FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9410

January 2, 1936.

Dear Sir:

Recently I received from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, a letter quoting a resolution adopted by a clearing house association recommending that the Federal Reserve Banks of St. Louis and Chicago select as their member of the Open Market Committee a man of wide experience in business and financial affairs who is not an officer of either bank.

The letter was considered at a meeting of the Board today and I am inclosing, for the information of the board of directors of your bank, a copy of my reply which was approved by the Board.

Very truly yours,

M. S. Eccles,
Chairman.

Inclosure.

TO CHAIRMEN OF ALL F. R. BANKS EXCEPT CHICAGO.

COPY X-9410-a

January 2, 1936.

Mr. E. M. Stevens, Chairman,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stevens:

Your letter of December 16 in which you quoted a resolution of a clearing house association recommending that the Federal Reserve Banks of St. Louis and Chicago select as their member of the Open Market Committee a man of wide experience in business and financial affairs who is not an officer of either bank was brought to the attention of the members of the Board. In this connection several informal inquiries which have come to the attention of the members of the Board of Governors indicated that there was doubt at some of the Federal reserve banks as to what course should be followed with respect to the selection of their representatives to serve after March 1, 1936, as members of the Federal Open Market Committee.

The law is silent as to the procedure which shall be followed by the boards of directors in the selection of such representatives and it does not place upon the Board of Governors of the Federal Reserve System any duty or responsibility with respect to the determination of such procedure. However, since the question has arisen the Board feels that it may be of some assistance to the directors of the Federal reserve banks by giving them its views and suggestions regarding these matters.

Without reviewing in detail the history of the legislation, it is clear that throughout the discussions the persons whom the

proponents of representation of the Federal reserve banks on the Open Market Committee had in mind were the Governors of the Federal reserve banks, as shown for example by the recommendations of the American Bankers' Association, the Reserve City Bankers' Association, and the Federal Advisory Council. When, in addition to this, the fact is taken into consideration that the amendment took away from the Federal reserve banks the power of declining to participate in open market operations recommended by the Federal Open Market Committee and instead made the decisions of the committee binding upon the banks, it becomes especially significant that the members of the committee to be selected by the banks are referred to in the amendment as "representatives of the Federal reserve banks". The Board therefore believes that it is clear that the Congress intended that these members should be persons in position to present adequately the views of the Federal reserve banks and to speak authoritatively for them.

Aside from these considerations it is evident that any person having otherwise satisfactory individual qualifications who might be selected from outside the official personnel of the Federal reserve banks would almost certainly have or represent interests of a business or investment character which might affect his action as a member of the committee. Even though not influenced by his personal interests, their existence might affect the public interpretation of the actions of the Federal Open Market Committee in which he participated. Moreover, he could not be intimately acquainted with the affairs of the

member banks and the Federal reserve banks, the financial policies of the Government, and other phases of monetary matters to the extent that would be desirable and as fully as would be possible in the case of representatives who served only the Federal reserve banks. Although he would have a vote, his contribution to the deliberations of the committee would be more likely that of a consultant or adviser called in at the meetings than that of a true spokesman for the Federal reserve banks.

It is apparent that the situation also presents the question of an appropriate method by which the directors of the banks may contact each other and determine their selections in a mutually satisfactory manner and it seems to the Board that this might be accomplished by preliminary meetings between committees of directors of the banks who could be authorized to formulate procedure and make recommendations for the consideration of the full board of directors of each Federal reserve bank concerned.

The Board will be glad to be advised as to the views of the directors of your bank regarding these suggestions.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9411
January 3, 1936.

SUBJECT: Revised Regulations Governing Telegraphic Transfers and Federal Reserve Leased Wires.

Dear Sir:

The Governors' Conference on October 23, 1935, approved a report of its standing committee on collections recommending that transfers of funds be made by the Federal Reserve banks for nonmember clearing banks at their expense over commercial wires and that a list of nonmember clearing banks be included in the semi-annual par list. The Board of Governors of the Federal Reserve System concurs in this recommendation and will arrange to have a list of nonmember clearing banks included in the semi-annual par list. Regulations governing the use of Federal Reserve leased wires for the purpose of making telegraphic transfers and otherwise as contained in the Board's letter X-4099 of June 21, 1924, are amended as follows:

1. Telegraphic transfers of funds over the leased wires will be accepted from and paid to member banks only. They must represent bank balances and can be made only for round amounts, i. e., multiples of $100. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account carried by one bank with another bank.

2. The information given in telegrams transferring funds over the leased wires must be limited to the name of the sending member bank, name of its correspondent member bank requesting the transfer, name of the member bank receiving credit, and name of its correspondent member bank.

3. The Federal reserve code, including test word, must be used for all messages involving the transfer of funds and, in the interest of economy, all other telegrams should be sent in code when its use shortens the message materially.

4. In addition to the usual mail advice to the bank receiving credit for telegraphic transfers of funds, immediate advice by telegraph, or otherwise, should be given by the Federal reserve bank receiving the transfer in cases where the sending bank or the credited bank has stated that other than the usual mail advice is necessary, or where the nature of the transaction or the amount involved indicates that the additional expense is justified, as to which the receiving Federal Reserve bank will exercise its discretion. All such wire advices should be at the expense of the bank receiving credit and, therefore, should be sent collect.

5. Requests for telegraphic transfers of funds for consummation on date of receipt should not be accepted by Federal reserve banks later than thirty (30) minutes prior to the closing hour of the Federal reserve bank to which transfer is to be made. Any telegraphic transfers of funds requested after such time will be made at the discretion of the Federal reserve bank receiving credit.

6. The leased wires shall not be used for tracing or advising payment or non-payment of any non-cash collection items, nor for transferring the proceeds thereof.

7. The leased wires shall not be used for reconciling exceptions in accounts between Federal reserve banks, except where a loss might be involved.

8. Any loss resulting from negligence on the part of the Federal reserve system in the transmission of telegrams transferring funds over the leased wires through relay stations shall be borne by the sending Federal reserve bank, unless responsibility can be definitely placed upon the Federal reserve bank to which the telegram was addressed.

9. Telegrams must be worded as concisely as possible. Telegrams should not be sent when communication by mail will suffice. For the purpose of enforcing these regulations, provision should be made in each Federal reserve bank so that any misuse of the leased wires will be brought to the attention of a designated officer for reference to the originating department, or, in the case of incoming messages, to the sending Federal reserve bank.

The following clauses under the respective headings should be included by all Federal Reserve banks in their circulars to member

and nonmember clearing banks relating to telegraphic transfers of funds.

TRANSFERS OVER LEASED WIRES

1. Only transfers of bank balances in round amounts, that is multiples of $100, will be made over the Federal reserve leased wires. The term "bank balance" shall be construed to mean an accumulation of funds comprising an established account maintained by a member bank with its Federal reserve bank or with another member bank.

2. Telegraphic transfers of funds over the leased wires will be made for and paid to member banks only. Such transfers will be made without cost to member banks.

3. The descriptive data in telegrams transferring bank balances over the leased wires must be limited to the amount to be transferred, name of the member bank to receive credit, and when necessary, name of its correspondent member bank, and name of member bank with which request originated.

4. Transfers of the proceeds of individual collection items will not be made over the leased wires.

5. The Federal reserve banks maintain, at large expense, a leased wire system over which it is necessary to transmit a heavy volume of important communications. Member banks are requested to cooperate with us in attempting to avoid overcrowding the leased wires by not making requests for telegraphic transfers of small amounts, or those which can be made as well through the mails.

TRANSFERS OVER COMMERCIAL WIRES

1. Telegraphic transfers of funds for any purpose and in any amount and without limitation as to descriptive data will be made over the commercial telegraph wires for member banks. While such transfers will be accepted from and paid to member banks only, they may be for the use of any bank, individual, firm or corporation.

2. Telegraphic transfers of bank balances in round amounts, that is multiples of $100, will be made over the commercial telegraph wires for nonmember clearing banks. Such transfers will be accepted from any member bank for the credit of any nonmember clearing bank, and from any nonmember clearing bank for the credit of any member bank or any other nonmember clearing bank.

3. The cost of all telegrams between Federal reserve banks transferring funds over the commercial telegraph wires will be charged to the member and nonmember clearing banks for which the transfers are made. Member and nonmember clearing banks should prepay the cost of

telegrams requesting such transfers, and telegrams to member and nonmember clearing banks advising credit will be sent "Collect".

LIABILITY OF THE FEDERAL RESERVE BANK

The Federal Reserve Bank of will use due diligence and care in the transfer of funds by telegraph to the receiving Federal reserve bank for credit to the account of the payee bank, but will not be responsible for errors or delays caused by circumstances beyond its control.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9412

January 4, 1936.

Dear Sir:

The Board is in receipt of a letter from Dr. H. S. Cumming, Surgeon General of the United States Public Health Service, asking that the Board and the Federal Reserve banks cooperate with the Public Health Service in an Occupational Morbidity and Mortality Study being conducted by it.

It is understood that a representative of the Public Health Service engaged in this study will call at your bank to obtain certain information regarding its personnel, and the Board will appreciate your cooperating with him in the study. Any information made available to the Public Health Service will not be published separately as coming from your bank but will be combined with other similar data so that the identity of the institution from which specific information is obtained will not be disclosed.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL GOVERNORS EXCEPT AT ATLANTA

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9413
January 4, 1936.

SUBJECT: Annual Reports of Federal
Reserve Agents

Dear Sir:

Several of the Federal Reserve Agents during recent years in submitting their respective annual reports to the Board for approval prior to release have been sending in such reports in duplicate. The extra copy submitted in these instances has proved helpful, and it will be appreciated if each Federal Reserve Agent, in submitting his forthcoming and future annual reports, will supply the Board with two copies instead of one.

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-8414.

January 4, 1936.

Dear Sir:

In the last few weeks the amount of industrial loan applications received by the Federal Reserve banks, and particularly the amount of such applications approved, has increased relatively little. Recent studies which have been made, particularly one by the Committee on Direct Loans of the Associated Business Papers, indicate the existence of some feeling that the Federal Reserve System would have many more applications if a more intensive effort were made to acquaint prospective borrowers with the facilities open to them and to bring to the attention of member banks the desirablity of making industrial loans under cover of Federal Reserve bank commitments.

As you know, the Board feels that it is important that each Federal Reserve bank have some qualified person available at all times to explain to prospective applicants for industrial advances what the Federal Reserve bank is prepared to do and how they should proceed in order to obtain an advance. It is, of course, appreciated that the person having this responsibility should be fully familiar with the Federal Reserve bank's policies and able to appraise fairly accurately the financial problems of prospective applicants.

He should also be able to convince applicants of the Reserve bank's desire to do whatever it can, consistently with the terms of section 13b, to make credit available to them.

In view of the expressed feeling that the System has not done all that it should to implement the provisions of Section 13b, it will be appreciated if you will address a letter to each bank in your district, requesting its assistance in furthering the industrial loan program. A draft of a letter which it is suggested you use in this connection is attached.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Attachment.

TO ALL GOVERNORS.

X-9414-a

DRAFT OF LETTER TO MEMBER AND NONMEMBER BANKS

Information which has recently come to the attention of the Board of Governors of the Federal Reserve System indicates the existence of some feeling that the Federal Reserve System has not done all that it could to make a success of the industrial loan program authorized by Section 13b of the Federal Reserve Act. This section was adopted June 19, 1934, and as you recall, authorizes the Federal Reserve banks to make credit available to established industrial and commercial enterprises for the purpose of replenishing working capital, for periods not exceeding five years.

It has been the aim of the Board, the Federal Reserve banks, and the Industrial Advisory Committees to make such credit available to all borrowers who are in need of working capital and to whom advances could be made on a reasonable and sound basis. To that end special efforts have been made to bring the provisions of the section to the attention of member and nonmember banks and industry in general, and applications for such credit have been approved whenever possible. It may be that there are now no enterprises in your community which are unable to obtain needed working capital from the usual sources and to which loans for this purpose could be made on a reasonable and sound basis. This bank desires particularly, however, to do what it can for industry in its district, and if you know of any instances, or hear of any instances, where worthy enterprises in need of working capital have been unable to obtain it, we shall appreciate your bringing them to our attention.

Under the provisions of the Act the Federal Reserve Banks are authorized to make these loans either direct to borrowers or in participation with financing institutions. If you are interested in participating in any loans, the

liquidity of which may be guaranteed by the Federal Reserve bank and your loss limited to a maximum of 20 percent, this bank will be glad to cooperate with you in any way it can within the law.

Very truly yours,

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9415

January 4, 1936.

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:

"NOYGLE" - Treasury Bills to be dated January 8, 1936, and to mature October 7, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

X-9416

January 4, 1936.

SUBJECT: Regulation R - Relationships with Dealers in Securities under Section 32 of Banking Act of 1933.

Dear Sir:

There are inclosed three mimeographed copies of a revision of Regulation R relating to "Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933" in the form adopted by the Board on January 4, 1936. The regulation as so revised is effective on January 4, 1936.

In order to expedite the distribution of the regulation, you are requested to have copies printed and to forward one or more copies to each member bank in your district as soon as possible. The "X" number appearing on the inclosed copies of the regulation should, of course, be omitted.

An official print of the regulation will be prepared by the Board, and you are requested to advise the Board at your early convenience as to the number of copies of such print which you desire.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS

X-9416-a

BOARD OF GOVERNORS

OF THE FEDERAL RESERVE SYSTEM

RELATIONSHIPS WITH DEALERS IN SECURITIES UNDER SECTION 32 OF THE BANKING ACT OF 1933

REGULATION R

This regulation as printed herewith is in the form as revised effective January 4, 1936.

X-9416-a

(Note to printer:-)
(Reverse side of cover page)

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Agent at the Federal Reserve bank of the district in which the inquiry arises.

REGULATION R

Revised, effective January 4, 1936.
(Superseding Regulation R of 1933)

RELATIONSHIPS WITH DEALERS IN SECURITIES UNDER SECTION 32 OF THE BANKING ACT OF 1933

STATUTORY PROVISIONS.

This regulation is based upon and issued pursuant to the provisions of section 32 of the Banking Act of 1933, which is published in the Appendix hereto.

SECTION 1. PROHIBITIONS.

Under section 32 of the Banking Act of 1933, except as hereinafter stated in section 2, no officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily 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, can legally be at the same time an officer, director, or employee of any member bank of the Federal Reserve System.[1]

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[1]Therefore, by its terms, section 32 does not apply -

(a) To a person who is not an officer, director, or employee of a member bank of the Federal Reserve System,

(b) To a person (1) who is not an officer, director, or employee of a corporation or unincorporated association primarily 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, (2) who is not a partner or employee of a partnership primarily so engaged, and (3) who is not, in his individual capacity, primarily so engaged.

A broker who is engaged solely in executing orders for the purchase and sale of securities on behalf of others in the open market is not engaged in the business referred to in section 32.

SECTION 2. EXCEPTIONS.

Pursuant to the authority vested in it by section 32, the Board of Governors of the Federal Reserve System hereby permits the following relationships:[2]

Any officer, director, or employee of any corporation or unincorporated association, any partner or employee of any partnership, or any individual, not engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of any stocks, bonds, or other similar securities except bonds, notes, certificates of indebtedness, and Treasury bills of the United States, obligations fully guaranteed both as to principal and interest by the United States, debentures issued by Federal Intermediate Credit banks, bonds issued by Federal Land banks, and general obligations of Territories, dependencies and insular possessions of the United States, may be at the same time an officer, director, or employee of any member bank of the Federal Reserve System, except when otherwise prohibited.[3]

SECTION 3. AMENDMENTS.

The right to alter, amend, or repeal this regulation, in whole or in part, is expressly reserved.

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[2]Under section 32, as amended effective January 1, 1936, the Board is authorized to except limited classes of relationships from the prohibitions of the statute, under certain conditions; but the Board can make such exceptions only by general regulations and is not authorized to issue individual permits.

[3]Section 8 of the Clayton Act is applicable in certain circumstances to interlocking relationships between member banks and private bankers, and other banks, banking associations, savings banks and trust companies. See Regulation L of the Board of Governors of the Federal Reserve System.

Section 17(c) of the Public Utility Act of 1935 is applicable in certain circumstances to interlocking relationships between banks and private bankers (and corporations owned by banks and private bankers), and public utility companies and public utility holding companies. Inquiries regarding this section should be addressed to the Securities and Exchange Commission and not to the Board of Governors of the Federal Reserve System.

