

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9073

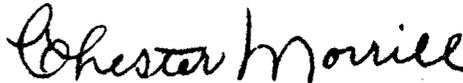
January 2, 1935

Dear Sir:

There is inclosed, for your information, copy of a letter dated December 14, 1934, addressed to the Federal Reserve Board by Deputy Governor Fleming of the Federal Reserve Bank of Cleveland, outlining the procedure followed by the Federal reserve bank in handling applications for industrial advances under the provisions of Section 13b of the Federal Reserve Act.

The Board feels that the procedure outlined by Mr. Fleming is substantially in accord with the views expressed by the Board in its letter dated November 1, 1934 (X-9006), with reference to the exercise of independent judgment by the respective industrial advisory committees.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

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

X-9073a

FEDERAL RESERVE BANK
of Cleveland

December 14, 1934

Federal Reserve Board,
Washington, D. C.

Gentlemen: Attention: Mr. M. S. Szymczak.

In accordance with our interpretation of paragraph "D" of Section 13b of the Federal Reserve Act, as amended, and pursuant to the instructions of the Federal Reserve Board in its Regulation S, Series of 1934, the Federal Reserve Bank of Cleveland has duly appointed an Industrial Advisory Committee. While paragraph "D" is definite as to the functions of this Committee, there has been some discussion in the Executive Committee regarding the formal separation of the activities of the Industrial Advisory Committee from those of the Federal Reserve Bank which has been established.

The Committee has asked me to write you outlining our procedure and request a statement as to whether or not this is in accordance with the Board's interpretation of the law. It will be greatly appreciated if this request is given consideration by the Board. The following is a statement of the organization and procedure for considering applications for loans submitted to the Federal Reserve Bank of Cleveland under the provisions of Section 13b:

All applications are received and acknowledged by the Federal Reserve Bank. After applications have been numbered and recorded they are presented to the Industrial Advisory Committee with letters of transmittal signed by a senior officer of the bank. From the time of delivery until applications are returned to the bank with recommendations from the Industrial Advisory Committee the bank has nothing to do with the applications.

The Industrial Advisory Committee has appointed an Executive Secretary who has been instructed by the Committee to receive from the Federal Reserve Bank applications submitted for advances under the provisions of Section 13b, and preliminary to presenting these applications to the Committee for its recommendation he causes to be made such investigations of the applicants and their affairs as may be necessary to enable the Industrial Advisory Committee to make intelligent recommendations to the Federal Reserve Bank.

X-9073a

12/14/34

Mr. Szymczak,
Federal Reserve Board

-2-

When sufficient information has been assembled by the staff of the Industrial Advisory Committee to enable the Committee to make an intelligent recommendation regarding an application for a loan, the docket containing the reports, as well as other credit information and memoranda of personal interviews, is delivered to the Chief Investigator for assignment to an investigator who organizes and prepares a report. This report sets forth the principal factors about the applicant which should be considered by the Advisory Committee and by the Executive Committee in determining whether or not a loan should be recommended and authorized.

All reports are dittoed and considered by the Review Committee, consisting of the Executive Secretary, Assistant to the Executive Secretary, Chief of Fieldmen, and Chief Investigator. The Review Committee expresses in written form its opinion as to whether a loan may be made on a sound and reasonable basis. If it believes a loan can be made, it suggests the collateral which should be tendered and the conditions which should be imposed prior to disbursement. Where the conditions set forth are materially different from those contained in the application, the applicant is either called by telephone or written to come in to the office to determine whether or not such conditions are acceptable and can be complied with. The Review Committee does not make recommendations.

The clerk in charge of records then prepares a letter of transmittal for each docket to be presented to the Industrial Advisory Committee. Copies of investigator's report and the report of the Review Committee are put in loose-leaf binders and each member of the Industrial Advisory Committee has for his information a binder containing these reports. This Committee meets each Wednesday morning at nine-thirty. The Industrial Advisory Committee recommends that applications be approved or declined, eliminates, adds, or makes adjustments in the conditions suggested by the Review Committee. The letter of transmittal is then signed by each member of the Advisory Committee, and the docket is returned to the Federal Reserve Bank with a recommendation. Reports and information regarding applicants are not seen by the Industrial Advisory Committee until they assemble at the time of the meeting. Members of the Committee do not take any reports away from the bank.

After action of the Advisory Committee has been posted on the records of the Advisory Committee staff, the docket is delivered to the Deputy Governor in charge of loans and discounts for presentation to the Executive Committee of the Federal Reserve Bank. The Executive Committee accepts the findings of fact of the staff of the Industrial Advisory Committee and considers the recommendations of the Advisory Committee. It takes final action on all applications, such action

X-9073a

Mr. Szymczak,
Federal Reserve Board

-3-

12/14/34

later being reported to the Board of Directors. Dockets are sent to the Closing Department after they are acted upon by the Executive Committee.

You will note from the foregoing that it is our aim to have our Advisory Committee and its organization independent of the bank. The bank does not enter into any deliberations in connection with an application before final recommendations are made for approval or disapproval by the Advisory Committee.

Very truly yours,

(Signed) M. J. Fleming
Deputy Governor

X-9074

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 4:00 p. m.

January 2, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of St. Louis has established a re-discount rate of 2% effective January 3, 1935.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9075

January 3, 1935.

SUBJECT: Advice to State Banking Departments of
the Grant or Termination of Trust Powers.

Dear Sir:

In connection with the grant of trust powers to national banks it has been the practice of the Federal Reserve Board to notify the State banking authorities of New York, Maryland, Michigan and Idaho, in accordance with requests received from them, of the grant of trust powers to national banks in their respective States, and also of the surrender of trust powers previously granted to such banks.

It is the view of the Board that hereafter advice of the grant or termination of trust powers should be furnished to the State banking department in each instance, whether formal request for such information has been made or not, and it is therefore requested, if you are not already doing so, that whenever the Board grants trust powers to a national bank in your district, or certifies that trust powers heretofore granted have been surrendered, you notify the appropriate State banking authorities of the Board's action. In order to avoid duplication, the Board will discontinue furnishing such advice to the State banking departments which have previously been notified by it of the grant and termination of trust powers.

Similar advice, including the conditions prescribed, should

be given to the respective State banking departments when the Board authorizes the exercise of trust powers by a State bank subsequent to its admission to membership in the Federal Reserve System.

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-9076.

January 5, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

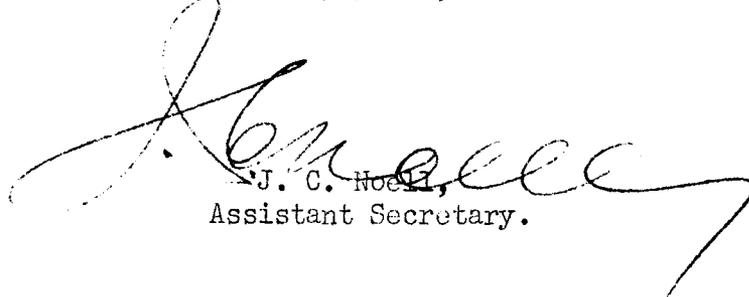
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXRAM" - Treasury Bills to be dated
January 9, 1935, and to mature
July 10, 1935.

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

Very truly yours,



J. C. Hoell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

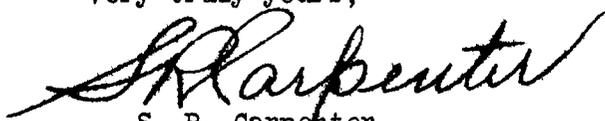
X-9077

January 7, 1935

Dear Sir:

There are being forwarded to you today under separate cover, for the use of your bank, three copies of part 19 of the hearings before the Committee on Banking and Currency of the United States Senate on stock exchange practices. Copies of part 18 of these hearings were forwarded to you on October 4, 1934.

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

TO ALL F. R. AGENTS

(No copies to Governors or extra copies to banks;
one copy to be sent to Mr. Kitzmiller.)

X-9078

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

January 7, 1935

The Federal Reserve Board announces that the Federal Reserve Bank of Dallas has established a rediscount rate of 2-1/2 per cent, effective January 8, 1935.

X-9079

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

January 7, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of Minneapolis has established a rediscount rate of 2 1/2 per cent, effective January 8, 1935.

X-9080

INDUSTRIAL ADVISORY COMMITTEE
SECOND FEDERAL RESERVE DISTRICT
FEDERAL RESERVE BANK OF NEW YORK

<u>Name</u>	<u>Business Affiliation</u>
William H. Pouch, Chairman	President, Concrete Steel Company, New York, N. Y.
John A. Hartford, Vice Chairman	President, Great Atlantic and Pacific Tea Company, New York, N. Y.
John B. Clark	Chairman, The Executive Committee, C/o The Spool Cotton Company, 350 Fifth Avenue, New York, N. Y.
Albert A. Hopeman	A. W. Hopeman and Sons, Rochester, N. Y.
A. G. Nelson	Treasurer, A. G. Nelson Paper Company, New York, N. Y.

January 8, 1935.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9081

January 8, 1935

SUBJECT: Discounts for Individuals, Partner-
ships and Corporations.

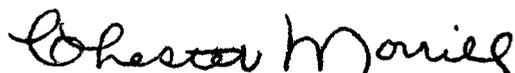
Dear Sir:

The authority granted by the Federal Reserve Board to all Federal reserve banks in its circular of July 26, 1932 (X-7215-a), as amended by its letter of June 21, 1934 (X-7925), to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and that circular, will expire at the close of business on January 31, 1935. The Board has decided to extend such authorization for an additional six months, and, accordingly, has amended section II of its circular of July 26, 1932 (X-7215-a), to read as follows:

"AUTHORIZATION BY THE FEDERAL RESERVE BOARD.

The Federal Reserve Board, pursuant to the power conferred upon it by the amendment hereinbefore quoted, hereby authorizes all Federal reserve banks, for a period ending at the close of business on July 31, 1935, 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**ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9082

January 9, 1935.

Dear Sir:

During the past year the process of passing upon Clayton Act applications has made a considerable demand upon the time and consideration of the members of the Federal Reserve Board and they feel that the procedure not only has been cumbersome but has not produced entirely satisfactory results. In addition, they feel that the provisions of section 8A particularly are so sweeping in their terms that they apply to cases which it is believed were not within the primary purpose of the framers of that section, and it will be recalled that last year the Federal Reserve Board recommended that this section be amended but that bills including such amendment, although favorably reported, failed of passage at the close of the last session. The Board has reviewed the situation and it is now its intention to recommend to the Congress that the provisions of the Clayton Act relating to interlocking bank directorates be clarified and otherwise amended.

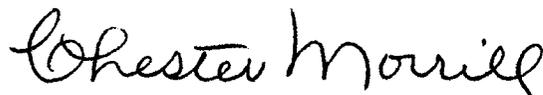
With this general idea in mind and pending action by Congress upon the matter at this session, the Board has decided that it will

grant applications for permits in all cases in which action has not heretofore been taken by the Board, except that permits will be denied as to banks which are engaged in the same class or classes of business in the same community and are so located as to be in a position to compete substantially. This exception, however, would not apply where the banks which might otherwise be considered competitive institutions are owned or controlled directly or indirectly by the same stockholders. Such permits will be issued or denied in accordance with the general policy laid down in this paragraph in the absence of extraordinary circumstances in particular cases.

The permits to be issued will be operative only until January 14, 1936 (the second Tuesday in January, 1936), so that it will not be necessary to institute formal proceedings to terminate such permits at the end of the period in any cases in which, in the absence of amendatory legislation, it would be contrary to the Board's policy to continue them in effect.

In the event of the failure of Congress at this session to enact any such legislation, it is the purpose of the Board to determine upon some general policy under which applications falling within certain classes of cases may be granted and others not in such classes may be denied.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL CHAIRMEN OF FEDERAL RESERVE BANKS.

X-9083

January 9, 1935.

Dear Sir:

The Board has been reviewing the questions of general policy involved in the selection of directors of Federal reserve banks and of their branches. In view of the special character of the functions of these institutions and the public interest in them the Board believes that the composition of the boards and the tenure of service of their members are matters of great importance. The Board recognizes that experience gained from participation in the direction of the management of the Federal reserve banks and their branches has its distinct value but it believes that this can be overstressed and that there are special advantages that would come to these institutions from bringing to bear on their management from time to time new points of view and differing backgrounds of experience. In consequence, the Board believes that neither great length of service nor too frequent changes are desirable and has endeavored to find a solution which on the whole and in the long run will be conducive to the best development of the policies of the banks and at the same time protect them against criticisms based either upon the fact or the possibility of crystallization of control of their managements by

particular individuals or groups through long continuance in power.

Therefore the Board has reached the conclusion that six years of service represents the maximum period during which a director should remain continuously in office. It will be guided by this view in future and will not continue in office as directors men appointed by it who have served six or more consecutive years (except in the cases of chairmen of the Federal reserve banks).

It is also the view of the Board that the welfare of the Federal reserve banks will be served best by directors whose business and financial interests are primarily within and representative of the bank or branch territory for which they are selected rather than of interests controlled or owned outside of such territory. The Board also feels that it is essential that the directors be men of established reputation and ability to meet their financial obligations.

While the Board is aware of the fact that its present regulations provide that directors of branches appointed by the Federal reserve banks shall be men well qualified and experienced in banking, the Board believes that the Federal reserve banks should be at liberty to select other men of high character and standing who are engaged in agriculture, industry or commerce, and it is the intention of the Board to follow uniformly in all districts the policy of selecting as its appointees individuals who are not officers of banks or

-3-

X-9083

primarily engaged in banking, although they may be stockholders or directors of banks.

The Board expects to apply these principles in the selection of directors appointed by it in the future, and is also amending its rules and regulations regarding the appointment of directors of branches of Federal reserve banks which were set forth in its letter of January 29, 1926, X-4516, so as to conform to these principles. A copy of the regulations as revised is attached hereto.

It may be added in this connection that the reappointments made by the Board to take effect January 1, 1935, of branch directors who have already served six or more consecutive years were for the year 1935 only.

It will be appreciated if you will bring this letter to the attention of all the directors of your bank and its branches, if any.

Very truly yours,

M. S. Eccles,
Governor.

Inclosure.

TO ALL CHAIRMEN OF FEDERAL RESERVE BANKS.

1. The board of directors of each branch of a Federal reserve bank shall consist either of seven members or of five members, as may be determined by the Federal reserve bank, subject to the approval of the Federal Reserve Board. Where the board of directors of the branch consists of seven members, four shall be appointed by the Federal reserve bank and three by the Federal Reserve Board, and, where the board consists of five members, three shall be appointed by the Federal reserve bank and two by the Federal Reserve Board.
2. All directors shall be persons of high character and standing who have established reputations and ability to meet their financial obligations. They shall be persons whose business and financial interests are primarily within and representative of the branch territory rather than of interests controlled or owned outside the territory. The directors appointed by the Federal reserve banks shall be persons who are either well qualified and experienced in banking or actively engaged in agriculture, industry or commerce. The directors appointed by the Federal Reserve Board shall be persons who are actively engaged in agriculture, industry or commerce and who are not primarily engaged in banking (although they may be stockholders or directors of banks).
3. All directors shall be citizens of the district and shall reside within the territory served by the branch, but at least one of the directors appointed by the bank and one appointed by the Board shall reside outside of the city in which the branch is located.
4. One of the directors appointed by the reserve bank shall be the active manager of the branch and shall have the title "Managing Director".
5. The term of office for the director chosen by the reserve bank to act as Managing Director of the branch shall be one year, subject to reappointment from year to year, if such action be desirable.
6. The full term for other directors shall be three years where the branch board consists of seven members and two years where the branch board consists of five members. In order to make practicable an orderly rotation of branch

- 2 -

directorships, the terms of directors, other than the Managing Director, shall be so arranged that the term of a director appointed by the Federal Reserve Board and the term of a director appointed by the Federal reserve bank shall expire at the end of each year. No director, other than the Managing Director, shall be reappointed for a term immediately following six or more years of continuous service as a director.

7. The board of directors of each branch shall annually elect as chairman of the board the member appointed by the Federal Reserve Board whose term of office expires with the current year.

8. In the event of a vacancy occurring in the board of directors of a branch of a Federal reserve bank, the appointment to fill such vacancy shall be made by the body making the original appointment and such appointment shall be for the unexpired term.

9. As provided in Section 3 of the Federal Reserve Act, directors of branches of Federal reserve banks hold office at the pleasure of the Federal Reserve Board.

X-9085

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.

January 10, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of Richmond has established a rediscount rate of 2 1/2 per cent, effective January 11, 1935.

X-9086

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 1:00 p. m.

January 12, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of Atlanta has established a rediscount rate of 2% effective January 14, 1935.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9087

January 14, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

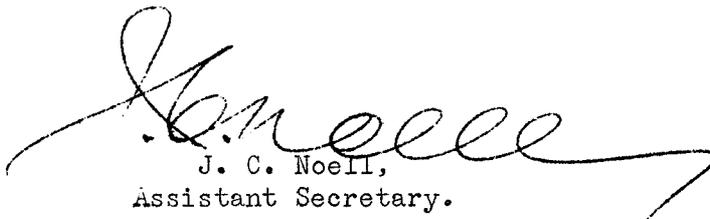
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXRET" - Treasury Bills to be dated January 16, 1935, and to mature July 17, 1935.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXRAM" 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-9088

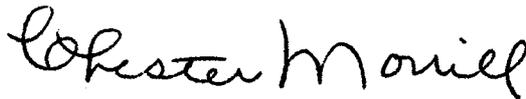
January 15, 1935.

Dear Sir:

There is attached a copy of a letter addressed by the Federal Reserve Board to Mr. J. E. Crane, Deputy Governor of the Federal Reserve Bank of New York, advising of approval by the Board of the action of the board of directors of the bank in authorizing the officers to open and maintain an account on the books of the bank in the name of the Bank of Canada.

As stated in the letter to Mr. Crane, the Board approves the acceptance by your bank, should it desire to do so, of participation in the account if and when established by the New York bank.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL F.R. BANKS EXCEPT NEW YORK.
(No copy of letter to governors and no extra copies to banks)

COPY

X-9088-a

January 15, 1935.

Mr. J. E. Crane,
Deputy Governor,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Crane:

The Federal Reserve Board has received your letter of January 4, 1935, and approves the action of your directors in authorizing the officers of the Federal Reserve Bank of New York to open and maintain an account on the books of the bank in the name of the Bank of Canada and to carry out operations in this market for that bank along substantially the same general lines and subject to substantially the same terms and conditions as for other central banks having accounts with you.

It is noted that the action of your directors restricts the relations to be established with the Bank of Canada to the opening of a one way account, and it will be appreciated if you will forward to the Board, for its records, a copy of your letter to the Bank of Canada setting forth the terms and conditions upon which the account with that institution will be opened and maintained, together with a copy of the bank's acceptance of such conditions.

Your letter states that, if the opening of the account is approved, your bank will offer a participation in the account to

the other Federal reserve banks. The Federal Reserve Board approves the participation in the account by any of the Federal reserve banks which may desire to do so, and letters are being addressed today to the chairmen of the banks advising them to this effect.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

CLASSIFICATION OF RELEASES

The releases of the Securities and Exchange Commission are grouped as follows:

- Class A - Legal text of all rulings under the Securities Exchange Act, which deals with the regulation of securities exchanges and the securities listed and trading practices thereon.
This classification, especially designed for the legal profession, includes a transcript of all rules, regulations, orders, forms and opinions without editorial comment.
- Class B - A description of all ruling under the Securities Exchange Act, especially designed for business men, investors, brokers, etc., who wish to be informed of the substance and application of the actions of the Commission, but do not wish legal phraseology.
- Class C - Legal text of all rulings under the Securities Act, which deals with the flotation of securities issues in interstate commerce for new financing, reorganization, refunding, etc.
This classification, especially designed for the legal profession, includes a transcript of all rules, regulations, orders, forms and opinions without editorial comment.
- Class D - A description of all rulings under the Securities Act, especially designed for business men, investors, brokers, etc., who wish to be informed of the substance and application of the actions of the Commission, but do not wish legal phraseology.
- Class E - Information relation to specific securities.
To include a brief description of each security registered with the Commission under both Acts; and other information or action relating to individual securities of interest to investors, underwriters and statistical organizations.
- Class F - Statistical and economic material.
Designed for statistical organizations; includes periodic analyses of registrations, market movements and conditions, short interest figures, turnover totals, security valuations, etc.
- Class G - Mining, oil and royalty security releases.
Designed for investors and underwriters interested especially in these types of securities. The material will be drawn from the other classifications.
- Class Z - All releases listed above.
Usually a complete file of releases is needed principally by libraries, newspapers, etc.
(A brief explanation of your reasons is requested if you desire the releases in this classification.)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

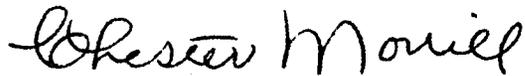
X-9090

January 15, 1935.

Dear Sir:

There is attached, for your information, a copy of a letter addressed by the Board on January 12, 1935, to Deputy Governor McKay of the Federal Reserve Bank of Chicago on the subject of safekeeping of securities by Federal reserve banks for their member banks.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

COPY

X-9090-a

January 12, 1935.

Mr. C. R. McKay, Deputy Governor,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. McKay:

Reference is made to your letter of December 6, 1934, stating that you have been advised that at the joint meeting of the Federal Advisory Council and the Federal Reserve Board on September 18, 1934, it was informally agreed that the matter of safekeeping of Government securities by the Federal reserve banks for member banks should be left to the directors of each Federal reserve bank, and that you assume that this modifies, at least to some extent, the Board's letter of June 6, 1934, (X-7907), on the subject of safekeeping of securities by Federal reserve banks.

While this question was brought to the attention of the Board by one of the members of the Council at its September meeting, no formal recommendation was submitted at that time by the Council. It was stated that the matter was one which had been made the subject of a survey of the practices and views of the Federal reserve banks, that all the banks were fully informed, and the suggestion was made that the question be taken up with the board of directors of the particular Federal reserve bank concerned. This suggestion was accepted by the member who raised the question and no other action was taken on the matter by the Board.

Very truly yours,
(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD**WASHINGTON**ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9091

January 15, 1935.

SUBJECT: Issuance of Limited Voting Permits
to Holding Company Affiliates.

Dear Sir:

The Board's letter of November 10, 1934 (X-9018) sets forth the requirements heretofore prescribed by the Federal Reserve Board with regard to the elimination by subsidiary banks of holding company affiliates of depreciation in securities and losses in other assets prior to the issuance of limited voting permits to the holding company affiliates. The Board still feels that such requirements are a desirable basis, as a general rule, on which such limited permits should be granted. However, in a number of instances it has been found to be impracticable for the bank to meet such requirements under existing conditions, and, in view of all the circumstances involved, the Board has decided to modify its customary requirements.

Accordingly, you are advised that it will be the general policy of the Board, in acting on the issuance of limited voting permits, not to require the elimination of any depreciation in securities other than in stocks and defaulted securities, but only

to require, in so far as the elimination of losses and depreciation is concerned, that each subsidiary bank charge off or otherwise eliminate, prior to the issuance of the limited voting permit, all depreciation in stocks and defaulted securities and all losses in loans and discounts and other assets. Where the holding company affiliate itself is a bank, it will be required to comply with similar requirements prior to the issuance of the limited voting permit.

The eliminations required in connection with the issuance of limited voting permits may be accomplished through the establishment and maintenance of reserves which in all reports of condition and published statements are deducted from the respective assets against which allocated, as outlined in the Board's letter of November 28, 1934 (X-9032). In accordance with previous instructions, the requirements for the elimination of depreciation in securities may be based on current market values.

In any case in which the Board has recently authorized the issuance of a limited voting permit covering the election of directors and the transaction of routine matters, where the requirements regarding the eliminations prescribed by the Board have not been complied with, you are authorized, before issuing the limited permit, to apply the principles set forth in this letter with respect to eliminations. Also, in any case where the limited permit has been issued upon assurance that the required eliminations would be effected and have not yet been effected, compliance as to such

eliminations to the extent and under the conditions described in this letter will be considered as compliance with the assurance. It is requested that the Board be advised of the circumstances involved in any such case where the requirements heretofore prescribed by the Board were not fully complied with and the extent to which such requirements were not met.

The policy laid down in this letter supersedes all previous instructions of the Board with respect to eliminations in so far as they relate to the issuance of limited voting permits.

However, in cases in which the capital structure or other features of the bank are not satisfactory or where recapitalization, reorganization or rehabilitation programs, mergers or consolidations, or other special circumstances are involved, you are requested to furnish the Board with full information and your recommendation at the earliest practicable date.

The Board wishes to emphasize its desire to issue general voting permits in all cases where the condition of the holding company affiliate and its subsidiaries warrants such action. Accordingly, you are requested to continue your efforts to bring about such corrections as will justify the Board in issuing general voting permits at the earliest practicable date.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

X-9092

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

S T A T E M E N T F O R T H E P R E S S

For release at 3:00 P. M.

January 16, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of Philadelphia has established a rediscount rate of 2% effective January 17, 1935.

X-9093

January 10, 1935.

Mr. A. P. Giannini, Chairman
Transamerica Corporation
San Francisco, California

Reference: Legal Basis for the Issuance of Voting
Permits by the Federal Reserve Board.

Dear Mr. Giannini:

In response to your request for a statement of the questions of law involved in the application of Transamerica Corporation for a voting permit, I am submitting herewith a review of the legislative history of the applicable provisions of the Banking Act of 1933 together with a discussion of how these provisions in my opinion were intended to be construed and applied.

STATUTORY PROVISIONS

The statutory provisions relating to the voting of the shares of national banks under voting permits read as follows:

"Sec. 19. Sec. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except (1) that shares of its own stock held by a national bank as sole trustee shall not be voted, and shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other

person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (2) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

"For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

"Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to cast one vote at all elections of directors and in deciding all questions at meetings of shareholders of such bank on each share of stock controlled by it or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

"(a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined;

(2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

"(b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per centum of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per centum per annum of such aggregate par value until such assets shall amount to 25 per centum of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per centum per annum on the book value of its own shares outstanding until such assets shall amount to such 25 per centum of the aggregate par value of all bank stocks controlled by it;

"(c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, shall be required only to establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount of not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Federal Reserve Board may by regulation prescribe;

"(d) Every officer, director, agent, and employee of every such holding company affiliate shall be subjected to the same penalties for false entries in any book, report, or statement

of such holding company affiliate as are applicable to officers, directors, agents, and employees of member banks under section 5209 of the Revised Statutes, as amended (U.S.C., title 12, sec. 592); and

"(e) Every such holding company affiliate shall, in its application for such voting permit, (1) show that it does not own, control, or have any interest in, and is not participating in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as 'securities company'); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control, or interest in any such securities company or participate in the management in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

"If at any time it shall appear to the Federal Reserve Board that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Federal Reserve Board may, in its discretion, revoke any such voting permit after giving sixty days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard. Whenever the Federal Reserve Board shall have revoked any such voting permit, no national bank whose stock is controlled by the holding company affiliate whose permit is so revoked shall receive deposits of public moneys of the United States, nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate.

"Whenever the Federal Reserve Board shall have revoked any voting permit as hereinbefore provided, the rights, privileges,

and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Federal Reserve Board, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended." (Banking Act of 1933 approved June 16, 1933).

LEGISLATIVE HISTORY

The first movement in Congress with respect to bank holding companies was a resolution introduced by Senator King of Utah (S. Res. 71) on May 24, 1929 which among other things had for its purpose an investigation of "chain banking." This resolution was referred to the Senate Committee on Banking and Currency.

In his annual report to Congress for 1929, the Comptroller of the Currency recommended Federal Reserve District-wide branch banking and also national legislation which would bring bank holding companies under Federal supervision in cases where they owned the majority of the stock of one or more national banks.

In the same year, the Secretary of the Treasury in his annual report to Congress indicated the need for branch banking and urged that Congress institute an investigation of bank holding companies.

The President of the United States in his message to Congress in December, 1929 also recommended an investigation of the banking system and in this connection

made special mention of the ownership of banks by holding companies.

On January 6, 1930, Mr. Beedy introduced a bill (H.R. 8085) authorizing the establishment by national banks of Federal Reserve District-wide branches and providing for supervision of bank holding companies by the Comptroller of the Currency.

On January 9, 1930, Mr. Strong of Kansas introduced a bill (H.R. 8367) the effect of which would prohibit the operation of bank holding companies. Upon the same day Mr. Goldsborough of Maryland introduced a bill (H.R. 8363) which would make it unlawful for holding companies to vote the shares of national bank stock which they might own.

On February 3, 1930, the House of Representatives adopted a resolution (H. Res. 141) authorizing its Committee on Banking and Currency to investigate among other things branch banking and bank holding companies. Under this resolution the House Committee on Banking and Currency after having gathered statistical and documentary information with respect to the subject matter under consideration, began on February 25, 1930 a series of public hearings which lasted for fourteen weeks. These hearings, which were among the most extensive ever conducted by this Committee comprised an exhaustive study of the operation of bank holding companies. Mr. A. P. Giannini founder of Bank of America,

N. T. & S. A. and of Transamerica Corporation personally appeared before the Committee as did the general counsel for Transamerica Corporation. In addition to their oral statements and cross examination by members of the Committee they laid before the Committee exhaustive documentary information with respect to the organization and operation of Transamerica Corporation.

On April 18, 1930, the Senate Committee on Banking and Currency reported out the King Resolution above mentioned as rewritten by Senator Glass. The Senate on May 5, 1930 adopted this resolution which authorized the Senate Committee on Banking and Currency to proceed with an investigation of the banking system, including branch banking and bank holding companies.

Senator Glass on June 17, 1930 introduced a bill (S. 4723) with the short title of "Banking Act of 1930" and this bill became the basis for the Senate investigation. Section three thereof prohibited holding companies from voting national bank stock owned by them and there was no provision for a voting permit. It was an absolute prohibition identical with that of the Goldsborough bill above mentioned.

In the early part of December, 1930 the Senate Committee began its investigation through the employment of experts to gather pertinent data. The first series

of public hearings began before the Committee on January 19, 1931 and were concluded on March 2 of that year. The investigation however of the Committee was continuous throughout 1931, 1932 and the first part of 1933 with public hearings from time to time. This was one of the most exhaustive investigations ever undertaken by the Senate Committee. In addition, all data acquired by the House Committee on Banking and Currency were made available to the Senate Committee. Moreover, experts through questionnaires and private investigations secured all the information with respect to the existing holding companies, including Trans-america Corporation, which the Committee desired.

These investigations and researches led the Senate Committee to modify the position expressed in the earlier Strong, Goldsborough and Glass banking bills which, in effect, prohibited the operation of bank holding companies and instead it provided the language now appearing in the Banking Act of 1933, the basis of which is the mechanism of a voting permit.

In the first drafts of the bills which eventually took the form of the Banking Act of 1933 the responsibility for the issuance of voting permits to bank holding companies was imposed upon the Comptroller of the Currency. However, in the final draft of the bill certain provisions

were inserted which brought the state member banks of the Federal Reserve System under closer Federal supervision by requiring them to conform to many of the provisions of the Banking Act of 1933 which by their terms related only to national banks. In other words, after these amendments to the National Bank Act were drawn making certain prohibitions as to national banks, several covering clauses in another section of the bill which amended Sec. 9 of the Federal Reserve Act, made these prohibitions conditions of membership for state member banks in the Federal Reserve System. Among these was the provision for a voting permit in cases where a state member bank might be owned by a holding company. At this time, apparently for the purpose of establishing a uniform procedure, the bill was changed to provide that the Federal Reserve Board should have the authority to issue voting permits in place of the Comptroller of the Currency. That is to say, the Board would issue these permits both for national and state member banks.

STATUTORY CONSTRUCTION

It is a presumption of law that Congress has before it complete knowledge with respect to any subject matter upon which it enacts legislation. In the present instance it is also an historical fact that both the House and Senate Banking and Currency Committees had acquired by

investigation, research, expert financial and legal interpretations and assistance as well as by direct and cross-examination in public of officials, complete information and data necessary and adequate to an intelligent and final determination of the question of Government supervision of bank holding companies. The provisions under which the procedure of supervision was set up took the form of an amendment of section 5144 of the Revised Statutes of the United States which embraced the provisions for voting the shares of national banks. The amendment provided that a bank holding company may not vote national bank shares except upon the issuance to it by the Federal Reserve Board of a voting permit upon application to the Board by the holding company and that thereafter such holding company submit itself to the supervisory authority of the Comptroller of the Currency through reports of condition and periodical examinations.

Congress, however, did not leave to the Federal Reserve Board the responsibility or authority to name all the conditions upon such holding company as a condition precedent to the issuance of the permit but provided in the Act itself the basic conditions which every such holding company must meet, which conditions are binding alike upon the holding company and the Federal Reserve Board. These conditions in their relationship to national bank shares,

may be summarized as follows:

- (1) The holding company must agree to submit to examination by national bank examiners,
- (2) must agree that the reports of such examiners shall contain the information necessary to disclose the relations between such holding company and the controlled national bank and the effect of such relations upon such bank,
- (3) must agree that such examiners may examine controlled non-member banks,
- (4) must agree to the publication of individual or consolidated statements of condition of all banks controlled,
- (5) must agree that its officers and employees shall be subject to the same statutory penalties provided in the case of national banks for false entries as provided under section 5209 of the Revised Statutes of the United States,
- (6) must agree that after the permit is granted it will declare dividends only out of actual net earnings,
- (7) must agree that after the permit is granted to submit from time to time to the Comptroller of the Currency through such controlled national bank reports of its own financial condition simultaneously with the submission of the regular reports of condition of such bank,
- (8) must agree that beginning on June 16, 1938 it shall
 - (a) have a free liquid reserve other than bank stocks in an amount not less than 12% of the aggregate par value of all bank stocks controlled, which percentage shall be increased by not less than 2% per annum until such reserve shall equal 25 per centum of the aggregate par value of such bank stocks,

- (b) reinvest in ready marketable assets other than bank stocks all net earnings over and above 6% per annum on the book value of its own shares outstanding until the full amount of such reserve shall be attained,
- (c) have divested itself of the control of interest in any corporation engaged in the securities business.

You will observe that the foregoing conditions are calculated, without any others, to effect an adequate supervision of and to obtain sufficient information with respect to any holding company which applies for a permit to vote national bank shares.

It is true that the Act gives the Federal Reserve Board the discretionary power to grant or withhold the permit as the public interest may require but this language must be read as a part of the entire provision, the evident intent of which is that the Board shall issue the permit if all statutory conditions are met and the additional special conditions which the Board is authorized to impose are also fulfilled. Congress itself has decided the primary question that bank holding companies may under Federal supervision continue to vote the shares of controlled national banks.

The Federal Reserve Board in acting upon an application for a voting permit is required in the first place to see that all the statutory conditions specifically enumerated are fully complied with and in the second place

-13-

and in addition it is specifically required to consider:

- (1) the financial condition of the applicant holding company,
- (2) the general character of the management of the applicant holding company,
- (3) the probable effect of the granting of such permit upon the affairs of the national bank, the shares of which are to be voted by such applicant holding company.

In order to discharge its responsibility the Federal Reserve Board may demand and obtain any information or data which may seem to it necessary to a proper determination of the above questions.

THE RESPONSIBILITY OF THE FEDERAL RESERVE BOARD

The entire burden of responsibility with respect to the issuance of the voting permits was not intended to be placed upon the Federal Reserve Board. A large share of the responsibility was as we have seen deliberately shouldered by Congress. It seems to me clear also that in cases where the application for the voting permit involves the shares of a national bank, the governmental responsibility with respect to the condition of such bank rests upon the Comptroller of the Currency. It appears to have been the intent of Congress that the Board's principal responsibility in such a case is to be limited to its consideration of the financial condition of the applicant holding company and the general character

of its management. It seems to me that the determination of the question of the probable effect of the granting of the permit upon the affairs of such a national bank is a conclusion to be drawn by the Board from its consideration of the financial condition and the general character of the management of the applicant holding company.

It is to be assumed that the Board will in every such case make a detailed study of the condition of any national bank for the voting of whose stock an application is made by a holding company. I feel sure however that it was not the intent of Congress that the Federal Reserve Board should in such a case proceed de novo on its own responsibility but should avail itself of the records of the Comptroller of the Currency with respect to such bank and admit them as proper and sufficient evidence of its condition.

In my opinion Congress did not, furthermore, intend to delegate to the Federal Reserve Board, in making the provisions for the voting permit, (section 5144, Revised Statutes as amended) the authority to impose operating conditions upon national banks as conditions precedent to its issuance of a voting permit to an applicant holding company which owns the majority of the stock of such national bank, nor to assume supervisory powers over such bank after such a permit has been granted. My reason for saying this is that this procedure would involve a transfer of jurisdiction from the Comptroller of the Currency to the Federal Reserve Board which would, in effect, repeal the basic pro-

visions of the National Bank Act. The indirect language of the Act does not support any such radical interpretation. Specific language would be required to repeal the long established authority of the Comptroller of the Currency. The pertinent language of the Banking Act of 1933 reads thus: "In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank." It seems to me that this language can not by any possible statutory construction be stretched to the point where the Comptroller of the Currency would be relieved of the great powers specifically vested in him by law for the supervision of all national banks.

It may be appropriate to indicate some of the statutory powers which the Comptroller of the Currency has over all national banks:

- (a) He is solely responsible for the issuance of their charters,
- (b) he is responsible for the enforcement of all the provisions of the national banking laws under which such banks operate,
- (c) he may in his own name sue any national bank for the forfeiture of its charter for violation of any provision of the national banking laws,
- (d) he is responsible for the periodical examination of the national banks,
- (e) he is responsible for making and enforcing operating conditions for keeping national banks within the law and within sound banking practices,

- (f) the Comptroller of the Currency has the responsibility for making the final decision in the determination of losses in national banks and from his decision there is no appeal.
- (g) when he deems it necessary in order to conserve the assets of a national bank he may appoint a conservator to take charge of such bank under his direction,
- (h) upon him rests the statutory responsibility for the approval of the reorganization of national banking associations,
- (i) when in his opinion there is mismanagement of a national bank he may institute proceedings, after due warning, for the removal of such management,
- (j) upon him is the responsibility of the approval of the consolidation of national banks,
- (k) the approval of the establishment of branches by national banks must be made by him,
- (l) rules and regulations covering many important aspects of the banking business are drafted, promulgated and enforced by him,
- (m) by virtue of his office he is a member of the Federal Reserve Board and the Federal Deposit Insurance Corporation, but so far as the national banks are concerned there is no doubt that Congress has from the inauguration of the national banking system intended that he alone must bear the undivided responsibility for their public supervision.

I might here, parenthetically, call your attention to two statements of documentary record of Senator Glass himself than whom there is no more ardent champion of the integrity of the powers of the Federal Reserve Board. He

said in 1923, during a hearing of the Joint Committee of the House and Senate for inquiry into the Federal Reserve System, that the Comptroller of the Currency was the czar of the national banks. And in the Senate, during the debate on the Banking Act of 1933 of which he was the sponsor, he said:

"The Comptroller of the Currency is not a minor official of the Treasury Department. He holds an independent office for a longer time than the Secretary of the Treasury himself. He makes his report, not to the Secretary of the Treasury, but directly to the Congress of the United States." (Congressional Record, January 23, 1933).

In view, therefore, of the established position of the Comptroller of the Currency as the governmental agency for the supervision of national banks, it seems clear to me that in order to effect the transfer to the Federal Reserve Board of the visitorial powers of the Comptroller of the Currency over the national banks which may be affiliated with holding companies a mandate from Congress in clear and unmistakable terms would be required. Before leaving this phase of the matter let us take a hypothetical case in which the Federal Reserve Board undertakes to exercise general visitorial powers over a national bank which is affiliated with a holding company which has applied for a voting permit and suppose that the Comptroller of the Currency in

such a case does not relinquish his visitorial powers over such a national bank. Suppose that the Board is satisfied with the financial condition of such holding company and satisfied also with the general character of its management. Suppose that this national bank has met all the requirements imposed by the Comptroller of the Currency, including the charge-off of all losses determined by the Comptroller, and is conducting its business under operating policies which the Comptroller of the Currency has either approved or to which he has made no objection. Suppose under these circumstances that the Board was not satisfied with the condition of such national bank and proceeded to demand that it eliminate or charge-off certain assets -- assets which the Comptroller of the Currency has knowingly permitted the bank to carry. Would not such a situation cause endless confusion to such a national bank? And would it not be intolerable from every standpoint for two federal agencies to exercise independently of each other general visitorial powers over a national bank to the same end, namely, to protect the public interest?

I have discussed as a purely theoretical proposition, the question of transfer of such powers to the Federal Reserve Board principally for the purpose of clarifying to you the situation. I have no idea that the Board entertains any such view nor am I aware that the question has ever arisen. I think that Congress in the Banking

Act of 1933 as well as in many other of its legislative acts involving the banking laws, assumed and intended that there would be at all times the closest cooperation between the Comptroller of the Currency and the Federal Reserve Board with respect to their related responsibilities.

Both of them are agencies of the Government of the United States. The Comptroller of the Currency is an officer of the United States and each member of the Federal Reserve Board is an officer of the United States, all of them having been appointed by the President with the advice and consent of the Senate. Both agencies have important functions to perform with respect to our banking system. The Board and the Comptroller of the Currency each speak for the United States. Under these conditions it is inconceivable under any circumstances that the Board would attempt to impose operating conditions upon a national bank other and different from those imposed by the Comptroller of the Currency.

I think you will see how clearly Congress intended a cooperation between the Comptroller of the Currency and the Federal Reserve Board by a mere reference to various provisions in the national banking laws. The office of the Comptroller of the Currency was established in 1864 and therefore antedates the establishment of the Federal Reserve System by about forty-nine years. At the time of the creation of the Federal Reserve System consideration was given by Congress to the question of

-20-

the abolishment of the office of the Comptroller of the Currency in connection with the question of unification of the Federal supervision of banks. Congress however decided, instead of abolishing the office of the Comptroller of the Currency, to make the Comptroller a member, by virtue of his office, of the Federal Reserve Board. This was with the thought that the extensive and vital experience of the bureau of the Comptroller of the Currency and all of its years of precedents and data with respect to national bank operations would be available through the Comptroller to the Board at all times for such purposes as the work of the Board might require.

In the course of its operations the Federal Reserve Board and the Federal Reserve Banks have occasion from time to time to seek information with respect to one or another of the national banks. It has been the practice of the Board not to make its own examinations but to rely for such information upon those made by the Comptroller of the Currency.

In the Banking Act of 1933 national banks are required to transmit reports of condition to the Comptroller of the Currency of any holding company with which they may be affiliated. The act requires that such a report of the holding company to the Comptroller shall contain such information as in the judgment of the Comptroller

shall be necessary to disclose fully the relations between such holding company and the national bank in question so as to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. (section 27). Also in provision for the issuance of the voting permit every such holding company is required to agree to submit to examination by the national bank examiners at the same time that any national bank which it may control is examined and such examination is required fully to disclose the relations between such banks and such holding company and the effect of such relations upon the affairs of such national banks. It is clear therefore that Congress intended that the Comptroller of the Currency should have considerable responsibility in obtaining the information with respect to holding companies upon the applications of which for voting permits the Federal Reserve Board must act.

Congress has therefore not set up two independent governmental agencies - the Federal Reserve Board and the Comptroller of the Currency - but has blended their operations upon the assumption that there could be no conflict of jurisdiction with respect to the Federal supervision of national banks.

I am not fully advised as to the exact procedure which the Federal Reserve Board will follow in determining the

-22-

question of a voting permit since the question is new. However, I feel safe in predicting that when it comes to the question of the condition of a national bank which may be affiliated with a holding company the agencies of the Board and those of the Comptroller of the Currency will come into consultation and the responsibility of the Comptroller for making the requirements concerning the condition of such national bank will be recognized. I say this because I believe that under this procedure the responsibility both of the Board and of the Comptroller of the Currency in this matter will be fully discharged.

Yours very truly,

Charles W. Collins

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9094

January 17, 1935.

Dear Sir:

There are enclosed herewith copies of statements rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the months of November and December, 1934.

Very truly yours,



O. E. Foulk,
Fiscal Agent.

Enclosures.

X-9094-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
November 1 to 30, 1934.

Series 1928

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	Total <u>Sheets</u>	<u>Amount</u>
New York,.....	-	-	40,000	10,000	10,000	60,000	\$5,160.00
Philadelphia,.....	7,000	16,000	12,000	-	-	35,000	3,010.00
Cleveland,.....	-	12,000	10,000	-	-	22,000	1,892.00
Atlanta,.....	14,000	-	-	-	-	14,000	1,204.00
Chicago,.....	9,000	-	39,000	-	-	48,000	4,128.00
St. Louis,.....	-	11,000	-	-	-	11,000	946.00
Minneapolis,.....	-	-	5,000	-	-	5,000	430.00
Kansas City,.....	-	8,000	5,000	-	-	13,000	1,118.00
	<u>30,000</u>	<u>47,000</u>	<u>111,000</u>	<u>10,000</u>	<u>10,000</u>	<u>208,000</u>	<u>\$17,888.00</u>

208,000 sheets, @ \$86.00 per M,

\$17,888.00

Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,.....	-	76,000	76,000	\$ 6,536.00
New York,.....	-	180,000	180,000	15,480.00
Philadelphia,.....	-	11,000	11,000	946.00
Chicago,.....	-	48,000	48,000	4,128.00
St. Louis,.....	108,000	1,000	109,000	9,374.00
Minneapolis,.....	39,000	-	39,000	3,354.00
	<u>147,000</u>	<u>316,000</u>	<u>463,000</u>	<u>\$39,818.00</u>

463,000 sheets, @ \$86.00 per M,

39,818.00\$ 57,706.00

X-9094-b

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
December 1 to 31, 1934.

Series 1928

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total Sheets</u>	<u>Amount</u>
New York,	-	-	40,000	3,000	4,000	47,000	\$4,042.00
Philadelphia,	-	-	12,000	-	-	12,000	1,032.00
Cleveland,	-	12,000	10,000	-	-	22,000	1,892.00
Atlanta,	14,000	-	-	-	-	14,000	1,204.00
Chicago,	-	-	15,000	-	-	15,000	1,290.00
Minneapolis,	-	-	5,000	-	-	5,000	430.00
Kansas City,	-	1,000	5,000	-	-	6,000	516.00
	<u>14,000</u>	<u>13,000</u>	<u>87,000</u>	<u>3,000</u>	<u>4,000</u>	<u>121,000</u>	<u>10,406.00</u>

121,000 sheets, @ \$86.00 per M,

\$10,406.00

Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	65,000	65,000	\$5,590.00
New York,	104,000	208,000	312,000	26,832.00
Philadelphia,	-	49,000	49,000	4,214.00
Chicago,	-	56,000	56,000	4,816.00
St. Louis,	60,000	14,000	74,000	6,364.00
Minneapolis	<u>34,000</u>	<u>1,000</u>	<u>35,000</u>	<u>3,010.00</u>
	<u>198,000</u>	<u>393,000</u>	<u>591,000</u>	<u>50,826.00</u>

591,000 sheets, @ \$86.00 per M,

50,826.00

\$ 61,232.00

X-9095
(Superseding X-8010)

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 in the United States 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. 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. One half of the subscription of each member bank 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.

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. The six Class A and B directors 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, 1935, to individual member banks; under certain prescribed conditions, to grant credit accommodations to furnish working capital for established industrial or commercial businesses for periods not exceeding five years, either through the medium of financing institutions or, in exceptional circumstances, directly to such businesses, and to make commitments with respect to the granting of such accommodations; 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, obligations of the United States and certain other securities; 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 certificates and of commercial and agricultural paper discounted or purchased by Federal reserve banks, and, until March 3, 1935, or until the expiration of such additional period not exceeding two years as the President may prescribe, 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 certificates of not less than forty per cent against its Federal reserve notes in actual circulation and is also required to maintain reserves in gold certificates or lawful money of not less than thirty-five 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.

For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Federal Reserve Board is authorized to regulate the amount of credit that may be initially extended and subsequently maintained on any security (with certain exceptions) registered on a national securities exchange. Certain other powers have been conferred upon the Board which are likewise designed to enable it to prevent an undue diversion of funds into speculative operations.

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 affiliates of 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 a member bank 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 bank directorates. Another function of the Board is the operation of a settlement fund, by which balances due to and from the various Federal reserve banks arising out of their own transactions or transactions of their member banks or of the United States Government are settled in Washington through telegraphic transfer of funds without physical shipments of currency.

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 law, 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.

January 18, 1935.

X-9096

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 4:00 p. m.

January 18, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of Chicago has established a rediscount rate of 2%, effective January 19, 1935.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9097

January 18, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

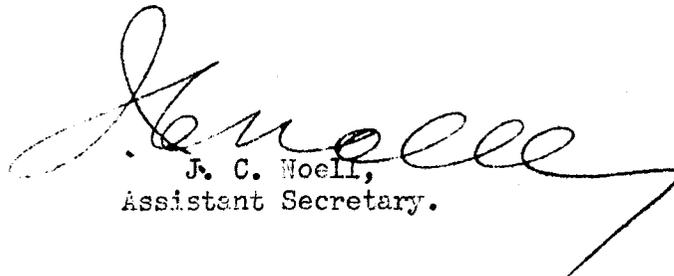
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXRID" - Treasury Bills to be dated January 23, 1935, and to mature July 24, 1935.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXREI" 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-9098

January 19, 1935.

SUBJECT: Holidays during February, 1935.

Dear Sir:

On Tuesday, February 12, Lincoln's Birthday, the books of the Federal Reserve Board's Gold Settlement Fund will be closed and there will be neither transit nor Federal reserve note clearing through the Fund on that day. For your information, the Board is advised that the following Federal reserve banks and branches will be open for business on February 12.

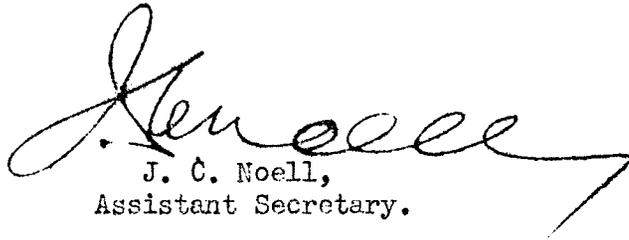
Boston	Atlanta	St. Louis
	New Orleans	Little Rock
Richmond	Birmingham	
Baltimore	Jacksonville	Kansas City
Charlotte		Oklahoma City

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

On Monday, February 25, the Havana Agency of the Federal Reserve Bank of Atlanta will be closed in observance of the anniversary of the Revolution of Baire.

Please notify branches.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell", written in dark ink. The signature is fluid and extends to the right with a long, sweeping tail.

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

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

January 18, 1935.

The Federal Reserve Board recently reviewed the general policy to be pursued in the selection of directors of Federal Reserve banks and their branches, and determined certain principles that should be observed in making those appointments.

Under the law the Board appoints 3 of the 9 directors of each Federal Reserve bank and either two or three of the directors of each branch, depending on whether the branch has five or seven directors. While the majority of branch directors are in all cases appointed by the Federal Reserve banks, the method of their selection is subject to rules and regulations prescribed by the Board.

In view of the fact that operations of the Federal Reserve banks are vested with a public interest, the Board deemed it desirable that there should be a certain degree of rotation in the membership of the directorates of these banks and their branches. Gradual changes in the personnel of these directorates would insure against possible crystallization at the banks of the influence of individuals or groups, which might not be in the public interest, as the Reserve banks must render uniform service to all the elements in their communities. Continuity of policy and the benefits of ac-

quired experience will be retained by permitting directors to serve as long as 6 years, and at the same time rigidity will be avoided by not reappointing persons who have completed 6 years of service. The Board proposes to follow this practice in the selection of directors that are subject to appointment by the Board. This rule will not apply, however, to chairmen of the boards of directors, who are full time officials of the reserve banks.

The Board also believes that the reserve banks and branches will be best adapted to serving their local communities if their directors are selected from persons whose business and financial interests are primarily within the bank or branch territory, and not representatives of interests owned or controlled outside the territory. The value of the regional organization of the Federal Reserve System rests on the closeness of its managements to the local problems of their communities, and the selection as directors of persons connected with local enterprises will contribute to the maintenance of this relationship.

In making its own appointments of branch directors the Federal Reserve Board will henceforth select persons who are engaged in agriculture, industry, or commerce, rather than persons who are officers of banks, and in its revised regulation the Board provides that Federal Reserve banks need not confine their own appointments to branch directorates to bankers, but may also in their discretion appoint persons engaged in other business in the community. The Board's views on this matter are based on recognition of the fact that

sympathetic understanding of local trade and industrial conditions is as important as banking experience for the most effective management of a Federal Reserve branch.

A copy of the Board's letter of January 9, 1935, to the Federal Reserve banks on this subject is attached.

FEDERAL RESERVE BOARD**WASHINGTON****ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD**

X-9083

January 9, 1935.

Dear Sir:

The Board has been reviewing the questions of general policy involved in the selection of directors of Federal reserve banks and of their branches. In view of the special character of the functions of these institutions and the public interest in them the Board believes that the composition of the boards and the tenure of service of their members are matters of great importance. The Board recognizes that experience gained from participation in the direction of the management of the Federal reserve banks and their branches has its distinct value but it believes that this can be overstressed and that there are special advantages that would come to these institutions from bringing to bear on their management from time to time new points of view and differing backgrounds of experience. In consequence, the Board believes that neither great length of service nor too frequent changes are desirable and has endeavored to find a solution which on the whole and in the long run will be conducive to the best development of the policies of the banks and at the same time protect them against criticisms based either upon the fact or the possibility of crystallization of control of their managements by

particular individuals or groups through long continuance in power.

Therefore the Board has reached the conclusion that six years of service represents the maximum period during which a director should remain continuously in office. It will be guided by this view in future and will not continue in office as directors men appointed by it who have served six or more consecutive years (except in the cases of chairmen of the Federal reserve banks).

It is also the view of the Board that the welfare of the Federal reserve banks will be served best by directors whose business and financial interests are primarily within and representative of the bank or branch territory for which they are selected rather than of interests controlled or owned outside of such territory. The Board also feels that it is essential that the directors be men of established reputation and ability to meet their financial obligations.

While the Board is aware of the fact that its present regulations provide that directors of branches appointed by the Federal reserve banks shall be men well qualified and experienced in banking, the Board believes that the Federal reserve banks should be at liberty to select other men of high character and standing who are engaged in agriculture, industry or commerce, and it is the intention of the Board to follow uniformly in all districts the policy of selecting as its appointees individuals who are not officers of banks or

primarily engaged in banking, although they may be stockholders or directors of banks.

The Board expects to apply these principles in the selection of directors appointed by it in the future, and is also amending its rules and regulations regarding the appointment of directors of branches of Federal reserve banks which were set forth in its letter of January 29, 1926, X-4516, so as to conform to these principles. A copy of the regulations as revised is attached hereto.

It may be added in this connection that the reappointments made by the Board to take effect January 1, 1935, of branch directors who have already served six or more consecutive years were for the year 1935 only.

It will be appreciated if you will bring this letter to the attention of all the directors of your bank and its branches, if any.

Very truly yours,

M. S. Eccles,
Governor.

TO ALL CHAIRMEN OF FEDERAL RESERVE BANKS.

1. The board of directors of each branch of a Federal reserve bank shall consist either of seven members or of five members, as may be determined by the Federal reserve bank, subject to the approval of the Federal Reserve Board. Where the board of directors of the branch consists of seven members, four shall be appointed by the Federal reserve bank and three by the Federal Reserve Board, and, where the board consists of five members, three shall be appointed by the Federal reserve bank and two by the Federal Reserve Board.

2. All directors shall be persons of high character and standing who have established reputations and ability to meet their financial obligations. They shall be persons whose business and financial interests are primarily within and representative of the branch territory rather than of interests controlled or owned outside the territory. The directors appointed by the Federal reserve banks shall be persons who are either well qualified and experienced in banking or actively engaged in agriculture, industry or commerce. The directors appointed by the Federal Reserve Board shall be persons who are actively engaged in agriculture, industry or commerce and who are not primarily engaged in banking (although they may be stockholders or directors of banks).

3. All directors shall be citizens of the district and shall reside within the territory served by the branch, but at least one of the directors appointed by the bank and one appointed by the Board shall reside outside of the city in which the branch is located.

4. One of the directors appointed by the reserve bank shall be the active manager of the branch and shall have the title "Managing Director".

5. The term of office for the director chosen by the reserve bank to act as Managing Director of the branch shall be one year, subject to reappointment from year to year, if such action be desirable.

6. The full term for other directors shall be three years where the branch board consists of seven members and two years where the branch board consists of five members. In order to make practicable an orderly rotation of branch

- 2 -

directorships, the terms of directors, other than the Managing Director, shall be so arranged that the term of a director appointed by the Federal Reserve Board and the term of a director appointed by the Federal reserve bank shall expire at the end of each year. No director, other than the Managing Director, shall be reappointed for a term immediately following six or more years of continuous service as a director.

7. The board of directors of each branch shall annually elect as chairman of the board the member appointed by the Federal Reserve Board whose term of office expires with the current year.

8. In the event of a vacancy occurring in the board of directors of a branch of a Federal reserve bank, the appointment to fill such vacancy shall be made by the body making the original appointment and such appointment shall be for the unexpired term.

9. As provided in Section 3 of the Federal Reserve Act, directors of branches of Federal reserve banks hold office at the pleasure of the Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9100

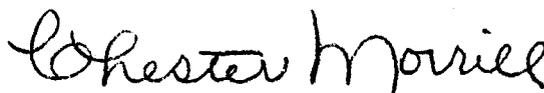
January 21, 1935.

Dear Sir:

There are inclosed a copy of a letter dated January 2, 1935, from Governor Schaller of the Federal Reserve Bank of Chicago to Mr. Szymczak, with reference to sending two officers of the bank out into the district to contact member and nonmember banks in the district on industrial loans and other matters, and a copy of the Board's reply thereto.

It will be appreciated if you will present this correspondence to the board of directors of your bank and advise the Federal Reserve Board of your directors' reaction to the question of inaugurating a similar program in your district and as to any suggestions they may have to make as to topics which could be discussed by the representatives of the Federal reserve bank with banks in your district if the program were adopted.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS EXCEPT CHICAGO

X-9100-a

C
O
P
Y

FEDERAL RESERVE BANK OF CHICAGO

230 South LaSalle Street

January 2, 1935.

Honorable M. S. Szymczak, Member,
Federal Reserve Board,
Washington, D. C.

My dear Mr. Szymczak:

We are considering placing possibly two of our officers, a deputy governor and an assistant deputy governor, out in the district after January 15, 1935, to contact not only our member but our non-member banks. Our thought is to bring to the attention of bankers generally the facilities of this bank always available to members, including industrial loans, and also to encourage a thorough canvass of their local communities by the home bank to find if any desirable outlet may be developed for the employment of their funds in their home community.

We expect to gather data for our own use as to not only the banks but the general conditions, and I am writing to ascertain, if possible, whether you or the Board have in mind anything that you might wish us to include in a canvass of this kind.

Awaiting your advice, I am

Very truly yours,

(Signed) G. J. Schaller,
Governor.

Copy

X-9100-b

January 16, 1935

Mr. G. J. Schaller, Governor,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Governor Schaller:

As you were advised by Mr. Szymczak on January 4, your letter of January 2, in regard to sending out a Deputy Governor and an Assistant Deputy Governor after January 15 to contact member and nonmember banks in your district, has been brought to the attention of the Board.

It is noted that it was your thought to bring to the attention of bankers generally the facilities of your bank that are always available to members, including those relating to industrial advances; to encourage a thorough canvass of their communities by local banks so as to find whether any desirable outlets may be developed for the employment of their funds; and to gather data for your own use not only as to the banks but as to general conditions. You asked whether the Board has anything in mind that might be included in a canvass of this kind.

The Board is in sympathy with the purpose of the program you have outlined and feels that it should result in a better understanding of mutual problems by your bank as well as by member and nonmember banks in your district.

In addition to the subject of industrial advances which it is assumed your representatives will discuss with officers of the bank

Mr. G. J. Schaller - #2

X-9100-b

from the standpoint of the participation of such banks in the making of working capital loans to worthy enterprises and such other subjects as may present themselves from time to time as bearing on general banking and economic conditions your representatives might discuss with the bankers whom they visit the following subjects:

1. Rates of interest paid on the various classes of time deposits.
2. Trend in rates on loans to customers.
3. Advantages of the loan provisions of the Housing Act.
4. Membership in the Federal Reserve System.
5. Clayton Act permits.
6. Government financing.
7. Insurance of deposits.
8. Proper method of valuing assets in published condition reports.

Your representatives might also develop any suggestions which the bankers whom they visit may desire to make as to general policies of the Federal Reserve System in which they are interested.

When you feel that the proposed activity has progressed sufficiently to enable you to do so, the Board would appreciate being advised as to the information obtained and as to any conclusions that you feel can be drawn from it.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9101

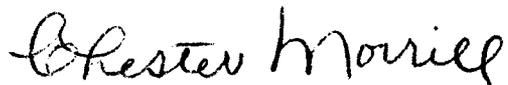
January 21, 1935.

SUBJECT: Maximum Retirement Allowance.

Dear Sir:

There is inclosed for your information a copy of the Board's reply to an inquiry received from the Federal Reserve Bank of San Francisco regarding the maximum retirement allowance which may be paid to an employe under the provisions of the Board's letter X-9051 of December 26, 1934.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE GOVERNORS.

Copy

X-9101-a

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

Dear Governor Calkins:

Reference is made to your letter of January 4 regarding the Board's letter of December 26, X-9051, authorizing the granting of retirement allowances to certain employees, who have attained age 65, in excess of the allowances to which they are entitled under the provisions of Subsection 1 of Section 3 of the Rules and Regulations governing the Retirement System of the Federal Reserve banks.

Voluntary contributions of an employee, whether before or after attainment of age 65, made for the purpose of providing an annuity in excess of that to which he is entitled on the basis of his required contributions, together with contributions of the bank, need not be taken into consideration in determining the maximum allowance which may be paid to him under the conditions set forth in the Board's letter X-9051 of December 26, 1934.

Very truly yours,

(Signed) Chester Morrill,

Chester Morrill,
Secretary.

-2-

6. It is advisable not to give Congress the chance to attribute the small volume of loans to the high rates charged.

7. The actual money loaned is costless money. The Reserve banks should not be motivated by the desire to make profits.

8. The psychological effect of a general lowering of the rates subject to the Board's control might be helpful. The favorable reception accorded the reduction of the rates payable on time deposits would also be accorded reductions on the rediscount rates and the rates on industrial advances.

9. Although a reduction cannot be regarded as an important action, the point is that there is very little the System can do at the present to aid recovery except to exert all the pressure it can to lower the general rate structure.

Objections

1. The Chairmen of the Industrial Advisory Committees have recently recommended that no change be made in the present rate structure. Undue weight should not be attached to this recommendation since it is to be expected that the members of the Advisory Committees would think in terms of ordinary business practice and local conditions rather than in terms of desirable national policy.

2. It is undesirable to compete with local banks for this class of business. This objection may be met by pointing out (a) that at present the rates charged are considerably higher than the average of rates charged customers, and (b) that the law provides that loans will be made only in cases where adequate accommodation at reasonable rates cannot be secured from local banks. In general, I feel that we should not give undue weight to the competition argument, since our duty is to initiate interest rate changes rather than follow interest changes.

3. The rates should be high to compensate for the risk element. This argument cuts two ways, since it says in effect that despite the mandate of Congress that the loans shall be "sound", despite the restrictions and safeguards the Reserve banks have imposed, and despite the high percentage of applications rejected on grounds of insufficient security, the loans that have been made should bear a rate applicable to relatively poor risks. Moreover, since the Treasury is supplying half the funds loaned and there is no provision for repayment to the Treasury, it is difficult to see how we can actually take a loss on advances under Section 13 (b).

4. The rate should be high to compensate for the heavy expense incurred in the making of such loans. This objection has real weight. Up to the present the Reserve banks report that their expenses have exceeded their income on this class of business. On the other hand, there is evidence that at the moment this state of affairs is being reversed. Moreover, in calculating expenses Reserve banks have included the expenses of their own credit departments, a part of which would have been incurred in any case, and some reserve banks have not included in current income accrued interest. It is worth noting that the bank which charges the lowest rate (Boston-five per cent) is earning more than its expenses.

Specific Recommendations

1. The rate on direct industrial advances should be reduced by one per cent.

2. The rate on that portion of the advances to financial institutions for which the latter assume the risk should correspond to the re-discount rate. The rate on that portion of advances for which the reserve banks assume the risk should be one per cent lower than the rate charged customers. An attempt might be made to insure that in most cases the rate charged customers should not exceed five per cent.

3. There appears to be undue diversity in the commitment rate. The subject is too complicated to be covered by a simple recommendation, and I suggest that a thorough study be made of commitment rates.

X-9102

C O P Y

December 31, 1934.

To Governor Eccles

From Mr. Szymczak

With reference to Mr. Currie's recommendation that rates on industrial advances by Federal Reserve banks be reduced, the following comments are submitted:

A. Rates on direct advances.

1. Current rates at all Federal Reserve banks, except St. Louis, are either 6 per cent or a range of from 4 or 5 per cent to 6 per cent. The rate at St. Louis is $5\frac{1}{2}$ per cent. Rates actually charged are 5 per cent at Boston, $5\frac{1}{2}$ per cent at St. Louis, and 6 per cent at all other banks except that the Federal Reserve Bank of New York has charged 5 per cent on a portion of the loans made.

2. When it is considered that these loans must be to businesses that are unable to obtain the requisite financial assistance from the usual sources at reasonable rates; that they are for periods of up to five years; that the risk thereon is higher than that on ordinary bank loans; that the expense of investigating the applications, of maintaining the necessary records because of the character of the security offered, and of collection because of installment payments is substantial; and that the Federal Reserve banks should not enter into competition with member banks, it would appear that a rate of 6 per cent on these loans is entirely reasonable. In this connection it is understood that member banks in the smaller towns and cities charge 6 per cent or more on ordi-

nary loans involving a much smaller risk of loss. Incidentally a rate on direct loans below that charged by banks generally would be certain to result in many applications from would-be borrowers who could obtain accommodation from the usual sources and who are not, therefore, eligible to receive a direct loan from a Federal Reserve bank, with a consequent increase in complaints against the Federal Reserve banks, which would, of course, be obliged to decline such applications. Furthermore, to the extent that applicants existed whose ability to repay was so doubtful as to make member banks unwilling to grant them loans but to whom the Reserve banks made advances, there would be the situation of the better risks having to pay a higher rate of interest than the poorer risks.

B. Rates on advances to financing institutions.

(a) Rates on that portion of advances on which the Reserve bank assumes the risk of loss,

1. Current rates vary considerably with three Reserve banks, Richmond, Chicago and Dallas, having a 6 per cent maximum (nominal only in the case of Richmond where the maximum rate to banks is 5 per cent and in the case of Chicago where a 1 per cent deduction is allowed the financing institution for servicing the loan). In the case of advances in which a participation is taken by the financing institution, however, most of the Reserve banks charge the same rate on their own participation as is charged on a direct advance to a borrower. This practice would appear to be justified only in case the Reserve bank services its own participations. Only two Reserve banks, Philadelphia and Kansas City, have dis-

counted advances for financing institutions on which the latter obligate themselves for not less than 20 per cent of any loss and such transactions even by these banks have been in negligible amount.

2. A rate on this portion of advances materially below the rate charged by member banks is undesirable inasmuch as the profit that could be realized by transferring all advances immediately to the Federal Reserve bank would be an inducement to member banks to do this rather than to retain the paper as a permanent investment, protected by a commitment under which they could turn it over to the Reserve bank at any time if necessary. Such a rate would also be no inducement to member banks to assume more than the legal minimum liability of 20 per cent of any loss sustained.

3. A rate on this portion of advances identical with the rate charged the borrower, such as Philadelphia has, with perhaps maximum limits, appears to be justified. To the extent that financing institutions make loans under commitments providing for the Reserve bank taking a participation therein rather than the entire loans, a rate, corresponding with that charged the borrower, offers an inducement to the financing institutions to take a participation in excess of the minimum of 20 per cent required by law, on which a lower rate is charged by the Federal Reserve banks, and this would increase the volume of loans for working capital purposes that could be made under the provisions of Section 13b, since a larger portion than the minimum would be carried by financing institutions.

(b) Rates on that portion of advances on which the financing institu-

-4-

tion assumes the obligation for any loss sustained.

1. Current rates range from 3 per cent at Boston and New York to a possible 6 per cent at Chicago. As stated under (a)1, however, only Philadelphia and Kansas City have rediscounted any advances made by financing institutions where the latter obligated themselves for a portion of any loss that might be sustained, the usual practice being for the financing institution to retain a participation in the advance and to assume no liability on the participation taken by the Reserve bank.

2. Since the financing institution obligates itself for any loss sustained on this portion of advances rediscounted with the Federal Reserve bank, the rate of interest charged by the Federal Reserve bank should be substantially below the rate charged on the portion on which the Reserve bank assumes the risk, and, of course, below the rate charged the borrower. A rate not greatly, if anything, above the regular rediscount rate of the Federal Reserve bank, bearing in mind the fact that the rate granted may run for as much as five years during which time the rediscount rate may fluctuate widely, appears to be justified. In line with this principle the established rates at the Federal Reserve banks of Atlanta, Chicago, and possibly, St. Louis and Minneapolis as well, should be reduced.

C. Commitment rates.

1. Current rates vary considerably, some banks having a rate of $\frac{1}{2}$ per cent, others a rate of 1 per cent, and some a range of from $\frac{1}{2}$ or 1 per cent to 2 per cent.

2. Rates on commitments should obviously be high enough on the average to cover the cost of making commitments and might properly provide some margin to cover a portion of any loss sustained on advances rediscounted under commitments, but the rate should be as low as practicable so as to offer an inducement to financing institutions to make advances protected by commitments and to hold such paper instead of turning it over to the Federal Reserve bank.

General Comments.

1. Loans for the purpose of providing working capital and with a maturity of up to five years would normally carry a rate higher than that charged on ordinary bank loans.

2. Member banks in the smaller centers have not reduced rates charged on ordinary bank loans, such rates not generally being less than 6 per cent.

3. The fact that Federal Reserve banks will assume 80 per cent of the loss on industrial advances made through financing institutions is no reason why borrowers for the purpose of obtaining working capital should be given a more favorable rate than ordinary borrowers receive, and commercial banks would not, of course, offer such borrowers a more favorable rate. Accordingly, whatever the Reserve banks do, borrowers through financing institutions will not get a lower rate than that charged on ordinary bank loans.

4. The Federal Reserve banks should not enter into competition with commercial banks by making direct loans at rates below rates that the banks may reasonably be expected to charge borrowers, especially

so since the law limits direct loans to applicants who are unable to obtain the requisite financial assistance from the usual sources on a reasonable basis.

5. That rates charged borrowers are not regarded by the borrowers themselves as excessive is indicated by the absence of complaints in regard to the rates--applicants in fact are probably quite generally of the opinion that they are fortunate indeed to obtain accommodation at the rates being charged.

6. "Reasonable and sound" is a requirement of the law that is interpreted very liberally; many of the loans being made are such as a commercial bank would not make no matter what the rate might be.

7. The risk of loss on industrial advances is substantial and the Federal Reserve banks will be fortunate if losses do not occur in material amount.

8. The cost of operations under Section 13b is very high--it is doubtful whether current rates will much more than cover expenses, altogether apart from losses.

9. The failure of the Reserve banks to make a greater volume of industrial advances and commitments has not been because of excessive interest rates, but is due to failure of commercial banks, and particularly member banks, to fully realize the obvious advantages of making such advances covered by commitments.

10. The volume of working capital loans possible to be made and transferred to the Federal Reserve banks is too small to be an effective inducement for member banks to reduce their rates on other loans.

X-9102

-7-

HOWEVER,

I admit that the subject is one that should be considered by the Board, and I do not entirely oppose a general reduction of rates on industrial loans, but I do feel that the subject should be studied and thoroughly discussed by the Board members before any action is taken.

(Initialed) M. S. S.

X-9102

COPY

To: Governor Eccles

December 24, 1934.

From: Mr. Currie

I am enclosing a recommendation that rates of interest be lowered on advances under Section 13b. You are probably too busy to go into this now, but Mr. Szymczak may be interested in it.

X-9102

COPY

December 24, 1934.

To: Governor Eccles
From: Mr. Currie

Subject: Recommendation that rates
of interest be lowered on
advances under Section 13b.

Present situation The present rate schedule is given in detail on the accompanying sheet. In general, the rate charged on direct advances is six per cent and the rates charged on advances to financial institutions range from three to six per cent, being generally, though not always, lower for that portion of the advance for which the reserve banks bear the risk. The Federal Reserve Board must approve all rates.

Arguments for a lower rate

1. Present rates are out of line with other rates. In this connection the following rates are of interest:

	<u>Oct.</u>	<u>Nov.</u>
Rates charged customers by banks in New York City	3.28%	3.22
In eight other northern and eastern cities	4.13	4.08
Twenty-seven southern and western cities	5.05	4.93
Bond yields:		
High grade municipals	3.81	
Moody's Aaa corporate	3.96	
" Aa "	4.42	
" A "	5.12	
Home Owners' Loan Corporation mortgages	5.00	
Short-term paper	19/100 to	1.00
Maximum rate payable on time deposits		2.50

2. The rates charged customers of member banks, particularly in the West and South, have not fallen comparably with other rates. A cut in the rate of industrial advances would help to force all rates down.

3. It is essential to recovery to get all rates lower.

4. Pressure on member banks to lower rates would come with a bad grace from the Reserve banks so long as they maintain the present rates.

5. The present rate puts the Board on record as believing that at the present time six per cent is a "reasonable" rate on "sound" loans. The rates now charged on industrial advances are in effect 1929 rates.

6. It is advisable not to give Congress the chance to attribute the small volume of loans to the high rates charged.

7. The actual money loaned is costless money. The Reserve banks should not be motivated by the desire to make profits.

8. The psychological effect of a general lowering of the rates subject to the Board's control might be considerable. The favorable reception accorded the reduction of the rates payable on time deposits would also be accorded reductions on the rediscount rates and the rates on industrial advances.

Objections

1. The Chairmen of the Industrial Advisory Committees have recently recommended that no change be made in the present rate structure. Undue weight should not be attached to this recommendation since it is to be expected that the members of the Advisory Committees would think in terms of ordinary business practice and local conditions rather than in terms of desirable national policy.

