state the number required for the head office and each branch separately, and indicate any special punching that may be desired).
F.R.A.-5	Federal Reserve notes - Daily statement of Federal Reserve Agent.
F.R.A.-6	Federal Reserve Bank notes - Daily statement of Federal Reserve Agent.
38	Classification of discounted and purchased bills held at the end of the month.
44	Monthly report of Federal Reserve notes showing the number of each denomination and aggregate amount received, issued to bank, and returned to the Comptroller of the Currency.
95	Monthly report of earnings.
96	Monthly report of current expenses.
160	Monthly report of receipts and payments of paper currency.

Form	Title
194	Monthly report of Federal Reserve notes received and issued; also stock on hand at beginning and end of month. (Also please state the number of form 194, old series, required for use in submitting reports on Federal Reserve bank notes).
E	Semi-annual functional expense report.

Please show separately the number of copies of each form, except forms 34 and F.R.A.-6, required if revised and the number if not revised.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*