Section 305(b) of the Federal Power Act is applicable in certain circumstances to interlocking relationships between public utility companies and banks and bankers that are authorized by law to underwrite or participate in the marketing of securities of a public utility. Inquiries regarding this section should be addressed to the Federal Power Commission and not to the Board of Governors of the Federal Reserve System.

APPENDIX

STATUTORY PROVISIONS.

Section 32 of the Banking Act of 1933 (U.S.C., title 12, sec. 78), as amended by section 307 of the Banking Act of 1935, effective January 1, 1936, reads 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, primarily 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 the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments.

X-9417

January 4, 1936.

SUBJECT: Regulation L - Interlocking Bank Directorates under the Clayton Act.

Dear Sir:

There are inclosed three mimeographed copies of a revision of Regulation L relating to "Interlocking Bank Directorates under the Clayton Act" in the form adopted by the Board on January 4, 1936. The regulation as so revised is effective on January 4, 1936.

In order to expedite the distribution of the regulation, you are requested to have copies printed and to forward one or more copies to each member bank in your district as soon as possible. The "X" number appearing on the inclosed copies of the regulation should, of course, be omitted.

An official print of the regulation will be prepared by the Board, and you are requested to advise the Board at your early convenience as to the number of copies of such print which you desire.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS

X-9417-a

BOARD OF GOVERNORS

OF THE FEDERAL RESERVE SYSTEM

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT

REGULATION L

This regulation as printed herewith is in the form as revised effective January 4, 1936.

X-9417-a

(Note to printer: -)
(Reverse side of cover page)

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Agent at the Federal Reserve bank of the district in which the inquiry arises.

X-9417-a

C O N T E N T S

X-9417-a

REGULATION L

Revised Effective January 4, 1936.
(Superseding Regulation L, Series of 1933)

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT

STATUTORY PROVISIONS

This regulation is based upon and issued pursuant to the provisions of section 8 of the Clayton Act, the pertinent parts of which are published in the Appendix hereto.[1]

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[1] Section 32 of the Banking Act of 1933 is applicable in certain circumstances to interlocking relationships between member banks and underwriters and dealers in securities. See Regulation R of the Board of Governors of the Federal Reserve System.

Section 17(c) of the Public Utility Act of 1935 is applicable in certain circumstances to interlocking relationships between banks and public utility companies and public utility holding companies. Inquiries regarding this section should be addressed to the Securities and Exchange Commission and not to the Board of Governors of the Federal Reserve System.

Section 305(b) of the Federal Power Act is applicable in certain circumstances to interlocking relationships between public utility companies and banks which are authorized by law to underwrite or participate in the marketing of securities of a public utility. Inquiries regarding this section should be addressed to the Federal Power Commission and not to the Board of Governors of the Federal Reserve System.

SECTION 1. PROHIBITIONS

Under section 8 of the Clayton Act, except as hereinafter stated in section 2:

(a) No person who is a director, officer, or employee of a member bank of the Federal Reserve System can legally be at the same time 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;

(b) No private banker[2] can legally be at the same time a director, officer, or employee of any 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.

SECTION 2. EXCEPTIONS

The provisions of section 8 of the Clayton Act:

(a) do not apply to a person who is neither a private banker nor a director, officer, or employee of a member bank of the Federal Reserve System;

(b) do not prohibit a private banker or a director, officer, or employee of a member bank of the Federal Reserve System from being at the same time a director, officer, or employee of any number of other banking institutions not organized under the National Bank

[2]The term "private banker" means an unincorporated individual engaged in the banking business or a member of an unincorporated firm engaged in such business.

Act or under the laws of any State or of the District of Columbia[3];

(c) do not prohibit, until February 1, 1939, any interlocking relationship involving a member bank, which was in existence on August 23, 1935, the date of the enactment of the Banking Act of 1935, and which, at that time, was lawful under the Clayton Act, either (a) because it was authorized by a permit[4] then in effect[5] or (b) because it was otherwise not subject to the prohibitions of the Clayton Act[6];

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[3]In other words, the provisions of section 8 of the Clayton Act do not prohibit a private banker or a director, officer, or employee of a member bank of the Federal Reserve System from being at the same time a director, officer, or employee of any number of the following:

(a) Joint Stock Land banks, Federal Land banks, Federal Reserve banks, Federal Intermediate Credit banks, The Central Bank for Cooperatives, Federal Home Loan banks, foreign banking corporations organized under section 25(a) of the Federal Reserve Act, and other institutions organized under laws of the United States other than the National Bank Act;

(b) Banking institutions organized under the laws of territories, dependencies, or insular possessions of the United States, such as the Philippine Islands, Puerto Rico, Hawaii, or the Canal Zone, and not organized under the National Bank Act; and

(c) Banking institutions organized under the laws of foreign countries.

Federal Savings and Loan Associations and Federal Credit Unions are not organized under the National Bank Act or under the laws of any State or of the District of Columbia, and therefore are excepted on that ground irrespective of whether they are "banks" or "banking associations" within the meaning of the statute.

[4]Relationships which were lawful on August 23, 1935 because authorized by a permit then in effect were lawful within the meaning of this exception irrespective of whether the permittee was then also serving in other relationships which were within the prohibitions of the Clayton Act but which were not authorized by such permit.

[5]It is immaterial whether or not such permit contained a provision limiting its duration, provided it was in effect on August 23, 1935.

[6]The provisions of the Clayton Act regarding interlocking bank directorates in effect prior to August 23, 1935 are analyzed in Regulation L, Series of 1933, which was published in the Federal Reserve Bulletin for November 1933, page 711.

(d) do not prohibit a director, officer, or employee of a member bank of the Federal Reserve System from being at the same time a director, officer, or employee of any number of the following -

(1) Banks, banking associations, savings banks, or trust companies, 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) Banks, banking associations, savings banks, or trust companies which have been placed formally in liquidation or which are in the hands of receivers, conservators, or other officials exercising similar functions;

(3) Corporations principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which have entered into agreements with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act;

(4) Banks, banking associations, savings banks, or trust companies, more than 50 per cent of the common stock of which is owned directly or indirectly[7] by persons who own directly or indirectly[7] more than 50 per cent of the common stock of such member bank;

(5) Banks, banking associations, savings banks, or trust companies not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto[8];

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[7]The following are clear illustrations of indirect ownership; (1) where more than 50 per cent of the stock of one bank is owned by the other bank; (2) where more than 50 per cent of the stock of one bank is held in trust for the shareholders of the other bank; and (3) where more than 50 per cent of the stock of one bank is owned by a corporation, all the stock of which is owned by the shareholders of the other bank.

[8]The Board has interpreted the term "contiguous" as referring to cities, towns, and villages whose corporate limits touch or coincide at some point, and has interpreted the word "adjacent" as referring to cities, towns, and villages which, although not actually "contiguous" within the above interpretation of that word, are located in such close proximity and are so readily accessible to each other as to be in practical effect a single city, town, or village, as for example, cities, towns, or villages separated only by a water-course, or a suburb of a city separated from that city by an intervening suburb.

(6) Banks, banking associations, savings banks, or trust companies not engaged in a class or classes of business[9] in which such member bank is engaged;

(7) Mutual savings banks having no capital stock;

(e) do not prohibit a private banker from being at the same time a member of any number of firms of private bankers, or from being at the same time a director, officer, or employee of any number of the following:

(1) Banks, banking associations, savings banks, or trust companies, 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) Banks, banking associations, savings banks, or trust companies which have been placed formally in liquidation or which are in the hands of receivers, conservators, or other officials exercising similar functions;

(3) Corporations principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which have entered into agreements with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act;

(4) Mutual savings banks having no capital stock.

SECTION 3. RELATIONSHIPS PERMITTED BY BOARD

In addition to any relationships covered by the foregoing exceptions, not more than one of the following relationships is hereby

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[9]The phrase "class or classes of business" refers to the various types of business engaged in by such institutions involving relationships with customers, such as (1) receiving commercial deposits, (2) receiving savings deposits, (3) carrying checking accounts, (4) making commercial loans, (5) making real estate loans, (6) making loans on stock or bond collateral, (7) making "personal" loans of the character usually made by Morris Plan or Industrial banks, (8) engaging in corporate trust business, and (9) engaging in individual trust business.

permitted[10] by the Board of Governors of the Federal Reserve System in the case of any one individual:

(a) Any private banker or any director, officer, or employee of a member bank of the Federal Reserve System may be at the same time a director, officer, or employee of not more than one Morris Plan bank, cooperative bank, credit union or other similar institution;

(b) Any director, officer, or employee of a member bank of the Federal Reserve System may be at the same time a director, officer, or employee of not more than one other bank, banking association, savings bank, or trust company if the records of both institutions show that active consideration is being given to the consolidation or merger of such member bank and such other bank, banking association, savings bank, or trust company, or that active consideration is being given to the purchase of a substantial portion of the assets and the assumption of a substantial portion of the liabilities of one such institution by the other; provided that no interlocking relationship permitted pursuant to this paragraph shall continue for a period or periods aggregating more than six months[11];

---

[10] The provisions formerly contained in section 8 of the Clayton Act authorizing the issuance of individual permits by the Board were repealed by section 329 of the Banking Act of 1935, and the Act now provides that the Board "may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof * * * ." (See first paragraph of section 8, quoted in the Appendix to this Regulation.) Accordingly, individual permits will no longer be issued.

[11] In the case of any relationship existing on the date this regulation becomes effective, such six months period shall begin to run on the effective date of this regulation.

(c) Any director, officer, or employee of a member bank of the Federal Reserve System who had filed an application for permission to serve two or more banks within the prohibitions of section 8 of the Clayton Act, which had been received at the offices of the Board in Washington, D. C., or at the offices of a Federal Reserve Agent on or before August 23, 1935, and on which the Board had not taken adverse action prior to that date, may serve any member bank named in such application and any other one bank, banking association, savings bank, or trust company named in such application until the next election of directors of such institutions or until March 1, 1936, whichever is the earlier;

(d) Any private banker may be at the same time a director, officer, or employee of not more than one of the following:

(1) A bank, banking association, savings bank, or trust company organized under the laws of any State or of the District of Columbia which is not a member bank of the Federal Reserve System;

(2) A member bank more than 50 per cent of the common stock of which is owned directly or indirectly by such private banker or by a firm of private bankers of which he is a member;

(3) A member bank not located and having no branch in the same city, town, or village as that in which such private banker or a firm of private bankers of which he is a member maintains a place of business, or in any city, town, or village contiguous or adjacent thereto[12];

(4) A member bank not engaged in a class or classes of business[13] in which such private banker or a firm of private bankers of which he is a member is engaged;

---

[12] See footnote 8, page 4.

[13] See footnote 9, page 5.

(5) A bank, banking association, savings bank, or trust company within the prohibitions of section 8 of the Clayton Act, which was included in an application under the Clayton Act filed by such private banker, which had been received at the offices of the Board in Washington, D. C., or at the offices of a Federal Reserve Agent on or before August 23, 1935, and on which the Board had not taken adverse action prior to that date; provided, that the provisions of this paragraph (5) shall be effective only until the next annual election of directors of such institution or until March 1, 1936, whichever is the earlier.

SECTION 4. ENFORCEMENT

(a) Action by Federal Reserve Agent. Each Federal Reserve Agent shall cause the information contained in reports of examination of member banks and other information available to him from other sources to be analyzed in the light of the provisions of section 8 of the Clayton Act relating to interlocking relationships involving banks; and, in the case of any apparent violation of that section, shall communicate with the banking institutions and with the director, officer or employee involved, with a view of ascertaining whether the relationships involved are in conformity with the law, and, if not, obtaining compliance with the law.

(b) Reports to Board. In each case in which, after taking the steps outlined above, the Federal Reserve Agent finds that the relationships involved are in violation of the law and have not been brought into conformity with the law within a reasonable time after the matter was brought to the attention of the banking institutions and the officer, director or employee involved, the

Federal Reserve Agent shall report the facts to the Board of Governors of the Federal Reserve System with a recommendation as to the action to be taken.

SECTION 5. AMENDMENTS

This regulation is subject to amendment or repeal, in whole or in part, in the discretion of the Board of Governors of the Federal Reserve System.

APPENDIX

STATUTORY PROVISIONS

Section 8 of the Clayton Act (U.S.C., title 15, sec. 19), as amended by the Banking Act of 1935, reads in part as follows:

> SEC. 8. No private banker or director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time 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 that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof; but the foregoing prohibition shall not apply in the case of 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 centum 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 centum 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 Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act.
>
> (4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.

(5) A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.

(6) A bank, banking association, savings bank, or trust company not engaged in a class or classes of business in which such member bank is engaged.

(7) A mutual savings bank having no capital stock.

Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.

The Board of Governors of the Federal Reserve System is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose.

* * * * * * * * *

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this Act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9418

January 6, 1936.

SUBJECT: Eligibility for membership of State banks which have issued deferred certificates to depositors.

Dear Sir:

As you know, the Board has heretofore had under consideration the question whether State banks which have issued to certain depositors certificates which are payable after other claims of depositors and other creditors shall have been provided for but which are payable before the payment of any dividends or distribution of any assets of the bank to its stockholders are eligible for admission to membership in the Federal Reserve System. In this connection, please see Board's letter of September 21, 1933 (X-7598).

The Board recently had occasion to reconsider this question on the basis of an application for membership where the bank involved had issued and outstanding certificates of the kind described above, and admitted the bank to membership subject to the following condition, among others:

> 18. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer or in lieu of the certificates now outstanding a legend reading substantially as follows:

Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Certificates of Beneficial Interest issued by the bank to depositors who waived the payment of a part of their deposits at the time of the reorganization of the bank in 1933 pursuant to a Depositors Agreement, a copy of which is on file with the , must be paid.

(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition numbered 18, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding Certificates of Beneficial Interest to the rights of stockholders.)

It is the view of the Board that, in acting on applications for membership, any obligation of a bank on certificates of the kind referred to above should not be included in determining whether or not the capital of the bank is impaired. Accordingly, you are advised of the action which was recently taken by the Board for your guidance in connection with any similar cases which may arise in your district.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

X-9419

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

December 23, 1935.

Mr. _____, President,
The _____National Bank,
_____,
_____.

Dear Sir:

This refers to your letter of December 2, 1935, regarding the ruling published at page 609 of the September, 1934 Federal Reserve Bulletin with respect to the renewal of certificates of deposit prior to maturity. That ruling reads, in part, as follows:

> "It appeared that the practice described involves merely the making of a new contract of deposit which is to take effect on the date of maturity of the original certificate and that no part of the funds evidenced by the original certificate is withdrawn until the maturity of the renewal certificate. In the circumstances the Federal Reserve Board stated that there is no provision of law which would preclude adoption of this procedure, and the Board has no objection thereto."

It is understood that you wish to know whether in such a situation your bank may pay the interest on the original certificate of deposit at the time of the renewal prior to the maturity of the original certificate.

Of course, the payment of interest before it has actually accrued amounts to the payment of a somewhat higher rate than if the interest were paid after its accrual; and in paying interest on a certificate of deposit prior to the maturity of the certificate your bank should not pay a rate of interest in excess of that permitted under

the Board's Regulation Q which relates to the payment of deposits and interest thereon. There is also the possibility that interest might become payable and, by agreement of the parties, be added to a deposit in such a manner as to become a portion thereof and become subject to the same provisions with respect to withdrawal as the other portions of the deposit. However, if the permissible rate of interest is not exceeded and the interest has not become payable and been added to the deposit in such a manner as to become a portion thereof, there is no prohibition in either the law or the regulation against the payment of interest on a certificate of deposit before the maturity of the certificate.

If you have any further inquiries in this connection, it is suggested that you communicate with the Federal Reserve Bank of _____ which will be glad to advise you regarding such matters.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION X-9420

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

January 6, 1936.

Mr. W. H. Fletcher,
Acting Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Fletcher:

This refers to your letter dated December 10, 1935, with reference to the question whether a member bank is required to terminate or modify certificates of deposit of indefinite maturity, of the type inclosed in your letter, in order to conform to the provisions of the supplement to Regulation Q, as revised effective January 1, 1936.

It is understood that the certificate to which you refer is payable at any time upon 31 days' written notice of intended withdrawal. The certificate contains the following provision: "Interest payable for full months only at two per cent per annum, if left six months or longer."