2. It is undesirable to compete with local banks for this class of business. This objection may be met by pointing out (a) that at present the rates charged are considerably higher than the average of rates charged customers, and (b) that the law provides that loans will be made only in cases where adequate accommodation at reasonable rates cannot be secured from local banks.

3. The rates should be high to compensate for the risk element. This argument cuts two ways, since it says in effect that despite the mandate of Congress that the loans shall be "sound", despite the restrictions and safeguards the Reserve Banks have imposed, and despite the high percentage of applications rejected on grounds of insufficient security, the loans that have been made should bear a rate applicable to relatively poor risks.

4. The rate should be high to compensate for the heavy expense incurred in the making of such loans. This objection has real weight. Up to the present the Reserve banks report that their expenses have exceeded their income on this class of business. On the other hand, there is evidence that at the moment this state of affairs is being reversed. Moreover, in calculating expenses Reserve banks have included the expenses of their own credit departments, a part of which would have been incurred in any case, and some reserve banks have not included in current income accrued interest. It is worth noting that the bank which charges the lowest rate (Boston-five per cent) is earning more than its expenses.

X-9102

-3-

Specific Recommendations

1. The rate on direct industrial advances should be reduced by one per cent.
2. The rate on advances to banks and other financial institutions should be lowered sufficiently to allow banks to loan to their customers at five per cent and at the same time make a profit.

DIRECT ADVANCES UNDER SECTION 13b BY RATES OF INTEREST CHARGED - (\$000 omitted)

(up to around the middle of December, 1934)

	4		5		5½		6		Total		Range of Rates approved
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	
Boston	-	\$ -	7	\$1,678	-	\$ -	-	\$ -	7	\$1,678	4 - 6 per cent
New York	-	-	7	90	-	-	44	630	51	720	4 - 6 " "
Philadelphia	-	-	-	-	-	-	14	1,221	14	1,221	4 - 6 " "
Cleveland	-	-	-	-	-	-	45	683	45	683	6 " "
Richmond	-	-	-	-	-	-	29	1,220	29	1,220	6 " "
Atlanta	-	-	-	-	-	-	62	759	62	759	6 " "
Chicago	-	-	-	-	-	-	(a)15	(a) 486	(a)15	(a) 486	5 - 6 " "
St. Louis	-	-	-	-	(b)19	(b)432	-	-	(b)19	(b) 432	5½ " "
Minneapolis	-	-	-	-	-	-	(c)49	(c) 802	49	(c) 802	6 " "
Kansas City	-	-	-	-	-	-	5	75	5	75	6 " "
Dallas	-	-	-	-	-	-	28	709	28	709	5 - 6 " "
San Francisco	-	-	-	-	-	-	5	235	5	235	5 - 6 " "
Total	-	-	14	\$1,768	19	\$ 432	296	\$6,819	329	\$9,018	

(a) Includes one discounted item of \$1
(b) " " " " " 2
(c) " two " iters " 13

X-9102

RATES ON COMMITMENTS AND INDUSTRIAL ADVANCES.

			Advances to banks and other financing institutions	
Federal Reserve Bank	Commitments	Financial institution portion	Federal Reserve bank portion	Direct
Boston	$\frac{1}{2}$ - 2	3	$3\frac{1}{2}$ - 5	4 - 6
New York	1 - 2	3	4 - 5	4 - 6
Philadelphia	No general rate established	$3\frac{1}{2}$ <u>1/</u>	Same as to borrowers but not less than 4%	4 - 6
Cleveland	$\frac{1}{2}$ - 2	4	1% below rate to borrowers but not less than 4%	6
Richmond	1 - 2	4 - 6 <u>2/</u>	4 - 6 <u>2/</u>	6
Atlanta	$\frac{1}{2}$	5	5	6
Chicago	1 - 2	5 - 6	4 - 6 <u>3/</u>	5 - 6
St. Louis	$\frac{1}{2}$ flat	$4\frac{1}{2}$	$4\frac{1}{2}$	$5\frac{1}{2}$
Minneapolis	1 flat	$4\frac{1}{2}$ - 5 <u>4/</u>	$4\frac{1}{2}$ - 5 <u>4/</u>	6
Kansas City	$\frac{1}{2}$ - 2 flat	4	4	6
Dallas	1 flat	4	5 - 6	5 - 6
San Francisco	1 - 2	3 - 4	4 - 5	5 - 6

1/ 1% above prevailing Federal Reserve bank discount rate.

2/ To banks, 1% less than rate charged borrower, but not less than 4%; to other financing institutions 6%.

3/ Established rates 5-6%, but 1% allowed on unobligated portion for servicing.

4/ To member banks, $4\frac{1}{2}$ %; to other banks and financing institutions 5%.

X-9105

INDUSTRIAL ADVISORY COMMITTEESIXTH FEDERAL RESERVE DISTRICTFEDERAL RESERVE BANK OF ATLANTA

<u>Name</u>	<u>Business Affiliation</u>
John Sanford, Chairman	President, Armour Fertilizer Works, Atlanta, Georgia.
Wm. A. Parker, Vice Chairman	President, Beck & Gregg Hardware Company, Atlanta, Georgia.
A. R. Forsyth	Executive Vice-President, Gulf States Steel Company, Birmingham, Alabama.
Andrew M. Lockett	President, A. M. Lockett and Company, New Orleans, Louisiana.
I. C. Milner	Executive Vice-President, Gate City Cotton Mills, Atlanta, Georgia.

January 22, 1935.

FEDERAL RESERVE BOARD

104

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9104

January 23, 1935.

SUBJECT: Expense, Main Lines, Leased
Wire System, December, 1934.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9104-a and X-9104-b, covering in detail operations of the main lines, Leased Wire System, during the month of December, 1934.

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 DECEMBER, 1934.

From	Business reported by banks	Words sent by New York charge-able to other F. R. Banks (1)	Net Federal reserve bank business	Per cent of total bank business (*)
Boston	32,637	2,807	35,444	4.48
New York	159,404	-	159,404	20.15
Philadelphia	28,756	2,901	31,657	4.00
Cleveland	36,981	2,905	39,886	5.04
Richmond	48,785	3,276	52,061	6.58
Atlanta	53,317	2,821	56,138	7.10
Chicago	87,892	3,348	91,240	11.54
St. Louis	68,198	3,020	71,218	9.00
Minneapolis	34,976	2,771	37,747	4.77
Kansas City	63,821	2,702	66,523	8.41
Dallas	55,184	3,421	58,605	7.41
San Francisco	86,677	4,454	91,131	11.52
Total	756,628	34,426	791,054	100.00
F. R. Board business			356,104	1,147,158
Reimbursable business Incoming & Outgoing				<u>724,451</u>
Total words transmitted over main lines				1,871,609

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9104-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, DECEMBER, 1934.

Name of bank	Operators' Salaries	Retirement Contributions	Operators' over-time	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston *	\$ 260.00	\$ 24.65	\$ -	\$ -	\$ 284.65	\$ 669.68	\$ 284.65	\$ 385.03
New York	1,346.18	121.69	2.00	-	1,469.87	3,012.06	1,469.87	1,542.19
Philadelphia	225.00	20.25	-	-	245.25	597.93	245.25	352.68
Cleveland	306.66	27.60	-	-	334.26	753.39	334.26	419.13
Richmond	190.00	17.35	-	230.00(&)	437.35	983.59	437.35	546.24
Atlanta	270.00	22.14	-	-	292.14	1,061.32	292.14	769.18
Chicago	4,142.20 (#)	109.84	2.00	-	4,254.04	1,725.02	4,254.04	2,529.02(*)
St. Louis	195.00	17.43	.75	-	213.18	1,345.34	213.18	1,132.16
Minneapolis	200.00	18.00	-	-	218.00	713.03	218.00	495.03
Kansas City	287.00	25.83	-	-	312.83	1,257.15	312.83	944.32
Dallas	251.00	22.59	-	-	273.59	1,107.66	273.59	834.07
San Francisco	380.00	32.03	-	-	412.03	1,722.03	412.03	1,310.00
Federal Reserve Bd.	-	-	-	15,641.07	15,641.07	-	-	-
Total	\$8,053.04	\$459.40	\$4.75	\$15,871.07	\$24,388.26	\$14,948.20	\$8,747.19	\$8,730.03
Less Reimbursable Charges					9,440.06			2,529.02(a)
					<u>\$14,948.20</u>			<u>\$6,201.01</u>

- (&) 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-9105

January 26, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

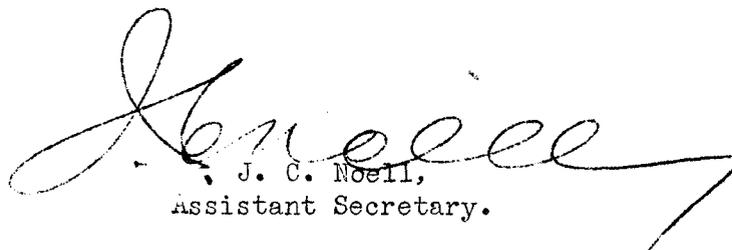
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXROK" - Treasury Bills to be dated January 30, 1935, and to mature July 31, 1935.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXRID" 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-9107

January 29, 1935.

SUBJECT: Compliance by Member Banks with
Requirements as to Bankers' Acceptances.

Dear Sir:

It has been suggested to the Federal Reserve Board by Mr. H. S. Yohe, In Charge, Administration United States Warehouse Act, of the Department of Agriculture, that in some instances banks are not complying with the requirements of the Federal Reserve Board's Regulation A with respect to bankers' acceptances and particularly with the requirement that such acceptances be secured "at the time of acceptance by a warehouse, terminal, or other similar receipt * * * issued by a party independent of the customer * * *".

In view of this suggestion, the Board requested the Subcommittee of the General Committee on Bankers' Acceptances of the Governors Conference to express its views as to the advisability and practicability of investigating the collateral supporting bankers' acceptances in order to determine whether it complies with the requirements of the law and the regulations.

After considering the matter in the light of the views which have been expressed by the Subcommittee, the Federal Reserve Board requests that you arrange to have your examiners, in making

-2-

X-9107

examinations of State member banks which are engaged in accepting drafts or bills of exchange, to ascertain in so far as practicable whether such banks are complying with the requirements of the law and of the regulations of the Federal Reserve Board with regard to bankers' acceptances and to call attention in their reports to cases in which there has been a failure to observe the requirements in substantial particulars.

This matter is also being brought to the attention of the Comptroller of the Currency with the suggestion that he request his examiners to take like action in making examinations of national banks.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

110

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9108

January 29, 1935.

Dear Sir:

There is attached, for your information, a copy of a letter addressed to Mr. A. M. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, with regard to the question whether member banks may continue to pay interest at the rate of 3% per annum to maturity on certificates of deposit and other time deposit contracts entered into in good faith prior to December 13, 1934, and maturing after January 31, 1935.

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

COPY

X-9108-a

January 29, 1935.

Mr. A. M. McAdams,
Assistant Federal Reserve Agent,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. McAdams:

This refers to your letter dated January 17, 1935, in which you request an opinion on the question whether, under the recent amendment to the Board's Regulation Q reducing the rate of interest payable by member banks on time deposits from 3 per cent per annum to $2\frac{1}{2}$ per cent per annum, member banks of the Federal Reserve System may continue to pay interest at the rate of 3 per cent per annum to maturity on certificates of deposit and other time deposit contracts entered into in good faith prior to December 18, 1934, and maturing after January 31, 1935.

It is understood that you desire to be advised concerning the payment of interest upon such certificates of deposit and other time deposit contracts which contain the printed or stamped clause "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", and as to certificates of deposit and other time deposit contracts which do not contain such a qualifying clause.

Under Regulation Q, Series of 1935, if a certificate

X-9108-a

Mr. A. M. McAdams - 2

of deposit or other time deposit contract was entered into in good faith prior to December 18, 1934, was in force on that date, and otherwise obligated the member bank to pay interest thereon at the rate of 3 per cent per annum until maturity, the fact that the above notation or a similar notation appeared on the certificate of deposit or other time deposit contract, would not require a reduction in the rate of interest paid thereon after January 31, 1935. Interest accruing on such a certificate of deposit or other time deposit contract between January 31, 1935 and its maturity may be paid at the original rate of 3 per cent per annum, and need not be reduced to the rate of $2\frac{1}{2}$ per cent per annum, whether or not the clause mentioned above appears thereon.

You will understand, however, that such certificates of deposit or other time deposit contracts may not be renewed or extended at a rate of interest in excess of $2\frac{1}{2}$ per cent per annum.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9109

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

STATEMENT FOR THE PRESS

For release in morning papers
February 4, 1935.

February 1, 1935.

The Federal Reserve Board has announced that the preparation of the program for a competition for the selection of an architect for its new building has been completed. The immediate purpose of the competition is to enable the Board to choose from among the competitors who have been invited to participate an architect to whom shall be entrusted the development of the final plans and specifications for the building which the Board proposes to erect.

The Federal Reserve Board was authorized by the Act of June 19, 1934, to acquire a site and construct a building suitable and adequate in its judgment for its purposes. It has acquired property for this purpose on the north side of Constitution Avenue between 20th and 21st Streets, adjoining that of the National Academy of Sciences on the west and the Public Health Service on the east. The site was selected after a careful canvass of numerous properties which had been offered for the Board's consideration. It was approved for this purpose by the National Capital Park and Planning Commission and by the Secretary of the Interior who recommended it to the President and the President gave his approval on July 13, 1934. Title was transferred to the Board on January 22, 1935.

The program for the competition was prepared under the direction of Mr. Everett V. Meeks, Dean of the School of the Fine Arts in Yale University, and has been approved by the Fine Arts Commission, the National Capital Park and Planning Commission and the American Institute of Architects. In connection with the preparation of the program the Board has had the benefit of the assistance and cooperation of the National Park Service of the Department of the Interior.

The general architectural character of the proposed building is indicated by the following provision of the program:

"The conditions under which the Federal Reserve Board has acquired its building site on Constitution Avenue provide that the design and material of the exterior of the building shall be subject to the approval of The Commission of Fine Arts. The Commission has prescribed that 'the material of the exterior of the building is to be of white marble, to conform to the other buildings along this portion of Constitution Avenue,' and has also given an indication of its views as to the general architectural character of the building.

"While it is the desire of the Federal Reserve Board that the proposed building should be designed with regard primarily to the commodious and suitable housing of the activities of the Board and its staffs, the exterior design of the building should be carefully studied and developed in order that a building shall result which will at the same time satisfy the requirements of utility and beauty.

"The architectural character of the exterior should be suggested by the governmental quality of the Federal Reserve Board's activities. It is not a banking institution --it is a governmental body which has general supervisory and administrative powers. The 'nature of the functions performed by the Federal Reserve Board', in the view of the Commission, 'dictates an architectural concept of dignity and permanence.' 'It must, consequently, have impressive dignity.'

"The proximity of the building to the Lincoln Memorial and other nearby permanent structures already erected on Constitution Avenue or to be erected by the Government in the West Rectangle suggests that the exterior design of the building for the Federal Reserve Board should be in harmony with its environment.

"It is, however, thought desirable that the aesthetic appeal of the exterior design should be made through dignity of conception, purity of line, proportion and scale rather than through stressing of merely decorative or monumental features. For this reason it is further suggested that the use of columns, pediments and other similar forms may be omitted and should be restricted to a minimum consistent with the character of the building as described.

"It is not the intent of this program to over-stress or to dictate to the competitors in the matter of style, nevertheless it is the Commission's view that 'the Federal Reserve Board building must be in general accord with the governmental buildings in Washington -- it must seem at home in the city.'"

During the formulation of the program a thorough study of the Board's needs was made by Mr. E. F. Abell, Consulting Engineer, as the Board intends by careful planning to provide adequately for the future needs of the Board and its staff, having in mind the possibility of changes of duties and responsibilities which may entail rearrangement and expansion of its forces from time to time. The need for such planning is demonstrated by the fact that within the past three years the Board's organization has increased 50% in size and substantial rearrangements of divisions have occurred, chiefly because of new duties which developed in connection with the banking holiday of 1933 and as a result of legislation enacted since that time. Ample room will be allowed for expansion so that when the building is occupied the Board will not

find itself in the position of having failed to make proper provision for its needs, and soundproof movable partitions will be used in the greater part of the building so that alterations in space allotments may be made economically.

The property acquired is of sufficient size to permit expansion of the building if the Board finds it necessary, and also, if future developments warrant, to build a suitable annex to the north of the presently proposed building. The program of competition provides that the competitors shall take these possibilities into consideration in the designs submitted.

Invitations to participate and programs containing the terms and conditions of the competition have been sent to Arthur Brown, jr., San Francisco, California; Coolidge, Shepley, Bulfinch and Abbott, Boston, Massachusetts; Paul Philippe Cret, Philadelphia, Pennsylvania; Delano and Aldrich, New York City; Holabird and Root, Chicago, Illinois; John Russell Pope, New York City; James Gamble Rogers, New York City; Egerton Swartwout, New York City; and York & Sawyer, New York City.

It was also announced that a jury composed of three architects and two laymen has been selected by the Board to pass upon the designs submitted by the competing architects. The architects upon the jury are John W. Cross, New York City; William Emerson, Boston, Massachusetts, and John Mead Howells, New York City. The other members of the jury are Frederic A. Delano, Chairman of the National Capital Park and Planning Commission, and Adolph C. Miller, a member of the Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

A-9110

CONFIDENTIAL

February 1, 1935.

SUBJECT: Proposed Amendments to Regulation T.

Dear Sir:

There are inclosed herewith several copies of a preliminary draft of certain proposed amendments to Regulation T. You will note that these are in preliminary form and that they are not for publication.

You are requested to furnish the Board with any criticisms of the proposed amendments which you may have and with suggestions for possible improvement. In preparing such criticisms and suggestions you may consult such other persons, including representatives of securities exchanges in your District, as you may wish to consult, and for this purpose you are at liberty to submit copies of the proposed amendments to such persons.

Since it is desirable to make these amendments effective within the near future, you are requested to have all suggestions and criticisms in the hands of the Board as soon as possible.

It should be emphasized that there is no intention at this time to undertake any general revision of Regulation T or to make

any fundamental changes therein. The principal objects of the proposed amendments are briefly indicated below.

Amendment No. 1 clarifies the meaning of the term "days" as used in the regulation and authorizes the creditor, when required to act within so many "days", to disregard Sundays and holidays in certain cases.

Amendment No. 2 clarifies the provision requiring that margin be obtained promptly and in addition makes clear that margin demanded against additional purchases in a restricted account shall be furnished, except in unusual cases, altogether in cash or securities and not by counting any appreciation in security values that occurs during the three days of grace allowed to the creditor for obtaining the margin.

Amendment No. 3 extends from one day to ten days the period within which the creditor may pay to the customer the proceeds of the sale of unregistered securities from a restricted account.

Amendment No. 4 clarifies and implements the restrictions arising from the Securities Exchange Act of 1934 with respect to the right of the broker or dealer to "arrange for" the extension or maintenance of credit.

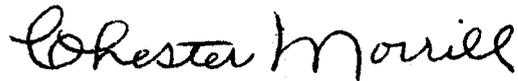
Amendment No. 5 makes specific provision for certain exceptional cases, such as one in which the creditor, after attempting to comply with certain provisions of the regulation by selling collateral, finds himself left with an account consisting only of

an unsecured debit balance so that he is maintaining credit without collateral.

Amendment No. 6 includes sales "for" a customer among "cash transactions" and permits incidental extensions of credit in connection therewith, without reference to margin requirements, provided the securities sold are deposited for sale and are not included in any margin account. It also relieves the creditor from the necessity of requesting extensions of time in which to obtain small unpaid balances, and gives the creditor "two full business days" instead of "two days" in which to resell if the customer fails to comply with his agreement to pay promptly.

Amendment No. 7 extends from one day to thirty-five days the time within which the creditor may pay over to the customer cash dividends or interest received for the customer in a restricted account.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures.

TO ALL F. R. AGENTS
(No copies to governors and no extra copies to banks.)

FEDERAL RESERVE BOARD

120

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9111

February 1, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXRUT" - Treasury Bills to be dated February 6, 1935, and to mature August 7, 1935.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXROK" 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-9112

February 2, 1935.

CONFIDENTIAL

Dear Sir:

There is attached a copy of a telegram addressed by the Federal Reserve Board today to Mr. J. E. Crane, Deputy Governor of the Federal Reserve Bank of New York, advising of approval by the Board of the action of the board of directors of the bank in authorizing the officers to open and maintain an account on the books of the bank in the name of the National Bank of Nicaragua, and to make a loan to that bank up to \$300,000 for not to exceed four months secured by gold bars held under ear-mark for the national bank.

As stated in the telegram, the Board approves the acceptance by your bank, should it desire to do so, of participation in the loan and the new account.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL F. R. BANKS EXCEPT NEW YORK.
(No copy of letter to governors and no extra copies to banks.)

X-9112--a

COPY
T E L E G R A M
FEDERAL RESERVE BOARD
WASHINGTON

February 2, 1935.

Crane - New York

Your telegram. Board approves action your directors in authorizing officers Federal Reserve Bank of New York to open and maintain account on books of bank in name of National Bank of Nicaragua and to carry out operations in this market for that bank along substantially same general lines and subject to substantially same terms and conditions as for other foreign central banks having accounts with you. It is noted that action your directors restricts relations to be established to opening of one-way account. Please forward to Board copy of your letter to Bank of Nicaragua setting forth terms and conditions upon which account with that institution will be opened and maintained, together with copy of bank's acceptance of such conditions. Board also approves action your directors in authorizing officers to make loan to National Bank of Nicaragua up to \$300,000 for not to exceed four months secured by gold bars valued at \$316,000 held under earmark by you for national bank; interest on such loan to be charged at your discount rate. Participation in loan and new account by other Federal reserve banks is approved and they are being advised accordingly.

(Signed) Chester Morrill
Morrill

X-9113

The following is a list of subjects which are to be brought to the attention of the Governors with the suggestion that upon their return to their banks they discuss these subjects with their directors and the other officers of their banks and within thirty days advise the Board as to their views, treating each subject separately:

1. General credit situation
 - (a) Are commercial banks doing everything in their power to improve the situation?
 - (b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?
2. Direct loans to industry
 - (a) Should Federal reserve banks continue this activity?
 - (b) If not, should it be transferred to RFC?
3. Interest rates
 - (a) On time and savings deposits of member banks.
 - (b) On commercial and industrial loans.
4. Matters affecting admission of nonmember banks to Federal reserve system
 - (a) Earnings of nonmember banks from exchange collection charges.
 - (b) Present conditions of membership.
 - (c) Advisability of extension of membership to banks outside the States and the District of Columbia.
5. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.

6. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.
7. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.
 - (a) Circumstances under which regulation should be issued.
 - (b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T.
8. Economic and statistical divisions of Federal reserve banks.
 - (a) Usefulness to directors and officers.
 - (b) Value of Federal reserve bank monthly reviews.
9. Advisability of declaring a policy on the part of the Federal reserve banks that officers and employees should not acquire ownership of stock of banking institutions.

FEDERAL RESERVE BOARD**WASHINGTON****ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD**

X-9114

February 6, 1935.

Dear Sir:

There is attached, for your information, a copy of a telegram addressed by the Federal Reserve Board to Mr. J. B. Anderson, Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland, with regard to the payment of interest on certificates of deposit of indefinite maturity and on savings accounts.

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

COPY
TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

X-9114-a

February 2, 1935

ANDERSON *
CLEVELAND

Your wire January 31 re effect of X-9108-a upon certificates of deposit of indefinite maturity. It is assumed that you refer to certificates payable upon notice in writing required to be given not less than 30 days before date of repayment. Regulation Q as amended provides that a member bank may pay interest on time deposits in accordance with the terms of a certificate lawfully entered into in good faith prior to December 18, 1934, and in force on that date and which may not legally be terminated or modified by such bank at its option or without liability and the 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 into conformity with the regulation. It appears to the Board that a member bank may lawfully terminate the contract contained in a certificate of the kind above described by giving reasonable notice of its intention to do so to the holder of the certificate. Each member bank received notice on or about December 18, 1934, of the reduction in interest rate to become effective February 1, 1935, and it became the duty of such bank upon receiving such notice to terminate or to modify such certificates of deposit so as to bring them into conformity with the provisions of the

regulation on February 1 if legally possible under the contract. Referring your wire February 1 re savings accounts, Regulation Q contains provisions applicable to savings deposits similar to those above described relating to time deposits. It is understood that most banks under their contracts with savings depositors have the legal right to terminate or modify such contracts upon the giving of reasonable notice or notice of a specified period, usually 30 days. In the circumstances it became the duty of member banks upon being advised of the amendment to the Board's Regulation Q to terminate or to modify its savings deposit contracts so as to bring them into conformity with the provisions of the regulation on February 1 if legally possible under the contracts.

(Signed) Chester Morrill

MORRILL

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9115

February 6, 1935.

During an informal meeting of the Governors of the Federal reserve banks with the Federal Reserve Board on February 5, I stated to the Governors that it would be helpful to the Federal Reserve Board if the Federal reserve banks would frankly point out any features of the relations between the Federal Reserve Board and the Federal reserve banks and member banks that in their opinion are unsatisfactory or subject to criticism, with special reference to any regulations or rulings or procedure of the Board. If in any respect the actions of the Board or its staff seem bureaucratic or impractical or unduly rigid, the Board desires to be fully advised so that it may take any measures that seem desirable to correct and improve the situation.

In addition, I suggested a number of subjects which it seemed to me it would be desirable for the directors and officers of the Federal reserve banks to discuss. There are inclosed two copies of a revised list of these subjects, which the Board would like to have considered in the manner suggested, and to be advised

-2-

X-9115

as to the views of your bank within thirty days, treating each subject separately. Upon receipt of the replies from the Federal reserve banks they will be analyzed and studied and an endeavor will be made as promptly as possible to advise you as to any conclusions that the Board may reach regarding them.

Very truly yours,

A handwritten signature in cursive script, appearing to read "M. S. Eccles".

M. S. Eccles,
Governor.

Inclosures.

TO ALL CHAIRMEN.

The following is a list of certain subjects which were brought to the attention of the Governors on February 5 by Governor Eccles with the suggestion that these subjects be discussed by the directors and officers of the Federal reserve banks and that the Board be advised as to their views within thirty days, treating each subject separately:

1. General credit situation
 - (a) Are commercial banks doing everything in their power to improve the situation?
 - (b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?
2. Interest rates
 - (a) On time and savings deposits of member banks.
 - (b) On loans of member banks and on industrial advances and commitments by Federal reserve banks.
3. Matters affecting admission of nonmember banks to Federal reserve system.
 - (a) Earnings of nonmember banks from exchange collection charges.
 - (b) Present conditions of membership.
 - (c) Advisability of extension of membership to banks outside the States and the District of Columbia.
4. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.
5. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.
6. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.

- (a) Circumstances under which regulation should be issued.
 - (b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T.
7. Economic and statistical divisions of Federal reserve banks.
- (a) Usefulness to directors and officers.
 - (b) Value of Federal reserve bank monthly reviews.
8. Establishment of career system for personnel of Federal reserve banks.
9. Criticisms of existing regulations or rulings or procedure of the Federal Reserve Board, with specific recommendations as to changes which would correct any unsatisfactory features of the relations between the Board or its staff and the Federal reserve banks or member banks.

FEDERAL RESERVE BOARD

132

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9117.

February 8, 1935.

Dear Sir:

For your information, there are being transmitted to you today, under separate cover, fifty copies of Public No. 1 - 74th Congress, "An Act to extend the functions of the Reconstruction Finance Corporation for two years, and for other purposes", approved on January 31, 1935.

A limited number of additional copies of this act may be obtained from this office upon request.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.
(No copies to governors and no extra copies to banks)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9118

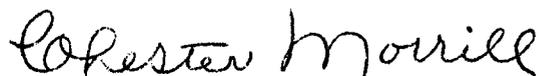
February 8, 1935.

Dear Sir:

Pursuant to the provisions of Sections III and V of Regulation "Q" of the Federal Reserve Board, the Board has prescribed a maximum interest rate of 4 percent per annum on savings deposits and of 6 percent per annum on other time deposits payable only at offices of member banks located outside the United States.

A copy of the Board's authorization is inclosed.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

MAXIMUM RATES OF INTEREST PAYABLE ON TIME AND SAVINGS
DEPOSITS OUTSIDE OF THE UNITED STATES.

Under the provisions of Regulation Q (paragraph (5) of subsection (c) of Section III and paragraph (5) of subsection (c) of Section V), a member bank may pay interest on a time or savings deposit which is payable only at an office of such bank located outside of the States of the United States and of the District of Columbia at a rate not exceeding the maximum rate set forth in Regulation Q "or such higher maximum rate as may be prescribed by the Federal Reserve Board from time to time for payment in the locality in which such office is located".

In accordance with these provisions of Regulation Q, the Federal Reserve Board hereby prescribes the following maximum rates of interest which may be paid by member banks on time and savings deposits payable only at offices of such banks located outside of the States of the United States and of the District of Columbia:

On time deposits as defined in Regulation Q, a rate not in excess of 6 percent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed;

On savings deposits as defined in Regulation Q, a rate not in excess of 4 percent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed.

X-9118-a

-2-

Such maximum rates of interest shall be effective February 1, 1935, and until such time as different rates may hereafter be prescribed by the Federal Reserve Board.

The above are the maximum rates of interest which may be paid by member banks on such deposits in any place outside of the States of the United States and of the District of Columbia. However, the Federal Reserve Board will expect that no member bank will pay interest on any such deposit at a rate in excess of that paid on deposits of a like class by competing institutions situated in the locality in which such payment of interest is made.

RATES OF INTEREST PAID ON DEPOSITS
BY FOREIGN BRANCHES
OF MEMBER BANKS

X-9118-b

193

Name of bank _____

Location of head office _____

City _____

State _____

F.R. District No. _____

Amount of deposits on which interest is paid	Rates paid by foreign branches of this bank		Customary Rate* paid on report date by:	
	Customary rate* on report date	Maximum rate paid during preceding six months	Other competing foreign banks or branches	Native competing banks

Country _____

Savings Accounts
Other Time Deposits
Demand Deposits

Country _____

Savings Accounts
Other Time Deposits
Demand Deposits

Country _____

Savings Accounts
Other Time Deposits
Demand Deposits

Country _____

Savings Accounts
Other Time Deposits
Demand Deposits

Country _____

Savings Accounts
Other Time Deposits
Demand Deposits

*Rate applicable to major portion of deposits.

Signature and title of member bank officer.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9119

February 8, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

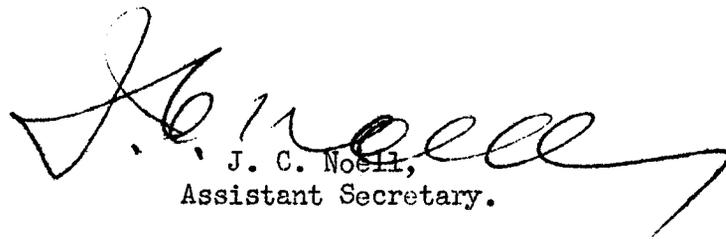
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXRYE" - Treasury Bills to be dated February 13, 1935, and to mature August 14, 1935.

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

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS,

A-9120

INDUSTRIAL ADVISORY COMMITTEE
THIRD FEDERAL RESERVE DISTRICT
FEDERAL RESERVE BANK OF PHILADELPHIA

<u>Name</u>	<u>Business Affiliation</u>
J. Ebert Butterworth, Chairman	Vice-President, H. W. Butterworth and Sons Co., Philadelphia, Pa.
Charles E. Brinley	President, American Pulley Co., Philadelphia, Pa.
John S. Chipman	President, Chipman Knitting Mills, Easton, Pa. Vice-President, Rosedale Mills, Reading, Pa.
H. W. Prentiss, Jr.	President, Armstrong Cork Company, Lancaster, Pa.
Benjamin F. Mechling	President, Atlantic Elevator Company, Philadelphia, Pa.

February 8, 1935.

X-9121

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 P. M. Eastern
Standard Time, Tuesday,
February 12, 1935.

Summary of address by Marriner S. Eccles, Governor of the Federal Reserve Board, at the Mid-winter Meeting of the Ohio Bankers Association, in Columbus, Ohio:

MONETARY PROBLEMS OF RECOVERY.

Governor Eccles began his address by saying that this was his first opportunity to speak before a large number of bankers since he became Governor of the Federal Reserve Board and also his first opportunity to discuss before a public audience the Banking Bill of 1935, "which expresses the general objectives of the Administration in the field of banking". He confined his discussion to two of the main objectives of the proposed legislation -- namely, to make the banking system a more efficient instrument for the promotion of stable business conditions in the future, and, more immediately, to aid in business recovery.

"The fundamental premise underlying the Bill and underlying my discussion this afternoon", Governor Eccles said, "is that business stability is a desirable objective. I feel sure that no one will disagree with this premise, and to my way of thinking agreement on this one vital point alone will lead you to lend your whole-hearted

support to the Banking Bill of 1935.

"If we had a perfectly flexible cost and price structure -- which would have to include, I may remind you, an equally flexible wage and interest structure -- our economy could probably adjust itself to rapid expansions and contractions with little resultant unemployment. Without such flexibility expansion and contraction, instead of calling into play forces that adjust and correct such movements, tend to feed upon themselves.

"It is not realistic, however, to say that all that is necessary is to introduce more flexibility into our system. Numerous rigidities and inflexibilities have developed in our economy, and the trend in the recent past plainly points to more rather than less rigidity in the future. If there is one thing that to me seems clear it is that, unless conscious effort is made to prevent them, booms and collapses will continue to recur in capitalistic democracies. It also seems evident to me that neither capitalism nor democracy can survive another depression of the magnitude of the one from which we are just emerging."

Taking up the question of monetary control, Governor Eccles asserted that the operation of the banking system, left to itself with no conscious effort of control, tends to intensify rather than to counteract business fluctuations.

"For example", he said, "in the period from 1929 to 1933, when expenditures were falling rapidly and the national income was

being cut in half, the supply of deposit money decreased by approximately one-third. Part of the decrease can be attributed to bank failures, accentuated by withdrawals of cash for hoarding, and part to the contraction of loans and investments by surviving banks. No one person or body is responsible for this decline. The responsibility must be shared by the entire system.

"The fact is that laissez faire in banking and the attainment of business stability are incompatible. If variations in the supply of money are to be compensatory and corrective rather than inflammatory or intensifying, there must be conscious and deliberate control. The difficult and controversial question is who should do the controlling.

"The power to coin money and to regulate the value thereof has always been an attribute of a sovereign power. It was one of the first powers given to the Federal Government by the Constitutional Convention. The development of deposit banking in the latter half of the Nineteenth Century, however, introduced into our national economy numerous private agencies which have the power to create and destroy money without being aware of it themselves and without being recognized as creators or destroyers of money by the Government or the people. The trend since 1913 represents a gradual recognition of this condition and a reassertion by the State of a power which it always possessed."

In developing this point, Governor Eccles quoted as follows

from the speech of President Roosevelt to the American Bankers Association last October: "The old fallacious notion of the bankers on the one side and the Government on the other as more or less equal and independent units has passed away. Government by the necessity of things must be the leader, must be the judge of the conflicting interests of all groups in the community, including bankers. The Government is the outward expression of the common life of all citizens."

Governor Eccles made it clear that he was not arguing for a "highly centralized control of all banking activities". The administration of certain interests, he said, could obviously be handled more efficiently locally, whereas others could be handled more efficiently on a national scale.

"We should consider each case on its merits," he continued, "and provide for local control or national control, whichever is in the public interest."

He explained the operation of this principle as follows:

"Banks in this country perform two main services. They act as middlemen for the investment of a substantial portion of the community's savings, and, through the provision of checking facilities, they supply the bulk of the community's means of payment. So far as the investment of savings and the determination of individual credits are concerned, chief reliance must rest on the judgment and knowledge of the individual banker.

"When we come to the second function of banks -- namely, that of providing the community's money supply -- a different range of factors must be taken into consideration. The effect of variations in the supply of money is nationwide and cannot be localized. The Reserve Administration may make conditions favorable for the creation of new deposits, but it cannot insure that the new money will be used in any particular section of the country, or spent on any particular kind of goods.

"Since, therefore, the effect of monetary policy is nationwide, the formulation of monetary policy should be by a body which represents the nation, and which is activated by national considerations. It is inconceivable that variations in the community's money supply should be left to the individual decisions of some fifteen thousand local bankers. It is scarcely more logical that the variations should reflect uncoordinated decisions of the twelve Federal Reserve banks."

After reviewing the origin of the open market machinery of the Federal Reserve System in 1922 and 1923, and the development of this mechanism since then, Governor Eccles said: "The System itself, by virtue of necessity, has developed a large measure of coordinated activity in regard to open market operations, the single most important instrument of reserve control. This coordination, while it represented a great advance over the situation which prevailed up to 1923, nevertheless leaves much to be desired." The proposed legislation,

therefore, provides for "a small, responsive body which is charged with the duty of acting in the national interest in formulating open market policy and in accepting responsibility for its consummation and results."

Governor Eccles placed great stress on the provision in the new bill that would permit banks to make loans on improved real estate up to 75 per cent of its appraised value and on an amortized basis for a twenty-year period, and in an aggregate amount up to 60 per cent of their time deposits. He said that he regarded this provision as the most important aid to business recovery in the Bill, but at the same time the one most susceptible to misunderstanding.

"It has been asserted", he said, "that this is an invitation to banks to make loans of a character that do not conform to sound banking principles or standards. The collapse of real estate values is cited as an illustration of the dangers associated with such loans. It is constantly stated that the troubles of our banking system were due entirely to the acquisition of long-term assets by the banks. It is suggested that banks in the future should confine themselves to short-dated commercial loans and investments. But I need not tell you that, if this suggestion were acted upon, the result would be fatal to the banks.

"In October 1934, the eligible paper of member banks, within the meaning of the Federal Reserve Act, amounted to only slightly more than two billion dollars. Even in 1929 this paper amounted to

only four and a half billion dollars. Banks cannot live on the interest from such a small volume of loans, and an attempt to confine themselves to these loans would greatly curtail the scope of banking. The more business the banks refuse, the more will be handled by other agencies, including the Government, and the less room will remain for the operations of the private banking system.

"I am fully aware of the fear with which bankers view the extension of other lending agencies and the uneasiness they feel at having to rely more and more on the holdings of government obligations to keep up their income. I might point out, however, that these developments are a consequence of the failure of the banking system to perform its functions adequately. If the banking system would utilize in real estate loans and other long term investments the savings and excess funds that it now possesses, business activity would be greatly stimulated, and the Government would then be able to withdraw rapidly from the lending field.

"The bankers also feel a deep concern about the constant growth of the Government's deficit and of the public debt, and yet a considerable part of this debt is incurred in refinancing mortgages and in undertaking other functions which the banks have been failing to perform. Release of banking funds in those fields would enable the Government to diminish its expenditures and to reduce the rate of growth of the public debt.

"You will carefully note that I am criticizing the banking

system and not the bankers as individuals. I do not see how you as individual bankers, having to secure liquidity alone and unaided, could safely have followed a different lending policy than you did.

"This, then, is the dilemma that faces the banks: If they go into the longer term loaning business they run the risk of depreciation and of inability to realize quickly upon their assets in case of need; if they do not go into this business, they cannot find an outlet for their funds -- their earnings will suffer and the justification for their existence diminishes. How can this dilemma be solved? It is proposed in the bill to solve it by removing the problem of liquidity as such from the concern of the banks -- by bestowing liquidity on all sound assets by making it possible to borrow on them at the Reserve banks in case of need.

"Reliance on the form of paper as a guide to soundness and eligibility has not protected the banking system from disaster. We wish to divert bankers' attention from the semblance of paper to its substance; to emphasize soundness rather than liquidity.

"What we are proposing is that the problem of liquidity shall cease to be an individual concern and shall become the collective concern of the banking system. A single bank which adopts a policy calculated to pay off all of its deposits at a moment's notice, even though the national income is cut in two, cannot adequately perform its duty of serving its community.

"What we want to accomplish is to make it possible for banks,

without abandoning prudence or care, to meet local needs both for short and for long time funds. We want to make all sound assets liquid by making them eligible as a basis of borrowing at the reserve banks, and then to use the powers of monetary control in an attempt to prevent the recurrence of national conditions which result in radical declines of national income, in the freezing of all bank assets whether they are technically in liquid form or not, and in general unemployment and destitution.

"Let me make myself clear that I do not expect the passage of the Banking Bill of 1935 to solve the problem of the business cycle. What I do expect is that its passage will make conditions more favorable for its eventual solution. My own view is that, while through the compensatory action of the banking system much can be done to eliminate fluctuations, it will be necessary for the government also to help in offsetting and counteracting rapid expansion and contraction of expenditures on the part of the community at large. It can do this by varying its expenditures and by the use of the taxing power in securing a better distribution of income.

"One thing is certain. We will not obtain stability unless we work for it. A policy of laissez faire presupposes an economy possessing a flexibility which I think it is hopeless for us to expect to achieve. Therefore it is absolutely essential to develop agencies which by conscious and deliberate compensatory action will obviate the necessity of drastic downward or upward adjustments of costs and

prices, wages and capital structures. If we do not develop such agencies our present economy, and perhaps our present form of government, cannot long survive.

In conclusion Governor Eccles said: "It behooves all of us who are charged with the responsibility of managing our money and credit mechanism to devote our best thought and greatest effort to promote an intelligent understanding of the monetary and economic problems confronting the nation. By supporting the proposed legislation which I have outlined to you and, what is even more important, by cooperating with the policies for the promotion of which the changes in our banking structure are proposed, the bankers of the country will be working not only in their own best interests but also in the interests of recovery and the establishment, within our economic and political framework, of a more stable and equitable national economy."

FEDERAL RESERVE BOARD

WASHINGTON

X-9122.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 11, 1935.

SUBJECT: Interest Rates Charged on
Industrial Advances and Commitments.

Dear Sir:

In view of the present low level of interest rates and the continuing downward tendency in such rates, the Board feels that consideration should be given at this time to the question whether rates now being charged on industrial advances and on commitments to make such advances should be reduced. It is also thought that since the rates adopted by the various Federal Reserve banks, particularly those charged to financing institutions, do not appear to follow any consistent policy, a review of the rate structure might well be made, irrespective of whether a lowering of such rates may be found advisable.

The table of rates on industrial advances on page 60 of the January 1935 Federal Reserve Bulletin shows that five of the Federal Reserve banks have a rate of 6 percent on direct advances, three a rate of 4-6 percent, three a rate of 5-6 percent, and one a rate of 5-1/2 percent. Information in the Board's files indicates that 6 percent is usually charged on direct advances by all Federal Reserve banks, except Boston and St. Louis.

It is the Board's view that, when a Federal Reserve bank participates with a member bank or other financing institution in making a direct loan to industry, the rate charged by the Federal Reserve bank and by the financing

institution should ordinarily be the same. When the financing institution services the loan, however, it would seem proper for the Reserve bank to allow the financing institution to retain a portion of the interest received on the Federal Reserve bank's participation.

In the case of an advance taken over by a Federal Reserve bank under an outstanding commitment, it would appear desirable that the rate charged on the portion on which the Federal Reserve bank assumes the risk should correspond with the net rate received by the Federal Reserve bank on a direct loan in which the Federal Reserve bank and a financing institution participate, after deducting the amount paid the financing institution for servicing the loan. The rate on the portion of an advance on which the financing institution is obligated might well be somewhat lower, and should perhaps bear some relation to the Federal Reserve bank rediscount rate on eligible paper.

It is thought that the rate on commitments to financing institutions should be sufficiently low to encourage member banks to make loans covered by commitments, and that so far as practicable the spread in rates on commitments, which now range from 1/2 percent to 2 percent, should be eliminated. The Board also feels that careful consideration should be given to the desirability of placing all commitment rates on an annual basis.

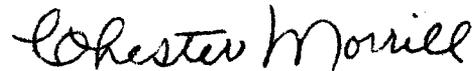
It will be appreciated if you will review the rates charged by your bank on industrial advances and commitments, taking into account other interest rates prevailing in your district and similar rates in effect at

- 3 -

X-9122

other Federal Reserve banks, and advise the Board whether any rate changes appear desirable in the direction either of lower rates or of a more consistent rate structure, and of the reasons for your conclusions.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE CHAIRMEN

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9123

February 12, 1935.

Dear Sir:

There are enclosed herewith copies of statements rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of January, 1935.

Very truly yours,



O. E. Foulk,
Fiscal Agent.

Enclosures.

X-9123-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
January 1 to 31, 1935.

Series 1928

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
New York,	-	-	40,000	40,000	\$3,440.00
Philadelphia,	-	-	12,000	12,000	1,032.00
Cleveland,	-	6,000	10,000	16,000	1,376.00
Atlanta,	14,000	-	-	14,000	1,204.00
Chicago,	-	-	15,000	15,000	1,290.00
Minneapolis,	-	-	5,000	5,000	430.00
Kansas City,	-	-	5,000	5,000	430.00
	<u>14,000</u>	<u>6,000</u>	<u>87,000</u>	<u>107,000</u>	<u>\$9,202.00</u>

107,000 sheets, @ \$86.00 per M,

\$9,202.00

Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>\$1000</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	52,000	-	52,000	\$4,472.00
New York,	87,000	369,000	-	456,000	39,216.00
Philadelphia,	24,000	38,000	-	62,000	5,332.00
Richmond,	-	14,000	-	14,000	1,204.00
Atlanta,	-	-	150	150	12.90
Chicago,	63,000	265,000	-	328,000	28,208.00
St. Louis,	60,000	13,000	-	73,000	6,278.00
Minneapolis,	15,000	28,000	-	43,000	3,698.00
	<u>249,000</u>	<u>779,000</u>	<u>150</u>	<u>1,028,150</u>	<u>\$88,420.90</u>

1,028,150 sheets, @ \$86.00 per M,

88,420.90

Total..... \$97,622.90

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9124

February 13, 1935.

CONFIDENTIAL

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

Dear Sir:

It has been observed that in numerous instances the reports which have been made with regard to apparent violations of section 22(g) involved comparatively small amounts and in many instances involved violations which apparently resulted from ignorance or misunderstanding of the law. It also appears that when violations of this section are called to the attention of the banks and executive officers involved the unlawful loans or extensions of credit usually are eliminated promptly. In view of these circumstances, the Board has decided that the procedure which has heretofore been followed with regard to reports of apparent violations of section 22(g) involving State member banks should be revised.

In the future, when an apparent violation of section 22(g) comes to your attention and it does not appear that it was committed knowingly or as a result of a willful disregard of the provisions of the law, you are requested to call the attention of the bank and the executive officer involved to the applicable provisions of the law

-2-

X-9124

and the penalties for violations thereof and to suggest that immediate steps be taken to eliminate the unlawful loans or extensions of credit involved and to advise you of the action taken. If such correction is effected within a reasonable time, you need not report the matter to the local United States District Attorney. However, if the matter is not corrected within a reasonable time, you should report the facts to the local United States District Attorney and to the Board, in accordance with the usual procedure. In any case where a correction is effected, please advise the Board for its information and records of the circumstances involved in the case and the correction obtained. If an apparent violation of section 22(g) involving a State member bank located in another district should come to your attention, you should call the matter to the attention of the Federal Reserve Agent in that district for attention in accordance with the procedure herein outlined.

The revised procedure described above is intended to be followed by Federal Reserve Agents where it appears that the violation resulted from inadvertence or from ignorance or misunderstanding of the law. If the Federal Reserve Agent feels that the violation was committed knowingly or as a result of a willful disregard of the provisions of the law, he should report the facts to the local United States District Attorney and to the Federal Reserve Board in the usual manner without waiting to take the matter up with the bank involved.

-3-

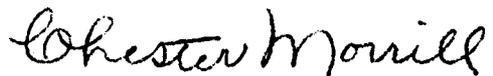
-9124

In order to avoid unnecessary correspondence with regard to apparent violations of the provisions of section 22(g) disclosed by reports of examinations and analyses of such reports forwarded to the Federal Reserve Board, it will be appreciated if you will indicate in connection with such reports and analyses, when you forward them to the Board, whether any apparent violations of section 22(g) which may appear therein have been corrected, and, if not, what steps are being taken to obtain corrections.

In order not to encourage any disregard of the provisions of section 22(g), this letter should be held in the strictest confidence.

In view of the difficulties which have arisen in administering this section of the law, the Federal Reserve Board has recommended that it be amended in several respects; and there are inclosed for your information a copy of a letter on this subject which the Board addressed to the Chairman of the Committee on Banking and Currency of the United States Senate under date of January 14, 1935, and a copy of a proposed bill incorporating the proposed amendments.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

COPY

F-9124-a

January 14, 1935.

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

My dear Mr. Chairman:

This refers to the bill, S. 370, submitted on January 9, 1935, to the Federal Reserve Board for a report by Mr. Sparkman, Acting Clerk of your Committee. This bill would amend section 22(g) of the Federal Reserve Act so as to permit loans made by a member bank to its own executive officers prior to June 16, 1933, the date of the enactment of the Banking Act of 1933, to be renewed or extended for a period of four years from that date rather than for a period of two years from that date as now provided in the law.

The Federal Reserve Board is of the opinion that section 22(g) should be amended and is in general agreement with the purpose which it is contemplated would be accomplished by the proposed amendment contained in the bill, S. 370. However, in view of a number of administrative difficulties which have been encountered under the present provisions of section 22(g), the Board believes that it would be desirable to make a further revision of that section. Accordingly, there is inclosed a draft of a bill for that purpose which the Federal Reserve Board recommends be enacted into law.

-2-

A-9124-a

The principal changes which would be made in the provisions of section 22(g) by the inclosed draft of a bill and the reasons therefor are as follows:

The inclosed draft of a bill would amend section 22(g) so as to permit loans made by a member bank to its executive officers prior to June 16, 1933, to be renewed or extended for periods expiring not more than five years from that date. The present provisions of the law permit such loans to be renewed or extended not more than two years from that date. At the time of the enactment of the Banking Act of 1933, it appeared that executive officers of member banks should reasonably be expected to eliminate their indebtedness to such banks within a period of two years. However, in view of the conditions which have existed in the meantime, it has not been possible in many instances for executive officers to arrange for the retirement of such indebtedness. In the circumstances, and in view of the effect which the enforcement of the present provisions of the law in this respect might have upon the member banks and executive officers involved, the Board believes that an extension for three years of the time in which the retirement by executive officers of such indebtedness may be accomplished is highly desirable. In this connection, you will observe from the inclosed bill that a provision has been added to the effect that in any such case the board of directors of the member bank

must have satisfied themselves that the extension is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation.

Under the present provisions of section 22(g), an executive officer of a member bank who borrows from any bank other than the member bank of which he is an executive officer is required to make a written report to the chairman of the board of directors of the member bank of which he is an executive officer. In some instances, boards of directors of banks do not have chairmen designated as such and questions have arisen as to whom the report should be made in cases of this kind. In these circumstances, the Board believes that it would be desirable to require that the report of borrowings from other banks be made to the board of directors of the member bank of which the borrower is an executive officer, and a provision to this effect is included in the inclosed draft of a bill.

Under the present provisions of section 22(g) a loan by a member bank to a partnership in which an executive officer of the member bank is a partner may be considered a loan or extension of credit to such executive officer regardless of the extent of his interest in the partnership. In this connection, it is a hardship, in small communities with but one bank, to prohibit the bank from loaning to a local partnership consisting of a number

of members, one or more of whom may be executive officers of the bank. It would be desirable to permit member banks to make loans to partnerships in these circumstances where the transactions do not involve evasions of the provisions of section 22(g), and a provision is contained in the attached draft of a bill which would except from the provisions of section 22(g) loans to a partnership other than where executive officers of the member bank are partners having a majority interest in such partnership.

When notes and other assets acquired by member banks from persons other than executive officers are classified by the examiners as of doubtful value, the executive officers, who may also be directors of the banks, frequently endorse or guarantee such assets for the protection of the banks. Sometimes, in order to eliminate doubtful assets from the banks, executive officers purchase such assets, giving the banks their own promissory notes, which, in many instances, are well secured or are otherwise good and collectible. Such transactions are for the benefit of the banks rather than the executive officers and are not believed to be within the intent of the statute, although they are prohibited by the language of the statute. The inclosed bill, therefore, would exempt transactions of this character from the prohibitions of the statute.

It has been observed that in many instances the loans made in violation of section 22(g) are in small amounts, that

many of the violations have been made inadvertently through ignorance of the provisions of the law, or, in some cases, through misunderstandings as to the applicability of the terms of the law. In cases where criminal proceedings are instituted by the United States, even though the amount of the loans may have been small or the violations inadvertently made, such criminal proceedings may have a serious effect on the reputations and standing in the community of the bank officers involved.

Much confusion and difficulty has grown out of the uncertainty as to the meaning of the term "executive officer" and as to whether or not certain transactions are loans or extensions of credit within the meaning of this section. Many appeals have been made to the Federal Reserve Board by member banks for administrative rulings on questions of this kind; but the Board has felt that it could not safely issue such administrative rulings because of the fact that violations of this section constitute misdemeanors punishable by fine or imprisonment and the determination of whether or not criminal proceedings should be instituted in any given case is a matter within the jurisdiction of the Department of Justice and is usually left to the judgment of the local United States Attorney. Administrative interpretations of the law by the Federal Reserve Board would be of no protection to member banks or their officers, if the Department of Justice or the local United States Attorneys should construe the law

differently and prosecute the bank's officials for transactions which the Board believed to be entirely lawful. The Department of Justice, in accordance with its long established practice, has declined to express opinions on such questions and the banks have been without any means of obtaining authoritative rulings.

It is believed that these difficulties could be eliminated without impairing the effectiveness of this salutary provision of the law if the criminal penalty were repealed and there were substituted a provision making it clear that the Federal Reserve Board could remove offending officers from office under the provisions of section 30 of the Banking Act of 1933 for violations of the provisions of section 22(g) without waiting for repetitions of such offenses.

As you know, under the provisions of section 30 of the Banking Act of 1933, the Federal Reserve Board is authorized to remove officers or directors of member banks or trust companies who shall have continued to violate any law relating to such banks or trust companies or shall have continued unsafe or unsound practices in conducting the business of such institutions, and a provision is contained in the inclosed draft of a bill to amend section 22(g) which would also authorize the Board to remove executive officers of member banks who violate that section.

In view of the difficulties which have been experienced, as indicated above, with regard to who is an "executive officer",

-7-

K-9124-a

and in order that the provisions of section 22(g) may be effectively enforced, the inclosed draft of a bill also contains a provision which would authorize the Board to define the term "executive officer" and other terms contained in the law and to prescribe such rules and regulations as are necessary to effectuate the provisions of section 22(g) in accordance with its purposes and to prevent evasions of such provisions. A provision of this kind would be of material assistance to the Board in enforcing the provisions of section 22(g).

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

A BILL

To amend Section 22(g) of the Federal Reserve Act relating to loans to executive officers of member banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (g) of section 22 of the Federal Reserve Act, as amended, is amended to read as follows:

"(g) 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 made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank. 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 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. Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibitions of this subsection. Nothing contained in this subsection shall prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of such bank any loan or other asset which shall have been previously acquired by such bank in good faith or from incurring any indebtedness to such bank for the purpose of protecting such bank against loss or giving financial assistance to it. The Federal Reserve Board is authorized to define the term 'executive officer', to determine what shall be deemed to be a borrowing, indebtedness, loan or extension of credit, for the purposes of this subsection, and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes and to prevent evasions of such provisions. Any executive officer of a member bank accepting a loan or extension of credit which is in violation of the provisions of this subsection shall be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933, Provided, That, for each day that a loan or extension of credit made in violation of this subsection exists, it shall be deemed to be a continuation of such violation within the meaning of the said section 30."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9125

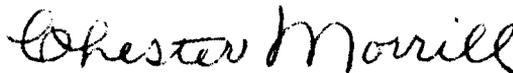
February 12, 1935.

Dear Sir:

The Board has been advised that the Reconstruction Finance Corporation has adopted the policy of requiring the written approval of the various supervisory authorities at interest before the directors of the Reconstruction Finance Corporation consider requests for approval of capital reductions submitted by banks in which the Corporation has a financial interest. It is understood that the various Loan Agencies have been advised by the Reconstruction Finance Corporation that in the case of State member banks the instructions have reference to approvals of the plans by the State Banking Departments and the Federal Reserve Board.

The procedure to be followed in order to expedite the handling of such cases has been discussed with the Reconstruction Finance Corporation and for your information and guidance there is inclosed a copy of a letter sent today to the Federal Reserve Agent at New York with regard to such procedure.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-9125-a

February 12, 1935.

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 of January 28, 1935, regarding the procedure to be followed in advising the Reconstruction Finance Corporation of the approval or disapproval by the Federal Reserve Board of plans for reduction in capital submitted by State member banks which are subject to a condition of membership requiring the Board's approval of a reduction in capital.

In accordance with a request from the Reconstruction Finance Corporation, the Corporation has been advised which of the State member banks in which the Corporation has an investment or is committed to make an investment are subject to a condition of membership requiring the Board's approval of a capital reduction. It is understood that the Reconstruction Finance Corporation will advise each of its Loan Agencies of the names of such banks in the respective districts and that the Reconstruction Finance Corporation will refer to the Board for approval of proposed reductions in capital only plans of banks subject to a condition of membership requiring the Board's approval of a reduction. It is understood, also, that in order to expedite the consideration of such plans of capital reduction of State

Mr. J. H. Case - 2.

X-9125-a

member banks requiring the Board's approval, the Reconstruction Finance Corporation will advise its Loan Agencies that all such plans submitted to the Loan Agencies should be promptly submitted to the Federal Reserve Agents and that plans submitted to the Reconstruction Finance Corporation at Washington will likewise be submitted to the Federal Reserve Agents.

The Reconstruction Finance Corporation has also been advised that the Federal Reserve Agents have been authorized in the circumstances and within the limitations described in the Board's letter dated December 15, 1934, (X-9048) to approve on behalf of the Board reductions of capital notes or debentures or preferred stock issued by State member banks in any case where the Board's approval of such reduction is required.

In order to expedite the handling of requests for approval of capital reductions of State member banks in which the Reconstruction Finance Corporation has an interest and which are subject to a condition of membership requiring the Board's approval of a reduction in capital, it is suggested that the following procedure be followed in all cases, whether the requests are received from the banks concerned or are transmitted through the Loan Agencies of the Reconstruction Finance Corporation:

In cases where you are authorized under the provisions of the Board's letter X-9048 to act on behalf of

Mr. J. H. Case - 3.

X-9125-a

the Board, it is suggested that you advise the Reconstruction Finance Corporation of your action in the matter, sending the original of your letter to the Reconstruction Finance Corporation at Washington and a copy to the Loan Agency.

In cases where you are not authorized under the provisions of the Board's letter X-9048 to act on behalf of the Board, it is suggested that you forward the request outlining the plan to the Board, together with your recommendation in the matter. You will, of course, be advised of the Board's action in the matter and, in accordance with the suggestion of the Reconstruction Finance Corporation, advice of the Board's action in the matter will also be transmitted to the Reconstruction Finance Corporation at Washington rather than to the Loan Agency of the Corporation.

Although the procedure outlined above contemplates that formal approval will be given only in case of banks subject to the condition of membership requiring the Board's approval of the capital reduction, it is expected, as requested in the Board's letter of December 15, 1934 (X-9048), that you will endeavor to keep yourself informed as to any proposed reductions in the capital stock or capital notes or debentures of State member banks, whether the Board's approval is required in such cases or not, and to take such action as may be appropriate in any case where the proposed reduction would not be to the

Mr. J. H. Case - 4.

X-9125-a

best interests of the bank.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9126

September 28, 1928.

The Effect of Government Security Operations on Member Bank
Reserves During the Period of the $3\frac{1}{2}\%$ Rate, Namely,
from August 4, 1927, to February 3, 1928:

The claim is often made that the reduction in the discount rate from 4 to $3\frac{1}{2}\%$, and the accompanying purchases of Government securities during the period in which this rate was in force, - August 4, 1927 to February 3, 1928, - caused "easy" or "Cheap" credit which was responsible for the speculative craze on the New York Stock Exchange.

For example, the New York Commercial Chronicle of August 4, 1928, stated:

"Who is responsible for the speculative folly, the ill effects of which are now visible on every side? Not the banks, no matter how their course is to be deprecated, but the Federal Reserve, every move of which during the last twelve months has been fraught with latent mischief. Did not the Federal Reserve banks last summer reduce their rates of rediscount to $3\frac{1}{2}\%$, even compelling one obstreperous Reserve bank in the west to make the reduction against its emphatic objection and protest? At that time, the member banks were not borrowing, as they are today, over \$1,000,000,000 at the reserve banks, but barely half that amount, and could not be induced to increase their borrowings even at the low rate of $3\frac{1}{2}\%$, since they had no use for the money. Did not the Reserve banks then undertake to thrust out Reserve credit on unwilling banks by purchasing several hundred million dollars of Government bonds, thereby flooding the market with Reserve funds to a corresponding amount?"

The $3\frac{1}{2}\%$ discount rate was in force, at least at New York, from August 4, 1927, to February 3, 1928, and it will be interesting to consider just what was the course of Federal Reserve credit in the whole System during this period, and examine as to how far the above

criticism of "cheap" money through lower discount rates and Government security operations, is justified.

The essential figures are as follows:

August 4, 1927 - February 3, 1928:

Member bank reserve balances increased	107,000,000
Gold stock decreased	203,000,000
Discounts increased	61,000,000
Acceptances increased	205,000,000
United States securities decreased	2,000,000
All other Federal Reserve credit decreased	60,000,000
Total Federal Reserve credit increased	204,000,000
Treasury credit increased	8,000,000
Money in circulation decreased	105,000,000
Foreign bank deposits, etc. decreased	6,000,000

Taking this period as a whole, it is clear that, comparing the beginning and end of this period, neither discounts nor Government securities were having any inflationary effect, for discounts had increased only 61 millions, a normal seasonal increase, at the end of the period, while Government securities had actually declined 2 millions. Furthermore, the total increase of Federal Reserve credit during the period, - 204 millions, - just offset the gold exports which were 203 millions, while the decline in money in circulation, - 105 millions, - practically accounts for the increase in member bank reserves, - 107 millions - during the period.

The above figures show that the hundreds of millions of Government bonds, the purchase of which by the Federal Reserve System "flooded the market" - as claimed in the above quoted editorial, -

had been neutralized by the sale of even larger amounts of these bonds, there being at the end of the period 2 million dollars less of such holdings than at the beginning, - and all this under the $3\frac{1}{2}\%$ rate!

It may be claimed, however, that these figures do not give a clear picture of what took place, because during the month of January, 1928, the tide turned, Federal Reserve credit declining 373 millions and member bank reserve balances declining 113 millions. Let us then consider the period from August 4, 1927, to December 31, 1927, excluding the month of January 1928 when credit conditions were reversed. The following table shows the situation:

August 4, 1927 to December 31, 1927:

Member bank reserve balances increased	220,000,000
Gold stock decreased	200,000,000
Discounts increased	173,000,000
Acceptances increased	222,000,000
United States securities increased	205,000,000
All other Federal Reserve credit decreased	23,000,000
Total Federal Reserve credit increased	577,000,000
Treasury credit increased	20,000,000
Money in circulation increased	175,000,000
Foreign bank deposits decreased	3,000,000
Other items increased	5,000,000

The above figures show that during that period there were gold exports to the amount of \$200,000,000, while the purchase of Government securities increased \$205,000,000. It would seem to me fair to set off the one against the other. So also the increase in money in circulation was \$175,000,000, and this was practically offset by the

increase in discounts of \$173,000,000.

It would seem clear that the gold exports of \$200,000,000 during this period, if not offset in some manner, would have forced a deflation of member bank deposits amounting to at least ten times the amount, or about 2 billions of dollars, and the worst that can be said as to Government security operations during this period is that they prevented a radical deflation caused by gold exports. They certainly, taking the period as a whole, brought about no inflation of deposits.

It may be claimed, however, that while these figures are correct, taking the whole period, yet that there were particular times during this period when the purchase of Government securities placed money in the market which went directly into member bank reserves, thus making additional deposits growing out of loans, possible. Let us then consider the two quarterly periods of the latter part of 1927, during which the 3 $\frac{1}{2}$ % rate was in force.

Let us take the quarter beginning in July and ending in September, during all of which period, except July, the 3 $\frac{1}{2}$ % rate was in effect. The figures for this period are as follows:

Member bank reserve balances increased	44,000,000
Gold stock decreased	16,000,000
Discounts decreased	6,000,000
Acceptances increased	39,000,000
Government securities increased	136,000,000
All other Federal Reserve credit decreased	20,000,000
Total Federal Reserve credit increased	149,000,000
Treasury credit increased	9,000,000
Money in circulation increased	97,000,000
Foreign bank deposits decreased	5,000,000

The increase in member bank reserves during this period was very moderate, - only 44 millions, - and taking the quarter as a whole could be covered by acceptances, - 39 millions, - and foreign bank deposits, - 5 millions, while the Government security operations, - showing an increase of 136 millions, - would, as to all but 17 millions, have offset the gold exports 16 millions, the decline in discounts, 6 millions, and money in circulation, which latter increased 97 millions.

Let us now consider the quarter, October through December, 1927.

The figures for this quarter are as follows:

Member bank reserve deposits increased	194,000,000
Gold stock decreased	192,000,000
Discounts increased	145,000,000
Acceptances increased	142,000,000
United States securities increased	111,000,000
All other Federal Reserve credit increased	26,000,000
Total Federal Reserve credit increased	424,000,000
Treasury credit increased	13,000,000
Money in circulation increased	55,000,000
Foreign bank deposits decreased	3,000,000
Other items decreased	1,000,000

From the above figures, it appears that gold exports had increased 192 millions, and money in circulation had increased 55 millions, which was offset by Government security purchases, - 111 millions, and discounts, - 145 millions. On the other hand, the member bank reserves at the end of this period had increased 194 millions, which increase was practically furnished from the increase in acceptances, - 142 millions, other Federal Reserve credit + 26

millions, and Treasury credit, +13 millions.

An examination of the above table seems to show that neither the discounts under the $3\frac{1}{2}\%$ rate, nor the Government security operations were, on the whole, primarily or necessarily responsible for the increase in member banks reserves upon which the pending speculation on the New York Stock Exchange rests.

While it is often claimed, as shown above, that the lowering of the discount rate to $3\frac{1}{2}\%$ produced "easy" or "cheap" credit, it should not be forgotten that credit was easy or cheap, if you so wish to call it, before the rate reduction of August 4, 1927, from 4 to $3\frac{1}{2}\%$.

For example, on March 31, 1927, as compared with the previous December 31, 1926, gold imports had increased 105 millions, money in circulation had decreased 233 millions, discounts had decreased 186 millions, and acceptances had decreased 142 millions, the total Federal Reserve credit decrease being 308 millions.

Similarly, comparing June 30, 1927, with March 31, 1927, we find that discounts had decreased 8 millions, acceptances decreased 28 millions, money in circulation decreased 11 millions, and that while Government securities increased 22 millions, the total Federal Reserve credit increase was only 9 millions.

The above gives a fair picture of the easy money conditions existing before the rate was reduced from 4 to $3\frac{1}{2}\%$.

The purpose of the reduction of the rate from 4 to $3\frac{1}{2}\%$ was primarily to prevent a continuance of gold imports into the United States, which, in the absence of any large volume of discounts which could have been paid off, would certainly have tended to inflate the credit structure. Another reason was to give, if possible, some relief to business, commerce, and agriculture, which had been in a state of recession but was just beginning to improve. It is fair to state that this lowering of the rate did accomplish both of the above purposes in more or less degree.

The conclusion I reach from these figures is that while psychologically an easier feeling was created, the increase in member bank reserves can be explained without reference to lower discount rates or Government security operations.

Turning now to the so-called brokers' loans, a study of the charts will fail to reveal any material difference in the increase of such loans, either prior to, during, or subsequent to the $3\frac{1}{2}\%$ discount rate, except that the New York banks have shown a tendency to reduce these loans, more or less overcome by an increase on the part of out-of-town banks, while the loans made "for others" have steadily increased from the middle of 1926 to date, this increase being practically the same, whether during low rate or high rate periods.

As regards Government security operations, I am inclined to

believe that Federal Reserve credit conditions would have been substantially the same had there been no such operations during the $3\frac{1}{2}\%$ period, as discounts would have taken their place.

In conclusion, it seems to me that the claim that the $3\frac{1}{2}\%$ discount rate and Government security operations during the period running from August 4, 1927, to February 3, 1928, created cheap money, and flooded the member bank reserve account, thus exciting speculation on the New York Stock Exchange, is a myth which has no foundation in reality.

Taking the whole period during which the $3\frac{1}{2}\%$ rate was in effect, - August 4, 1927 to February 3, 1928, - while Government security purchases moved up and down, being 2 millions less at the end than at the beginning, the growth of acceptance holdings was steady and was 205 millions more at the end than at the beginning.

The acceptance growth seems more responsible for the increase in member bank reserves than Government securities.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9127

February 15, 1935.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

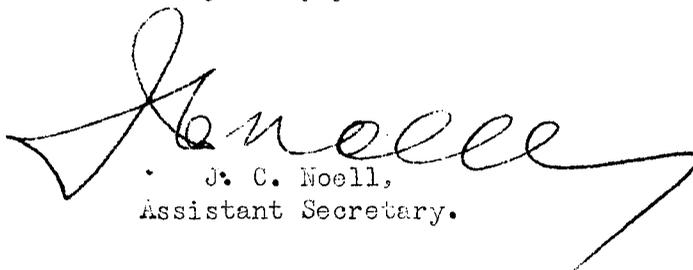
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXRYM" - Treasury Bills to be dated February 20, 1935, and to mature August 21, 1935.

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

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-9128

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 18, 1935.

SUBJECT: Holidays During March, 1935.

Dear Sir:

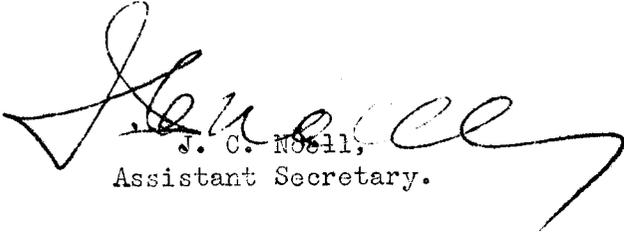
The Federal Reserve Board is advised that the following holidays will be observed by Federal reserve banks and branches during March, 1935:

Saturday, March 2,	Dallas El Paso Houston San Antonio	Texas Independence Day
Tuesday, March 5,	New Orleans Birmingham	Mardi Gras Day
Monday, March 25,	Baltimore	Maryland Day

On the dates given the banks mentioned will not participate in either the transit or the Federal reserve note clearing. 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 account of the Federal Reserve Bank of Dallas should be included in your note clearing wire of March 2.

Please notify branches.

Very truly yours,



J. C. Neill,
Assistant Secretary.

FEDERAL ADVISORY COUNCIL

1935

Officers:

Walter W. Smith, President
Howard A. Loeb, Vice President
Walter Lichtenstein, Secretary

Executive Committee:

Walter W. Smith James H. Perkins
Howard A. Loeb H. Lane Young
Thomas M. Steele W. T. Kemper

M E M B E R S

District

No. 1	Thomas M. Steele	Pres., First National Bank & Trust Co. of New Haven, Connecticut.
No. 2	James H. Perkins	Chrm., The National City Bank of New York, New York, New York.
No. 3	Howard A. Loeb	Chrm., Tradesmens National Bank & Trust Co., Philadelphia, Pennsylvania.
No. 4	Arthur E. Braun	Pres., Farmers Deposit National Bank, Pittsburgh, Pennsylvania.
No. 5	Charles M. Gohen	Pres., First Huntington National Bank, Huntington, West Virginia.
No. 6	H. Lane Young	Vice Pres. and Executive Manager, The Citizens and Southern National Bank, Atlanta, Georgia.
No. 7	Solomon A. Smith	Pres., The Northern Trust Company, Chicago, Illinois.
No. 8	Walter W. Smith	Pres., First National Bank in St. Louis, St. Louis, Missouri.
No. 9	Theodore Wold	Pres., Northwestern National Bank and Trust Company, Minneapolis, Minnesota.
No. 10	W. T. Kemper	Chrm., Commerce Trust Company, Kansas City, Missouri.
No. 11	J. H. Frost	Pres., Frost National Bank, San Antonio, Texas.
No. 12	M. A. Arnold	Pres., First National Bank of Seattle, Seattle, Washington.

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

February 19, 1935.

X-9130

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.

February 19, 1935.

The first meeting of the Federal Advisory Council for 1935 was held on Tuesday, February 19. Mr. Walter W. Smith was re-elected President and Mr. Howard A. Loeb was re-elected Vice President. These officers as ex-officio members and Messrs. Steele, Perkins, Young and Kemper will comprise the Executive Committee. Mr. Walter Lichtenstein was reappointed Secretary.

The Council is composed of the following members:

Federal Reserve

- District No. 1. Thomas M. Steele, of New Haven, Conn.
- No. 2. James H. Perkins, of New York, N. Y.
- No. 3. Howard A. Loeb, of Philadelphia, Pa.
- No. 4. Arthur E. Braun, of Pittsburgh, Pa.
- No. 5. Charles M. Gohen, of Huntington, West Virginia
- No. 6. H. Lane Young, of Atlanta, Ga.
- No. 7. Solomon A. Smith, of Chicago, Ill.
- No. 8. Walter W. Smith, of St. Louis, Mo.
- No. 9. Theodore Wold, of Minneapolis, Minn.
- No. 10. W. T. Kemper, of Kansas City, Mo.
- No. 11. Joseph H. Frost, of San Antonio, Texas.
- No. 12. M. A. Arnold, of Seattle, Wash.

X-9131

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

STATEMENT FOR THE PRESS

February 23, 1935

For immediate release

SECURITIES AFFECTED BY DISCONTINUANCE OF
SECURITIES DIVISION OF
NEW YORK PRODUCE EXCHANGE

Ruling No. 41 interpreting Regulation T. Announcement has been made that the New York Produce Exchange, which is now a national securities exchange, will discontinue its Securities Division in the near future. At that time all securities, including certain bank stocks, which are now "registered securities" solely because of the fact that they are listed on that Exchange, or have unlisted trading privileges thereon, will cease to be "registered securities" as defined in Regulation T. In these circumstances the Federal Reserve Board has been asked whether such of these securities as are at that time being carried for customers by brokers and dealers subject to Regulation T may continue to be so carried and what "loan value", if any, such securities will have under the regulation.