In its letter dated September 27, 1933 (X-7622) the Board stated that it is the duty of a member bank to terminate or modify a certificate of deposit of indefinite maturity as soon as possible so as to bring it into conformity with the provisions of Regulation Q. Such letter also contained the following paragraph:

> "Unless, therefore, there is some provision in the certificates of deposit to which you refer which would indicate an intention of the parties that the bank may not terminate the contract contained in such a certificate at its option and without liability, it is suggested that you advise

member banks in your district which have such certificates outstanding that they should terminate or modify such certificates of deposit as above stated after giving reasonable notice to the depositors of their intention to do so."

It seems possible that the provision in the certificate of deposit under consideration, to the effect that interest is payable upon the certificate only if the funds are left on deposit six months or longer, may indicate an intention of the parties that the bank may not terminate the contract contained in the certificate at its option and without liability prior to the expiration of such six months' period. Otherwise, the bank could keep the deposit for five months and then terminate the contract and escape from payment of interest for such five months' period.

Without attempting to determine whether such an intention is indicated by the above-mentioned provision, the Board will offer no objection to the payment by a member bank on a certificate such as that inclosed in your letter, which was outstanding on December 1, 1935, of interest at the rate of two per cent per annum until the expiration of six months from the date on which the deposit was made.

Very truly yours,

Chester Morrill,
Secretary.

X-9421

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 7, 1936.

Mr. _____, Assistant Vice President,
_____ Bank & Trust Company of _____,
_____.

Dear Sir:

This refers to your letter dated December 13, 1935, in which you request a ruling upon the question whether the Christmas Club accounts of your bank constitute savings deposits within the definition contained in section 1(e) of the revision of Regulation Q , effective January 1, 1936. Inclosed with your letter was a specimen of the Christmas Club book used by your bank and a specimen of the card on which the bank keeps a record of the deposits made in such accounts.

The first paragraph of section 1(e) of the recent revision of Regulation Q states that "the term 'savings deposit' means a deposit, evidenced by a pass book, * * * . " The last paragraph of section 1(e) of such regulation reads as follows:

> "Every withdrawal made upon presentation of a pass book shall be entered in the pass book at the time of the withdrawal, and every other withdrawal shall be entered in the pass book as soon as practicable after the withdrawal is made."

In view of the above provisions, it is the opinion of the Board that the term "pass book" as used in such definition means an account book in which deposits and withdrawals are entered.

It appears that the Christmas Club book inclosed with your

letter is a book containing coupons which are stamped "Paid" at the time the deposits are made and are torn out by the bank and retained for its records as evidence of each of the 50 weekly deposits or "payments" made by the depositor. The book also contains a stub for each coupon which is stamped to show that a deposit has been made, such stub being retained by the depositor. It appears, however, that such book contains no provision for entries of withdrawals and, accordingly, it is the view of the Board that it is not a "pass book" within the meaning of such term as used in section 1(e) of Regulation Q. Since the Chrtistmas Club book does not constitute a "pass book" within the meaning of such section, the deposit is not a savings deposit even though it may have some of the other characteristics of a savings deposit. However, as indicated in footnote 2 of the recent revision of Regulation Q, such a Christmas Club account may constitute a time deposit, open account if it meets the other requirements of the definition contained in section 1(d) of such regulation.

If you have any further question regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of _____, which will be glad to answer your inquiries.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9422

January 9, 1936.

Dear Sir:

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

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. AGENTS.

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

Series 1934

	$5	$10	$20	$50	$100	$500	$1000	$5000	$10000	Total Sheets	Amount
Boston,.....	144,000	16,000	45,000	12,000	7,000	1,500	750	100	50	226,400	$19,470.40
New York,.....	-	50,000	-	16,000	11,000	2,150	1,800	250	100	81,300	6,991.80
Philadelphia,....	100,000	16,000	20,000	12,000	6,000	1,500	750	-	-	156,250	13,437.50
Cleveland,.....	138,000	23,000	36,000	14,000	7,000	850	850	100	100	219,900	18,911.40
Richmond,.....	107,000	15,000	31,000	10,000	5,000	-	-	-	-	168,000	14,448.00
Atlanta,.....	100,000	70,000	40,000	11,000	5,000	-	-	-	-	226,000	19,436.00
Chicago,.....	84,000	50,000	84,000	14,000	7,000	-	-	-	-	239,000	20,554.00
St. Louis,.....	44,000	50,000	20,000	10,000	4,000	-	-	-	-	128,000	11,008.00
Minneapolis,.....	36,000	10,000	15,000	7,000	2,000	-	-	-	-	70,000	6,020.00
Kansas City,.....	118,000	20,000	20,000	10,000	5,000	-	-	-	-	173,000	14,878.00
Dallas,.....	102,000	89,000	41,000	8,000	4,000	-	-	-	-	244,000	20,984.00
San Francisco,...	209,000	-	59,000	14,000	6,000	-	-	-	-	288,000	24,768.00
Total.....	1,182,000	409,000	411,000	138,000	39,000	6,000	4,150	450	250	2,219,850	$190,907.10

2,219,850 sheets, @ $86.00 per M,.....$190,907.10

FEDERAL RESERVE BOARD

WASHINGTON X-9423.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 11, 1936.

Dear Sir:

There are inclosed herewith six copies of a tentative draft of Regulation U -- Loans by Banks for the Purpose of Purchasing or Carrying Equity Securities Registered on a National Securities Exchange -- including as a foreword an explanatory statement to accompany the tentative draft. Additional copies are being sent under separate cover.

This tentative draft is under consideration by the Board, but before taking action the Board is submitting it for criticisms and suggestions. It will be appreciated, therefore, if you and the officers and counsel of your bank will study this draft and forward your comments and suggestions thereon as promptly as may be possible. In addition, please submit copies of the tentative draft and the explanatory statement to such member and nonmember banks, representatives of securities exchanges, etc., as you may consider advisable, and obtain from them suggestions and criticisms in writing, the originals thereof to be forwarded to the Board as soon as received.

All comments and suggestions should be forwarded to the Board within thirty days after the date of this letter.

You will note that section 4 of the tentative draft provides that the maximum loan values of registered equity securities, for the purposes of the regulation, shall be such as the Board may prescribe from time to time in supplements to the regulation. Two alternative drafts of such a supplement are attached to the regulation. One of these includes the statutory requirements that were adopted in Regulation T for brokers and dealers. In the other, the method of determining margin requirements differs from that in Regulation T. It is the present intention of the Board, in the event that a different method is prescribed for banks when Regulation U is issued, to modify Regulation T so as to bring the method of determining margin requirements for brokers and dealers into conformity with that for banks.

Attention is called, however, to the fact that the Board has authority to change margin requirements from time to time, and the inclusion of the figures in the tentative supplement to Regulation U based upon the statutory formula is not to be taken as indicating that the Board has undertaken to decide at this time what margin requirements will be included in the regulation when it shall be finally approved and promulgated.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

January 10, 1936

(Tentative draft of regulation prepared at direction of Board of Governors of the Federal Reserve System but not yet acted upon by the Board of Governors.)

BOARD OF GOVERNORS

OF THE FEDERAL RESERVE SYSTEM

LOANS BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING EQUITY SECURITIES REGISTERED ON A NATIONAL SECURITIES EXCHANGE

REGULATION U

(Reverse side of cover page)

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve bank of the district in which the inquiry arises.

EXPLANATORY STATEMENT TO ACCOMPANY TENTATIVE DRAFT OF REGULATION U

The primary purpose of Regulation U, of which a tentative draft is attached, is to prevent circumvention of the objects of Regulation T by borrowing from banks for the purpose of purchasing or carrying stocks on terms more favorable than those prescribed for security loans by brokers and dealers.

Borrowing from banks for any purpose except the purchasing or carrying of registered equity securities -- i.e., in general, listed stocks -- is not subjected to margin requirements prescribed in this regulation. General banking practices with respect to loans for industrial, agricultural, and commercial purposes would not be affected, regardless of whether these loans are secured or unsecured, and if secured, regardless of the character of the collateral.

The regulation does not apply to any of a bank's loans, no matter for what purpose, to a borrower none of whose loans with the bank are secured by an equity security registered on a national securities exchange.

In case the collateral for a loan includes registered equity securities, the loan will be subject to the regulation unless the loan is not for the purpose of purchasing or carrying such securities. A bank which wishes to establish the fact that such a loan is not subject to the regulation, may do so by obtaining an appropriate statement from the borrower.

Loans made for the purpose of purchasing or carrying securities that are not registered on a national securities exchange are exempt from the regulation.

Nothing in the regulation would require the liquidation of any loan made before the effective date, or any loan, whenever made, by reason of a decline in the market value of the collateral.

Margin requirements to be prescribed from time to time by the Board will be promulgated by issuing supplements to this regulation. Two samples of such a supplement are attached to the regulation. One of these includes the requirements that were adopted in Regulation T for brokers and dealers. In the other, the method of determining margin requirements differs from that in Regulation T. It is the present intention of the Board, in the event that this different method is prescribed for banks when Regulation U is approved and issued, to modify Regulation T so as to bring the method of determining margin requirements for brokers and dealers into conformity with that for banks.

CONTENTS

(Tentative Draft of Regulation Prepared at Direction of Board of Governors of the Federal Reserve System but Not Yet Acted Upon by the Board of Governors.)

REGULATION U

LOANS BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING EQUITY SECURITIES REGISTERED ON A NATIONAL SECURITIES EXCHANGE

SECTION 1. SCOPE AND EFFECTIVE DATE OF REGULATION

This regulation is issued pursuant to authority contained in the Securities Exchange Act of 1934, particularly subsection (d) of section 7 thereof, to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of that section. It applies only to banks; and it relates only to loans for the purpose of purchasing or carrying equity securities registered on a national securities exchange.

This regulation shall become effective on , 1936.

SECTION 2. DEFINITIONS

For the purposes of this regulation, unless the context otherwise requires, the following terms shall have the meanings respectively assigned to them.

(a) The terms "person", "member", "broker", "dealer", "buy", "purchase", "sale", "sell", "security", "equity security", "exempted security", and "bank" shall have the meanings given them in section 3(a) of the Securities Exchange Act of 1934 (printed in the appendix of this regulation) except that the term "bank" shall not include any member of a national securities exchange.

(b) The term "registered equity security" means an equity security (other than an exempted security) which--

(1) Is registered on a national securities exchange;

or

(2) In consequence of its having unlisted trading privileges on a national securities exchange, must, under the provisions of section 12(f) of the Securities Exchange Act of 1934, be considered a "security registered on a national securities exchange".

(c) The terms "regulated loan" and "exempted loan" shall have the meanings given them in section 3 of this regulation; the terms "maximum loan value", "current market price", and "lowest market price" shall have the meanings given them in section 4 of this regulation; and the term "required collateral" shall have the meaning given it in section 5 of this regulation.

SECTION 3. REGULATED LOANS AND EXEMPTED LOANS

(a) Regulated loans. - The term "regulated loan" means a discount, advance, overdraft or other loan for any of the following purposes, except that it shall not include any exempted loan:

(1) The purpose of purchasing a registered equity security from or through a broker or dealer who is a member of a national securities exchange or who transacts a business in securities through the medium of any such member;

(2) The purpose of reducing or retiring any indebtedness which was originally incurred for the purpose of so purchasing a registered equity security and which is secured by a registered equity security so purchased;

(3) In the case of a loan to a broker or dealer, the purpose of enabling the borrower to make or maintain loans to his customers for any of the purposes specified above.

(b) Exempted loans. - The term "exempted loan" means any loan described below:

(1) Any loan to any person so long as neither that loan nor any of the bank's outstanding loans to that person is secured in any way by any registered equity security;

(2) Any loan (even though secured by a registered equity security) which is not for any of the purposes specified in subsection (a) of this section; and, although the exemption of a loan under this provision does not necessarily require the obtaining of a statement from the borrower as to the purpose of the loan, a bank may treat a loan as not being for any of the purposes specified in subsection (a) if it obtains and accepts in

good faith either (A) a statement signed by the borrower to the effect that he is not a broker or dealer in securities and that the loan is not for the purpose of purchasing any securities or retiring or reducing any indebtedness incurred for the purpose of purchasing securities, or (B) a statement signed by the borrower otherwise showing that the loan is not for any of the purposes specified in subsection (a);

(3) Any loan secured exclusively by exempted securities (whether registered or unregistered) and/or nonequity securities (whether registered or unregistered);

(4) Any loan to a bank;

(5) Any loan to a dealer, or to two or more dealers acting jointly, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange;

(6) Any discount of, or advance against, a draft with securities attached which is payable on presentation in the ordinary course of business;

(7) Any temporary advance to finance the purchase of a security in connection with which the bank, as agent of the purchaser, accepts delivery of and pays for the security under an agreement, made in good faith and not to evade or circumvent the provisions of this regulation, that the lending bank is to be repaid the full amount of the advance in cash promptly upon completion of the purchase;

(8) Any loan which is maintained for only a fraction of a calendar day;

(9) Any loan made in exceptional circumstances, in good faith and not for the purpose of evading or circumventing the provisions of this regulation, to meet the emergency needs of a broker or dealer who is a member of a national securities exchange or who has filed with the lending bank his written statement that he transacts a business in securities through the medium of any such member: Provided, That any bank making any such loan shall, within three days, make a concise written report of all material facts relative thereto to the Federal Reserve agent of the district in which the principal office of the bank is located.

SECTION 4. MAKING OF REGULATED LOANS

(a) Conditions for making regulated loans. - Every bank shall comply with the following requirements in making or increasing any regulated loan:

(1) The loan shall be represented by a note, document, or entry which does not represent either in whole or in part any exempted loan; and

(2) The bank's total outstanding regulated loans (including the current loan or increase) to the same person made on or after the effective date of this regulation shall be secured by exempted securities, nonequity securities, and/or registered equity securities which have a maximum loan value at least as great as the amount of the total of such regulated loans.

(b) Maximum loan value. - The term "maximum loan value" when used with respect to any item of collateral securing a regulated loan means the maximum regulated loan which a bank may, under the provisions of this regulation, make on such item of collateral; and, in the case of collateral consisting of more than one item, the maximum loan value is the sum of the maximum loan values of the various items of the collateral. The following items shall have the following maximum loan values:

(1) The maximum loan value of everything other than an exempted security, a nonequity security, or a registered equity security, shall be nothing;

(2) The maximum loan value of an exempted security or a nonequity security shall be not more than the current market price of the security;

(3) The maximum loan value of a registered equity security shall be the maximum loan value which the Board of Governors of the Federal Reserve System shall prescribe from time to time in supplements to this regulation, which will be issued in advance of the date upon which such maximum loan value becomes effective.

(c) Special maximum loan value for rehypothecated securities. - Subject to the conditions specified in this subsection, registered equity securities which are rehypothecated by a broker or dealer shall have such special maximum loan value or values as the Board of Governors of the Federal Reserve System shall prescribe from time to time in supplements to this regulation, which will be issued in advance of the date on which such maximum loan values become effective. In order that registered equity securities may have the special maximum loan value or values prescribed pursuant to this subsection:

(1) The securities shall secure a regulated loan to a broker or dealer who is a member of a national securities exchange or who has filed with the lending bank his written statement that he transacts a business in securities through the medium of any such member; and

(2) The broker or dealer must be carrying such securities for the account of customers; and a bank may treat such securities as being carried for the account of customers if it obtains and accepts in good faith a written statement signed by the broker or dealer to the effect that they are being so carried.

(d) Current Market Price. - For the purposes of this regulation and any supplements thereto, the current market price of a security may at the option of the bank be considered to be either the closing bid price or the closing sale price of the security on any national securities exchange on the preceding business day: Provided, That, in the absence of such a closing sale price, the bank shall have the further option of using the price at which the last recorded sale of the security during the current or preceding calendar month was made on a national securities exchange: Provided, further, That, if none of the prices described above is available, the bank may use any reasonable estimate of the market value of the security.

In ascertaining the foregoing prices, a bank may rely upon any regularly published reporting or quotation service used by the bank, including any newspaper or financial publication carrying market reports with respect to an exchange on which the security is registered.

In the case of a loan made at the time a security is purchased, or in connection with the purchase of a security to be substituted for collateral previously pledged, the price at which such security is purchased may be considered by the bank, at its option, to be the current market price for the purpose of such transaction.

(e) Lowest market price. - For the purpose of this regulation and any supplements thereto, the lowest market price of a registered equity security during a specified period means the lowest price at which that security has sold during that period on the national securities exchanges on which it is or has been registered (including any sales made on such exchanges during the part of the specified period which preceded their respective registrations as national securities exchanges under the Securities Exchange Act of 1934): Provided, That, if the security is a stock upon which there has been any stock dividend amounting to more than 10 percent in any one calendar year, or any reduction or increase in the number of shares by calling in the outstanding shares and issuing in substitution therefor a smaller or larger number of shares, or any other change accomplishing substantially the same result as any such reduction or increase, any prices established before that dividend or change in number of shares or other change shall be adjusted therefor.

A bank using a figure published as such lowest market price in any record published or approved by any national securities exchange may rely on that figure for the purposes of this regulation.

SECTION 5. MAINTENANCE OF REGULATED LOANS

(a) Liquidation not required. - In maintaining any regulated loan, every bank shall comply with the requirements of this section with respect to the withdrawal and substitution of collateral; but any loan made before the effective date of this regulation or made in conformity with the requirements of this regulation may be maintained regardless of changes in market prices, and nothing in this regulation shall be construed as requiring any bank to reduce any loan, obtain additional collateral for any loan, or sell any collateral securing any loan, solely because of changes in market prices.

(b) Required collateral. - The term "required collateral" means an exempted security, a nonequity security, or a registered equity security, which secures a regulated loan made on or after the effective date of this regulation because:

(1) It was required for the making of the loan under section 4 of this regulation; or

(2) It was required in order to make a change in the collateral for that loan under the following subsections of this section.

(c) Changes in required collateral. - No bank shall maintain a regulated loan and at the same time permit the withdrawal of any required collateral, unless--

(1) After the withdrawal the bank's total outstanding regulated loans to the same person made on or after the effective date of this regulation are secured by exempted securities, nonequity securities, and/or registered equity securities, having a maximum loan value at least as great as the amount of such total of regulated loans; or

(2) The total amount of such outstanding regulated loans to such person is reduced, or other exempted securities, nonequity securities, or registered equity securities are substituted to secure such loans, or both, to such an extent that

(A) the maximum loan value of the securities substituted, plus the amount of reduction in the regulated loans, is at least as great as the maximum loan value of the securities withdrawn, and

(B) the current market price of the securities substituted, plus the amount of reduction in the regulated loans, is at least as great as the current market price of the securities withdrawn.

(d) Time allowed for changing collateral. - In order to comply with the requirements of subsection (c) of this section with respect to changes in required collateral, the necessary substitution of securities

and/or reduction in the regulated loans shall be made on the same day as the withdrawal of required collateral, except that in the case of a substitution involving either (1) the sale of required collateral and the purchase and deposit of other collateral to secure the loan, or (2) the purchase and deposit of other collateral to secure the loan and the sale of required collateral, the bank may, if both the contract of purchase and contract of sale are made within a period of two successive business days, allow such time for making deliveries and otherwise completing the substitution as may be reasonably necessary.

(e) Securities involved in reorganization. - Notwithstanding the foregoing provisions of this section, a bank may permit the withdrawal of any security involved in a reorganization of the issuer of that security when such withdrawal is reasonably necessary to facilitate such reorganization: Provided, That all cash, exempted securities, nonequity securities, and registered equity securities received, under the terms of the reorganization, in exchange for the security withdrawn under this provision, shall promptly be applied on the regulated loans or substituted for the security withdrawn.

SECTION 6. LOANS MADE BEFORE EFFECTIVE DATE

Nothing in this regulation shall be construed as requiring a bank to obtain the repayment or reduction of, or the pledge of additional collateral for, any loan which was made before the effective date of this regulation or with respect to any renewal or extension of maturity of any such loan: Provided, That, notwithstanding any other provision of this regulation:

(1) All exempted securities, nonequity securities, and registered equity securities securing any regulated loan or group of regulated loans at the opening of business on the effective date of this regulation, and all securities thereafter substituted therefor pursuant to the requirements of this section, shall be identified by the bank and shall be treated for the purposes of this regulation as if they secured only that loan or group of loans;

(2) No such identified collateral shall be taken into account in determining whether or not any regulated loan made after the effective date of this regulation is secured in compliance with the terms of this regulation; and

(3) No withdrawal of any such identified collateral shall be made except under the same terms and conditions as apply under section 5 of this regulation to a withdrawal of required collateral securing a regulated loan made after the effective date of this regulation.

A bank may obtain and rely upon a statement signed by the borrower respecting the purpose for which a loan made before the effective date of this regulation was obtained, in the same manner and with the same effect as provided by section 3(b) of this regulation for loans made on or after such effective date.

SECTION 7. MISCELLANEOUS PROVISIONS

(a) Imposition of additional requirements by banks. - Nothing in this regulation shall be construed as restricting the right of any bank to require additional collateral at the time of, or subsequent to, the making of any loan, or as restricting the right of any bank to refuse to make or maintain a loan.

(b) Renewals and extensions. - A renewal or an extension of the maturity of a loan need not be treated as the making of a new loan if the amount of the loan is not increased except as permitted in subsection (c) of this section; but any other increase in the amount of a loan shall, to the extent of the increase, be treated as the making of a loan.

(c) Interest, service charges, etc. - Nothing in this regulation shall be construed as preventing the addition to a regulated loan of interest on the loan, sales or transfer taxes on transactions in connection with the loan, service charges imposed by the bank in connection with the loan or any incidental expenditure made by the bank for its own protection, regardless of the amount of the loan or the collateral which secures the loan.

(d) Innocent mistakes. - No innocent mistake made in good faith in executing a transaction, recording, determining, or calculating any loan, market price, loan value, or other administrative adjustment or detail, shall be deemed to be a violation of this regulation if the mistake be corrected as promptly as possible upon its discovery.

(c) Transactions outside the United States. - The provisions of this regulation shall not apply to any transaction which is effected outside the States of the United States and the District of Columbia and is not for the purpose of evading or circumventing the provisions of this regulation.

SECTION 8. VIOLATIONS OF THIS REGULATION

Violations of this regulation are subject to the provisions of section 29 and 32 of the Securities Exchange Act of 1934, which are printed on pages _____ and _____ of the Appendix to this regulation.

APPENDIX

There are printed below certain provisions of the Securities Exchange Act of 1934 which are pertinent to the subject matter of this regulation:

SEC. 3.(a) * * *

(3) The term "member" when used with respect to an exchange means any person who is permitted either to effect transactions on the exchange without the services of another person acting as broker, or to make use of the facilities of an exchange for transactions thereon without payment of a commission or fee or with the payment of a commission or fee which is less than that charged the general public, and includes any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm.

(4) The term "broker" means any person engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.

(5) The term "dealer" means any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as a part of a regular business.

(6) The term "bank" means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under section 11(k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C) of this paragraph.

(9) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.

(10) The term "security" means any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, or in general, any instrument commonly known as a "security"; or any

certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

(11) The term "equity security" means any stock or similar security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Commission shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security.

(12) The term "exempted security" or "exempted securities" shall include securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States; such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as necessary or appropriate in the public interest or for the protection of investors; securities which are direct obligations of or obligations guaranteed as to principal or interest by a State or any political subdivision thereof or any agency or instrumentality of a State or any political subdivision thereof or any municipal corporate instrumentality of one or more States; and such other securities (which may include, among others, unregistered securities, the market in which is predominantly intrastate) as the Commission may, by such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions or for stated periods, exempt from the operation of any one or more provisions of this title which by their terms do not apply to an "exempted security" or to "exempted securities."

(13) The terms "buy" and "purchase" each include any contract to buy, purchase, or otherwise acquire.

(14) The terms "sale" and "sell" each include any contract to sell or otherwise dispose of.

SEC. 3. (b) The Commission and the Federal Reserve Board, as to matters within their respective jurisdictions, shall have power by rules and regulations to define technical, trade, and accounting terms used in this title insofar as such definitions are not inconsistent with the provisions of this title.

SEC. 7. (a) For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Federal Reserve Board shall, prior to the effective date of this section and from time to time thereafter, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. For the initial extension of credit, such rules and regulations shall be based upon the following standards: An amount not greater than whichever is the higher of--

(1) 55 per centum of the current market price of the security, or

(2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

Such rules and regulations may make appropriate provision with respect to the carrying of undermargined accounts for limited periods and under specified conditions; the withdrawal of funds or securities; the substitution or additional purchases of securities; the transfer of accounts from one lender to another; special or different margin requirements for delayed deliveries, short sales, arbitrage transactions, and securities to which paragraph (2) of this subsection does not apply; the bases and the methods to be used in calculating loans, and margins and market prices; and similar administrative adjustments and details. For the purposes of paragraph (2) of this subsection, until July 1, 1936, the lowest price at which a security has sold on or after July 1, 1933, shall be considered as the lowest price at which such security has sold during the preceding thirty-six calendar months.

(b) Notwithstanding the provisions of subsection (a) of this section, the Federal Reserve Board, may, from time to time, with respect to all or specified securities or transactions, or classes of securities, or classes of transactions, by such rules and regulations (1) prescribe such lower margin requirements for the initial extension or maintenance of credit as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country, and (2) prescribe such higher margin requirements for the initial extension or maintenance of credit as it may deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities.

(c) It shall be unlawful for any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer--

(1) On any security (other than an exempted security) registered on a national securities exchange, in contravention of the rules and regulations which the Federal Reserve Board shall prescribe under subsections (a) and (b) of this section.

(2) Without collateral or on any collateral other than exempted securities and/or securities registered upon a national securities exchange, except in accordance with such rules and regulations as the Federal Reserve Board may prescribe (A) to permit under specified conditions and for a limited period any such member, broker, or dealer to maintain a credit initially extended in conformity with the rules and regulations of the Federal Reserve Board, and (B) to permit the extension or maintenance of credit in cases where the extension or maintenance of credit is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of paragraph (1) of this subsection.

(d) It shall be unlawful for any person not subject to subsection (c) to extend or maintain credit or to arrange for the extension or maintenance of credit for the purpose of purchasing or carrying any security registered on a national securities exchange, in contravention of such rules and regulations as the Federal Reserve Board shall prescribe to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of this section. Such rules and regulations may impose upon all loans made for the purpose of purchasing or carrying securities registered on national securities exchanges limitations similar to those imposed upon members, brokers, or dealers by subsection (c) of this section and the rules and regulations thereunder. This subsection and the rules and regulations thereunder shall not apply (A) to a loan made by a person not in the ordinary course of his business, (B) to a loan on an exempted security, (C) to a loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange, (D) to a loan by a bank on a security other than an equity security, or (E) to such other loans as the Federal Reserve Board shall, by such rules and regulations as it may deem necessary or appropriate in the public interest or for the protection of investors, exempt, either unconditionally or upon specified terms and conditions or for stated periods, from the operation of this subsection and the rules and regulations thereunder.

(e) The provisions of this section or the rules and regulations thereunder shall not apply on or before July 1, 1937, to any loan or extension of credit made prior to the enactment of this title or to the maintenance, renewal, or extension of any such loan or credit, except to the extent that the Federal Reserve Board may by rules and regulations prescribe as necessary to prevent the circumvention of the provisions of this section or the rules and regulations thereunder by means of withdrawals of funds or securities, substitutions of securities, or additional purchases or by any other device.

SEC. 8 It shall be unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly--

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember bank which shall have filed with the Federal Reserve Board an agreement, which is still in force and which is in the form prescribed by the Board, undertaking to comply with all provisions of this Act, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, and with such rules and regulations as may be prescribed pursuant to such provisions of law or for the purpose of preventing evasions thereof, or (3) in accordance with such rules and regulations as the Federal Reserve Board may prescribe to permit loans between such members and/or brokers and/or dealers, or to permit loans to meet emergency needs. Any such agreement filed with the Federal Reserve Board shall be subject to termination at any time by order of the Board, after appropriate notice and opportunity for hearing, because of any failure by such bank to comply with the provisions thereof or with such provisions of law or rules or regulations; and, for any willful violation of such agreement, such bank shall be subject to the penalties provided for violations of rules and regulations prescribed under this title. The provisions of sections 21 and 25 of this title shall apply in the case of any such proceeding or order of the Federal Reserve Board in the same manner as such provisions apply in the case of proceedings and orders of the Commission.

* * * * *

(c) In contravention of such rules and regulations as the Commission shall prescribe for the protection of investors to hypothecate or arrange for the hypothecation of any securities carried for the account of any customer under circumstances (1) that will permit the commingling of his securities without his written consent with the securities of any other customer, (2) that will permit such securities to be commingled with the securities of any person other than a bona fide customer, or (3) that will permit such securities to be hypothecated, or subjected to any lien or claim of the pledgee, for a sum in excess of the aggregate indebtedness of such customers in respect of such securities.

(d) To lend or arrange for the lending of any securities carried for the account of any customer without the written consent of such customer.

SEC. 17. (b) Any broker, dealer, or other person extending credit who is subject to the rules and regulations prescribed by the Federal Reserve Board pursuant to this title shall make such reports to the Board as it may require as necessary or appropriate to enable it to perform the functions conferred upon it by this title. If any such broker, dealer, or other person shall fail to make any such report or fail to furnish full information therein, or, if in the judgment of the Board it is otherwise necessary, such broker, dealer, or other person shall permit such inspections to be made by the Board with respect to the business operations of such broker, dealer, or other person as the Board may deem necessary to enable it to obtain the required information.

SEC. 23. (a) The Commission and the Federal Reserve Board shall each have power to make such rules and regulations as may be necessary for the execution of the functions vested in them by this title, and may for such purpose classify issuers, securities, exchanges, and other persons or matters within their respective jurisdictions.

SEC. 29. (a) Any condition, stipulation, or provision binding any person to waive compliance with any provision of this title or of any rule or regulation thereunder, or of any rule of an exchange required thereby shall be void.

(b) Every contract made in violation of any provision of this title or of any rule or regulation thereunder, and every contract (including any contract for listing a security on an exchange) heretofore or hereafter made the performance of which involves the violation of, or the continuance of any relationship or practice in violation of, any provision of this title or any rule or regulation thereunder, shall be void (1) as regards the rights of any person who, in violation of any such provision, rule, or regulation, shall have made or engaged in the performance of any such contract, and (2) as regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule or regulation.

(c) Nothing in this title shall be construed (1) to affect the validity of any loan or extension of credit (or any extension or renewal thereof) made or of any lien created prior or subsequent to the enactment of this title, unless at the time of the making of such loan or extension of credit (or extension or renewal thereof) or the creating of such lien, the person making such loan or extension of credit (or extension or renewal thereof) or acquiring such lien shall have actual knowledge of facts by reason of which the making of such loan or extension of credit (or extension or renewal thereof) or the acquisition of such lien is a violation of the provisions of this title or any rule or regulation thereunder, or (2) to afford a defense

to the collection of any debt or obligation or the enforcement of any lien by any person who shall have acquired such debt, obligation, or lien in good faith for value and without actual knowledge of the violation of any provision of this title or any rule or regulation thereunder affecting the legality of such debt, obligation, or lien.

SEC. 32. Any person who willfully violates any provision of this title, or any rule or regulation thereunder the violation of which is made unlawful or the observance of which is required under the terms of this title, or any person who willfully and knowingly makes, or causes to be made, any statement in any application, report, or document required to be filed under this title or any rule or regulation thereunder, which statement was false or misleading with respect to any material fact, shall upon conviction be fined not more than $10,000, or imprisoned not more than two years, or both, except that when such person is an exchange, a fine not exceeding $500,000 may be imposed; but no person shall be subject to imprisonment under this section for the violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation.

SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective , 1936

Maximum loan values of registered equity securities for purposes of Regulation U

Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 4 of its Regulation U, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered equity securities for loans regulated under Regulation U:

(1) General rule regarding maximum loan values. - Except as provided in paragraph (2) of this supplement, the maximum loan value of a registered equity security securing a regulated loan shall be whichever is the higher of:

(A) 55 percent of the current market price of the security; or

(B) 100 percent of the lowest market price of the security during the period of 36 calendar months immediately prior to the first day of the current month, but not more than 75 percent of the current market price: Provided, That until July 1, 1936, for the purpose of this regulation, the lowest price at which a security has sold on or after July 1, 1933, but prior to the first day of the current month, shall be considered as the lowest market price of such security during the preceding 36 calendar months: and Provided, That the lowest market price which could be used under the provisions of this regulation during any calendar month may be used during the first 7 calendar days of the succeeding calendar month.