In reply the Board points out that, under section 5(c) of Regulation T, the creditor is given express permission to retain, until July 1, 1937, as collateral for any credit initially extended prior to October 1, 1934, or extended in conformity with the regulation, any collateral whatsoever, including unregistered non-exempted securities, provided that the collateral other than exempted or registered

securities shall not be the basis of any additional extension of credit and shall be given no value in determining the maximum loan value of the securities in the account. The Securities Exchange Act of 1934 and the regulations issued thereunder do not require liquidation in consequence of the action of the New York Produce Exchange, inasmuch as they do not force a broker or dealer to sell, or to compel his customers to sell, securities which cease to be "registered securities". It is to be noted, furthermore, that no provision of the Securities Exchange Act of 1934 or of any regulation issued thereunder has imposed any restrictions on the amount of credit that may be extended on such securities by any bank which is not a member of a national securities exchange.

The Board calls attention to the possibility that in the circumstances recited the securities in certain accounts may no longer have loan value equal to or greater than the adjusted debit balance of the account, so that such accounts will become "restricted accounts" and will accordingly become subject to the provisions of Regulation T relating to such accounts.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9132

February 25, 1935.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

Dear Sir:

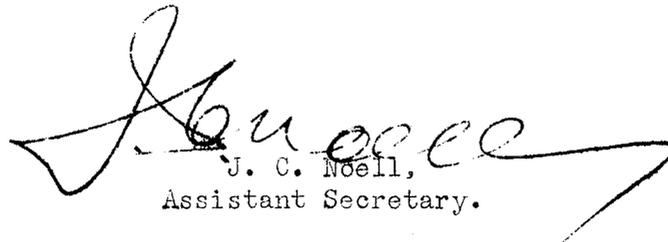
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXSAD" - Treasury Bills to be dated February 27, 1935, and to mature August 28, 1935.

"NOXSEE" - Treasury Bills to be dated February 27, 1935, and to mature November 27, 1935.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXRYM" 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-9134

February 25, 1935.

Dear Sir:

Inclosed herewith is a copy of the various questions asked by the competitors, in accordance with the program for a building for the Federal Reserve Board, with their respective answers. These form addenda to the above program.

Kindly acknowledge receipt, and believe me

Very truly yours,

EVERETT V. MEEKS,

Professional Adviser.

X-9134-a

Answers to Questions by Competitors, forming
Addenda to Program for a Building for the
Federal Reserve Board.

1. QUESTION: Reference is made to the program for the Federal Reserve Board building competition - page 7, section 13. It is respectfully suggested that the interval between May 8 and May 13, 1935 may prove insufficient time for the shipping receipts to reach the Board and give a reasonable margin for possible delay in the transit of the receipts addressed to the Board in Washington.

ANSWER: The matter of the sending of shipping receipts was duly considered. It was felt that the interval allowed between May 8 and 13 was sufficient to permit such receipt to reach Washington even from the most remote competitor. The possibility of air mail is suggested. Furthermore, should the competitor so desire, he may send the original receipt by air mail and a photostatic copy by regular mail, or vice versa, thus minimizing the possibility of delay in delivery.

2. QUESTION: May terrace and step developments project beyond the subordinate projection line shown on plats accompanying program?

ANSWER: Terraces, steps, balustrades, areas, etc. may project beyond the subordinate projection line shown on the Addenda accompanying the program. The building line and projection line refer to vertical walls of the building and subordinate vertical features such as pavilions, colonnades, etc.

3. QUESTION: Reference is made to the program of the competition for the selection of an architect for the proposed Federal Reserve Board building - page 18, second paragraph, entitled "Board Members".

It is not quite clear from the statement of requirements whether the suite of the Governor of the Federal Reserve Board is included in the eight suites for the Board Members, or whether his suite is in addition to the eight

suites for Board Members. Should there be provided a suite for the Governor in addition to the eight suites for the Board Members?

ANSWER: Eight suites in all should be provided, one of these is for the Governor.

- - - - -

4. QUESTION: May exterior steps leading to first floor, on south elevation, project beyond subordinate building line?

ANSWER: See answer to Question 2.

- - - - -

5. QUESTION: Shall the competitor follow the "Preliminary General Plan for Proposed Public Building Group in Northwest Rectangle" (Addenda 5) in laying out the principal streets, avenues and intersections and in locating the future public buildings on the "small scale drawing of general plan", required on page 5, paragraph 12-a of the Program?

ANSWER: For general layout follow: "Preliminary General Plan for Proposed Public Building Group in Northwest Rectangle" (Addenda 5). For detail follow Addenda 1: "Survey of sites facing south on Constitution Avenue bearing legend 'Profile View Along Building Line' dated January 10, 1935, designated 'File No. 80.21-1'", and Addenda 2: "Survey of site for proposed building for the Federal Reserve Board, dated January 10, 1935, designated 'File No. 80.21-2'".

- - - - -

6. QUESTION: The program, page 16-L, calls for two cafeterias (1 clerical, 1 colored help). On page 19-F, only one cafeteria (seating 240) is called for. Are two cafeterias required, and if so, is the total capacity combined to be 240 seats?

ANSWER: Two cafeterias are required, the larger one is to have a capacity of 240 seats, the smaller one for colored help should have a capacity of 25 seats.

- - - - -

7. QUESTION: Reference is made to the addenda, sheet 1 file #80.21-1.

Top of the masonry Academy of Science building is shown as 98 ft. above datum. The top of roof is shown as 98.89 ft. The top of masonry in the Public Health Service building is shown as 88.24 ft., top of roof 97.24 ft.

The masonry of the Academy of Science, from these figures, would be about 10 ft. higher than the Public Service Building.

Is this correct?

ANSWER: The figures on the Addenda sheet 1, File No. 80.21-1, may be taken as correct.

- - - - -

8. QUESTION: Reference is made to page 11, section 24, third paragraph and page 14, section 29, paragraph c, regarding air conditioning.

Attention is called to the fact that in practice air conditioning apparatus is sometimes installed in the roof space and the duct work has been brought down without recourse to horizontal ducts in the ceiling spaces.

Should the above provisions be interpreted as eliminating such a system?

ANSWER: Competitors are requested to follow conditions as laid down in the program.

- - - - -

9. QUESTION: No. 25. "BUILDING REGULATIONS: must comply in all respects....."
 No. 29-b. ".....fine monumental central staircase.... serving all floors."
 Washington Building Code, Section VI, Part 1 (e).
 "Inclosures. Each stairway shall be within an inclosure so arranged that the line of travel from the highest to the lowest landing of the stairway shall be completely within the inclosure, and doors leading thereto shall be self-closing fire-doors. Stairs need not be inclosed when only one story in height."

Question - Will it be preferable to show a fine monumental central staircase only one story in height leading to utilitarian fire-protected stairways to the other floors or to plan a monumental stairway throughout the height of the building which can have little architectural effect as it must be surrounded by walls and reached only through self-closing fire doors?

ANSWER:

The building code must be followed. It is left to the judgment of the competitor as to whether he shall provide an open monumental staircase one story in height, leading to fire-protected stairways to the other floors, or plan a monumental stairway throughout the height of the building, properly protected to comply with the building code.

- - - - -

10. QUESTION: No. 29-k. ".....The total useable area on all floors should equal 325 such units (12 x 18), exclusive of....."
- No. 28-a. ".....All of the lot area, however, is not necessary to fulfill the requirements as listed below. A certain amount of area will therefore be available and should be reserved on the lot for future portions or wings to be added....."
- No. 31. "SPACE FOR EXPANSION: The above spaces are to meet immediate needs. The Building..... to be erected as a result of this competition must be large enough, however, to provide for expansion of the various offices and..... thirty per cent approximately additional useable space....."

If paragraph No. 31 is taken literally it would mean that the total number of units, 325, referred to in 29-k should be increased by 30 per cent.

There are called for under the space assignment No. 30 detailed areas which total in units (12 x 18) as follows:-

Ground Floor - 55 plus units plus numerous rooms under general requirements.

First Floor - 83 plus entrance hall, etc.

Second Floor - 27 plus Board Members'

suites, Board Rooms, etc.

Third Floor - 95.

Question: Is it correct to assume from the foregoing that the total useable "units" in addition to the exclusions stated (paragraph No. 29-k) should total 325 plus 30 percent or 430 and that the third floor should accommodate instead of 95 units 123 to accommodate the divisions of "Bank Operations," "Research and Statistics" and "Security Loans."

ANSWER: In addition to the 325 units listed 30 per cent extra should be provided, the additional space to be allotted proportionately within reasonable limits. Naturally superposed complete floors of the building will be approximately equal in area. In distributing the additional 30 per cent units of office space it may be necessary to have more additional space on one floor than another, even if the above proportionate distribution is somewhat disturbed, in order that the floors throughout the building may correspond reasonably in total area.

11. QUESTION: No. 29-a. Toilets and lockers for men and women.
Question: Should these be further sub-divided for color, and if so in what proportion?

ANSWER: General toilet provision on respective floors need not be further sub-divided for color.

12. QUESTION: No. 29-1. ".....a cafeteria for Clerical Help and one for Colored Help.....serviced from the same kitchen."
No. 30-f. "Cafeteria (seating 240)"
Question: Does the 240 refer to the total of the two cafeterias called for in 29-1? And if so in what proportion? How many should the "general and small dining rooms seat respectively?"

ANSWER: See answer to Question 6. The "general dining room" is to seat a maximum of 20 persons, "private dining rooms" are to seat a maximum of 10 persons each.

13. QUESTION: May a short "description" or comment be allowed? It is conceivably possible for a competitor in three months' study to find a solution which has not been foreseen by the Adviser and which a jury in two or three sittings may not appreciate or even deem perverse or incompetent unless a few paragraphs may be employed to state its theory and purpose. Two thousand words is often permitted; a thousand would be helpful. It would seem that it cannot be harmful and might be of use to Adviser and Jury. We earnestly urge it be granted.

ANSWER: This has been carefully considered. No description is permitted. See Section 12 e, page 6 of program.

- - - - -

14. QUESTION: Since the solution of the whole problem should be well advanced to enable intelligent questions to be asked and but a few days have been had, is it not possible to extend the period during which questions are allowed another 30 days?

ANSWER: This also has been carefully considered. The period during which questions are allowed has elapsed and cannot be extended.

- - - - -

15. QUESTION: No. 12 f. ".....cubage diagram....."
Question: May this best be shown in isometric?

ANSWER: An isometric diagram is not permitted. Cubage diagram must be prepared in accordance with section 12 f, page 6, of the program.

- - - - -

FEDERAL RESERVE BOARD**WASHINGTON**ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9135

February 26, 1935

SUBJECT: Extension of Period during which Direct Obligations of the United States may be Offered and Accepted as Collateral Security for Federal Reserve Notes.

Dear Sir:

As you know, the second paragraph of section 16 of the Federal Reserve Act provides that until March 3, 1935, or until the expiration of such additional period not exceeding two years as the President may prescribe, the Federal Reserve Board may, should it deem it in the public interest, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, direct obligations of the United States as collateral security for Federal reserve notes. The Federal Reserve Board has heretofore granted such authority and, accordingly, direct obligations of the United States may now be offered and accepted as collateral security for Federal reserve notes.

You are advised that on February 14, 1935 the President signed a Proclamation extending for two years from March 3, 1935, the period within which the Federal Reserve Board may authorize the offer and acceptance of direct obligations of the United States as collateral security for Federal Reserve notes and, consequently, the authority heretofore

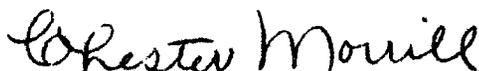
X-9135

- 2 -

granted by the Board to each Federal reserve bank to offer, and to the Federal reserve agent at each such bank to accept, direct obligations of the United States as collateral security for Federal reserve notes will not terminate on March 3, 1935, but will continue under the same conditions and limitations as now exist.

A copy of the President's Proclamation extending the period is inclosed herewith.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO THE CHAIRMEN AND GOVERNORS OF ALL FEDERAL RESERVE BANKS.

X-9135-a

EXTENDING FOR TWO YEARS THE PERIOD WITHIN WHICH THE FEDERAL RESERVE BOARD MAY AUTHORIZE THE FEDERAL RESERVE BANKS TO OFFER, AND THE FEDERAL RESERVE AGENTS TO ACCEPT, DIRECT OBLIGATIONS OF THE UNITED STATES AS COLLATERAL SECURITY FOR FEDERAL RESERVE NOTES

By the President of the United States of America

A PROCLAMATION

WHEREAS the second paragraph of section 16 of the Federal Reserve Act (38 Stat. 265), as amended by the act of March 6, 1934 (48 Stat. 398), provides:

"Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes heretofore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates: Provided, however, That until March 3, 1935, or until the expiration of such additional period not exceeding two years as the President may prescribe, the Federal Reserve Board may, should it deem it in the public interest, upon the affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, as such collateral security, direct obligations of the United States * * *."

AND WHEREAS it is deemed advisable that the authority of the Federal Reserve Board to authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, direct obligations of the United States as collateral security for Federal Reserve notes issued to the Federal Reserve banks be continued for an additional period after

March 3, 1935:

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority conferred upon me by the aforesaid section 16 of the Federal Reserve Act, as amended, do hereby proclaim, declare, and prescribe an additional period of two years from and after March 3, 1935, during which the Federal Reserve Board may, should it deem it in the public interest, upon the affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, direct obligations of the United States as collateral security for Federal Reserve notes issued to the Federal Reserve banks under the provisions of the aforesaid section.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE at the City of Washington this 14th day of February, in the year of our Lord nineteen hundred and thirty-five, and of the Independence of the United States of America the
(Seal) one hundred and fifty-ninth.

FRANKLIN D ROOSEVELT

By the President:

CORDELL HULL

Secretary of State.

(No. 2117)

U. S. Government Printing Office:
1935

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9136

February 27, 1935.

SUBJECT: Expense, Main Lines, Leased
Wire System, January, 1935.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9136-a and X-9136-b, covering in detail operations of the main lines, Leased Wire System, during the month of January, 1935.

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 JANUARY, 1935.

From	Business reported by banks	Words sent by New York charge-able to other F. R. Banks (1)	Net Federal reserve bank business	Per cent of total bank business (*)
Boston	31,583	4,713	36,296	4.33
New York	149,835	-	149,835	17.87
Philadelphia	28,673	4,353	33,626	4.01
Cleveland	64,747	4,775	69,522	8.29
Richmond	53,964	4,844	58,808	7.01
Atlanta	52,960	4,755	57,715	6.88
Chicago	87,376	5,421	92,797	11.07
St. Louis	70,160	4,773	74,933	8.94
Minneapolis	35,368	4,684	40,052	4.78
Kansas City	64,567	4,897	69,464	8.28
Dallas	55,449	5,755	61,204	7.30
San Francisco	88,202	6,095	94,297	11.24
Total	782,884	55,665	838,549	100.00
F. R. Board business			333,944	1,172,493
Reimbursable business Incoming & Outgoing				584,626
Total words transmitted over main lines				1,757,119

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9136-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, 1935.

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, JANUARY, 1935.

Name of bank	Operators' Salaries	Retire- ment Contribu- tions	Oper- ators' over- time	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	\$ 260.00	\$ 24.65	-	\$ \$ -	\$ 284.65	\$ 711.54	\$ 284.65	\$ 426.89
New York	1,358.29	122.79	-	-	1,481.08	2,936.53	1,481.08	1,455.45
Philadelphia	225.00	20.25	-	-	245.25	659.95	245.25	413.70
Cleveland	306.66	27.60	-	-	334.26	1,362.28	334.26	1,028.02
Richmond	190.00	17.35	-	230.00(&)	437.35	1,151.94	437.35	714.59
Atlanta	270.00	22.14	-	-	292.14	1,130.57	292.14	838.43
Chicago	4,148.56(#)	346.33	-	-	4,494.89	1,819.11	4,494.89	2,675.78(*)
St. Louis	195.00	17.43	-	-	212.43	1,469.09	212.43	1,256.66
Minneapolis	200.00	18.00	-	-	218.00	785.49	218.00	567.49
Kansas City	287.00	25.83	-	-	312.83	1,360.63	312.83	1,047.80
Dallas	251.00	22.59	-	-	273.59	1,199.59	273.59	926.00
San Francisco	380.00	32.03	-	-	412.03	1,847.04	412.03	1,435.01
Federal Reserve Bd.	-	-	-	15,627.93	15,627.93	-	-	-
Total	\$2,071.51	\$696.99	-	\$15,857.93	\$24,626.43	\$16,432.76	\$8,998.50	\$10,110.04
Less Reimbursable Charges					8,193.67			2,675.78(a)
					\$16,432.76			\$7,434.26

- (&) 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-9138

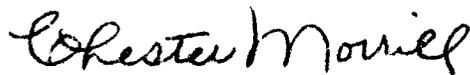
March 1, 1935.

CONFIDENTIAL:

Dear Sir:

There is inclosed herewith for your confidential information in connection with matters arising under the provisions of section 22(g) of the Federal Reserve Act, a copy of Department Circular No. 2640, dated December 20, 1934, which the Attorney General has issued to the United States Attorneys regarding the application of the term "executive officer" as it is used in that section.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

(COPY)

X-9138-a

DEPARTMENT OF JUSTICE

Washington

JBK-

WHR:JEN

19-4-314-

December 20, 1934.

DEPARTMENT CIRCULAR NO. 2640

TO ALL UNITED STATES ATTORNEYS:

RE: Application of Section 22(g), Federal Reserve Act, enacted by the Banking Act of 1933.

A number of inquiries have been received from United States attorneys, indicating much perplexity as to the meaning of the term "executive officer". You have received heretofore a copy of the opinion of the Attorney General dated August 18, 1933. For your further assistance, until the uncertainty shall be removed by court decisions or by legislation, the following suggestions are offered:

1. That the President, Vice President, Cashier, Assistant Cashier, Comptroller, Secretary-Treasurer, Chairman of the Board of Directors, Chairman of the Finance Committee, and Trust Officer, shall each be assumed to be an executive officer.

2. That, where the other facts warrant prosecution, you proceed on that assumption unless and until the accused person makes a showing clearly establishing that he is not an executive officer.

3. That any other officer of the bank who actually performs

the duties of an executive officer shall be deemed to be an executive officer, regardless of the name given to his position.

The fact, where it is a fact, that an officer is serving without salary or other compensation is not conclusive.

Please acknowledge receipt of this letter.

Respectfully,

HOMER CUMMINGS,

Attorney General.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9139

March 2, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

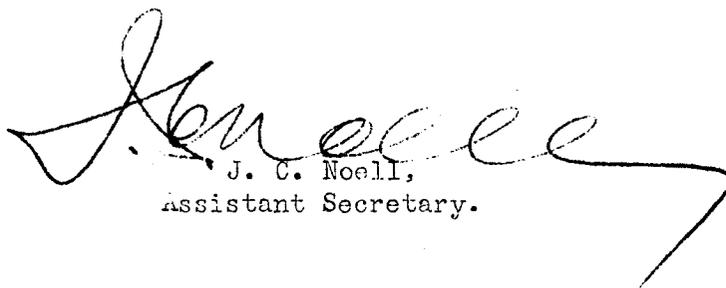
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXSIN" - Treasury Bills to be dated March 6, 1935, and to mature September 4, 1935.

"NOXSLO" - Treasury Bills to be dated March 6, 1935, and to mature December 4, 1935.

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

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-9140

STATEMENT ON TITLES II AND III OF THE BANKING BILL OF 1935

BY

GOVERNOR MARRINER S. ECCLES

of the Federal Reserve Board

Before the

Committee on Banking and Currency

of the

House of Representatives

on

March 4, 1935

X-9140

In recommending banking legislation at this time, it is recognized that the Congress has before it an unusual number of urgent matters that are engaging its attention, and that legislation in order to deserve your consideration at this session must not only be important in general but must also be urgent at this particular time.

We are not unmindful of the fact that within the past two years you have passed the Emergency Banking Act, the Banking Act of 1933, the Securities Exchange Act, and other important pieces of legislation dealing with banks. One purpose of this legislation has been to meet emergency conditions, and it is now proposed to incorporate into permanent legislation the features of the emergency laws that have proved to be valuable.

Another purpose of recent banking legislation, and particularly of the Banking Bill of 1933 and of the portions of the Securities Exchange Act that deal with powers of the Federal Reserve Board, has been to prevent the recurrence of speculative excesses which preceded the recent breakdown of our banking machinery and were partly responsible for this collapse. These bills were largely inspired by the difficulties that came to a head in 1928 and 1929, and it is gratifying to know that we now have on our statute books measures that will go far toward preventing the recurrence of conditions such as prevailed during the speculative orgy of these years.

At the present time, however, there appears to be no immediate

danger of excessive speculation. The present need is to so modify our banking law as to encourage the banking system to give a full measure of cooperation to efforts at economic recovery. It is even more important from the longer time point of view to so modify our banking structure and administration as to have it become an influence toward the moderation of fluctuations in employment, trade and business. This would tend not only to avoid the particular evils that came to a head in 1928 and 1929, but to so regulate underlying conditions as to diminish the possibility of a speculative boom getting under way. For when speculation is once under way it is extremely difficult to control, and the only means of preventing excesses is to combat conditions that are favorable to their inception and early development.

In order to accomplish this it is necessary to improve our machinery of monetary control, which is the principal objective of Title II of the proposed bill.

More specifically these objectives are to increase the ability of the banking system to promote stability of employment and business in so far as this is possible within the scope of monetary action; as a necessary step in that direction, to concentrate the authority and responsibility for the formulation of national monetary policies in a body representing the nation; to modify the structure of the Federal Reserve System to the extent necessary for the accomplishment of these purposes, but without interfering with regional autonomy in matters of local concern; and finally to relieve the banks of the country of

unnecessary restrictions that handicap them in the proper performance of their functions and thus to enable them to contribute more effectively to the acceleration of recovery.

In my opening remarks I wish to direct your attention particularly to four proposals incorporated in Title II of the bill. Other provisions of the bill I wish to leave for your consideration, with the understanding that I shall be glad to answer any questions that you may wish to ask about them.

The four questions which I wish to discuss this morning are: (1) the proposal to combine the offices of chairman of the board of directors and governor of the Federal Reserve banks, and to have the appointments to this combined office subject to approval by the Federal Reserve Board (Section 201 (1) pp. 38-41); (2) modification of the machinery for determining open-market policies of the Federal Reserve System (Section 205, pp. 43-44); (3) transfer of the determination of eligibility requirements from the statute to the Federal Reserve Board (Section 206, pp. 45-46), and (4) liberalization of provisions relating to real estate loans. (Section 210, pp. 49-51).

1. Combining governors and chairmen

As you know, the present law provides that the Federal Reserve Board appoint three directors of each Federal Reserve bank and that one of the directors appointed by the Board be the chairman of the board of directors. It appears to have been the intention of the framers of the

Federal Reserve Act that the chairman of the board of directors be the principal executive officer of each bank and the law makes him also the official representative of the Federal Reserve Board at the bank. In practice, however, it has developed that the directors appoint an executive officer for whom they have adopted the title of Governor of the Federal Reserve Bank, a title that is not mentioned in the law, and that these governors have become the active heads of the Federal Reserve banks.

The proposal in the bill is to recognize the existing situation by giving the governor of a Reserve bank a status in the law and to combine his office with that of the chairman of the board of directors. It is, of course, essential that the holders of these combined offices be approved by the Federal Reserve Board. The Board, you will note, will no longer appoint a chairman of the board, but will merely have the power to approve or disapprove the appointment of the governor, who will also be chairman of the board. In this proposal there is no encroachment on the autonomy of the individual Reserve banks. It merely reestablishes the original principle of the Federal Reserve Act that the Federal Reserve Board, which has responsibility for national policies and for general supervision over the Reserve banks, shall be a party to the selection of the active heads of the twelve Reserve banks. This change will work towards smoother cooperation between the Board and the banks and will establish within the banks a greater unity of administrative control than now exists. It will also result in considerable saving through the elimination of one of the two highest officers in each Federal Reserve bank.

2. Open-market operations

From the long time point of view the recommendations dealing with changes in the machinery for determining and carrying out the open-market policies of the Federal Reserve System are essential. Open-market operations are the most important single instrument of control over the volume and the cost of credit in this country. When I say credit in this connection I mean money, because by far the largest part of money in use by the people of this country is in the form of bank credit, or bank deposits. When the Federal Reserve banks buy bills or securities in the open market, they increase the volume of the people's money and lower its cost; and when they sell in the open market, they decrease the volume of money and increase its cost. Authority over these operations, which affect the welfare of the people as a whole, must be vested in a body representing the national interest.

Under existing law open-market operations must be initiated by a committee consisting of representatives of the twelve Federal Reserve banks, that is, by persons representing primarily local interests. They must be submitted for approval or disapproval to the Federal Reserve Board, and after they have been approved by the Federal Reserve Board, the boards of directors of the Federal Reserve banks have the power to decide whether or not they wish to participate in the operations. We have, therefore, on this vital matter a set-up by which the body which initiates the policies is not in a position to ratify them; and the body which ratifies them is not in a position to initiate them or to insist on their being carried out after they are ratified; and still

a third group has the power to nullify policies that have been initiated and ratified by the other two bodies. In this matter, therefore, which requires prompt and immediate action and the responsibility for which should be centralized so as to be inescapable, the existing law requires the participation of twelve governors, eight members of the Federal Reserve Board and 108 directors scattered all over the country before a policy can be put into operation.

It requires no further explanation to show that the existing machinery is better adapted to delay and obstruction than it is to effective operation, and that it results in a diffusion of responsibility which prevents the necessary feeling of complete authority and responsibility by a small group of men who can be held accountable by the Congress and the nation for the conduct of this matter that is of national importance.

The proposal in the bill is to set up a committee of five, three of whom shall be members of the Federal Reserve Board and two governors of Federal Reserve banks. This proposal would have the advantage of creating a small committee with undivided responsibility. It is not clear, however, that this arrangement is the best that can be devised for the desired purpose. The Federal Reserve Board, which is appointed by the President and approved by the Senate for the purpose of having general responsibility for the formulation of monetary policies, would under this proposal have to delegate its principal function to a committee, on which members of the Board would have a bare majority, while governors of the banks would have two out of five members.

-7-

From the point of view of the Board the disadvantages of this arrangement are that a minority of the Board could adopt a policy that would be opposed to one favored by the majority. It would even be possible for one member of the Board by joining with the two governors to adopt a policy that would be objectionable to the seven other members of the Board.

The placing of this authority in such a committee would also have the disadvantage of giving one important power, the power of open-market operations, to the Open-market Committee, while other fundamental powers are vested in the Board. These powers could be utilized to nullify the actions of the open-market committee. For example, the committee might adopt a policy of easing credit, while the Federal Reserve Board would be in a position to tighten credit, either by raising discount and bill rates or by increasing member bank reserve requirements. Also the Board, through its power of prescribing regulations for open-market operations, could conceivably interfere with the carrying out of the policies of the committee. While it is not contemplated that such extreme situations would occur, it does not seem desirable to amend the law in a manner that might result in such unreasonable developments.

Upon further study it would appear that the best way in which to handle this proposal would be to place the responsibility for open-market operations in the Federal Reserve Board as a whole and to provide for a committee of five governors of Federal reserve banks to advise with the Board in this matter. The Board should be required to obtain

the views of this committee of governors before adopting a policy for open-market operations, discount rates, or changes in reserve requirements. Such an arrangement would result in the power to initiate open-market operations by either a committee of the governors or by the Board, but would place the ultimate responsibility upon the Federal Reserve Board, which is created for that purpose. In this connection I should like to quote President Woodrow Wilson, who in his address to the joint session of Congress on June 23, 1913, said: "The control of the system of banking and of issue must be vested in the Government itself, so that the banks may be the instruments, not the masters, of business and of individual enterprise and initiative."

3. Eligibility of paper

It is proposed to give the Federal Reserve Board authority by regulation to determine the character of paper that may be eligible as a basis of borrowing at the Federal Reserve banks. This is particularly important at this time because it would encourage member banks to pay less attention to the form and maturity of paper that is offered by would-be borrowers and to concentrate their attention on the soundness of such paper. At present many banks are unwilling to extend loans to borrowers who have assets that are unquestionably sound because they lack the assurance that in case of a withdrawal of deposits they would be able to liquefy these assets at the Federal Reserve banks.

In times of emergency it has been necessary to remove existing restrictions and to give discretion in the matter to the Federal Reserve authorities, as was done under the Glass-Steagall Act of 1932. This act, however, was passed after a great many banks had gone to the wall

- 10 -

at least partly because of lack of eligible paper and its provisions in so far as they relate to borrowing from the Reserve banks, have now expired. What is proposed is not, as has been sometimes alleged, a policy of opening the doors of the Federal Reserve banks to all kinds of paper, regardless of its soundness. On the contrary, it is proposed to place emphasis on soundness rather than on the technical form of the paper that is presented.

Experience under emergency laws shows that the Federal Reserve banks and the Federal Reserve Board have exercised caution and, though they have extended credit on ineligible assets to the extent of \$300,000,000, all but \$1,500,000 of this has been paid back and the banks have suffered no considerable losses. It would appear safe, therefore, to intrust discretion in the matter to the Federal Reserve Board, which is always in session and, therefore, in a position to consider emergencies promptly without being under the necessity of proclaiming them by an appeal to Congress and thereby aggravating the situation, and being obliged to wait for Congress to be in session and to act on the matter.

Another phase of this problem is that the total volume of paper eligible for discount held by member banks at the present time is only about \$2,000,000,000, and even in 1929 it was only about \$4,000,000,000. While this amount is sufficient in the aggregate to provide access to the Federal Reserve banks, there were many individual banks that did not possess sufficient eligible paper. Even more

- 11 -

important than that is the fact that in a period of timidity the banks tend to refrain from making loans, except on paper eligible for discount at Federal Reserve banks. This is even now a factor causing liquidation in many communities and preventing adequate expansion of credit in others.

A bank that would conduct its business on the theory of having only such assets as can be disposed of at will in times of crisis, when the national income has been cut in two, cannot serve its community adequately. Such a bank would confine its operations to the purchase of the most liquid open-market paper, with the consequence that it would neglect its local responsibilities and would nevertheless find it difficult to earn enough from the low returns on such paper to cover expenses and dividends. The banks should be in a position to meet the needs of their communities for all kinds of accommodation, both short and long-term, so long as the credits are sound, and they ought to have the assurance that all sound assets can be liquefied at the Federal Reserve bank in case of an emergency.

4. Real estate loans

Closely allied to this matter of eligibility is the proposal that the limitations on real estate loans be modified so as to permit member banks better to supply the needs of their communities for mortgage loans. This proposal does not introduce a new character of loan, it merely relaxes existing limitations on real estate loans, which national banks

- 12 -

have made for twenty years. What the bill proposes is to modify the requirements so as to make them more realistic and to enable the member banks better to serve their communities. Coupled with the provisions in regard to eligibility, these proposals ought to result in greater willingness of member banks to lend on real estate and, therefore, to an improvement in the mortgage market and a stimulation of construction which is essential to business recovery.

Member banks hold about \$10,000,000,000 of the people's savings, and it is therefore proper and necessary that they invest a part of their funds in long-time undertakings. The separation of commercial banking from savings banking may be theoretically desirable, but it cannot be accomplished in this country without disrupting existing machinery, while the need for increased activity in building is urgent. Member banks are suffering from the competition of many Government and other agencies that are entering the field of real estate loans, and it is a matter of self-preservation for the banks to be able to hold and expand their activities in this field.

The details of the bill as proposed may have to be modified. The problem is a difficult one because the laying down of specific percentages of value presents many perplexities. In some regions and at some times a 75 per cent loan on real estate is conservative, while at other times a 50 per cent loan may be too liberal. It may be best in this matter, as in others, to vest discretion in the Federal Reserve Board to prescribe such rules and regulations about real estate loans as in its judgment would operate most effectively in the public interest.

- 13 -

Other proposals in Title II

Other sections of Title II of the bill which I have not discussed may be briefly enumerated: provision that directors of the Federal Reserve banks shall not serve for more than six consecutive years. This would prevent crystallization of any one interest in the management of a Reserve bank. A change in the qualifications of members of the Federal Reserve Board to make these qualifications more descriptive of the functions of the Board. An increase in salary of future appointive members of the Board and provision for pensions. Grant of power to the Board to assign specific duties so as to be relieved of detail. Placing of obligations guaranteed by the United States Government on the same basis as direct obligations of the Government. Repeal of collateral requirements against Federal Reserve notes; these requirements serve no useful purpose and have been sources of serious trouble at critical times. Clarification of the authority of the Board to raise or lower reserve requirements; the bill as introduced authorizes changes in reserve requirements for different districts or classes of cities; it might be modified by eliminating changes by districts and classifying cities into two groups: (1) reserve and central cities, and (2) other cities. Authority for the Federal Reserve Board to waive capital requirements for admission of insured banks into the System prior to July 1, 1937, when all banks in order to be insured must be members of the Federal Reserve System; this might be broadened so as to authorize the Board to waive not only capital but all requirements, and to permit existing banks to continue permanently with their present capital, provided it is adequate in relation to their liabilities.

-13a-

Technical provisions

Title III of the bill contains a number of sections proposed by the Comptroller of the Currency and by the Federal Deposit Insurance Corporation. Sections in which the Federal Reserve Board is interested are in the nature of technical improvements of a non-controversial

- 14 -

nature of the same general character as those contained in the so-called "Omnibus Banking Bill" which was reported favorably by the Banking and Currency Committees of both Houses of Congress in June 1934, but failed of enactment in the closing days of the 73rd Congress.

For example, a provision that a holding company affiliate, which is a holding company by accident and is not engaged in the business of holding bank stock, shall be exempted from the requirement of obtaining a voting permit. Another example is the provision that member banks for the purpose of calculating reserve requirements shall be allowed to deduct from gross deposits the amounts that are due them from other banks rather than be allowed to deduct these amounts only from the deposits they hold for other banks. The existing provision has resulted in injustice to country banks, which hold no deposits for other banks, and are, therefore, unable to get the benefit of the deduction which city banks can make. There is also a proposal intended to simplify the provisions of the Clayton Anti-trust Act in regard to interlocking bank directorates and to facilitate the administration of these provisions by the Federal Reserve Board.

Provisions in Title III, as well as in Title II, are still being studied and improvements and modifications in technique and in phraseology are being developed. I shall, therefore, appreciate an opportunity to submit to the Committee for its consideration a number of amendments to the bill before final action is taken. It would also be helpful if the Committee would permit the Board's counsel to cooperate with the Committee's counsel in the final perfecting of the phraseology of the bill.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9141

March 4, 1935.

SUBJECT: Code Words Covering New Issues of
Treasury Notes and Treasury Bonds.

Dear Sir:

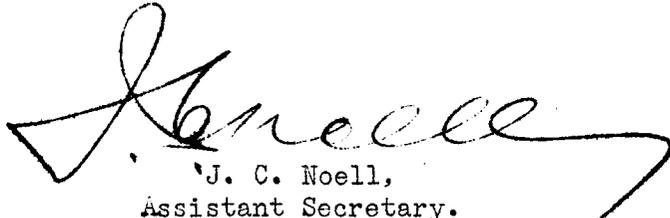
In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Notes and Treasury Bonds.

"NOWKEW" 1 5/8% Treasury Notes, Series A-1940, to be dated March 15, 1935 and to mature March 15, 1940.

"NOWCOBE" 2 7/8% Treasury Bonds of 1955-60 to be dated March 15, 1935, and to mature March 15, 1960.

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

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9142

March 6, 1935.

Dear Sir:

There is inclosed a copy of a self-explanatory letter dated February 21, 1935, from the Secretary of the Federal Trade Commission inquiring whether the files and records of the committees which were organized in the twelve Federal reserve districts in 1918 as local or subcommittees of the Capital Issues Committee appointed by the Federal Reserve Board and which were continued by the Capital Issues Committee appointed by the President pursuant to the War Finance Corporation Act of April 5, 1918, still exist and remain in the possession of the Federal Reserve Board or its agents, and requesting that if such be the case these records be forwarded to the Commission in accordance with the proclamation issued by the President on August 30, 1919.

The files of the Federal Reserve Board show that all of the records of the Capital Issues Committee held in Washington were turned over to the Federal Trade Commission in accordance with the proclamation above referred to, but there is an indication that the records of the subcommittees are still held at

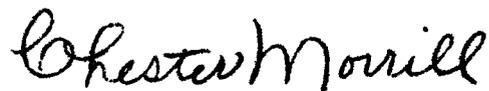
X-9142

-2-

the Federal reserve banks. Informal inquiry of two Federal reserve agents has disclosed that the banks have on file the records of the district subcommittees, and this office was advised that there appears to be no reason why they should continue to be held at the banks as there has been no occasion necessitating reference to them. It is assumed that a similar situation exists at the other Federal reserve banks.

Accordingly, it will be appreciated if you will have any files and records of the subcommittee of your district, now being held at your bank, forwarded to the Federal Trade Commission as soon as possible with a letter of transmittal describing very briefly the nature of the records and their physical volume. In order that the Board's files may be complete regarding this matter, a copy of your letter of transmittal to the Federal Trade Commission should be sent to this office.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure

TO ALL F. R. AGENTS.

X-9142-a

Copy

FEDERAL TRADE COMMISSION

Washington

Office of the Secretary

February 21, 1935.

Hon. Marriner S. Eccles, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor:

Early in 1918 there was created within the Federal Reserve Board an organization known as the Capital Issues Committee of the Federal Reserve Board. It was the function of this Committee, as the Commission understands, to secure the voluntary regulation of capital issues in order that the success of Treasury bond issues for the conduct of the war might not be impaired by the diversion of funds in unessential projects. This Committee continued its work until May, 1918 when it was replaced by the Capital Issues Committee established pursuant to title II of the War Finance Corporation Act (April 5, 1918, 40 Stat. 512). It is the further understanding of this Commission that much of the work, both of the first and second of these Committees, involved in the examination of proposed capital issues was decentralized through the formation of sub-committees at each of the headquarters of the several federal reserve districts.

Following the cessation of war the Committee suspended its activities December 31, 1918. President Wilson by Proclamation dated August 30, 1919, declared the title of the War Finance Corporation Act relating to the Capital Issues Committee as no longer necessary and further directed that "the Committee shall close up its affairs and that all the records, including letters, correspondence and testimony in the possession of said Committee be turned over to the Federal Trade Commission." A copy of this Proclamation is enclosed. Thereafter, on October 6, 1919, there was transferred to the Federal Trade Commission a quantity of filing cases, etc. containing the records of the Committee. Receipt of these was acknowledged by the Secretary of the Federal Trade Commission.

-2-

X-9142-a

In connection with a recent examination of one of these files there developed the likelihood, or possibility, that there still exist the files and records of the twelve sub-committees of the Capital Issues Committee which may be still in the possession of the several Federal Reserve Agents.

Inquiry is therefore made to learn whether the records of these sub-committees or any records belonging to the Capital Issues Committee, other than those heretofore transferred to the Federal Trade Commission, still exist and remain in possession of the Federal Reserve Board or its Agents. If such be the case it is requested that these be forwarded to the Federal Trade Commission in accordance with the President's direction.

By direction of the Commission.

(Signed) Otis B. Johnson,
Otis B. Johnson,
Secretary.

Encl.

X-9142-b

(Dissolution of Capital Issues Committee.)

By the President of the United States of America

A PROCLAMATION

WHEREAS, Congress on April 5, 1918, enacted a law known as "The War Finance Corporation Act;"

And Whereas, under Section 206 of said Act, it is provided that the President may at any time by proclamation declare that the Title relating to the Capital Issues Committee is no longer necessary and that thereupon it shall cease to be in effect:

Now Therefore, I, Woodrow Wilson, President of the United States, by virtue of the authority in me vested, do hereby proclaim and declare that Title Two of said War Finance Corporation Act, relating to the Capital Issues Committee, is no longer necessary, and I further direct that the Committee shall close up its affairs and that all the records, including letters, correspondence and testimony in the possession of said Committee be turned over to the Federal Trade Commission.

IN WITNESS WHEREOF I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE this thirtieth day of August, in the year of our Lord One Thousand Nine Hundred and Nineteen, and of the independence of the United States of America the One hundred and forty-fourth.

WOODROW WILSON

(Seal)

By the President:
Robert Lansing,
Secretary of State.

(No. 1535.)

FEDERAL RESERVE BOARD

225

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9143

March 8, 1935

SUBJECT: Security for Trust Funds
Deposited in Banking Depart-
ments of Member Banks.

Dear Sir:

As you know, the Board has prescribed for some time the following standard membership condition for all State banks exercising trust powers at the time of their admission to membership:

"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."

The Board has been requested to waive compliance with this condition in several States, such requests being based on one or both of the following reasons: (1) The banks under the provisions of the particular State laws cannot make valid deposits of securities to secure such trust funds; and (2) such trust funds are adequately protected by reason of the fact that under the provisions of the State law the owners of such trust funds would be preferred in the event of the liquidation of the bank by a receiver or otherwise.

As you know, it is contrary to the general principles of law with reference to administration of trusts for a trustee to use trust funds for his or its own purposes and benefit. In permitting a bank to deposit uninvested trust funds in its own banking department, an exception would be made to the general rule, and the Board feels that in such a case every reasonable precaution should be taken to assure maximum protection for trust funds so deposited. Accordingly, the Board has taken the position that it is not justified in waiving the condition merely because State banks under particular State laws cannot make valid pledges or deposits of securities to secure trust funds.

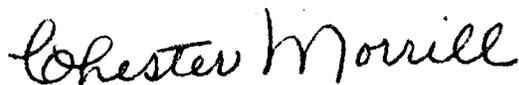
The Board has recently reaffirmed this position in considering a situation where it was understood that under the State laws banks are not authorized to make such deposits of securities but no other special safeguards to assure the repayment of such trust funds are provided. The Board expressed the view that in such circumstances the bank in question should not deposit trust funds in its own banking department.

As indicated above the Board has also had under consideration the situations in States where the Board understands that, under the State laws, when a bank is liquidated, such trust funds are fully protected by a statutory preference in all of the assets of the bank over its general creditors. The Board has taken the

position that in view of this fact it is justified in waiving compliance by banks in these States because the preference provided by State law affords adequate protection for such trust funds. However, the Board has expressly reserved the right to require compliance with the condition if, at any time, it feels that such trust funds are not adequately protected.

The Board suggests that you have counsel for your bank investigate the laws of the respective States in your district to determine whether or not preferences over general creditors are provided by the State laws for the owners of trust funds deposited in the banking departments of banks in the event of liquidation and that you also consider the matter with the supervisory banking authorities of the various States in your district. If your counsel and the appropriate supervisory banking authorities are satisfied that in any State the owners of trust funds deposited by a bank in its banking department are preferred over general creditors in the event of liquidation, please advise the Board in detail as to their views and the Board will give consideration to whether compliance with the condition should not be waived as to any State member banks in such State.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9144

March 9, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

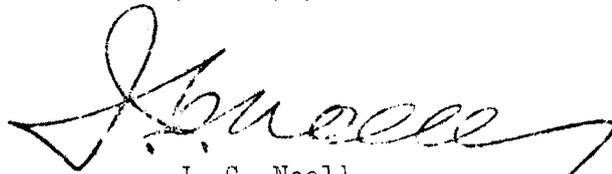
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXSMA" - Treasury Bills to be dated March 13, 1935, and to mature September 11, 1935.

"NOXSOO" - Treasury Bills to be dated March 13, 1935, and to mature December 11, 1935.

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

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-9145

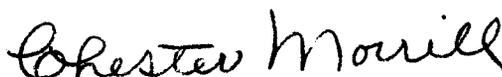
ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 11, 1935.

Dear Sir:

For your information, there is attached a copy of a letter sent to the Governor of one of the Federal reserve banks with respect to announcements of changes in Federal reserve bank discount rates.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE GOVERNORS,
EXCEPT RICHMOND.

COPY

X-9145-a

March 11, 1935.

Dear Governor _____:

Upon receipt recently of your circular No. 190, January 10, 1935, on discount rates, consideration was given to the form of the circular and to that of corresponding announcements by other Federal Reserve banks.

Inasmuch as all Federal Reserve banks have for a number of years had a uniform discount rate on all of the classes and maturities of paper named in your circular, and as the circular does not refer to advances on obligations fully guaranteed by the United States Government, it is felt that consideration should be given to eliminating from the published schedule any reference to specific maturities and types of paper. It is also felt that announcements should invariably include a reference to the relevant section or sections of the Federal Reserve Act.

The following example illustrates the type of announcement which it is suggested may be followed:

This bank has established, effective from the opening of business February 8, 1934, and until further notice, a discount rate of 2 per centum per annum for rediscounts of eligible paper for member banks and for advances to member banks, under the terms of Sections 13 and 13a of the Federal Reserve Act, as amended.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-9146

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 14, 1935.

Dear Sir:

Attention has been called to errors in the heights noted for the National Academy of Sciences Building and for the United States Public Health Service Building on the print sent you of drawing File #80.21-1. These heights were shown at the bottom of the drawing above the title "Profile View Along Building Line".

Revised prints have been prepared, one copy of which is attached hereto. In preparing your small scale drawing of "elevation showing the building in outline and its relation to the adjoining buildings to the east and west", as called for in Section 12a, page 5 of the program, kindly adhere to the revised heights for these two buildings to the west and east of the proposed building for the Federal Reserve Board.

The figure of 78' limit of height for the proposed building for the Federal Reserve Board, as noted in Section 24, page 11 of the program, stands and is not altered, nor is this Section 24 changed in any respect. The revised heights apply solely to the National Academy of Sciences Building to the west and the United States Public Health Service Building to the east, respectively.

Very sincerely yours,

EVERETT V. MEEKS

Professional Adviser.

Inclosure.

FEDERAL RESERVE BOARD**WASHINGTON****ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD**

X-9147

March 15, 1935

Dear Sir:

The Federal Reserve Board has received a request from the Director of the Federal Bureau of Investigation of the United States Department of Justice that the Board bring to the attention of all member banks a statement with regard to the procedure to be followed in communicating with the field offices of the Bureau in the event of a bank robbery. The Director has submitted a statement in substantially the following form as containing the information which it is desired to place before each member bank:

"The Federal Bureau of Investigation of the U. S. Department of Justice is charged with the duty of investigating violations of the Act approved by the President on May 18, 1934, making the robbery of National Banks and member banks of the Federal Reserve System a Federal offense. Since the passage of this Act the Federal Bureau of Investigation has been handicapped in the investigation of a number of bank robberies due to the delay of the bank in notifying the Bureau's field office of the robbery.

"The Federal Bureau of Investigation requests that, in the event a robbery should occur in your bank, immediately after notifying the local authorities thereof, you communicate by telephone or telegraph, collect, with the nearest field office of the Bureau, giving that office at the earliest possible time all of the details of the robbery which are available, including a description of the participants in the robbery, the make, color and model of any automobiles which may have

- 2 -

"been used by the robbers in making their getaway, together with the license numbers of such automobiles and the direction taken by the robbers in fleeing from the bank. In the event it has been observed that the robbers touched any objects in the bank or placed their hands on any furniture or other articles, such places should be carefully guarded until an opportunity is afforded some competent person to endeavor to develop latent fingerprints which might be thereon. Articles, which may have been left behind by the robbers should be preserved from promiscuous handling so that any fingerprints thereon will not be destroyed.

"Every member bank of the Federal Reserve System has been furnished with the telephone number of the nearest field office of the Federal Bureau of Investigation, and a list of the field offices of the Bureau showing the office address and telephone number is attached.

"It is the desire of the Federal Bureau of Investigation to cooperate with all banks to the fullest extent possible in an effort to identify and prosecute those guilty of bank robberies. Your cooperation in promptly reporting to the nearest field office of the Federal Bureau of Investigation will be greatly appreciated and will be of mutual advantage in these cases."

A list of the field offices of the Bureau of Investigation as furnished to this office is attached.

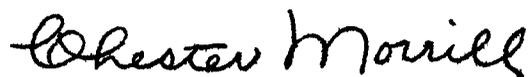
The Board is in agreement with the opinion expressed by the Director of the Bureau that the cooperation of the Federal Reserve System in bringing this matter to the attention of member banks will be of material assistance in the investigation of bank robbery cases, and it is suggested, therefore, that your bank send a copy of the statement, and of the attached list of the field offices of the Bureau, to each member bank in your district, either as a separate

X-9147

- 3 -

communication or as a separate document inclosed with any other matter that may be going forward to your member banks.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL F R AGENTS

Copy

X-9147-a

Field Offices of
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE

<u>OFFICE</u>	<u>OFFICE PHONE</u>	<u>BUILDING</u>
Birmingham, Alabama	7-1755	320 Federal
Boston, Massachusetts	Liberty 5600	1002 Post Office & Court House
Buffalo, New York	Cleveland 2030	612 Marine Trust
Butte, Montana	2-4734	302 Federal
Charlotte, North Carolina	3-4127	234 Federal
Chicago, Illinois	Randolph 6226	1900 Bankers'
Cincinnati, Ohio	Main 6720 (*)	426 U.S. Custom House & P. O.
Dallas, Texas	2-3866	420 Post Office
Denver, Colorado	Main 6241	722 Midland Savings
Detroit, Michigan	Cadillac 2835	907 Federal
El Paso, Texas	Main 501	1331 First National Bank
Indianapolis, Indiana	Riley 5416	506 Fletcher Savings & Trust
Jacksonville, Florida	3-2780 (Pvt. 5-8209)	412 U.S. Court House & P. O.
Kansas City, Missouri	Victor 3113	1616 Federal Reserve Bank
Little Rock, Arkansas	6734	500 Rector
Los Angeles, California	Mutual 2201	617 Federal
Nashville, Tennessee	6-6771	508 Medical Arts
New Orleans, Louisiana	Raymond 1965	326½ Post Office
New York, New York	Caledonia 5-8691	370 Lexington Ave., Room 1403
Oklahoma City, Oklahoma	2-8186	224 Federal
Omaha, Nebraska	Atlantic 8644	629 First National Bank
Philadelphia, Pennsylvania	Walnut 2213	414 Philadelphia Saving Fund
Pittsburgh, Pennsylvania	Grant 0800	620 New Federal
Portland, Oregon	Atwater 6171	411 U. S. Court House
Salt Lake City, Utah	Wasatch 3980	503-A U. S. Court House & P. O.
San Antonio, Texas	Fannin 8052	1216 Smith-Young Tower
San Francisco, California	Hemlock 4400 (**)	405 Post Office
St. Louis, Missouri	Central 1650	801 Title Guaranty
St. Paul, Minnesota	Garfield 7509	232 Post Office
Washington, D. C.	National 5303	5745 U. S. Dept. of Justice

(*) The telephone number to be used for calls after 6 PM. and on holidays is Main 6729.

(**) The telephone number to be used for calls after 6 PM. and on holidays is Hemlock 4420.

FEDERAL RESERVE BOARD X-9148.

WASHINGTON

March 16, 1935.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

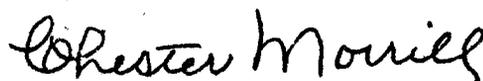
Subject: Applicability of section 32 to individual dealers in securities.

Dear Sir:

The Federal Reserve Board recently considered several applications under the provisions of section 32 of the Banking Act of 1933 filed by officers and/or directors of member banks who, as individuals, were primarily engaged in the business of purchasing, selling or negotiating securities.

After giving careful consideration to its previous position and to all the circumstances involved in the matter, the Board was of the opinion that the provisions of section 32 of the Banking Act of 1933 are applicable to the service of individual dealers in securities as officers or directors of member banks and that the purposes for which section 32 was enacted clearly show that such relationships come within its provisions. Accordingly, the Board reconsidered its earlier ruling contained in its letter of October 30, 1933 (X-7666) and, in harmony with the policy stated in its letter of March 7, 1934 (X-7811) regarding the purposes and intent of Congress in enacting section 32 of the Banking Act of 1933, denied the applications in question.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL F R AGENTS.

X-9149

STANDING COMMITTEES OF FEDERAL RESERVE BOARD
(As of March 15, 1935)

EXECUTIVE COMMITTEE:

Governor Eccles, Chairman

Vice Governor Thomas

Appointed Members:

Mr. Miller	Jan. 1 - Feb. 28
Mr. James	Mar. 1 - Apr. 30
Mr. Szymczak	May 1 - June 30
Mr. Hamlin	July 1 - Aug. 31
Mr. Miller	Sep. 1 - Oct. 31
Mr. James	Nov. 1 - Dec. 31

DISTRICT COMMITTEESBoston:

Mr. Hamlin, Chairman
Mr. James

Chicago:

Mr. Szymczak, Chairman
Mr. Miller

New York:

Mr. Miller, Chairman
Mr. Hamlin

St. Louis:

Mr. James, Chairman
Mr. Szymczak

Philadelphia:

Mr. Hamlin, Chairman
Mr. Thomas

Minneapolis:

Mr. Thomas, Chairman
Mr. Miller

Cleveland:

Mr. Szymczak, Chairman
Mr. Miller

Kansas City:

Mr. Thomas, Chairman
Mr. James

Richmond:

Mr. Hamlin, Chairman
Mr. Szymczak

Dallas:

Mr. James, Chairman
Mr. Thomas

Atlanta:

Mr. James, Chairman
Mr. Hamlin

San Francisco:

Mr. Miller, Chairman
Mr. Szymczak

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9150

March 16, 1935.

Dear Sir:

There are enclosed herewith copies of statements rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of February, 1935.

Very truly yours,



O. E. Foulk,
Fiscal Agent.

Enclosure:

X-9150-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
February 1 to 28, 1935.

Series 1928

	<u>\$5</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
New York,	-	13,000	13,000	\$1,118.00
Philadelphia,	-	12,000	12,000	1,032.00
Cleveland,	-	10,000	10,000	860.00
Atlanta,	14,000	-	14,000	1,204.00
Chicago,	-	15,000	15,000	1,290.00
Minneapolis,	-	6,000	6,000	516.00
Kansas City,	-	6,000	6,000	516.00
	<u>14,000</u>	<u>62,000</u>	<u>76,000</u>	<u>\$6,536.00</u>

76,000 sheets, @ \$86.00 per M,

\$6,536.00

Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	42,000	-	42,000	\$3,612.00
New York,	45,000	276,000	27,000	348,000	29,928.00
Philadelphia,	29,000	38,000	-	67,000	5,762.00
Cleveland,	-	18,000	-	18,000	1,548.00
Richmond,	-	66,000	42,000	108,000	9,288.00
Chicago,	24,000	111,000	-	135,000	11,610.00
St. Louis,	44,000	13,000	22,000	79,000	6,794.00
Minneapolis,	15,000	42,000	-	57,000	4,902.00
Kansas City,	-	23,000	-	23,000	1,978.00
	<u>157,000</u>	<u>629,000</u>	<u>91,000</u>	<u>877,000</u>	<u>\$75,422.00</u>

877,000 sheets, @ \$86.00 per M,

75,422.00

Total..... \$81,958.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9151

March 16, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

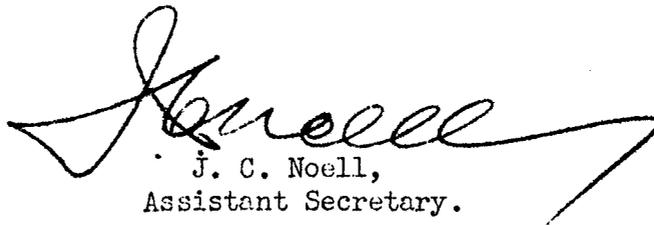
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXSPA" - Treasury Bills to be dated March 20, 1935, and to mature September 18, 1935.

"NOXSUN" - Treasury Bills to be dated March 20, 1935, and to mature December 18, 1935.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXS00" 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

SUBJECT: Holidays during April, 1935

X-9152

March 19, 1935.

Dear Sir:

The Federal Reserve Board is advised that the following holidays will be observed by Federal Reserve banks and branches during April, 1935:

Monday, April 1	Detroit	General Election
Friday, April 12	Charlotte	Halifax Day
Saturday, April 13	Birmingham	Birthday of Thomas Jefferson
Friday, April 19	Boston Philadelphia Pittsburgh Baltimore Jacksonville Nashville New Orleans Havana Agency Memphis Minneapolis	Patriots' Day Good Friday
Monday, April 22	Omaha Dallas El Paso Houston San Antonio	Arbor Day San Jacinto Day
Friday, April 26	Atlanta Birmingham Jacksonville	Southern Memorial Day

-- 2 --

On the dates given the banks mentioned will not participate in either the transit or the Federal Reserve note clearing. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following day. No debits covering shipments of Federal Reserve notes for account of the head offices mentioned should be included in your note clearing wires of April 19, 22 or 26.

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-9156

March 21, 1935

Dear Sir:

In the Board's letter X-3532 of October 5, 1922, a copy of which is attached, the Board advised the Federal Reserve banks of the titles which, for comparative purposes, it would regard as designating official positions and this list has, with one or two exceptions, been followed since that date. The exceptions are the positions of "Economist" and "General Statistician" at one of the Reserve banks and certain modifications in the titles of "Auditor" and "Counsel" such as "General Auditor" and "General Counsel".

Recently, the Board was informally advised that the directors of one of the Federal Reserve banks feel that the position of "Chief Examiner" in the Federal Reserve Agent's department should also be classed as an official position.

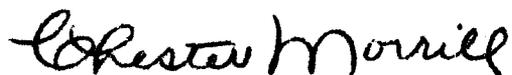
The Board appreciates the fact that the activities of the Federal Reserve banks have changed materially since 1922, particularly in the Federal Reserve Agent's department, and consequently it may be desirable to revise the list of titles which, for com-

X-9156

- 2 -

parative purposes, have previously been regarded as designating official positions. Accordingly, it will be appreciated if you will advise the Board of any changes which in the opinion of your directors should be made in the list of titles contained in the Board's letter of October 5, 1922, together with their reasons for such changes.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL CHAIRMEN EXCEPT NEW YORK

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3532

October 5, 1922.

SUBJECT: Bank Salaries.

Dear Sir:

Referring to the Board's letter of August 9, 1922, X-3500, on the subject of "Bank salaries", in which the Federal Reserve Banks are requested to prepare and forward to the Board each year, on or before December 15th, departmental schedules containing the names of all officers and employees and showing the present and proposed salaries for each, you are advised that the Board desires separate lists for head office and each branch. Specimens of the forms on which the Board desires the lists to be submitted are enclosed herewith.

From time to time in the past the Board has had occasion to note that reports relating to personnel received from the several Federal Reserve Banks and branches have not been compiled on a strictly comparable basis for the reason that persons performing similar work have been listed by some banks as officers and by others as employees. In order to insure uniformity of classification at all Reserve Banks, there is given below a list of the various titles which, for comparative purposes, the Board will consider as designating official positions. Any changes in this list will be promptly brought to the attention of each Federal Reserve Bank. In submitting reports to the Board, persons holding such positions (including those designated to act in that capacity pending the filling of the position with a permanent appointee) should be classified as officers, while all others should be included with employees of the Banking, Federal Reserve Agent's, Auditing, or Fiscal Agency Departments:

AT HEAD OFFICES

Chairman and Federal Reserve Agent
Assistant Federal Reserve Agent
Governor
Deputy Governor
Assistant to Governor
Assistant Deputy Governor
Cashier or Controller
Assistant Cashier or Manager
Comptroller, or Controller of Accounts
Auditor

AT BRANCHES

Manager
Assistant Manager
Cashier
Assistant Cashier
Assistant Federal Reserve
Agent
Assistant Auditor

Assistant Auditor
Secretary
Assistant Secretary
Counsel (full time - not including
Consulting Counsel, whose only
regular compensation from bank is
a retainer fee)
Assistant Counsel (full time - not
including Consulting Counsel, whose
only compensation from bank is a
retainer fee)

In order that the Board may keep its personnel records up to date, it should be advised by letter at the end of each month of the termination of the employment of any officer or employee receiving \$2501, or more per annum. New appointments of officers and employees at a salary of \$2501, or more per annum should be made subject to the approval of the Federal Reserve Board, and the Board's approval had before such officer or employee begins service with the bank.

This letter supersedes all previous requests for statements relating to personnel, and accordingly, it will not be necessary to submit statements other than those provided for herein unless specifically called for by the Board.

Very truly yours,

Vice Governor.

TO THE CHAIRMEN OF ALL
FEDERAL RESERVE BANKS.

X-3532a

NUMBER AND SALARIES OF OFFICERS ON DECEMBER 1, 192__.

Federal Reserve Bank - Branch _____ 192__.

Date of Original Employment	Name	Title	Present annual salary	Proposed annual salary	Functions supervised
-----------------------------------	------	-------	-----------------------------	------------------------------	-------------------------

NOTE: Separate report as of December 1 should be prepared for each Federal Reserve bank and branch and forwarded to the Federal Reserve Board not later than December 15 of each year.

X-3532b

NUMBER AND SALARIES OF EMPLOYEES RECEIVING MORE THAN \$2500 PER ANNUM

(Employees recommended for salaries in excess of
\$2500 should also be included in this report)

Federal Reserve Bank - Branch _____ 192__.

Date of Original Employment	Name	Title	Present annual salary	Proposed annual salary	Function to which assigned
-----------------------------------	------	-------	-----------------------------	------------------------------	----------------------------------

_____ Department*

*Employees should be grouped under the following 4 departments -
Banking - Federal Reserve Agent - Auditing - Fiscal Agency

NOTE: Separate report as of December 1 should be prepared for each Federal Reserve bank and branch and forwarded to the Federal Reserve Board not later than December 15 of each year.

X-3532c

NUMBER AND SALARIES OF EMPLOYEES RECEIVING \$2500 OR LESS PER ANNUM.

(Employees recommended for salaries in excess of \$2500 should not be included in this report)

Federal Reserve Bank - Branch _____ 192__.

Date of Original Employment	Name	Title	Total of salary increases during the current year	Salary as of January 1, 1923
-----------------------------	------	-------	---	------------------------------

_____ Department*

*Employees should be grouped under the following 4 departments -
Banking - Federal Reserve Agent - Auditing - Fiscal Agency.

NOTE: Separate report as of December 1 should be prepared for each Federal Reserve bank and branch and forwarded to the Federal Reserve Board not later than December 15 of each year.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9157

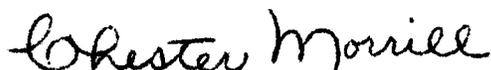
March 21, 1935.

Dear Sir:

Under date of February 8, 1935 (X-9118), you were advised that the Federal Reserve Board had prescribed a maximum interest rate of 4% per annum on savings deposits and 6% per annum on other time deposits payable only at offices of member banks located outside of the United States.

The Board has now decided to permit offices of member banks located in China and in the British Crown Colony of Hong Kong to pay interest at a rate not in excess of 7% per annum on time deposits other than savings deposits, and a copy of the amended authorization is attached.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

X-9157-a

March 21, 1935.

MAXIMUM RATES OF INTEREST PAYABLE ON TIME AND SAVINGS
DEPOSITS OUTSIDE OF THE UNITED STATES.

Under the provisions of Regulation Q (paragraph (5) of subsection (c) of Section III and paragraph (5) of subsection (c) of Section V), a member bank may pay interest on a time or savings deposit which is payable only at an office of such bank located outside of the States of the United States and of the District of Columbia at a rate not exceeding the maximum rate set forth in Regulation Q "or such higher maximum rate as may be prescribed by the Federal Reserve Board from time to time for payment in the locality in which such office is located".

In accordance with these provisions of Regulation Q, the Federal Reserve Board hereby prescribes the following maximum rates of interest which may be paid by member banks on time and savings deposits payable only at offices of such banks located outside of the States of the United States and of the District of Columbia:

(a) On savings deposits as defined in Regulation Q, a rate not in excess of 4 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed;

(b) On time deposits as defined in Regulation Q, except as provided in paragraph (c) below, a rate not in excess of 6 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed;

X-9157

-2-

(c) On time deposits as defined in Regulation Q, payable only at offices of such banks located in the Republic of China or in the British Crown Colony of Hong Kong, a rate not in excess of 7 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed.

Such maximum rates of interest shall be effective March 16, 1935, and until such time as different rates may hereafter be prescribed by the Federal Reserve Board.

The above are the maximum rates of interest which may be paid by member banks on such deposits in places outside of the States of the United States and of the District of Columbia. However, the Federal Reserve Board will expect that no member bank will pay interest on any such deposit at a rate in excess of that paid on deposits of a like class by competing institutions situated in the locality in which such payment of interest is made.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9158

March 22, 1935.

SUBJECT: Possible Violation of Section 22(g)
of Federal Reserve Act Through Fail-
ure to Retire Indebtedness Incurred
Prior to June 16, 1933.

Dear Sir:

There is inclosed herewith, for your information and guidance, in connection with matters arising under the provisions of section 22(g) of the Federal Reserve Act, a copy of a letter from the Attorney General of the United States, dated January 16, 1935, concerning the question of prosecutions of executive officers of member banks who, through inability, fail to discharge indebtedness to member banks prior to June 16, 1935.

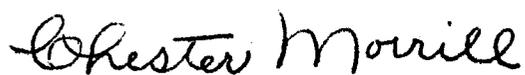
As you know, the Federal Reserve Board has recommended the enactment of legislation which would extend the period within which loans made to executive officers of member banks prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date, under certain conditions. Such proposed amendment is referred to in the Board's circular letter of February 13, 1935 (X-9124) and is also contained in section 325 of the bill, H. R. 5357, which has been introduced in Congress. Your attention is also called to the fact that the Attorney General has advised

-2-

K-9158

that he does not contemplate publication of the inclosed letter as an opinion of his office. In the circumstances, it is suggested that you advise member banks of the substance of the inclosed letter only in connection with specific inquiries regarding the matter.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

COPY

X-9158-a

OFFICE OF THE ATTORNEY GENERAL
WASHINGTON, D. C.

January 16, 1935.

The Federal Reserve Board,
Washington, D. C.

Dear Sirs:

I have your letter of December 24.

Paragraph (g), which was added to Section 22 of the Federal Reserve Act by Section 12 of the Banking Act of 1933, reads as follows:

"(g) 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,

-2-

X-9158-a

and may be fined a further sum equal to the amount so loaned or credit so extended."

This appears clearly to limit renewals and extensions of existing loans to not more than two years from the date of the Act. Observing the letter of the statute, at least, the fact that the officer may be unable to discharge the loan within the permitted period does not supply authority for a renewal or extension beyond that time. If he cannot pay and if the loan is not renewed or extended he will, of course, be in default and remain indebted to the bank. However, the statute does not expressly forbid and penalize defaults, and it is a familiar rule that penal statutes are not to be extended by implication.

Therefore, assuming good faith on the part of both the bank and its officer, it would not be my purpose to direct prosecutions in such cases.

Respectfully,

(Signed) HOMER CUMMINGS

Attorney General.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9159

March 22, 1935.

Dear Sir:

An examination of the summary report on the amount of industrial loans and commitments made by the Federal Reserve banks to March 6, 1935 shows that the banks have approved \$73,660,000 of applications, that \$22,258,000 of this amount represents conditional approvals, and that \$8,287,000 represents applications finally approved which are in process of completion. It is presumed that the delays in connection with conditional approvals and the completion of the necessary details in connection with advances and commitments finally approved are due largely to the borrowers or financing institutions through which the advances have been requested. The Board feels that the completion of advances should be expedited as much as possible and, therefore, requests that you have a careful analysis made of each of these applications to determine whether there is anything that may be done by your bank to expedite the completion of all details in connection with these loans so that funds may be advanced and commitments executed more promptly.

In the Board's letter, B-1062, of January 17, 1935, sending out the pamphlet on industrial loans, it was stated that in the future

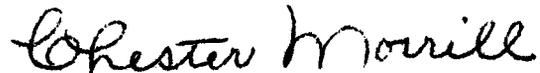
it was thought desirable to lay somewhat more stress on advances through member banks and other financing institutions, and that the enclosed pamphlet had been drafted with that idea in mind. Since then, or in a period of two months, applications approved for advances to or in association with member banks and other financing institutions have increased by less than \$5,400,000, of which about \$4,800,000 represented commitments. This might suggest the conclusion that there are now very few enterprises in need of additional funds, but having sufficient collateral and earnings capacity to permit of advances on a reasonable and sound basis, that are not able to get accommodation from the usual sources. Information constantly coming to the Board's attention, however, indicates the existence of a strong feeling that this is not the case and in order that every effort may be made by the System to be as helpful as possible it is requested that a special effort be made by your bank to bring to the attention of the banks in your district the advantages to them and to their communities of making loans for working capital purposes wherever possible. Their attention should, of course, be called to the fact that commitments may be obtained from the Federal Reserve banks, in advance of the making of the loans, in cases where the banks themselves do not feel warranted in carrying the full risk.

While the Board is desirous of seeing loans made direct to borrowers where no financing institution is willing to participate, it believes that it is in the best interests of the borrower and the banking

community for advances to be made through financing institutions wherever possible. The reasons for this are obvious.

It will be appreciated if you will read this letter to your board of directors and if you will keep the Board advised from time to time of such progress as you are able to make in expediting the advancing of funds to industry on approved applications and of your efforts to bring about a more active cooperation by banks in your district in the making of industrial advances to industries in need of additional working capital.

Very truly yours,



Chester Morrill,
Secretary.

TO CHAIRMAN OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9160

March 23, 1935.

SUBJECT: Code Words Covering New Issues
of Treasury Bills.

Dear Sir:

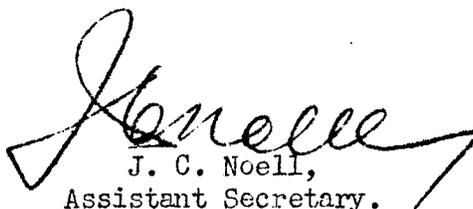
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXTAB" - Treasury Bills to be dated March 27, 1935, and to mature September 25, 1935.

"NOXTEL" - Treasury Bills to be dated March 27, 1935, and to mature December 24, 1935.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXSUN" 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-9161

March 25, 1935.

SUBJECT: Circular of United States Department of Justice with regard to meaning of the term "executive officer" as used in section 22(g) of the Federal Reserve Act.

Dear Sir:

Under date of March 1, 1935 (X-9138), the Board transmitted to you for your confidential information, in connection with matters arising under the provisions of section 22(g) of the Federal Reserve Act, a copy of Department Circular No. 2640, dated December 20, 1934, which the Attorney General issued to United States Attorneys, regarding the application of the term "executive officer" as it is used in that section.

The Board is now in receipt of a letter from Assistant Attorney General Joseph B. Keenan, in which he states that the circular was issued to United States Attorneys for their guidance and that usually such circulars are regarded as confidential, but that in the instant case the Department of Justice sees no reason why the information contained in Department Circular No. 2640 should be withheld from any interested person. In the circumstances, you are authorized to advise interested parties of the substance of such circular only in

X-9161

- 2 -

connection with cases in which a question as to who should be considered an "executive officer" is involved.

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-9162

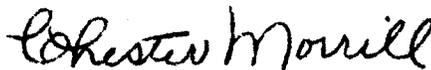
March 25, 1935.

Dear Sir:

There is inclosed a copy of a letter dated March 16, 1935, received by the Federal Reserve Board from Mr. C. B. Eilenberger, Third Assistant Postmaster General, containing certain suggestions with respect to keeping a description of currency shipments made by Federal Reserve banks and to including some new currency in all such shipments.

It will be appreciated if you will advise the Board at your early convenience as to the present practice of your bank in this respect and of your views on the suggestions contained in Mr. Eilenberger's letter, with particular reference to the feasibility of the suggestions and the approximate annual cost of complying therewith.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure

TO ALL GOVERNORS

C O P Y

POST OFFICE DEPARTMENT

94507-R

Third Assistant Postmaster General

Washington

March 16, 1935

Federal Reserve Board,

Washington, D. C.

Gentlemen:

In furtherance of efforts to discourage depre-dations upon registered mail of unusual value and to facilitate the apprehension of those who might be successful in stealing such matter while in the postal custody, it is believed it would be helpful if arrangements might be made with your Board to direct your member banks to keep a description of shipments of new currency sent through the mails.

This would contemplate keeping a record of the first and last numbers of bills of particular denominations, the denominations of the bills, and whether they are Treasury certificates, Federal Reserve notes, etc.

It is believed that it would be of assistance in this connection also if the Federal Reserve Banks would include some new currency in each shipment if practicable, although the major portion might consist of old bills.

I will thank you to advise me whether it would be practicable for the Federal Reserve Banks to adopt in whole or in part the arrangement mentioned above covering the keeping of a description of shipments of new currency sent through the mails and if practicable inclusion of some new currency in each shipment which might otherwise consist of old bills. It is possible that some such arrangement is now being followed by the Federal Reserve Banks of which this Office has not been advised.

Any suggestions which you may desire to offer in connection with the matter will be appreciated.

Very truly yours,

(Signed) C. B. Eilenberger,

Third Assistant Postmaster General.

GWP:mw

FEDERAL RESERVE BOARD

WASHINGTON

265

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9165

March 26, 1935.

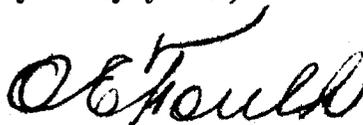
SUBJECT: Expense, Main Lines, Leased
Wire System, February, 1935.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9165-a and X-9165-b, covering in detail operations of the main lines Leased Wire System, during the month of February, 1935.

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 FEBRUARY, 1935.

From	Business reported by banks	Words sent by New York charge-able to other F. R. Banks (1)	Net Federal reserve bank business	Per cent of total bank business (*)
Boston	26,038	3,726	29,814	4.40
New York	130,312	-	130,312	19.24
Philadelphia	25,028	3,814	28,842	4.26
Cleveland	38,334	3,783	42,117	6.22
Richmond	43,815	4,000	47,815	7.06
Atlanta	45,690	3,728	49,418	7.30
Chicago	67,525	4,298	71,823	10.60
St. Louis	53,611	4,086	57,697	8.52
Minneapolis	28,022	3,754	31,776	4.69
Kansas City	53,522	3,728	57,250	8.45
Dallas	46,611	4,894	51,505	7.60
San Francisco	74,020	4,982	79,002	11.66
Total	632,578	44,793	677,371	100.00

F. R. Board business 282,775 960,146

Reimbursable business Incoming & Outgoing 515,275

Total words transmitted over main lines 1,475,421

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9165-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, 1935.

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, FEBRUARY, 1935.