(2) Special maximum loan value for rehypothecated securities. - The maximum loan value of a registered equity security which is rehypothecated by a broker or dealer subject to the conditions specified in subsection (c) of section 4 of Regulation U, shall be ___ percent of the current market price of the security.

SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective , 1936

Maximum loan values of registered equity securities for purposes of Regulation U

Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 4 of its Regulation U, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered equity securities for loans regulated under Regulation U:

(1) General rule regarding maximum loan values. - Except as provided in paragraph (2) of this supplement, the maximum loan value of a registered equity security securing a regulated loan shall be ___ percent of the lowest market price of the security during the period of_____ calendar months immediately prior to the first day of the current month: Provided, That the lowest market price which could be used under this provision during any calendar month may also be used during the first seven calendar days of the succeeding calendar month.

(2) Special maximum loan value for rehypothecated securities. - The maximum loan value of a registered equity security which is rehypothecated by a broker or dealer subject to the conditions specified in subsection (c) of section 4 of Regulation U, shall be ___ percent of the current market price of the security.

INTERPRETATION X-9424

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 10, 1936.

Mr. F. G. Awalt,
Deputy Comptroller of the Currency,
Washington, D. C.

Dear Mr. Awalt:

This refers to your letter of December 18, 1935, inclosing a list of questions relating to the revision of Regulation Q, effective January 1, 1936. The Board understands that this list of questions was submitted to you by Mr. _____, Vice President of the _____ National Bank, _____, and, in accordance with the suggestion which you made over the telephone to a member of the Board's staff, a copy of this letter has been sent to Mr. _____.

You ask whether accounts in the following names may be continued as savings deposits: "Richard Roe by John Doe"; "John Doe and Richard Doe"; "John Doe, Trustee"; "John Doe, Attorney"; "John Doe, Executor or Administrator of Richard Roe's Estate"; "John Doe, Trustee, Equity Cause No. ____"; "John Doe, Committee for _____(Insane)"; "____, Trustee"; "_____, Executor"; "_____, Receiver"; "_____, Guardian"; "____, Administrator"; and "_____, Agent."

Assuming that such deposits comply with all of the other requirements of the definition of savings deposits contained in section 1(e) of the revised Regulation Q, such deposits would be savings deposits if the beneficial interest therein were held by one or more

individuals or by a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit. It is the duty of a member bank to ascertain the facts with regard to the beneficiaries of such accounts and to classify as savings deposits only the accounts in which the beneficial interest is held by one or more individuals or by an organization of the type described above.

You present the question whether deposits of the following organizations may be classified as savings deposits: building and loan associations; mutual fire and life insurance companies; Federal credit unions; and national trade associations, such as the United States Chamber of Commerce and National Lime Association. In the opinion of the Board, deposits of such organizations may not be considered as savings deposits within the meaning of the definition contained in section 1(e) of Regulation Q. It is the view of the Board that such organizations are not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, and, therefore, deposits maintained by them may not be classified as savings deposits.

You also ask whether deposits of social clubs may be classified as savings deposits. The term "social clubs" is so general that it is impossible to make a ruling applicable to all such clubs. However, it is believed that small social clubs such as college fraternities and sororities may be considered as organizations operated

primarily for fraternal purposes and not operated for profit and, accordingly, deposits of such organizations may be classified as savings deposits if they meet the other requirements of the definition.

In the opinion of the Board, an account in the name of a parent as trustee or agent for a child may be classified as a savings deposit if it meets the other requirements contained in section 1(e) of Regulation Q.

You also ask whether deposits of "publications of non-profit organizations" may be classified as savings deposits. If such non-profit organizations are operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, and, if the publications of such organizations are issued only as an incident to the fulfillment of their purposes and not for profit, deposits of such publications may be classified as savings deposits if such deposits meet the other requirements of the definition.

In the opinion of the Board, foreign government accounts and the accounts of their embassies or legations, and quasi-government accounts, such as deposits of Philippine funds and Shipping Board funds, may not be classified as savings deposits because such organizations are not operated primarily for the purposes stated in section 1(e) of Regulation Q. The Board is unable to express an opinion at this time with regard to a deposit of the Pan-American Union since it does not have before it necessary information relating to such organization.

You also present several questions regarding the interpretation of the definition of interest contained in section 1(f) of the revised Regulation Q. In view of the fact that the Board has deferred the date upon which such definition of interest becomes effective, pending action by the Federal Deposit Insurance Corporation on its regulations relating to the payment of interest on deposits by insured nonmember banks, it is not believed advisable to attempt to answer such questions at this time.

You ask to be advised as to the penalties, if any, under Regulation Q. Although no specific penalties are provided for violations of such regulation, your attention is invited to the provisions relating to forfeiture of the charters of national banks and forfeiture of membership in the Federal Reserve System of State member banks. In addition to such provisions, section 30 of the Banking Act of 1933 provides that the Board may remove directors and officers of member banks for continued violations of law or for continued unsafe or unsound practices in conducting the business of such banks.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9425

January 11, 1936.

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:

"NOYGOT" - Treasury Bills to be dated January 15, 1936, and to mature October 14, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

X-9426

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Sunday, January 12, 1936.

January 11,1936.

In accordance with previous practice, a tentative draft of Regulation U, relating to loans by banks for the purpose of purchasing or carrying equity securities registered on a national securities exchange, has been transmitted to the Federal reserve banks.

In an explanatory letter of transmittal to all Federal Reserve Agents, the Board of Governors stated:

"This tentative draft is under consideration by the Board, but before taking action the Board is submitting it for criticisms and suggestions. It will be appreciated, therefore, if you and the officers and counsel of your bank will study this draft and forward your comments and suggestions thereon as promptly as may be possible. In addition, please submit copies of the tentative draft and the explanatory statement to such member and nonmember banks, representatives of securities exchanges, etc., as you may consider advisable, and obtain from them suggestions and criticisms in writing, the originals thereof to be forwarded to the Board as soon as received.

"All comments and suggestions should be forwarded to the Board within thirty days after the date of this letter.

"You will note that section 4 of the tentative draft provides that the maximum loan values of registered equity securities, for the purposes of the regulation, shall be such as the Board may prescribe from time to time in supplements to the regulation. Two alternative drafts of such a supplement are attached to the regulation. One of these includes the statutory requirements that were adopted in Regulation T for brokers and dealers. In the other, the method of determining margin requirements differs from that in Regulation T. It is the present intention of the Board, in the event that a different method is prescribed for banks when Regulation U is issued, to modify Regulation T so as to bring the method of determining margin requirements for brokers and dealers into conformity with that for banks.

"Attention is called, however, to the fact that the Board has authority to change margin requirements from time to time, and the inclusion of the figures in the tentative supplement to Regulation U based upon the statutory formula is not to be taken as indicating that the Board has undertaken to decide at this time what margin requirements will be included in the regulation when it shall be finally approved and promulgated."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9427
January 13, 1936.

Dear Sir:

There is attached, for your information, a copy of a letter being forwarded today to the Secretary of the Federal Reserve Bank of San Francisco with regard to the establishment by the bank of rates of discount every fourteen days pursuant to the requirement of section 14(d) of the Federal Reserve Act, as amended by the Banking Act of 1935.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL F. R. BANKS.

C O P Y

X-9427-a

January 13, 1936

Mr. S. G. Sargent, Secretary,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Sargent:

Under date of December 12, 1935, you advised the Board of Governors that the Federal Reserve Bank of San Francisco had on that date established without change the rates of discount and purchase in your existing schedule. In your telegram of December 26 you stated that due to the lack of a quorum the meeting of your board of directors had been postponed until the next day, and in your telegram of December 27 you advised that the bank had on that date established without change the rates of discount and purchase in your existing schedule. The rates established on December 12 and on December 27 respectively were subsequently approved by the Board of Governors.

In this connection, the Board of Governors desires to invite attention to the requirement of section 14(d) of the Federal Reserve Act, as amended by the Banking Act of 1935, that each Federal Reserve bank shall establish rates of discount every fourteen days, or oftener if deemed necessary by the Board of Governors. This requirement of the law is definite and positive and a failure on the part of any Federal Reserve bank to establish rates of discount at least once in every fourteen day period is a failure to comply with the terms of

the statute, regardless of the reason occasioning the delay. The Board of Governors feels that all possible steps should be taken by the Federal Reserve Bank to insure action upon discount rates within the period required by the statute and urges that all directors and officers of the bank cooperate in such arrangements as may be necessary to accomplish this end.

It is requested that this letter be brought to the attention of the officers of your bank and be read at the next meeting of your board of directors.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9428
January 13, 1936.

CONFIDENTIAL Subject: Stolen Bonds.

Dear Sir:

There is attached for your confidential use a copy of a letter dated January 7, 1936, from Mr. J. Edgar Hoover, Director, Federal Bureau of Investigation, U. S. Department of Justice, to Mr. Paulger, Chief of the Board's Division of Examinations, together with a copy of the list of the stolen bonds referred to in Mr. Hoover's letter.

You are requested to bring this information to the attention of the appropriate officers and employees of your bank and branches, if any, who may be in a position to detect the stolen notes or bonds should they be offered to or come into the possession of the Federal Reserve Bank. You are also requested to notify the Director of the Federal Bureau of Investigation, U. S. Department of Justice, Washington, D. C., or the nearest local office of that organization at once by telegraph or telephone should any of the securities be presented for payment or should you obtain any other information regarding them.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL GOVERNORS.

c o p y

John Edgar Hoover
Director

X-9428-a

FEDERAL BUREAU OF INVESTIGATION

U. S. Department of Justice

Washington, D. C.

January 7, 1936.

Mr. Leo Paulger,
Chief Examiner,
Federal Reserve Board,
Shoreham Building,
15th and H Streets, N. W.,
Washington, D. C.

Dear Mr. Paulger:

An investigation has been initiated under the National Stolen Property Act by the Federal Bureau of Investigation as to the theft and transportation on December 13, 1934 from the offices of the United States Trust Company of New York, of U. S. Treasury Notes, totaling $590,000.00 par value.

A similar investigation has been initiated as to the theft on January 28, 1935 of U. S. Treasury Notes and Bonds, totaling $1,451,000.00 from the Bank of Manhattan Company, New York City.

I attach hereto separate lists which furnish you with the proper description of the Treasury Notes and Bonds in question. You will note that of these securities, 17 pieces are $100,000.00 U. S. Treasury Notes totaling $1,700,000.00. Of these $100,000.00 pieces, 8 are due on April 15, 1936 and will undoubtedly be passed on or before that date.

You are urgently requested to forward an appropriate notification to each of the Federal Reserve Banks and Branches throughout the United States, with instructions that should any of these notes be presented for payment, the Director of the Federal Bureau of Investigation, U. S. Department of Justice, Washington, D. C., or the nearest local office of this organization, be notified at once by telegram or long distance telephone collect.

Sincerely yours,

(signed) J. Edgar Hoover

John Edgar Hoover,
Director.

Incl. 867387

c o p y X-9428-b

STOLEN FROM THE UNITED STATES TRUST COMPANY
OF NEW YORK CITY, DECEMBER 13, 1934

$590,000 par value, of United States Treasury 2 7/8% Notes, due June 15, 1938, with December 15, 1934 and all subsequent coupons attached, such coupons being due December 15th and June 15th, respectively, in five pieces of $100,000 each and nine pieces of $10,000 each were stolen on December 13, 1934 from the offices of the United States Trust Company of New York, 45 Wall Street, New York. The numbers of the $100,000 pieces are as follows:

No. 1402
No. 9607
No. 9608
No. 9609
No. 9610

The numbers of the $10,000 pieces are as follows:

No. 37004	No. 38022	No. 38053
No. 38019	No. 38044	No. 38054
No. 38020	No. 38045	No. 38055

Notify J. Edgar Hoover, Director, Federal Bureau of Investigation, U. S. Department of Justice, Washington, D.C.

c o p y X-9428-c

STOLEN FROM THE BANK OF MANHATTAN COMPANY,
NEW YORK CITY ON JANUARY 28, 1935.

Eight $100,000 United States Treasury Notes, 2 7/8%, due April 15, 1936, Nos. 137H, 138J, 4104D, 6935E, 8389K, 10012B, 10013C and 10070L.

Two $100,000 United States Treasury Notes, 2¾%, due December 15, 1936, Nos. 5612B and 5613C.

Two $100,000, United States Treasury Notes, 2 1/8% due June 15, 1939, Nos. 14619 and 14620.

Five $10,000 United States Treasury Notes, 2¾% due December 15, 1936, Nos. 18913C, 18914D, 18915E, 18916F and 18917H.

Five $10,000 United States Treasury Notes, 2 7/8%, due April 15, 1936, Nos. 195E, 21951A, 21956F, 21957H, and 21960L.

Five $10,000 United States Treasury Notes, 2 1/8%, due June 15, 1939, Nos. 46398, 46399, 46400, 46401, and 46402.

Nineteen $5,000, United States Treasury Notes, 2 7/8%, due April 15, 1936, Nos. 2887H, 2888J, 3227H, 3232B, 5400L, 5664D, 5665E, 5789K, 5790L, 6373C, 6687H, 7012B, 7041A, 7042B, 7043C, 7067H, 7643C, 8022B and 8161A.

One $1,000 Fourth United States Liberty Loan Bond, 4¼% (called), No. G02346787.

Five $1,000 National Public Service 5% Bonds, due February 1, 1978, Nos. M2050, M8939, M8940, M12191, and M13020.

Notify J. Edgar Hoover, Director, Federal Bureau of Investigation, U. S. Department of Justice, Washington, D. C.

INTERPRETATION X-9429

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 11, 1936

Mr. _____ Cashier,
_____ National Bank and Trust Company of _____,
_____, _____.

Dear Sir:

This refers to your letter dated December 26, 1935, regarding the interpretation of certain provisions of Regulation Q, as revised effective January 1, 1936.

It is understood that several of your depositors which are business corporations carry interest accounts and you wish to be advised whether, under the supplement to Regulation Q, you will be allowed to issue a certificate of deposit having a maturity at least 6 months after the date of deposit and continue to pay interest thereon at your present rate of 2½ per cent. A time certificate of deposit which complies with the definition contained in section 1(c) of Regulation Q and which has a maturity date 6 months or more after the date of deposit or is payable upon written notice of 6 months or more may bear interest at a rate not exceeding 2½ per cent per annum.

You also state that under your present arrangement no interest is paid on any savings account unless the same has been on deposit 6 months or longer and that 30 days' notice is required for withdrawal. It is understood that you wish to be advised whether you may continue to use pass books with a six months' withdrawal provision to evidence

the accounts of business corporations. The Board sees no objection to the use of a pass book to evidence a "time deposit, open account" of a business corporation or other depositor and, if such deposit complies with the definition contained in section 1(d) of Regulation Q, the bank may pay interest thereon at a rate not exceeding the applicable maximum rate prescribed for time deposits in the supplement to Regulation Q.

Such a deposit of a business corporation could not, of course, be classified as a savings deposit even though a pass book were used in connection therewith, and the bank could not pay 2½ per cent interest thereon unless the written contract between the bank and the depositor, which might be stated in the pass book or elsewhere, provided that neither the whole nor any part of such deposit could be withdrawn except upon written notice of not less than 6 months.

If you have any further questions with regard to this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of _____, which will be glad to answer your inquiries.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION X-9430

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 11, 1936.

Mr. F. G. Awalt,
Deputy Comptroller of the Currency,
Washington, D. C.

Dear Mr. Awalt:

This refers to your memorandum of January 10, 1936, transmitting an inquiry from Mr. _____, attorney-at-law, _____, _____, with respect to a question raised by the National Bank of _____, _____, involving an interpretation of section 22(g) of the Federal Reserve Act.

It appears that the National Bank of _____ holds the joint note of Mr. and Mrs. _____ for the original amount of $7,000 but which has been reduced to approximately $6,500. The loan was made and the note executed during the year 1935 at a time when Mr. _____ was not an executive officer of the bank. It appears that the board of directors of the bank now have under consideration the matter of appointing Mr. _____ as an executive officer of the bank and the question arises as to whether the appointment of Mr. _____ as an executive officer of the bank in view of the facts above would constitute a violation of the provisions of section 22(g) of the Federal Reserve Act.

The applicable provision of section 22(g) is as follows:

> "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 * * * . "

It is apparent that the provision quoted above refers to an executive officer of a member bank who is an executive officer thereof at the time he borrows from or otherwise becomes indebted to the member bank. Therefore, when a loan is made in good faith by a member bank to an individual who is not at that time an executive officer thereof and the loan is not made in contemplation of his becoming an executive officer of the bank, there is nothing in the statute which would prohibit such person from becoming an executive officer of such bank. However, there may be circumstances in a particular case which would involve an attempted evasion of the provision of law, and the above ruling, of course, is not applicable to a case where an attempted evasion might be involved. While the facts contained in the inquiry are not entirely clear, it does not appear that the loan in question was made with a view of evading the provisions of law in question.

In the circumstances, the Board is of the opinion that in the event Mr. _____ is elected as an executive officer of the bank, the extension of credit in question will not constitute a violation of the provisions of section 22(g).

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9431

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

January 6, 1936.

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

Dear Mr. Stevens:

This refers to your letter of December 10, 1935, inclosing a copy of a letter from the _____ National Bank of _____, _____. It appears that one of the directors of that bank, as provided in its by-laws, is required to serve as vice president; that the officer in question serves entirely without compensation, and is entirely inactive in the management of the bank, except as a director. You point out that this case is indicative of the various difficulties which some of the banks are going to have in complying with the Board's Regulation O if inactive vice presidents are included within the definition as contained in subsection (b) of section 1 of the Board's Regulation O.

On the basis of the tentative draft of Regulation O which was forwarded to the Federal Reserve banks for suggestions and criticisms, the Board received a number of suggestions to the effect that inactive officers of member banks not be considered executive officers thereof for the purposes of section 22(g) of the Federal Reserve Act. At the time of its final action in promulgating Regulation O, the

Board discussed these suggestions and gave careful consideration to the question whether it should exempt all inactive officers from its definition of the term "executive officer". However, since Congress made no distinction in section 22(g) between active and inactive officers, the Board did not feel that it should exclude inactive or honorary executive officers in defining the term "executive officer" pursuant to the authority vested in the Board by the law. Furthermore, a vice president of a member bank, although actually inactive in the management of the bank, nevertheless is in a position to exercise actively the duties of his office should occasion arise.

The President of the _____ National Bank of _____ has stated that, as directed by the office of the Comptroller of the Currency, the by-laws of the bank require that a vice president of the bank shall be a member of the board of directors and that the vice president in question consented to assume that office to meet the requirements of the by-laws. In these circumstances, the bank may wish to give consideration to whether it should take up with the office of the Comptroller of the Currency the question whether there would be any objection to eliminating from its by-laws the requirement that a vice president of the bank shall be a member of the board of directors.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

January 13, 1936

WOOD
ST. LOUIS

Re your letter January 2, 1936, regarding inquiry you have received from Chief National Bank Examiner for your district relating to indebtedness of a vice president of national bank. Indebtedness which was incurred prior to June 16, 1933, may be renewed or extended for periods expiring not later than June 16, 1938, as provided in section 4 Board's Regulation O. Indebtedness which was incurred on May 25, 1935, does not fall within scope of Board's Regulation O but is subject to penalties provided by section 22(g) prior to Banking Act of 1935, and since a national bank is involved it is suggested that in replying to the inquiry of the Chief National Bank Examiner for your district his attention be called particularly to this phase of the matter for such action as he deems advisable. Indebtedness which was incurred on October 12, 1935, falls within scope of Board's Regulation O. Fact that the vice president in question is inactive is immaterial. Question whether any proceedings should be instituted under section 30 of the Banking Act of 1933 on account of a violation of the provisions of section 22(g) as amended August 23, 1935, by the Banking Act of 1935, involves the exercise of a reasonable discretion in the particular case, but the Board believes that in any such case an attempt should be made to obtain a correction of the violation as soon as reasonably practicable prior to the institution of any such proceedings.

(Signed) Chester Morrill

Morrill.

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

January 4, 1936.

Mr. _____, President,
_____ National Bank and Trust Company of _____,
_____.

Dear Sir:

This refers to your letter of December 16, 1935, in which you inquire whether the Secretary of the Board of Directors of your bank is an executive officer within the meaning of that term as defined in subsection (b) of section 1 of the Board's Regulation O.

You state that one of the directors of your bank has the title of Secretary of the Board of Directors, that his functions are those pertaining to the minutes of the meetings of the Board of Directors, certification as to certain resolutions as passed by the Board of Directors and that he acts strictly in these and similar capacities, but is not in any sense active in the management of the bank. On the basis of these facts, the Board is of the opinion that the director of your bank who is also Secretary of the Board of Directors is not an executive officer within the meaning of that term as defined in Regulation O.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

January 6, 1936.

Sirs:

Your letter (X-9407) of December 27, 1935, was read to our Board of Directors at its last meeting, and the action of the October Governors Conference with respect to the desirability of holding the meetings of the boards of directors of the twelve Federal reserve banks on the same day of the week was considered. It was the opinion of our directors that, if a satisfactory uniform meeting day can be arranged, such an arrangement would promote the better operation of the Federal Reserve System, in view of the requirement of the Banking Act of 1935 which involves the more frequent establishment than in the past, at some of the Federal reserve banks, of rates of discount and purchase, and in view, also, of the continuing desirability of devising a schedule of meetings of directors of Federal reserve banks which will not ordinarily conflict with meetings of the Federal Open Market Committee and other System groups at Washington, D. C.

The directors further expressed the view that, since a greater number of boards of directors now meets on Thursday than on any other day, and since the board of directors of this bank is the only board which meets every week, and a change in its meeting day, therefore, would involve proportionately greater changes in the personal arrangements of the individual directors than would a change at other Federal reserve banks, it would be appropriate if Thursday could be selected as the day upon which the boards of directors of the twelve Federal reserve banks should meet.

Respectfully,

(Signed) J. H. Case

J. H. CASE,
Chairman.

Board of Governors
of the Federal Reserve System,
Washington, D. C.

COPY

FEDERAL RESERVE BANK X-9434-a

OF NEW YORK

December 28, 1935.

S i r s:

In behalf of Mr. Case, I wish to acknowledge receipt of your letter (X-9407) dated December 27, 1935, concerning the possibility of arranging a uniform meeting date for the boards of directors of the several Federal reserve banks. This matter will be brought to the attention of the board of directors of this bank at its next meeting.

Respectfully,

(Signed) Allan Sproul

Allan Sproul,
Secretary.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

COPY

FEDERAL RESERVE BANK

OF PHILADELPHIA X-9435

January 8, 1936.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Sirs:

Your letter of December 27th, X-9407, referring to the action of the October Governors' Conference in voting on the desirability of having the meetings of the boards of directors of the twelve Federal reserve banks held on the same day, and that the Board of Governors of the Federal Reserve System be asked to arrange with the several Federal reserve banks for uniformity in this regard, was referred to our board of directors.

The matter was fully discussed and our board would favor holding the meetings on Wednesday or Thursday. At present our board meetings are held on Wednesdays, and I have never heard any objection to that day. Our board in considering this letter only considered the day of the week, we took it for granted that the number of times during the month we met is a matter not under consideration.

Very truly yours,

(Signed) R. L. Austin

Chairman.

COPY

FEDERAL RESERVE BANK X-9436

OF RICHMOND

January 10, 1936

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Attention of Mr. Chester Morrill, Secretary

Gentlemen:

I wish to advise that at the regular meeting of our Board of Directors held yesterday there was read the Board of Governors' "X" letter 9407, as forwarded us under date of December 27, 1935, in connection with the adoption of a uniform date for the holding of the meetings of the boards of directors of the various Federal reserve banks.

Following a discussion of the subject the selection of a suitable date was considered, whereupon our board voted unanimously in favor of the adoption of a uniform date, as per the enclosed copy of the motion as approved.

In connection with the proposal of the second Thursday in the month as the preferable date attention is called to that portion of the motion which states the reasons which actuated our board in their selection.

Yours very truly,

(Signed) George J. Seay

George J. Seay
Governor

Enclosure

COPY

FEDERAL RESERVE BANK X-9436-a

OF RICHMOND

Action of Directors at Meeting Held January 9, 1936, Subject "Desirability of Uniform Date for Meeting of Boards of Directors of Federal Reserve Banks."

That this Board of Directors is in accord with the suggestion of the Governors' Conference that it is desirable that meetings of the boards of directors of the twelve Federal reserve banks be held on the same date and that this board favors the second Thursday of the month as the uniform date. The reasons for this selection are summarized as follows:

A greater number of the Federal reserve banks are at present having the meetings of their directors on Thursday.

The second Thursday is preferable, in that those banks having meetings twice a month could regularly meet on the second and fourth Thursdays, while the first Thursday would frequently be too early in the month to permit of the preparation of the calendar monthly reports and there is not a fifth Thursday in every month.

* * * * * * * * * *

I hereby certify that the above is a true copy of a motion adopted at the meeting of the Board of Directors of the Federal Reserve Bank of Richmond held at Richmond on Thursday, January 9, 1936.

(Signed) Geo. H. Keesee

Geo. H. Keesee
Secretary

COPY

FEDERAL RESERVE BANK X-9437

OF ATLANTA

January 11, 1936.

Mr. Chester Morrill, Secretary,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Mr. Morrill:

At the regular January meeting of the directors of this bank your letter of December 27, 1935 (X-4907), was presented to the Board.

It was the consensus of opinion that it would be desirable that meetings of the Boards of Directors of the twelve Federal Reserve banks be held on the same day. The Governor of this bank was authorized to confer with representatives of the other Federal Reserve banks and to formulate, if possible, a plan contemplating uniformity of meeting dates.

Very truly yours,

(Signed) W. H. Kettig

W. H. Kettig,
Deputy Chairman of the Board.

COPY X-9438

FEDERAL RESERVE BANK OF CHICAGO

January 10, 1936.

Board of Governors
of the Federal Reserve System
Washington, D. C.

Gentlemen:

I refer again to your letter of December 27, 1935, X-9407, concerning the question of uniformity as to the meeting day of the boards of directors of the several Federal Reserve banks. I presented this for the consideration of our board today at its annual meeting.

As you are aware, our full board meets once a month, on the fourth Friday. In the interim, on each Friday our executive committee meets.

While no formal action was taken at our meeting today, an expression was asked from the individual members as to their preferences for a meeting day. It developed that all of the directors present would prefer to continue the monthly meeting of the board and the weekly meetings of the executive committee on Fridays. If this were not acceptable to the rest of the Federal Reserve banks, the next choice of the members of our board would be Thursday. A number of the out-of-town members expressed themselves that earlier in the week would be quite inconvenient for them.

If it should be deemed advisable to have the full boards of all the banks meet on the same day, I do not think it would make much difference to our board members just which week of the month was chosen, excepting in so far as it relates to the reports of operations of the banks. The decided preference of our board members is for the meetings to be held on Fridays.

I trust this will answer your inquiry.

Very truly yours,

(Signed) Eugene M. Stevens

Chairman of the Board

COPY X-9439

FEDERAL RESERVE BANK
OF
ST. LOUIS

January 8, 1936

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Attention Mr. Chester Morrill, Secretary.

Gentlemen:

Your letter of December 27, 1935, X-9407, relative to uniform dates for meetings of board of directors of Federal Reserve banks, was considered at our directors' meeting on January 2.

If uniform dates are adopted, a majority of our directors expressed a preference that board meetings be held on the first and third Fridays of each month.

Yours very truly,

(Signed) Jno. S. Wood

Chairman of the Board.

COPY X-9440

FEDERAL RESERVE BANK
OF
KANSAS CITY

January 11, 1936.

Board of Governors of the Federal Reserve System
Washington, D. C.

Attention of Mr. Chester Morrill
Secretary

Gentlemen:

Board's letter X-9407, dated December 27, 1935, regarding the recommendation of the Governors' conference that meetings of the Boards of Directors of the twelve Federal Reserve banks be held on the same day, was presented and discussed at the meeting of our directors held on January 9.

The directors feel that there is some question as to the practicability of arranging for meetings of all twelve boards on the same date, but expressed a willingness to cooperate in this matter provided the first meeting date in each month is not set so close to the first of the month that the usual end-of-month reports will not be available for consideration. The directors also expressed themselves as preferring to continue their present practice of holding two meetings each month. Our by-laws at this time provide that meetings shall be held on the first and third Thursdays after the first Monday in each month.

Very truly yours,

(Signed) A. M. McAdams

Secretary.

COPY X-9441

FEDERAL RESERVE BANK

OF DALLAS

January 10, 1936

Board of Governors of the
Federal Reserve System
Washington, D. C.

Gentlemen:

Reference is made to your letter X-9407 of December 27, 1935, in connection with the arrangement for uniformity in the meeting days of the board of directors of the twelve Federal reserve banks.

Your letter was carefully considered at the regular meeting of our board of directors held Tuesday, January 7, 1936, and by reference to page eighteen of the minutes of the meeting, a copy of which is today being sent you, the action of our directors will be noted.

It was the unanimous judgment of our directors that the proposed plan is advisable, and while Thursday of the week would be preferable to our directors, we will of course fix any day which may be agreed upon by you after the other Federal reserve banks have expressed their views.

Yours very truly,

(Signed) C. C. Walsh

Chairman of the Board

X-9441-a

EXCERPT FROM MINUTES OF MEETING OF BOARD OF DIRECTORS OF FEDERAL RESERVE BANK OF DALLAS, HELD JANUARY 7th, 1936.

UNIFORMITY OF MEETING DAYS,
BOARDS OF DIRECTORS,
FEDERAL RESERVE BANKS:

There was presented letter X-9407 of December 27, 1935, from the Board of Governors of the Federal Reserve System on the subject of uniformity in dates of meetings of the boards of directors of the twelve Federal Reserve Banks.

After discussion, upon motion of Director Harding, seconded by Director Morris, the Chairman was requested to inform the Board of Governors of the Federal Reserve System that the directors of this bank are in accord with the views expressed in the letter referred to and favor uniformity in the meeting days of the boards of directors of the Federal Reserve Banks; and that while Thursday would be preferable to us, we would fix any day which might be agreed upon by the other Reserve banks and the Board of Governors.

COPY X-9442

FEDERAL RESERVE BANK
OF BOSTON

January 11, 1936

Board of Governors of the Federal Reserve System
Washington, D. C.

Gentlemen:-

Reference is made to the Board's letter of December 27, 1935 (X9407) referring to the action of the Governors' conference in October with regard to meetings of the boards of directors of the Federal Reserve Banks being held on the same day; and inquiring as to the reaction of our directors to the suggestion of a uniform meeting date.

This matter was discussed at our directors' meeting in June last year, a short time after it was discussed at the Governors' conference on May 27-28, and a short time afterwards we addressed a questionnaire to each of our directors asking for an expression of preference concerning days for directors' meetings. The replies of individual directors at that time were unanimously in favor of having such meetings on Wednesday and rather definitely eliminated most of the other days of the week as convenient days.

At our directors' meeting on January 8, 1936, the Board's letter of December 27 was read and the subject was discussed again. Opinions expressed favored the continuance of our practice of meeting every alternate Wednesday and it was pointed out that our present schedule of meetings makes it possible to comply with the provisions of Section 14(d) of the Federal Reserve Act, as amended by the Banking Act of 1935, requiring each Federal Reserve Bank to establish rates of discount

every fourteen days or oftener if deemed necessary by the Board, inasmuch as our directors meet once every fourteen days and our Executive Committee has the power, under the by-laws, to make changes in the discount rates.

It was also pointed out at our directors' meeting that the suggestion looking to a uniform meeting day was originally made in order to minimize, so far as possible, conflict with meetings of the Federal Open Market Committee, but, that since the committee is to be reconstituted effective March 1, 1936, there is no longer so much occasion for uniformity in meeting days. Our directors recognized the fact that there may be some general advantages in having a uniform meeting day for the boards of directors of all the Federal Reserve Banks but it did not seem to them that such advantages were sufficient at the present time to offset the inconvenience involved in changing our long established date, particularly as the power possessed by our Executive Committee makes it possible to obtain prompt action upon any matter for which it is not feasible to call a meeting of our full board of directors.