Name of bank	Operators' Salaries	Retire- ment Contribu- tions	Oper- ators' over- time	Wire Rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	\$ 260.00	\$ 24.65	-	\$ -	\$ 284.65	\$ 691.52	\$ 284.65	\$ 406.87
New York	1,358.29	122.79	-	-	1,481.08	3,023.83	1,481.08	1,542.75
Philadelphia	225.00	20.25	-	-	245.25	669.52	245.25	424.27
Cleveland	306.66	27.60	-	-	334.26	977.56	334.26	643.30
Richmond	190.00	17.35	-	230.00(&)	437.35	1,109.58	437.35	672.23
Atlanta	270.00	22.14	-	-	292.14	1,147.30	292.14	855.16
Chicago	3,962.53(#)	333.64	-	-	4,296.17	1,665.94	4,296.17	2,630.23(*)
St. Louis	195.00	17.43	-	-	212.43	1,339.04	212.43	1,126.61
Minneapolis	200.00	18.00	-	-	218.00	737.10	218.00	519.10
Kansas City	287.00	25.83	-	-	312.83	1,328.03	312.83	1,015.20
Dallas	251.00	22.34	-	-	273.34	1,194.45	273.34	921.11
San Francisco	380.00	32.03	-	-	412.03	1,832.53	412.03	1,420.50
Federal Reserve Bd.	-	-	-	15,351.28	15,351.28	-	-	-
Total	\$7,885.48	\$684.05	-	\$15,581.28	\$24,150.81	\$15,716.40	\$8,799.53	\$9,547.10
Less Reimbursable Charges					<u>8,434.41</u>			<u>2,630.23(a)</u>
					\$15,716.40			\$6,916.87

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

X-9166

MODIFICATION IN THE BANKING BILL OF 1935 PROPOSED
BY GOVERNOR ECCLES IN HIS TESTIMONY BEFORE THE
HOUSE BANKING AND CURRENCY COMMITTEE.

1. Section 201. The governors and chairmen and vice-governors of the Federal Reserve Banks shall be approved by the Federal Reserve Board every three years rather than annually, so that their terms as governors would coincide with their terms as Class C directors.

2. Section 202. On the admission of insured nonmember banks, the Board shall have authority to waive not only capital requirements, but all other requirements for admission, and that the Board be permitted to admit existing banks to membership permanently without requiring an increase in capital, provided their capital is adequate in relation to their liabilities.

3. Section 203. The pension provision shall be modified so that any member of the Board, regardless of age, who has served as long as five years, whose term expires and who is not reappointed, shall be entitled to a pension on the same basis as though he were retired at seventy. That is, he is to receive a pension of \$1,000 for each year of service up to twelve.

4. Section 205. Authority over open-market operations shall be vested in the Federal Reserve Board, but that there be created a committee of five governors of Federal Reserve banks, selected by the twelve governors of the Federal Reserve banks, and the Board shall be required to consult this committee before adopting an open-market policy, a change in discount rates, or a change in member bank reserve

requirements.

5. Section 209. The Board shall not have the power to change reserve requirements by Federal Reserve districts, but only by classes of cities. For this purpose banks shall be classified into two groups: one comprising member banks in central reserve and reserve cities, and the other all other member banks. Changes in reserve requirements, therefore, would have to be either for the country as a whole or for the financial centers, or for the country districts.

6. Section 210. The conditions on which real estate loans may be granted by member banks shall be left to the discretion of the Federal Reserve Board to be determined by regulation. No real estate loan hereafter made shall exceed 60 per cent of the appraised value of the property; but this shall not prevent the renewal or extension of loans heretofore made.

7. It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses to promote conditions making for business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9167

March 29, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXTHE" - Treasury Bills to be dated April 3, 1935, and to mature December 31, 1935.

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

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-9168

March 27, 1935.

Honorable Henry B. Steagall, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

Dear Mr. Steagall:

During my testimony before your Committee on the proposed Banking Act of 1935 (H. R. 5357), I suggested certain modifications of Title II of the bill, and I am inclosing herewith for the consideration of your Committee drafts of amendments to the bill which would effectuate such modifications. There is also inclosed for the consideration of your Committee a memorandum suggesting certain detailed changes in the phraseology of the bill, which are not intended to make any important changes in the substance of the bill but are intended to improve the bill from a technical standpoint.

I also desire to recommend that there be added to Title III of the bill an additional section to correct the anomalous situation whereby State member banks are required to obtain the approval of the Comptroller of the Currency, instead of the Federal Reserve Board, before establishing additional branches; and there is also inclosed an amendment for this purpose, together with a brief explanation of the purpose and effect of the amendment.

I wish to take this opportunity to thank you and the members of your Committee for the courtesy and consideration accorded to me

Hon. Henry B. Steagall

-2-

X-9168

while appearing before the Committee, for the keen interest of your Committee in this important legislation, and for the patience with which the members of your Committee listened to my testimony for so many days.

If I can be of any further assistance to you, please do not hesitate to call upon me.

Cordially yours,

(Signed) Marriner S. Eccles

Marriner S. Eccles,
Governor.

Inclosures

K-3168-a

AMENDMENT TO SECTION 201 of H. R. 5357 and S. 1715.

On page 39, line 14, change the comma following the word "directors" to a period, strike out everything thereafter through and including the period following the word "bank" in line 18, and substitute the following:

"His first appointment shall be subject to the approval of the Federal Reserve Board. He shall not take office until approved by the Federal Reserve Board and thereupon he shall become a class C director of the bank for the unexpired portion of the term held by his predecessor as chairman of the board of directors or, if such term was completed, then for the next regular term of three years. At the expiration of such term as a class C director, and of each term of three years thereafter, his continuance in office shall be subject to the approval of the Federal Reserve Board, and he shall cease to be governor at the expiration of any such term unless his reappointment be approved by the Federal Reserve Board. Upon such approval he shall become a class C director for the ensuing term of three years."

Amendment to section 201 -- 2.

X-9168-a

On page 40, line 2, after the period following the word "bank", insert a new sentence reading as follows:

"His appointment and reappointment shall be subject to approval by the Federal Reserve Board in the same manner as that of the Governor."

X-2103-a

AMENDMENT TO SECTION 202 of L. R. 9357 and S. 1715.

On page 41, strike out all of lines 5 to 20, inclusive, and insert in lieu thereof the following:

"Sec. 202. Section 9 of the Federal Reserve Act, as amended, is amended by inserting after the tenth paragraph thereof the following new paragraph:

"Upon application to the Federal Reserve Board at any time prior to July 1, 1937, by any nonmember bank which at the time of such application has been admitted to the benefits of insurance by the Federal Deposit Insurance Corporation under section 12B of this Act, the Federal Reserve Board, in its discretion, in order to facilitate the admission of such bank to membership in the Federal Reserve System, may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: Provided, That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Federal Reserve Board, adequate in relation to its liabilities to depositors and other creditors, the Federal Reserve Board may, in its discretion, require such bank to increase its capital and surplus to such

amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: Provided, however, That no such bank shall be required to increase its capital to an amount in excess of that required for the organization of a national bank in the same place."

X-9169-a

AMENDMENT TO SECTION 203 (2) of H. R. 5387 and S. 1715.

Page 43, line 2, strike out the words "after he reaches the age of sixty-five".

Page 43, line 5, change the period following the word "paragraph" to a comma and insert the following:

"except that, if his term expire before he reaches the age of sixty-five and he decline to accept reappointment, he shall not receive any retirement pay".

X-9166-a

AMENDMENT TO SECTION 204 OF H. R. 5357 AND S. 1715.

On page 43, line 22, immediately before the word "Subsection" insert "(a)."

On page 44, between lines 7 and 8, insert a new paragraph as follows:

(b) Section 11 of the Federal Reserve Act, as amended, is amended by adding at the end thereof a new subsection as follows:

"(c) It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action and credit administration."

X-9168-a

PROPOSED AMENDMENT TO SECTION 205 OF H. R. 5357 AND S. 1715.

Strike out everything commencing with line 11 on page 44 through and including line 17 on page 45 and substitute the following:

"Sec. 12A. (a) There is hereby created an Open Market Advisory Committee (hereinafter referred to as the 'Committee'), which shall consist of five representatives of the Federal Reserve banks. The members of the Committee and an alternate to serve in the absence of each of them shall be elected annually by the governors of the twelve Federal Reserve banks in accordance with procedure prescribed by regulations of the Federal Reserve Board. Vacancies shall be filled in the same manner. The terms of the members of the Committee shall expire at the end of each calendar year, and a person elected to fill a vacancy shall serve for the remainder of the terms of his predecessor. The Committee shall elect its own chairman. Meetings of the Committee shall be held from time to time upon the call of the chairman or upon the call of the Governor of the Federal Reserve Board. Meetings shall be called whenever requested by a majority of members of the Committee or by a majority of the members of the Federal Reserve Board.

"(b) The Committee shall consult and advise with, and make recommendations to, the Federal Reserve Board from time to time with regard to the open-market policy of the Federal Reserve System. The

Committee shall also aid in the execution of open-market policies adopted from time to time by the Federal Reserve Board and shall perform such other duties relating thereto as the Federal Reserve Board may prescribe. The Federal Reserve Board shall consult the Committee before making any changes on its own initiative in the open market policy, in the rates of interest or discount to be charged by the Federal Reserve banks, or in the reserve balances required to be maintained by member banks.

"(c) After consulting with and considering the recommendations of the Committee, the Federal Reserve Board, from time to time, shall prescribe the open-market policy of the Federal Reserve System. Each Federal Reserve bank shall purchase or sell obligations of the United States, bankers' acceptances, bills of exchange, and other obligations of the kinds and maturities made eligible for purchase under the provisions of section 14 of this act to such extent and in such manner as may be required by the Federal Reserve Board in order to effectuate the open-market policies adopted by the Board from time to time under the provisions of this section and each Federal Reserve bank shall cooperate fully, in every way, in making such policies effective.

"(d) All transactions of Federal Reserve banks under authority of section 14 of this act shall be subject to such regulations, limitations and restrictions as the Federal Reserve Board may prescribe."

X-9168-a

PROPOSED AMENDMENT TO SECTION 209 OF H. R. 5357 and S. 1715.

On page 49, commencing with the words "by member banks" in line 1, strike out everything through and including the quotation marks at the end of line 3 and substitute the following:

by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks."

X-3-150-a

AMENDMENT TO SECTION 210 OF H. R. 5357 and S. 1715.

Strike out everything commencing with line 7 on page 49 through and including line 8 on page 51 and substitute the following:

"Sec. 24. Subject to such regulations as the Federal Reserve Board may prescribe, any national banking association may make real estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties. The amount of any such loan hereafter made shall not exceed 60 per cent of the appraised value of the real estate; but this limitation shall not prevent the renewal or extension of loans heretofore made and shall not apply to real estate loans which are insured under the provisions of Title II of the National Housing Act. The Federal Reserve Board is authorized to prescribe from time to time regulations defining the term "real estate loans" and other terms used in this section and regulating and limiting the making of real estate loans by member banks, with a view of preventing an unreasonably large proportion of each bank's assets from being invested in real estate and real estate loans, preventing such loans from exceeding a reasonable percentage of the appraised value of the real estate in view of the circumstances existing at the

time and otherwise requiring the banks to conform to sound practices in making real estate loans. On and after the date on which the regulations first adopted under this section shall become effective, no State bank or trust company which is a member of the Federal Reserve System shall make new real estate loans except to the same extent and under the same regulations and limitations as national banking associations are permitted to do so."

X-5163-b

TECHNICAL AMENDMENTS WHICH SHOULD BE MADE IN TITLE II
OF PROPOSED BANKING ACT OF 1935 (H.R. 5357 and S. 1715)

Section 201(a). On page 40, line 15, after the word "person",
insert "or persons".

(Note: This is to make it clear that the Board might distribute the duties of the Federal Reserve Agent among several persons instead of having to confine them to one person.)

Section 201(b). On page 41, between line 4 and line 5, insert a new paragraph reading as follows:

(c) The paragraph of such section 4 which commences with the words "Such board of directors shall be selected" is amended by striking therefrom the words "holding office for three years, and".

(Note: This is merely to eliminate an apparent inconsistency with the sentence commencing in line 23 on page 38. The terms of office of Class A and Class B directors would be prescribed by the last paragraph of section 4 of the Federal Reserve Act, as amended by section 201(b) of the bill, commencing on page 40, line 23 of the bill, and the terms of office of Class C directors would be prescribed by the sentence commencing on page 38, line 23, of the bill. However, if the substitute provision suggested by Governor Eccles which provides for the approval of the Governors of the Federal reserve banks by the Federal Reserve Board every three years is adopted, the amendment here suggested will not be necessary.)

Section 204. On page 44, line 1, strike out the word "such" and insert before the comma following the word "regulations" the words "prescribed by the Board". Also on page 44, line 2, before the word "duties" insert the words "any of its"; after the word "services", insert a semi-colon; and strike out the words "so specified" and the comma following such words.

(Note: In view of the other language of section 11(i) of the Federal Reserve Act, this section of the bill would apply only to duties, functions or services specified in the Federal Reserve Act, and the suggested change would make it applicable to duties, functions or services specified under the Banking Act of 1933, the Clayton Anti-trust Act, and other statutes.)

Section 208:

Page 46, line 21, after the word "retired", insert the words "by Federal Reserve banks".

Page 47, line 22, after the words "Comptroller of the Currency", insert a comma and the following: "under the direction of the Secretary of the Treasury."

Page 48, line 5, strike out the word "numbers" and substitute the word "letters".

Page 48, line 11, strike out the words "by the Federal reserve banks".

Page 48, line 15, strike out the words "and also" and the word "and" and insert commas in their places.

Page 48, line 18, change the period following the words "Federal Reserve Agent" to a comma and add the following:

the words "or any Assistant Treasurer", the words "or Assistant Treasurer", and the words "by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made."

(Note: All of these suggested changes in section 208 are purely technical in character and were suggested jointly by Mr. Wm. S. Broughton, Commissioner of Public Debt, Mr. F. G. Awalt, Deputy Comptroller of the Currency, and Mr. E. L. Smead, Chief of the Federal Reserve Board's Division of Bank Operations.)

Section 210: If Governor Eccles' proposed substitute for this section is not adopted, the following changes should be made in the Bill:

Page 50, line 8, change the first word to "of".

Page 50, line 12, strike out the words "second or subsequent".

(The first change merely corrects a typographical error in the bill. The second change is intended to make it clear that banks may accept first liens on real estate as well as second or subsequent liens as additional security for loans previously made in good faith.)

X-9168-c

ADDITIONAL SECTION TO BE ADDED AT END OF TITLE III
OF H. R. 5357 AND S. 1715

Section The second paragraph of Section 9 of the Federal Reserve Act, as amended, is amended by striking out the period at the end thereof and adding thereto the following words:

"except that the approval of the Federal Reserve Board, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated."

(Note: The sole purpose and effect of the above amendment is to correct a technical error in the Banking Act of 1933 which results in State member banks being required to obtain the approval of the Comptroller of the Currency, instead of the Federal Reserve Board, before establishing out of town branches or retaining such branches upon admission to the Federal Reserve System, if they were established after February 25, 1927. It would neither enlarge nor diminish the right of State banks to establish or retain branches but would merely require them to obtain the approval of the Federal Reserve Board instead of the Comptroller of the Currency.)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9169

April 2, 1935.

Dear Sir:

As you know, for some time the Board, in connection with applications for membership in the Federal Reserve System, has prescribed a standard condition of membership numbered 7 which reads as follows:

"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."

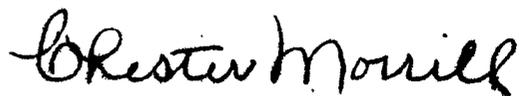
There is attached a copy of a letter dated April 2, 1935, to the Federal Reserve Agent at Richmond authorizing him in his discretion, upon receipt of applications from banks subject to the above condition, to extend on behalf of the Board for specified periods the time within which stocks acquired in satisfaction or protection of debts previously contracted in good faith may be disposed of. It is requested that the procedure outlined in the attached letter to the Federal Reserve Agent at Richmond be followed by your office in connection with any requests you may receive from

-2-

X-9169

banks for an extension of time within which to dispose of stocks
acquired on account of debts previously contracted.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

COPY

X-9169-a

April 2, 1935.

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

Dear Mr. Hoxton:

Reference is made to your letter of March 8, 1935, inclosing a copy of a letter dated March 6, 1935, from the president of the _____, _____, _____, requesting the Board's permission, in accordance with membership condition numbered 7, to hold until December 31, 1935, miscellaneous stocks acquired by the bank in connection with debts previously contracted in good faith which it now holds and which may be similarly acquired by it prior to July 1, 1935.

The Board has previously granted the bank permission to hold until April 30, 1935, stocks which had been acquired in connection with debts previously contracted in good faith and which had been held by the bank six months or more. In view of all the circumstances, including your recommendation, the Board extends to December 31, 1935, the time within which the bank may dispose of any stocks acquired in connection with debts previously contracted in good faith which it now holds or which may be similarly acquired by it prior to July 1, 1935. It is requested that you advise the bank of the Board's action in the matter.

Condition numbered 7 has, as you know, been prescribed for

some time by the Board as a standard condition of membership. As indicated by the provisions of the condition, the Board feels that stocks are not suitable for the investment of funds of member banks and the restrictions and provisions of the condition in regard thereto are intended to promote sound banking practice. It is recognized, however, that circumstances may arise which require that, for its own protection, a bank acquire stocks in connection with debts previously contracted in good faith and that it is often impossible or impracticable for the bank immediately to dispose of the shares thus acquired. Under the provisions of membership condition numbered 7, therefore, shares so acquired may be held for six months or, if permission is granted by the Board, for a longer period.

In order to expedite the handling of requests of banks for extensions of time under the provisions of membership condition numbered 7, the Board feels that it is appropriate to authorize the respective Federal reserve agents, in their discretion, to extend on the Board's behalf for specified periods the time within which banks subject to condition of membership numbered 7 shall dispose of stock acquired in connection with debts previously contracted in good faith. Accordingly, you are hereby authorized on behalf of the Board to grant such extensions when, in your opinion, an extension is warranted.

It is requested that the Board be advised of any extension

-3-

X-9169-a

of time which is granted under this authorization. Of course, should any case arise in which for any reason you are in doubt as to the wisdom of granting the requested extension of time under this authorization, the bank's request may be submitted to the Board for determination, together with all of the pertinent facts in the case, including your comments and recommendation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

COPY

X-9170

April 1, 1935.

Honorable Henry B. Steagall, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

Dear Mr. Steagall:

I am inclosing for your information and for the consideration of your Committee a memorandum discussing Professor Walter E. Spahr's criticisms of the drafting of Title II of the Banking Act of 1935 (H.R. 5357 and S. 1715). It is believed that most of Professor Spahr's criticisms of the drafting of the bill are without merit; but, in order to eliminate argument about unimportant points, the attached memorandum suggests certain detailed changes in the phraseology of the bill. All of the suggested changes are summarized on the last page of the memorandum for convenience.

Pursuant to our telephone conversation this morning, I have requested the Board's General Counsel to hold himself in readiness to render you or your Committee any assistance which you may request.

Cordially yours,

(Signed) Marriner S. Eccles

Marriner S. Eccles,
Governor.

Inclosure.

X-9170-a

MEMORANDUM REGARDING COMMENTS OF
PROFESSOR WALTER E. SPAHR ON
DRAFTSMANSHIP OF TITLE II OF
BANKING ACT OF 1935.
(H.R.5357 and S. 1715)

In his prepared statement of comments on Title II of the proposed Banking Act of 1935, Professor Spahr has presented an analysis of various sections of the act. In several places he states that sections of the bill reveal "careless bill-drafting". It is respectfully suggested that most of Professor Spahr's criticisms may be the result of "careless bill-reading". However, Professor Spahr's criticism of the draftsmanship of the bill will be discussed below and a few changes will be suggested for the purpose of eliminating unnecessary arguments about unimportant points.

On page 5 of his mimeographed statement, Professor Spahr refers to the fact that, although the bill abolishes the office of Federal Reserve Agent, it provides (page 40, lines 14 to 16) that, "All duties prescribed by law for the Federal Reserve Agent shall be performed by such person as the Federal Reserve Board shall designate". He seems to think that this would authorize the Board to appoint a local representative at the Federal reserve bank who would perform duties now performed by the Federal Reserve Agent. However, he overlooks or ignores the fact that the bill (page 38, lines 13 to 16) would repeal the paragraph of the Federal Reserve Act which provides

-2-

for the appointment of a Federal Reserve Agent and for his service as a local representative of the Federal Reserve board. This, together with the amendments to section 16 of the Federal Reserve Act contained in section 208 of the bill, would abolish all of the important functions of the Federal Reserve Agent and leave only a few odds and ends. It was contemplated that such odds and ends would be taken care of by having the Federal Reserve Board designate the Governor of the bank or some other officer of the bank appointed by its board of directors to perform the few remaining functions which the law assigns to the Federal Reserve Agent.

However, in order to eliminate any argument on this unimportant question, it is suggested that the bill be amended on page 40 by striking out the sentence commencing in line 14 and substituting the following:

"All duties prescribed by law for the Federal Reserve Agent shall be performed by the Governor of the bank or by such other person or persons as he may designate."

Professor Spahr states that the last paragraph of section 201(a), page 40, lines 17-22, permitting present members of the boards of directors of the Federal reserve banks to serve out their terms "would seem to require a modification of these parts of the bill which provide that this section shall be effective ninety days after enactment".

Apparently the parts of the bill which Professor Spahr thinks should be modified are those which provide as follows:

"Effective 90 days after the enactment of the Act containing this amendment, the offices of Governor and chairman of the board of directors of each Federal Reserve bank shall be combined." (page 39, line 9).

"Effective 90 days after the enactment of the Act contained in this amendment, any Federal Reserve agent who shall not have been appointed Governor of the bank shall cease to be a class C director and chairman of the board of directors." (Page 40, line 10).

It will be observed that the above provisions affect only the class C director who is the Federal reserve agent and do not apply to the other two class C directors. Instead of providing "that this section shall be effective 90 days after enactment" as stated by Professor Spahr, the above quoted portions of the bill merely provide that the offices of Governor and Federal reserve agent shall be combined and that a Federal reserve agent who has not been appointed Governor shall cease to be a class C director 90 days after the enactment of the Act. The paragraph which Professor Spahr cites provides that no member of the board of directors, other than the Governor and Vice Governor, shall serve as a director for more than two consecutive terms of three years each, "but this shall not prevent the present incumbents from serving out the remainders of their present terms". It is obvious that the word "this" refers only to the provisions of the paragraph in which it occurs. Only by construing the

word "this" to mean "this section" could a conflict be created between the paragraph in which such word appears and the above quoted provisions regarding the Federal reserve agent. It is submitted, therefore, that Professor Spahr's comment upon this point is the result either of a strained construction or a hasty reading.

On page 6 of his memorandum, Professor Spahr says that, "Section 203(2) provides a means by which Mr. Hamlin may retire at once and Messrs. Miller and James in 1936, thus removing from the Board in a very short time, even if more arbitrary methods are not used, its three most experienced members". In order to eliminate any argument about this point, it is suggested that the bill be amended, on page 43, line 8, by inserting before the quotation marks the following:

"Nothing in this section shall prevent the President from reappointing any member of the Federal Reserve Board holding office on July 1, 1935."

Although Professor Spahr did not mention this point, it is also suggested that, in order to diminish the possibility of vacancies in the membership of the Board, the bill be amended, on page 43, by inserting between lines 21 and 22 the following new paragraph:

(4) By adding at the end of the second paragraph the following:

"Upon the expiration of their terms of office, members of the Federal Reserve Board shall continue to serve until their successors are appointed and have qualified."

Similar bills with reference to members of the Interstate Commerce Commission passed the House on March 4, 1935 (H.R. 4751) and the Senate on February 12, 1935 (S.945); and it is believed that provision should be made for members of the Federal Reserve Board to hold over until their successors are appointed and have qualified.

Professor Spahr's next criticism of the draftsmanship of the bill is directed at the provision of section 203(2) (page 42, line 17) that each member of the Federal Reserve Board retiring at age 70 "who shall have served for at least 5 years shall receive, during the remainder of his life, retirement pay in an amount equal to the annual salary paid to appointive members prior to the enactment of the Act containing this amendment". The professor interprets this provision to mean that a retiring board member would receive a total pension of \$12,000 "for the rest of his life", rather than annual retirement pay in the amount of \$12,000. It is believed that a reasonable construction of the language of this provision as it now stands is that a retiring board member who has reached 70 years of age and who has served 5 or more years shall receive annual retirement pay based upon the years served, the yearly amount to be determined by the number of years served multiplied by \$1,000, but not to exceed \$12,000 per annum. Even Professor Spahr states that the section "probably was intended" to have this effect. However, even if Professor Spahr's criticism

of the provision has any substance, it can be removed by the insertion of the word "annual" before the word "retirement" in two places. (Page 42, lines 19 and 23).

Professor Spahr also suggests that the word "served" be inserted after the word "year" on page 42, line 25. It seems that an unprejudiced reading of the language of this proviso makes it clear that the words "each year" in line 25 mean each year that the retiring member has served. The words "of such service" on page 43, line 1 clearly modify the word "year" in both instances where such word appears in line 25 of page 42. It thus appears that the insertion of the word "annual" before the word "retirement" in two places as suggested above will eliminate any possible doubt as to the meaning of this section which Professor Spahr finds so "badly muddled".

It is stated by Professor Spahr that section 206 of the bill (page 45, line 18) "seems to be tacked on to the preceding parts of section 13 of the Federal Reserve Act without any regard to how it affects the preceding paragraphs of that section". He states that it would appear that most of the preceding paragraphs of section 13 are nullified but that it would be difficult to determine just what the law is. It would seem clear that the new paragraph to be added by section 206 of the Bill, being a later enactment would prevail over any conflicting provisions of the present law.

However, the question raised by Professor Spahr may easily be eliminated by inserting on page 4b, line 21, at the beginning of the new paragraph added by section 206, the words, "Notwithstanding any other provision of law,".

With regard to section 208(1) of the bill (page 46, line 15), Professor Spahr states: "When a money is legal tender for all purposes, it can be used to pay all debts, public and private. This means, literally, that these notes could be used for lawful reserves and could be used to redeem any other currency. * * * In contradiction to this, lines 24-25 exclude these notes from the lawful money for reserve purposes in the Federal Reserve banks. This means that the Federal Reserve notes are not permitted to fulfill their functions as full legal tender money. The two provisions are in direct conflict * * *."

The Professor appears to be engaged in a somewhat circular process in the above argument. First he criticizes the provision stating that Federal reserve notes shall be legal tender (which they already are under existing law) because he says it will enable such notes to be used as lawful reserves. Next he attacks the provision which prevents Federal reserve notes from being counted as reserves, on the ground that such provision does not permit the notes to fulfill their functions as legal tender. It is not clear whether Professor Spahr is indulging in a form of mental shadow-boxing or whether he is

vague as to the meaning of the term "legal tender". Legal tender is money which may lawfully be used as a tender in payment of a debt. The question of what may constitute reserves is of course an entirely different matter and is governed by statute. The fact that Federal reserve notes cannot be used as reserves against deposits with a Federal reserve bank creates no inconsistency with the provision making such notes legal tender.

Professor Spahr states that there appears to be no good reason for repealing the provision of section 16 of the Federal Reserve Act for a 5 per cent redemption fund for Federal reserve notes with the Treasurer of the United States. The professor states: "The omission of the redemption fund may be due to careless bill-drafting."

The provision for the redemption fund was omitted intentionally and not as a result of "careless bill-drafting". Inasmuch as the Federal reserve banks maintain deposits with the Treasury in the Gold Settlement Fund and the Treasurer can charge their accounts with all Federal reserve notes retired, it is not necessary to have a separate fund for this purpose.

Professor Spahr again alleges "careless bill-drafting" in section 208(2) (page 48, line 13). He complains that the words "or subtreasuries" are allowed to stand in the second line following the

last deletion provided by section 208. This statement is apparently caused by the Professor's inadequate information; since all of the proviso in which such words appear was eliminated from section 16 of the Federal Reserve Act by the Act of January 30, 1934.

RESUME OF AMENDMENTS NOW SUGGESTED.

On page 40, strike out the sentence commencing in line 14 and substitute the following: "All duties prescribed by law for the Federal Reserve agent shall be performed by the Governor of the bank or by such other person or persons as he may designate."

On page 42, before the word "retirement" in lines 19 and 23, insert the word "annual".

On page 43, line 8, insert before the quotation marks the following: "Nothing in this section shall prevent the President from reappointing any member of the Federal Reserve Board holding office on July 1, 1935."

On page 43, between lines 21 and 22, insert the following new paragraph:

(4) By adding at the end of the second paragraph the following: "Upon the expiration of their terms of office, members of the Federal Reserve Board shall continue to serve until their successors are appointed and have qualified."

On page 45, line 21, immediately before the word "upon" insert: "notwithstanding any other provision of law,".

X-9171

RESOLUTION ADOPTED BY FEDERAL RESERVE BOARD AT MEETING
HELD ON JANUARY 3, 1929, PERMITTING DIRECT EXCHANGE OF
CURRENCY FOR COIN

"WHEREAS, the Federal Reserve Bank of Atlanta desires that the functions which its Havana Agency is authorized to perform be extended so as to include authority to exchange, currently, its Federal reserve notes or other forms of United States paper currency for United States coin with the Cuban Treasury and with banks and branch banks located in Havana, Cuba, the purpose of the added function being to avoid the possibility of incurring the heavy expense involved in handling large accumulations of coin, as was the case in the special exchange transaction with the Cuban Treasury which occurred in May, 1928.

"NOW, THEREFORE, BE IT RESOLVED, That the functions of the Havana Agency of the Federal Reserve Bank of Atlanta, as defined in the resolution adopted by the Federal Reserve Board on January 27, 1927, be extended so as to permit said agency to make direct exchanges of new or fit currency for American coin tendered by the Treasurer of the Republic of Cuba, or by any banking institution doing business in Havana, charging for such exchanges a commission at the rate of one dollar per thousand."

FEDERAL RESERVE BOARD

WASHINGTON

X-9172

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 5, 1935.

SUBJECT: Proposed agreement relating to the
operation of Agency in Havana, Cuba.

Dear Sir:

Under date of October 31, 1934, the Federal Reserve Board addressed a letter to you (X-9004) with regard to the continuance of the operation of the Agency of the Federal Reserve Bank of Atlanta at Havana, Cuba. In that letter it was stated that the Board indorsed the suggestion of the Federal Reserve Bank of Atlanta that the Agency be hereafter operated by that bank for the account of the twelve Federal reserve banks and that the Board had under consideration the necessary details for that purpose. Subsequently you advised the Federal Reserve Board that your board of directors had approved participation in the operation of the Havana Agency as suggested in the Board's letter.

There has now been prepared a form of agreement between the Federal Reserve Bank of Atlanta and the other Federal reserve banks, copies of which are inclosed, which carries out the suggestion contained in the Board's letter above referred to and agreed to by your board of directors. The agreement in the form inclosed has been approved by the Federal Reserve Board and its counsel and it will be appreciated if you will have the same executed by your bank as soon as possible, after submitting it again to your board of directors if you feel that such resubmission is necessary.

Please execute the agreement in triplicate, sending one of the executed agreements to the Federal Reserve Board for its records and the other two to the Federal Reserve Bank of Atlanta, which will execute one of them and return it to you.

Effective as of the date upon which the operation of the Agency at Havana, Cuba, may commence under the terms of the agreement hereinbefore mentioned, the Federal Reserve Board hereby gives its consent and approval for any Federal reserve bank to carry on and conduct through such Havana Agency any transaction authorized under the terms of the resolutions of the Federal Reserve Board adopted January 27, 1927, and January 3, 1929, relating to the scope of the functions of the Havana Agency, copies of which are also inclosed for your information.

It is understood that the operation of the Agency at Havana, Cuba, under the terms of the agreement before mentioned will commence with the opening of business on the first day of the month following the month in which the agreement has been executed by all of the Federal reserve banks.

The Federal Reserve Board expressly reserves the right to revoke at any time its approval of the continuance of the agency at Havana, Cuba, under the terms of the agreement hereinbefore mentioned, and to require the discontinuance of such agency.

Very truly yours,



Inclosures.

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS EXCEPT MINNEAPOLIS AND ATLANTA.

X-9171

RESOLUTION ADOPTED BY FEDERAL RESERVE BOARD AT MEETING
HELD ON JANUARY 3, 1929, PERMITTING DIRECT EXCHANGE OF
CURRENCY FOR COIN

"WHEREAS, the Federal Reserve Bank of Atlanta desires that the functions which its Havana Agency is authorized to perform be extended so as to include authority to exchange, currently, its Federal reserve notes or other forms of United States paper currency for United States coin with the Cuban Treasury and with banks and branch banks located in Havana, Cuba, the purpose of the added function being to avoid the possibility of incurring the heavy expense involved in handling large accumulations of coin, as was the case in the special exchange transaction with the Cuban Treasury which occurred in May, 1928.

"NOW, THEREFORE, BE IT RESOLVED, That the functions of the Havana Agency of the Federal Reserve Bank of Atlanta, as defined in the resolution adopted by the Federal Reserve Board on January 27, 1927, be extended so as to permit said agency to make direct exchanges of new or fit currency for American coin tendered by the Treasurer of the Republic of Cuba, or by any banking institution doing business in Havana, charging for such exchanges a commission at the rate of one dollar per thousand."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9173

April 6, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

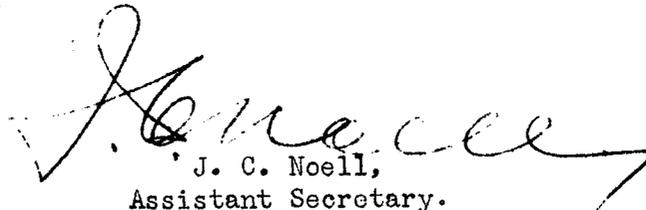
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXTIM" - Treasury Bills to be dated April 10, 1935, and to mature January 8, 1936.

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

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-9174

Federal Reserve
Board

OFFICE CORRESPONDENCE

April 5, 1935.

To Mr. Morrill

From Mr. Bethea

There are attached a digest and its appendices which have been prepared in this office of the reports received from the Federal reserve banks in response to the Board's letter of February 6, 1935 (X-9115).

My conception of the objectives to be attained in preparing a digest of these reports was not only to summarize, in as few pages as possible, the views expressed on each subject, but to correlate conclusions, to disclose divergent opinions, and to call attention to individual suggestions or comments.

The appendices were conceived with the idea that members of the Board and its staff would desire to have some convenient method of referring to the original comments or views of the respective banks, to the text of the standard conditions of membership, and to the subjects upon which the Board has issued general regulations. While the appendices appear formidable in size, it should be borne in mind that they have been prepared primarily for reference purposes and as a necessary adjunct to the digest itself. Inasmuch as the material received from the reserve banks, in most instances, had been condensed by them as much as practicable, it has been necessary in several cases to include in appendix A practically the entire statements made on certain topics.

The reports, which consist of typewritten material equivalent to about two hundred and eighty-five double spaced pages, have been boiled down in the digest to approximately thirty-five pages; a ratio of about eight to one. It may be added that the last of the material from the reserve banks in response to the Board's letter X-9115 was received in this office yesterday.

It is assumed that division heads or other members of the staff who may be vitally interested in the detailed discussions of one or more of the various subjects will refer, of course, directly to the original reports, which have been assembled by districts in the attached file with correspondence pertinent thereto.

Digest of Reports Received from Federal
Reserve Banks in Response to Board's
Letter Dated February 6, 1935
(X-9115)

During an informal meeting of the governors of the Federal reserve banks with the Federal Reserve Board on February 5, Governor Eccles stated that it would be helpful to the Board if the reserve banks would frankly point out any features of the relations between the Board and the reserve banks and member banks, which in their opinion are unsatisfactory or subject to criticisms, with special reference to any regulations, rulings or procedure of the Board. Governor Eccles also stated that, if in any respect the actions of the Board or its staff seem bureaucratic, impractical or unduly rigid, the Board desires to be advised fully so that it may take such action that may appear desirable to correct and improve the situation. In addition, Governor Eccles suggested a number of subjects for discussion by the directors and officers of the Federal reserve banks. These comments were incorporated in the Board's letter of February 6, 1935 (X-9115), which also inclosed a list of the subjects to be considered, and the reserve banks were requested to advise the Board as to their views with respect thereto.

In order to facilitate the consideration of the views expressed by the reserve banks pursuant to the Board's request, the reports received are summarized herein under the several topics itemized in the Board's letter. An appendix to the digest includes, "A" significant excerpts from, or summaries of, the individual comments of each reserve bank, "B" the text of the eighteen standard conditions of membership now being prescribed,

and "C" a list of regulations prescribed by the Board and now in effect.

1. General credit situation.

(a) Are commercial banks doing everything in their power to improve the situation?

It appears that the reserve banks are unanimously of the opinion that commercial banks are doing everything in their power to make loans on a reasonably sound basis. The reserve banks report that with very few exceptions the banks are making a sincere effort to make credit available to their customers and, in some localities, they are advertising their willingness to make loans.

(b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?

There is a lack of unanimity in the views expressed by the reserve banks as to what steps should be taken to bring about an improvement in the general credit situation. It may be said that in general there is a feeling that the continuation of industrial loan and public relations activities and the liberalization of eligibility requirements covering paper offered for rediscount would be helpful. However, several of the banks apparently feel there is little, if any, remedial action which could be taken at this time.

The New York bank has commented at length on this subject, and its views largely encompass the suggestions made by the other reserve banks. Briefly it may be said that New York regards the question as involving a whole range of problems, including the ultimate character of our commercial banking system, the disposition of our savings bank business,

the provision of intermediate term credit and working capital for industrial enterprises, and the functioning of the long-term private capital market. It believes that permanent measures for improvement should be directed toward those weaknesses in our banking structure which contributed so heavily to the banking difficulties of the past and that a temporary step might be the enactment of that section of the proposed Banking Act of 1935 which would authorize the Board to define eligible paper and authorize the reserve banks to make advances to member banks on their promissory notes secured by any sound asset. It feels also that delay in reopening the private capital market is a critical obstacle to the progress of recovery, and that it would be desirable to revise the Securities Act of 1933 and the Banking Act of 1933 so as to remove unnecessary interference with the functioning of the capital market.

Minneapolis suggests that constructive leadership by the Board in analyzing and interpreting the present business situation would be useful in restoring confidence. It also suggests that, if the proposed Banking Act of 1935 should fail of enactment, the Board might propose to the Congress that it vote a special fund to be used by the Federal reserve banks in discounting long-term loans for the commercial banks of the country.

2. Interest rates.

(a) On time and savings deposits of member banks:

It is the consensus that the present maximum limitation of $2\frac{1}{2}\%$ on the rate of interest which may be paid on time and savings deposits of member banks is satisfactory. New York does not favor detailed regulation

of such rates by national action, and indicates that in its judgment there should be relatively infrequent adjustments of the maximum rate in accordance with shifts in the trend of long-term rates of interest, leaving detailed adjustments below this maximum to the individual banks. It points out that frequent adjustment of the maximum rate tends to fix upon the Board the responsibility for continuous control and to take from the member banks their initiative in such matters.

It is variously suggested that in establishing a maximum interest rate consideration should be given to the average earnings from this source for the average bank, allowing a sufficient spread to cover overhead and a reasonable profit; that the Board should lean toward a rate high enough to meet the requirements of banks in less fortunate communities; and that the need of savings depositors for income should not be disregarded. Minneapolis submits the suggestion that legislation should be passed prohibiting insured nonmember banks from paying higher rates of interest than member banks, and that the Board should endeavor to induce States to pass laws prohibiting non-insured banks from paying higher rates than insured banks.

(b) On loans of member banks and on industrial advances and commitments by Federal reserve banks:

In general the reserve banks feel that the prevailing interest rates charged on loans by member banks are equitable, although it is recognized that such rates have not kept pace with the decline in the general level of interest rates and are inclined to vary but little except in the large centers where prime credit risks receive preferred

treatment. Practically all of the reserve banks believe that existing rates on industrial loans and commitments are justified under present conditions. However, separate detailed reports covering this phase of the subject are being submitted by the reserve banks in response to the Board's letter of February 11, 1935 (X-9122), and a separate digest of such reports is being prepared for submission to the Board.

3. Matters affecting admission of nonmember banks to Federal reserve system.

(a) Earnings of nonmember banks from exchange collection charges:

With the exception of Richmond, Atlanta, Minneapolis and Kansas City, the reserve banks report that exchange collection charges are not an important factor in deterring banks from seeking admission to membership in the Federal reserve system, since, generally speaking, nonmember banks are either on the par list and derive no income from this source or exchange collection charges have been superseded by service charges. However, nonmember banks located in the Carolinas in the Fifth District, the States comprising the Sixth and Ninth Districts, and Nebraska in the Tenth District, are reported to refrain from applying for membership in the System largely by reason of the necessity for relinquishing income derived from exchange collection charges. More detailed information with respect to these areas is contained in Appendix A in the comments of the individual reserve banks affected.

(b) Present conditions of membership:

While several of the reserve banks feel that the standards of membership should not be lowered and make no specific criticisms of the

conditions of membership now being prescribed, the weight of opinion is definitely in the direction of revision and simplification. The membership conditions now imposed are generally criticized because they are too numerous and, in some instances, overlap; they impose restrictions adequately covered by statute; and they are more drastic than those prescribed prior to the banking holiday. The feeling prevails that, so far as possible, there should be uniform requirements of membership imposed upon all member banks and that, looking toward ultimate unification of the banking system, some liberalization in existing requirements may be justified.

New York classifies the present membership conditions into three groups: viz., (1) those that serve to subject State member institutions to certain provisions of law affecting national banks to which such State institutions might or would not otherwise be subject, (2) those that are designed to keep reserve banks and the Board informed as to certain matters affecting their relations with the State member banks, and (3) those that serve as reminders to such institutions of certain features of good banking practice and of certain provisions of the statute which might otherwise be overlooked. (See Appendix B for text of eighteen standard conditions of membership.) New York regards conditions numbered 7, 8, 9 and 18 as falling in group one; conditions numbered 1, 9, 12 and 14 in group two; and conditions numbered 2, 3, 4, 5, 6, 7, 8, 10, 11, 13, 15, 16 and 17 in group three. It points out that the purposes of the several conditions overlap to some extent, and states that, in its opinion, conditions numbered 1, 9, 10, 14, 16 and 18 should be retained in their present form; that con-

ditions numbered 2, 3, 5, 6 and 15, which seem unnecessary, and conditions numbered 4, 11 and 13, which are adequately covered by statute, should be eliminated. It suggests also that condition numbered 7 should be omitted, and that conditions numbered 8, 12 and 17 should be revised.

Of the six present conditions which New York indicates should be retained in their present form, one or more of the other banks have suggested the revision of conditions numbered 1, 10 and 18, which would leave only three conditions unchanged, i.e., numbers 9, 14 and 16. However, Minneapolis states that the existing membership conditions are so voluminous and involved that they frighten the prospective member, and it recommends that the general conditions of membership be reduced to the following simple form: "This bank agrees to abide by the present and future rules and regulations prescribed by the Federal Reserve Board and to conduct its business according to sound banking principles." Minneapolis also suggests that the other matters incorporated in the present conditions be imposed in the rules and regulations of the Board or specified as special conditions of membership in certain cases.

(c) Advisability of extension of membership to banks outside the States and the District of Columbia:

Nine of the reserve banks either make no comment with respect to this question, state that they are not in a position to offer suggestions as to the policy which should be adopted, or indicate that they know of no reason why membership should be denied banks situated in Alaska or in a dependency or insular possession of the United States. The views of the remaining three reserve banks may be summarized as follows: New York suggests that a general survey be made of economic and banking conditions

in the areas affected before determining the policy to be followed, St. Louis believes that banks outside the States should be encouraged to become members of the System in furtherance of unified banking, and San Francisco is of the opinion that banks situated in Alaska and Hawaii do not appear to need the facilities offered by membership in the System and that, as a practical matter, it would seem desirable not to admit to membership other than national banks situated in those Territories.

4. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.

The reserve banks unanimously report that there is need for continued assistance by the Reconstruction Finance Corporation in connection with the rehabilitation of capital structures of banks. There are some divergent views as to the length of time such activity should continue which, apparently, is due primarily to the various stages of progress made in the respective districts toward completion of rehabilitation programs previously undertaken. The consensus is to the effect that such assistance will be required at least until July 1, 1937, in anticipation of nonmember banks seeking admission to membership prior to that date. On the other hand, New York believes that the Reconstruction Finance Corporation should definitely terminate its activities in this field when the present program has been completed, and Minneapolis says that "assistance by the Reconstruction Finance Corporation in providing capital for banks should be continued until all existing banks are adequately capitalized." In other words, Minneapolis believes that there should always be in existence an agency to assist banks which are in a weakened condition,

and that this function of the Reconstruction Finance Corporation should be continued until the Federal Deposit Insurance Corporation or some other agency is in a position to take over the work.

5. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.

All of the reserve banks indicate that adequate reimbursement is not being received from the Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings. It appears that the Treasury reimburses the reserve banks only for expenses relating to "new issues" in connection with fiscal agency activities on behalf of the Department; that no reimbursement whatever is made for services rendered as depository, etc.; and that contracts are in effect with most of the other governmental agencies whereby the banks are reimbursed only for salary and out of pocket expenses. The banks are practically unanimous in saying that complete reimbursement should be obtained for all services, particularly at the present time, in view of the limited earnings of some of the banks. This subject is receiving consideration by a committee of governors, and it is anticipated that some satisfactory solution to the problem can be worked out.

6. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.

(a) Circumstances under which regulation should be issued:

The weight of opinion is to the effect that the Board should issue a regulation fixing margin requirements for loans by banks on equity securities for the purpose of purchasing or carrying securities registered on

national securities exchanges prior to the time when there is an active demand for credit of this character, and certainly before bank loans of this type assume large proportions. A large minority feel that it would be desirable to issue the regulation promptly, by reason of the fact that dealings in securities at the present time are in such small volume that any unfavorable reaction to the regulation would produce a minimum of disturbance and would enable the banks to familiarize themselves with the regulation before the actual need for it arises. The majority, however, would be inclined to delay issuance of the regulation until such time as a heavy speculative movement is in prospect, in order to allow further time to observe and study the operation of Regulation T and to avoid placing further restrictions upon bank lending which would tend to be deflationary at a time when banks are being encouraged to adopt a liberal policy in this respect. Cleveland states that, in its opinion, "Section 7(b) of the Securities Exchange Act of 1934 is impracticable, and until such time as the law is simplified the issuance of the regulation should be deferred." San Francisco draws a distinction between bank loans for the purpose of carrying equity securities made to customers who are not dealers and those who are dealers, and says " * * * that regulations should be promulgated and made effective in regard to loans by banks to dealers. Such regulations should be more liberal than those governing loans by dealers to their customers."

(b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T:

There is no unanimity of opinion with regard to whether the proposed

regulation should permit a borrower to obtain from a bank more than he could obtain from a broker under Regulation T. Several of the reserve banks feel that there is no logical basis for discrimination in favor of a bank as against a broker in fixing margin requirements and that a borrower should not be permitted to obtain more credit of this character from a bank than he could obtain from a broker under Regulation T. Others express the view that some liberalization in favor of the banks should be permitted, particularly in connection with regular customers where loans are made not solely on the basis of collateral and are not of the "open market" variety. New York and Chicago believe that a different approach from that underlying Regulation T must be made in determining the character of regulation to be issued, and that further study should be given to the question. Dallas suggests that, if the Board should decide to issue immediately a regulation applicable to banks, the marginal requirements included therein should be somewhat more liberal than those now applied to brokers and dealers under Regulation T, and that this differential should continue until and unless an era of unusual speculative activity should occur or seem imminent, at which time such marginal requirements for banks should be made the same as those prescribed in Regulation T for brokers, reverting to the modified basis after the emergency has passed. San Francisco states that, in any regulation governing loans by banks, a marked distinction should be made between loans to customers in which the borrower has used the proceeds to finance the purchase or carrying of equity securities, and loans secured by stocks in which the borrower has used the proceeds

to finance transactions unrelated to the purchase or carrying of equity securities.

7. Economic and statistical divisions of Federal reserve banks.

(a) Usefulness to directors and officers:

With the exception of Boston, Chicago and San Francisco, the reserve banks take the position that they could not function as efficiently without the services of an economic and statistical organization. Moreover, they variously regard the statistical data, charts, etc. which such a department supplies as "very helpful", "very valuable", "essential", and "indispensable" to their directors and officers. The Boston bank seems to feel that its statistical department should be maintained, although apparently the department has not been drawn on very heavily for information by the directors and officers. Chicago definitely recommends the discontinuance of its statistical organization with the exception of sufficient personnel to supply the needs of the Board. San Francisco expresses the thought that much of the data compiled by its division of analysis and research serves a purpose in a field much larger than that in which reserve bank officers are immediately concerned in dealing with their credit-granting operations. It believes that its directors and officers are kept generally informed as to credit and economic trends through the medium of the Federal Reserve Bulletin and similar economic reviews.

(b) Value of Federal reserve bank monthly reviews:

Most of the reserve banks feel that the monthly reviews are of value and their publication should be continued. However, it is the consensus of the directors and officers of the Chicago bank that the

publication of the review should be discontinued,* although Chairman Stevens personally states that it is widely read and quoted and, in his opinion, is valuable. San Francisco is somewhat noncommittal on this subject but does say that "As to the direct necessity for statistical information for the conduct of the Federal Reserve Bank of San Francisco, it could be supplied by a reduced organization." The banks, with the exceptions noted, stress the point that, aside from the value of the information contained in these reviews to their own organizations, they are of value to member banks and business interests as a medium of information on current conditions within the districts, and that the reviews generally create favorable publicity for the reserve banks.

8. Establishment of career system for personnel of Federal reserve banks.

The reserve banks, generally, favor a system-wide career plan. However, Chicago says: "A career system might be advisable as an objective, but as long as our present system of unit commercial banking exists, it is essential that 'new blood' be brought in so the System may be kept in touch with and abreast of the problems of not only banking but industry and agriculture, which is largely missed if the personnel has grown up within the System." Dallas feels "that transfers should be limited very largely to employees holding the more technical or specialized positions, although the transfer of others holding higher or even less important positions should not be precluded." San Francisco mentions the fact that the Board some sixteen years ago approved a policy designed to encourage a feeling that the reserve banks offer a career in which appropriate compensation and reward might be received and refers to the Board's Annual

*(Note-Chicago executive committee on March 29 voted to discontinue publication.)

Reports for the years 1918 and 1921 (see Annual Reports 1918 - p 29, 1921 - p 366). The following sentence is quoted from page 29 of the 1918 Annual Report: "The Board does not believe that the Federal reserve banks should become training schools for future officers of member banks; it feels, on the contrary, that sufficient inducements should be offered by the Federal reserve banks to make service with them attractive as a career."

A minority expresses doubt as to the practicability of a system-wide plan, but is thoroughly in accord with the maintenance of a merit system and the encouragement of promotion within the ranks of the respective bank organizations. Cleveland, for example, stresses the importance of long residence in a particular district and of intimate knowledge of conditions and affairs in such district as being prerequisites to maximum efficiency. It, also, together with Boston, Philadelphia and Richmond, questions the advisability of uprooting officers and employees of long continuous service in a particular district, thus requiring them to sever ties and social connections, in order to transfer to another district. The thought is expressed that in certain cases these considerations might very well outweigh any material advantages which might accrue to those individuals by reason of such a change. Attention is called to the individual comments of New York, Philadelphia, Richmond and San Francisco contained in Appendix A in regard to this subject.

9. Criticisms of existing regulations or rulings or procedure of the Federal Reserve Board, with specific recommendations as to changes which would correct any unsatisfactory features of the relations between the Board or its staff and the Federal reserve banks or member banks.

The criticism which has been almost universally made by the reserve banks relates to what is regarded as a tendency on the part of the Board to exercise too close a supervision of the various banks, particularly with respect to matters which they regard as peculiarly within their own jurisdiction, of minor importance or of purely local concern. This major question is discussed more fully below under the caption "regional autonomy".

Another matter for which the Board has been subjected to considerable criticism by the reserve banks is the policy it has followed in regard to the granting or withholding of permits, including voting permits to holding company affiliates and permits covering interlocking relationships under the Clayton Act and Section 32 of the Banking Act of 1933. In the opinion of the Boston bank, this policy "is potentially the most prolific single cause of criticism on the part of member banks and others, of the Federal Reserve Board."

Other matters of general criticism include: the policy followed by the Board with respect to the approval of salaries and minor expenditures of the reserve banks; the multiplicity of reports which member banks are required to prepare; delay in receiving rulings, par lists and replies to letters written to the Board regarding administrative matters; the need for revision of many, if not all, of the existing regulations of the Board; and, the need for a current "digest of rulings" incorporating all important interpretations of the law and regulations.

The gist of the comments relating to the foregoing general criticisms is as follows:

(a) Regional autonomy:

New York feels that the Board's policy in recent years has required the making of an enormous number of decisions and involved the assembly in its offices in Washington of a vast amount of detailed data with respect to matters of relatively minor importance, the administration of which could better be delegated to the individual Federal reserve banks within the limitations of broad general policies established by the Board. The existing procedure, New York believes, has caused multiplication of work, delays in taking action, increased expenses of administration, and a separation between those (member banks and others) subject to administrative control and those exercising the details of that control, which encourages the growth of bureaucratic methods.

It is New York's view that "nothing would contribute more to the establishment of satisfactory relations between the Federal Reserve Board and the Federal reserve banks than the adoption by the Federal Reserve Board of a broad general policy which would accord to the actions of the boards of directors of Federal reserve banks, with respect to matters of bank administration, district problems, or other matters concerning which the law gives the directors initial responsibility, the presumption that such actions are right and proper unless obviously in conflict with general System policies established by the Board, or with the statutes." It believes that, in any case where the Board feels that it must disapprove of the action taken by the board of directors of a reserve bank, or where it has reasons which it feels justify its overruling the presumption in favor of the correctness or wisdom of the action taken by the directors, it would

seem to be clearly a matter of good organization that the reasons for the Board's disapproval should be transmitted to the directors. Otherwise, New York says, it is difficult to see how it will be possible to develop and to maintain a wise and harmonious accord between the Board and the several boards of directors in the conduct of the System's affairs.

Philadelphia: " * * * in the earlier years of the System we felt that the Board realized that the banks were conducting the operations of the System, and their disposition was to be cooperative and helpful. Having this feeling, we consulted freely with the Board, or with individual members, and never failed to get a sympathetic hearing and helpful advice or suggestions. We regret to have to say that in later years we have noticed a changed attitude on the part of the Board. A disposition to distrust and criticise seems to have succeeded to the former disposition to help."

Richmond: " * * * it has for a long time been the feeling of our directors that the contacts of the Board and Board members with our directors (individually and collectively) is not as intimate and as close as is believed to be desirable. Our directors have felt * * * that in matters of broad policy they have not at times been made familiar with the views and policies of the Board or the Board members, and it is believed that the coordination of the Federal reserve banks would be promoted by more informal and intimate contact and exchange of views between the Board members (individually and collectively) and the administration of Federal reserve banks."

Atlanta: "We are * * * only suggesting that in so far as minor matters are concerned -- matters which involve no question of general policy and are of purely local concern -- more of autonomy might be left to the Federal reserve banks and greater latitude be given to its officers and directors for the exercise of their discretion."

Chicago thinks that "too much detail of management and supervision of member banks (is) handled by Federal Reserve Board", and that "better service would be rendered member banks if Federal reserve banks were given authority to supervise and make decisions on matters of policy and operation of member banks in their district, the Federal Reserve Board acting as an appeal Board in the event of disagreement."

St. Louis: "As to relations between the Board and the reserve banks or member banks, it has been suggested that it would be helpful if more authority and discretion could be delegated to the directors and officers of the Federal reserve banks - the men in the field. The Board could issue broad general principles for guidance of the reserve banks and they would handle and carry out the details of specific cases. The reserve bank would refer to the Board only borderline cases and those that involve questions of policy. It is thought that the extension of this plan would relieve the Board of considerable detail work, place more responsibility on the Federal reserve banks, and promote closer relations."

Kansas City: "As a general policy we believe that all matters of local Federal reserve bank management not inconsistent with System policy, should be made the responsibility of the officers and directors of the regional banks, with the minimum of restrictions and regulations on the

part of the Federal Reserve Board."

Dallas: " * * * we recognize that in connection with such matters as applications for Clayton Act permits, voting permits, fiduciary powers, and State bank membership, the Board is necessarily handicapped to some extent by its remoteness from the localities in which these applications originate, and its lack of the intimate knowledge of local conditions and other factors which the officers and directors of the reserve bank possess and which they frequently find it difficult to convey adequately in a letter. For these reasons we feel that the Board, in arriving at a decision in such matters, especially when it feels that the case involved is of a 'border line' character, could well afford to rely upon the judgment and recommendations of the reserve banks and delegate to them a somewhat larger measure of responsibility in such cases than they now exercise. Such discretionary powers as might be entrusted to the reserve banks would be exercised, of course, within the regulations and in harmony with the policies as established by the Reserve Board, and, in order that a fair degree of uniformity might obtain in the several districts, the Board's examiners could review the actions taken just as they now inquire into, or check, other matters of equal or greater importance in the operations of the banks."

(b) Voting permits:

With respect to the granting or withholding of voting permits, Boston reports that "we have had some indication that conditions imposed have been looked upon as going beyond the requirements of the law or have been considered too burdensome or impractical of fulfillment", and it

believes "that it might serve to eliminate causes of criticism if an opportunity were afforded to discuss the conditions with the applicant before they are definitely imposed."

New York suggests that a broader view might have been taken of the statute and a more liberal policy pursued. It points out that the statute itself seems to indicate that it was intended that such permits be granted or withheld on broad grounds, and that instead of merely determining whether it is in the public interest to grant or withhold particular permits, it appears that the Board has made each application for a voting permit a means of bringing pressure to bear, not only on the subsidiary member banks but subsidiary nonmember banks as well, to make immediate charge-offs or eliminations of estimated losses and depreciation and to strengthen their capital structures to a degree that could hardly be said to be required to give effect to the policy of the statute. It is stated that in many cases the holding company affiliate has been asked to agree to do things as a condition to the issuance of a permit to which its directors and officers have conscientiously felt the company could not agree, resulting in considerable embarrassment and irritation on the part of the holding company officials and of the subsidiary banks, and difficult and time consuming negotiations on the part of the officers of the reserve bank to obtain compliance with the Board's requirements. New York raises a question as to whether it is within the fair intent of the statutes or whether it is necessary or desirable to take the occasion of such applications to hasten desirable actions by banks in the matter of charge-offs, etc., and believes that subsidiary banks and holding company affiliates,

for the reasons stated, have been subjected to more severe treatment than have other member banks, both State and national, which are not subsidiaries of holding company affiliates. The reserve bank points out that, notwithstanding the compliance of many holding company affiliates with the Board's requirements, only two general voting permits have been issued to holding company affiliates in its district up to the present time, and it recommends that the Board consider the advisability of adopting the general policy of issuing general voting permits in all cases except those in which it appears that the issuance of such permits would not be in the public interest and that limited permits be issued only in exceptional cases rather than as a general practice.

(c) Clayton Act permits:

With respect to Clayton Act applications and permits, Boston states that "while no specific criticism has been received by us, we surmise that application forms have been considered unnecessarily broad in the scope of the personal information requested." Boston also believes that unfavorable reaction resulted from the Board's practice of commenting upon the directors' attendance at meetings of boards of directors of non-member banks, or upon an applicant's indebtedness to a nonmember bank, as features to be taken into consideration in granting or withholding a Clayton Act permit, and indicates that these considerations may be regarded as "beyond the concern of the Board".

New York concurs in the feeling expressed in the Board's letter of January 9, 1935 (X-9082), that the procedure during the past year in

connection with Clayton Act applications has not only been cumbersome but has not produced entirely satisfactory results. It has been the reserve bank's experience that this procedure has operated in many instances to deprive member banks of the services of valuable directors, even where it has been shown that the institutions covered by the application of a given individual were not so situated as to be in substantial competition; that even in instances where permission has been granted to continue interlocking relationships, the voluminous amount of information required of an applicant in support of his application and the delay incident to the disposition of his application has occasioned much irritation among bank directors and officers and the feeling that they have been subjected to regulation unnecessarily oppressive in character. New York reports that repeated instances have come to its attention in which directors of national banks who were serving at the same time as officers and directors of other banking institutions have elected to discontinue their services to one or more of the banks rather than undertake to obtain the permission of the Board to continue such relationships. New York feels also that it was not the intention of the Congress to place upon the Board the responsibility of passing upon the general qualifications of applicants for service as bank directors, and it recommends that the Board give consideration to the advisability of adopting permanently the policy expressed in the Board's letter mentioned above, regardless of whether the law remains as it is at present or whether it is amended by the enactment of the proposed Banking Act of 1935.

Atlanta believes that the granting of a permit in cases where an

officer or director has manifestly abused his office or has been negligent in the discharge of his duties would be incompatible with the public interest, and that the basis for the granting or withholding of a permit should not rest entirely on the question as to whether or not the banks involved are in competition. In fact, it regards the question of competition as of relatively minor importance in the case of banks which are not within the prohibitions of Section 8 of the Clayton Act.

(d) Section 32 of the Banking Act of 1933:

Boston, New York and Philadelphia are of the opinion that the Board's denial of permits under Section 32 of the Banking Act of 1933 has worked a hardship in many cases upon member banks, and Boston states "it is our impression that the Board's reasons for denying the permits have not always been looked upon as convincing," and that it believes the granting of permits in several instances of the kind referred to "would not have been incompatible with the public interest."

New York states that the practical result of the Board's interpretation of Section 32 has been that a number of member banks have been deprived of the services of valuable directors and officers, even though no information was disclosed which would reflect in any degree upon the desirability of such individuals as directors or officers of the member banks in question except that the relationships covered by their applications came within the Board's interpretation of the provisions of that section. This has given rise, according to the New York bank, to a feeling that the Board's policy with respect to the administration of Section 32 has been unnecessarily strict and inelastic. It states,

however, that in view of pending amendatory legislation it is not offering any suggestions as to a possible modification of the existing policy, but would like to give further consideration to the question and to have the privilege of submitting a supplemental report in the event the proposed amendment fails of enactment.

(e) Salaries and expenditures:

The New York bank states that in recent years the exercise by the Board of its responsibilities with respect to salaries of the officers and employees of the reserve banks has involved "unwarranted encroachment upon the time of both the Board and the directors of the bank, and has interfered with the maintenance of a salary schedule * * * which would give proper recognition to the duties and responsibilities of the individual members of the bank's staff as well as to an appropriate relationship between the salaries of different members of the staff." New York feels that the Board should confine itself to broad questions of policy in this field of Federal Reserve System operation, and should not attempt to control details of intra-bank administration. It admits that, while the total salary expenditures of a reserve bank properly may be a matter of concern to the Board, it feels that the division of that total within the bank involves questions which, by their nature, must be reserved to the board of directors and officers of the individual banks who are in close touch with the work of the bank and the participations of various individuals in that work. It suggests that it would seem desirable to extend the idea underlying the established practice with respect to employees of the banks in the lower salary ranges with some modifications in form to

the officers of the banks and employees in the higher salary brackets. New York suggests that the Board formulate a general policy for the guidance of the reserve banks in this connection which should contemplate leaving the utmost discretion as to individual salaries, as contrasted with total salary expense, to the boards of directors of the reserve banks.

In regard to this subject, Philadelphia states: "we cannot avoid the feeling that the close and constant attention paid by the Board to matters of employment, promotion and compensation comes very close to operation rather than supervision and indicates a lack of confidence in the interest and ability of our directors."

Chicago criticizes the "lack of agreement between our salary committee and Board prior to action of board of directors of this bank."

Atlanta suggests that "it might be well * * * for the Board to take under advisement the question of whether the expenditure of relatively small amounts, in cases where there is no specific authorization by law and the object to be attained is not improper or unlawful, might perhaps be left to the various Federal reserve banks and not call for special authority given by the Board."

(f) Multiplicity of reports required of member banks:

Atlanta advises that its examiners report that member banks complain of the number, variety and extent of reports which they are required to prepare, and that member banks would welcome a revision of report forms, a reduction of requests for reports to a minimum, and consolidation of reports wherever possible.

Chicago, St. Louis, Minneapolis, Kansas City and Dallas all concur in the opinion that member banks are burdened with the preparation of too many reports and urge that further consideration be given to curtailing requirements in this respect so far as possible.

(g) Delay in receiving rulings, par lists and replies to letters:

Richmond: "The difficulty of obtaining prompt reply from the Board, or from the staff of the Board, upon administrative matters arising out of regulations and rulings is due no doubt to the tremendous pressure of matters upon both the Board and its staff, and we therefore have no particular criticism in this connection. But nevertheless we are often handicapped, and even embarrassed in some instances, by such delay."

Atlanta: "In connection with our dealings with member banks, and particularly in the handling of the work of the Federal reserve agent, promptness on the part of the Board in giving rulings and in replying to letters asking for advice would be of great assistance."

St. Louis: "Our transit department suggests that the par list and supplements thereto be distributed earlier, if possible about the 8th of the month of issue. * * * Frequently as much as a month elapses before the completed par list or supplement is received, which has led to numerous inquiries from banks as to the routing of checks."

Minneapolis: "It would be advantageous to reduce the length of time consumed in the printing and furnishing of par lists and monthly supplements thereto. Our changes in the par list are always in the Federal Reserve Board's office on the second of the month. We do not receive the semi-annual par list until thirty days after the beginning of each semi-

annual period, and the monthly supplements are received from twenty to thirty days after the date when they become effective. * * * This long delay causes misrouting of items by our member banks. The par lists might be printed in Chicago or St. Louis to shorten mailing time and to eliminate delays in the Government Printing Office."

(h) Need for revision of existing regulations:

All of the Board's regulations, with the exception of M, N and S, have been criticized by one or more of the reserve banks, either by specific reference to a particular regulation or to the substance thereof. It appears that more of the reserve banks have specifically urged the revision of Regulations D, H, L and Q than any of the others (see Appendix C for list of existing regulations showing the alphabetical designations, series and subject).

Kansas City suggests that the earlier regulations of the Board (A to L) might well be amended and reissued because of the changes which have been made in the law since their last revision, and that all regulations which have been supplemented by X-letters or interpretations should be revised and reissued to give effect to such rulings. While Kansas City feels that, because of pending legislation, it may not be desirable at this time to recodify all of the Board's regulations, it suggests that the regulations which have been issued to interpret the Banking Act of 1933 and subsequent legislation should have immediate attention.

Minneapolis, Kansas City and Dallas state that Regulation D should be revised to avoid the conflict with Regulation Q by eliminating the requirement that a demand deposit reserve be maintained against time

deposits which are payable within thirty days. Minneapolis states that such a change would eliminate much confusion incident to reserve calculations, maintenance of records, etc., in country banks. It regards this as one of the most irritating minor matters and states that it causes a great mass of corrective correspondence.

St. Louis, Minneapolis and Kansas City specifically mention the necessity for the revision of Regulation H; this view appears to be practically unanimous in view of the comments made with respect to membership requirements under topic 3-b.

Richmond and Kansas City in particular submit certain questions having to do with the interpretation of Regulation Q. Dallas thinks that it would be desirable for the Board to revise Regulations L, P, Q and T in the light of certain rulings and interpretations which the Board has issued in connection with their provisions. Boston reports with respect to Regulation T that many nonmember banks, including savings banks, have objected to signing agreement form T-1 required by the Regulation in order to qualify under Section 8(a) of the Securities Exchange Act.

Specific suggestions and criticisms are set forth in Appendix A in the individual comments of the respective reserve banks.

(i) Need for current digest of Board's rulings, including interpretations:

Minneapolis, Kansas City and Dallas suggest that it would be helpful to the reserve banks if the Board would issue a revised edition of its "digest of rulings", incorporating therein the various important rulings and interpretations which the Board has promulgated since the

existing digest covering the period 1914-1927 was published, thus bringing it up to date with respect to recent legislation and the Board's interpretations of new laws. Minneapolis states that a digest of X-letters which are still in force should be prepared by the Board and submitted for the use of all reserve banks, since (Minneapolis assumes incorrectly) there have been more than 9,000 X-letters issued, many of which are obsolete, and it is becoming very difficult for the banks to keep their operations in accordance with this volume of instructions.

(j) Distribution of X-letters to member banks:

Kansas City and Dallas are of the opinion that important X-letters containing rulings issued by the Board, particularly those which apply to Federal laws or regulations governing the operations of member banks, should be given general distribution among the member banks by the reserve banks. In this connection, Dallas says: " * * * At present, we are prohibited from either furnishing or quoting these X-letters to member banks, which, in our opinion, often creates a situation that is embarrassing to them in their relations with bank examiners, and tends to give an undue advantage to the particular bank or banks for whose benefit the rulings were issued. This suggestion applies, of course, to those interpretations which the Board is by law authorized to make in connection with provisions of the Federal Reserve Act." (Note: The prohibition applies only to the furnishing of the X-letters as such, without express authority from the Board, and also does not prevent using the substance as a basis for communications with member banks or others concerned.)

In addition to the criticisms and suggestions discussed above which were made by two or more of the reserve banks, a number of original comments were contained in reports of certain reserve banks which are set out below:

New York: "We have had two cases in this district where State member banks have applied for permission to open branches in accordance with the law of the State. The Federal Reserve Board and the Comptroller of the Currency have, in these cases, made requirements as to certain charge-offs and eliminations. This has occasioned resentment as the banks felt that it was unjust that a request for authority to establish branches of small importance relative to the total of the bank's business should be made the occasion of such requirements. This feeling has been intensified by the fact that national banks which have opened branches in the State during the same period have not been made the subject of similar requirements.

"It is believed that a more liberal policy might be pursued in this matter without detriment to the public interest."

Philadelphia: "In June, 1932, at the request of President Hoover, we got twelve men of local prominence to serve as a 'Banking and Industrial Committee'. These gentlemen contributed their own valuable time, their Chairman contributed his Secretary to act as Secretary of the Committee, a local bank gave them quarters in its building rent-free, and they collected a very considerable sum of money from trades benefitted by a 'Renovize' campaign, which they waged with great success. As we were unable to contribute to their work either space or personnel, we agreed to bear, for a limited number of months, the very moderate salaries of two or three high-grade men they had to employ. Our total expenditures on account of this Committee were about \$3,800. Although the times were critical and we were all overworked, we were harassed by constant inquiries, from your Secretary as to these men, their duties, their compensation, and the date of expiration of their employment. Even after the employment of the last man had ceased, on the date previously named to him, he inquired whether it had ceased.

"* * * We have been in the habit of reporting absences of employees over thirty days, on account of sickness, to our Executive Committee, which approved extensions. The minutes of the Executive Committee, including these details, have always been read to and approved by the Board at its next meeting. We cannot see the reason for requiring that the attention of the Board, which has more important matters to consider, should be taken up with the details of each individual case - character of illness, age, prognosis, etc. We have, however, been instructed that this must be done.

"In two cases - that of the Berks County Trust Company of Reading, and the 'Main Line Trust Company' of Ardmore - the Board took positions which indicated a total lack of confidence in the directors and officers of this bank, and a contempt for their judgment. Indeed, in the latter case, their comments to the Chairman and Governor cannot be characterized otherwise than as offensive.

"We deplore the Board's insistence that all officers and employees of reserve banks must divorce themselves from all civic and community interests. Mr. Austin's enforced resignation from the Treasurership of the Chamber of Commerce has cut off a valuable contact with the business interests of the city. The same is true of Mr. Norris' severance from the Beneficial Saving Fund Society. Perhaps the most striking illustration is the insistence that a clerk in our Currency Department may not oblige his neighbors by serving them on the School Board of a small country township. We feel that it is to the interest of the System, as well as to the interest of the communities in which the banks are located, that officers and employees should maintain useful business contacts, and do their duty as citizens, where such contacts and duties create no embarrassment, and in no wise interfere with the performance of their work."

Cleveland: "In this connection, we believe that it might be helpful to the Federal Reserve Board and to the Federal reserve banks if a consulting committee were set up, composed of operating officials of the reserve banks, which the Board could consult if it so desired, especially in connection with the drafting of regulations which involve complicated operating problems for member banks and Federal reserve banks. A similar arrangement might be helpful in connection with the issuance by the Board of instructions to reserve banks setting up accounting procedures."

Atlanta: "We believe that it would be beneficial to the officers of the reserve banks were the examiners of the Federal Reserve Board at the time of making examinations of reserve banks to offer constructive and helpful suggestions. This would bring about frank discussions which would not only be beneficial, in our opinion, to the officers of the Federal reserve banks but would also eliminate discussions by correspondence. Through such constructive suggestions the officers of the reserve banks might also learn more clearly the viewpoint of the Board on matters, some of which are of relatively small importance and could be disposed of during the period of examination."

Minneapolis: "The Federal Reserve Board should determine and state definitely how far Federal reserve agents are to go in action toward the removal of bank officers for inefficiency, incompetency, undesirable past records, and other reasons other than criminal procedure.

"The Federal reserve agent should have the power to veto an application for a national bank charter even though the Comptroller of the Currency is in favor of granting it. The regional banks understand local situations and are not subject to influences which might be brought to bear upon the Comptroller. Past experience has indicated that such

authority in the hands of the Federal reserve agent would have prevented numerous bank failures in this district.

"The Federal reserve agent should be granted the power to pass on applications of State banks for membership in the Federal Reserve System without submitting every case to the Federal Reserve Board for final action. This would give the Federal reserve agent more facilities for closing a deal with a nonmember bank on the spot when the officials of the nonmember bank are in a mood to join the System. Also much needless delay and confusion in passing on applications would be eliminated. The need for this decentralization will be very apparent if the Banking Act of 1935 is passed, for the Federal Reserve Board will find it very difficult to handle the flood of applications which will be presented to it for approval.

"If the Banking Act of 1935 is passed, the regulations under which banks with capital below the present minimum for membership are allowed to enter the Federal Reserve System should be formulated after receiving the advice of the Federal reserve agents, who are closely in touch with the problems in the field.

"It would be desirable to centralize the control of examination of banks in the hands of a National committee. This Examining Committee would consist of one representative each from the Reconstruction Finance Corporation, the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, who, together with four men elected by the National Association of Bank Supervisors of the United States, would elect one additional member. The Examining Committee should control and make all examinations of banks in the United States, all represented organizations to be allowed to use these examinations as they deemed fit; this Committee to formulate all procedure and oversee the work.

"In view of the fact that the Federal Reserve Board grants trust powers, the Federal Reserve Board should have the power to take away trust powers, and this power should cover both national and State member banks, the natural corollary to which would be that the Federal Reserve Board, through the Federal reserve examining agency, should make examinations of national as well as State trust companies.

"The Federal Reserve Board should alter the form of published bank statement in use by member banks so that such statements would give the actual present appraised values of assets, and so that the titles of assets would give the public a clearer idea of just what classes of assets are being carried by the bank such as pledged assets, second mortgages and contracts, and defaulted bonds.

"If banks are to be permitted to make long-time real estate loans, it would be desirable for the Federal Reserve Board to initiate a movement for member banks to issue long-term certificates of deposit for five or ten years, following the Swiss method. If that system were adopted, the ratio of mortgage loans for any bank should be limited to some percentage of the amount of the bank's long-term certificates outstanding.

"The present method of limiting capital to a certain minimum ratio to deposits appears to be too rigid and arbitrary to meet all conditions. Further study should be made of this matter and the rules should probably be made more flexible.

"The Federal Deposit Insurance Corporation should charge for its examinations so that the nonmember banks will have no advantage over the State member banks in this matter if we begin charging for our examinations.

"Called reports are unnecessarily detailed and contain several schedules which are probably never used. We suggest that the present form be modified to eliminate unnecessary schedules, and that these long forms be required only twice a year. For the intervening two calls, banks should be allowed to prepare only the short form for publication. Supervising authorities with two complete called reports and two examinations for each bank, annually, would have sufficient information for administrative purposes.

"More frequent conferences should be held between representatives of the Federal Reserve Board and the Federal reserve banks to plan procedure in matters of System interest. All Federal reserve banks should be represented at such conferences by those at interest to avoid unnecessary correspondence and to permit of a full exchange of experience and ideas.

"At the next accounting conference of representatives of all of the Federal reserve banks, we recommend that a review be made of all accounting reports now made to the Federal Reserve Board, with a view to eliminating any unnecessary or obsolete reports and to consolidating other reports to reduce the volume of accounting work in the Federal reserve banks.

"The Federal Reserve Board should occupy a position similar to that of the Supreme Court, with pensions for life upon retirement of its members, to remove the Board entirely from political and economic influences. It would be advisable to alter the pending legislation to give every member who retires from the Federal Reserve Board, at the completion of the term for which he accepts appointment, a pension for life of approximately the same salary which he receives as a member of the Federal Reserve Board."

Minneapolis also recommends that, if the proposed Banking Act of 1935 is enacted, the Board issue the necessary regulations with regard to interlocking directorate relationships under the Clayton Act at the earliest possible time, and that the Board also define the term "executive officer" in connection with the amendment to Section 22(g) of the Federal Reserve Act as soon as possible.

San Francisco: "It would be very helpful if the question of charges for examination of State member banks would be definitely settled. A few reserve banks charge for practically all examinations; others charge in special cases, while some make no charge whatever. If charges are to be made, the conditions under which they are to be imposed, and the basis of fixing them, should be uniform throughout the twelve districts. Members, as well as banks contemplating entering the System, should have a definite understanding as to the System's practice."

FEDERAL RESERVE BOARD

WASHINGTON

X-9175

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 8, 1935.

Dear Sir:

There are enclosed herewith copies of statements rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of March, 1935.

Very truly yours,



O. E. Foulk
Fiscal Agent.

Inclosure.

X-9175-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
March 1 to 30, 1935.

Series 1928

	<u>\$5</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Philadelphia,	-	3,000	3,000	\$ 258.00
Cleveland,	-	10,000	10,000	860.00
Atlanta,	14,000	-	14,000	1,204.00
Chicago,	-	18,000	18,000	1,548.00
Minneapolis,	-	9,000	9,000	774.00
Kansas City,	-	2,000	2,000	172.00
	<u>14,000</u>	<u>42,000</u>	<u>56,000</u>	<u>4,816.00</u>

56,000 sheets, @ \$86.00 per M, \$4,816.00

Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	62,000	-	-	-	62,000	\$5,332.00
New York,	50,000	464,000	40,000	2,000	1,000	557,000	47,902.00
Philadelphia,	15,000	32,000	9,000	-	-	56,000	4,816.00
Cleveland,	-	15,000	-	-	-	15,000	1,290.00
Richmond,	-	53,000	13,000	-	-	66,000	5,676.00
Chicago,	24,000	90,000	-	-	-	114,000	9,804.00
St. Louis,	44,000	15,000	1,000	-	-	60,000	5,160.00
Minneapolis,	15,000	17,000	-	-	-	32,000	2,752.00
Kansas City,	-	7,000	-	-	-	7,000	602.00
	<u>148,000</u>	<u>755,000</u>	<u>63,000</u>	<u>2,000</u>	<u>1,000</u>	<u>969,000</u>	<u>\$83,334.00</u>

969,000 sheets, @ \$86.00 per M, \$83,334.00

Total . . . \$88,150.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9176

April 12, 1935.

SUBJECT: Retention of Savings Passbooks by
Member Banks in Certain Cases.

Dear Sir:

In the August 1934 number of the Federal Reserve Bulletin there was published a ruling to the effect that a deposit in a member bank evidenced by a savings passbook retained by such bank may not be classified as a savings deposit for the purpose of determining whether interest may lawfully be paid thereon. The ruling was, in effect, a restatement of the position taken by the Board in 1927 that such a deposit might not properly be classified as a savings account for reserve purposes.

Since the publication of the ruling in question the Board has received a number of inquiries as to the scope of the ruling and requests that member banks be permitted to retain savings passbooks under certain circumstances where it is stated there is no intent to evade the provisions of the law or of the Board's regulations. The situations giving rise to these inquiries may be classified in general as follows.

1. A depositor who is an invalid or lives at a distance from

the bank leaves the passbook with the member bank in order to avoid the necessity of traveling to and from the bank, or the expense and risk of loss incident to sending the passbook to and fro through the mails, each time a withdrawal is made.

2. A depositor traveling for business or pleasure, particularly one engaged in an occupation which requires him to travel extensively and continuously, leaves the passbook with the member bank in order that withdrawals may be made in case of emergency, or in any other case of need.

3. A depositor unable or unwilling to rent a safe deposit box leaves his passbook with the member bank for safekeeping.

4. A member bank makes a loan to a depositor and the passbook is pledged with the bank as security for the loan.

5. A corporation or other employer deducts periodically from the wages of its employees specified sums and remits an amount equal to the aggregate of such sums to the member bank, which credits to the account of each such employee, by making an entry in the passbook which has been retained by the bank, a sum equal to the amount deducted from such employee's wages.

6. A ship captain deducts a certain amount from the pay envelopes of the men employed on the ship and remits such amounts to a member bank for credit to the savings accounts of the respective employees. The passbooks are retained by the bank and it is stated that

a substantial part of the funds thus accumulated is used by the employees during periods in which they are not employed.

7. A member bank acts as agent in the collection of real estate rentals and interest and dividends on stocks and bonds, or for other similar purposes, and retains the passbook in order that entries may be made therein as funds are collected.

8. A member bank acts as trustee and the trust assets consist in part of a savings deposit evidenced by a passbook retained by the bank, as trustee.

Since the receipt of the inquiries on this subject the matter has been the subject of study by the Board but no conclusion as to what, if any, modification may or should be made in the existing rulings has been reached. In this connection, section 323 of H. R. 5357, the proposed Banking Act of 1935, recently introduced in Congress contains a number of proposed amendments to the provisions of law relating to time and savings deposits and the payment of interest thereon by member banks and the Board would be given specific authority to define the term "savings deposits". These provisions, if enacted, will have a material bearing upon questions with regard to the retention of savings deposit passbooks by the banks issuing them. However, without awaiting the possible enactment of such amendments, the Board desires to consider the question whether it is possible under the terms of existing law and whether it is desirable from a practical standpoint to work out a plan under which banks may retain savings passbooks in

exceptional cases if this may be done without in effect abrogating the distinction between savings deposits and checking accounts.

As you know, one of the requirements with respect to savings deposits which has been contained in the Federal Reserve Board's regulations for many years is that the passbook evidencing such a deposit must be presented whenever a withdrawal is made. This requirement is an important safeguard primarily designed to preclude deposits classified as savings deposits from being used as checking accounts and, conversely, to prevent checking accounts from being classified as savings deposits with resulting abuses of the privileges which are accorded to savings deposits. There is, however, no requirement that the passbook be presented when a deposit is made, and deposits may lawfully be accepted by a bank if it so desires whether or not the passbook is presented at such time.

As a basis for further consideration of this matter before reaching a decision with respect thereto, it will be appreciated if you will carefully consider the various types of situations which are enumerated above, in consultation with the executive officers of your bank and with your counsel, and express your opinion to the Board as to the desirability of permitting a member bank to retain the custody of savings passbooks in cases of the kinds above mentioned and, if you should feel that such retention is desirable, as to the manner in which this might be lawfully accomplished under the provisions of the existing statute or under the provisions of the proposed Banking Act of 1935. Please state

-5-

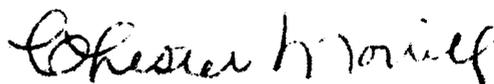
X-9176

your views separately with respect to each of the various classes of cases above enumerated and, in any case in which it may be your opinion that the banks should be permitted to retain the passbooks, state what conditions you think should be imposed in order to preserve the safeguards of the existing regulations and rulings. Please indicate also whether you feel that a decision in the matter should be made as soon as possible or should be deferred pending the disposition in the present session of Congress of the amendments relating to this subject in the proposed Banking Act of 1935.

If there are in operation in your district a large number of mutual savings banks it will be appreciated also if you will ascertain and advise what is the practice of such banks with regard to permitting withdrawals in cases of the kinds above enumerated and particularly whether the presentation of the savings deposit passbook is required as to such withdrawals or whether the passbook is retained by the bank.

You may, if you desire, in your consideration of this subject, consult with officers of member banks in your district or others who you think may be interested or in a position to afford helpful information or suggestions with respect to the matter.

Very truly yours,



Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

350

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9177

April 13, 1935.

SUBJECT: Code Word Covering New Issue
of Treasury Bills.

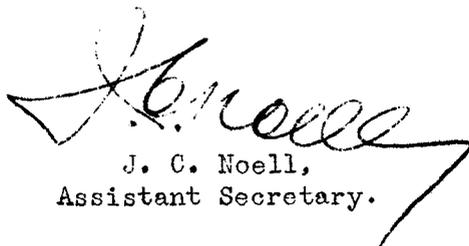
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXTLE" - Treasury Bills to be dated April 17, 1935, and to mature January 15, 1936.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXTIM" 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-9178

April 13, 1935.

Dear Sir:

In reviewing statements furnished at the end of the year by the Federal reserve banks on salaries paid officers and employees, it is noted that the average salary paid employees increased at ten of the Federal reserve banks during the year ended January 1, 1935, the increase for the System as a whole being from \$1,555 to \$1,585.

While salary increases in individual cases may be necessary, it is felt that under existing conditions such increases during the current year should not result in an increase in total salary payments or in average salaries unless a study indicates that the salaries paid to employees by the Federal reserve bank are materially out of line with those paid by local member banks for comparable services.

In approving personnel classification plans for the Federal reserve banks the Board stated that it was with the understanding that the salary ranges provided for the respective positions are consistent with salaries paid for similar work by local banks, and in case your bank has not made a comparison in recent months between

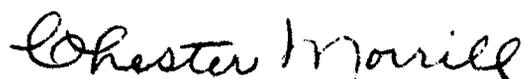
-2-

X-9178

salaries paid by your bank and its branches, if any, and by local member banks, it is suggested that such a comparison be made at your early convenience.

The Board will appreciate your furnishing it with such information in sufficient detail to show how salaries paid by the Federal reserve bank and each of its branches compare with salaries paid for similar work by local member banks.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL CHAIRMEN

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9179

April 16, 1935.

SUBJECT: Daylight Saving, 1935.

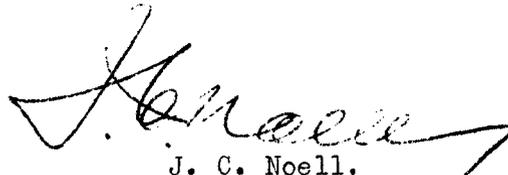
Dear Sir:

The Federal Reserve Board is advised that, beginning Monday, April 29, and ending Saturday, September 28, 1935, the following Federal reserve banks and branches will operate under daylight saving time:

Boston	Pittsburgh
New York	Atlanta
Buffalo	Chicago
Philadelphia	

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

X-9180

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

April 16, 1935.

UNSECURED LOANS BETWEEN MEMBERS NOT FOR
THE PURPOSE OF PURCHASING OR CARRYING
SECURITIES.

Ruling No. 42 interpreting Regulation T. The Federal Reserve Board has been asked whether a member of a national securities exchange is permitted under the provisions of the Board's Regulation T to make a short time unsecured loan to a customer who is also a member of such exchange if such loan is not "for the purpose of purchasing or carrying securities" within the meaning of those words as used in the Securities Exchange Act of 1934. The inquiry makes clear that the loan in question is not a loan of an emergency nature permitted under the provisions of section 10(d) of Regulation T. In reply, the Board rules that the making of the loan referred to is permitted under the provisions of section 5(b) of the regulation if the loan is not made for the purpose of evading or circumventing the provisions of the regulation.

The Board has also been asked whether a declaration of the borrower as to the purpose of an unsecured loan may be relied upon by the lender with the same effect as in the case of a declaration made under section 8(c) of Regulation T. The declaration referred to in section 8(c) is a declaration with respect to an extension of credit on registered, non-exempted securities and the provisions of that section do not apply with

the same effect to a declaration made with respect to an extension of credit without collateral. An extension of credit without collateral by a member of a national securities exchange to his customer, if in fact made "for the purpose of purchasing or carrying securities", would be made in violation of section 7(c)(2) of the Act and the Board is not empowered to make any rule or regulation which would allow such extension of credit to be validly made. In these circumstances, the Board does not feel that it is appropriate for it to make any provision in its regulations or to express any opinion with respect to the circumstances under which, or the extent to which, the lending member would be justified in placing reliance upon his customer's written declaration as to the purpose of a loan without collateral. It is recognized, however, that a declaration similar to that provided for in section 8(c) of Regulation T may be of considerable value to the lender in determining whether a loan is or is not "for the purpose of purchasing or carrying securities" and the Board knows of no reason why a declaration from the customer should not be obtained even with respect to an extension of credit without collateral.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9181

April 18, 1935.

SUBJECT: Holidays During May, 1935.

Dear Sir:

The Federal Reserve Board is advised that the Charlotte Branch of the Federal Reserve Bank of Richmond will observe the following holidays during May, 1935:

Friday, May 10,	Confederate Memorial Day
Monday, May 20,	Mecklenburg Independence Day.

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

On Thursday, May 30, Memorial Day, there will be neither transit nor Federal reserve note clearing and the books of the Board's Gold Settlement Fund will be closed. The offices of the Board and of all Federal reserve banks and branches with the

-2-

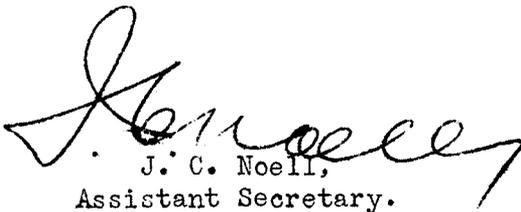
X-9181

exception of the following will be closed on that day:

Charlotte	Little Rock
Atlanta	Memphis
New Orleans	
Birmingham	
Nashville	
Jacksonville	

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-9182

April 20, 1935.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

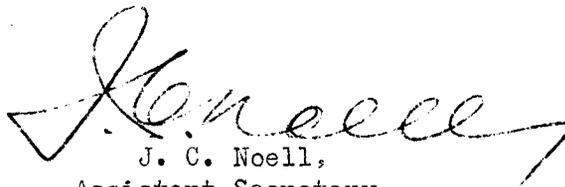
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXTOW" - Treasury Bills to be dated April 24, 1935, and to mature January 22, 1936.

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

Very truly yours,


J. C. Noell,
Assistant Secretary.

FEDERAL RESERVE BOARD

359

WASHINGTON

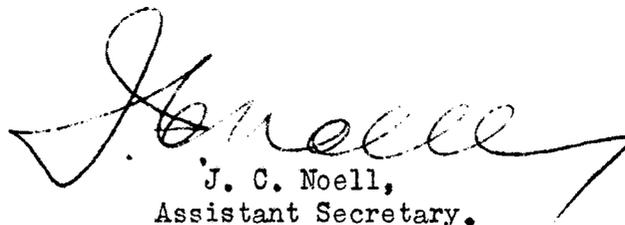
ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9183

April 20, 1935

MEMORANDUM

Referring to the Board's letter of March 19 (X-9152) and April 18 (X-9181) concerning holidays during the months of April and May, respectively, the Board is now informed that April 22, Easter Monday, and Thursday, May 30, Memorial Day, have been made legal holidays in North Carolina, and that the Charlotte Branch of the Federal Reserve Bank of Richmond will be closed on those days.


J. C. Noell,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9184

April 24, 1935.

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 for cash items:

		<u>From</u>	<u>To</u>
Richmond	to New Orleans	3 days	2 days
"	" Minneapolis	3 "	2 "
"	" Kansas City	3 "	2 "
"	" Denver	4 "	3 "
"	" El Paso	4 "	3 "
Baltimore	" New Orleans	3 "	2 "
"	" El Paso	4 "	3 "
Charlotte	" El Paso	4 "	3 "
"	" Salt Lake City	5 "	4 "

Very truly yours,


Chester Morrill,
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

FEDERAL RESERVE BOARD

361

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9185

April 24, 1935.

SUBJECT: Expense, Main Lines, Leased
Wire System, March, 1935.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9185-a and X-9185-b, covering in detail operations of the main lines Leased Wire System, during the month of March, 1935.

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 MARCH, 1935.

From	Business reported by banks	Words sent by New York charge-able to other F. R. Banks (1)	Net Federal reserve bank business	Per cent of total bank business (*)
Boston	29,645	4,619	34,264	4.33
New York	155,262	-	155,262	19.61
Philadelphia	28,190	4,839	33,029	4.17
Cleveland	47,281	4,664	51,945	6.56
Richmond	51,752	4,738	56,490	7.14
Atlanta	48,985	4,568	53,553	6.76
Chicago	82,775	5,386	88,161	11.13
St. Louis	63,565	4,930	68,495	8.65
Minneapolis	30,249	4,746	34,995	4.42
Kansas City	59,029	4,626	63,655	8.04
Dallas	51,958	5,556	57,514	7.26
San Francisco	88,219	6,235	94,454	11.93
Total	736,910	54,907	791,817	100.00

F. R. Board business	310,012	1,101,829
Reimbursable business Incoming & Outgoing		<u>731,472</u>
Total words transmitted over main lines		1,833,301

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9185-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, MARCH, 1935.

Name of bank	Operators' Salaries	Retirement Contributions	Operators' over-time	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	\$ 260.00	\$ 24.65	\$ -	\$ -	\$ 284.65	\$ 628.22	\$ 284.65	\$ 343.57
New York	1,358.29	122.79	1.00	-	1,482.08	2,845.11	1,482.08	1,363.03
Philadelphia	225.00	20.25	-	-	245.25	605.00	245.25	359.75
Cleveland	306.66	27.60	-	-	334.26	951.76	334.26	617.50
Richmond	190.00	17.35	-	230.00(&)	437.35	1,035.90	437.35	598.55
Atlanta	270.00	22.14	-	-	292.14	980.77	292.14	688.63
Chicago	3,997.67(#)	333.50	1.00	-	4,332.17	1,614.79	4,332.17	2,717.38(*)
St. Louis	195.00	17.43	-	-	212.43	1,254.98	212.43	1,042.55
Minneapolis	199.99	15.30	-	-	215.29	641.27	215.29	425.98
Kansas City	287.00	25.83	-	-	312.83	1,166.48	312.83	853.65
Dallas	251.00	22.34	-	-	273.34	1,053.32	273.34	779.98
San Francisco	380.00	32.03	-	-	412.03	1,730.86	412.03	1,318.83
Federal Reserve Bd.	-	-	-	15,306.34	15,306.34	-	-	-
Total	\$7,920.61	\$631.21	\$2.00	\$15,536.34	\$24,140.16	\$14,508.46	\$8,833.82	\$8,392.02

Less Reimbursable Charges

	9,631.70	2,717.38(a)
	\$14,508.46	\$5,674.64

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 26, 1935
X-9187

SUBJECT: Nonmember bank clearing accounts.

Dear Sir:

There is inclosed for your information a copy of a letter, together with accompanying inclosures, addressed to Mr. Stevens, Chairman of the Board of Directors of the Federal Reserve Bank of Chicago, with respect to a question of policy raised by him as to the circumstances and conditions under which clearing accounts of nonmember banks should be accepted under the authority of Section 13 of the Federal Reserve Act.

Very truly yours,

Chester Morrill

Inclosures.

Chester Morrill,
Secretary.

TO ALL CHAIRMEN OF THE FEDERAL RESERVE BANKS EXCEPT CHICAGO

X-9187-a

April 26, 1935.

Mr. E. M. Stevens, Chairman,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stevens:

Reference is made to your letter of November 30, 1934, raising a question of policy with respect to the circumstances and conditions under which clearing accounts of nonmember banks should be accepted under the authority of Section 13 of the Federal Reserve Act. It appears that in the particular case referred to in your letter the non-member bank is not at present eligible for membership, that it does not need the Federal Reserve facilities for exchange and collection purposes as it may use the facilities of its correspondent downtown Chicago bank to the same end, and that it desires to obtain the clearing privileges at the Federal Reserve bank for the purpose of avoiding exchange and collection charges now made by its correspondent.

In your letter you asked, first, whether your bank was out of line with the other Reserve banks in its general policy with respect to the acceptance and rejection of clearing accounts. Following the receipt of your inquiry the Board sent out a letter, B-1044, under date of December 20, 1934, to the chairmen of all other Reserve banks, requesting of each of them a statement showing the extent to which non-member clearing accounts were being carried, the circumstances under which they were opened, and the policy followed by the Reserve bank in

Mr. E. M. Stevens - #2

X-9187-a

accepting or refusing to accept clearing accounts of nonmember banks. For your information there is inclosed a summary of the replies of the respective Federal Reserve banks, together with a table showing the number of such accounts and the average balances therein during the month of November 1934.

With respect to your second question, whether the Board deems it wise for you to change your policy in cases where banks have applied for membership but have not yet been admitted, it is the Board's view that requests for the establishment of clearing accounts by non-member banks should be passed upon by your directors in the light of all the circumstances surrounding each application. In view, however, of the provisions of existing law which makes membership in the System mandatory after July 1, 1937 for all banks whose deposits are insured by the Federal Deposit Insurance Corporation, the Board feels that a liberal attitude should be taken toward such applications provided, of course, the bank agrees to comply with the applicable provisions of the Federal Reserve Act and the rules and regulations issued thereunder.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

X-9187-b

POLICY OF EACH FEDERAL RESERVE BANK IN CONNECTION WITH REQUESTS FOR THE
OPENING OF CLEARING ACCOUNTS FOR NONMEMBER BANKS

(Based on replies received to Board's letter B-1044 of December 20, 1934)

Boston

No statement of policy is made in Boston's reply to the Board's letter but only one nonmember clearing account is carried, and that was opened incident to the withdrawal from membership of a trust company which decided that the nature of its business was such that continuation of membership was no longer desirable.

New York

"We have had no recent requests to open nonmember clearing accounts nor has it been our policy to encourage the opening of such accounts, as in actual practice we find it rather difficult to confine these accounts to the transactions outlined in Section 13 of the Federal Reserve Act."

Philadelphia

"Several years ago we opened a number of non-member clearing accounts to facilitate the handling of checks which we had to collect on those banks. These accounts were not properly handled, however, they constantly were attempting to draw against uncollected items, we got rid of them, and have not opened any since, except the three referred to" (former member banks, two of which are still largely indebted to the Federal Reserve bank while the third, though no longer indebted to the Federal Reserve bank, wants to be re-admitted to membership) "Our experience with non-member clearing accounts was so unsatisfactory that we are disinclined to accept any more."

Cleveland

"The general policy of the Federal Reserve Bank of Cleveland has been to give careful consideration to every application from a nonmember bank to open a clearing accountWhen an interview is arranged, we ask that a financial statement of the bank be furnished principally for the purpose of determining its acceptability as a member of the System and so that we may have some idea of what corrections may be necessary when formal application for membership is contemplated."

This seems to indicate that nonmember clearing accounts are opened only for banks contemplating membership. Two of the three nonmember clearing accounts, both opened in 1934, fall in this category, while the third is an account of a mutual savings bank opened in 1922 to enable the bank to spread its reserves, use the Federal Reserve collection facilities, and provide customers with exchange.

Richmond

".....we have not encouraged the opening of these accounts, for the reasons which follow.

"1. The Act is not at all clear with respect to the amount of balance which we could require of the non-member bank or our right to refuse to pay checks if drawn against collected funds regardless of the fact that such payment would entirely absorb such funds. A strict interpretation would be that the only balance which could be required under the law would be a balance sufficient to offset uncollected items credited to the account. As we do not credit items to the reserve account of a member bank until collected, this might be taken to mean a zero balance of collected funds.

"2. After having had the experience that an inquiring non-member bank usually decided not to open a clearing account with us after becoming acquainted with the terms and conditions upon which we could accept such an account, and realizing that our collection facilities would be available through any member bank correspondent, we adopted the practice upon receipt of an inquiry to suggest to the non-member bank that its object (to obtain access to our collection facilities) could be obtained through its correspondent if such correspondent happened to be a member bank.

"3. From time to time, particularly during the early days of the System, we discussed the question of non-member bank clearing accounts with several other Federal Reserve banks in which we understood such accounts had been established and operated. From these conversations we got the very distinct impression that such accounts were not satisfactory in a relatively large number of cases, if not universally.

"4. the Federal Reserve bank has to guarantee all endorsements on all items passing through the account" (nonmember clearing account).....
 "The fact that we are compelled to take this risk for member banks is in our opinion no reason why we should voluntarily assume it in the case of non-members, among whom we have always been prepared to expect a much larger number of failures than among members. Even if we ignore claims that may be a long time in coming to light, it remains a fact that the failure of any bank collecting any considerable volume of items through a Federal Reserve bank involves a period of some risk through the stoppage of payment, and otherwise, until all items in transit are accounted for."

Atlanta

"Practically the only requirements for opening non-member clearing accounts are that the non-member bank will remit at par for cash letters containing checks drawn on it and will maintain a balance on our books equal at all times to the amount of items outstanding for collection for its account."

Chicago

"While the law makes it permissive for us to accept the accounts of nonmember banks for these particular purposes, we have not, as a policy over many years, done so, excepting in emergency cases. . . . We have always considered that the member banks should have certain privileges that the nonmember banks are not entitled to,

"Usually, when a bank applies for membership, the time between its application and its final admission is not more than sixty days, and it is rather doubtful as to what advantage this would be to the bank in the interim. . . . If we adopt the policy of accepting such accounts only from banks which have actually applied for membership and which we have approved in this office, it probably would not be of great importance either to us or to the bank so applying."

St. Louis

"The matter was presented to our Executive Committee in 1924 and it was decided that where nonmember banks wish to open accounts with us for the purpose of making use of our facilities for the collection of checks drawn on par banks and noncash collection items, and the accounts were acceptable to us, the banks be required to keep a collected funds balance with us equal to approximately 50% of what they would be required to carry with us were they member banks. As the result of this action, numerous accounts have been opened with us, as evidenced by the statement accompanying this letter". Nonmember banks in the City of St. Louis, that opened accounts with the Federal Reserve bank for the purpose of settling for debits in the local clearings, are required to maintain a balance of not less than 20 percent of the total clearings received from the Federal Reserve bank.

Minneapolis (Governor Geery)

"It has been our general policy to accept non-member clearing accounts from banks which agree to remit at par for checks presented by us for payment and to carry a collected funds balance in the account equivalent to the amount in process of collection."

"We have received a number of requests recently to open accounts for non-member banks for the purpose of depositing idle funds with us. These requests have usually indicated that the banks considered it would be convenient to pay for subscriptions to Treasury Department offerings by authorizing us to charge their accounts or to use the accounts in handling purchases and sales of direct obligations of the Government through our Securities Department. We have not accepted these accounts and have endeavored to restrict the accounts to active non-member clearing accounts."

Minneapolis (Mr. Peyton)

"It has been our custom to date to accept these accounts upon request from the applicant bank, providing the depositing bank met the terms of the Law, and we have requested nothing further from the applicant bank than that it meet such terms. . . .

Minneapolis (Mr. Peyton) (Cont'd)

"..... The elimination of interest on bank balances by reserve city banks undoubtedly has a tendency to encourage banks to open accounts with us and increase their balances here.

"With the present evident tendency on the part of Congress to encourage all banks to join the Federal Reserve System, it would seem to me to be good policy to continue this service, and even to extend it, if possible, in an effort to instill good will and to demonstrate to non-member banks some of the advantages of the Federal Reserve System.

"It has always been my theory that it is much more desirable to increase the membership of the Federal Reserve System by making the System attractive to the banks, rather than to force the banks in against their will, by legislation.

"While it may be a small advantage, still I think it may be noted here that an account carried by a non-member bank at the Federal Reserve Bank facilitates its government bond operations, particularly with regard to new issues."

Kansas City

Memo from Worthington to McAdams

"..... We have not refused to accept clearing accounts from nonmember banks but whenever inquiries have been received, we have pointed out the fact that the law provided for such accounts 'solely for the purposes of exchange or of collection' and that it was not intended that the authorization of such clearing accounts would make of the Federal reserve bank a nonmember bank depository.

"It has been our policy to further inform applicants that in the event the privileges of a nonmember clearing account were granted, we could not permit the drawing of drafts against such account except for the purpose of periodical transfers of funds to commercial bank correspondents and that the opening of such an account would not entitle a nonmember bank to the other facilities of the Federal reserve bank such as telegraphic transfers of funds, shipments of currency at the expense of the Federal reserve bank, safekeeping of securities, et cetera."

Dallas

"While we have not made a rigid requirement that parring non-member banks remit us in immediately available funds for cash letters, we always endeavor to have them remit in such funds, and in some instances they established clearing accounts with us rather than open accounts with local banks or banks that are members of our Reserve City Clearing House. Where banks apply for membership in the System it is our policy, pending the approval or disapproval of their application, to accept clearing accounts from them. We do not solicit nonmember clearing accounts, directly or indirectly, and where a nonmember bank plainly manifests that its only desire is to

Dallas (Cont'd)

concentrate some of its funds with us it has been our general policy to disapprove its application, although immediately prior to and following the banking holiday of 1933 we relaxed this rule somewhat, being moved to do so by the reasons indicated in connection with the account of the _____ State Bank.

"I may add that it is sometimes difficult for us to determine the proper disposition to make of an application. We are anxious, of course, to establish friendly relations with all worthy nonmember banks in the district, but, on the other hand, we do not desire to do anything that would apparently work to the disadvantage of any of our member banks; therefore, in considering an application from a nonmember bank to become a clearing member we simply weigh all the facts and do the best we can."

San Francisco

"It has been our feeling that clearing accounts should be established for any non-member bank which remits to the Federal Reserve Bank at par in settlement of checks, provided the account is not operated at a loss to the Federal Reserve Bank."

"Approximately 36% of the non-member banks in the District carry accounts with the Federal Reserve Bank of San Francisco. We have believed that the association which is brought about through this service has done much to augment the good will between non-member banks and the Federal Reserve Bank of San Francisco. It has been our view that there was nothing to lose and indeed much to be gained by obtaining the good will of non-member banks. Should the time come when membership would become obligatory, less opposition would arise if a long record of friendly relationship had existed between the Federal Reserve Bank and institutions involved."

X-9187-c

NUMBER AND AMOUNT OF NONMEMBER CLEARING ACCOUNTS CARRIED
BY FEDERAL RESERVE BANKS

(Based on data reported in response to Federal Reserve Board's letter
B-1044 of December 20, 1934. Balances are in thousands of
dollars and are daily averages for November 1934)

Federal Reserve District	Total number of accounts	Aggregate average balances in Nov. 1934
Boston	1	1,541
New York	15	27,840
Philadelphia	3	605
Cleveland	3	2,107
Richmond	---	---
Atlanta	15	443
Chicago	1	400
St. Louis	95	4,086
Minneapolis	30	1,780
Kansas City	---	---
Dallas	10	625
San Francisco	128	10,792
Totals	301	50,219

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9188

April 26, 1935.

SUBJECT: Collection of Liquor Drafts in
Interstate Shipments.

Dear Sir:

The attention of the Federal Reserve Board has recently been called to the provisions of section 239 of the Criminal Code of the United States (U.S.C. Title 18, section 389) which makes it unlawful for a railroad company, express company, or other person, in connection with the transportation of intoxicating liquor in interstate commerce, to collect the purchase price thereof or act as the agent of the buyer or seller for the purpose of buying or selling or completing the sale thereof. The statute in question reads as follows:

"Sec. 389. (Criminal Code, section 239). Same; carrier collecting purchase price of interstate shipment. Any railroad company, express company, or other common carrier, or any other person who, in connection with the transportation of any spirituous, vinous, malted, fermented, or other intoxicating liquor of any kind, from one State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, into any other State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, or from any foreign country into any State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, shall collect the purchase price or any part thereof, before, on, or after

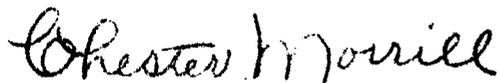
delivery, from the consignee, or from any other person, or shall in any manner act as the agent of the buyer or seller of any such liquor, for the purpose of buying or selling or completing the sale thereof, saving only in the actual transportation and delivery of the same, shall be fined not more than \$5,000. (Mar. 4, 1909, c. 321, sec. 239, 35 Stat. 1136.)

This statute was enacted in 1909 but appears to be still in force and effect. It was held in a decision of the Supreme Court of the United States in 1919 (*Danciger v. Cooley*, 248 U.S. 319) that this statute was applicable not only to railroad and express companies but to all persons committing the acts described therein. Accordingly, it would appear to be unlawful for banks, in connection with the transportation of liquor in interstate commerce, to "collect the purchase price" thereof or to "act as the agent of the buyer or seller" for the purpose of completing the sale of such liquor.

A bill, S. 11, has been introduced in Congress to repeal the statute above quoted but has not been enacted into law.

This matter is brought to your attention for the information and guidance of your bank in accepting for collection drafts covering the purchase price of liquor.

Very truly yours,



Chester Morrill,
Secretary.

TO THE GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9189

April 27, 1935.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

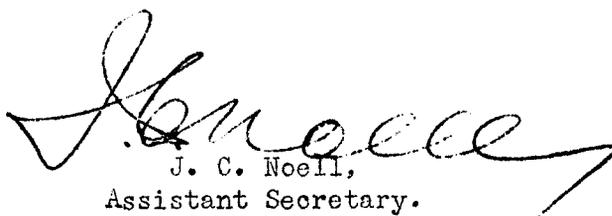
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXTRE" - Treasury Bills to be dated May 1, 1935, and to mature January 29, 1936.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXTOW" 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-9190

April 29, 1935.

Dear Sir:

The Jury to judge the competition for a building for the Federal Reserve Board will meet in Washington on May 16th and 17th.

The Federal Reserve Board plans to hold a meeting on May 18th to receive the Report of the Jury and award the Prize of the competition. Telegrams will be sent on that date to all competing architects advising them of the Board's action.

On Monday, May 20th, there will be a meeting of the Federal Commission of Fine Arts, at which time it is hoped that the premiated drawings for the proposed Federal Reserve Building may be presented to the Commission. It is desirable that the architect of the drawings premiated as above be available in Washington to meet with the Commission of Fine Arts on Monday, May 20th, to explain and comment upon the drawings for the proposed building.

I am therefore suggesting at this time that each of the competitors make arrangements for the prompt delivery to him of the telegraphic advice of the Board's action on May 18th and so that if possible he can be in Washington on Monday, May 20th, in the event

of his selection as the Board's architect.

It is felt desirable that the approval of the Fine Arts Commission be obtained as promptly as possible in order that, once the competition is judged and the winning design premiated, the project may progress without delay.

Very truly yours,

EVERETT V. MEEKS

Professional Adviser.

FEDERAL RESERVE BOARD

378

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9191

April 30, 1935.

Dear Sir:

There are being forwarded to you today, under separate cover, for the use of your bank, three copies of part 20 of the hearings before the Committee on Banking and Currency of the United States Senate on stock exchange practices. Copies of part 19 of these hearings were forwarded to you on January 7, 1935.

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

(No copies to Governors or extra copies to banks;
one copy to be sent to Mr. Kitzmiller.)

X-9193

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

STATEMENT FOR THE PRESS

For immediate release

May 1, 1935.

AMENDMENTS OF REGULATION T.

Amendment No. 1 of Regulation T - Effective May 10, 1935.

Section 2 of Regulation T is hereby amended by adding at the end thereof a new subsection reading as follows:

"(n) The term 'days' as distinguished from 'business days' and 'full business days', means calendar days, but if the last day of a specified period of days be a Saturday, a Sunday, or a holiday, such period shall be considered to end on the next full business day."

Amendment No. 2 of Regulation T - Effective May 10, 1935.

Section 5 of Regulation T is hereby amended by adding at the end thereof a new subsection reading as follows:

"(d) Maintenance of credit without collateral or on collateral other than exempted or registered securities. - Any credit which was initially extended prior to October 1, 1934, or which was extended in conformity with this regulation and which is or has become, without violation of this regulation, credit maintained without collateral or on collateral other than exempted or registered securities, may be maintained without collateral or on collateral other than exempted or registered securities until July 1, 1937: Provided, That any collateral securing such credit other than exempted or registered securities (a) shall not be the basis of any additional extension of credit which is for the purpose of purchasing or carrying securities, and (b) shall be given no value in determining the maximum loan value of the securities in the account."

X-9193

-2-

Amendment No. 3 of Regulation T - Effective May 10, 1935.

Section 6 of Regulation T entitled "Cash Transactions" is hereby amended to read as follows:

"SECTION 6. CASH TRANSACTIONS

"Notwithstanding any other provision of this regulation, a creditor may, in a special cash account recorded separately, subject to the conditions specified in this section, (1) effect bona fide cash transactions and transactions incidental thereto and (2) make, for limited periods not exceeding seven days, extensions of credit which are incidental to bona fide cash transactions.

A bona fide cash transaction is (1) a transaction in which a customer buys a security (whether registered or unregistered), through a creditor acting as broker or from a creditor acting as dealer, pursuant to an agreement made in good faith, and not to evade or circumvent the provisions of this regulation, that the customer will promptly make full cash payment for such security, or (2) a transaction in which a customer sells, through a creditor acting as broker or to a creditor acting as dealer, a security (whether registered or unregistered) which the creditor holds in the special cash account of such customer or which, pursuant to an agreement made in good faith and not to evade or circumvent the provisions of this regulation, is to be deposited in or transferred to such account.

The creditor shall record the full details of every bona fide cash transaction and of every transaction incidental thereto which is effected in the special cash account provided for in this section and shall record in the special cash account itself the following details: (1) in the case of every security purchased by the customer, the name of the customer, the date of payment by the creditor, and the date of payment by the customer, and (2) in the case of every security sold by the customer the name of the customer, the date of deposit of the security in or the transfer thereof to the account, the date of payment to the customer, and the date of the crediting of the proceeds of the sale to the account.

No extension of credit which is incidental to any such bona fide cash transaction shall constitute a violation of this regulation (1) if, within the time specified above, payment is re-

ceived by the creditor (who may disregard for the purpose of this clause any sum due not exceeding fifty dollars), or (2) if, within two full business days after the time when payment should have been received under this section, the creditor (a) in the case of any security purchased by the customer from the creditor acting as dealer, cancels the sale or resells the security, or (b) in the case of any security purchased through the creditor acting as broker, sells the security, or (c) in the case of any security sold through the creditor acting as broker, resells the security or is repaid by the customer: Provided, however, That, in exceptional cases, any regularly constituted committee of a national securities exchange having jurisdiction over the business conduct of its members, of which exchange the creditor is a member or through which his transactions are effected, may, on application of the creditor, grant a further extension of time not exceeding thirty-five days or, in the case of a registered security, authorize the creditor to extend credit on such security subject to the provisions of this regulation, if such committee is satisfied that the transaction was a bona fide cash transaction, that the creditor is acting in good faith in making the application, and that the circumstances warrant such action.

The special cash account provided for in this section shall not be used in any way for the purpose of evading or circumventing any provision of this regulation. No transactions shall be effected in such account except bona fide cash transactions and transactions incidental thereto, and no extension of credit shall be made in such account except extensions incidental to bona fide cash transactions."

NOTE: The Board's rulings numbered 16, 27, 34, and 35 interpreting Regulation T may be disregarded with respect to transactions occurring on and after the effective date of the foregoing amendment. After enactment of Amendment No. 3, Ruling No. 36 interpreting Regulation T will still be controlling as to the facts stated in the ruling but it is contemplated that the ruling will be of less general interest because of the possibility under Amendment No. 3 of transferring unregistered, non-exempted securities from a combined account to a cash account for the purpose of effecting their sale as a bona fide cash transaction.

Amendment No. 4 of Regulation T - Effective May 10, 1935.

Subsection (b) of section 8 of Regulation T is hereby amended

X-9193

-4-

by adding at the end thereof a new paragraph reading as follows:

"Nothing in this regulation shall be construed to prevent a creditor from paying to or for a customer from any account (including any restricted account) interest and/or cash dividends collected by the creditor for the customer's account, if such payment is made within thirty-five days after the day on which, in accordance with the creditor's usual practice, such interest or dividends are credited to the account, and if the crediting of such interest or dividends has not served in the meantime to permit in the account any purchase of securities or other transaction which could not otherwise have been effected in accordance with this regulation."

NOTE: The Board's rulings numbered 30 and 38 interpreting Regulation T must be disregarded with respect to transactions occurring on or after the effective date of the foregoing amendment.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9194

May 2, 1935.

Dear Sir:

At the present time discount rates at the Federal Reserve banks vary from $1\frac{1}{2}\%$ to $2\frac{1}{2}\%$, the higher of these rates being in effect at Richmond, Minneapolis, Kansas City and Dallas, the 2% rate at Boston, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis and San Francisco, and the $1\frac{1}{2}\%$ rate at New York.

The Federal Reserve Board has recently given consideration to the basis for the present level of rates and for the differentials in the rates at the different reserve banks. During the discussion attention was called to the fact that member banks in all Federal Reserve districts have a large volume of excess reserves; that short-term market rates are at the lowest levels of modern times and other rates are also low and declining; and that the spread between the discount rates and open-market acceptance rates has grown to such an extent that there is now no apparent relationship between them.

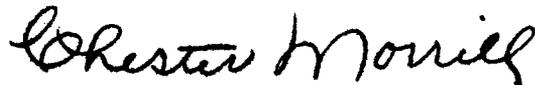
It was recognized in the discussion that the possibility of borrowing by member banks is not a factor at this time, but the question was raised whether failure to lower the discount rates may lend support to the criticism that the Federal reserve banks are not using

all the means within their power to assure the continuance of easy money conditions and whether therefore a reduction of rates might not be desirable in order to avoid such a criticism.

In the circumstances, the Board desires that the matter be considered by the officers of the Federal reserve banks with their directors at the earliest opportunity and that the Board be advised as to the conclusions reached.

In this connection there is attached for your information a copy of a memorandum which sets forth some of the reasons for suggesting that the question be considered at this time.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL F. R. BANKS.

Memorandum of Reasons for Suggesting Consideration
of Reduction of Discount Rates at this Time.

The discount rates of the Richmond, Minneapolis, Kansas City and Dallas banks are $2\frac{1}{2}\%$. The other Federal reserve banks have a discount rate of 2%, with the exception of New York, which has a rate of $1\frac{1}{2}\%$. The following considerations have been advanced in favor of a reduction:

1. Not only rediscount rates but short-term market rates of all kinds are at the lowest levels, or nearly the lowest levels, of modern times. Reluctance to establish still lower rates would leave the System open to the criticism that it was not making the fullest possible use of every means within its power to further recovery.
2. A reduction in rediscount rates would be regarded by the business community as a sign that the reserve banks approved the continuance of present easy-money conditions. Such an indication would be particularly important to buyers of bonds. While such a measure of policy is only one of the great variety of circumstances which determine the attitudes and expectations of business men, no chance of bringing about even a small improvement in the tone of business sentiment should be lost.
3. The theory underlying the argument that such a change would destroy the traditional differential between western and eastern reserve banks is that rediscount rates should not be so far under customer rates prevailing in the various districts as to tempt member banks to disregard the custom of remaining in debt only for short periods. This implies that rediscount rates should be high in districts where customer rates are high. Since there will be no inducement for member banks to borrow at any rates, however low, so long as they retain their large holdings of excess reserves it is obvious that under present conditions this argument has no force.
4. There are great advantages in a low level of rates as a point of departure for the adoption of the restrictive banking policy which may shortly become necessary. Beginning from a low level will allow greater scope and flexibility to a program of rate increases before levels are reached which indicate that the System considers that the situation has reached a critical stage.

X-9195

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

STATEMENT FOR THE PRESS

For immediate release

May 3, 1935.

Marriner S. Eccles, Governor of the Federal Reserve Board, today made public the following correspondence between himself and Rudolf S. Hecht, president of the American Bankers Association, with regard to an Associated Press dispatch sent out from Washington under date of Sunday, April 21, 1935, and published in newspapers of the following day:

X-9195

(2)

THE AMERICAN BANKERS ASSOCIATION

Office of the President

New Orleans, La.

April 26, 1935

Rudolf S. Hecht
President

Hon. Marriner S. Eccles, Governor
Federal Reserve Board
Washington, D. C.

Dear Governor Eccles:

The enclosed article, which appeared in one of our local newspapers, and the editorial that followed it, have stirred up quite a lot of discussion in New Orleans. The importance which has been attached to this new paragraph in the House Bill seems to me to be altogether out of proportion to its real significance. I hope you will find a few minutes to read these clippings and at your leisure dictate your comments on them.

With kindest regards,

Cordially yours,

R. S. Hecht
President

Address reply care of
Hibernia National Bank
New Orleans, La.

X-9195

(3)

FEDERAL RESERVE BOARD

WASHINGTON

Office of the Governor

May 3, 1935

Mr. Rudolf S. Hecht, President
The American Bankers Association
C/o Hibernia National Bank
New Orleans, Louisiana

Dear Mr. Hecht:

The Associated Press article which you enclose with your letter of April 26, and which you say has stirred up quite a lot of discussion in New Orleans, seems to have caused, not in your city only, but throughout the country, more disturbance than any other piece of misinformation--and there has been much of it--published about the banking bill.

Since the article has been widely circulated and discussed, and since it flagrantly misrepresents the facts, I think that it may be appropriate and advisable for me, in answering your letter, to make my comments public and thus put an end as far as possible to the mischief the article has done and the confusion it has created in the minds of many persons who have read it.

Why the article should give rise to so much agitation is evident from the headlines in the newspaper clipping that you have sent to me. This heading, which accurately reflects the contents of the article and the interpretation subsequently put on it by editorial writers and other commentators, is as follows:

- 2 -

X-9195

(4)

ROOSEVELT BACKS
ECCLES PROPOSAL
TO RULE INDUSTRY

Authorization for 'Planned
Economy' Inserted in
Banking Bill

CONTROL OF LOANS
BASIS OF PROGRAM

Credit Would Be Withheld
from Fields of Over-
production

The simplest and most accurate way for me to characterize all this is to say that it is sheer fiction. Like yourself and others who read it, I had never heard of such a proposal on my part until I read about it in the newspapers. It has not at any time ever entered into any discussion of the banking bill in which I have participated, and it would never have occurred to me that any part of the bill might be susceptible of such an interpretation.

The gist of the article is that "Presidential approval is claimed," by persons undisclosed, "for a new move toward 'planned economy' in which money and credit would be deflected from industries already producing surpluses and used instead to develop fields where demand exceeds domestic supply." In support of this the article quotes the statement of the objective of Federal Reserve policy that, on my suggestion, was incorporated in the banking bill by the House Committee on Banking and Currency.

A reading of this proposed statement of objective should make it evident to any discerning person acquainted with banking matters that the interpretation placed on it in the newspaper article in question has nothing to support it. The text of this statement of objective is as follows:

X-9195

(5)

- 3 -

"It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability, and to mitigate by its influence unstaBilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action and credit administration."

That an objective of this kind is one toward which monetary policy must be directed by any responsible authority would seem to be self-evident. I think that no one would question the obligation of the Federal Reserve System to make every effort to contribute as much as it possibly can to the attainment and maintenance of satisfactory and stable conditions in the field of business enterprise and employment.

The proposed statement of this objective is designed to assert in the banking law the broad constitutional authority of Congress over monetary policy, and to give to the Federal Reserve System a clear-cut definition of the major purposes for which it shall use the powers delegated to it by Congress. But neither this statement of objective, nor any other section of the pending bill, would authorize either the Federal Reserve Board or the Federal Reserve banks to determine the amount of credit that member banks might extend to any branch of industrial, commercial, or agricultural activity.

Under the existing law, the Federal Reserve banks have authority to make loans to member banks on such paper as the reserve banks may find satisfactory within the restrictions prescribed by law. The only change that the pending bill would make in this respect is that, in lieu of the inflexible restrictions now prescribed by law, the Federal Reserve Board would be given discretionary authority to prescribe in general terms the regulations under which the Federal Reserve banks might make advances to member banks on their sound assets. These regulations would of course be applicable to all classes of borrowers alike.

The Board would have no additional powers, under the proposed new law, over credit policies of the Reserve banks in relation to member banks. On the contrary, the Reserve banks would continue to have the responsibility of deciding whether or not an individual asset offered by a member bank was sound and

X-9195

(6)

- 4 -

acceptable. It should be recalled in this connection that it is not mandatory on a Reserve bank to extend credit to any member bank on any asset. The Reserve bank merely has authority to do so. No change in this respect is proposed in the pending bill.

Nor is there anything in the proposed new law that would give either the Federal Reserve Board or the Federal Reserve banks additional authority over the loan and investment policies of member banks. The Federal Reserve System, under the existing law, has a responsibility for maintaining sound credit and banking conditions. Within the limit of soundness member banks would remain free under the new law to make, or to abstain from making, such loans and investments as they are authorized to make under their charter powers. The proposed law would in fact remove some of the restrictive provisions of the existing law with regard to real estate loans.

It will be evident, therefore, that, to interpret the proposed statement of the objective of Federal Reserve policy as a grant of power to the Federal Reserve Board to concern itself with the conditions of a particular line of industry as against other lines, is to attribute to it purposes and consequences that are foreign to both the letter and the spirit of the banking bill.

With kind regards and appreciation of your interest,
I am

Sincerely yours,

M. S. Eccles,
Governor

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9196

May 4, 1935.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

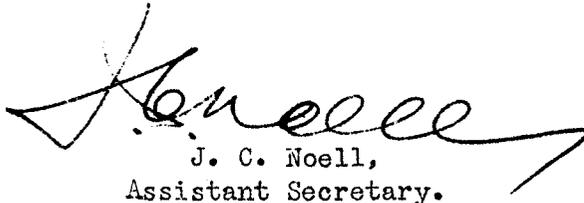
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXTUG" - Treasury Bills to be dated May 8, 1935, and to mature February 5, 1936.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXTRE" 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-9197

May 3, 1935.

Dear Sir:

There are being forwarded to you today, under separate cover, five copies of the testimony given by Governor Eccles before the House Banking and Currency Committee on the proposed Banking Act of 1935, together with twenty-five copies of a summary of the statements made by Governor Eccles on the bill. Five copies of the testimony of Mr. Goldenweiser before the House Committee are also being sent to you.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

(No copies to Governors or extra copies to banks;
one copy to be sent to Mr. Kitzmiller.)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

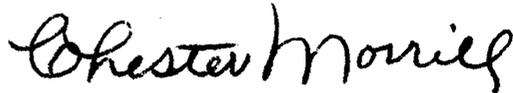
X-9198

May 6, 1935.

Dear Sir:

In compliance with the advice contained in our wire of this date, there is inclosed for your information a copy of a letter written to Mr. T. J. Coolidge, Acting Secretary of the Treasury, in regard to his letter of April 27 to your bank in connection with the report your bank submitted to the Treasury Department as of December 31, 1934, pursuant to the regulations of the Secretary of the Treasury dated August 15, 1934, issued pursuant to Subsection (e) of Section 13b of the Federal Reserve Act, as amended.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL GOVERNORS EXCEPT DALLAS

X-9198-a

May 6, 1935.

Hon. T. J. Coolidge
Acting Secretary of the Treasury
Washington, D. C.

Dear Sir:

Reference is made to the copy of your letter to the Federal Reserve banks under date of April 27 inclosed with your letter to the Board of April 27, 1935, in regard to reports submitted by the Federal Reserve banks to the Secretary of the Treasury at the end of 1934 pursuant to Subsection (e) of Section 13b of the Federal Reserve Act, as amended.

During 1934 the expenses of the Federal Reserve banks in connection with the making of industrial advances and commitments exceeded by substantial amounts the earnings of the Federal Reserve banks on the advances and commitments actually made. Inasmuch as a portion of these loans were made from funds received from the Secretary of the Treasury and a portion from funds furnished by the Federal Reserve banks, the Federal Reserve banks were instructed by the Board to prorate the excess of expenses over earnings between surplus, Section 13b, which represents payments received from the Secretary of the Treasury under the provisions of that section and surplus, Section 7, which represents the accumulated net earnings of the Federal Reserve banks. This was necessary in order that the books and published

statements of the Federal Reserve banks might correctly reflect the actual amounts received from the Secretary of the Treasury under Section 13b plus earnings and less expenses and losses thereon.

The Board is in accord with your statement that charges to Section 13b surplus should not be construed as in any way reducing the basic figures upon which payments from the Federal Reserve banks to the United States are to be computed. Such charges do, however, reduce the amount of Section 13b surplus from which earnings may be derived for the purpose of making payments to the Secretary of the Treasury under Subsection (e) of Section 13b, as amended.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9199

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

STATEMENT FOR THE PRESS

For immediate release

May 6, 1935.

AUTHORITY OF BUSINESS CONDUCT COMMITTEE TO
GRANT MORE THAN ONE EXTENSION OF TIME UNDER
SECTION 4(e) OR SECTION 6 OF REGULATION T.

Ruling No. 43 interpreting Regulation T. In reply to an inquiry of a business conduct committee of a national securities exchange, the Federal Reserve Board rules that if such a committee has granted a "creditor", as defined in Regulation T, an extension of time amounting to less than 10 days in which to obtain margin under section 4(e) of Regulation T, such committee may grant a further extension of time if the circumstances of the case warrant such action provided that the aggregate of all extensions so granted in such case does not exceed 10 days. The Board also rules that if, in the case of a cash transaction under section 6 of the regulation, such a committee has granted a "creditor" an extension of time amounting to less than 35 days, such committee may grant a further extension of time if the circumstances of the case warrant such action provided that the aggregate of all extensions so granted in such case does not exceed 35 days.

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

X-9200

May 6, 1935.

Dear Sir:

Mr. Henry H. Heimann, the Executive Manager of The National Association of Credit Men, was in my office recently, at which time he requested me to forward to you information regarding the Banking Bill of 1935.

I, therefore, take pleasure in sending you herewith a summary of the testimony which I gave before the Banking and Currency Committee of the House of Representatives in hearings on the Banking Bill of 1935.

Accounts of this testimony in the press have been inadequate and in many cases garbled and misleading. The full text of the testimony, on the other hand, which has just been published, is very lengthy and unavoidably full of repetition.

For these reasons, I have had prepared the enclosed summary, which contains in relatively brief form an accurate account of my statement before the Committee.

Respectfully,



Governor.

Enclosure.

FEDERAL RESERVE BOARD

399

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

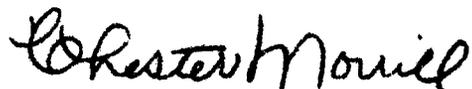
X-9201

May 7, 1935.

Dear Sir:

In order that the Federal Reserve Board may have an effective check on its records with regard to all directors of the Federal reserve banks and their branches, particularly during the early period of the Federal Reserve System, it will be appreciated if, at your convenience, you will prepare and forward to the Board a list of the individuals who have served as directors of your bank, with a separate list covering each of your branches, if any, showing in each case, (1) the director's name, (2) whether Class A, B, or C, (3) the group of member banks by which elected in the case of Class A and B directors, (4) place of residence, (5) principal business affiliation, (6) nature of business of director or of firm with which he was affiliated, (7) dates of commencement and termination of service as a director, (8) predecessor, (9) successor.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

X-9202

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 5 p. m.

May 7, 1935

The Federal Reserve Board announces that the Federal Reserve Bank of Dallas has established a rediscount rate of 2 per cent, effective May 8, 1935.

X-9203

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.

May 8, 1935

The Federal Reserve Board announces that the Federal Reserve Bank of Richmond has established a rediscount rate of 2 per cent, effective May 9, 1935.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

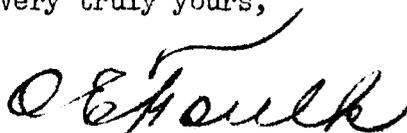
X-9204

May 8, 1935.

Dear Sir:

There are enclosed herewith copies
of statements rendered by the Bureau of En-
graving and Printing, covering the cost of
preparing Federal reserve notes for the month
of April, 1935.

Very truly yours,



O. E. Foulk
Fiscal Agent.

Enclosure.

X-9204-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
April 1 to 29, 1935.

Series 1928

	<u>\$5</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Cleveland,	-	10,000	10,000	\$ 880.00
Atlanta,	12,000	-	12,000	1,056.00
Minneapolis,	-	9,000	9,000	792.00
	<u>12,000</u>	<u>19,000</u>	<u>31,000</u>	<u>\$2,728.00</u>
31,000 sheets, @ \$88.00 per M,				\$ 2,728.00

Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	52,000	-	52,000	\$ 4,576.00
New York,	50,000	100,000	40,000	190,000	16,720.00
Philadelphia,	15,000	32,000	12,000	59,000	5,192.00
Cleveland,	-	15,000	-	15,000	1,320.00
Richmond,	-	24,000	12,000	36,000	3,168.00
St. Louis,	45,000	15,000	-	60,000	5,280.00
Minneapolis,	15,000	17,000	-	32,000	2,816.00
Kansas City,	-	7,000	-	7,000	616.00
	<u>125,000</u>	<u>262,000</u>	<u>64,000</u>	<u>451,000</u>	<u>\$39,688.00</u>
451,000 sheets, @ \$88.00 M,				\$39,688.00	

Total . . . \$42,416.00

X-9205

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 4:30 p. m.

May 9, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of Kansas City has established a rediscount rate of 2 per cent, effective May 10, 1935.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9206

May 10, 1935.

Subject: Absorption of the Expense of the
Special Printing of Checks as an
Indirect Payment of Interest.

Dear Sir:

You will find inclosed a copy of a letter which the Board has recently written with respect to the question whether the absorption by a member bank for favored customers of the "out-of-pocket" expense of the special printing of checks amounts to a payment of interest on a deposit payable on demand which is prohibited by the provisions of section 19 of the Federal Reserve Act.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

LETTER TO ALL F. R. AGENTS.

X-9206-a

May 10, 1935.

_____,
_____,
_____,
_____.

Dear _____:

This refers to your telegram of _____ and your two letters of _____, which relate to the practice of banks in absorbing for favored customers "extra out-of-pocket expenses" arising from the special printing of checks. You state that it is the regular practice of banks to supply all depositors with a standard form of check without cost and that depositors are also provided without expense with sheets of check paper, either printed according to the standard form of the supplying bank or unprinted. Your letter goes on to state that there are other costs incurred for customers, such as the expense of "over-printing" the bank's standard form of check or of supplying special paper, which are absorbed by the banks for some of their customers and not for others and that it is impossible to set forth the circumstances which determine whether or not a bank will absorb such expenses for a particular depositor although it is undeniable that the value of a depositor's account or of his patronage is taken into consideration by the bank. You request a ruling of the Board as to whether a member bank may, without violating the provisions of section 19 of the Federal Reserve Act which prohibit the payment of interest on deposits payable on

demand, absorb for certain depositors and not for others the out-of-pocket expense incurred in the special printing of checks.

As you know, the Federal Reserve Board has heretofore issued certain rulings relating to the absorption of exchange and collection charges by member banks and these for convenience may be summarized as follows:

(1) The absorption of exchange or collection charges in amounts which vary with or bear a substantially direct relation to the amount of a depositor's balance amounts to an indirect payment of interest in violation of section 19 of the Federal Reserve Act, if the deposit is payable on demand.

(2) The absorption or payment of such charges in amounts which do not vary with or bear a substantially direct relation to the amount of the depositor's balance is not prohibited by law.

(3) If exchange charges and other actual out-of-pocket expenses are included in an analysis of an account which also includes a credit allowed the customer for interest or for the reasonable value of the account to the bank, interest is paid to the extent that such credit offsets out-of-pocket expenses absorbed by the bank; and any such payment with respect to a deposit payable on demand is in violation of law.

(4) If exchange charges and other out-of-pocket expenses are omitted entirely from an analysis of an account, credit for the earning value of the account to the bank may lawfully be included in such analysis, provided no payment is made to the customer with respect to such account and the analysis is used solely for the purpose of determining whether the bank itself is properly compensated for the services which it renders to the customer and/or what service charges, if any, must be assessed against the customer.

(5) The Board has also ruled that it sees no objection to the adoption of a clearing-house rule substantially in accordance with a rule which was submitted for the Board's consideration and which reads as follows: "No bank shall make a regular practice of absorbing for any customer all exchange or collection charges or other out-of-pocket

expenses incurred on behalf of such customer; but, in exceptional circumstances, when it would create friction or misunderstanding to charge a customer for isolated items of trivial amounts, the banks may absorb such individual items, including isolated exchange and collection charges and charges for telephone calls, telegrams, and similar items, provided that the banks act in good faith and do not utilize the absorption of such items as a basis for soliciting accounts or attempting to obtain an advantage over competitors."

Although the rulings summarized above relate specifically to the absorption of exchange and collection charges, the principles set forth are applicable also to the absorption of other charges and expenses such as the special printing of checks for customers and, accordingly, it is believed that the answer to your inquiry may be determined by the application of the principles which have already been enunciated by the Board to the situations in question. It is the Board's view that the expense of specially printing checks for specific customers and other similar expenses specially incurred for specific customers are to be regarded as out-of-pocket expenses within the meaning of the rulings above referred to but it is not believed that the furnishing to customers of a standard form of check which involves no special printing for specific customers is to be regarded as such an out-of-pocket expense. Each case, of course, will be governed by its own particular facts, but as a general rule and subject to the qualification set forth in the last paragraph of the above summary, the absorption by a bank of the out-of-pocket expense of printing checks in a special manner for a

specific customer will be in violation of section 19 of the Federal Reserve Act if the amount of charges so absorbed varies with or bears a substantially direct relation to the amount of the depositor's balance in an account payable on demand, or if such expense is included in an analysis of the depositor's account and is there offset by a credit allowed the customer for interest or for the reasonable value of the account to the bank.

Your letters also raise certain related questions which are not dealt with in the foregoing discussion. You indicate that if a bank furnishes a depositor with unprinted paper in order that the depositor may print his own checks, it is customary for the bank to reimburse the depositor for the amount of printing cost which would have been incurred by the bank in printing such checks in the standard form which it furnishes without charge to all of its depositors. It is assumed that the paper so furnished to the depositor is of a grade not more expensive than the paper used by the bank for its standard form of checks. You also indicate that if a depositor purchases paper and pays for his own printing of checks he is reimbursed by the bank in an amount equal to the cost to the bank of supplying the depositor with the same number of checks in the bank's standard form. The Board does not find in the provisions of section 19 of the Federal Reserve Act any objection to a bank's reimbursing a depositor to the extent indicated in either of the two instances referred to in this paragraph.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9207

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.

May 10, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of Cleveland has established a rediscount rate of 1 1/2%, effective May 11, 1935.

FEDERAL RESERVE BOARD

411

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9208

May 11, 1935.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

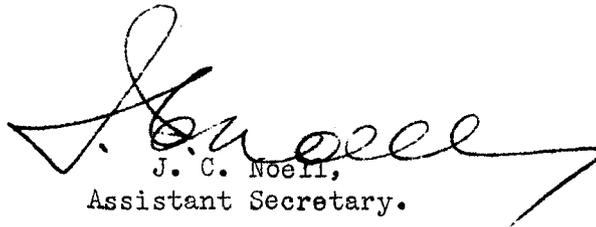
Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

"NOXTYN" - Treasury Bills to be dated May 15, 1935, and to mature February 11, 1936.

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

Very truly yours,


J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-9209

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.

May 13, 1935.

The Federal Reserve Board announces that the Federal Reserve Bank of Minneapolis has established a rediscount rate of 2 per cent, effective May 14, 1935.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9210

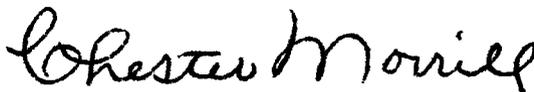
May 15, 1935.

Dear Sir:

It will be recalled that there was transmitted with Governor Eccles' letter of February 6, 1935, X-9115, a list of subjects upon which the views of the directors and officers of the Federal reserve banks were desired. The Board has received detailed replies from all of the Federal reserve banks and the views expressed have been carefully digested and summarized. There are transmitted herewith two copies of the digest and summary, one of which is for your use and the other for the use of the Governor.

The Board has suggested that immediately following the meeting of the Federal Open Market Committee which is to be held on Monday, May 27, there be a Governors' Conference and it is likely that some of the subjects embraced within the list referred to above will be discussed.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL CHAIRMEN.

X-9211-a

May 17, 1935.

Report of the Jury to the Federal Reserve Board.

As instructed in the program the Jury has

- (a) Familiarized itself with the site for the proposed building.
- (b) Studied and digested the conditions of the program.
- (c) Has examined carefully all the designs and in its judgment has found that all nine designs submitted conform to the mandatory provisions of the program.
- (d) The Jury has further carefully studied and compared all designs in three separate sessions on two separate days.
- (e) It has selected by unanimous vote design numbered 7. This design in its opinion gives promise of the best results.
- (f) It has rated in the order of their merit the two best remaining designs as follows:
 - Number 3 placed second;
 - Number 4 placed third.
- (g) The Jury furthermore certifies as above that the selected and rated designs have conformed to the mandatory provisions of the program.
- (h) The Jury therefore recommends to the Federal Reserve Board that it premiate design numbered 7 selected as above and in accordance with the conditions of the program.

- 2 -

The Jury felt that the quality of the drawings submitted was of an exceptional order, the highest standard being maintained throughout. This excellence in itself brought about prolonged and careful discussion of all drawings. After due deliberation the result as recited above was unanimously reached.

The admirable returns obtained have been eminently successful and the Jury believes that the Board has achieved results which could not have been obtained otherwise. The competition has brought out the best thought and efforts of a group of America's most distinguished architects on this problem. These are now at the disposal of the Board.

(S) J. W. Cross

(S) A. C. Miller

I am pleased to concur in the above and to commend the decision of the Jury.

(S) Wm. Emerson

(S) Everett V. Meeks.

(S) Frederic A. Delano

(S) John Mead Howells
Chairman.

FEDERAL RESERVE BOARD

416

WASHINGTON

OFFICE OF GOVERNOR

X-9212

May 18, 1935.

Dear Sir:

Supplementing my letter of May 6th, I am sending you herewith a copy of my statement before the Senate Banking and Currency Committee in hearings on the Banking Bill of 1935.

It occurred to me that you might wish to have a copy of this statement available to consider along with the summary of my statements before the House Banking and Currency Committee which I recently sent you.

Respectfully,

A handwritten signature in cursive script, appearing to read 'M. E. ...', written in dark ink.

Governor.

Enclosure.

X-9213

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

STATEMENT FOR THE PRESS

For release in Sunday papers
May 19, 1935

May 18, 1935.

The Federal Reserve Board on Saturday, May 18, selected Paul P. Cret of Philadelphia, Pa., as the architect for its new building on Constitution Avenue.

Mr. Cret was chosen Friday morning by a jury on the basis of designs submitted by nine architects who were invited to participate in a competition which was announced February 1. The jury's choice was approved by the Federal Reserve Board. It is expected that the architect will begin work immediately on the preparation of final plans and specifications. The design and material of the exterior of the building are subject to the approval of the Fine Arts Commission.

The jury which passed upon the designs was composed of three architects and two laymen. The architects who served were John W. Cross, New York City; William Emerson, Dean of the School of Architecture, Massachusetts Institute of Technology, Boston, Massachusetts, and John Mead Howells, New York City. The other members of the jury were Frederic A. Delano, Chairman of the National Capital Park and Planning Commission, and Adolph C. Miller, a member of the Federal Reserve Board.

The program for the competition was prepared under the direction of Mr. Everett V. Meeks, Dean of the School of the Fine Arts in Yale University, who has acted as the Board's professional adviser.

The program outlined certain conditions under which the Federal Reserve Board acquired the site on Constitution Avenue, one of which provided that the design and material of the exterior of the building should be subject to the approval of The Commission of Fine Arts. The Commission prescribed that "the material of the exterior of the building is to be of white marble to conform to the other buildings along this portion of Constitution Avenue". In indicating its views as to the general architectural character of the building the Commission stated that "the nature of the functions performed by the Federal Reserve Board dictates an architectural concept of dignity and permanence. It must, consequently, have impressive dignity."

The program also referred to the fact that the proximity of the proposed building to the Lincoln Memorial and other permanent structures already erected on Constitution Avenue suggested that the exterior design of the building be in harmony with its environment.

While the Board did not attempt to dictate to the competitors in the matter of style, it was indicated that the aesthetic appeal of the exterior design should be made through dignity of conception, purity of line, proportion and scale rather than through decorative or monumental features and the program quoted the view of the Commission of Fine Arts that "the Federal Reserve Board building must be

in general accord with the governmental buildings in Washington-- it must seem at home in the city".

The winning design projects a building which fulfills admirably the above desired elements and in addition solves in masterly fashion the program as developed to meet not only the present but also reasonable future needs of the Board.

Within the past three years the Board's organization has increased 50% in size and is now housed in rented quarters in two separate downtown office buildings. In the new building ample room will be allowed for expansion so that when the building is occupied the Board will not find itself in the position of having failed to make proper provision for its needs. Sound-proof movable partitions will be used in the greater part of the building so that alterations in space allotments may be made economically.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9214

May 20, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

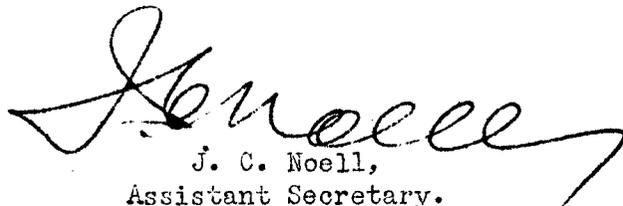
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXUBA" - Treasury Bills to be dated May 22, 1935, and to mature October 2, 1935.

"NOXUCE" - Treasury Bills to be dated May 22, 1935, and to mature February 19, 1936.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXTYN" 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-9215

May 20, 1935.

SUBJECT: Inclusion of a "Reserve Fund for Dividends Payable in Common Stock" as Part of a Member Bank's Capital and Surplus in Determination of Federal Reserve Bank Stock Which Should be Held by the Member Bank.

Dear Sir:

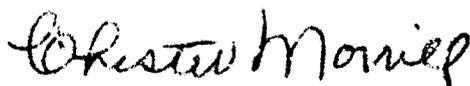
There is inclosed herewith for your information and guidance, in the event that cases involving similar circumstances come to your attention, a copy of a letter addressed by the Federal Reserve Board to the Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta with regard to the necessity for a surrender of Federal reserve bank stock by a member bank upon retirement of preferred stock and the establishment of a reserve fund for dividends payable in common stock.

As you know, numerous member banks have issued preferred stock, capital debentures, and capital notes which may be retired out of earnings, and it is understood that upon such retirement reserves are frequently established for the payment of common stock dividends in substantially the same manner as indicated in the attached letter. In any case where a reserve fund is thus set aside for dividends payable in common stock, such reserve fund may be treated as surplus for

the purpose of determining the amount of Federal Reserve bank stock which should be held by the member bank involved.

Applications for adjustments in Federal Reserve bank stockholdings, Forms 56 and 60, should indicate clearly the amount of "Reserve for dividends payable in common stock", and, accordingly, pending the revision of the forms it is suggested that this be accomplished on Form 56 by writing in the item "Reserves for dividends payable in common stock" immediately after the item "Surplus", and on Form 60 by appending a note on the reverse side, immediately above the directors' signatures, reading "The surplus on the above given date included a reserve for dividends payable in common stock of \$ _____." The capital structure of the bank, including the existence or non-existence of a reserve for dividends payable in common stock, should be checked against condition reports or other available data, in accordance with the usual practice. The Comptroller's office now notifies Federal reserve agents of all increases and decreases in capital stock of national banks, including all retirements of preferred stock and all issues of common stock whether through the declaration of a stock dividend or otherwise. It is understood, however, that at present it will not be practicable for the Comptroller's office to furnish similar advice with respect to transfers made to the account "Reserves for dividends payable in common stock" incident to retirements of preferred stock.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-9215-a

May 20, 1935.

Mr. L. M. Clark
Assistant Federal Reserve Agent
Federal Reserve Bank of Atlanta
Atlanta, Georgia.

Dear Mr. Clark:

This refers to Mr. Newton's letter of November 13, 1934, in which he advised that the _____, _____, contemplates the retirement of preferred stock at six month intervals out of earnings and intends, as preferred stock is so retired, to set up in a "special reserve fund" an amount equal to the par value of the shares retired. It appears that, when the reserve fund is of a sufficient amount to justify it, the bank will declare a stock dividend to its common stockholders out of such reserve fund. In these circumstances, he requests advice as to whether the Federal Reserve Bank of Atlanta may comply with the wish of the bank to withhold an application for an adjustment in its Federal Reserve bank stock holdings until such time as the entire recapitalization plan has been completed.