Respectfully yours,

(Signed) Frederic H. Curtiss

Chairman

COPY X-9443

FEDERAL RESERVE BANK

OF CLEVELAND

January 14, 1936.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Gentlemen:

Our Board of Directors, at its meeting on January 10, 1936, gave careful consideration to letter X-9407, dated December 27, 1935, subject: Uniformity of Federal Reserve Bank Meeting Dates.

It was voted to be the sense of our Board that meetings of the Boards of Directors of the Federal reserve banks should be held every 28 days beginning Friday, February 7, 1936; and that meetings of the Executive Committees should be held every 14 days beginning with that date, in order to comply with the statutory requirement that each Federal reserve bank shall establish rates of discount every 14 days, or oftener, if deemed necessary by the Board of Governors of the Federal Reserve System. It should be noted that the effective day, and date, synchronize with the Act of August 23, 1935, amending the Federal Reserve Act.

Yours very truly

(Signed) H. F. Strater

Secretary

FEDERAL RESERVE BOARD

WASHINGTON

Y-9444

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 16, 1936

Dear Sir:

In connection with its studies on current and recent monetary developments the Division of Research and Statistics is desirous of obtaining a classification of deposits for October 25, 1933 and November 1, 1935. Inclosed is a list of the banks in your district which have been selected for the purpose, together with the minimum size deposit to be listed in each case. It will be appreciated if you will ask for their cooperation in supplying this information and in this connection I am inclosing for your consideration a draft of a letter to be sent to the selected banks. Forms and instructions are also inclosed.

Two of the largest banks in the country have already made a classification at our request and reported that it involved very little labor. In addition, representatives of eleven large banks have expressed their willingness to cooperate. It is not anticipated, therefore, that you will encounter any reluctance to supply the information.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL CHAIRMEN

X-9444-a

January 16, 1936.

Dear Mr. _____

The Division of Research and Statistics of the Board of Governors of the Federal Reserve System is conducting a study of movements of deposit accounts. In order to throw light upon the causes of the movements that have occurred in recent years it would be most helpful to secure a classification of deposits by type of business for 1933 and 1935. This information would aid in interpreting recent monetary developments, throw light upon the extent to which various classes of business are in a position to finance an increased volume of business activity without recourse to borrowing from the banks or capital markets, and would contribute to our knowledge of the volume of money available for investment.

Complete information on this matter would call for a listing of all deposits, which would involve too much work and expense. It has been found, however, through the cooperation of two of the largest banks and from other information, that a listing of large deposits on two dates, classified sufficiently broadly so as to preclude identification of individual accounts, would involve little work and yet would cover a substantial proportion of the total.

Your cooperation in providing this information would be much appreciated. The specific request is a listing for October 25, 1933

and November 1, 1935 of your deposit accounts which were in excess of $ _____ on either of these dates, classified under the broad headings of manufacture, trade, public utilities, railroads, finance, foreign, personal and other. No publicity will be given to the information for individual banks, as the information is desired purely for statistical purposes.

Separate forms for the listing of demand and time deposits and instructions for filling them out are inclosed. If more forms are required, I shall be very happy to supply them.

Very truly yours,

Inclosures.

INTERPRETATION X-9445

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 15, 1936.

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

Dear Mr. Peyton:

This refers to your letter of December 11, 1935, inclosing an opinion of counsel for your bank with regard to a situation where a member bank holds a cash item in the form of a check which, if put through the books of the bank, would thereby cause an overdraft in the account of an executive officer in an amount not in excess of 30 days' advance pay, or not in excess of the salary which has accrued to the executive officer. It is noted that counsel for your bank is of the opinion that the granting of the overdraft would constitute a violation of section 22(g) of the Federal Reserve Act and the Board's Regulation O. You inquire whether the Board is in accord with your counsel's opinion and inquire further whether the opinion would be the same if an actual overdraft had been created in the executive officer's account or if the executive officer in question had substituted his personal note for the amount of the overdraft.

In section 1(c)(1) of the Board's Regulation O, the terms "loan", "loaning", "extension of credit", and "extend credit" are defined to include "any advance by means of an overdraft, cash item, or otherwise;" and, under the second clause of the unnumbered paragraph

of section 1(c) it is provided that such terms do not include

> "the acquisition by a bank of any check deposited in or delivered to the bank in the usual course of business unless it results in the granting of an overdraft to or the carrying of a cash item for an executive officer."

On the other hand, it is provided in such subsection that advances of unearned salary or other unearned compensation for periods not in excess of 30 days and advances against accrued salary or other accrued compensation are not included within the definition of such terms.

In the question presented, it does not appear that the granting of the overdraft to or the carrying of the cash item for the executive officer has been previously approved by a majority of the entire board of directors of the bank thereby bringing the transaction within the $2500 exception as provided in section 3(a)(1), or that the executive officer has been advanced any salary, accrued or unaccrued, as such. On the basis of the above facts, the Board is of the opinion that if the bank carries a cash item in the form of a check which, if put through the books of the bank, would cause an overdraft in the account of the executive officer, the carrying of such cash item or the granting of such overdraft, as the case may be, would be a loan or extension of credit as defined in the Board's Regulation O. Likewise the substitution of the personal note of the executive officer for the amount of the cash item or overdraft would be a loan or extension of credit as defined in such regulation. The fact that the executive

officer is entitled to compensation which has been earned or accrued or is entitled to an advance of unearned salary for a period not in excess of 30 days, which amounts would be equal to or in excess of the cash item, overdraft, or personal note, would not be sufficient to remove the transaction from the classification of a loan or extension of credit. In other words, the existence of an effect, under the circumstances described above, would not render legitimate a loan or extension of credit which is prohibited.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION

BANKING ACT OF 1935 X-9446

(Copies to be sent to all Federal Reserve banks)

January 15, 1936.

Mr. _____,
Executive Vice President,
The _____ National Bank of _____,
_____, _____.

Dear Sir:

This refers to your letter of December 28, 1935, regarding the payment of interest on savings deposits under the provisions of the supplement to the Board's Regulation Q, effective January 1, 1936.

Under section (1) of the supplement to Regulation Q, no member bank may lawfully pay interest on any savings deposit accruing after January 31, 1935, at a rate in excess of 2½ per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed. It is the view of the Board that if a deposit conforms to the definition of a savings deposit contained in section 1(e) of the Board's Regulation Q, interest may lawfully be paid thereon at a rate not in excess of the maximum rate above prescribed, notwithstanding the fact that the funds contained in such deposit have actually been on deposit with the bank for a period of less than three months. Likewise, a member bank is not prohibited from paying interest on a savings account which has been closed between the bank's regular semiannual interest periods. In either case, however, the amount of interest actually paid on any savings deposit, accruing after January 31, 1935, may not exceed 2½ per cent per annum, when compounded quarterly, for

the period during which the deposit actually constituted a savings deposit as defined in Regulation Q.

If you have any further question regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of _____, which will be glad to advise you with respect to any such matters.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION X-9447

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 15, 1936.

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

Dear Mr. Peyton:

This refers to your letter dated January 2, 1936, presenting the question whether a deposit of funds of an individual which are used in his business may be classified as a savings deposit within the definition contained in section 1(e) of Regulation Q. A copy of Mr. Ueland's opinion stating that he thought the question was close enough and important enough to be submitted to the Board for a ruling was inclosed with your letter.

You state that a member bank has asked whether a deposit of an individual consisting of funds which are used in his business, as for example, the funds of John Smith doing business as Smith and Company, may be classified as a savings deposit. It is the view of the Board that deposits of funds of an individual which are used in his business may be classified as savings deposits provided such deposits comply with the other provisions of the definition contained in section 1(e) of Regulation Q.

Prior to the issuance of Regulation Q, careful thought was given to this question and it was decided that it would be impracticable to attempt to distinguish between the funds of an individual

which are used in his business and other funds of the individual. It was thought, however, that a distinction could properly be made between deposits of the funds of an individual and funds of a partnership in which he is a partner. Accordingly, footnote 4 of Regulation Q provides that a deposit of a partnership operated for profit may not be classified as a savings deposit.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION X-9448

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 15, 1936.

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

Dear Sir:

This refers to your letter dated December 17, 1935, in which you ask to be advised whether deposits of credit unions or citrus growers associations may be classified as savings deposits within the definition contained in section 1(e) of Regulation Q.

You state that credit unions are formed, usually within an industry or business, primarily for the purpose of affording their members a place where they can borrow money in small amounts at a reasonable rate of interest. You also state that citrus growers associations are composed of citrus growers and that such associations usually own a packing house and pick and pack the fruit from the crops of their members for a charge fixed at the beginning of the season.

Without regard to the question whether credit unions or citrus growers associations are operated for profit, the Board is of the opinion that such organizations are not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, and, therefore, deposits maintained by them may not be classified as savings deposits within the definition

contained in section 1(e) of Regulation Q.

If you have any further questions regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of _____, which will be glad to answer your inquiries.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

January 16, 1936.

Mr. _____, President,
_____ National Bank of _____,
_____, _____.

Dear Sir:

This refers to your letter of December 7, 1935, asking certain questions with respect to the making of loans by member banks to their executive officers.

It is understood that you desire to be advised whether the Chairman of the Board of Directors of your bank may lawfully continue in such capacity while there remains outstanding a loan made to him by your bank in July, 1935, in the amount of $4,000. You state that such Chairman of the Board of Directors of your bank is inactive and receives no compensation as Chairman of the Board other than a regular director's fee which is received by all other directors.

As you perhaps know, subsection (g) of section 22 of the Federal Reserve Act, prohibiting the making of loans to executive officers of member banks, was amended by the Banking Act of 1935, approved August 23, 1935, so as to eliminate the criminal penalties previously provided for the violation of its provisions. In lieu of such penalties, it is now provided that an executive officer of a member bank accepting a loan or extension of credit in violation of the provisions of this subsection is subject to removal from office in the

manner prescribed by section 30 of the Banking Act of 1933. However, it appears that the criminal penalties must be regarded as still in force with respect to acts committed prior to the amendment of section 22(g) by the Banking Act of 1935, on August 23, 1935, in view of the provisions of Section 29 of title 1 of the United States Code, which provides as follows:

> "The repeal of any statute shall not have the effect to release or extinguish any penalty, forfeiture, or liability incurred under such statute, unless the repealing Act shall so expressly provide, and such statute shall be treated as still remaining in force for the purpose of sustaining any proper action or prosecution for the enforcement of such penalty, forfeiture, or liability."

In the circumstances, therefore, it appears that the answer to your question depends upon whether the loan made by your bank in July, 1935, to the Chairman of your Board of Directors was in violation of the provisions of section 22(g) of the Federal Reserve Act as it was then in force.

In construing the provisions of that section prior to its amendment by the Banking Act of 1935, it was the position of the Board that it could not appropriately express an opinion as to who were "executive officers" within the meaning of its provisions since penalties of fine or imprisonment were provided for violations thereof and since the determination of the question whether a particular case should be prosecuted for a criminal violation of the subsection was a matter entirely within the jurisdiction of the Department of Justice. Accordingly, the Board cannot properly advise you as to whether the loan

to which you refer constituted a violation of the law.

Under the present law, the Board of Governors of the Federal Reserve System is authorized to issue regulations and to define the term "executive officer" for the purposes of the subsection in question; and in accordance with this authority, the Board has defined the term "executive officer" in section 1(b) of its recently issued Regulation O, effective January 1, 1936, to include the Chairman of the Board of Directors, regardless of whether he is active in the performance of the duties of his office. However, as indicated above, the determination of the question who are to be considered "executive officers" in the case of apparent violations arising prior to August 23, 1935, the date of the enactment of the Banking Act of 1935, is a matter which appears to be properly within the jurisdiction of the Department of Justice.

You further request to be advised whether a member bank may lawfully advance an executive officer his salary for the ensuing month, i.e., whether, for example you might on January 1 credit an executive officer his salary for the month of January without violating the law.

It will be noted that subsection (c) of section 1 of the Board's Regulation O provides that the terms "loans", "loaning", "extension of credit", and "extend credit" include, among other things, "any advance of unearned salary or other unearned compensation for periods in excess of 30 days". Strictly interpreted, this provision would preclude the advance of unearned salary for any full month having

31 days. However, where an officer's salary is computed on a monthly basis, the Board will not regard the advance of unearned salary for a month having more than 30 days as a loan or extension of credit within the meaning of the Board's regulation.

For your information, there is inclosed herewith a copy of the Board's Regulation O, effective January 1, 1936.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9450

January 17, 1936.

Dear Sir:

In planning the study of closed banks which has recently been undertaken as a WPA project, it was proposed that the general supervision, analysis and publication of significant findings be undertaken by the Board and the placement and supervision of workers be undertaken by the Federal Reserve banks. This was done in order to ensure efficient supervision and also to meet the requirement that ninety percent of total expenditures would be for labor from relief rolls. This requirement precludes the possibility of meeting the cost of supervision from the amount allocated to the study by the President, since the rent of space, machines and equipment for the tabulating center will absorb the remaining ten percent of expenditures. While the Reserve banks have been cooperating in the preparatory work incident to the initiation of the project, the allocation of the cost of supervision has not yet been determined beyond instructions that a separate record of expenses be maintained.

The Board now proposes that the cost of supervision, exclusive of supervision provided by the Board, be prorated among the Reserve banks according to their capital and surplus. There are several considerations which prompt the suggestion.

In the first place, this would be in harmony with the procedure adopted in connection with the studies on member bank reserves and on branch, group and chain banking.

Secondly, the burden of supervision is unevenly distributed. In selecting the closed banks for study an effort was made to include all national banks which had suspended from 1931 to 1933, inclusive, in towns with a population of 25,000 or over and with deposits of $1,000,000 or over. It was felt that small banks in places with a population of less than 25,000 would not have adequate space nor have their records in good shape. Moreover, it would be difficult to secure white-collar workers in small places. In addition to the national banks, certain State banks were included where the cooperation of the State Superintendent of Banking could be obtained.

As a consequence of this method of selection the number of closed banks to be supervised is very unevenly distributed geographically, as is shown in the accompanying table. There are no banks in the Ninth and Tenth Districts, and only one in the Eleventh District. On the other hand, almost half the number of banks is concentrated in the Fourth and Seventh Districts.

Finally, the findings of the study should be equally valuable to all the Reserve banks. The Works Relief Program offers a unique opportunity to secure the transcription and tabulation of the itemized assets and liabilities of a substantial number of banks for some years preceding their suspension. Such data would be of great help in

studying the weakness in our banking structure disclosed by the depression. In a few years, when the receiverships are closed, records from which such a study could be made will have been destroyed. The value of the study, moreover, is not purely historical in nature. Anything that can be done to make banks conscious of the necessity of correlating their loan and investment policies to the particular composition of their deposits would be a contribution to the improvement of banking practice.

The magnitude of the work of transcribing and tabulating the necessary data would have precluded the System from undertaking the study at its own expense. Since, however, the President has allocated upwards of $600,000 for the study the only cost to the Reserve banks will be that of supervision.

In view of the foregoing the Board hopes that its suggestion that any costs incident to supervision should be borne by the System as a whole in an equitable manner, will receive your favorable consideration.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL GOVERNORS

X-9450-a

PRELIMINARY DISTRIBUTION OF CLOSED BANKS AND WORKERS IN THE WPA PROJECT

District	Number of Banks	Number of Workers
1	13	29
2	10	26
3	14	28
4	21	68
5	11	22
6	5	13
7	46	98
8	18	39
9	-	-
10	-	-
11	1	4
12	6	16
	145	343

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9451

January 18, 1936.

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:

"NOYGUY" - Treasury Bills to be dated January 22, 1936, and to mature October 21, 1936.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYGOT" 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-9452

January 20, 1936.

Dear Sir:

Referring to previous correspondence with respect to whether the Federal Reserve banks should continue to pay out new Federal Reserve notes of the 1928 series when notes of the 1934 series are available and to the additional orders which have been placed for the printing of notes of the 1934 series, there is inclosed one copy each of a letter received from the Secretary of the Treasury dated December 13, 1935, the Board's reply thereto, dated December 20, 1935, and a letter from the Acting Secretary of the Treasury dated January 3, 1936, in which he states that he assumes the Board of Governors of the Federal Reserve System and the Federal Reserve banks are issuing the appropriate instructions with respect to the matter discussed in the letter of December 13, 1935.