As you know, under the provisions of Section 5 of the Federal Reserve Act, subscriptions for Federal Reserve bank stock are based on the capital and surplus of the member bank. It is understood that the bank contemplates that the amounts set up in the "special reserve fund" referred to will be a part of the permanent capital of the bank, and

will not be resorted to for any other purpose than the issuance of common stock dividends, and that such reserve fund is intended merely to facilitate adjustments of the bank's capital stock. It is assumed that such purposes will be evidenced by a resolution or resolutions of the board of directors of the bank authorizing the establishment of the "special reserve fund" and the setting aside of the appropriate amounts in such fund.

In such circumstances, the Board is of the opinion that a "special reserve fund" of the kind described may be regarded as "surplus" for the purpose of determining the amount of Federal Reserve bank stock which the bank is required or entitled to hold. Accordingly, since it is contemplated that the retirement by the _____ of its preferred stock will be accompanied by a corresponding increase in the amount of its surplus, including the "special reserve fund", the aggregate amount of the bank's capital and surplus will not be altered by such transaction; and it will not be necessary, therefore, as a result of such transaction for the bank to file an application for a reduction in the amount of Federal Reserve bank stock held by it. Since, however, the bank's December 31, 1954 condition report shows an aggregate capital and surplus, including the reserve for common stock dividends, of \$193,500 on the basis of which it is required to hold 117 shares of Federal Reserve bank stock, and as it now holds only 114 shares of such stock, it should be requested to file an application for 3 additional shares of Federal Reserve bank stock, unless there has

been some further change in the bank's capital and surplus. In this connection, it should be noted that if a bank holds an amount of Federal reserve bank stock in excess of an amount represented by 6 per cent of its capital and surplus (because of the exercise of its option, on previous occasions, not to surrender Federal reserve bank stock incident to reductions in surplus), such excess holdings would not be affected by the views of the Board stated herein with regard to a reduction of the bank's preferred stock and a simultaneous increase in its surplus represented by a reserve for dividends payable in common stock, and the right of the bank to subscribe at any time for additional shares in view of its holding of such excess shares will be governed by the previous rulings of the Board with regard thereto.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9216

May 22, 1935.

SUBJECT: New Issue of Home Owners' Loan
Corporation Bonds.

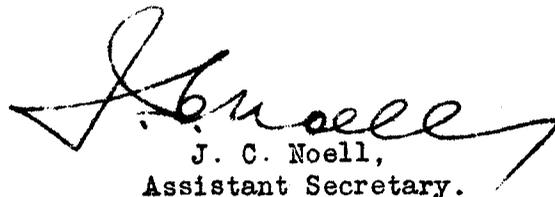
Dear Sir:

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 Home Owner's Loan Corporation Bonds:

"NOWCOG" - Home Owners' Loan Corporation
 $1\frac{1}{2}\%$ Bonds, Series F-1939, to
be dated June 1, 1935 and to
mature June 1, 1939.

This code word should be inserted in the Federal Reserve Telegraph Code book on page 172.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-9217

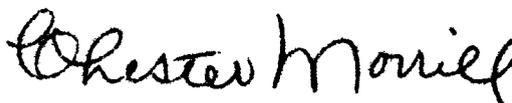
May 23, 1935.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDSUBJECT: Agreement relating to the operation
of agency in Havana, Cuba.

Dear Sir:

Referring to the Board's letter of April 5, 1935 (X-9172), you are advised that the Board has now received an agreement in the form inclosed with that letter duly executed by each of the Federal Reserve banks except the Federal Reserve Bank of Atlanta, and is advised that the Federal Reserve Bank of Atlanta has executed and returned to each Federal Reserve bank an agreement in the same form duly executed by the Atlanta bank. The last Federal Reserve bank to execute the agreement did so during the month of May and, in accordance with its provisions, therefore, the operation of the agency at Havana, Cuba, under the terms of the agreement will commence with the opening of business on the first day of June, 1935.

Very truly yours,

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

428

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9218

May 24, 1935.

SUBJECT: Expense, Main Lines, Leased
Wire System, April, 1935.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9218-a and X-9218-b, covering in detail operations of the main lines Leased Wire System, during the month of April, 1935.

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 APRIL, 1935

From	Business reported by banks	Words sent by New York charge-able to other F. R. Banks (1)	Net Federal Reserve bank business	Per cent of total bank business (*)
Boston	28,595	1,266	29,861	4.05
New York	147,567		147,567	20.02
Philadelphia	26,895	1,308	28,203	3.83
Cleveland	44,625	1,395	46,020	6.25
Richmond	45,572	1,433	47,005	6.33
Atlanta	47,231	1,275	48,506	6.53
Chicago	80,773	1,729	82,502	11.19
St. Louis	60,332	1,504	62,436	8.47
Minneapolis	39,917	1,303	41,220	5.59
Kansas City	61,890	1,292	63,182	8.57
Dallas	47,020	2,381	49,401	6.70
San Francisco	88,330	2,856	91,186	12.37
Total	719,347	17,742	737,089	100.00

F. R. Board business	331,840	1,068,929
Reimbursable business Incoming & Outgoing		632,149
Total words transmitted over main lines		1,701,078

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9218-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, April, 1935.

Name of bank	Operators' Salaries	Retirement Contributions	Operators' over-time	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	\$ 260.00	\$ 24.65	\$5.00	\$ -	\$ 289.65	\$ 618.45	\$ 289.65	\$ 328.80
New York	1,358.29	122.79	2.00	-	1,483.08	3,057.14	1,483.08	1,574.06
Philadelphia	225.00	20.25	-	-	245.25	584.86	245.25	339.61
Cleveland	306.66	27.60	-	-	334.26	954.40	334.26	620.14
Richmond	190.00	17.35	-	230.00(&)	457.35	974.25	457.35	536.90
Atlanta	270.00	22.14	-	-	292.14	1,004.79	292.14	712.65
Chicago	3,986.17(#)	333.50	-	-	4,319.67	1,708.76	4,319.67	2,610.91(*)
St. Louis	195.00	17.43	-	-	212.43	1,293.40	212.43	1,080.97
Minneapolis	324.11	26.08	-	-	350.19	853.62	350.19	503.43
Kansas City	287.00	25.83	-	-	312.83	1,308.68	312.83	995.35
Dallas	251.00	22.34	-	-	273.34	1,023.12	273.34	749.78
San Francisco	380.00	32.03	-	-	412.03	1,888.95	412.03	1,476.92
Federal Reserve Bd.	-	-	-	15,338.89	15,338.89	-	-	-
Total	\$8,033.23	\$691.99	\$7.00	\$15,568.89	\$24,301.11	\$15,270.42	\$8,962.22	\$8,919.11
Less Reimbursable Charges					<u>9,030.69</u>			<u>2,610.91(a)</u>
					\$15,270.42			\$6,308.20

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

COPY

X-9219

May 21, 1935.

Honorable James Couzens
United States Senate
Washington, D. C.

Dear Senator Couzens:

You asked me the other day what procedure I would have followed in 1928 and 1929 had the Banking Bill of 1935 been in effect at that time and had I been Governor of the Federal Reserve Board. It is always difficult to state what one would have done in different circumstances, and I presume that what you meant was not what I myself would have done in the circumstances, but what powers this bill would confer on the Board that it did not have at that time that would have been helpful in preventing the excesses of 1928 and 1929.

As I stated in the hearing, the Banking Bill of 1935 is not primarily proposed for the purpose of meeting a situation such as existed in 1928 and 1929. Provisions that would have strengthened the Board's power to meet such a situation are contained in the Banking Act of 1933, which was the direct outcome of a Senate resolution and investigation occasioned by the stock market excesses during that period. The Securities Act and the establishment of the Securities and Exchange Commission were also the results of investigations by the Senate Committee into abuses in the capital market and on the Stock Exchange.

Conditions in 1928 and 1929 represented the culmination of developments during the entire post-war period. Interest rates were falling steadily from 1920 to the end of 1927, owing partly to the great inflow of gold from abroad; business was generally active; there were large profits earned by certain corporations, particularly by the larger corporations with monopolistic advantages. Opportunities for floating securities at profitable rates were exceptionally good, with the consequence that many corporations built up large cash reserves beyond their immediate needs, and this money was available for temporary employment in the stock market when the demand for brokers' loans increased.

Speculative activity on the stock market had become pronounced in 1924 and had continued to be large with fluctuations from that time to the autumn of 1929. In 1927 an easy money policy, adopted primarily for the purpose of helping England remain on the gold standard and helping France and other countries to return to the gold standard, was followed by an additional spurt in the stock market. During 1928 the Federal Reserve

Honorable James Couzens, -

#2

X-9219

System raised discount rates and sold Government securities, but this had relatively little effect on speculation.

In 1929 the Federal Reserve System had only a small volume of Government securities left and member bank indebtedness was large. The question that arose was whether the discount rates should be raised. Some of the Reserve banks recommended such advances, but the Federal Reserve Board felt that there was nothing in the business situation that required restraint; that, in fact, there was a recession in building activity and that advances in discount rates would be undesirable because they would probably not deter speculators, but would have a bad effect on business activity. The Board, therefore, adopted a policy of trying to reach member banks directly by curtailing Federal Reserve credit extended to banks that had a large volume of loans in the stock market. This policy was only partially successful in restraining speculation, partly because under the then existing law the Reserve banks could only deal with member banks who were actually in debt at the Federal Reserve banks. This enabled banks with large stock exchange accounts to buy Federal funds from other banks and thus to acquire reserve funds without borrowing directly from the Reserve banks. Control of speculative loans was difficult under these conditions. Furthermore, there was little or no growth in the volume of bank credit in 1928 and 1929. Loans by member banks to brokers and member bank deposits did not increase. The speculative demand for credit in the market was met largely by the loaning of surplus funds owned by corporations.

It is impossible at this time to say what could have been done to remedy the situation, certainly at so late a date as 1928 and 1929. It is to be hoped that with security issues and stock exchange practices under regulation by the Securities and Exchange Commission, with authority in the Federal Reserve Board to regulate margin requirements on collateral loans, both for brokers and for banks, with loans by corporations to brokers prohibited, and with the additional powers of control over speculative activity by member banks contained in the Banking Act of 1933, the Federal Reserve System will be in a much stronger position to prevent the development of an unsound situation such as the one that culminated in the stock market debacle of 1929.

The Banking Bill of 1935 is not directed towards preventing stock market abuses, which, as has just been said, have been dealt with by other legislation. This bill is concerned with improving the machinery of the Federal Reserve System and with centralizing in the Federal Reserve Board responsibility for all the instruments of monetary policy, namely, discount rates, open-market operations, and changes in reserve requirements. It was not in 1929 that the powers contained in this bill would have been valuable, but in 1931. At that time, when England went off the gold standard and there was a heavy drain on gold in this country and a drastic deflation in business and in bank credit, the System would have been in a

Honorable James Couzens, -

113

X-9219

much stronger position to adopt a vigorous open market policy if this bill had been in effect. As things were at that time the System could not buy Government securities freely because they were not eligible as collateral for Federal Reserve notes and the Reserve banks had an inadequate supply of commercial paper eligible for that purpose. It was not until the passage of the Glass-Steagall Act at the end of February 1932 that the System was able to pursue a vigorous open market policy. This obstacle to an easing policy at a critical time will be removed by the proposed bill.

Moreover, if banks had been able to borrow on their sound assets from the Reserve banks during the depression, as they would have been had this bill been in effect, much liquidation would have been avoided.

The bill would also increase the ability of the Federal Reserve Board to cope with such a situation by placing on it the full responsibility for open market policy, so that it could adopt and carry out such a policy on the basis of its conception of the national interest without being delayed by negotiations with the individual Reserve banks, which under existing law not only have the sole power of initiating open market policy but also have the power of refusing to participate in such a policy when it is adopted.

The situation in 1931 and the early part of 1932 illustrates how the present bill would have helped at a time when deflation was in progress. Another purpose of the bill is to strengthen the Federal Reserve System's power to counteract inflation, if it should get under way in the future. With the large volume of excess reserves at member banks at the present time and the likelihood of further increases in these reserves through gold imports, silver purchases, the use of the stabilization fund, and through possible currency issues under the bonus bill or otherwise, there are possibilities of further increases of the reserves of member banks without corresponding growth in security holdings of the Federal Reserve banks that would be available to sell in the market for the purpose of absorbing member bank reserves. The proposed bill would improve the position of the Federal Reserve System in such a situation by concentrating the open market power in the hands of the Federal Reserve Board, which could act promptly and decisively without possibility of delay or inability to agree on a policy. It would also give the Board the power to increase member bank reserve requirements without the necessity of declaring an emergency or obtaining permission from the President, who ought not to have this responsibility.

The fact that the proposed bill prescribes as an objective of monetary policy the maintenance of business stability would also strengthen the Board's power to act because an inflationary boom is not consistent with business stability.

Honorable James Couzens, -

7-4

X-9219

It is for these reasons that I feel that the proposed bill would strengthen the power of the Board to act promptly both in a period of inflation and in a period of deflation. With the powers contained in this bill, together with the provisions of the Banking Act of 1933 and the Securities Exchange Act, I believe that the Federal Reserve System would be in a much stronger position to moderate booms and depressions and would be better able to contribute to business stability in so far as this can be done within the scope of monetary action.

I hope that this is a satisfactory answer to your question. I have not dwelt on other phases of the bill because these matters are not directly in line with your question and have been discussed in my testimony.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles
Governor

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9220

May 25, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

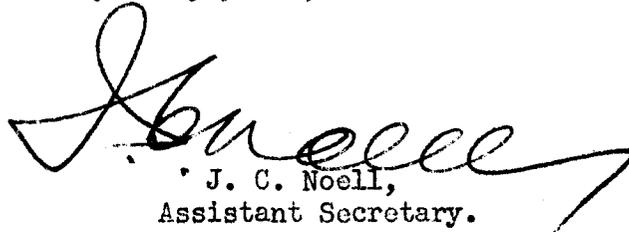
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXUDO" - Treasury Bills to be dated May 29, 1935, and to mature October 9, 1935.

"NOXUEF" - Treasury Bills to be dated May 29, 1935, and to mature February 26, 1936.

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

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X -9222

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

FOR THE PRESS

For release at 9:30 p.m. Eastern Standard Time, May 25, 1935

The Banking Bill of 1935

Radio Speech

of

Marriner S. Eccles

Governor of the Federal Reserve Board

Saturday night, May 25, 1935,
In the National Radio Forum
arranged by the Washington
Star -- Broadcast over the
network of the National Broad-
casting Company.

I am grateful to the Washington Star for the invitation to speak in this Forum.

I should like to talk to you as plainly as I can about the Banking Bill which is pending before Congress. In the brief time at my disposal I shall have to confine myself to the most controversial features of the bill and omit discussion of many other provisions of the bill which would, in my judgment, contribute towards recovery, as well as towards the better coordinated and more efficient administration of the Federal Reserve System.

I shall assume that you believe that in order to have our money system controlled for the benefit of the nation as a whole and not for the benefit of special interests this control must be in the hands of a responsible body. If after all that this nation has gone through during the past five years you still believe that we can leave our monetary system to chance or to fate, then it would be futile for me to try to persuade you that our present system can and should be improved.

With the banking cataclysm so fresh in our memories, we would be justified in saying that the Government had failed in its duty if it neglected to correct at least some of those apparent defects in our banking system which contributed to bringing untold distress to millions of our people and threatened to plunge our entire economy into the abyss. We are told that there is no emergency at this time which demands prompt action to correct these defects, but surely we should not wait for another crisis before taking the steps necessary to remedy obvious defects which painful experience has exposed. We should profit by the lessons we have learned from the emergency.

The real problem is the control over the volume and cost of money. The defects which I have mentioned are not due to the absence of powers of control, but to the fact that the present responsibility for the exercise of these powers is so diffused and divided as to hamper seriously, if not to frustrate, their effective use.

We need also to state the objective towards which these powers should be directed. At present there is no objective for monetary policy stated in the law. The Banking Bill as passed by the House of Representatives proposes a definite objective which is, in a word, that monetary policy shall be directed towards the maintenance of stable conditions of production, employment, and prices so far as this can be accomplished within the scope of monetary action.

I do not wish to be understood as believing that by monetary action alone we can eliminate all booms and depressions and achieve a permanent and unvarying stability. I do believe firmly, however, that by monetary means exercised promptly and courageously we can greatly mitigate the worst evils of inflation and deflation.

What are these powers of control to which I refer? There are three principal means of control which now exist. The first is the power to raise and lower the discount rate, that is, to determine the cost at which banks can borrow from the Federal Reserve banks and consequently to influence the cost at which the public can borrow from the banks. The importance of this power is apparent. By lowering or increasing interest rates it is possible to lower or increase the cost of doing business and, therefore, to have an influence over the contraction or expansion of business. This power is now vested in the Federal Reserve Board at Washington.

The second means of control to which I have referred is the power to raise or lower reserve requirements of the banks which are members of the Federal Reserve System. This power more directly influences the

volume of money because under our law the amount of deposits that banks can create is limited in proportion to the amount of reserves they possess. Therefore, an increase or a decrease in the volume of reserves tends to increase or decrease the volume of deposits which are our principal means of payment, or money. Since 1933 this power has been vested in the Federal Reserve Board, but it can only be exercised when the President declares that an emergency exists and gives his approval. The responsibility for declaring an emergency should not be placed upon the President. Even if an emergency did not exist, the declaring of it would almost certainly create one. The bill proposes to give the Federal Reserve Board the use of this most important instrument of control without requiring the President to declare an emergency, which might involve insurmountable political obstacles. The Federal Reserve Board should be in a position to exercise this power in the normal course of events for the very purpose of preventing an emergency.

The third means of control is what is known, perhaps somewhat mysteriously, as open-market operations. Without going into the details of this technical matter, open-market operations mean that the Federal Reserve banks when they wish to increase the volume of money can do so by buying Government securities in the open market. The money they pay for these purchases is added to the reserves of the member banks. Conversely when the Reserve banks wish to diminish the volume of member bank reserves they can sell securities and in effect lock up the money paid by the banks for the securities. In this way they can directly influence the available volume of money. At the present time the control over this power is distributed between a committee of twelve governors of

the twelve Federal Reserve banks, who now have the responsibility for recommending purchases or sales; the Federal Reserve Board, which has authority to approve or disapprove the recommendations of the governors, and 108 directors of the twelve Reserve banks, who in turn have the right to determine whether or not they will buy or sell in accordance with the policy that has been recommended by the governors and approved by the Board. A more effective means of diffusing responsibility and encouraging delay could not very well be devised.

On this point I have recommended that the power over open market operations be entrusted to the Federal Reserve Board, which consists of eight members, six of whom are appointed by the President and confirmed by the Senate, and two ex-officio members, the Secretary of the Treasury and the Comptroller of the Currency. The Board would be required, however, before taking action on open market operations as well as on discount rates and reserve requirements, to consult with a committee of five governors selected by the Federal Reserve banks. In this way the responsibility for action will be unescapably fixed.

To my mind, the all-important thing is to place responsibility for the exercise of these three means of control in a clearly defined body and to state the objective towards the attainment of which that body shall exercise these powers. I do not wish to be dogmatic about how this body shall be constituted. I have recommended placing responsibility for the exercise of these powers in the Federal Reserve Board, which was established by law to serve the best interests of the nation in banking and monetary matters. However, there are powerful groups which are irreconcilably opposed to this plan and

wish to perpetuate the present unsatisfactory situation in which these powers cannot be effectively exercised.

This attitude is by no means characteristic of all of the bankers of the country. In all fairness, I wish to emphasize that in discussing this issue most of the leaders of the American Bankers Association have adopted a constructive and cooperative attitude. This is in sharp contrast with the attitude of a few bankers and business leaders, particularly in New York. Many of the bankers have frankly recognized the need and importance of the major changes proposed in the Banking Bill and have accepted them in principle.

With these bankers the issue over the banking bill narrows down largely to a question of the composition of the controlling body. Thus, the American Bankers Association proposes that the exercise of monetary powers shall be entrusted to a committee consisting of the Federal Reserve Board, which shall be reduced to five members, and a committee of four governors selected by the governors of the twelve Federal Reserve banks. This plan would give the governors of the Federal Reserve banks, who are selected by directors two-thirds of whom are appointed by private bankers, four votes as against five votes for members of the Federal Reserve Board.

There has been considerable support for another proposal which would entrust the powers of determining monetary policy to a committee consisting of the Federal Reserve Board of eight members, as now constituted, together with five governors of the Federal Reserve banks.

These governors would be selected with reference to a fair representation of the different regions of the country, one member to represent the Eastern Federal Reserve districts; one, the Middle West; one, the South; one, the far West; and one to be selected at large.

It is not for me to determine in whom these powers shall be vested. My recommendation was that they be vested in the Federal Reserve Board, with a committee of five governors acting in an advisory capacity. I have just mentioned two other proposals. It is for the representatives of the people of the United States in Congress to determine whether they want to give these powers to an independent public body, to private interests, or to a combination of the two. The one principle on which I feel there can be no reasonable ground for disagreement is that the powers must be vested in a clearly defined body which will have adequate authority and full and unescapable responsibility for the use of these important powers.

As I have said, the purpose of the bill is not to create new powers but to place existing powers in a responsible body where they may be effectively exercised. Against this proposal the cry of political control has been raised. This is not a new cry. It was raised against the original Federal Reserve Act more than twenty years ago. It was raised by about the same interests which are now resisting the passage of this bill -- the same interests that have repeatedly been against all progressive social and economic legislation, such as the income tax, even when it was proposed to make it as low as 2 percent; against child labor legislation; against the Federal Trade Commission and the Federal Power Commission; the Securities Exchange Commission; against pensions of all kinds, both

State and national; in short, against all that enlightened legislation which has long since been accepted and now forms the basis of such economic and social advance as we have achieved.

If it is fair to charge that the Federal Reserve Board is political, then the same accusation must be made against the Interstate Commerce Commission, against the Federal Trade Commission, and against other governmental bodies the members of which are nominated by the President and confirmed by the Senate. Experience has demonstrated that these bodies have consistently acted not for political advantage but in the public interest.

Some of the opponents of the bill are raising all the familiar bugaboos that they have so often trotted out in the past whenever any attempt has been made in the interests of the country as a whole to limit their influence in national affairs. I think that Mr. Walter Lippmann well stated the tone and temper of these irreconcilable opponents when, in a recent article, he referred to their hysterical methods. He pointed out that they tell us in one breath that we are threatened with a grave emergency because of the dangers of uncontrollable inflation while in the next breath they tell us that no emergency exists which requires the enactment of this legislation, designed as it is to enable us to deal effectively with just such an emergency. As Mr. Lippmann says with reference to the inconsistency of these opponents, "It does not make sense. If we are faced with these hideous dangers, are we not criminally negligent if we fail to fix clearly the responsibility for averting them?"

As I say, this cry of "wolf" is not new. I have had occasion to delve into the history of banking legislation and I note with some degree of consolation that the Federal Reserve Act was denounced in language so nearly identical with that being used today by much the same organized opposition, that unless you knew the dates you could not distinguish between what they said more than twenty years ago and what they are saying today.

Then, as now, the same interests were crying inflation and political control. Then, as now, they demanded full control. Indeed, they undertook to persuade President Wilson that they should have banker representation on the Federal Reserve Board. Senator Glass of Virginia in his authoritative and illuminating book on the Reserve System entitled "An Adventure in Constructive Finance", tells of how these bankers made their arguments to Mr. Wilson, and according to Senator Glass, when they had finished, President Wilson said quietly, -

"Will one of you gentlemen tell me in what civilized country of the earth there are important government boards of control on which private interests are represented?"

"There was," wrote Senator Glass, "painful silence for the longest single moment I ever spent; and before it was broken, Mr. Wilson further inquired,

"Which of you gentlemen thinks the railroads should select members of the Interstate Commerce Commission?"

And Senator Glass adds in his book,

"There could be no convincing reply to either question * * *."

Let me quote another pertinent paragraph from this illuminating book:

"While the Federal Reserve bill was pending," wrote Senator Glass, "it was mercilessly condemned in detail by certain interests. Where there was any praise in these quarters, it was faint enough to damn. This hostile criticism reflected not alone the attitude of bankers, as the class which imagined that it was chiefly affected by the proposed readjustment; but it voiced the disapprobation of those business groups which are most readily impressed by banking thought. This was not surprising, since the phenomenon was and is of frequent recurrence."

Unfortunately this is all too true. You are witnessing the same phenomenon again today. You are hearing the same cry that the banking bill means reckless inflation -- that the purpose of the bill is to obtain control of the banks so that the administration may be able to finance an endless series of government deficits. The complete answer to this bugaboo is that if the administration had such a purpose it would not need this bill, for this or any other administration will always find means to raise the funds which the representatives of the people in Congress have appropriated.

As a matter of fact, the administration has at its command, in the Stabilization Fund and under the so-called Thomas Amendment, more than 5 billions of unexpended dollars. Demand for the purchase of government bonds is so great that the average interest rate has dropped by more than 25 percent since the administration took office. In the face of these facts, do you believe the opponents of this bill when they

tell you that the administration wants the banking bill enacted in order to enable it to finance governmental deficits?

The organized opposition to the banking bill wants to delay its passage, to leave matters as they are. Our opponents profess to believe that the issue should be submitted to a commission for further study. But manifestly this is not an issue which will be settled by further study. It is not an issue as to facts which need to be gathered together and pored over by another commission. Unless your memories are shorter than I believe them to be, you know the essential facts. The issue is plain: It is an issue of fundamental belief. It is whether such powers as we possess over monetary policy, which affects the welfare of all of us, shall be definitely placed in a body which shall have not only the necessary means of control but the fixed responsibility for its exercise, or whether these powers should be left as at present where they can neither be effectively used nor the responsibility for their exercise definitely fixed. It calls for a decision by the people of the United States through their representatives in Congress. It is my sincere conviction that this bill is in the interest of the banking system as a whole because it will enable it better to serve the public interest.

I thank you.

FEDERAL RESERVE BOARD

WASHINGTON May 29, 1935.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

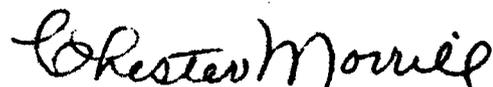
Dear Sir:

The Board has been advised by Mr. H. F. Strater, Secretary of the Retirement System, that the Board of Trustees of the Retirement System of the Federal Reserve banks at its meeting held on April 16, 1935, passed the following resolution:

"RESOLVED that, subject to the approval of the Federal Reserve Board, the employing banks of the Retirement System be requested to bear the traveling and subsistence expenses of the members of the Board of Trustees and members of committees necessarily involved in operating the Retirement System."

The Federal Reserve Board has authorized the payment by its fiscal agent of traveling and subsistence expenses, incurred in attending meetings of the Board of Trustees of the Retirement System and committee meetings connected with the operation of the Retirement System, of its appointee on the Board of Trustees and of the member of the Board of Trustees elected by its employees, and until further notice approves the payment by your bank of similar expenses of members of the Board of Trustees appointed by your bank or elected by employees of your bank.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9224

May 31, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

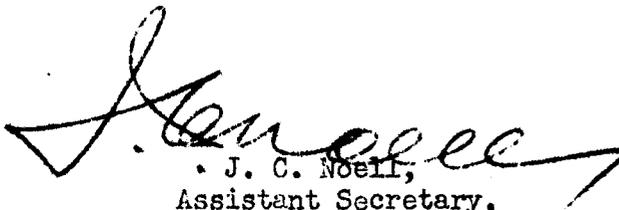
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXUFA" - Treasury Bills to be dated June 5, 1935, and to mature October 16, 1935.

"NOXUGH" - Treasury Bills to be dated June 5, 1935, and to mature March 4, 1936.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXUEF" 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-9225
May 31, 1935.

Dear Sir:

The Board will appreciate it if you will send to it currently clippings from or copies of matter in the nature of comment, articles or speeches published in newspapers, business and financial publications in your district which come to your attention from time to time having a bearing upon industrial loan activities under Section 13(b) of the Federal Reserve Act. The Board does not ask that you set up any new activity in your bank for this special purpose but having no doubt that such material usually comes to your attention assumes that it will not be an added burden for you to comply with this request. The Board feels that an opportunity to see such material will be helpful to it.

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

To Chairmen of all F. R. Banks.

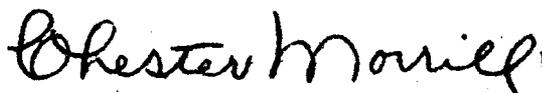
X-9226

June 5, 1935.

To the President of the bank addressed:

The Federal Reserve Board is at the present time undertaking to appraise the usefulness of some of the publications now being compiled and circulated by the Federal Reserve System. For this purpose, it will be appreciated if you will fill in the answers to the questions on the inclosed sheet and return it to the Federal Reserve Board, Washington, D. C., as promptly as possible, using the inclosed addressed envelope which requires no postage.

Very truly yours,



Chester Morrill,
Secretary.

To be sent to all member banks.

Inclosure

**QUESTIONNAIRE CONCERNING THE FEDERAL RESERVE BULLETIN AND THE
MONTHLY REVIEW OF BUSINESS CONDITIONS IN EACH
FEDERAL RESERVE DISTRICT**

Name of answering bank _____

Deposits of answering bank \$ _____
(As reported on condition report of March 4, 1935)

Town or city _____ State _____
(Location of head office of answering bank)

Population of town or city _____

Federal Reserve District No. _____

FEDERAL RESERVE BULLETIN
(Published by the Federal Reserve Board)

MONTHLY REVIEW OF BUSINESS CONDITIONS
(Published by the Federal Reserve Bank
of your District)

1a. Does anyone in your bank read or make use of The Bulletin? Please check appropriate item:
Frequently _____
Occasionally _____
Never _____

1b. Does anyone in your bank read or make use of the Monthly Review published by the Federal Reserve Bank of your district? Please check appropriate item:
Frequently _____
Occasionally _____
Never _____

2a. Please supply titles of persons in your bank, if any, who use The Bulletin:

2b. Please supply titles of persons in your bank, if any, who use the Monthly Review:

3a. Please check parts read or used, if any:
Entire Bulletin _____
Review of the Month (leading article) _____
National Summary of Business Conditions _____
Law Department _____
Statistical tables _____
Other (specify) _____

3b. Please check parts read or used, if any:
Entire review _____
General textual material _____
Statistical tables _____
National Summary of Business Conditions _____
Other (specify) _____

4. Please note on the reverse side of this sheet any suggestions you may have for improving the Bulletin or Monthly Review.

Mail to the Federal Reserve Board, Washington, D. C.

X-9227

F E D E R A L R E S E R V E B O A R D
FOR THE PRESS

For release at 9:45 p.m. Eastern Standard Time, June 4, 1935

"The Consumer's Stake in Sound Money"

Radio Speech

of

Marriner S. Eccles

Governor of the Federal Reserve Board

Tuesday night, June 4, 1935,
from Station WJSV,
Washington, D. C.

In the consumers' series
arranged by
The Consumers' Committee
of the National Advisory
Council on Radio in Educa-
tion.

X-9227

THE CONSUMER'S STAKE IN SOUND MONEY

You have asked me to speak on the subject of "The Consumer's Stake in Sound Money". Everybody has a stake in sound money, of course, whether he be consumer or producer. But that is only another way of saying that everybody has a stake primarily in the production and distribution of goods.

Stated in the broadest possible terms, the economic well-being, or standard of living of a community, is dependent upon the amount of goods and services it has available for consumption and the proportions in which these goods and services are distributed to the various classes. These are the real and fundamental factors. Money is merely the means by which we are enabled to exchange the things we produce for the things other people produce. But the manner in which the money system functions has a profound bearing on the amount of goods that are produced and even on the distribution of those goods among different classes. Let me indicate to you very briefly how this is possible.

I must, in the first place, remind you that four-fifths of our money consists of checking accounts in banks. These checking accounts, or deposits subject to check, are money in as full a sense as notes and coins, and their spending or hoarding have as much effect on the demand for goods as the spending or hoarding of cash.

Let me remind you of another thing. The incomes of most people are derived from other people's expenditures. Our expenditures in turn furnish income to other people. If we all regularly disbursed our incomes on the products of industry, and industry in turn disbursed this

-2-

money in the making of new goods, and this circular process continued at a steady rate, the community's money income and expenditure would remain unchanged. An increase or decrease in the community's income is but the counterpart of an increase or decrease in community expenditures. An increase in expenditures would come about from spending either existing money or money newly created through the extension of credit by the banking system. Likewise, a decrease in spending may result either from a disinclination to spend existing money, or from a decrease in the amount of money there is to spend.

All this sounds very abstract, and yet what I have been describing in a highly-simplified manner is a process that has a vital bearing on the economic well-being of every citizen. It is estimated that in 1929 our national money income was between 80 and 90 billion dollars, and that the volume of goods and services of all kinds produced in that year was approximately the same. In 1933 our national income had shrunk to between 40 and 50 billion dollars, and our production of goods and services consequently suffered a drastic decline. Our progressive impoverishment during the depression was not the result of a voluntary decision on the part of the people. We needed all the goods we could produce. Nor had our capacity to produce decreased. We had the man power, the materials, the equipment, and the technical knowledge to produce more goods at any time during the depression than we produced in 1929. What was the difficulty? The proximate answer to this question is simple. The effective money demand for goods decreased. The circular stream of money from producer to consumer, and from consumer to producer, was being steadily

-3-

diminished. For various reasons consumers did not disburse all the income they received, and industry in turn did not disburse all the proceeds from the sale of goods. Not only did the rate of spending of money decrease, but the amount of money there was to spend likewise decreased. The decrease in the volume of money available for the purchase of goods was both a contributing cause and one of the effects of this diminished spending. The volume of deposit currency of the country decreased by 7 billion dollars, or by one-third, as a result of credit contraction in the banking system. Commodity prices fell, not because of a growing abundance of goods, but because of the inability to purchase even a greatly reduced supply of goods.

Since 1933 we have been engaged in the slow and difficult task of restoring the effective demand for goods. The burden has been carried largely by the Federal Government, which has borrowed money newly created by the banking system, or money from individuals, which otherwise would have remained idle, and has disbursed it in various ways to increase incomes. Industry, by and large, has continued to disburse less than it received, and consumers have used part of their increased incomes to reduce debt and to increase their savings rather than to purchase goods. In order for recovery to proceed industry must employ its now large but idle balances and the current savings of the community must likewise be put to work. Otherwise these funds would remain stagnant and unproductive.

By this process of recovery incomes will be increased. The effective money demand for goods will be increased. The production of

goods will increase to meet that demand, and hence our standard of living will rise. If this process proceeded in orderly fashion there should be little occasion for a substantial rise in the average price level, since with our present enormous unutilized productive capacity the production of goods could be readily increased to meet the increase in demand.

Manifestly, this process could go too far. That is, a condition might come about in which the volume of money or means of payment continued to expand beyond the point necessary to sustain a maximum of production and employment. Now at this point a sharp rise in prices would ensue. The peak of recovery would be reached and inflation would be underway.

That would be the danger point. It would be dangerous because a further increase in incomes and expenditures would not then be justified by a further increase in the production of goods, but would result in night work and overtime work and increasing inefficiency. Such conditions are not only highly unstable but they also inflict grave hardships on people with fixed incomes, since they are normally accompanied by rapidly rising prices. The war period witnessed such conditions.

How may the danger be obviated? One of the means of combatting such a danger is through an intelligent control and management of the money system in the public interest. There is no automatic mechanism which can be relied upon to keep incomes and expenditures in proper relation to our capacity to produce. In other words, our money system, if left uncontrolled, will behave in a manner calculated to intensify booms and depressions. If we are to make any progress for the attainment of greater stability in business, we must consciously and de-

-5-

liberately prevent our money from increasing to feed a boom or from decreasing to intensify a depression. That is one of the principal aims of the banking legislation now before Congress. I believe that other action by the Government is necessary for the attainment of comparative stability.

That is, I do not want to be understood as believing that monetary policy alone is capable of solving the problem of the business cycle. Monetary policy, wisely conceived and courageously exercised, will help to mitigate the worst evils of deflation and inflation. But, as I have repeatedly sought to emphasize in discussions of the broad subject of stability, I believe that the government's tax policy must be properly integrated with monetary policy in an effort to keep the national income at a maximum, primarily by maintaining employment.

My own view is that while much can be accomplished through the proper operation of the banking system to moderate fluctuations, it is imperative for the Government also to make its contribution to stability by varying its expenditures and by the use of the taxing power in order to insure employment and to maintain a sufficiently equitable distribution of income to keep up production.

I have, I think, indicated my concept of sound money. We have sound money when our system behaves in such a way as to help rather than hinder the full and efficient use of our productive resources. We have sound money when the energy and skill of American workers, the productive capacity of our great industrial plant and equipment, and the fruitfulness of our land and natural resources are used in such a way as to make our

real income of goods and services as large as possible, not merely for a few prosperous years followed by a period of idleness and want, but for year after year of enduring stability. This, it seems to me, should be the true criterion of the soundness of money, and not the amount of gold that is stored in the vaults of the Treasury.

The ideal would be to have the money system functioning so smoothly and so efficiently that we would hardly be aware of its presence. Then we could concentrate on the fundamental problems of production and the distribution of income.

The consumer's stake in sound money would thus be best protected. The paramount interests of everyone, consumer and producer alike, would thus be best served.

X-9228

AGREEMENT BETWEEN THE
FEDERAL RESERVE BOARD
AND
PAUL P. CRET

X-9228

AGREEMENT made this 5th day of June, 1935, by and between the FEDERAL RESERVE BOARD, Washington, D. C., (hereinafter sometimes called the "Board"), party of the first part, and PAUL P. CRET, JOHN F. HARBESON, WM. J. H. HOUGH, WM. H. LIVINGSTON, and ROY F. LARSON, partners doing business under the name of "PAUL P. CRET", having an office at 1700 Architects' Building, 17th and Sansom Street, Philadelphia, Pennsylvania, (such partners as a firm being hereinafter sometimes called the "Architect"), party of the second part;

WITNESSETH:

WHEREAS, the Board intends to erect a building on its premises located between 20th and 21st Streets, C Street and Constitution Avenue, N. W., Washington, D. C., and

WHEREAS, the Architect has submitted drawings in conformity with the requirements of a certain program of competition for the selection of an architect for such building and has been awarded the prize of such competition and has been appointed as the architect of such building;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. SERVICES OF THE ARCHITECT: - The Architect will:
 - (a) Act and serve as architect in all matters relating to the construction of the building and the design of the building and grounds, including the steel framing of the building together with the decorative work and

fixed and built-in equipment thereof and, when requested by the Board to do so, represent the Board at all hearings or meetings before such agencies as the Commission of Fine Arts and the National Capital Park and Planning Commission;

- (b) Make such revision of his competitive scheme as may be necessary to complete the design premiated in the competition with such changes as the Board may require; within sixty (60) days from the date hereof, prepare and deliver to the Board all sketches, preliminary drawings, estimate of cost, etc., necessary to enable the Board to pass judgment on the design as finally proposed by the Architect and to enable the Board to submit such design for the approval, in so far as is necessary, of the Commission of Fine Arts and the National Capital Park and Planning Commission;
- (c) Subject to the conditions of Article 3 and within one hundred and twenty (120) days from the date of the approval by the Board of the design under the provisions of paragraph (b) above, prepare all contract drawings, specifications, etc., including steel framing design and drawings, and deliver the same to the Board, so that the Board may advertise for bids and enter into a contract or contracts for the construction of the building; Provided, however, That, if the Board does not require the Architect to perform

the services set forth in Article 3 hereof or certain of them, all designs, specifications, etc. to be prepared with respect to such services not performed by the Architect shall be delivered to the Architect at least forty-five (45) days before the end of the period of one hundred and twenty (120) days referred to in this paragraph (c); and the said period of one hundred and twenty (120) days shall be extended by a number of days equal to the number of days, if any, by which the delivery of such designs, specifications, etc. to the Architect may be delayed beyond the time required by this proviso for such delivery;

- (d) Subject to the conditions of Article 3, prepare and deliver to the Board as rapidly as they may be needed in order to avoid any delay or interruption in the progress of the construction and completion of the building, all scale and full size detail drawings necessary for the execution of the work in accordance with the contract drawings and the spirit thereof;
- (e) Subject to the conditions of Article 4, supervise and inspect all phases of the construction of the building, including the tests and inspection of all materials, and, to the extent deemed necessary by the Board, all processes of the manufacture of articles permanently entering into the construction work;

- (f) Furnish such cooperation, consultation and advice to the Board, contractors or others, as may in the opinion of the Board be desirable to clarify the intent of the drawings or specifications or to assist in any way upon questions that may arise in connection with the construction of the building; and conduct correspondence and perform co-related work necessary to promote continuous prosecution of the work;
- (g) Furnish to the Board, promptly after the times when the originals of the documents herein enumerated shall have been respectively approved by the Board, a duplicate set of all designs and preliminary drawings, a duplicate set of the contract drawings and scale details, a duplicate set of complete specifications and a duplicate copy of the detailed estimate of the cost of the entire building; all such duplicates to be furnished at the Architect's expense, to be the property of the Board, to remain in the custody of the Board, and to be in such form satisfactory to the Board as to constitute a suitable permanent record, it being the intent of this paragraph (g) that, if at any time during the construction of the building the Architect should for any reason cease to furnish the services called for by this agreement, the Board shall possess as its own property, a complete duplicate set of all documents submitted by the Architect to the Board and approved by it,

which may be used by the Board in the completion of the building should the Board so desire, and also that the Board may have in its possession upon the completion of the building an accurate and detailed set of the final designs, drawings, plans, specifications and estimate of cost of the building as actually built.

The Architect shall diligently and promptly perform all services required of him under this contract, and the Board shall cooperate with him, to the end that the construction of the building may proceed to completion without delay and that the Architect shall consummate the services required of him within the limitations of time specified in paragraphs (b), (c) and (d) above. Each of the periods of time specified in paragraphs (b) and (c) for the completion of the services therein mentioned may be extended at any time or times if such extension is granted by a written instrument signed on behalf of the Board by the Board's Building Committee. In case any delay in the performance of the services specified in paragraphs (b) or (c) above is caused, in the judgment of the Board, by any action of the Board or by any failure to act or delay in acting by the Board, the Board will grant a corresponding extension of time for the performance of such services.

2. CONTRACTS FOR CONSTRUCTION: - The Board will act as the contracting agency on all contracts involved in the construction of the building, or will designate some person or agency for that purpose. Subject to the provisions of paragraph (g) of Article 1, the Board will also pay all costs arising from the making of blueprints, the reproduction of the specifications, the ad-

vertising for bids, and all other expenses incident to the execution of the contract or contracts for the construction of the building.

3. SPECIAL ENGINEERING SERVICES: - The Board may at its option require the Architect to perform, in addition to all other services and duties required of him, all of the designing and engineering services in respect to the following matters:

- (a) The foundations of the building;
- (b) The elevators, passenger and freight;
- (c) The air conditioning installation;
- (d) The fire detection and fire control apparatus;
- (e) The heating and ventilating installation;
- (f) The electrical layout and equipment;
- (g) The telephone layout and equipment;
- (h) The water supply and sanitary layout and equipment.

The Architect shall perform such of the designing and engineering services set forth in paragraphs (a) to (h) above as he may be required to perform by the Board, but in such event shall be entitled to an additional fee as provided in paragraph (b) of Article 5. Even though the Architect is not required to perform such additional services, he shall without additional compensation indicate on all contract drawings to be prepared by him so much of the purely engineering and technical features as may be necessary to correlate and connect the various phases of the engineering work with the architectural features.

The Board will retain and pay the salaries of all engineers, consultants, designers, draftsmen, etc., necessary to prepare the completed contract drawings, specifications, etc., of the respective phases of such of the services set forth in this Article 3 as the Architect is not required by the Board to perform. These designs, specifications, etc., will be prepared in ample time, as set forth in paragraph (c) of Article 1, and in sufficient detail, to enable the Architect properly to relate all such purely technical features with the architectural features. Furthermore, the Board and the Architect will cooperate to the end that the work of the latter shall be facilitated to the greatest practicable extent.

4. SUPERVISION AND INSPECTION: - The Board may at its option require the Architect, in addition to all other services and duties required of him, to perform generally all duties of supervision and inspection, including the proper and adequate supervision and inspection of all of the work in connection with the construction of the building and the inspection and testing of all materials used therein, such inspection and testing to be made at the site of the building unless the Board shall, with respect to specified material or equipment, determine that such inspection or testing shall be made at some other place, in which case it

shall be made at the quarry, factory or other place of origin or manufacture, or elsewhere, as the Board shall determine. The Architect shall perform all such additional services if so required by the Board, but in such event shall be entitled to an additional fee as provided in paragraph (c) of Article 5.

In the event the Board does not require the Architect to perform the services of supervision and inspection referred to above, it may select such supervisors and inspectors as it desires, and shall pay their salaries and bear the cost of all other work necessary for that purpose. However, in such event the Architect will be required to keep on the work at all times a duly qualified and experienced representative satisfactory to the Board, and may also be required by the Board to have the partner or partners designated by the Board visit the work from time to time as the construction work progresses for whose traveling expenses on such visits as may be so required the Architect will be reimbursed as provided in paragraph (e) of Article 5. For this purpose the Architect will be reimbursed for the actual salary of his representative, which shall be subject to the approval of the Board, and will also be paid ONE HUNDRED DOLLARS (\$100.00) per day (in addition to the traveling expenses provided for in paragraph (e) of Article 5) for such time as one or more of the partners spends at the site of the work

pursuant to the requirement of or with the approval of the Board. It will be the duty of the Architect's representative to see that the work is carried out in accordance with the spirit of the contract drawings, full sized details, etc., prepared by the Architect; but in all such matters he will report directly to the Board or its representative and shall not deal directly with the contractors.

5. PAYMENTS: - Except as expressly provided in this agreement, the Board shall not be required to make any payment to the Architect on account of any liability for services or materials incurred by the Architect or on any other account. The Architect shall be paid for his services in connection with the building as follows:

(a) For all services enumerated or described in this agreement, except as provided in Article 4 and in paragraphs (b), (c), (d), (e), and (f) of this Article 5, a fee equal to four and one-half per cent ($4\frac{1}{2}\%$) of the total cost to the Board of the construction and completion of the building herein proposed, as determined by the Board, but in no event shall the amount of said fee paid to the Architect for the services referred to in this paragraph exceed the sum of ONE HUNDRED AND FIVE THOUSAND DOLLARS (\$105,000). Said fee shall be paid in five equal installments, as follows:

1st - Thirty (30) days after the approval by the Board of the contract retaining the services of the Architect;

2nd - Upon approval by the Board of the preliminary drawings of the building;

3rd - Upon the award of the principal contract for the construction of the building;

4th -- Upon the completion of the roof and the weather-proofing of the building; and

5th -- Upon acceptance by the Board of the completed building.

- (b) If the Board elects to require of the Architect all of the services enumerated and described in Article 3, a fee of ONE AND ONE-QUARTER PERCENT ($1\frac{1}{4}\%$) of the total cost of the construction and completion of the building, as determined by the Board, PROVIDED, HOWEVER, that the total amount to be paid to the Architect for this phase of the work shall not exceed TWENTY-NINE THOUSAND ONE HUNDRED SIXTY-SIX DOLLARS AND SIXTY-SIX CENTS (\$29,166.66); payments to be made in proportionate monthly installments as this phase of his work progresses. In the event the Architect is required by the Board to perform some but not all of the special designing and engineering services set out in paragraphs (a) to (h) of Article 3, he shall be paid such part of such one and one-quarter percent ($1\frac{1}{4}\%$) of the cost of the building as may be agreed upon between him and the Board.
- (c) If the Board elects to require of the Architect the services enumerated and described in Article 4, for the supervision and inspection of the construction of the building, a fee of ONE PERCENT (1%) of the total cost of the construction and completion of the building, as determined by the Board, PROVIDED, HOWEVER, that the total amount to be paid to the Architect for this phase of the

work shall not exceed TWENTY-THREE THOUSAND THREE HUNDRED THIRTY-THREE DOLLARS AND THIRTY-THREE CENTS (\$23,333.33); payments to be made in proportionate monthly installments as the construction work progresses.

- (d) The maximum amounts to be paid the Architect as specified in paragraphs (a), (b) and (c) of this Article 5 are calculated on a basic cube of 3,220,000 cubic feet. Should this basic cube of 3,220,000 cubic feet be increased in the finished building the maximum amounts specified above will be increased proportionately, anything in this section to the contrary notwithstanding. Until the actual cost of the building is known, all payments to the Architect under paragraph (a), (b) or (c) of this Article 5, not definitely fixed in amount shall be computed on the basis of the estimated cost of the building and when the actual cost of the building becomes known all such payments theretofore made shall be adjusted in conformity with such actual cost.
- (e) In addition to the fees described in paragraphs (a), (b) and (c) of this Article 5, the amount of all actual and necessary traveling and subsistence expenses (not exceeding five dollars (\$5.00) per person per day in addition to the actual cost of transportation) incurred by the Architect and his professional and technical employees when traveling

on duty in the carrying out of this agreement, PROVIDED, that all travel, the expenses of which are reimbursable under this paragraph, must be approved by the Board.

- (f) In addition to the fees described in paragraphs (a), (b) and (c) of this Article 5, the amount of all salaries and/or wages paid by the Architect to professional and technical personnel for such time as they are actually and necessarily engaged upon work, not properly included in the services to be rendered by the Architect under the provisions of Article 1 above, made necessary by modifications of and/or additions to any designs, drawings, specifications, etc., after the same have been approved by the Board; PROVIDED, HOWEVER, that the pay of all personnel to be employed shall be subject to the prior approval of the Board; and PROVIDED, FURTHER, that the decision of the Board as to whether the work involved in making such modifications and/or additions is or is not properly included in the services described in Article 1, shall be final.

6. DEFINITION OF TOTAL COST: - In determining the total cost of the construction and completion of the building, under Article 5, the Board shall not include:

- (a) fees and charges to which the Architect is entitled under Article 5:

- (b) the cost of services specified in Articles 3 and 4, whether or not such services are performed by the Architect;
- (c) the cost of furnishings and movable equipment (it being understood that the cost of lighting fixtures is to be included in determining the total cost of the construction and completion of the building);
- (d) amounts paid as damages, compensation or otherwise, in settlement of or as an incident to any claim against the Board based upon alleged injury, including death, to a person or damage to property in connection with the construction of the building;
- (e) the cost of replacing defective work or of reconstructing or repairing work destroyed or damaged by fire, flood or other causes, the intention being to exclude double or additional costs in respect of the work or any part of it under the contingencies indicated in this paragraph (e).

7. REVISIONS: - In the event that any design (including the design premiated in the competition), sketch, drawing, set of specifications (etc.), whether preliminary or final, submitted by the Architect, is not approved by the Board, the Architect shall revise such design, sketch, drawing, set of specifications (etc.) until the approval of the Board is obtained, all without additional compensation, except that, if the Board fails or refuses to give its approval or gives

a conditional approval, and such refusal, failure or conditional approval necessitates a modification of or addition to any design, sketch, drawing, set of specifications (etc.) already approved by the Board, the Architect shall be entitled to receive for such modification or addition compensation determined in accordance with paragraph (f) of Article 5.

8. INFORMATION, ETC.: - The Board is to give all information as to the requirements of the building and is to pay for all necessary surveys, borings, and tests.
9. PERSONNEL: - The Architect shall not change in personnel or in any way transfer, assign or bequeath his appointment or share it with any other person without the written consent of the Board. In the event of the death of any of the partners in the firm the Board reserves the right to sever relations with the Architect and to select any other architect it desires to complete the work, whether or not such architect shall have been one of the competitors under the program of competition.
10. SEVERANCE OF RELATIONS: - If the Board shall wish for any reason to sever relations at any time with the Architect, it may do so by paying him (1) all amounts which at the time of such severance have theretofore become due to such Architect under the provisions of Article 5 less the sum of all payments previously made to him in accordance with the provisions of said Article 5, and (2) in addition thereto such sum as may be fair and equitable in the judgment of the Federal Reserve Board according to the portion of his services rendered which is not covered under the schedule of payments provided in said Article 5 by the amounts

which have theretofore become due to him. In determining the amount of such additional sum under (2) of the preceding sentence, the Board shall give due consideration to evidence which may be furnished by the Architect as to the amount of work which he has performed and the amount of expense which he has incurred in carrying out the provisions of the agreement prior to such severance of relations. In the event that the Board for any reason severs relations at any time with the Architect, the Board reserves the right to select any other architect it desires to complete the work, whether or not such architect shall have been one of the competitors under the program of competition.

11. ABANDONMENT: - If the work upon the construction of the building is not begun for a period of three (3) years after bids have been obtained upon the completed working drawings and specifications, or if after such work has been begun operations thereon are entirely suspended for a period of three (3) years, then in either event at the end of such three year period, the Architect shall be entitled to receive the sum of SIXTY-THREE THOUSAND DOLLARS (\$63,000) less payments previously made to him in satisfaction of all claims; PROVIDED, HOWEVER, that if the work shall be resumed within two (2) years subsequent to the expiration of such three (3) year period, the contract shall continue in force and effect and the amount paid the Architect under the provision of this Article, that is SIXTY-THREE THOUSAND DOLLARS (\$63,000), shall apply on account of his fee as such Architect.

If at the time of resuming the building construction above

mentioned, building costs have advanced sufficiently to make it necessary for the proper execution of the work to revise the plans and specifications or other documents, then the Architect is to be equitably paid for such extra services and expenses.

12. DETERMINATION OF FACTS: - Whenever under the provisions of this agreement there shall arise any question of fact, whether relating to compensation or otherwise, the determination of which is not specifically otherwise provided for herein, such question shall be determined by the Federal Reserve Board and its decision upon any such question shall be final and binding upon the parties hereto.
13. BOARD'S BUILDING COMMITTEE: - Any approval, requirement or request of the Board under this agreement may be made by the Board acting through its Building Committee. Such Committee now consists of Mr. Adolph C. Miller. The Board will notify the Architect in the event of any change in the personnel of such Committee.
14. RECEIPTS, VOUCHERS (ETC.): - Payments to the Architect under this agreement shall be made only upon certified statements rendered to the Board by the Architect supported by such receipts, vouchers, audits of accounts or records of the Architect or others as the Board shall require.
15. DEFINITION OF "DAY": - The term "day" or "days" when used in this agreement shall mean calendar day or days respectively except that the word "day" in Article 4 hereof shall mean business day.

16. N. R. A. COMPLIANCE: - The Architect shall comply with each approved code of fair competition to which he is subject, and if he is engaged in any trade or industry for which there is no approved code of fair competition, then as to such trade or industry with an agreement with the President under Section 4(a) of the National Industrial Recovery Act (President's Reemployment Agreement), and the Board shall have the right to cancel this contract for failure to comply with this provision or have the work called for by this contract otherwise performed at the expense of the Architect, and the Architect shall not accept or purchase for the performance of this contract or enter into any subcontracts for any articles, materials, or supplies, in whole or in part produced or furnished by any person who shall not have certified that he is complying with and will continue to comply with each code of fair competition which relates to such articles, materials, or supplies, and/or in case there is no approved code for the whole or any portion thereof then to that extent with an agreement with the President as aforesaid.
17. OFFICIALS NOT TO BENEFIT: - It is an express condition of this contract that no Member of, or Delegate to, Congress, or Resident Commissioner, shall be admitted to any share in this contract,

or to any benefit to arise therefrom.

IN WITNESS WHEREOF, the parties hereto have duly executed this agreement in duplicate the day and year first above written.

FEDERAL RESERVE BOARD

(SEAL)

By: (Signed) A. C. Miller
Building Committee

Attest:

(Signed) Chester Morrill
Secretary

PAUL P. CRET

By: (Signed) Paul P. Cret
A General Partner

Witness:

(Signed) Marie Ward

CERTIFICATE OF COMPLIANCE

It is hereby certified that the undersigned is complying with and will continue to comply with each approved code of fair competition to which he is subject, and/or if engaged in any trade or industry for which there is no approved code of fair competition, then as to such trade or industry that he has become a party to and is complying with and will continue to comply with an agreement with the President under Section 4(a) of the National Industrial Recovery Act (President's Reemployment Agreement) and that all other conditions and requirements of Executive Order No. 6646, dated March 14, 1934, as amended, are being and will be complied with.

PAUL P. CRET

By: (Signed) Paul P. Cret
A General Partner

June 6, 1935

(Date)

1700 Architects' Building,
17th and Sansom Street,
Philadelphia, Pennsylvania.

X-9229

"THE BANKING ACT OF 1935"

ADDRESS OF
HONORABLE M. S. SZYMCAK
NEW YORK BANKERS' CONVENTION
LAKE GEORGE, NEW YORK
SATURDAY - JUNE 8, 1935.

Release for publication

June 8, 1935.

Afternoon papers

It is the policy of the Federal Reserve Board not to have its individual Members speak publicly except when to speak publicly is a duty in the interest of furthering the purposes for which the Federal Reserve System was created. That policy is also my personal policy adopted firmly when I became a Member of the Federal Reserve Board two years ago. I take it, therefore, that it is my duty to speak here publicly on the subject of the Banking Act of 1935. It is, of course, a pleasure for me to see you and be with you.

Let me state at the outset that I speak here not for Governor Eccles, nor for the Federal Reserve Board - I speak only for myself. I did not write, nor did I help write the Banking Act of 1935. I shall therefore make no attempt to discuss the philosophy of the Act. However, I studied the bill with its specific amendments, and after a complete study of these, I expressed my opinion to the Senate Sub-committee of the Banking and Currency Committee on last Monday - June 3rd, 1935.

I said that it is essential to preserve our regional Federal Reserve System, which consists of twelve Federal Reserve banks with nine directors in each Bank, together with a Federal Reserve Board in Washington. In this particular respect, our System is different from that of most countries because of our extensive area, and because of our political and economic structure of states and districts - based upon industrial, agricultural, commercial and financial conditions and needs which are widely different in the various parts of the United States. The System is composed of separate essential parts. These parts, however, must be cohesive for the best functioning of the System.

To make for an efficient administration of the Act by the

System and to arrive at the purposes for which the Act was passed by Congress, it appears necessary for the Federal Reserve Board to have a more direct contact with the various sections of our extensive area.

To be effective, the whole Federal Reserve System must be one. This end is not difficult to attain: personal contact of the members of the Board with the directors of the twelve Federal Reserve Banks seems one of the best direct avenues.

"Bank powers of the boards of directors of the twelve Federal Reserve banks should be retained, and in some respects, increased and extended, at least by regulation of the Federal Reserve Board.

While, of course, it is sound to have the Federal Reserve Board and its principal offices in Washington, and while it is sound for the Board to hold its meetings in the capital because of the national scope of its considerations, yet it would be desirable from a practical standpoint for the Federal Reserve Board to meet at least four times a year in at least four parts of the country - the East, West, North and South - to meet with and understand better the directors of the Federal Reserve banks and their officers; as well as the conditions and needs of commerce, industry, agriculture and finance in the respective Districts. It would also seem wise to provide by law that each Member of the Board should be assigned by the Federal Reserve Board to the task of keeping himself especially familiar with conditions in at least two of the Federal Reserve Districts each year, in order that he might act as a liaison officer between the Federal Reserve banks, their directors and officers, the representatives of commerce,

industry, agriculture and finance, on the one hand, and the Federal Reserve Board in Washington, on the other hand. Provision could be made to have Members of the Board rotate in their District assignments, so that eventually each Member of the Board would have covered by direct contact all of the sections of the country and would know their needs thoroughly. Without this, it is next to impossible for the Board Members to appreciate fully the needs and requirements of the Federal Reserve banks and of the country as a whole; without this, the Federal Reserve Board inclines too much to theory and bureaucracy; and without this there is bound to be misunderstanding between the Federal Reserve banks and the Federal Reserve Board leading to differences of opinion on authority; and without this a cry is heard on the one hand that the private interests wish to control the System and direct its operations for their own selfish purposes; and that on the other hand, political interests wish to control the System and direct its operation in accordance with their own political ambitions.

Members of the Board, when assigned by the Board to several districts, would keep personally in touch with the boards of directors and the officers of the Federal Reserve banks in those districts. They would thus become familiar with the management of such Federal Reserve banks, with their viewpoints, and with the problems of their districts. They would also know men in the industrial, commercial, agricultural and financial fields of the districts. They would not be compelled to depend entirely on the Board's staff for information having to do with the internal management of the banks, as well as with the general agricultural, commercial, industrial and

financial and banking conditions of the districts; thus there would be a better opportunity for sound and practical rulings of the Board on all questions when they are presented by the banks to the Federal Reserve Board under the law. It is specifically stated in the Act that the Federal Reserve Board has general supervisory responsibilities, but in order to supervise, one must be in direct contact with those supervised. Otherwise, one is compelled to act upon information obtained from other sources.

Of course, in all cases, the Board, as a whole, would act officially on all these matters, but the Board would have the benefit of the information obtained by the individual Member assigned to the specific district.

It would also seem desirable to have the boards of directors of the Federal Reserve banks meet once every year with the Federal Reserve Board in Washington, or if this could not be accomplished with the directors who are farther removed from Washington, the Federal Reserve Board could arrange to meet them at a point more accessible at least once every two years to discuss frankly and completely matters pertaining to the operation of their banks and the conditions in their districts, as well as problems of a national character.

The execution of many of the powers vested in the Federal Reserve Board could, under the provisions of the Banking Act of 1935, be decentralized under regulations of the Federal Reserve Board so that they could be carried into effect by the Federal Reserve banks without the reference of many individual matters to Washington, and thus obtain desirable and effective administra-

tion. This will be facilitated by the provision in the bill authorizing the Board to delegate its powers to individual Members or other representatives. To make for a constancy and a permanency of the work of the Board by its individual Board Members, I recommend that there be a specific requirement in the law that the Board assign its work to individual Board Members, each Board Member to have a specific task assigned on which he is to specialize and through which he is to keep in touch with the Federal Reserve banks and the country, and on which he is to report to the Federal Reserve Board with recommendations. This seems to me to be very important, from the standpoint of good administration. This bill provides for that generally.

On the other hand, it has been my experience that the Federal Reserve Board does not wish to, nor should it, assume any more powers than it can properly use for the effective administration of the System, and whenever powers are granted to the Federal Reserve Board having to do with matters that could be handled better by the directors and officers of the Federal Reserve banks, the Federal Reserve Board should be able to give the twelve Federal Reserve banks the power of determination of many important matters.

It is good organization for the Federal Reserve Board to recognize this fact and to avail itself of the commercial, agricultural, industrial and financial experience of the directors of the twelve Federal Reserve banks, as well as the technical and banking experience of their officers, who are the vehicles through which the policies of the System are executed.

There are many powers now in the Federal Reserve Board, however, which in my opinion should be placed, now or later, in the regional Federal Reserve banks. This would expand the authority and responsibility of the directors of each Federal Reserve bank and make for more prompt and efficient administration of the Federal Reserve System. The general supervision should be retained, but the direct and ultimate action in these matters should be taken by the directors and officers of the Federal reserve banks.

The detailed matters which might be delegated to the Federal Reserve banks (or the Federal Reserve Agents, if their offices are not abolished) include the following:

1. Admission of State banks to membership in the Federal Reserve System.
2. Expulsion of such banks from membership for violations of the law or the Board's regulations.
3. Waiver of 6 months' notice of voluntary withdrawal of State banks from membership.
4. The granting of voting permits to holding company affiliates of member banks.
5. The revocation of voting permits for violations of the law or the regulations.
6. The issuance and revocation of permits authorizing officers, directors and employees of member banks to serve not more than two other banks (if the provision for individual permits is not repealed as proposed in the bill.)
7. The issuance and revocation of permits for officers, directors

and managers of security companies to serve as officers and directors of member banks (if the provision for individual permits is not repealed as proposed in the bill.)

8. The granting of trust powers to national banks.

9. The cancellation of such powers at the request of national banks.

10. Approval of reduction of capital stock by national banks (if the requirement of the Board's approval is not repealed as proposed in the bill.)

11. The granting of permission for member banks to invest amounts exceeding their capital stock in bank premises or in the stock of corporations holding their bank premises.

12. The approval of the establishment of branches by State member banks (if this power is transferred from the Comptroller of the Currency as proposed in the bill.)

13. Authorizing national banks to establish foreign branches.

14. Authorizing national banks to invest in the stock of banks or corporations principally engaged in international or foreign banking.

15. Permitting interlocking directorates between member banks and foreign banking corporations in which they own stock.

16. Approval of compensation of officers and employees of Federal Reserve banks.

In addition to the above, where action by the Board is required under the law, numerous matters are presented to the Board for consideration in connection with banking supervision and requiring

action on individual cases; for example, reductions of capital stock of State member banks, consolidations of State member banks with other banks, and whether or not individual banks should increase the amount of their capital and surplus in relation to their deposit liabilities. In some cases of this character, the Board has already authorized the Federal Reserve Agents to act on its behalf in the individual cases within certain prescribed limitations.

Some, or perhaps all, of the powers enumerated above, and perhaps others too, it seems to me, should be vested directly and ultimately in the Federal Reserve banks. This would make for efficiency and good relations between the Federal Reserve Board and the Federal Reserve banks. It is quite natural that the Federal Reserve banks know more about that subject-matter because they are directly and constantly in contact with it. It is also natural, however, that the Federal Reserve Board should supervise and coordinate and bring to the attention of the Federal Reserve banks any incorrect or improper administration of these powers. This would make for unity.

I also stated that:

I can understand that this Banking Act offers much opportunity for extreme interpretation. However, with the amendments offered, it seems to me to meet existing conditions and to serve a definite purpose without being extreme in either direction. It deserves at least having each section considered on its merits. It seems to serve the definite purpose of a better administration of the Federal Reserve Act.

Now to proceed, I have been taught that to know a thing one must know the parts of which it is composed. Let us, therefore, take this bill apart and look at the parts separately.

Section 202 of the Banking Act of 1935 is related to a section in the Banking Act of 1933, which provides that all insured nonmember banks shall become members of the Federal Reserve System by July, 1937. This provision of the Act of 1933 was repealed in the House bill, but it should be restored because it is of great importance that all banks which are insured be subject to Federal supervision. It is a step in the direction of unification of bank supervision which is an essential to the proper discharge of the responsibilities of both the Federal Deposit Insurance Corporation and the Federal Reserve System.

It has been said that the provision for giving the Board authority to waive requirements for admission under this bill would lower the standards of the Federal Reserve System and that it might be better to retain those standards and have the Federal Deposit Insurance Corporation bring the banks up to the standard before they are admitted. The weakness of this argument is in the fact that the Federal Reserve banks and member banks are affected by conditions that develop in nonmember banks. An unsound banking situation affects the entire community, and since the Federal Reserve System has to stand the consequences of unsoundness in nonmember banks, it should have authority to admit all insured banks and gradually to bring them up to its standard.

The suggestion that has been made that banks with deposits of less than \$500,000 be permitted to remain outside of the System, even though they are insured, may be a reasonable compromise because it would bring

into the Federal Reserve System about 97 percent of all the deposits and would leave outside only such small banks as may find it difficult to earn expenses without charging for exchange, which the Federal Reserve System does not permit. This compromise would also provide for keeping within the System banks with \$500,000 or more of deposits that are now members. It would no doubt be better to have all the banks come into the System, but the compromise would be an important step in that direction and would appear to be the minimum of what ought to be required at this time.

Section 203 of the proposed bill provides that members of the Federal Reserve Board shall be persons well qualified by education or experience, or both, to participate in the formulation of national economic and monetary policies. This is a change from the existing requirement of law which reads: "In selecting the six appointive members of the Federal Reserve Board . . . the President shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographic divisions of the country." This enumeration of interests does not give the President any definite directions and does not appear to be the proper principle on which Board members should be selected. It would seem that they should be selected on the basis of their qualifications to perform the functions that the Board is required to perform rather than on the basis of representing certain interests. The worst composition of a Board would be in the nature of a group of representatives of special interests who might be at odds with each other. It is vastly better to say that Board members shall be qualified to do their work. While this is not a guarantee of the appointment of efficient Board members, it may exert an influence in that direction and make it difficult to appoint persons without appropriate training or experience.

It has been said that under the proposed bill the President will have the power to appoint all the members of the Board from one district, but there is nothing in the bill to justify this statement. The requirement that not more than one member be from the same district is retained, with only the exception that it need not apply to the Governor of the Board. The reason for that is that the President ought not to be prevented from appointing as Governor a man preeminently qualified for the position, merely because some other member of the Board may be from the same district.

While it would seem that the proposed qualifications of Board members are desirable, it might be wise in addition to provide that at least two of them shall have had experience as executive officers in a Federal Reserve bank or a commercial bank. There was a provision requiring two trained bankers in the original act, but it was repealed in 1923. In view of the necessity of deciding many technical banking problems, and particularly technical Federal Reserve banking problems, it might be a useful indication to the President to say that at least two members shall have had that background. It may also be desirable to say that the Board members shall be qualified by education or experience to participate in the formulation of national economic, monetary and banking policies. The addition of the words "and banking" would be a recognition of the numerous duties of the Federal Reserve Board that deal with technical banking problems and of the general responsibility of the Board for doing what it can to maintain sound banking conditions.

There has been a good deal of criticism of the provisions relating to the position of the Governor of the Federal Reserve Board. This criticism has been directed at provisions that exist in the present law as much as at those in the proposed bill. The President always has had the power

to designate a member of the Board as Governor and to terminate this designation. In drafting the bill this power of terminating the designation has been stated a little more clearly. In the bill as originally introduced the President was given the power to remove the Governor not only from the Governorship, but also from membership on the Board. This has been changed in the bill as it passed the House, a change which would seem to be desirable. In the form in which the bill passed the House there is no increase of the power of the President over the Governor of the Board, and the only change in the matter is that a Governor, who resigns, upon not being redesignated as Governor, would not be obliged to stay out of the banking business for two years, but would be permitted to resume it at once. This is desirable in the interest of obtaining successful men from the banking field as Governors of the Federal Reserve Board.

In view of all the outcry against the proposed increase of political domination of the Federal Reserve System, it is worth repeating that the provision about the Governor in the bill as originally introduced was the only shadow of an excuse for this criticism, and that with the elimination of this provision, which was not intended to increase political power, but could be so interpreted, there is nothing in the bill that in any way increases the power of the Administration over the Federal Reserve Board. There is, on the other hand, a great deal that increases the Board's independence - increased salaries, retirement allowances, definition of qualifications, with other amendments offered such as: removal only by impeachment, appointment for a term longer than 12 years. All these and others add to the possibilities of having an independent Board in law as well as in fact. In addition to that the Board is given a definite objective,

and this increases the Board's power to resist political pressure because this pressure is likely to be exercised in a direction that is not consistent with the objective to be prescribed by law as a guide to Federal Reserve policy. Other very good amendments to make the Board independent in law have been offered to the Senate Sub-committee.

All of the Federal Reserve Board Members have testified before the Senate Sub-committee of the Banking and Currency Committee. Certainly no one can say that they did not show independence.

Section 204a of the Banking Act of 1935 provides that the Federal Reserve Board may assign to its members or its representatives the performance of such of its duties as do not involve the formulation of national policies. On the face of it this is a minor provision, but it has important consequences, because it will enable the Board to be relieved of a large amount of routine duties which do not permit it to give its entire time to the study of economic conditions and the formulation of credit policies. It is expected that this provision would help to make the Board more of a policy making body and less of an administrative organization. It will also enable the Board to delegate duties to the Reserve banks and thus to increase their responsibility and independence in local matters.

Section 204b of the Banking Act of 1935 provides the objective towards which the powers of the Federal Reserve Board shall be used. This objective reads as follows: "It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration."

I recommended the striking out of the following:

"to promote conditions conducive to business stability and"

The wording of this objective is not necessarily the best that can be devised. The general purpose of it, however, is clearly in line with what every other central bank does, what the more recent ones are being required to do by their charters, and what the Federal Reserve System has tried to do without specific legislative direction. The criticism that has been made of this objective has been entirely unjustified. There is nothing in it that will give the Board any power to limit the amount of credit to be extended to any one industry or to expand it for another industry. The authority of the Board over the loaning activities of the member banks will not be in any way affected. The objective is merely a statement of a direction by Congress that the Federal Reserve Board must do what can be done through its powers towards bringing about a sounder and more stable condition of business. It has also been suggested that the objective should be modified to read: "It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses to aid in the maintenance of sound banking conditions and business stability and to mitigate by its influence injurious fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration." The purpose of this change is to introduce into the objective the requirement that the Federal Reserve System shall work towards sound banking conditions as well as towards business stability. This has always been one of the functions of the System, and while it would be understood to continue to be one without being included in the objective, it should be stated explicitly.

Section 205 of the Banking Act of 1935 provides for giving the Federal Reserve Board full authority over open-market operations after consultation with a committee of five governors of the Federal Reserve banks, elected by the twelve governors. This provision has been subjected to severe criticism on the ground that it increases the powers of the Board as against the powers of the Reserve banks. It is true that this proposal adds open-market operations to the instruments of monetary policy, which are now possessed by the Federal Reserve Board. This is done on the theory that the three principal instruments, namely, raising or lowering of the discount rate, changes in reserve requirements, and open-market operations should all be in one body that is clearly defined and that has inescapable responsibility for the policies it adopts.

There has been criticism of this provision on the ground that the Federal Reserve Board, which has no financial interest in the Reserve banks, will by this provision acquire control over their funds. This would seem to be a good argument for those who advocate having the Government buy the stock in the Federal Reserve banks. It could be argued that, if an investment of \$146,000,000 with an assured 6 per cent return entitles the member banks to have a dominant say in the formulation of national monetary policies, then the only rational conclusion would be that they must not be permitted to hold the stock.

While this is not my argument, nor am I using it, it is nevertheless an argument that is used by those who advocate the Government purchasing the stock in the Federal Reserve banks from the member banks.

At the time the Federal Reserve Act was enacted, the conception of money was largely limited to currency, and over currency the Federal Reserve

Board was given complete control. This conception has since had to be expanded to include bank deposits as money, and the Board's power to regulate the volume of deposits is in harmony with its power over currency issues. The fact is that it was intended in 1953 to give the Board this power, but in the course of legislation the section dealing with this matter was distorted and there was created what appears to be an impossible situation where the governors on the Open Market Committee are the only ones who can initiate an open-market policy. The Board has the power to approve or disapprove of the policy, and the policy after having been recommended by the governors and approved by the Board may still be nullified by refusal of the directors of the Reserve banks to participate in its execution. At present the following are included in the open-market operations of the Federal Reserve System:

- 1) The twelve Governors of the twelve Federal Reserve Banks
- 2) The eight Federal Reserve Board Members at Washington
- 3) The 108 directors in each of the twelve different Federal Reserve banks of the country.

In a matter which is of vital national importance and in which timeliness and speed may be decisive, it is obviously undesirable to have a complicated machinery calculated to bring about delay; it is better to have a clear-cut fixation of responsibility on a national body appointed for that purpose.

There has been criticism on the ground that this bill would give the Board the right to authorize or even compel the Reserve banks to buy obligations directly from the United States Government. That is another line of criticism that is not in any way related to the bill. There is nothing in the bill that changes the situation in this respect. The power to buy directly from the Government now exists: it has been used regularly but never for extended periods. There is nothing in the proposed bill that would change the legal situation in this respect. If the critics wish to prohibit direct borrowing, they should offer an amendment to the Federal Reserve Act to that effect.

It is generally assumed that the Federal Reserve Board is responsible for open-market policies. Few people, even today, are aware of the fact that the present Open Market Committee consists of twelve men who represent the twelve Federal Reserve banks, and that the Federal Reserve Board merely approves or disapproves, but does not initiate open-market policies. Few people also realize that each Federal Reserve bank has the right to refuse to participate in an open-market operation after it has been adopted by the twelve Governors and approved by the Federal Reserve Board. It may be contended that the Federal Reserve Board should not have this power because it is in Washington - the Government's capital - and because its members are appointed by the President with the advice and consent of the Senate. It may be said that political pressure might be used against the Board and that the Board might be influenced by such pressure in its monetary control. On the other hand, it is argued that the Governors are appointed by the directors of the Federal Reserve banks, six of whom are elected by member banks, private interests, and that such Governors may be guided in determining open-market policies by the private interests of the member banks, and not by national needs and requirements of the country. Both views are most extreme. Authority must be vested where responsibility rests. That is logical. Since open-market policy is a national question, authority as well as responsibility for this policy should be located in one place, and in the Federal Reserve Board, which is a national body. This seems to be in the essence of the purposes of a Federal Reserve Board. This seems to be the surest way of establishing the fact whether the System or the Board is, or is not, functioning in accordance with

the purposes for which it was created. It removes the opportunity for excuses.

Of course, the Board would feel that its own research organization should be extended and strengthened and given more active functions to perform and the membership of the Board would feel the need of keeping more closely in touch with current developments which might affect open-market policy and the interpretation thereof, but the Board would be in far better position to determine when and in what circumstances to initiate an open-market policy on the basis of a coordinated view of all the factors entering into the monetary situation - reserve requirements, discount rates, lendings of member banks, the Government's fiscal policies, etc., - and could take action promptly on its own responsibility in whatever direction seemed best to meet the needs of the situation at the time.

However, to make the parts of the System more cohesive a provision might be made for a sufficient representation of the Regional Banks on this committee for the sake of unity in the System so long as the tendency is in the direction of making the System one and not two.

In the interest of unity, the Open Market Committee might consist of the six appointive Members of the Board and five Governors - and five Governors are to be designated by the twelve Governors of the twelve Federal Reserve banks and to be chosen from five sections of the country - namely - the North, South, East, Middle West and the Far West. While the Secretary of the Treasury and the Comptroller of the Currency might continue as Members of the Board they should have no vote on Open Market Committee policies. Their membership on the Federal

Reserve Board is valuable in many respects, especially at this time, but the Act might provide that they have no power of a vote on open market operations, but might be called by the Open Market Committee for information that the Committee might wish to have in the consideration of adopting open market policies. I so testified before the Senate Subcommittee last Monday.

Section 206 of the Banking Act of 1935 relates to eligibility of paper for discount at the Reserve banks. In place of elaborately defined and restrictive rules prescribed by law about the character and maturity of paper available for discount, the bill proposes to give power to the Reserve Board to prescribe by regulation the kind of commercial, agricultural and industrial paper that will be eligible for rediscount by a member bank with the Reserve banks and also authorizes a Federal Reserve bank, subject to the Board's regulations, to make advances to any member bank on a promissory note secured by any sound asset of such member bank.

This proposal in some respects represents the greatest departure in the bill from the conceptions that prevailed at the time that the Federal Reserve Act was adopted in 1913. Even though there is considerable merit to this amendment, yet because it is so radical a departure from the Federal Reserve Act as originally written, and because it affords an element that might tend toward an extreme, which perhaps would be undesirable, I made the following recommendation to the Senate Sub-committee:

"Notwithstanding any other provision of law, when it deems it in the public interest, a Federal Reserve bank may recommend, and by an affirmative vote of not less than five of its appointive Members, the Federal Reserve Board may authorize any Federal Reserve bank, for limited periods to be recommended by the Federal Reserve bank and prescribed by the Board, but which may be extended by the Board from time to time upon application of the Federal Reserve bank,

"to make advances to member banks which have no further eligible and acceptable assets available to enable them to obtain adequate credit accommodations through rediscounting at the Federal Reserve bank or by any other method provided by this Act. Such advances may be made on the promissory notes of such member banks secured to the satisfaction of the Federal Reserve bank, and shall be subject to such regulations and shall bear such rates of interest as may be prescribed from time to time by the Federal Reserve Board upon recommendation of the Federal Reserve bank." My recommendation places in the Federal Reserve banks the power of making the request.

Section 208 of the Banking Act of 1935 deals with the question of collateral against Federal Reserve notes. It follows the example of practically all central banks, except the Bank of England, in providing that all the assets of the Federal Reserve banks shall be the collateral back of all of its liabilities. The segregation of collateral against notes has not served a useful purpose and so far as one can predict never will, because it becomes restrictive only at a time when restriction is harmful and does not in any way restrict at a time when restriction may be desirable. It has, therefore, a perverse restrictive effect. The reason for that is that at a time when credit expansion is proceeding at a rapid rate there is plenty of commercial paper available as collateral, because the banks are borrowing heavily from the Reserve banks. Therefore, collateral requirements do not restrict. At a time, however, when the Reserve banks are pursuing a liberal policy of purchases in the open market, in order to prevent deflation, as was the case in 1931, a point is soon reached where there is a shortage of collateral and gold has to be impounded back of Federal Reserve

notes, and then the deflationary process is aggravated by technical restrictions on the Reserve banks. That is exactly what had happened prior to February 1932, when the Congress had to adopt the Glass-Steagall Act which permitted temporarily the use of Government securities as collateral against Federal Reserve notes. Collateral requirements against Federal Reserve notes should be abolished. If it is the wish of Congress to restrict the amount of Government securities that Federal Reserve banks may purchase, that should be done directly, as is done in some of the foreign central banks. To aim at it through indirection by requiring commercial collateral or gold against Federal Reserve notes works at the wrong time and in the wrong circumstances. It does not protect the Reserve bank against excessive holdings of Government securities, and does prevent them from doing their share in fighting a deflationary movement.

Section 209 of the Banking Act of 1935 clarifies the power of the Reserve Board to raise or lower reserve requirements of member banks. This power was granted to the Reserve banks under the Thomas amendment to the Agricultural Adjustment Act of 1935, but under the provisions of that act the Reserve banks can change reserve requirements only when the President proclaims an emergency and gives his approval to the action. To proclaim an emergency in banking, as Mr. Owen D. Young said the other day, is to bring about an emergency. It should not be necessary to proclaim one. It is, therefore, best to give the Board authority in the matter and to make that authority as elastic as possible by permitting changes in reserve requirements in financial centers alone when a speculative situation may develop there without having developed in the country districts.

Fantastic interpretations of this reserve requirement provision have been made by opponents. Some believe that this is a move to establish a 100 percent reserve plan without direct authorization by Congress. A 100 percent reserve plan is an absolute impossibility without a very large amount of readjustment in a great many lines of banking legislation and the danger of it being introduced surreptitiously by this provision is purely imaginary. Limitations on the extent to which the Reserve Board could raise or lower these requirements may be devised and have been proposed. I feel that some ceiling should be established. It would be reassuring.

On March 4, 1935 the demand plus time deposits, calculated in accordance with the provisions of Section 324 of House Bill 7617, were approximately twenty-nine billion, five hundred million dollars. If the maximum limitation were fixed at, say 25%, the required reserve would work out at about seven billion, four hundred million dollars, which is about five and one half billion dollars more than the existing reserve requirements.

Others feel it would be better to have no such limitations, however, because in the face of the enormous possibilities of expansion on the basis of existing excess reserves and potential additions to them, the amount by which reserve requirements may have to be raised to combat inflation is hard to predict. It may be best to leave the matter flexible in the hands of the Federal Reserve Board. My position is clear - I prefer a formula of some kind, or at least a ceiling.

There has also been the theory expressed that through this method of increasing reserves the Reserve Board may acquire the power to tell the member banks how to invest their deposits. This statement is based on a complete misunderstanding of our financial mechanism. Take, for example, the present situation. The member banks have about \$2,400,000,000 of excess reserves. If the Federal Reserve Board should decide that reserve

requirements be increased by that amount, then these reserves instead of being excess reserves would become required reserves. This would in no way change the Reserve banks' ability to discount paper or purchase Government securities.

The proposals about real estate loans are in the nature not only of liberalization, but also of increased flexibility by permitting the Federal Reserve Board to prescribe rules and regulations under which real estate loans may be made. This proposal is in line with the proper functioning of our banking system.

The real estate provisions of this bill appear to be clearly in the right direction and would serve the public good. More specifically they might contribute to revival in the building industry, which at this time is a fundamental requisite of recovery.

Because there are so many wrong impressions on this particular amendment, let me read it as it now appears in the House Bill that has been passed.

"Subject to such regulations as the Federal Reserve Board may prescribe, any national banking association may make real estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties. The amount of any such loan hereafter made shall not exceed 60 per centum of the appraised value of the real estate; but this limitation shall not prevent the renewal or extension of loans heretofore made and shall not apply to real estate loans which are insured under the provisions of Title II of the National Housing Act. No bank shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in

and unimpaired plus its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater. The Federal Reserve Board is authorized to prescribe from time to time regulations defining the term 'real estate loans' and other terms used in this section and regulating and limiting the making of real estate loans by member banks, with a view to preventing an unreasonably large proportion of each bank's assets from being invested in real estate and real estate loans, preventing such loans from exceeding a reasonable percentage of the appraised value of the real estate in view of the circumstances existing at the time and otherwise requiring the banks to conform to sound practices in making real estate loans."

Because this particular amendment has received more attention from Governor Eccles than from anybody else responsible for the writing of the Bill, and because you were expecting to hear Governor Eccles here today, I should like, with your permission, to quote Governor Eccles' testimony on this amendment before the Senate Sub-committee of the Banking and Currency Committee:

"As you know, real estate loans are not a new form of investment for our commercial banks. They have been lending on real estate mortgage security for decades. Liberalization of the real estate loan provisions, combined with the broadened eligibility requirements for borrowing at the Federal Reserve banks, may encourage activity in the construction industry, which is essential to recovery.

"Criticism of these provisions has come largely from those who believe in the separation of savings banking from commercial banking. Whatever may be said in favor of such a separation as a desirable thing in theory, it is not feasible so long as we have thousands of small banks that

cannot make a living on the basis of their demand deposits alone. The member banks have 10 billion dollars of time deposits which represent the people's savings. So long as they have time deposits for which they must pay interest, they of necessity must participate in financing long-term undertakings that will yield enough to pay for doing the business. The law places no limits on what the banks may do in the purchase of bonds or of other long-time paper; there is no reason for singling out real estate loans for special restrictions.

"Our banks have been losing a large part of their business to the Government, which has sold its bonds to the banks and has used the funds to make mortgage and other loans, many of which the banks should be in a position to make themselves. Unless the banks regain some of the business which has been taken over by the Government credit agencies, there will not be sufficient business to support the banking system. There will also be great pressure for a constantly growing public debt incurred in part in taking over business that could be done by the banks.

"I note that the Banking and Currency Committee of the House in reporting out the bill has made two changes in the recommendations on real estate loans. In the first place a limitation has been inserted that aggregate real estate loans shall not exceed 100 per cent of the capital and surplus or 60 per cent of savings deposits, whichever is the greater. I think this rigid limitation is undesirable. It would be much better to leave this matter to the discretion of the Federal Reserve Board because the aggregate amount that may be safely loaned on real estate varies with banks, localities and periods of time.

"The second change in the bill as reported by the House Committee is

"the elimination of the provision applying the regulations on real estate loans to State member banks, as well as to national banks. This is a serious omission, because under it national banks would be at a competitive disadvantage as against State member banks, many of which are under little or no limitation in regard to their real estate loans. Furthermore, the Federal Reserve System, which has a vital interest in the solvency of State member banks, would be given no authority over real estate loans that the State member banks may make. This is inconsistent with provisions in the Banking Act of 1933 which in dealing with investment securities placed State member banks on the same basis with national banks. One of the important advantages in having State banks members of the Federal Reserve System would be lost if there were no uniformity in such matters."

When I undertook just two or three days ago the duty and the pleasure of coming here I did so frankly, not only to do what appears to be my duty but to have the pleasure of meeting you and hearing you. I have already met and listened to a great many of you - I hope to listen to more of you before I leave this convention this afternoon. I have been frank - I have tried to speak dispassionately and, of course, objectively - as dispassionately and objectively as one can speak when one is an interested part of the System affected by the proposals discussed.

I repeat, therefore, that on the whole, there is nothing extreme in this bill with these amendments. It is a bill that provides for a definite allocation of responsibility and therefore a better administration of the Federal Reserve Act of 1913. It deserves consideration. It is being discussed almost everywhere, and that is as it should be. Discussion makes for sound legislation.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9230

June 7, 1935.

Dear Sir:

There are inclosed herewith copies of statements rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of May, 1935.

Very truly yours,



O. E. Foulk
Fiscal Agent.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

X-9230-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
May 1 to 28, 1935.

Series 1928

	<u>\$5</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Cleveland,	-	10,000	10,000	\$ 880.00
Atlanta,	12,000	-	12,000	1,056.00
Minneapolis, ...	-	9,000	9,000	792.00
	<u>12,000</u>	<u>19,000</u>	<u>31,000</u>	<u>\$2,728.00</u>

31,000 sheets, @ \$88.00 per M, \$2,728.00

Federal Reserve Notes, Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	52,000	-	52,000	\$4,576.00
New York,	50,000	47,000	40,000	137,000	12,056.00
Philadelphia, ..	15,000	32,000	12,000	59,000	5,192.00
Cleveland,	-	10,000	-	10,000	880.00
Richmond,	-	24,000	12,000	36,000	3,168.00
St. Louis,	45,000	15,000	-	60,000	5,280.00
Minneapolis, ...	15,000	20,000	5,000	40,000	3,520.00
Kansas City, ...	-	13,000	-	13,000	1,144.00
	<u>125,000</u>	<u>213,000</u>	<u>69,000</u>	<u>407,000</u>	<u>\$35,816.00</u>

407,000 sheets, @ \$88.00 per M, 35,816.00

Total \$ 38,544.00

X-9231

June 7, 1935.

SUBJECT: Collection of liquor drafts
in interstate shipments.

Dear Sir:

Referring to the Board's letter of April 26, 1935 (X-9188) relating to the collection of liquor drafts in interstate shipments, there is transmitted herewith for your information and that of your Counsel a copy of a letter which the Board is addressing to the Chairman of the Governors' Conference, together with copies of inclosures therewith, relating to this subject.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Inclosures.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

COPY

X-9231-a

June 7, 1935.

Mr. J. U. Calkins, Chairman,
Governors' Conference,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Calkins:

Under date of April 26, 1935, the Federal Reserve Board addressed a letter to the Governors of all Federal Reserve banks inviting their attention to the provisions of section 239 of the Criminal Code of the United States which makes it unlawful for a railroad company, express company, or other person, in connection with the transportation of intoxicating liquor in interstate commerce, to collect the purchase price thereof or act as the agent of the buyer or seller for the purpose of buying or selling or completing the sale thereof. A copy of the Board's letter is inclosed herewith. There are also inclosed copies of letters and inclosures received by the Board's General Counsel from Counsel for certain of the Federal Reserve banks relating to this matter.

As you will note, these inclosures suggest the question whether it would not be desirable for the Federal Reserve banks to follow a uniform practice with respect to the acceptance of drafts covering the purchase price of liquor. The subject appears to be one which might well be referred to the Standing Committee on Collections of the Governors' Conference for consideration and report to the Conference whether a uniform practice with regard to this matter is desirable and, if so, what such practice should be; and it is suggested

X-9231-a

Mr. J. U. Calkins, Chairman --- 2

that you give consideration to the advisability of this procedure. If this plan is adopted the Committee will probably find it desirable in its consideration of this matter to consult with Counsel for some of the Federal Reserve banks and of the Federal Reserve Board.

Kindly advise the Board whether it is determined to adopt the procedure suggested.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosures.

COPY

X-9231-b

FEDERAL RESERVE BANK
of New York

May 10, 1935.

Walter Wyatt, Esq., General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

Mr. Logan has asked me to send you the enclosed copies of my two memoranda, dated May 9, 1935, to Mr. Coe, and a copy of the memorandum dated May 5, 1935 from Mr. J. C. Kimble of our Legal Department to me, relating to the Collection of Liquor Drafts in Interstate Shipments, which was the subject of the Board's letter of April 26, 1935 (X-9188). You will note that we feel that the memoranda should be treated as confidential.

We have been in communication with Mr. Carrick of the Federal Reserve Bank of Boston and with Mr. Dunn of the Federal Reserve Bank of Chicago in regard to this matter, and have also furnished them with copies of the enclosures herewith.

If you find that any of the other Federal Reserve Banks have taken a different position than we have in this matter, we should be pleased to have you bring it to our attention.

Very truly yours,

(Signed) T. G. Tiebout,

T. G. Tiebout,
Assistant Counsel.

Encs.

COPY

X-9231-c

CONFIDENTIALFederal Reserve Bank
of New York

OFFICE CORRESPONDENCE

May 3, 1935.

To: Mr. Tiebout
From: J. C. KimbleSubject: Board's letter of April 26,
1935 (X-9188) on the subject of
"Collection of Liquor Drafts in
Interstate Shipments".

In your memorandum to me of April 29, 1935 on the above mentioned subject, you have raised the question of whether Section 239 of the Criminal Code of the United States (Title 18 U.S.C.A. Section 339) would subject the Federal Reserve Bank of New York to the penalty provided for thereby, for acting as collecting agent or agent to procure the acceptance of a draft drawn in connection with the shipment of intoxicating liquor in interstate commerce, where the shipping documents are attached to the draft and are released only against payment or acceptance of the draft, and you have arrived at the tentative conclusion that the bank would be subject to such penalty for so acting. You have also raised the further question of whether there is a distinction between such cases and the collection of an item given in payment for intoxicating liquor, sold and shipped in interstate commerce, but where the collection is not connected with the transportation of the liquor.

Section 239 of the Criminal Code of the United States provides as follows:

"Sec. 339 (Criminal Code, section 239.) Same: carrier collecting purchase price of interstate shipment. Any railroad company, express company, or other common carrier, or any other person who, in connection with the transportation of any spirituous, vinous, malted, fermented, or other intoxicating liquor of any kind, from one State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, into any other State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, or from any foreign country into any State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, shall collect the purchase price or any part thereof, before, on, or after delivery, from the consignee, or from any other person, or shall in any manner act as the agent of the buyer or seller of any such liquor, for the purpose of buying or selling or completing the sale thereof, saving only in the actual transportation and delivery of the same, shall be fined not more than \$5,000."

Apart from the aid of Federal legislation, the states which have laws designed to prevent the manufacture and sale of liquor within their respective territories are unable to prevent its introduction from other states through the channels of interstate commerce. Liquor dealers may thus avoid the effect of state legislative restrictions by adopting schemes which will connect the sale of their liquor with interstate transportation. Prior to

the enactment of Section 239, the customary method employed by such dealers was to appoint interstate shippers as their agents to collect the amounts due from the customers at the point of destination within the "dry" states. The shippers would surrender bills of lading properly endorsed upon the acceptance by the customers of sight drafts. Often banks or individual agents were used to make collections upon these liquor drafts. The effect was, in all cases, the same; the state legislation was rendered inoperative.

The situation which confronted the "dry" states in this regard, was quite vividly explained by Mr. Justice Van Devanter in the case of *Danciger v. Cooley*, 248 U.S. 319 (1919), wherein he stated:

"This interstate business generally was carried on by means of orders transmitted through the mails and of shipments made according to some plan whereby ultimate delivery was dependent on payment of the purchase price. The plans varied in detail, but not in principle or result. All included the collection of the purchase price at the point of destination before or on delivery. One made the carrier having the shipment the collecting agent; another committed the collections to a separate carrier, the liquor being forwarded as railroad freight and the bill of lading being sent to an express company with instructions to hand it to the buyer when the money was paid; and still another made use of an agent, such as Cooley was here, the bill of lading being sent to him with a sight draft on the buyer for the purchase price. In some instances the liquor was consigned to the buyer and in others to the shipper's order, the bill of lading then being suitably endorsed by the shipper.

"Where the transactions were real and not merely colorable, the business so conducted was lawful interstate commerce and entitled to protection as such until the sale and transportation were consummated by the delivery of the liquor to the vendee at the point of destination. * * " (Underscoring mine)

In 1909, Section 239 was enacted by Congress, at the instance of the "dry" legislators, to prevent the flow of liquor into the "dry" states through the channels of interstate commerce. Unfortunately, the statute was so drawn that an ambiguity was created as to whether it was limited in its scope to interstate carriers or was broad enough to penalize the acts of other types of agents, such as banks and individuals, who were making the same type of collections. The ambiguity referred to arose from the use of the following underscored wording of the statute:

"Any railroad company, express company, or other common carrier, or any other person who, in connection with the transportation of any * * intoxicating liquor * * from one State * * into any other State, * * shall collect the purchase price or any part thereof, before, on, or after delivery, from the consignee, or from any other person, or shall in any manner act as agent of the buyer or seller of any such liquor, for the purpose of buying or selling or completing the sale thereof, saving only in the actual transportation and delivery of the same, shall be fined * *."

In the case of Danciger v. Cooley, supra, the contention was made that the words "or any other person" meant "or any other carrier", and could not be extended to include agents, other than carriers, who were making the same type of collections.

In this case Danciger Brothers, who were liquor dealers in the State of Missouri, sold liquor to customers in the "dry" state of Kansas, through their agent, Cooley, who was authorized to make the collections. In pursuance of this plan Cooley collected sight drafts drawn upon the customers and at the same time handed the bills of lading suitably endorsed to the customers to enable them to secure the liquor from the shippers. The litigation arose when Cooley refused to account for the moneys he had received from such collections.

The Court held that the statute was not restricted in its scope to interstate shippers who acted as agents, in connection with the transportation of intoxicating liquor, for the purpose of making collections upon liquor drafts, but was broad enough to include agents acting in such capacity who were not carriers. This result was based upon the construction that the words "or any other person" are intended to include all persons committing the described acts. To hold otherwise, would, as Mr. Justice Van Devanter explained, make it possible for the statute to "**be evaded so readily by having other collectors that it would accomplish nothing."

In the paragraphs below which have been quoted from the Danciger case, supra, the Court construes Section 239 and defines its scope. It is submitted that the Court, therein, clearly sets forth a rule of construction which is sufficiently broad in its scope to include within the provisions of Section 239 the acts of banks as agents in the collection of liquor drafts in interstate commerce.

The excerpts from this opinion, referred to above, appear as follows:

"It (Section 239) consists of two parts, both relating to liquor transported from one State into another. The first deals with the collection of the purchase price, and the second with acts done 'for the purpose of buying or selling or completing the sale' of 'any such liquor'. * * "

"The words 'any railroad company, express company, or other common carrier' comprehend all public carriers; and the words 'or any other person' are equally broad. When combined they perfectly express a purpose to include all common carriers and all persons; and it does not detract from this view that the inclusion of railroad companies and express companies is emphasized by specially naming them. To hold that the words 'or any other person' have the same meaning as if they were 'or any agent of a common carrier' would be not merely to depart from the primary rule that words are to be taken in their ordinary sense, but to narrow the operation of the statute to an extent that would seriously imperil the accomplishment of its purpose."

The Court concluded that:

"Without question the practice of collecting the purchase price at the point of destination as a condition to delivery is the thing at which the statute is aimed. Through that practice the sale of liquor in interstate commerce was rapidly increasing. But, as before shown, such collections were not confined to carriers and their agents, but often were made by others. In principle and result there was no difference; the evil was the same in either event. Besides, if the statute were made applicable only to carriers and their agents, it could be evaded so readily by having other collectors that it would accomplish nothing. The volume of the business and the attending mischief would be unaffected. Doubtless all this was in mind when the statute was drafted and accounts for its comprehensive terms. That the words 'or any other person' are intended to include all persons committing the acts described is, as we think, quite plain". (Underscoring and words within parenthesis mine.)

There are two earlier cases, dealing specifically with the question of bank liability, which arrived at a contrary result. While it is true that both of these cases arose under criminal proceedings and that the Supreme Court case referred to is a civil action pertaining to the civil liabilities of an individual agent making collections on drafts, it is submitted that they must be regarded as overruled by the Supreme Court.

In this connection it should be noted, before passing on to a consideration of the cases referred to, that the Supreme Court in the decision of Danciger v. Cooley, supra, mentioned the fact that before the arrangement was made between Danciger Brothers, the liquor dealers, and their agent, Cooley, for the collection of the drafts, the banks had refused to make the collections. It should be further noted that the cases discussed below were cited by counsel in Danciger v. Cooley and their principles were not approved by the Court.

In the case of First National Bank v. U.S., 206 Fed. 374 (1913), it appeared that the Hamm Brewing Company of Minnesota sold a case of beer, in the "dry" State of North Dakota, to one Meyers through the First National Bank of Anamoose as its agent to complete the transaction of sale and delivery. Meyers paid to the bank the amount of the draft drawn upon him, and in return received from the bank the bill of lading, which was essential to enable him to receive the beer from the railroad company. The Circuit Court held that the bank was not criminally liable for any violation of Section 239. The basis of this decision may be gathered from the portion of Judge Sanborn's opinion set forth below:

"The collection by banks of sight drafts and the delivery of bills of lading attached thereto was, and long had been, a common and universal method of collection of the purchase price of liquors and other articles throughout the entire nation. This is a general law applicable in every state of the Union, and it is incredible

that the Congress intended, without mentioning or referring to it in the statute, to strike down this method of collection for the sale of liquors transported in interstate commerce in all the states, in the large majority of which the manufacture and sale of intoxicating liquors were not prohibited.

"To our minds the natural and manifest meaning of the declaration in this law that 'any railroad company, express company, or other common carrier, or any other person who, in connection with the transportation,' etc., shall collect the purchase price, or act as the agent of the buyer or seller, shall be fined, excludes banks, ordinary collectors, and all persons who are not members of the general class of carriers. This interpretation finds support in the fact that the contrary construction expunges the words 'railroad company, express company, or other common carrier, or any other,' and makes the statute read 'any person who,' etc., and in the rule, which is especially applicable to statutes defining crimes and regulating their punishment, that where general words follow the enumeration of particular classes of persons or acts the general words should be construed to apply to persons or acts of the same general nature or class as those enumerated." (See 206 Fed. at p. 378.)

The Court's construction of the words "or any other person", referred to above, as being used to modify the preceding words "any railroad company, express company" and excluding thereby "banks, ordinary collectors, and all other persons who are not members of the general class of carriers", is implicitly overruled in the Supreme Court case, supra, wherein, Mr. Justice Van Devanter expressed the following contrary point of view:

"But, as before shown, such collections were not confined to carriers and their agents, but often were made by others. In principle and result there was no difference; the evil was the same in either event. Besides, if the statute were made applicable only to carriers and their agents, it could be evaded so readily by having other collectors that it would accomplish nothing."

The Circuit Court in the case of Danciger v. Stone, 188 Fed. 510 (1910), upon an identical statement of facts, decided that a bank, which made collections upon drafts in interstate commerce, is not subject to Section 239, on the theory that the collections made by it as an agent independent of interstate shippers have no connection in any way with the interstate transportation of the liquor to which the statute relates. Judge Campbell was of the opinion that Section 239 did not make it unlawful for banks to act in the manner under consideration because, as he said:

"* * such acts are only condemned by this section when they are committed in connection with the interstate transportation of such liquor. It is true the bank, when it collects the draft, collects the purchase price of the liquor; but can such collection be said to be in any way in connection with the interstate

transportation of the same? The transportation is effected by the railroad company, or other common carrier, entirely independent of the bank. The transportation of the liquor and the collection of the draft are two separate and distinct acts, performed by separate and distinct individuals or corporations, and the fact that the carrier, under its contract, cannot deliver the shipment until the consignee first goes to the bank and pays the draft, to secure the bill of lading, and then presents it to the carrier, cannot be said to in any way connect the bank with the transportation. Its act cannot therefore be said to be in violation of the terms of the statute." (188 Fed. 513) (Underscoring mine).

But the Supreme Court in the other Danciger case took a different view of the matter wherein it said:

"The statute does not say 'in the transportation,' but 'in connection with it.' Transportation as this court often has said, is not completed until the shipment arrives at the point of destination and is there delivered. * * What Cooley did, while not part of the transportation, was closely connected with it. He was at the point of destination and held the bill of lading, which carried with it control over the delivery. Conforming to his principal's instructions he required that the purchase price be paid before the bill of lading was passed to the vendee. The money was paid under that requirement and he then turned over the bill of lading. A delivery of the shipment followed and that completed the transportation. Had the carrier done what he did all would agree that the requisite connection was present. As the true test of its presence is the relation of the collection, rather than the collector, to the transportation, it would seem to be equally present here."

If we may safely assume that the bank is subject to Section 239, we must further decide whether Section 239 was affected by either the enactment or the repeal of the Federal liquor prohibition legislation. It is submitted that the statute under consideration is still in effect.

The Volstead Act contained the following provisions which defined its effect upon prior liquor legislation:

"All provisions of law that are inconsistent with this chapter are repealed to the extent of such inconsistency and the regulations herein provided for the manufacture or traffic in intoxicating liquor shall be construed as in addition to existing laws. * * (Title 27, U.S.C.A. Sec. 52.)

"All laws in regard to the manufacture and taxation of and traffic in intoxicating liquor, and all penalties for violations of such laws that were in force on October 28, 1919, shall be and continue in force, as to both beverage and non-beverage liquor, except such provisions of such laws as are directly in conflict with any provision of this title; but if any act is a violation of any of such laws and also of

this title, a conviction for such act or offense under one shall be a bar to prosecution therefor under the other." (Title 27, U.S.C.A. Sec. 3).

I have been unable to locate any provisions within the Volstead Act which may be regarded as either expressly or impliedly repealing Section 239. The above provisions did not expressly repeal all prior liquor legislation, but, in effect, were no more than declaratory of the general law concerning repeals by implication, as was held in the case of United States v. Stafoff, 268 Fed. 417 (1920) Aff'd 260 U.S. 477 (1923).

Moreover, there is an affirmative indication in the case of McCormick & Co. v. Brown, 286 U.S. 131 (1932), that the Volstead Act was not intended to affect prior liquor legislation which had been enacted to aid state prohibitory laws.

In the McCormick & Co. case, supra, the Supreme Court refused to restrain the state officers of West Virginia from requiring the complainant, McCormick & Co., a non-resident liquor dealer, to obtain permits from the State Commissioner of Prohibition, and to pay an annual license fee of \$50. before shipping certain products into the State to purchasers there for re-sale.

The complainant established that it held federal permits issued under the National Prohibition Act and contended that the requirements of the law of West Virginia constituted an interference with interstate commerce. It further appeared that the liquors were regarded as constituting medicine within the Federal Prohibition Law and under such classification were non-intoxicating. The liquors were deemed to be intoxicating according to the definition of the state law of West Virginia and were thus subject to its provisions. The Webb-Kenyon Act (Title 27, U.S.C.A. Section 122) prohibits the movement in interstate commerce into any State of intoxicating liquors for purposes prohibited by the state law. The complainant contended that, since the liquors were not intoxicating within the meaning of the National Prohibition Act, there was no restriction against their shipment by means of interstate commerce into the "dry" state of West Virginia. In response to this argument the Supreme Court decided that, since the Webb-Kenyon Act had been enacted prior to the National Prohibition Act for the purpose of preventing the flow of liquor into "dry" states whose laws were supplementary to the Federal laws - the determination of whether a liquor is intoxicating is necessarily dependent upon the definition given thereto by State law. To hold that the definition of the word "intoxicating" is to be determined by Federal law would render nugatory the effect of the State law.

By way of dictum, Mr. Chief Justice Hughes remarked that:

"The appellants do not urge, and there would be no ground for such a contention, that either the Eighteenth Amendment or the National Prohibition Act had the effect of

"repealing the Webb-Kenyon Act. The Congress has not expressly repealed that Act, and there is no basis for an implication of repeal." (286 U.S. 141).

The Court then proceeded to state that neither the Eighteenth Amendment nor the National Prohibition Act superseded "state prohibitory laws which do not authorize or sanction what the constitutional amendment prohibits", and further went on to say in effect that there is no reason to hold that the National Prohibition Act should limit the Webb-Kenyon Act of its intended application whereby such a result would impede the enforcement of the State's valid prohibitions. My interpretation of the Court's holding on this issue is taken from the following quotation of Mr. Chief Justice Hughes' opinion:

"As the prohibitory legislation of the States may thus continue to have effective operation, there is no reason for denying to the Webb-Kenyon Act its intended application to prevent the immunity of transactions in interstate commerce from being used to impede the enforcement of the States' valid prohibitions." (286 U.S. 141).

It is submitted that the reasoning of the Supreme Court in the McCormick & Co. case supra, is equally applicable to Section 239, since this provision was made a part of the Federal laws for the purpose of supporting state prohibitory legislation.

The repeal of the Eighteenth Amendment and of the Volstead Act by the Twenty-first Amendment can have no effect upon prior liquor laws which have an independent existence.

However, in view of the fact that the Webb-Kenyon Act and Section 2 of Amendment XXI relate to the same evil and are more restricted in their scope, it might be contended that Section 239 has been impliedly repealed to the extent that it penalizes acts done in connection with the transportation of intoxicating liquor into non-prohibition states. The Webb-Kenyon Act (Title 27 U.S.C.A. Section 122) provides as follows:

"Sec. 122. Shipments into states having dry laws: prohibition
The shipment or transportation, in any manner or by any means whatsoever, of any spirituous, vinous, malted, fermented, or other intoxicating liquor of any kind, from one State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, into any other State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, or from any foreign country into any State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, which said spirituous, vinous, malted, fermented, or

other intoxicating liquor is intended, by any person interested therein, to be received, possessed, sold, or in any manner used, either in the original package or otherwise, in violation of any law of such State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, is hereby prohibited."

Section 2 of Amendment XXI provides as follows:

"The transportation or importation into any State, Territory, or possession of the United States for delivery or use therein of intoxicating liquors in violation of the laws thereof, is prohibited."

Section 239, by its terms, relates to acts done in connection with the transportation of liquor in interstate commerce into any state, whereas the constitutional provision limits the prohibition to liquors transported into dry states.

In the case of *Danciger v. Cooley*, supra, the Supreme Court declined to consider the effect of the Webb-Kenyon Act upon Section 239 of the Criminal Code because the transactions there involved occurred before the passage of such act.

From the foregoing, and assuming that there is no question but that Section 239 of the Criminal Code is still in effect, the conclusion that the Federal Reserve Bank of New York would be subject to the penalty provided for by such section for acting as collecting agent or agent to procure the acceptance of a draft drawn in connection with the shipment of intoxicating liquor in interstate commerce, where the shipping documents are attached to the draft and are released only against payment or acceptance of the draft, would seem to be correct.

There is the further question of whether Section 239 of the Criminal Code applies so as to subject the Federal Reserve Bank of New York to a penalty for acting as the agent of the seller of intoxicating liquor, where the sale involves an interstate shipment, and the bank acts "before, on, or after delivery" of the liquor for the purpose of collecting a check, note or acceptance given by the buyer to the seller, prior or subsequent to the delivery of the liquor, in payment of the purchase price, but where the acts of the bank as collecting agent are not directly connected with the transaction, except, as stated, to effect payment for the goods. In other words, the sale might be a sale on credit, or it might be a sale where the purchase price is paid in advance, and the item given in payment for the goods is or becomes due and payable "before, on, or after delivery".

As stated above, Section 239 imposes a penalty upon any type of agent to make collection of the purchase price of the goods when such collection is connected with the interstate transportation of the goods.

It would seem that where the collection is not connected with the transaction except to effect payment of the purchase price, there would be no connection between the acts of the collecting agent and the transportation of the goods in interstate commerce. Furthermore, at the time that Section 239 of the Criminal Code was enacted, Congress had no power to prohibit or penalize acts done in connection with the sale of liquor apart from its power to regulate interstate commerce. The Eighteenth Amendment, now repealed, was not then a part of the Constitution. While the collection of commercial paper may itself involve interstate commerce, Section 239 penalizes only certain acts done "in connection with the transportation of * * intoxicating liquor" in interstate commerce.

The words "after delivery" contained in the statute undoubtedly relate to the time of the passage of title and not to the actual physical receipt of the goods by the purchaser. In this connection, the time of "delivery" of the goods sold through the use of a carrier is defined in 55 Corpus Juris Sec. 565, as follows:

"It is a general rule that delivery by the seller to a common carrier for transmission or transportation to the buyer is a sufficient delivery to the buyer to pass the title to him, subject to the seller's right of stoppage in transitu, and, according to some authorities, subject to the seller's lien. However, the rule presupposes that: There is no agreement, usage of trade, or intention to the contrary; the goods are of the kind, quality, and amount ordered, and are in a deliverable condition; they are shipped according to the directions contained in the contract or given by the buyer; the contract does not require delivery at a place other than the point of shipment; the delivery is timely and complete; nothing remains to be done by the seller, or, if something is to be done, it is to be done after title has passed; and the goods are consigned in the name of the buyer, or the bill of lading is indorsed or delivered to him, without reservation, or, if this is not done, there is, nevertheless, an agreement or intention to pass title on delivery to the carrier. * * *

If delivery has been effected when the goods have been put on board the carrier, the words of the statute "after delivery" would be pertinent to the ordinary case of the release by the collecting agent of the shipping documents against payment of the drafts to which such documents are attached.

The Uniform Sales Act and Section 82 of Article V (entitled "Sales of Goods") of the Personal Property Law of New York defines a sale as follows:

- "Sec. 82. Contracts to Sell and Sales. * *
2. A sale of goods is an agreement whereby the seller transfers the property in goods to the buyer for a consideration called the price."

In Section 2 of Williston on Sales (1909) it is stated as follows:

"The most fundamental distinction in the law of sales is between a contract to sell in the future and a present sale. The distinction is often expressed by the terms 'executory' and 'executed' sales. Whether a bargain between parties is a contract to sell or an actual sale depends upon whether the property in the goods is transferred. If it is transferred there is a sale, an executed sale, even though the price be not paid. Conversely, though the price be paid there is but a contract to sell (not very happily called an executory sale) if the property in the goods has not passed. * * "

Accordingly, it would appear that an act done in connection with the collection of the purchase price would not necessarily constitute an act "for the purpose of buying or selling or completing the sale".

It would seem that the Federal Reserve Bank of New York may make collections of drafts, checks, notes, acceptances and other types of commercial paper given in payment of the purchase price of intoxicating liquor, sold and shipped in interstate commerce, without thereby subjecting itself to the penalty provided for by Section 239 of the Criminal Code, unless ultimate delivery of the liquor is dependent upon the collection of the item.

COPY

X-9231-d

Federal Reserve Bank
of New York

OFFICE CORRESPONDENCE

CONFIDENTIALDate May 9, 1935.To Mr. CoeSubject: Board's letter of April 26, 1935 (X-9188) on the subject of "Collection of Liquor Drafts in Interstate Shipments".From T. G. Tiebout

Referring to my confidential memorandum to you of today's date on the above mentioned subject, there is attached hereto a copy of a memorandum dated May 3, 1935 from Mr. J. C. Kimble of the Legal Department to me also relating to such subject. It consists of an analysis of cases in which Section 239 of the Criminal Code of the United States (Title 18 U.S.C.A. Section 389) was involved, and supports the views set forth in my confidential memorandum to you of today's date above mentioned. I have covered the matter in separate memoranda with the thought that you may wish to circulate, to some extent, through your department, my confidential memorandum above mentioned, but not the more detailed memorandum attached hereto.

This and my other memorandum referred to above have been marked confidential, and should be treated as such because they are self-convicting, to the extent that we may have acted in the past in violation of the statute.

CCPX

X-9231-e

CONFIDENTIAL

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

May 9, 1935.

To Mr. Coe
From T. G. TieboutSubject: Board's letter of April
26, 1935 (X-9188) on the subject
of "Collection of Liquor Drafts in
Interstate Shipments".

This will confirm my views on the above mentioned subject expressed to you orally a few days ago, as follows:

1. That the Federal Reserve Bank of New York might be held to be subject to the penalty provided for by Section 239 of the Criminal Code of the United States (Title 18 U.S.C.A. Section 389) for acting as collecting agent of a bill of exchange drawn to effect payment for intoxicating liquor sold and shipped in interstate commerce, where the shipping documents are attached to the bill and are released against payment of the bill, and should therefore not act as such collecting agent.
2. That the Federal Reserve Bank of New York might be held to be subject to the penalty provided for by Section 239 of the Criminal Code of the United States for acting as the agent of the seller of intoxicating liquor, sold and shipped in interstate commerce, to "accept and return" or "accept and hold" a bill of exchange drawn in connection with the sale, where the shipping documents are attached to the bill and are to be released against acceptance, and should therefore not act as such agent.
3. That the Federal Reserve Bank of New York would not, in my opinion, be subject to the penalty provided for by Section 239 of the Criminal Code of the United States for acting as collecting agent of a bill of exchange, check, or note given in payment for intoxicating liquor sold and shipped in interstate commerce where the acts of the bank as such collecting agent are not connected with the delivery of the liquor to the purchaser thereof, or, to be more accurate (in the language of the statute), where the acts of the bank are not done "in connection with the transportation of" the liquor and accordingly, the bank may act as such collecting agent under such circumstances.

From my conversations with you, I understand that the transactions referred to in paragraphs 1, 2 and 3 above cover all the types of transactions which this bank handles and which might come within Section 239 of the Criminal Code.

When we discussed this matter a few days ago we agreed that in cases such as those referred to in paragraphs 1 and 2 above, we would communicate with our forwarding bank, call its attention to the provisions of Section 239 of the Criminal Code and inquire whether it did not wish to request that the item be returned. I understand that when such cases have arisen, our forwarding bank has, in each instance, requested that the item be returned. We also agreed that in such a case, if our forwarding bank should decline to request that the item be returned, we would, nevertheless, return the item, citing as our reason for so doing, Section 239 of the Criminal Code. This will confirm that such procedure for handling cases of the kind referred to in paragraphs numbered 1 and 2 above meets with the approval of the Legal Department.

COPY
FEDERAL RESERVE BANK
OF RICHMOND

X-9231-f

May 10, 1935.

Mr. Walter Wyatt, General Counsel
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

I know that your time is much occupied but I am enclosing you herewith certain correspondence with reference to the Board's letter X-9188 dated April 26, 1935. This correspondence is as follows:

1. Copy of my opinion of May 3rd to Mr. Keesee, Cashier of this bank.
2. Copy of an opinion dated May 1st to Mr. R. R. Gilbert of the Federal Reserve Bank of Dallas;
3. Copy of Mr. Stroud's letter of May 6th to me, and
4. Copy of my reply dated May 10th, 1935.

You will notice that aside from the rather interesting question of law involved the correspondence suggests two points, first, whether or not the Board by its letter X-9198 intended to suggest that the Federal Reserve banks would desist from handling all drafts apparently drawn for the purchase price of liquor; second, whether or not uniform collection circular should be amended or notice in other form given to all member banks that this policy would be adopted.

After discussing the matter with Mr. Walden, who as you know is on the collection committee, he says, and I think very rightly, that the collection committee which reports to the conference of governors could not properly advise all Federal Reserve Banks to amend their circulars unless counsel advise that the policies followed at present were unlawful. As you know, in several divisions of this District commerce in liquor is now lawful, and I feel that to refuse to handle drafts drawn as incidents to such transactions would be rather unreasonable unless we were compelled to do so by requirement of law. As you will see from my opinion, I do not think that the collection of bill of lading draft in the ordinary way is prohibited by the statute. It is of course unnecessary to say that if your office, or the Federal Reserve Board considered that the banks should not collect such drafts this bank would be entirely willing to comply with the views of the Board.

Knowing what demands there are upon your time at present, I did not adopt Mr. Stroud's suggestion of endeavoring to secure an engagement with you, as it occurred to me that you could more conveniently

X-9231-f

Mr. Walter Wyatt.

#2.

5-10-35.

read the correspondence at leisure and afterwards we could, if you thought necessary, discuss it.

I will call you by telephone in a few days and of course, if you wish it, make an engagement to come to Washington to see you or the Board.

We have heard nothing from counsel for other Federal Reserve Banks on the subject.

Very truly yours,

(Signed) M. G. Wallace,

M. G. Wallace,
Counsel.

COPY

X-9231-g

To Mr. George H. Keesee, Cashier.

May 3, 1935.

From M. G. Wallace, Counsel.

Re: Collection of Liquor
Drafts in interstate
shipments.

Dear Mr. Keesee:

I have before me a letter dated April 26th, X-9188, from Mr. Chester Morrill, Secretary of the Federal Reserve Board, to Mr. George J. Seay, Governor of this bank, upon the above subject, and understand you desire my opinion as to whether or not in view of the statute and the decision of the Supreme Court cited in this letter we should examine bills of lading attached to all drafts handled by us for collection and refuse to handle those which appear to have attached to them bills of lading showing the transportation of liquor.

A review of the legislative history of the statute mentioned indicates that it was passed primarily to prevent what are commonly referred to as C.O.D. shipments of liquor in interstate commerce. It was enacted in 1909 and was, of course, a part of a system of legislature designed to restrict and limit traffic in intoxicating liquors or to reinforce the efforts of the several states to prohibit such traffic within their borders.

An opinion of the Attorney General rendered in 1913 construing this statute (29 Opinions of the Attorney General, Page 58) reads in part as follows:

"The act does not apply to banks, collecting drafts with bill of lading attached, where the shipment is made to a real consignee upon an order sent by him and filled by shipment from the dealer's place of business. The collection of a draft for the purchase price of a commodity in that manner is the usual and ordinary method of carrying on business and is not connected with the transportation of the property within the meaning of the statute under consideration."

In a former portion of his opinion the Attorney General had stated that collection of the draft would be connected with the transportation when it appeared that the bank received the draft with the bill of lading attached with instructions to deliver it to any person who would pay the draft regardless of whether or not such person was the consignee.

Following this opinion a Circuit Court of Appeals in the case of First National Bank v. United States, 206 Fed. 374, 46 L.R.A. (N.S.) 1139, held that a bank collecting a draft drawn for the purchase price of liquor with bill of lading attached was not guilty of a violation of the statute. The court in that case went much further than the Attorney

To Mr. George H. Keesee, Cashier

May 3, 1935.

General, and in effect said that the statute would apply only to some person who was connected with the carrier or other person transporting the liquor.

In the case of *Danciger v. Cooley*, 248 U.S. 319, decided in 1919, the Supreme Court of the United States held that the collection of a draft might be connected with the transportation of liquor, even though the person who collected it did not actually transport it and was not an agent of the carrier. In the particular case under consideration, however, the person who collected the draft was the local representative or regular agent of the consignor. The court did not, however, go so far as to say that a bank which handled a draft in the ordinary course of its business would be regarded as acting in connection with the transportation of liquor, and the court did say: "To be within the statute it is essential that the act of collecting the purchase price be done in connection with the transportation of the liquor". It therefore appears that the court considered that the mere act of collecting the draft for the purchase price was not of itself a violation of the statute, but the collection agent must have some further connection with the transportation. There is, therefore, nothing in the opinion of the Supreme Court which would be considered as contrary to the opinion expressed by the Attorney General to the effect that the collection of a draft for the purchase price of a commodity in the usual course of business is not connected with the transportation of the property within the meaning of the statute under consideration, even though a bill of lading is attached to the draft.

The opinion of the Attorney General is not conclusive upon a question of the construction of a penal statute, but since all prosecutions for violation of the laws of the United States are under the direction and control of the Attorney General, it seems to me that there is no reason at this time to assume that the Attorney General would adopt a view radically different from that formerly expressed by his office and seek to extend the force of this statute to a transaction which his office had formerly held was not within the intent of the statute.

I do not believe, therefore, that there is any reason for us to make any special investigation or examination of bills of lading attached to drafts which we received in the ordinary manner, unless there are some peculiar circumstances indicating that these drafts are not drawn in the ordinary and usual course of business; as, for example, the circumstances mentioned by the Attorney General in which the drafts were drawn and delivered with instructions to surrender the bill of lading to any person who might pay the draft.

Very truly yours,

(Signed) W. G. Wallace,
Counsel.

To Mr. R. R. Gilbert

May 1, 1935.

From Locke, Locke, Stroud & Randolph

We have your memorandum of April 30, 1935, to which is attached copy of the Federal Reserve Board's letter X9188 dated April 26, 1935, relative to the collection of liquor drafts in interstate shipments.

The statute in question is as follows:

"Section 389, (Criminal Code, section 239). Same; carrier collecting purchase price of interstate shipment. Any railroad company, express company, or other common carrier, or any other person who, in connection with the transportation of any spirituous, vinous, malted, fermented, or other intoxicating liquor of any kind, from one State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, into any other State, Territory or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, or from any foreign country into any State, Territory, or District of the United States, or place noncontiguous to but subject to the jurisdiction thereof, shall collect the purchase price or any part thereof, before, on, or after delivery, from the consignee, or from any other person, or shall in any manner act as the agent of the buyer or seller of any such liquor, for the purpose of buying or selling or completing the sale thereof, saving only in the actual transportation and delivery of the same, shall be fined not more than \$5,000. (Mar. 4, 1909, c. 321, sec. 239, 35 Stat. 1136)".

We note the following language in letter X9188 of the Federal Reserve Board:

"It was held in a decision of the Supreme Court of the United States in 1919 (Danciger v. Cooley, 248 U. S. 319) that this statute was applicable not only to railroad and express companies but to all persons committing the acts described therein. Accordingly, it would appear to be unlawful for banks, in connection with the transportation of liquor in interstate commerce, to 'collect the purchase price' thereof or to 'act as the agent of the buyer or seller' for the purpose of completing the sale of such liquor."

"This matter is brought to your attention for the information and guidance of your bank in accepting for collection drafts covering the purchase price of liquors.

While there are early decisions construing the statute in question which hold that it is not applicable to banks collecting drafts with bills of lading attached (First National Bank v. United States, 206 Fed. 374; Danciger v. Stone, 138 Fed. 510) and an opinion of the Attorney General of the United States to the same effect (29 Op. Atty. Gen. 58), we believe that the case of Danciger v. Cooley 248 U. S. 319, referred to by the Federal Reserve Board in this letter is broad enough to construe the statute in question as applicable to banks. The effect of this decision by the Supreme Court of the United States is, in our opinion, to overrule the previous decisions of the lower Federal courts and the opinion expressed by the Attorney General of the United States.

While it is clear that the mischief contemplated and that sought to be prohibited by the statute in question was the shipment of liquor from a wet state into a dry one, nevertheless the statute in question is so broad in its phraseology that it would appear to apply to shipments from any state into any other state regardless of whether or not the state of origin and the state of destination were dry or wet. Accordingly, it is our view that the safest policy for you to follow is to decline to handle collection of drafts with bills of lading attached covering all shipments of liquor whether the shipments be legal or illegal.

We would suggest, therefore, the advisability of circularizing your member banks, as well as other Federal reserve banks, advising that in view of the above mentioned statute you do not feel at liberty to handle bill of lading drafts involving shipments of liquor.

If after further consideration of the matter in the light of this opinion you deem the suggested action proper, we will be glad to assist you in preparing such circulars.

LOCKE, LOCKE, STROUD & RANDOLPH.

COPY

LOCKE, LOCKE, STROUD & RANDOLPH
First National Bank Bldg.,
Dallas, Texas.

X-9231-1

May 6, 1935.

Mr. M. G. Wallace, General Counsel,
Federal Reserve Bank of Richmond,
Richmond, Va.

Dear Wallace:

Upon receipt of the Board's letter X-9188 dated April 26, 1935, the Federal Reserve Bank of Dallas referred to me the question of the collection of drafts with bills of lading attached representing collections for shipments of liquor. Texas as you know, is still a dry state but Louisiana is wet. A good deal of beer and whiskey is shipped from Louisiana into Texas. In addition, we have a good many shipments of whiskey to drug stores in this state from out-of-state points and a good many drafts are drawn upon the consignee of the shipment and forwarded to us for collection.

When the matter was first referred to me I found an opinion of the Attorney General, reported 29 Op. Atty. Gen. 58, and also several lower Federal court cases (First National Bank v. United States, 206 Fed. 374; Danciger v. Stone, 188 Fed. 510) holding that it was not illegal for a bank to collect such drafts. However, the case of Danciger v. Cooley, 248 U.S. 219, was decided many years after the Attorney General rendered his decision and the lower Federal courts decided the cases referred to. It is obvious from the reported decision of the Supreme Court that the Attorney General's opinion and the cases referred to were brought to the attention of the Supreme Court of the United States at the time it decided the case of Danciger v. Cooley, supra, although these cases and this opinion are not mentioned in the Supreme Court's opinion. Because of this status of the law, I wrote a memorandum to the bank, a copy of which I am enclosing for your information.

Subsequently, feeling that the matter was of system importance, Mr. Gilbert wired Mr. Walden requesting information as to what the Committee intended to do in view of the Board's letter. In reply Mr. Walden advised him that after consulting with counsel that in view of the Attorney General's opinion and the present attitude of the Federal Government, the Committee was disposed to take no action but to leave the matter entirely to the several Federal Reserve banks.

It is our judgment that the question should be handled as a system matter so that the same service is accorded all the banks, and also because a difference in policy between the several Federal reserve banks might tend to emphasize this statute.

It seems to us that inasmuch as the Federal Reserve Board has taken official cognizance of the statute and written the letter above referred to that this supervising authority has taken the same action as that requested of the Comptroller of the Currency just prior to the delivery of the opinion of the Attorney General. In other words, it seems to us that the Board's letter is practically a direction that the Federal Reserve banks discontinue handling these drafts.

We have absolutely no objection to handling the drafts provided we can do so lawfully and our sole interest in the matter is to avoid any complications. While we realize the force, from a practical viewpoint, of the suggested Federal attitude toward this matter, nevertheless the Board's attitude as expressed in its letter seems to offset this argument to some extent.

If you have not already done so, do you not think it would be a good idea for you to go over to Washington, and discuss this matter informally with Wyatt, with a view of ascertaining informally just what the Board's position is and what prompted the writing of the letter X-9188?

Until we hear further from you we do not expect to take any independent action but we are, in the meantime, very much concerned over what we should do.

Very truly yours,

(Signed) E. B. Stroud, Jr.

EBS:b

FEDERAL RESERVE BANK

of Richmond

May 10, 1935.

Mr. E. B. Stroud, Jr.,
Locke, Locke, Stroud & Randolph,
Attorneys at Law,
First National Bank Bldg.,
Dallas, Texas.

My dear Mr. Stroud:

I received your letter of May 6th with reference to the Board's letter X-9188 dated April 26, 1935.

I know that Mr. Wyatt has very little time to spare at present and the industrial loans are keeping me fairly busy, so I thought instead of going to Washington I would send him copies of the correspondence so that he could consider the question. After he has had an opportunity to do this I will call you by telephone and if he wishes to discuss the matter go to Washington.

I, of course, realize the force of your point that the Federal Reserve Bank should adopt if possible a uniform course, and of course if the Federal Reserve Board wishes us to refuse to handle all collections which appear to be drawn for the purchase price of liquor I know that this bank would desire to comply. I did not construe the letter X-9188 as intended to do more than call our attention to a possible danger in order that the situation might be investigated, and as I say after investigating it I came to the conclusion that there was nothing in the opinion of the Supreme Court in *Danciger vs. Cooley*, 248 U.S. 319, which would amount to a reversal of the opinions expressed by the attorney general.

The statute applies to collections before, on or after delivery. This language would include all possible times, hence if the statute applies to all persons who collect the purchase price of liquor which had been shipped in interstate commerce it would in effect prohibit all collection, except possibly a collection made by the seller in person and would thereby prohibit all payment except a case in which the buyer sent actual money or currency to the seller. It seems to me it would prohibit a bank from collecting a check which the buyer had sent to the seller in payment. For this, like a draft by the seller on the buyer, is merely an instrumentality of collection. There was nothing in the situation existing when the Act was passed which indicated that Congress then intended to make such a sweeping restriction. The debates in Congress quoted by the

Mr. E. B. Stroud, Jr.

5-10-35.

Attorney General showed that the primary object of the statute was to restrict what were commonly known as C.O.D. shipments. It seemed to me, therefore, that Attorney General Wickersham was entirely correct in the view which he took that the person who collected the purchase price must have some connection with the transportation. You doubtless noticed from the full text of his opinion that he went at great length into the question as to the passage of title by delivery of the bill of lading and pointed out that ordinarily a bank collecting a draft with bill of lading attached was not regarded as the agent of the buyer or seller in completing the sale. I, of course, pointed out that a bank might easily be within the prohibition of the statute or subject to the penal laws of the state if it accepted drafts drawn on fictitious persons and delivered these drafts to persons who desired to buy liquor.

The lower court in *Danciger vs. Stone*, 188 Fed. 510 went much further than the Attorney General, and in effect held that the statute could apply to no one except a carrier or the agent of the carrier. This decision of course amounted almost to ignoring the words "or any other person" in the statute.

I quite agree with you that this decision was overruled by the decision of the Supreme Court of the United States in *Danciger vs. Cooley*, 248 U.S. 319 in so far as the earlier decision had held that the statute was applicable only to a carrier or its agents. The facts in *Danciger vs. Cooley* showed a very flagrant evasion of the law. The collector in that case was evidently to all intents and purposes the local salesman of the seller and did everything necessary to complete the sale and transportation, except the actual manual delivery of the liquor, and the court held that he had therefore collected the purchase price in connection with the transportation. The court, however, was very careful to state that some connection with the transportation was essential, for the court said: "To be within the statute it is essential that the act of collecting the purchase price be done in connection with the transportation of the liquor". It seemed to me that this language was so far from overruling the opinion of the Attorney General that it amounted to an express statement that the court did not intend to reverse his conclusion that the person who did the collection must have a connection with the transportation amounting to something more than that which arose from the mere fact that a bill of lading was attached to a draft which was collected.

As you know, in view of the above it seemed to me that there was no reason to expect that the Department of Justice would adopt a policy at variance with that which the Attorney General Wickersham had adopted, especially as it seemed to me that the logic of Attorney General Wickersham's opinion was irresistible.

Very truly yours,

M. G. Wallace,
Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9232

June 8, 1935.

Dear Sir:

At the meeting of the Governors' Conference with the Federal Reserve Board on May 28, 1935, reference was made to amendments to the Clayton Act and to section 32 of the Banking Act of 1933 which the Board had decided to recommend to the committees of Congress in lieu of the amendments contained in the proposed Banking Act of 1935.

Some of the governors expressed a desire to have copies of the proposed amendments for further study, and, in accordance with their request, copies of the amendments are attached. The letter to the Chairman of the Senate Banking and Currency Committee transmitting the proposed amendments commented as follows:

"These sections contain proposed revisions of section 32 of the Banking Act of 1933 and the provisions of the Clayton Antitrust Act relating to interlocking bank directorates. It was proposed in the bill as originally introduced to revise these provisions of law so as to simplify them and to eliminate the necessity of the Federal Reserve Board passing upon thousands of individual cases and issuing individual permits for persons to serve in the capacities affected by these sections. As originally introduced, the bill would authorize the Board to issue general regulations making exceptions to the prohibitions of those sections;

"but, after further study, the Board has concluded that it would be preferable to provide for no exceptions except those stated in the statute itself. The substitute sections inclosed herewith have been approved by the Federal Reserve Board and would incorporate in the statute all of the exceptions which the Board believes to be desirable."

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

X-9232-a

SUGGESTED SUBSTITUTE FOR SECTION 329 OF H.R.7617
AS PASSED BY THE HOUSE OF REPRESENTATIVES

Page 82, line 14, strike all of section 329 and substitute the following:

"Sec.329. Effective January 1, 1936, section 25 of the Federal Reserve Act, as amended, is further amended by striking out the last paragraph of such section; the paragraph of section 25(a) of the Federal Reserve Act, as amended, which commences with the words 'A majority of the shares of the capital stock of any such corporation' is amended by striking out all of said paragraph except the first sentence thereof; and the Act entitled 'An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes' (38 Stat.730), approved October 15, 1914, as amended, is further amended (a) by striking out section 8A thereof and (b) by substituting for the first three paragraphs of section 8 thereof the following:

"Section 8. No director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a private banker or a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the

District of Columbia, or any branch thereof, except any one or more of the following or any branch thereof:

"(1) A bank, banking association, savings bank, or trust company, more than 90 per cent of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per cent of the stock.

"(2) A bank, banking association, savings bank or trust company which has been placed formally in liquidation or which is in the hands of a receiver, conservator or other official exercising similar functions.

"(3) A corporation principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Federal Reserve Board pursuant to section 25 of the Federal Reserve Act.

"(4) A bank, banking association, savings bank, or trust company, more than 50 per cent of the stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per cent of the stock of such member bank.

"The Federal Reserve Board is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose."

X-9232-b

SUGGESTED SUBSTITUTE FOR SECTION 307 OF H.R.7617
AS PASSED BY THE HOUSE OF REPRESENTATIVES

Page 61, line 3, strike all of section 307 and substitute the following:

"Sec.307. Effective February 1, 1936, section 32 of the Banking Act of 1933 is amended to read as follows:

"Sec.32. No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve at the same time as an officer, director, or employee of any member bank. The Federal Reserve Board is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose."

FEDERAL RESERVE BOARD

542

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9233

June 8, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

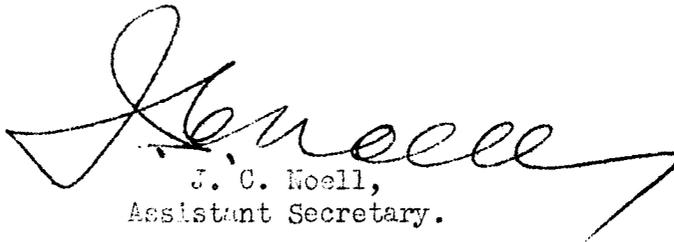
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXUHE" - Treasury Bills to be dated June 12, 1935, and to mature October 23, 1935.

"NOXUIK" - Treasury Bills to be dated June 12, 1935, and to mature March 11, 1936.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXUGH" 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-9234

June 11, 1935.

SUBJECT: Code Word Covering New
Issue of Treasury Notes.

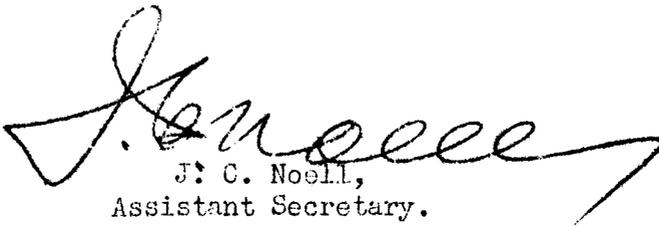
Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code word has been designated to cover a new issue of Treasury Notes.

"NOWKIT" - 1 1/2% Treasury Notes, Series B-1940, to be dated June 15, 1935 and to mature June 15, 1940.

This word should be inserted in the Federal Reserve Telegraph Code book, on page 172.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

544

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9236

June 15, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

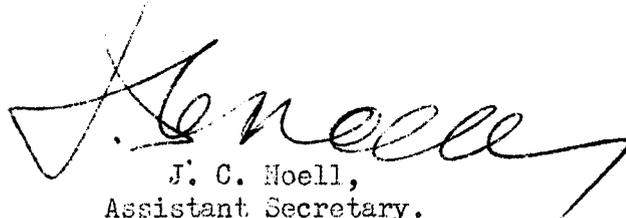
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXUJI" - Treasury Bills to be dated June 19, 1935, and to mature October 30, 1935.

"NOXUKE" - Treasury Bills to be dated June 19, 1935, and to mature March 18, 1936.

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

Very truly yours,



J. C. Hoell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-9237

REGULATIONS COVERING COMPUTATION BY MEMBER
BANKS OF TOTAL DEPOSIT LIABILITIES FOR
PURPOSES OF SUBSCRIPTIONS FOR STOCK OF
FEDERAL DEPOSIT INSURANCE CORPORATION.

Pursuant to the provisions of section 12B(e) of the Federal Reserve Act authorizing the Federal Reserve Board to prescribe regulations covering computation by member banks of total deposit liabilities on which are to be based subscriptions for class A stock of the Federal Deposit Insurance Corporation for which member banks are required by existing law to apply on or before July 1, 1935, the Federal Reserve Board, on June 14, 1935, prescribed the following regulations and telegraphed a request to the Federal Reserve Agents at the various Federal Reserve banks to transmit them to all member banks:

"The term 'total deposit liabilities' for purpose of determination by member banks of the amounts of subscriptions for class A stock of Federal Deposit Insurance Corporation under provisions of section 12B(e) of the Federal Reserve Act means the member bank's gross deposits as of the close of business on March 4, 1935, less items in process of collection: Provided, however, That any bank organized subsequent to March 4, 1935 shall compute the amount of its subscription for class A stock of the Federal Deposit Insurance Corporation on the basis of such total deposit liabilities as of the close of business on the date upon which it becomes a member bank. The term

'gross deposits' (items 15 to 19 inclusive in Comptroller of the Currency's form of report of condition for national banks used as of March 4, 1933 and items numbered 14 to 18 inclusive in Federal Reserve Board's form of report of condition for State member banks used as of same date) means the sum of United States Government and Postal Savings deposits, public funds of States, counties, school districts, or other subdivisions or municipalities, deposits of other banks, certified and cashier's checks outstanding, and cash letters of credit and traveler's checks outstanding and all other demand and time deposits, including items credited to depositors' accounts subject to final payment but not including deposits payable only at an office located in a foreign country. The term 'items in process of collection' means the sum of cash items with Federal Reserve Banks in process of collection and exchanges for clearing house and other checks on local banks (items 4 and 7 of schedule I in the form of report of condition used by member banks as of March 4, 1935) plus such part of amounts 'due from banks' (items 5 and 6 of the same schedule) as represents uncollected cash items."

Note: The Board has been advised that the Federal Deposit Insurance Corporation feels that a member bank organized subsequent to June 16,

1933 and which applies for class A stock of the Federal Deposit Insurance Corporation within twelve months after its organization would subscribe for class A stock on the basis of its paid-up capital and surplus under the provisions of the following exception contained in the second sentence commencing in subdivision (e) of section 12B of the Federal Reserve Act: " * * * except that in the case of a member bank organized after the date this section takes effect, the amount of such class A stock applied for by such member bank during the first twelve months after its organization shall equal 5 per centum of its paid-up capital and surplus, and beginning after the expiration of such twelve months' period the amount of such class A stock of such member bank shall be adjusted annually in the same manner as in the case of other member banks." The determination of what member banks should subscribe to class A stock of the Federal Deposit Insurance Corporation on the basis of total deposit liabilities and what banks should subscribe to such stock on the basis of capital and surplus is a question within the jurisdiction of the Federal Deposit Insurance Corporation and the Board's regulation does not apply to any bank which under the law should subscribe on the basis of its capital and surplus instead of its total deposit liabilities.

FEDERAL RESERVE BOARD

WASHINGTON

X-9238

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 19, 1935.

Dear Sir:

With my letter of December 29, 1934 (X-9072), there was sent to your bank a copy of the resolution adopted by the Federal Reserve Board levying an assessment upon the various Federal reserve banks covering the estimated expenses and salaries of the members and employees of the Board for the first half of 1935, and approximately \$1,000,000 to be applied to the cost of the purchase of a site and the erection of a building for the Federal Reserve Board. On January 19, 1935, you were requested to credit 80% of the building fund assessment to the Federal Reserve Bank of Richmond for the account of the Federal Reserve Board - Building Account.

The Board has decided to transfer to the Federal Reserve Bank of Richmond on June 25, 1935, the uncalled portion of the building fund assessment, and you are requested, therefore, to credit the Richmond bank on June 25, 1935, in your daily statement of credits through the Gold Settlement Fund, with the remaining 20% of the building fund assessment, for account of the Federal Reserve Board - Building Account. Please advise the Federal Reserve Bank of Richmond by wire on that date of the purpose and amount of the credit.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

FEDERAL RESERVE BOARD

WASHINGTON

X-9239

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 20, 1935.

SUBJECT: Holidays during July, 1935.

Dear Sir:

On Thursday, July 4, the offices of the Federal Reserve Board and all Federal reserve banks and branches will be closed in observance of Independence Day.

The Board has been advised that holidays also will be observed during July by the following branches of Federal reserve banks:

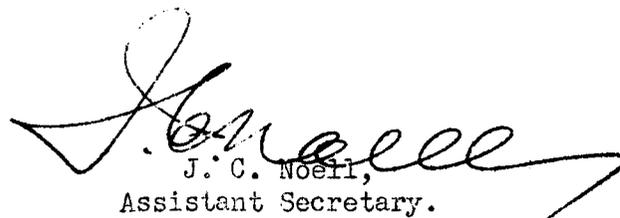
Saturday, July 13,	Nashville	Birthday of
	Memphis	General Forrest

Wednesday, July 24,	Salt Lake City	Pioneer Day
---------------------	----------------	-------------

On the dates given the offices mentioned will not participate in either the transit or the Federal reserve note clearing through the Gold Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day.

Please notify branches.

Very truly yours,



J. C. Noell,
Assistant Secretary.

X-9240

June 21, 1935.

SUBJECT: Collection of liquor drafts
in interstate shipments.

Dear Sir:

There is transmitted herewith for your information and that of your Counsel, a copy of a letter which the Board is addressing to the Chairman of the Governors' Conference, pointing out that copies of the Board's letter of June 7, 1935 on the above-mentioned subject were transmitted to the Governors of the Federal Reserve banks before the Board was advised of the action taken at the Governors' Conference held on May 27-28, 1935, and indicating that in view of such action consideration of the subject by the Standing Committee on Collections now appears to be unnecessary.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

X-9240-a

June 21, 1935

Mr. J. U. Calkins,
Chairman, Governors' Conference,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Calkins:

Under date of June 7, 1935, the Federal Reserve Board addressed a letter to you with regard to the provisions of section 239 of the Criminal Code of the United States which relate to the collection of drafts covering the purchase price of intoxicating liquor in interstate shipments. The letter stated that the subject appeared to be one which might well be referred to the Standing Committee on Collections of the Governors' Conference for consideration and report to the Conference as to whether a uniform practice with regard to the matter is desirable and, if so, what such practice should be. At the time its letter of June 7th was transmitted to you the Board had not been advised of the action of the Governors' Conference held on May 27-28, 1935, with regard to this subject. Copies of the minutes of the Governors' Conference have now been received, from which it appears that the subject was considered and that it was voted to be the sense of the Conference that until the provisions of section 239 of the Criminal Code are repealed or appropriately amended the Federal Reserve banks should decline to handle drafts with bills of lading attached covering interstate liquor shipments whenever the bill of lading attached is to be surrendered upon payment or accept-

Mr. J. U. Calkins - 2

X-9240-a

ance of the draft. In view of the action of the Governors' Conference, and upon the assumption that each Federal Reserve bank will conform to the action of the Conference on this subject, it would appear to be unnecessary to have consideration given to the matter by the Standing Committee on Collections as suggested in the Board's letter of June 7th.

In connection with this matter, it is appropriate to point out that the bill, S. 11, which was introduced in Congress to repeal section 239 of the Criminal Code, was amended in committee so that the section would not be repealed but would be inapplicable to shipments of liquor into any State, Territory, or District of the United States which does not prohibit the manufacture or sale of such liquor. In such form the bill was passed by the Senate on May 28, 1935, and has been referred to the Committee on the Judiciary in the House of Representatives.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

Y-9241

June 21, 1935.

SUBJECT: Assessment for General Expenses
of the Federal Reserve Board,
July 1 - December 31, 1935.

Dear Sir:

There is attached 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 two hundred eighteen thousandths of one per cent (.00218) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks as of the close of business June 30, 1935, to defray the estimated expenses and salaries of the members and employees of the Board from July 1 to December 31, 1935.

The resolution specifies the manner in which the payments on the assessment shall be deposited with the Federal Reserve Bank of Richmond.

Very truly yours,



O. E. Foulk,
Fiscal Agent.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

X-9241-a

RESOLUTION LEVYING ASSESSMENT.

WHEREAS, Section 10 of the Federal Reserve Act, as amended, contains the following provisions:

"The Federal Reserve Board shall have power 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 and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year. * * * * *

"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 a consideration of the estimated expenses of the Federal Reserve Board for the six months' period beginning July 1, 1935, that it is necessary that a fund equal to two hundred eighteen thousandths of one per cent (.00218) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal reserve banks be created for such purposes, 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 two hundred eighteen thousandths of one per cent (.00218) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business June 30, 1935.

(2) Such assessment shall be paid by each Federal reserve bank in two equal installments on July 1, 1935 and September 3, 1935.

(3) Every Federal reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Gold Settlement Fund to the Federal Reserve Bank of Richmond for credit to the special fund 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 special fund account on the dates as above provided.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9242

June 22, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

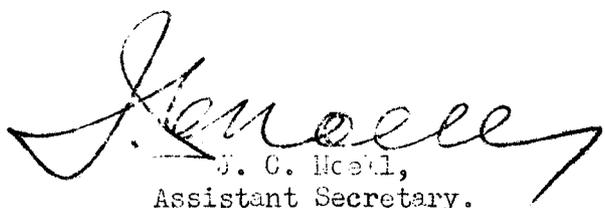
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXULO" - Treasury Bills to be dated June 26, 1935, and to mature November 6, 1935.

"NOXUMP" - Treasury Bills to be dated June 26, 1935, and to mature March 25, 1936.

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

Very truly yours,


J. C. McCall,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9244

June 25, 1935.

SUBJECT: Expense, Main Lines, Leased
Wire System, May, 1935.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9244-a and X-9244-b, covering in detail operations of the main lines Leased Wire System, during the month of May, 1935.

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 MAY, 1935.

X-9244-a

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal Reserve bank business	Per cent of total bank business (*)
Boston	30,132	1,553	31,685	4.28
New York	144,470	-	144,470	19.49
Philadelphia	27,599	1,581	29,180	3.94
Cleveland	40,998	1,600	42,598	5.75
Richmond	51,444	1,641	53,085	7.16
Atlanta	47,840	1,547	49,387	6.66
Chicago	79,649	1,813	81,462	10.99
St. Louis	63,509	1,797	65,306	8.81
Minneapolis	36,547	1,605	38,152	5.15
Kansas City	60,562	1,653	62,215	8.40
Dallas	53,052	2,408	55,460	7.48
San Francisco	85,017	3,071	88,088	11.89
Total	720,819	20,269	741,088	100.00
F. R. Board business			312,085	1,053,173
Reimbursable business Incoming & Outgoing				666,095
Total words transmitted over main lines				1,719,268

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9244-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.

557

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, MAY, 1935.

Name of bank	Operators' Salaries	Retirement Contributions	Operators' over-time	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	\$ 260.00	\$ 24.65	\$1.00	\$ -	\$ 285.65	\$ 635.61	\$ 285.65	\$ 349.96
New York	1,358.29	122.79	4.00	-	1,485.08	2,894.42	1,485.08	1,409.34
Philadelphia	225.00	20.25	-	-	245.25	585.12	245.25	339.87
Cleveland	306.66	27.60	-	-	334.26	853.92	334.26	519.66
Richmond	190.00	17.35	-	230.00(&)	437.35	1,063.32	437.35	625.97
Atlanta	270.00	22.14	-	-	292.14	989.06	292.14	696.92
Chicago	4,023.07#	336.85	-	-	4,359.92	1,632.10	4,359.92	2,727.82(*)
St. Louis	195.00	17.43	-	-	212.43	1,308.35	212.43	1,095.92
Minneapolis	246.32	21.23	-	-	267.55	764.81	267.55	497.26
Kansas City	287.00	25.83	-	-	312.83	1,247.47	312.83	934.64
Dallas	251.00	22.34	-	-	273.34	1,110.84	273.34	837.50
San Francisco	380.00	32.03	-	-	412.03	1,765.76	412.03	1,353.73
Federal Reserve Bd.	-	-	-	15,325.50	15,325.50	-	-	-
Total	\$7,992.34	\$690.49	\$5.00	\$15,555.50	\$24,243.33	\$14,850.78	\$8,917.83	\$8,660.77
Less Reimbursable Charges					9,392.55			2,727.82(a)
					<u>\$14,850.78</u>			<u>\$5,932.95</u>

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

K-9245

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

STATEMENT FOR THE PRESS

For immediate release.

June 25, 1935.

SECURITIES TEMPORARILY EXEMPTED BY
SECURITIES AND EXCHANGE COMMISSION

Ruling No. 44 interpreting Regulation T. The Securities and Exchange Commission by its Rules AN6, AN7, and AN8 has exempted certain securities for limited periods from the operation of section 7(c)(2) of the Securities Exchange Act of 1934 to the extent and upon the conditions stated in such Rules.

The Federal Reserve Board rules that, as a result of and to the extent specified in the Commission's Rules AN6, AN7, and AN8, the securities mentioned therein are "exempted securities" within the meaning of section 2(f) of Regulation T. However, the Board points out that the maximum loan value of such securities, instead of being that provided in section 3(e), is limited by the conditions of the Commission's exemption to the maximum loan value which such securities would have if during the periods prescribed they were registered securities.

X-9246

STATEMENT FOR THE PRESS
BY MR. W. H. POUCH FOR THE INDUSTRIAL ADVISORY COMMITTEES OF THE
FEDERAL RESERVE BANKS.

For release in the Morning Papers,
Wednesday, June 26, 1935.

June 25, 1935.

Much more is being done to aid the small business man in this country than anywhere else in the world; and existing facilities here are fully capable of meeting the demand for credit to industry. This is, in brief, the conclusion reached by Mr. Albert M. Creighton of Boston after visiting England, Germany, Poland, Austria and France.

Mr. Creighton is Chairman of the Chairmen of the Industrial Advisory Committees in the twelve Federal reserve districts, which aid in the making of direct loans to industry by the Federal reserve banks. The meeting of these Chairmen yesterday in Washington was in the nature of an anniversary. Section 13b, providing for loans to industry, was enacted June 19, 1934, and \$280,000,000 was made available through the Reserve banks. Exactly one year later, June 19, 1935, there had been received 6,571 loan applications totaling \$260,373,000; the Advisory Committees had approved 1,798 loans totaling \$100,751,000; the Federal reserve banks had approved 1,636 loans totaling \$88,601,000; advances made totaled \$31,447,000, with commitments of \$20,404,000, or \$51,851,000 altogether.

Mr. Creighton presented a report on credit facilities abroad in which he stated that "almost without exception, and particularly in England, there have been numerous complaints since the depression by business men and industrialists that it was not possible for them to secure loans from the banks", but as various emergency loaning organizations had been established, it was found that the claims were much

exaggerated and that a large percentage of the applicants really wanted to start new businesses or were found on investigation to be unsatisfactory credit risks. It was pointed out that, in England especially, credit needs of industry were being considered as part of a program of rationalization which generally sought elimination of inefficient units and rehabilitation of specific lines of industry.

There is a much larger fund available in the United States for loans to industry than in any other country, and there is no question, said Mr. Creighton, "that the Federal reserve banks under Section 13b have done far more for the small industrialists than has been done anywhere in Europe; under Section 13b the Federal reserve banks are giving quick, efficient, sympathetic service and are aiding industry in accordance with the wishes of those who sponsored the passage of this Act."

Mr. Creighton believes that the Reserve banks and the Reconstruction Finance Corporation under present legislation can provide for any sound and reasonable demand for credit to industry. He therefore reaches the conclusion that "the Reconstruction Finance Corporation and the Federal Reserve System under Section 13b should be allowed to function as at present with no thought of supplementing this work with additional plans for the making of sound loans to industry." In other words, the formation of such additional agencies, as Intermediate Credit Banks, would merely duplicate already existing facilities. The immediate need is that "every prospective borrower in this country should know about the existing facilities in connection with industrial loans and should understand how to take advantage of them."

**INDUSTRIAL ADVANCES AND COMMITMENTS UNDER SECTION 13b OF THE FEDERAL RESERVE ACT
SUMMARY BY FEDERAL RESERVE BANKS, JUNE 19, 1934 TO JUNE 19, 1935**

(Amounts in thousands of dollars)

B-817

Federal Reserve Bank	Applications received - net		Applications under consideration		Total applications recommended for approval by Industrial Advisory Committee*		Total applications approved by Federal Reserve Bank*		Advances made	Commitments outstanding
	Number	Amount	Number	Amount	Number	Amount	Number	Amount		
Boston	379	21,133	24	3,389	129	9,163	85	6,389	2,460	2,869
New York	769	59,265	40	5,777	275	23,265	287	25,159	6,943	8,146
Philadelphia	442	27,265	17	7,306	143	14,102	110	9,533	5,022	733
Cleveland	515	14,611	14	4,477	144	5,897	126	5,134	1,702	1,491
Richmond	449	16,986	8	459	139	8,439	139	8,388	4,696	1,511
Atlanta	431	10,645	18	233	145	3,773	139	3,527	1,377	672
Chicago	867	38,338	30	2,233	115	8,692	90	6,071	2,318	499
St. Louis	291	10,479	3	133	99	4,883	98	4,892	711	1,794
Minneapolis	880	16,631	43	1,002	240	5,735	214	4,627	2,438	77
Kansas City	318	10,619	7	2,129	71	5,456	63	3,367	1,226	227
Dallas	404	10,517	12	565	95	3,838	90	3,634	1,838	400
San Francisco	826	23,884	69	3,638	203	7,508	195	7,880	716	1,985
TOTAL	6,571	260,373	285	27,341	1,798	100,751	1,636	88,601	31,447	20,404

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JUNE 24, 1935.

*With and without conditions.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9247

June 27, 1935

Dear Sir:

At a meeting of the Chairmen of the Industrial Advisory Committees held in Washington on June 24, 1935, consideration was given informally to a summary of a report dated April 15, 1935, submitted to the Secretary of Commerce by the Business Advisory Council for the Department of Commerce on the subject of "Credit and Capital Requirements of Small Industry", the concluding paragraph of which recommended that an immediate study be undertaken by the Reconstruction Finance Corporation, the Federal Reserve Board, and the Securities and Exchange Commission, in cooperation with the investment bankers of the country, to the end that facilities be offered sound, small industries for the acquisition of needed capital.

At the meeting of members of the Federal Reserve Board and its staff with representatives of the Industrial Advisory Committees in Washington on June 25, 1935, the following recommendation was approved by the representatives of the Industrial Advisory Committees present after a discussion of the report of the Business Advisory Council:

"Recognizing that there is nothing in the present Act governing the industrial loans of the Federal Reserve banks which would permit us to take care of capital loans, we recommend that the Federal Reserve Board make an early study of the problem of furnishing to worthy industries such permanent capital as may in their judgment be required."

The Federal Reserve Board has given consideration to this recommendation and has adopted the following resolution:

"WHEREAS, it has been proposed by a resolution adopted by the Chairmen of the Industrial Advisory Committees of the Federal Reserve banks at Washington, D. C., June 25, 1935, that the Federal Reserve Board make a study of the problem of furnishing permanent capital to worthy industries; and

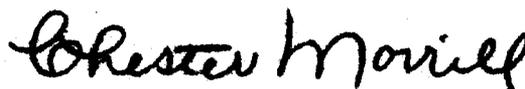
"WHEREAS, it does not appear appropriate that the source of such funds should be the Federal Reserve System, organized for other specific purposes; and

"WHEREAS, it does not appear that the Federal Reserve Board is the agency that should undertake, on its own initiative, a survey to determine how funds may be provided to supply the fixed capital needs of small industries;

"NOW, THEREFORE, BE IT RESOLVED, that the Federal Reserve Board do not undertake such study at this time and that the Board notify the Industrial Advisory Committees accordingly.

"BE IT FURTHER RESOLVED, that the Federal Reserve Board, in taking this action, desires to express to the Chairmen of the Industrial Advisory Committees the appreciation of the Board of the spirit of helpfulness and cooperation in which their resolution was adopted."

Very truly yours,



Chester Morrill,
Secretary.

TO THE CHAIRMEN OF THE INDUSTRIAL ADVISORY COMMITTEES OF THE
TWELVE FEDERAL RESERVE DISTRICTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9248

June 27, 1935.

Dear Governor

As you have already been advised, insurance of shipments of unissued Federal Reserve Notes from Washington to the reserve banks and their branches and also of Federal Reserve Notes from the banks and their branches to the National Bank Redemption Agency will not be effected under Treasury policies after June 30, 1935. It is therefore necessary that this insurance be effected under policies held by the banks with respect to all shipments made on and after July 1, 1935. It is understood that the policies for registered mail insurance now held by all banks will cover this risk provided the usual declaration of such shipments is made. If the policy of your bank will not cover such movements, arrangements should be made at once so that it will cover them as suggested in letter dated June 14, 1935, addressed to all Governors by the Chairman of the Insurance Committee.

The Insurance Committee has recommended the following procedure with respect to the insurance of shipments of unissued Federal Reserve Notes from Washington to the Federal Reserve banks and branches.

1. That each bank declare for insurance under its own policy in the usual manner each shipment at the time requisition is forwarded to the Federal Reserve Board.
2. That the form of requisition sent to the Federal Reserve Board in connection with these shipments include a statement that the

insurance has been effected by the bank so there may be no question regarding this matter.

In order to provide for making effective recommendation No. 2 above, the following amendment is made in the interpretation of the code word "CHINKIRK", the amendment consisting of the addition of the underlined sentence.

CHINKIRK Please request Comptroller of the Currency to ship (Federal Reserve Agent, Assistant Federal Reserve Agent, Bank or Branch) Federal Reserve Notes as follows: (Amount) (denomination). Shipment will be insured here. Confirmation is being forwarded today by mail.

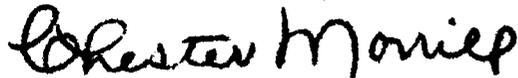
The phrase added to this telegram, namely, "Shipment will be insured here." should also be typed on Form 45 immediately below the schedule of denominations with respect to all requisitions for shipments on or after July 1, 1935.

Under the form of registered mail insurance policy held by the reserve banks, it is the Board's understanding that it is not necessary to declare shipments for insurance prior to the time the shipment is either made or received, but in view of the amounts involved in these shipments it is believed the banks will generally prefer to declare them prior to the actual receipt of the currency. If for any reason a shipment which has been ordered should not be actually made, or if it should be made in a different amount, correction of the insurance can be effected by either a new or an additional declaration,

or a cancellation of the original declaration.

Shipments of Federal Reserve Notes by the banks and branches to the National Bank Redemption Agency and also of cancelled coupons to the Treasury Department will be insured under the bank policies by declaring the shipments in the usual way at the time they are made.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

568

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9249

June 28, 1935.

SUBJECT: Code Words Covering New
Issues of Treasury Bills.

Dear Sir:

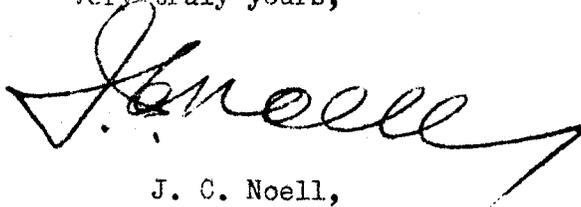
In connection with telegraphic transactions in Government securities between Federal reserve banks, the following code words have been designated to cover new issues of Treasury Bills:

"NOXUNS" - Treasury Bills to be dated July 3, 1935, and to mature November 13, 1935.

"NOXVEE" - Treasury Bills to be dated July 3, 1935, and to mature April 1, 1936.

These words should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOXUMP" 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-9250

June 28, 1935

SUBJECT: Exemption of member banks
acting in fiduciary capacities
from liability

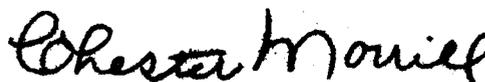
Dear Sir:

The Federal Reserve Board understands that in some instances member banks acting in fiduciary capacities may have accepted appointments to act under agreements containing unwarranted provisions exempting the banks or their officers, directors or employees from liability on account of their acts in the management and administration of the trusts. For example, it is understood that in some cases such provisions are to the effect that the bank shall be liable only in the event of gross negligence or wilful misconduct.

The Board would like to obtain such information as is available relating to the question whether it is ordinarily the practice of member banks to act in fiduciary capacities under exemptions from liability which are substantially in excess of those exemptions to which trustees are ordinarily entitled. It is assumed that banks generally use more or less standardized clauses in forms used in connection with their various classes of trust business, and you are requested to have

the examiners for the Federal Reserve bank, in connection with the next examinations of State member banks in your district, obtain copies of the standard forms used by various banks in connection with the different classes of trust business administered and information from each bank as to any unusual provisions exempting the bank from liability which it might be the practice to include in particular forms. When the next examinations of the State member banks in your district have been completed, please advise the Board in detail of the information developed by the examiners together with the comments of the examiners and advise the Board of your views as to what action by the Board, if any, would seem to be desirable in the circumstances. The Board, of course, would be glad to receive any information which may be developed with regard to any other provisions of trust agreements under which member banks are operating which appear to be unwarranted and subject to criticism and any suggestions you deem desirable with regard to any such provisions. If, pending the completion of the next examinations of the State member banks in your district, there should be a conference of trust examiners for the Federal Reserve banks, it would seem desirable for such examiners to discuss at that conference any unwarranted exemptions from liability by trust companies which may have come to their attention with a view to developing all information available with regard to existing practices of fiduciaries in restricting their responsibilities as such fiduciaries.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

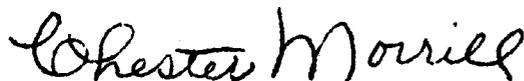
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDJanuary 8, 1935.
B-1045

Dear Sir:

In connection with the Board's letter of November 27, 1934, B-1037, regarding the cost of operation and earnings of the Havana Agency of the Federal Reserve Bank of Atlanta, there is inclosed, for your information, a statement showing the volume of currency operations of the Agency, and commissions charged thereon, by years, from 1927 to 1933 inclusive. The statement also shows the aggregate amount of currency received by the Agency in exchange for credit at each Federal Reserve bank, the aggregate amount of currency paid out by the Agency in exchange for payments received at each Federal Reserve bank, and the total earnings of the Agency for each year since the Agency of the Federal Reserve Bank of Boston was discontinued, prior to which time all commissions charged were received by the Federal Reserve Bank of Boston.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

CURRENCY OPERATIONS OF THE HAVANA AGENCY OF THE FEDERAL RESERVE BANK OF ATLANTA
AND COMMISSIONS CHARGED THEREON FROM 1927 TO 1933

	Currency received in exchange for payment by a F. R. bank		Currency paid out in exchange for payment to a F. R. bank		Denominational exchanges		Total commissions
	Amount	Commission	Amount	Commission	Amount (c)	Commission	
1927	\$41,886,880	\$41,886.88	\$22,534,800	\$22,534.80	\$3,133,000	\$3,013.00	\$67,434.68
1928	26,449,000	26,449.00	13,738,000	13,738.00	3,195,400	3,195.40	43,382.40
1929	28,215,000	28,215.00	21,595,000	21,595.00	4,188,120	4,186.50	53,996.50
1930	47,631,000	47,631.00	27,139,000	27,139.00	7,819,000	4,282.00	79,052.00
1931	22,843,000	22,843.00	8,010,000	8,010.00	5,613,000	3,038.00	33,891.00
1932	(a) 17,869,000	17,469.00	3,550,000	3,550.00	2,245,900	595.90	21,614.90
1933	24,274,387	24,274.39	(b) 26,046,624	19,748.44	2,791,000	1,226.00	45,248.83
Total 1927-1933	209,168,267	208,768.27	122,613,424	116,315.24	28,985,420	19,536.80	344,620.31

Distribution by F. R. districts:

Boston	30,476,530	30,476.53	7,074,000	7,074.00
New York	178,691,737	178,291.74	115,160,224	108,862.04
Philadelphia			25,400	25.40
Atlanta			6,600	6.60
Chicago			50,000	50.00
St. Louis			4,200	4.20
San Francisco			293,000	293.00

Interest on delayed wire

transfers -	1929	575.34
	1930	160.28
Total earnings		345,355.93

- (a) Includes \$400,000 Cuban gold coin on which no commission was charged.
- (b) Includes \$6,300,000 payments against gold coin and certificates deposited by banks in New York City with the Federal Reserve Bank of New York on which no commission was charged.
- (c) Includes exchanges on which no commission was charged as follows: 1927, \$120,000 gold coin paid out; 1929, \$1,620 exhibition sets of new sized currency; 1930, \$3,187,000 old series \$100 Federal Reserve notes and \$350,000 U. S. gold coin received; 1931, \$2,575,000 Cuban gold coin received, 1932, \$1,650,000 Cuban gold coin paid out; 1933, \$1,565,000 Cuban gold coin paid out.

B-1045a

572

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 3, 1935
B-1048

SUBJECT: Condition of licensed member banks

Dear Sir:

There is inclosed, for use pending the printing of Member Bank Call Report No. 63, a statement showing the assets and liabilities and a classification of loans, investments, and deposits on October 17, 1934, of all licensed member banks, together with corresponding data 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

574

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 4, 1935.
E-1049.

SUBJECT: Forms for use during 1935.

Dear Sir:

There are being forwarded to you today under separate cover, the number indicated of the following forms for use during 1935:

Form 44,	copies
Form 95,	copies
Form 96,	copies

A supply of forms E, 38, 160 and 194 will be sent to you as soon as they are received from the printer.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 5, 1935
B-1050

SUBJECT: Data for 1934 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. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during each month of the calendar year 1934 and during the year as a whole.
2. Statement showing the number of nonmember banks other than mutual savings banks (whether or not under State supervision) on the par list and not on par list, respectively, on December 31, 1934, with separate figures for each state or part of state in the district, also, in the case of Federal Reserve banks that operate branches, for the zone or territory assigned to the head office of the Federal reserve bank and to each branch thereof. The statement should include all banks on which checks are drawn, whether licensed or not, and should be made out in the following form:

Number of nonmember banks, other than mutual savings banks in district:

On par list:

- Banks under State supervision
- Private banks not under State supervision

Not on par list:

- Banks under State supervision
- Private banks not under State supervision

The figures for banks under State supervision should be reconciled with the latest State banking department abstracts, furnished the Board in response to its letter B-991 of June 28, 1934.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead". The signature is written in dark ink and is positioned to the right of the typed name.

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

B-1050

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDJanuary 18, 1935
B-1052

Dear Sir:

The minutes of the committee meeting on accounting held in Chicago on June 27 and 28, 1934, a copy of which was furnished each Federal Reserve bank by the Secretary of the committee, contain a suggestion that information on a number of subjects be supplied the Federal Reserve Board. The data requested have been received from all Federal Reserve banks and a summary thereof (B-1026) is inclosed for your information.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure

TO ALL GOVERNORS AND AGENTS

(Inclosure to Governors and Agents only)

FEDERAL RESERVE BOARD

WASHINGTON

January 23, 1935
B-1054.ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDSUBJECT: Revised Federal Reserve Bank
Weekly Statement Figures.

Dear Sir:

For your information, and in order that correct comparative figures may be published in the consolidated weekly condition statement of the Federal Reserve banks for 1935, if issued at your bank, there are shown in the attached statement revisions made in the weekly Federal Reserve bank press statements issued during 1934, which were received too late to be shown in the comparative column of the following week's statement, or which are being made in accordance with advice contained in the Board's telegram of January 9, 1935, TRANS 2198, to the effect that F. D. I. C. stock held a year ago will be included in "All other assets" and the banks' subscriptions for such stock in "All other liabilities".

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

CORRECTIONS IN CONSOLIDATED WEEKLY STATEMENT OF CONDITION OF FEDERAL
RESERVE BANKS IN 1934, NOT SHOWN IN THE COMPARATIVE COLUMN OF THE
FOLLOWING WEEK'S STATEMENT, ALSO REVISIONS MADE NECESSARY BY CHANGES
IN THE FORM OF STATEMENT

(In thousands of dollars)

Date	Bills discounted		All other assets	Reserve for contingencies	All other liabilities
	Secured by U.S. Gov't obligations direct and/or fully guaranteed	Other bills discounted			
1934					
January					
			118,637	22,523	151,450
			118,675	22,523	151,620
February					
			115,564	22,523	161,109
			116,133	22,524	152,728
			116,619	22,524	153,429
			117,441	22,527	155,479
March					
			118,286	22,528	157,008
			120,615	22,529	166,886
			118,634	22,530	165,650
			119,560	22,530	167,763
April					
			120,999	22,530	163,500
			122,327	22,529	179,126
			181,178	22,529	163,433
			182,377	22,529	164,807
May					
			183,967	22,531	163,993
			184,880	22,531	164,878
			185,430	22,532	163,981
	6,298	28,104	187,225	22,532	164,736
	6,471	27,780	187,876	22,532	165,424
	9,085	24,615			
June					
	5,663	23,334	188,389	22,532	170,719
	6,095	21,781	193,123	22,533	176,604
	6,810	21,146	183,546	22,534	166,542
	6,760	20,255	185,505	22,534	166,462
July					
	4,579	24,409			
	4,154	18,530			
	5,556	17,696			
	4,364	16,934			
August					
	4,337	17,033			
	3,774	16,776			
	4,142	16,065			
	3,599	16,217			
	4,519	16,488			

B-1054a

Date	Bills discounted		All other assets	Reserve for contingencies	All other liabilities
	Secured by U. S. Gov't obligations direct and/or fully guaranteed	Other bills discounted			
September 5	6,492	17,145			
12	5,934	17,406			
19	5,716	16,249			
26	5,395	14,919			
October 3	4,806	10,451			
10	4,130	7,909			
17	4,624	7,088			
24	4,526	6,338			
31	5,404	5,581			
November 7	5,495	5,174			
14	4,821	4,321			
21	6,044	4,679			

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 21, 1935
B-1055

Dear Sir:

The attached copy of a letter (B-1062) dated January 17, 1935, to Industrial Advisory Committee Chairmen, was omitted by error from the letter to you of January 17, 1935, on the subject of a pamphlet on industrial loans.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO ALL GOVERNORS AND CHAIRMEN OF FEDERAL RESERVE BANKS

FEDERAL RESERVE BOARD

WASHINGTON

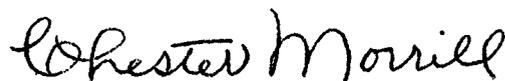
ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDJanuary 24, 1935
B-1057

SUBJECT: Fiscal Agency and Depository Expenses

Dear Sir:

In order that figures showing the total cost of fiscal agency, custodianship and depository operations performed by the Federal Reserve banks for the U. S. Government and certain Governmental agencies may be available, it is requested that, pending the revision of the Functional Expense Report, Form E, to show the total of such expenses, special reports on Forms B-941, a supply of which is inclosed herewith, be furnished semi-annually, beginning with the six-month period ending December 31, 1934. The Forms are identical with those used in submitting reports for the first half of 1934. At the time of the last Governors' Conference, Governor Fancher and Governor Martin, two members of the Committee of the Governors' Conference on Fiscal Agency Expenses, recommended that these reports be continued. Additional copies of these forms will be furnished upon request.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL GOVERNORS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 28, 1935.
B-1058.

SUBJECT: Preliminary classification of loans and
investments of member banks as of
December 31, 1934.

Dear Sir:

There is inclosed for your information and confidential use a copy of a statement prepared for the Board giving a preliminary classification of loans and investments of member banks on December 31, 1934, based upon data submitted by the Federal Reserve agents, in comparison with corresponding figures for October 17, 1934 and December 30, 1933.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 29, 1935.
B-1059.

SUBJECT: Member Bank Call Report
for October 17, 1934.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 63 showing the condition of licensed member banks on October 17, 1934. Please forward a copy to each member bank in your district that has expressed a desire to receive copies of call reports as issued.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDFebruary 4, 1935
B-1060SUBJECT: Collateral and custodies held,
as reported on Form 34.

Dear Sir:

As you know the classification of primary, secondary and additional collateral and custodies held, as reported on the reverse side of Form 34, was revised in the 1935 edition in accordance with the recommendation contained in the minutes of the committee meeting on accounting held in Chicago on June 27 and 28, 1934.

Inasmuch as a number of Federal Reserve banks have requested advice as to how certain securities should be classified, the following suggestions are made with a view to insuring uniformity of handling by all Federal Reserve banks:

Include in the item "U. S. Treasury - stock" all unissued stock for which the Federal Reserve bank is accountable to the Treasury Department. This will include unissued obligations of the United States, the Federal Farm Mortgage Corporation, Home Owners' Loan Corporation, and the 4 percent Consolidated Federal Farm Loan bonds.

Include in the item "U. S. Treasury - other", all retired securities of the kinds mentioned in the preceding paragraph, also securities held in

- 2 -

safekeeping for the Secretary of the Treasury, the Treasurer of the United States, the Comptroller of the Currency, and Collectors of Internal Revenue.

Include in the item "Federal Farm Mortgage Corporation", all Federal Farm Mortgage Corporation bonds held in trust for Registrars of Federal Land Banks or held in safekeeping for the Federal Farm Mortgage Corporation.

Include in the item "Other Government agencies", securities held for all other Government agencies, departments and officials. This will include canceled obligations of the individual Federal Land Banks and of the Federal Intermediate Credit Banks and securities held in safekeeping for the Farm Credit Administration, the Public Works Administration, the Federal Emergency Relief Administration, and for various other Government agencies, departments, and officials.

Include in the item "Others", all custodies for member banks, registered bonds received from Washington and held by the Federal Reserve bank pending delivery, bonds of new issues held pending delivery and for which the Treasurer's general account has been credited, and bonds received for exchange or redemption and held in suspense due to imperfect assignments or other causes.

Very truly yours,



Chester Morrill,
Secretary.

LETTER TO ALL GOVERNORS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDFebruary 7, 1935.
B-1061

SUBJECT: Personnel Classification Plan.

Dear Sir:

All of the Federal Reserve banks have adopted personnel classification plans which provide for the classification of employees into groups and grades and the fixing of a salary range for each non-official position in the bank, except positions designated as "appraised". The classification plan now in effect at each Federal Reserve bank follows, in a general way, the outline suggested by the committee on Classification of Personnel at Federal Reserve banks at their meeting in Chicago on April 8, 1929.

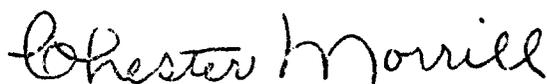
As these plans have now been in effect for approximately 5 years, it is felt desirable to have them thoroughly reviewed in the light of the experience gained in their operation, with the view of simplifying them and, if practicable, putting them on a more nearly uniform and comparable basis. For this purpose the Board desires to call a conference of senior officers, representing all the Federal Reserve banks, who are familiar with the personnel classification plans. Prior to the calling of such a conference, however, it would be helpful if each bank would thoroughly review its own classification plan and work out in some detail any changes therein which it may have to suggest.

Among the suggestions which have been made for a revision of the personnel classification plans are the elimination of the group and grade classi-

fications, and changes in the present method of describing work performed and qualifications required with a view to bringing about a greater uniformity in the practice of the several Federal Reserve banks in this respect.

The Board feels that, if practicable, such a conference should be held within the next two months, and following the receipt of replies from all Federal Reserve banks, including advice as to the name of the officer of each bank who will attend such a conference, the Board will fix the date and place of the meeting. In advising the Board of the name of your representative, it will be appreciated if you will at the same time indicate any specific questions with reference to the personnel classification plans which you would like to have considered at the conference.

Very truly yours,



Chester Morrill,
Secretary.

COPY TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

WASHINGTON

January 17, 1935

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

B-1062.

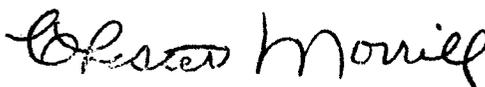
SUBJECT: Pamphlet on Industrial Loans.

Dear Sir:

At the meeting of the Industrial Advisory Committee chairmen, held in Washington on December 18, 1934 reference was made to the pamphlet on industrial loans prepared by Mr. Creighton and distributed in the First Federal Reserve district, and you were advised that material for a pamphlet was being prepared by the Board which would be sent to you in the course of a few weeks.

While it is felt that the pamphlet distributed in the First Federal Reserve district is admirable and has been of material help, it is thought that perhaps it might be desirable to lay somewhat more stress in the future on advances through member banks and other financing institutions. The material inclosed herewith has been drafted with that idea in mind. If you should decide to use the material in connection with a pamphlet or otherwise, it is assumed, of course, that you will obtain the approval of the Federal Reserve bank before releasing it for publication.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL INDUSTRIAL ADVISORY COMMITTEE CHAIRMEN.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDFebruary 26, 1935
B-1063

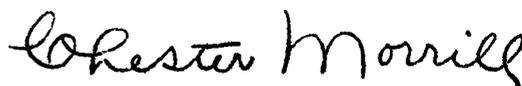
Dear Sir:

There is inclosed copy of a letter, dated February 14, 1935, received by the Federal Reserve Board from Mr. C. B. Eilenberger, Third Assistant Postmaster General, regarding the practice of placing coupons, bonds, scrip, stock certificates, etc., in the ordinary mails instead of dispatching such matter by registered mail. It will be appreciated if you will advise the Board at your early convenience as to the present practice of your bank in this respect and of your views on the subject matter contained in Mr. Eilenberger's letter.

It will also be appreciated if you will advise the Board whether any matter of the type referred to above is being received by your bank in the ordinary mails from member banks or from other Federal Reserve banks and, if so, whether this has made it necessary for you to take any added precautions, which may have resulted in some inconvenience or in increased expense.

In case it is the practice of your bank to dispatch any coupons, bonds, etc., by ordinary mail, please furnish the Board with a statement showing the estimated savings during the year 1934, which have resulted from this practice, prepared in accordance with the attached form.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures

TO ALL GOVERNORS

ESTIMATED SAVINGS DURING YEAR 1934 WHICH HAVE RESULTED FROM THE
PRACTICE OF DISPATCHING COUPONS, BONDS, ETC., BY ORDINARY
MAIL INSTEAD OF BY REGISTERED MAIL

FEDERAL RESERVE BANK OF _____ (INCLUDING BRANCHES)

Year
1934

Estimated registration fees* if matter had been dispatched by registered mail	\$.....
Estimated cost of insurance if matter had been dispatched by registered mail
Estimated <u>additional</u> clerical and protection expense chargeable to operation if matter had been dispatched by registered mail	<u>.....</u>
Total	<u>.....</u>
Less -	
Cost of insurance, if any, on ordinary mail shipments	\$.....
Losses, if any, absorbed by Reserve bank	<u>.....</u>
Estimated savings	<u>.....</u>

MEMORANDA

	<u>Estimated number of pieces**</u>	<u>Estimated value</u>
Estimated value of coupons, bonds, etc., dispatched by ordinary mail and number of pieces of such mail	\$.....

*Including surcharges, if any.

**Envelopes dispatched.

B-1063b

POST OFFICE DEPARTMENT

Third Assistant Postmaster General

Washington

February 14, 1935

Federal Reserve Board,

Washington, D. C.

Gentlemen:

It has come to the attention of this Office that some insurance companies have inaugurated the practice of insuring ordinary first-class mail. It appears that the policy does not cover currency and coin but does cover such matter as coupons, bonds, scrip, stock certificates, etc., and that the maximum liability assumed in connection with any one article is \$300.

It is understood that this insurance on ordinary first-class mail is carried by comparatively few companies and that a majority of the companies which carry the bulk of commercial insurance on registered mail have not as yet undertaken this insurance of ordinary mail. It is understood that a few banks or trust companies have been carrying their own risk on matter of the character referred to above sent by them as ordinary instead of registered mail.

It is known that in many instances, matter of the character mentioned would be mailed by the senders as registered mail were the commercial insurance companies to refrain from insuring the matter if sent as ordinary mail, and this Office is of the opinion that matter of this kind should not be placed in the ordinary mails.

The law establishing the Registry Service (39 U.S.C. 381a Supp. VII) indicates that the Registry System was established "for the greater security of valuable mail matter." It is not believed that it was the intent of Congress that the ordinary mails be burdened with matter of the character outlined above which either singly or in the aggregate is of more than nominal value and of such a character as would ordinarily be given the protection of the Registry Service.

The domestic Registry Service has reached a high state of efficiency as is evidenced by the very small proportion of losses which occur. This result has been attained largely through the maintenance of an expensive system of records and receipts and other safeguards which have been thrown around registered mail.

B-1063a

For many years the Registry Service has been conducted at a material loss. During the fiscal year 1934, the expenses of the Registry Service in connection with paid registrations exceeded the revenues from paid registrations by \$3,662,614. The efficiency of the Registry Service, with resulting high degree of safety afforded mail of large value entrusted to it, has of course been of obvious advantage to the senders and commercial companies underwriting such mail, and it is believed that the commercial insurance companies as a whole, as well as the senders of registered mail of considerable value, are materially concerned in the efforts made by the Department to balance the revenues of the Registry Service with the expenditures so that there may be no necessity for curtailing any of the safeguards now afforded registered mail of large value. The adequacy of the records maintained in connection with registered mail at present have also aided materially in recoveries of substantial sums in case of major robberies, etc., all of which has been of material advantage to the insurance companies through reduction of the net losses to be sustained by the companies, and the senders of registered mail of large value have benefited through the low insurance rates which are believed to have been made possible as a result of the efficiency of the Registry Service.

It seems evident that should the practice of insuring ordinary first-class mail be extended considerably, it would militate seriously against the Registered Mails Service and affect its revenues to a material extent, necessitating that such action be taken as the Department might find available and appropriate for the purpose of protecting its interests in the premises.

It is also believed that as soon as it became known that matter of more than nominal value of the character enumerated above is being entrusted to the ordinary mails, the number of losses would materially increase with consequent numerous inquiries or complaints to the Department, the handling of which would add still further to the expenses of the Postal Service without affording any offsetting revenue.

For the reasons stated, it is believed to be to the interests of all concerned to discourage the insurance of ordinary mail of the first-class even though the amount of risk underwritten is comparatively small.

The object of this communication is to obtain, if possible, your cooperation, in so far as the Federal Reserve Banks and branch Federal Reserve Banks are concerned, in the efforts of the Department to discourage the use of the ordinary mails for matter of the character mentioned and for the reasons stated in detail above. It is under-

B-1063a

3.

stood that the Federal Reserve Bank at _____, ____, has utilized this comparatively new insurance to some extent at least, whereas the Federal Reserve Bank at _____, ____, has issued instructions to the effect that matter of the character referred to above should not be sent as ordinary mail.

Will you please advise as to your views regarding the matter and as to whether you find it practicable to instruct the Federal Reserve Banks and branch Federal Reserve Banks to the effect that matter of the character in question should be sent by registered mail instead of being sent by ordinary mail covered by commercial insurance.

Representatives of this Office will call on you within a few days for the purpose of furnishing you any further information regarding the matter which may be desired.

Very truly yours,

(Signed) C. B. Eilenberger
Third Assistant Postmaster General.

GWP:HBB

B-1063a

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 27, 1935.
B-1064.

SUBJECT: Condition of licensed member banks.

Dear Sir:

There is inclosed, for use pending the printing of Member Bank Call Report No. 64, a statement showing the assets and liabilities and a classification of loans, investments, and deposits on December 31, 1934, of all licensed member banks, together with corresponding data 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 BOARDMarch 6, 1935
B-1065.SUBJECT: Classification of industrial advances
by types of business and maturities.

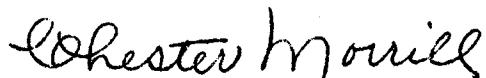
Dear Sir:

In order that the Federal Reserve Board may have information as to the extent to which different lines of business and industry have applied for credit under authority of Section 13b of the Federal Reserve Act, and as to the maturities of loans made under the authority of that Section, it will be appreciated if you will furnish the Board data as of February 27, 1935, regarding such advances in the form called for by the inclosed schedules.

One of the schedules calls for a classification of applications (for advances and commitments) received and applications approved, according to type of business or industry. Any businesses or industries which do not fit into the classification as it stands should be shown separately under the respective general heads against the item "other (specify)".

The other schedule calls for a classification according to maturities of industrial advances actually made, with separate totals for those payable in installments. Loans evidenced by a number of notes with successive maturities should be classified as payable in installments, the maturity of the last note being considered the maturity of the loan as a whole.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

APPLICATIONS FOR INDUSTRIAL ADVANCES
 (INCLUDING COMMITMENTS) UNDER SECTION 13b
 CLASSIFIED ACCORDING TO BUSINESS AND INDUSTRIES

JUNE 19, 1934 TO FEBRUARY 27, 1935

FEDERAL RESERVE BANK OF _____

BUSINESS OR INDUSTRY	NET APPLICATIONS RECEIVED BY INDUSTRIAL ADVISORY COMMITTEE		APPLICATIONS APPROVED BY FEDERAL RESERVE BANK (WITH AND WITHOUT CONDITIONS)			
	Number	Amount	COMMITMENTS		ADVANCES	
			Number	Amount	Number	Amount

MANUFACTURERS

Auto, Trucks, Accessories
 Chemicals and Paints
 Food Products
 Furniture and Office Equipment
 Hides and Leather
 Jewelry and Silverware
 Liquors, Wines and Beer
 Machinery
 Metals
 Paper Products
 Textiles
 Wearing Apparel, Shoes, etc.
 Other (specify):

WHOLESALE AND RETAIL TRADES

Auto and Accessories
 Chain and Department Stores
 Food Products
 Grain, Feed, Seeds, etc.
 Oil
 Retail Clothing
 Retail Drugs
 Retail Furniture
 Retail Lumber and Builders' Supplies
 Other (specify):

MISCELLANEOUS

Contractors and Construction
 Lumber and Building Supplies
 Printing, Publishing and Allied Trades
 Shipbuilding and Repairing
 Transportation
 Other (specify):

Totals*

*Columns 1 and 2 should agree with item 4 of Form B-22; the sum of columns 3 and 5 should agree with the sum of items 10-a and 10-b column 3 of Form B-22; and the sum of columns 4 and 6 should agree with the sum of items 10-a and 10-b column 4 of Form B-22.

(B-1065)

INDUSTRIAL ADVANCES MADE UNDER SECTION 13b
CLASSIFIED BY MATURITIES

JUNE 19, 1934 TO FEBRUARY 27, 1935

FEDERAL RESERVE BANK OF _____

MATURITIES#	PAYABLE IN INSTALLMENTS*		NOT PAYABLE IN INSTALLMENTS	
	Number	Amount	Number	Amount

Three months or less

Three to six months

Six to twelve months

One to two years

Two to three years

Three to four years

Four to five years

Totals**

#In the "Three to six months" classification, exclude maturities of three months and include maturities of six months; and follow a similar procedure with respect to the other maturity groups.

*In the case of an approved application represented by 2 or more notes of different maturities, classify according to the maturity of the note which will mature last.

**To agree with item 3 of Form B-22a, column 1.

(B-1065)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDMarch 26, 1935
B-1068SUBJECT: 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 five forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

<u>Number of</u> <u>copies</u>	<u>Form</u>
	Form 105, Report of condition of State bank member.
	Form 105-b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	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.

Please mail to each licensed State bank member 3 copies of Form 105, and an appropriate number of Forms 105-b, 220, 220-a and 220-b

- 2 -

based on the number required at the time of the last call for reports, with the request that the forms be held pending a call for reports thereon. Member banks should be instructed to submit all of the reports in duplicate, both the original and duplicate copies to be signed and fully executed.

It will be noted that at the top of the form the words "Give within the quotation marks the full and exact legal title of the bank" have been shown below the space provided for the name of the bank. Please call the special attention of State bank members to this requirement.

Please furnish the Board with a copy of the letter transmitting the forms to State bank members and a list of the State bank members on which the call is made.

It is requested that within 20 days, if practicable, 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. In case reports submitted in response to such calls were not required to be published, information is requested as to the nearest date when publication of such reports was required.

If you are satisfied that additional time is needed for the preparation of the report of any affiliate, you are authorized on behalf of the Federal Reserve Board to grant an extension of 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 report. Please furnish the Board with a copy of each letter granting an extension of time.

(B-1068)

- 3 -

Please have compiled from the next call reports (of both national and State bank members) and mailed or wired in time to reach the Board within 3 weeks of the date on which the call is made, if practicable, a statement showing the amount of (1) each class of loans and discounts as shown against items 1 to 8 of Schedule E, (2) each class of United States Government obligations, direct and/or fully guaranteed, as shown against items 1(a) to 2(c) of Schedule F, and (3) total other bonds, stocks and securities, as shown against Asset item four (total of Schedule G). Separate figures should be furnished for central reserve city member banks, reserve city member banks, and country member banks.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

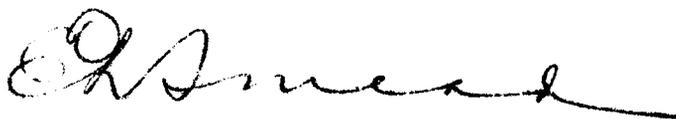
March 28, 1935.
B-1069.

SUBJECT: Revision of Form 44a.

Dear Sir:

Inclosed herewith is a stock of revised Form 44a,
monthly report of reserves by classes and of Federal
Reserve currency outstanding and on hand.

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

March 29, 1935.
B-1070.

SUBJECT: Member Bank Call Report
for December 31, 1934.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 64 showing the condition of licensed member banks on December 31, 1934. Please forward a copy to each member bank in your district that has expressed a desire to receive copies of call reports as issued.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

April 1, 1935.
B-1071.ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDSUBJECT: Personnel Classification
Plan Conference

Dear Sir:

As you were advised in a telegram of this date the conference to review the personnel classification plans, referred to in the Board's letter B-1061 of February 7, 1935, will be held in Chicago on April 17, immediately following the meeting of the Board of Trustees of the Retirement System of the Federal Reserve banks. As most of the officers designated to attend the conference on personnel classification plans are members of the Board of Trustees of the Retirement System the holding of the personnel classification plan conference in Chicago immediately following the meeting of the trustees will save considerable time and expense.

It is suggested that the following subjects be considered at the conference in addition to any other questions relating to the personnel plans that may be suggested by the banks or members of the conference at the time of or before the conference is held:

1. Should the group classifications be eliminated?
2. Should the grade classifications be eliminated?
3. Should the plans call for both a maximum and minimum salary for each position or for a maximum salary only?

- 2 -

4. Is there now any necessity for designating any positions as "appraised"?
5. Should any changes be made in the conditions under which employees may be hired, promoted or demoted, etc., without the Federal Reserve Board's advance approval, as set forth in the attached memorandum B-315 relating to personnel classification plans of the Federal Reserve banks?
6. Is it practicable to adopt a general rather than specific description of work of certain junior employees in order to make the plans somewhat more flexible?
7. Should Form A be revised and, if so, what changes are suggested?
8. Should every person not an officer or director who is regularly devoting all or part of his time to the bank be covered by the personnel classification plan?
9. When it appears desirable to provide more than one salary range for a position, to cover "junior" and "senior" employees performing the same general type of work, how much detail should be given for each separate salary range under the columns "Description of Work" and "Qualifications Required"?
10. Should the personnel classification plans be revised so as to have some general uniformity in the "Description of Work" and "Qualifications required"? At the present time the description of work and qualifications required are given in considerable detail by some banks while at others this information is quite general in character.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS

PERSONNEL CLASSIFICATION PLANS OF FEDERAL RESERVE BANKS

(Effective January 1, 1931)

1. Under the personnel classification plans approved by the Federal Reserve Board for the Federal reserve banks each Federal reserve bank is authorized to hire an employee or to promote or demote an employee without first securing the Federal Reserve Board's approval provided the salaries paid to employees do not exceed the maximum salary specified in the classification plan for the position occupied.
2. All changes in personnel classification plans whether in title, descriptions of duties or qualifications, or in salary ranges should receive the approval of the Federal Reserve Board before they become effective and any request for authority to make a change in the plan should be accompanied with a revised page Form A covering the position for which the change is recommended.
3. All appointments to appraised positions and all changes in salaries of persons occupying appraised positions must be approved by the Federal Reserve Board before they become effective. Appraised positions are positions to which it is impracticable to assign a definite grade as the duties and responsibilities thereof are such that the incumbent's value to the bank must necessarily be determined largely by his ability and experience.
4. Temporary help (for a period not exceeding three months) may be employed as required without securing the Board's approval provided the salary paid conforms to the salary range established in the personnel classification plan for similar work elsewhere in the bank. Temporary employees should be given the classification symbol for the position occupied followed by the letter "T".
5. An employee may be temporarily assigned (for a period not exceeding six months) without reduction in salary, to a position calling for a lower maximum salary than he is receiving without the approval of the Federal Reserve Board. Such employees should be given the classification symbol for the position occupied followed by the letters "TA". (Effective 7-7-33)
6. In all lists of employees submitted to the Federal Reserve Board the employees should be listed under the exact titles and in the same order as the positions appear in the personnel classification plan on file with the Board.
7. The personnel classification plan should cover all employees on the bank's payroll including those whose salaries are reimbursed to the bank in whole or in part from notary fees, cafeteria receipts, etc.

(B-315)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDApril 5, 1935
B-1072

SUBJECT: Functional Expense Reports.

Dear Sir:

There is inclosed, for your information, a copy of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)", which has been revised, effective as of January 1, 1935. In accordance with the request contained in your telegram of March 12, 1935, there are being forwarded to you, under separate cover, copies of the instructions.

The instructions contained in the tentative Manual forwarded to you with our letter of November 10, 1934 (B-1030) were reviewed and commented on by each Reserve bank, and the entire manual, together with the suggestions made by the Reserve banks was reviewed at a committee meeting, held in Cleveland on February 18 and 19, 1935, at which the following were present:

Members of Committee

- M. E. Lysen, Manager, Accounting Department,
Federal Reserve Bank of Minneapolis
- H. N. Mangels, Assistant Cashier, Federal Reserve
Bank of San Francisco
- L. S. Myrick, Technical Assistant, Division of Bank
Operations, Federal Reserve Board
- G. R. Ross, Manager, Accounting Department, Federal
Reserve Bank of Cleveland (Secretary)

- 2 -

W. H. Snyder, Controller, Federal Reserve Bank of Chicago
J. S. Walden, Jr., Controller, Federal Reserve Bank of
Richmond (Chairman)

Others

R. B. Hays, Assistant Cashier, Federal Reserve Bank of
Cleveland
E. L. Smead, Chief, Division of Bank Operations, Federal
Reserve Board.

A sub-committee consisting of Messrs. Lysen, Mangels and Myrick was designated to revise the instructions in accordance with the recommendations of the committee and these changes, together with others later agreed upon, have been incorporated in the instructions being sent to you at this time. Mr. Walden, who was Chairman of the Cleveland meeting, kindly consented to meet with the sub-committee after it had tentatively made the necessary revisions and he, and the other members of the full committee, have reviewed the present revised edition of the Manual.

The revised instructions are dated January 1, 1935, as it is thought that the work involved in preparing the form E report for the first half of 1935 on the new basis will not be materially different than would be the work involved in preparing the report on the old basis and in addition submitting the special report covering Fiscal Agency, Custodianship, and Depositary expenses.

The instructions, as revised, call for a more accurate distribution of costs, and it is suggested that special care be exercised by those engaged in the preparation of the reports to see that salaries

B-1072

- 3 -

and other costs are correctly allocated to the appropriate expense units and functions.

Form E is being reprinted and will be distributed as soon as received from the printer. Should any additional copies of the new manual be required they will be sent upon request.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

Inclosure

B-1072

TO ALL GOVERNORS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 27, 1935.
B-1073.

SUBJECT: Preliminary figures of loans and
investments of member banks as of
March 4, 1935.

Dear Sir:

There is inclosed for your information and confidential use a copy of a statement prepared for the Board giving preliminary figures of loans and investments of member banks on March 4, 1935, based upon data submitted by the Federal Reserve agents, in comparison with corresponding figures for March 5 and December 31, 1934.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations

Inclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

C O N F I D E N T I A L

PRELIMINARY FIGURES OF LOANS AND INVESTMENTS OF ALL LICENSED MEMBER BANKS ON MARCH 4, 1935, COMPARED WITH DECEMBER 31, AND MARCH 5, 1934.

(In millions of dollars)

	Total loans and investments	Loans to banks	Loans to other customers				Open market loans					Investments		
			Total	Secured by stocks and bonds	Secured by real estate	Otherwise secured and unsecured	Total	Acceptances payable in U.S.	Acceptances, etc. payable abroad	Commercial paper bought	Loans to brokers in New York	U. S. Govt. direct obligations	Obligations fully guaranteed by U.S. Govt.*	Other securities
<u>Total - All licensed member banks</u>														
1934-Mar. 5	26,548	225	11,093	3,644	2,382	5,067	1,387	350	26	157	855	8,667		5,175
1934-Dec. 31	28,150	155	10,509	3,296	2,273	4,940	1,363	256	31	232	843	9,906	989	5,227
1935-Mar. 4	28,235	134	10,412	3,215	2,254	4,943	1,400	235	33	257	875	9,819	1,200	5,270
<u>New York City**</u>														
1934-Mar. 5	7,351	112	2,321	985	156	1,180	986	276	8	14	687	2,768		1,164
1934-Dec. 31	7,761	63	2,202	874	139	1,188	894	210	16	6	662	3,246	278	1,078
1935-Mar. 4	7,780	52	2,199	861	144	1,195	904	203	19	4	678	3,200	298	1,127
<u>Chicago**</u>														
1934-Mar. 5	1,440	16	514	239	28	248	57	18	7	17	15	564		288
1934-Dec. 31	1,581	11	435	199	18	218	87	29	5	27	26	742	78	229
1935-Mar. 4	1,701	8	461	201	17	244	66	14	3	21	28	876	78	212
<u>Reserve city banks</u>														
1934-Mar. 5	9,376	63	4,154	1,327	1,130	1,698	249	46	8	72	123	3,390		1,521
1934-Dec. 31	10,028	55	4,024	1,213	1,090	1,720	234	13	9	108	105	3,809	279	1,628
1935-Mar. 4	10,019	48	3,973	1,173	1,076	1,724	248	12	9	122	106	3,725	376	1,648
<u>Country banks</u>														
1934-Mar. 5	8,381	35	4,103	1,093	1,068	1,942	95	10	2	54	30	1,946		2,202
1934-Dec. 31	8,780	27	3,849	1,010	1,026	1,813	149	5	2	92	50	2,108	355	2,293
1935-Mar. 4	8,735	25	3,779	981	1,017	1,780	181	6	1	110	64	2,019	448	2,283

*Separate figures not available prior to the October 17, 1934 call.

**Central reserve city banks only.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

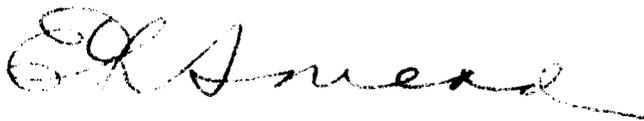
May 22, 1935.
B-1074.

SUBJECT: Fiscal Agency and Depository
Expenses.

Dear Sir:

There is inclosed, for your information, a folder containing photostatic copies of the fiscal agency, custodianship and depository expense statements for the six months ended December 31, 1934 submitted in response to the Board's letter of January 24, 1935, B-1057. Statements showing system figures for each of the various operations shown in the exhibits and a summary thereof are also inclosed in the folder.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations

Inclosure.

TO ALL GOVERNORS OF F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 18, 1935.
B-1075.

SUBJECT: Condition of licensed member banks.

Dear Sir:

There is inclosed, for use pending the printing of Member Bank Call Report No. 65, a statement showing the assets and liabilities and a classification of loans, investments, and deposits on March 4, 1935, of all licensed member banks, together with corresponding data 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

May 15, 1935

B-1076

SUBJECT: Instructions Governing the Preparation
of Earnings and Expense Reports and
Profit and Loss Statements

Dear Sir:

There are being forwarded to you today, under separate cover, copies of the "Instructions Governing the Preparation of Earnings and Expense reports and Profit and Loss statements", which have been rewritten to bring them up to date. One copy of the instructions is inclosed for your information.

The instructions should be made effective as of June 1, 1935.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure

TO ALL GOVERNORS

FEDERAL RESERVE BOARD

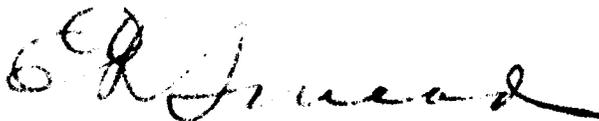
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDMay 15, 1935
B-1077

Dear Sir:

One of the Federal Reserve banks recently made the suggestion that the spacing on the daily balance sheet, Form 34, be changed so that reports thereon may readily be prepared on an adding machine. It will be appreciated if you will advise us whether your bank would prefer to have the spacing on the form changed to fit that of an adding machine, instead of a typewriter, and submit a sample of the spacing required if the suggestion is adopted.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL GOVERNORS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDMay 17, 1935.
B-1079.

SUBJECT: Holiday during June, 1935.

Dear Sir:

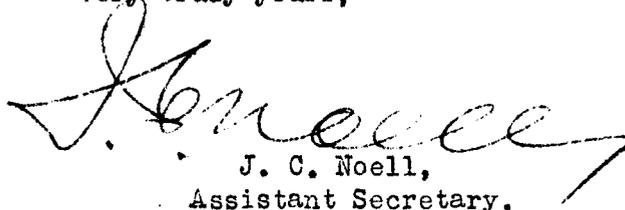
The Federal Reserve Board is advised that on Monday, June 3 the following Federal Reserve banks and branches will be closed in observance of the birthday of Jefferson Davis and Confederate Memorial Day:

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

On June 3 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 of June 3 for the offices concerned with your credits for June 4. No debits covering shipments of Federal Reserve notes for account of the head offices named should be included in your note clearing wire of June 3.

Please notify your branches.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

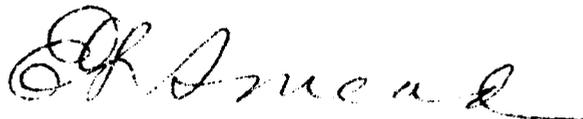
ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDMay 23, 1935.
B-1080.

Dear Sir:

Inclosed is a copy of a letter received from Mr. W. H. Moran, Chief of the Secret Service Division of the Treasury Department with regard to the receipt by some of the Federal Reserve banks at intervals during the past several months, of \$1 Silver Certificates and \$10 Federal Reserve Notes bearing unauthorized surcharge imprints ISSUE OF 1934 & 1935 above the signature of the Secretary of the Treasury.

It will be appreciated if you will instruct those engaged in the handling of money in your bank, and branches, if any, to be on the watch for currency similarly marked and furnish the nearest Secret Service office with information regarding the source of any such notes that may come to your attention.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO ALL GOVERNORS OF F. R. BANKS.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON

May 20, 1935.

Mr. J. C. Noell,
Asst. Secretary,
Federal Reserve Board,
Washington, D. C.

Sir:

During the past several months there have appeared at intervals \$1 Silver Certificates and \$10 Federal Reserve Notes bearing unauthorized surcharge imprints ISSUE OF 1934 & 1935 above the signature of the Secretary of the Treasury.

On the 8th instant a \$10 note on the Federal Reserve Bank of Cleveland surcharged in this manner was surrendered to the Louisville office of this Service by the Federal Reserve Bank branch in that city with the information that it had been returned on that date as counterfeit by the Federal Reserve Bank of Cleveland, Ohio. On or about November 28, 1934, a \$1 Silver Certificate similarly surcharged was detected by the Redemption Division in a shipment received from the Federal Reserve Bank of Cleveland, Ohio. Our Cleveland representative took this matter up with the Federal Reserve Bank in that city, but was unable to obtain any history to the note.

Further investigation by this office has revealed that one of these \$1 Silver Certificates illegally marked is now in the possession of a Mr. Albert A. Grinnell, who is a reputable Detroit citizen and a collector of old and freak currency. Mr. Grinnell advises that he received this note for his collection from Mr. A. H. Haille, Comptroller of the Federal Reserve Bank of St. Louis, Missouri. Since this time Mr. Grinnell has attempted to obtain additional specimens.

It will be appreciated if you will issue a letter to the Federal Reserve Banks and their respective branches

(2)

requesting the proper officials to be on the watch for similarly marked notes and to furnish the nearest Secret Service office with information regarding the source of these notes in the event others come to their attention.

Respectfully,

(Signed) W. H. Moran,
Chief.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 4, 1935.

B-1081.

SUBJECT: Disposition of defective "K" series locks.

Dear Sir:

Referring to the Board's letter X-6083 of June 29, 1928 with reference to the disposition of defective locks of the "K" series, in the future all such locks should be returned to the Division of Loans and Currency, Treasury Department, for transmission to the Mail Equipment Shops, Post Office Department.

Very truly yours,



Chester Morrill,
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDJune 5, 1935.
B-1082.

SUBJECT: Revision of Form E.

Dear Sir:

There are being forwarded to you under separate cover copies of the revised expense report (Form E).

In the recapitulation section at the bottom of page 1, you will note that provision has been made to show charges for bank-owned furniture and equipment used in performing fiscal agency, custodianship and depository activities when reimbursement is not received. No entries covering such charges need be made in current expenses or in miscellaneous earnings as the item is in the nature of a memorandum account.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

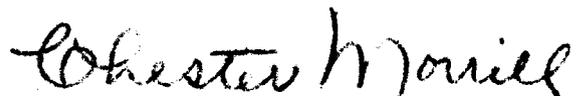
June 12, 1935
B-1083.ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Liberty Loan Associations.

Dear Sir:

After the World War several Federal Reserve banks took over the assets and liabilities of Liberty Loan Associations operated in their respective cities and in some instances still hold amounts due to subscribers who have never completed their payments or applied for refunds. In considering the question of the proper disposition of the funds of the Associations, including earnings thereon, the Federal Reserve Board would appreciate receiving advice from you as to whether your bank took over the assets and liabilities of any Liberty Loan Association and, if so, what disposition has been made of any unclaimed balances and earnings thereon. If final disposition has not been made of the funds of an association, please advise the Board of the present status of its accounts, of the steps taken to locate subscribers who have claims against the Association, and as to what disposition you feel should be made (a) of amounts paid in by subscribers and (b) of earnings or other profits thereon.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 12, 1935.
B-1084.

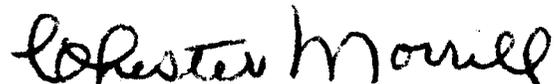
SUBJECT: Earnings and Dividends reports of State
Bank Members, Form 107.

Dear Sir:

There have been forwarded to you today under separate cover copies of Form 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending June 30, 1935.

In the examination of the reports on Form 107, it is suggested that particular attention be paid to the reconciliation of the capital accounts as shown against items 14 to 17 with the corresponding items as shown in condition reports on Form 105.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 14, 1935.
B-1085.

SUBJECT: Member Bank Call Report
for March 4, 1935.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 65 showing the condition of licensed member banks on March 4, 1935. Please forward a copy to each member bank in your district that has expressed a desire to receive copies of call reports as issued.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 19, 1935.

B-1086.

SUBJECT: Reports on industrial advances and commitments.

Dear Sir:

At the present time the Board is receiving reports on industrial advances and commitments from the Federal Reserve banks on Forms B-22, B-22a, B-23, Schedule BD-4, letters or schedules covering commitments and monthly lists of outstanding advances and commitments, and in addition is receiving copies of statements furnished the Secretary of the Treasury in accordance with the regulations issued under date of August 15, 1934.

Such other information as you have been furnishing by letter or otherwise at regular periods in compliance with the Board's requests may be discontinued, effective immediately. The Board will, however, have occasion to request special information from time to time; and in addition it will be appreciated if you will send the Board a letter as occasion arises explaining any unusual changes in your weekly reports on Forms B-22 and B-22a, or informing the Board of any special developments in connection with your bank's industrial loans program, which you feel should be brought to its attention.

- 2 -

It is requested that the above mentioned list of outstanding advances and commitments be furnished quarterly hereafter, as of the last day of March, June, September and December, instead of monthly as at present, and that it show the business of each borrower.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDJune 24, 1935.
B-1088.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 five forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

<u>Number of copies</u>	<u>Form</u>
	Form 105, Report of condition of State bank member.
	Form 105-b (Schedule "0"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	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.

The number of copies of Forms 105b, 220, 220a, and 220b, being forwarded to you, is based on the number requested in response to telegram TRANS 2253 of May 7, 1935.

Please mail to each licensed State bank member 3 copies of Form 105 and an appropriate number of Forms 105-b, 220, 220a and 220b based on the

- 2 -

number required at the time of the last call for reports, with the request that the forms be held pending a call for reports thereon. Member banks should be instructed to submit all of the reports in duplicate, both the original and duplicate copies to be signed and fully executed. The originals of the reports should be retained for the files of your bank and the duplicate copies forwarded to the Board.

Please again call the attention of State bank members to the requirement that the full and exact legal title of the bank be shown in the space provided therefor at the top of the form, this information being needed for the Board's official records. If, upon examination of the reports, the title of any bank does not appear to be correct, please check the matter and where necessary obtain a signed authorization to make an appropriate change in the name of the bank as shown at the top of the condition report and advise the Board of the change.

Please furnish the Board with a copy of the letter transmitting the forms to State bank members and a list of the State bank members on which the call is made.

It is requested that within 20 days, if practicable, 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 State call nearest thereto. In case reports submitted in response to such calls were not required to be published, please inform the Board the date of the call nearest thereto as of which the reports were required to be published.

If you are satisfied that additional time is needed for the prepara-

tion of the report of any affiliate, you are authorized on behalf of the Federal Reserve Board to grant an extension of 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 report. Please furnish the Board with a copy of each letter granting an extension of time.

Please have compiled from the next call reports and mailed or wired in time to reach the Board within 3 weeks of the date on which the call is made, if practicable, a statement showing for all member banks the amount of (1) each class of loans and discounts as shown against Items 1 to 8 of Schedule E, (2) each class of United States Government obligations, direct and/or fully guaranteed, as shown against items 1(a) to 2(c) of Schedule F, and (3) total other bonds, stocks and securities, as shown against Asset item four (total Schedule G). Separate figures should be furnished for central reserve city member banks, reserve city member banks, and country member banks.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

June 28, 1935
B-1088ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

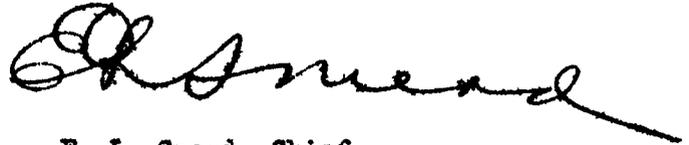
SUBJECT: Form E Manual

Dear Sir:

Referring to our telegram of June 21, 1935 (TRANS 2273), there are inclosed copies of page 107-a of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)".

It will be appreciated if you will have this page, which makes provision for the new unit "Work Relief Checks", inserted in the copies of the Manual on file at your bank and branches. In preparing the functional expense report for the first half, 1935, it is suggested that the figures for this unit be shown on page 22 and they should, of course, be included in the "Subtotal, Depository Operations" on page 19, and in the "Total, Fiscal Agency, Custodianship, and Depository" function on page 21.

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 BOARDJune 29, 1935.
B-1089.

Dear Governor:

There are enclosed, copies of a formula for use in computing square foot space costs and cubic foot vault costs, referred to in our telegram of today (Trans 2284).

The "Manual of Instructions Governing the Preparation of Functional Expense Reports" effective January 1, 1935, provides, on page 6, that the units of the "Fiscal Agency, Custodianship, and Depository" function should be charged with a proportionate part of the "Provision of Space" costs, based on the proportion of square feet of office and vault space used by such units. It is suggested that, instead of reporting square feet of vault space used by such units, Form E figures for the semi-annual report for the period ending June 30, 1935 be prepared on the basis of cubic feet of vault space, and that both the square foot space figures and cubic foot vault figures be based on the average space actually assigned to such units during the six month period. If it is not practical to arrive at average figures, the space used on the last day of the period may be substituted.

It is understood that several Reserve Banks plan to use the enclosed formula for determining the amount of "Provision of Space" expense to be charged to the units of the "Fiscal Agency, Custodian-

#2.

ship, and Depository" function, and it is suggested that, in order to maintain uniformity in the method of such distribution, the formula be used by all banks.

In preparing Form E, the following item which appears on pages 18, 19, 20 and 21 -

"Proportion of 'Provision of Space' function,
(on basis of _____ square feet)"

should be changed to read -

"Space,
(on basis of _____ square feet of floor space and
_____ cubic feet of vault space)".

The figures reported under the new item should be based on the number of square feet of floor space assigned to, and the number of cubic feet of vault area used by each "Fiscal Agency, Custodianship, and Depository" unit, multiplied by the square foot space cost and the cubic foot vault cost, as determined in accordance with the formula.

It will be noted that the entire cost of the "Vault Maintenance" unit is included in the calculation for determining the cubic foot cost of the vault. However, no actual distribution should be made from the "Vault Maintenance" unit. The entire amount reported under the item "Space" in the units of the "Fiscal Agency, Custodianship, and Depository" function, should be shown as a deduction in the "Provision of Space" function, under the appropriate captions provided on page 3 of Form E.

Yours very truly,



E. L. Smead, Chief,
Division of Bank Operations.

FORMULA FOR
DISTRIBUTION OF BUILDING MAINTENANCE COSTS TO THE UNITS OF THE
FISCAL AGENCY, CUSTODIANSHIP, AND DEPOSITARY FUNCTION

(Figures have been inserted to show method of calculation only)

A. METHOD OF DETERMINING THE TOTAL NUMBER OF SQUARE FEET OF RENTABLE OR USABLE SPACE IN BUILDING

1. Measure the interior floor area of the building between plaster surfaces of outside walls, EXCLUDING

(a) service or utility areas, such as access aisles or passage ways to rentable or usable space, access corridors, stairways, elevator corridors and shafts, entrance lobby, wash rooms, lavatories, toilets, locker rooms, tube rooms, etc.;

(b) building equipment space, such as elevator pent-houses, heating plant, power plant, air-conditioning or ventilating equipment space, and fuel space;

(c) building and maintenance space, such as building supply rooms, store rooms, work rooms, service rooms, etc.; and

(d) cash and security vault space (item A-2) but including other vault space such as book vaults.

NOTE: Inside walls or partitions dividing usable or rentable space should be included in the total number of square feet of floor space. Inside walls separating usable or rentable space from service or utility areas, building and maintenance space, or building equipment space should be excluded in calculating usable or rentable space

110,460 sq.ft.

2. Measure the total building floor space area occupied by cash and security vaults, INCLUDING

(a) total building floor space occupied by the vaults and vault walls, without deduction for elevators, stairways, aisles, etc., within the vaults;

(b) vault access areas and floor space required for opening vault and doors; and

(c) floor space of areas provided for protective purposes, surrounding the vault walls

4,748 sq.ft.

3. Add items A-1 and A-2 to arrive at the total number of square feet of rentable or usable space in building

115,208 sq.ft.

FORMULA FOR
DISTRIBUTION OF BUILDING MAINTENANCE COSTS TO THE UNITS OF THE
FISCAL AGENCY, CUSTODIANSHIP, AND DEPOSITARY FUNCTION (Cont'd)

B. METHOD OF DETERMINING PER SQUARE FOOT COST OF RENTABLE
OR USABLE BUILDING SPACE

1. To the gross expenses of the "Provision of Space" function for the current period as shown on Form E, i.e., before deductions for "Income from banking house", etc., to obtain the net total provision of space expense	<u>\$136,922</u>
<u>Add -</u>	
a. Depreciation at 2 percent <u>per annum</u> on cost of construction of bank building after deducting charge-offs approved by Federal Reserve Board in order to arrive at replacement cost of building, but not deducting other charge-offs	<u>\$44,563</u>
b. Depreciation on fixed machinery and equipment at 5 percent <u>per annum</u> of original cost. (Do not include the cost of replacements charged to "reserves")	<u>\$39,205</u>
2. The sum of items B-1, B-1-a, and B-1-b represents the total maintenance expense of rentable or usable building space	<u>\$220,690</u>
3. Divide item B-2 by item A-3 to obtain the cost per square foot of maintaining rentable or usable space	<u>\$1.92</u> sq.ft.
(\$220,690 ÷ 115,208 = \$1.92)	

FORMULA FOR
DISTRIBUTION OF BUILDING MAINTENANCE COSTS TO THE UNITS OF THE
FISCAL AGENCY, CUSTODIANSHIP AND DEPOSITARY FUNCTION (cont'd)

C. METHOD OF DETERMINING PER SQUARE FOOT COST OF RENTABLE
OR USABLE BANK SPACE

1. From the total maintenance expense of rentable or usable building space (item B-2) \$220,690.00
- Deduct -
- a. The total cost of maintaining space actually rented to tenants on an office building basis. This cost is obtained by multiplying the number of square feet of floor space actually rented to such tenants (item C-3-a) by the cost per square foot of maintaining rentable or usable building space (Item B-3)
 $(28,490 \times \$1.92 = \$54,700.80)$ \$54,700.80
2. The remainder (item C-1 minus C-1-a) represents the total maintenance charges for rentable or usable space for banking purposes, including "Fiscal Agency, Custodianship, and Depository" activities \$165,989.20
3. From the total number of square feet of rentable or usable space in building (Item A-3) 115,208 sq.ft.
- Deduct -
- a. The total number of square feet of space actually rented to tenants on an office building basis 28,490 sq.ft.
4. The remainder (item C-3 minus C-3-a) represents the total number of square feet of space available for banking and "Fiscal Agency, Custodianship, and Depository" activities 86,718 sq.ft.
- Deduct number of square feet inside building used for-
- a. Security court, garage, loading platforms 1,265 sq.ft.
(within the building)
- b. Purchasing agent's office, telephone switchboard, automatic telephone exchange, and telegraph office 2.187 sq.ft.
- c. Other space properly deductible — sq.ft.
- d. Total deductions 3,452 sq.ft.
5. The remainder (item C-4 minus C-4-d) represents the net number of square feet of space available for banking and "Fiscal Agency, Custodianship, and Depository" activities 83,266 sq.ft.

FORMULA FOR
DISTRIBUTION OF BUILDING MAINTENANCE COSTS TO THE UNITS OF THE
FISCAL AGENCY, CUSTODIANSHIP AND DEPOSITARY FUNCTION (cont'd)

C. METHOD OF DETERMINING PER SQUARE FOOT COST OF RENTABLE
OR USABLE BANK SPACE (cont'd)

6. Divide item C-2 by item C-5 to obtain the cost per square foot of maintaining rentable or usable bank space

\$1.99sq.ft.

$$(\$165,989.20 \div 83,266 = \$1.99)$$

NOTE: The cost per square foot of maintaining rentable or usable bank space (item 6) represents the cost basis for charging the units of the "Fiscal Agency, Custodianship, and Depositary" function for office space.

FORMULA FOR
DISTRIBUTION OF BUILDING MAINTENANCE COSTS TO THE UNITS OF THE
FISCAL AGENCY, CUSTODIANSHIP, AND DEPOSITARY FUNCTION (cont'd)

D. METHOD OF DETERMINING PER CUBIC FOOT COST OF USABLE
VAULT SPACE

1. Multiply Item A-2 by item C-6 to obtain the bank building maintenance costs applicable to vaults \$9,448.52
- (4,748 x \$1.99 = \$9,448.52)
- Add -
- a. Depreciation at 2 percent per annum on vault construction and doors after deducting charge-offs approved by Federal Reserve Board to arrive at replacement cost, but not deducting other charge-offs \$3,700.00
- b. The total expense of the "Vault Maintenance" unit of the "General Service" function as shown on Form E \$4,144.90
2. The total of items D-1, D-1-a and D-1-b represents the total maintenance costs of the vault \$17,293.42
3. Measure the available cubic feet of actual storage space inside the vaults which may be used for storage of cash, securities, etc. (Do not include aisles, stairways, elevators, and necessary working space) 4,819 cu.ft.
4. Divide item D-2 by item D-3 to obtain the cost per cubic foot of maintaining vault space \$3.58 cu.ft.
- (\$17,293.42 ÷ 4,819 = \$3.58)

NOTE: The cost per cubic foot of maintaining usable vault space (Item D-4) represents the cost basis for charging the units of the "Fiscal Agency, Custodianship, and Depositary" function for vault space.