The Board wishes to cooperate with the Treasury Department in this matter and therefore requests that you make no further issues of new Federal Reserve notes of the 1928 series to your Federal Reserve bank when you have on hand notes of the 1934 series available to meet the requests for currency by the bank. You are also requested to submit promptly to the Board requisitions for a sufficient amount of Federal Reserve notes of the 1934 series to build up your stock of

the various denominations of such notes to a point where you will be able to meet probable requirements of your bank for new Federal Reserve notes. New Federal Reserve notes of the 1928 series now held by you should be retained for the present for possible emergency use. For your information in this connection there is attached hereto a statement showing the stock of Federal Reserve notes of the 1934 series of each Federal Reserve bank now on hand at the Bureau of Engraving and Printing and a supplemental statement showing the amount of such notes by denominations which are still due from the Bureau of Engraving and Printing on orders placed during 1935. You have been advised in a separate communication of the orders placed during January 1936 with the Bureau for printing Federal Reserve notes of the 1934 series for the remainder of the current fiscal year.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS

C O P Y X-9452-a

The Secretary of the Treasury

Washington

December 13, 1935.

Dear Sirs:

It is the view of the Treasury that the issuance of new Federal Reserve notes of the 1928 series, which bear on their face the words "redeemable in gold" should be discontinued by the Federal Reserve banks as soon as a sufficient stock of Federal Reserve notes of the 1934 series is available to meet current requirements of the respective banks. Accordingly, I propose to instruct the Director of the Bureau of Engraving and Printing to cease the delivery of Federal Reserve notes of the 1928 series and to cease working on any of such notes that are now in the process of completion.

These instructions would be issued to the Director of the Bureau of Engraving and Printing on the assumption that for the present

(a) Federal Reserve agents will not issue Federal Reserve notes of the 1928 series to the Federal Reserve banks when notes of the 1934 series are or can be made available for such banks;

(b) The Board of Governors of the Federal Reserve System will not ask for the shipment of Federal Reserve notes of the 1928 series from the Bureau of Engraving and Printing when notes of the 1934 series are available or can be made available to meet current requirements, and would instruct the Federal Reserve agents not to issue any Federal Reserve notes of the 1928 series to the Federal Reserve banks when notes of the 1934 series are available.

In view of the foregoing assumptions, involving action on behalf of the Federal Reserve banks, and of the fact that it is the banks who are liable for the cost of printing and shipping Federal Reserve

notes, I feel that, prior to taking the contemplated action as above described, I should first receive the approval of the Federal Reserve banks. I shall therefore very much appreciate it if you will communicate with the several banks and advise me whether it will be satisfactory for me to instruct the Director of the Bureau of Engraving and Printing as proposed.

If the procedure herein contemplated is followed, I will submit to members of the appropriate committees of Congress the question of making, at its next session, an appropriation with which to defray

(a) the cost of printing a stock of Federal Reserve notes of the 1934 series to replace those of the 1928 series held by or for the account of the Federal Reserve agents and by the Bureau of Engraving and Printing;

(b) the cost of shipping Federal Reserve notes of the 1934 series to the Federal Reserve agents to replace new Federal Reserve notes of the 1928 series held by them;

(c) the cost of returning to Washington new Federal Reserve notes of the 1928 series held by the Federal Reserve agents; and

(d) the cost of destroying notes of the 1928 series replaced by notes of the 1934 series, if and when such notes are destroyed.

Very truly yours,

Signed. H. MORGENTHAU, Jr.

Secretary of the Treasury.

Board of Governors of the Federal Reserve System,

Washington, D. C.

C O P Y X-9452-b

December 20, 1935.

Hon. H. Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Morgenthau:

In compliance with the suggestion contained in your letter of December 13 with respect to the discontinuance of the issuance by the Federal Reserve banks of Federal Reserve notes of the 1928 series which bear on their face the words "Redeemable in gold", as soon as a sufficient stock of Federal Reserve notes of the 1934 series are available to meet current requirements of the respective banks, your letter was referred to the Governors at their conference in Washington on Wednesday of this week. After discussing this matter the Governors advised the Board that they are in accord with the procedure set forth in your letter, with the understanding that, if Congress does not at the forthcoming session authorize the Treasury to replace the stock of new Federal Reserve notes of the 1928 series with notes of the 1934 series, the question as to whether the Federal Reserve banks should resume paying out notes of the 1928 series, will be given consideration promptly after the adjournment of Congress.

It is understood, of course, that acquiescence of the Board and the Federal Reserve banks at this time in the program outlined in your letter will not in any way prejudice the right of the Federal Reserve banks to resume the paying out of the existing stock of notes of the 1928 series in case the Treasury Department is not authorized to replace this stock with notes of the 1934 series.

Very truly yours,
(Signed) M. S. Eccles.

M. S. Eccles,
Chairman.

C O P Y X-9452-c

THE SECRETARY OF THE TREASURY

Washington

January 3, 1936

Dear Mr. Eccles:

I have your letter of December 20, 1935, relating to the discontinuance for the present of the issuance by the Federal Reserve banks of Federal Reserve notes of the 1928 Series. The conditions referred to in your letter on which the Board and the banks are taking such action are noted.

I have accordingly instructed the Director of the Bureau of Engraving and Printing, for the present to cease the delivery of Federal Reserve notes of the 1928 Series and to cease working on any such notes now in the process of completion.

I assume that the Federal Reserve Board and the Federal Reserve banks are issuing the appropriate instructions with respect to this matter.

Very truly yours,

(Signed) T. J. COOLIDGE

Acting Secretary of the Treasury.

Hon. M. S. Eccles,
Chairman, Board of Governors,
of the Federal Reserve System.

FEDERAL RESERVE NOTES OF THE 1934 SERIES ON HAND AT THE BUREAU OF ENGRAVING AND PRINTING
ON JANUARY 13, 1936
(In thousands of dollars)

	5s	10s	20s	50s	100s	500s	1000s	5000s	10,000s	Totals
Boston	3,840	49,680	4,800	3,200	4,400	9,000	9,000	6,000	6,000	95,920
New York	9,220	95,280	14,480	9,400	13,200	12,900	21,600	15,000	12,000	203,080
Philadelphia	19,680	39,960	22,640	7,200	7,200	9,000	9,000	--	--	114,680
Cleveland	8,280	25,240	12,160	8,400	8,400	5,100	10,200	6,000	12,000	95,780
Richmond	6,660	31,360	35,600	6,000	6,000	--	--	--	--	85,620
Atlanta	14,460	17,640	9,600	6,600	6,000	--	11,400	--	--	65,700
Chicago	11,700	69,800	16,160	8,400	8,400	--	--	--	--	114,460
St. Louis	29,000	14,040	19,600	6,000	4,800	--	--	--	--	73,440
Minneapolis	16,020	17,880	7,840	4,200	2,400	--	--	--	--	48,340
Kansas City	7,080	16,120	10,400	6,000	6,000	--	--	--	--	45,600
Dallas	6,120	10,680	9,840	4,800	4,800	--	--	--	--	36,240
San Francisco	12,640	16,440	13,760	8,400	7,200	--	--	--	--	58,440
Total	144,700	404,120	176,880	78,600	78,800	36,000	61,200	27,000	30,000	1,037,300

1934 SERIES FEDERAL RESERVE NOTES BEING PRINTED AS OF JANUARY 13, 1936, ON ORDERS PLACED DURING THE CALENDAR YEAR 1935
(In thousands of dollars)

	5s	10s	20s	50s	100s	Total
Boston	--	43,080	4,800	--	--	47,880
New York	--	193,800	--	--	--	193,800
Philadelphia	8,340	25,200	11,040	--	600	45,180
Cleveland	360	30,120	13,680	--	--	44,160
Richmond	--	23,640	26,880	--	--	50,520
Atlanta	9,720	5,640	--	--	--	15,960
Chicago	--	110,640	--	--	600	111,240
St. Louis	16,260	12,840	--	--	1,200	30,300
Minneapolis	2,580	1,320	--	600	1,200	5,700
Kansas City	420	13,560	--	--	--	13,980
Dallas	--	120	960	--	--	1,080
San Francisco	--	4,680	720	--	1,200	6,600
Total	37,680	464,640	58,080	600	4,800	566,400

C O P Y X-9453

FEDERAL RESERVE BANK OF SAN FRANCISCO

January 13, 1936

Dear Sirs:

This is in reference to Board's letter of December 27, 1935, regarding the suggestion that the Board of Governors of the Federal Reserve System be asked to arrange with the several Federal reserve banks for uniformity in dates for holding meetings of the boards of directors of the twelve banks.

The matter was informally discussed at a meeting of our Board of Directors and it was the unanimous opinion that while a uniform date for holding such meetings might be highly desirable for certain purposes, it was not thought at all practicable. Usually directors of the Federal reserve banks are directors of other institutions and corporations and regular meetings of boards of the reserve banks are often fixed so as not to interfere with meetings of these other boards, some of which cannot be changed. The new law requiring the fixing of rates fortnightly has all ready caused considerable disturbance and inconvenience in our own board and if the proposed suggestion is adopted it is conceivable that we would have trouble at times in securing a quorum, and even might be deprived of the services of valuable directors.

Yours very truly,

(Signed) S. G. Sargent

S. G. SARGENT
Secretary of the Board

Board of Governors of the
Federal Reserve System,
Washington, D. C.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9454

January 20, 1936.

SUBJECT: Holidays during February, 1936.

Dear Sir:

On Wednesday, February 12, Lincoln's Birthday, the books of the Board's Inter-district Settlement Fund will be closed and there will be neither transit nor Federal reserve note clearing through the Fund. 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 Saturday, February 22, Washington's Birthday, the offices of the Board and all Federal reserve banks and branches will be closed.

The Board is further advised that holidays will be observed by offices in the Atlanta Federal Reserve District, as follows:

Monday,	February 24,	Havana Agency,	Revolution of Baire
Tuesday,	February 25	Birmingham New Orleans	Mardi Gras Day

On February 25, therefore, the New Orleans Branch will not

participate in either the transit or the Federal reserve note clearing through the Fund. Please include transit clearing credits of February 25 for New Orleans Branch with your credits for the following day.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL GOVERNORS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9455

January 21, 1936.

Dear Sir:

There is attached a corrected copy of X-9445, Interpretation of the Banking Act of 1935, the last sentence of which, in order to correct a typographical error, has been changed to substitute the word "offset" for the word "effect".

The corrected copy should be substituted for the copy previously sent you. The usual number of extra copies are going forward to you in the usual course.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL F. R. AGENTS.

Inclosure.

(Corrected copy)

INTERPRETATION X-9445

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 15, 1936.

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

Dear Mr. Peyton:

This refers to your letter of December 11, 1935, inclosing an opinion of counsel for your bank with regard to a situation where a member bank holds a cash item in the form of a check which, if put through the books of the bank, would thereby cause an overdraft in the account of an executive officer in an amount not in excess of 30 days' advance pay, or not in excess of the salary which has accrued to the executive officer. It is noted that counsel for your bank is of the opinion that the granting of the overdraft would constitute a violation of section 22(g) of the Federal Reserve Act and the Board's Regulation O. You inquire whether the Board is in accord with your counsel's opinion and inquire further whether the opinion would be the same if an actual overdraft had been created in the executive officer's account or if the executive officer in question had substituted his personal note for the amount of the overdraft.

In section 1(c)(1) of the Board's Regulation O, the terms "loan", "loaning", "extension of credit", and "extend credit" are defined to include "any advance by means of an overdraft, cash item, or otherwise;" and, under the second clause of the unnumbered paragraph

of section 1(c) it is provided that such terms do not include

> "the acquisition by a bank of any check deposited in or delivered to the bank in the usual course of business unless it results in the granting of an overdraft to or the carrying of a cash item for an executive officer."

On the other hand, it is provided in such subsection that advances of unearned salary or other unearned compensation for periods not in excess of 30 days and advances against accrued salary or other accrued compensation are not included within the definition of such terms.

In the question presented, it does not appear that the granting of the overdraft to or the carrying of the cash item for the executive officer has been previously approved by a majority of the entire board of directors of the bank thereby bringing the transaction within the $2500 exception as provided in section 3(a)(1), or that the executive officer has been advanced any salary, accrued or unaccrued, as such. On the basis of the above facts, the Board is of the opinion that if the bank carries a cash item in the form of a check which, if put through the books of the bank, would cause an overdraft in the account of the executive officer, the carrying of such cash item or the granting of such overdraft, as the case may be, would be a loan or extension of credit as defined in the Board's Regulation O. Likewise the substitution of the personal note of the executive officer for the amount of the cash item or overdraft would be a loan or extension of credit as defined in such regulation. The fact that the executive

officer is entitled to compensation which has been earned or accrued or is entitled to an advance of unearned salary for a period not in excess of 30 days, which amounts would be equal to or in excess of the cash item, overdraft, or personal note, would not be sufficient to remove the transaction from the classification of a loan or extension of credit. In other words, the existence of an offset, under the circumstances described above, would not render legitimate a loan or extension of credit which is prohibited.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9456

January 21, 1936.

SUBJECT: Instructions Relating to Preparation of Exhibits Accompanying Applications for Voting Permits.

Dear Sir:

As you know, the detailed instructions relating to the preparation of exhibits D, G and H in connection with applications for voting permits, heretofore contained in section VII of Regulation P, have been omitted from that regulation as revised effective January 1, 1936. In lieu thereof, the regulation now provides that information concerning the preparation of such exhibits and others for which printed forms have not been prepared may be obtained from the Federal Reserve agents.

For your guidance, instructions concerning the preparation of certain of the exhibits are set forth in this letter. These instructions indicate the information which the Board desires to have furnished to it generally but it is realized that in some cases it will be impracticable and unnecessary to follow such instructions implicitly. It is contemplated that you will furnish applicants for voting permits with such detailed instructions as may be necessary in view of the circumstances of the particular cases in order that the exhibits may contain the desired information.

With reference to exhibits not hereinafter commented upon, it is believed that the descriptions contained in Form P-1 are self-sufficient and that no instructions are necessary. The instructions

with reference to the other exhibits are as follows:

Exhibit D. The required statement of financial condition of the applicant shall be prepared as of the date of the application or a date not in excess of 60 days prior thereto. It shall show separately each control account or each principal group or class of assets, liabilities, and net worth and shall be supported by schedules and detailed information with respect to the following:

1. Investments of applicant in each class of capital stock of each subsidiary bank and each other organization with which applicant or any of its subsidiaries is affiliated, showing the number of shares of stock of each such subsidiary or affiliated organization authorized, the par value thereof, the number of shares outstanding, the number of such shares owned by applicant, the cost of same to applicant, the amount at which carried in the assets of the applicant, the number of such shares pledged by the applicant, if any, and the name of the pledgee and the purpose of the pledge.

2. Other investments -

   (a) Bonds - name of obligor, interest rate, maturity, par value, carrying value, and amounts pledged by the applicant, if any, and the name of the pledgee and the purpose of the pledge;

   (b) Stocks - name of issuing corporation, number of shares held, total number of shares outstanding (if known), class, par value, carrying value, and number of shares pledged by the appplicant, if any, and the name of the pledgee and the purpose of the pledge.

3. Notes and accounts receivable from each subsidiary and each other organization with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, nature and purpose of each and the description of any collateral thereto.

4. Notes and accounts receivable from directors, officers, and employees of the applicant and its subsidiaries and other organizations with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, nature and purpose of each and the description of any collateral thereto.

5. Notes and accounts receivable from others.

6. Other assets.

7. Notes and accounts payable and other obligations (including bonds, debentures, loans, extensions of credit, advances in any form, repurchase agreements, and securities borrowed) to each subsidiary bank and each other organization with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, interest rate, nature and purpose of each and the description of any collateral thereto.

8. Other notes and accounts payable and all other obligations.

9. Each class of capital stock of applicant, showing the number of shares authorized and outstanding, the par value thereof, and any pertinent facts relating to preferences, redemptions, cumulative dividends, voting rights, etc., and any options or stock purchase warrants outstanding.

10. Contingent liabilities of applicant, showing the amount and nature of each.

There shall be attached to this exhibit a copy of the latest annual report of the applicant which was prepared for or sent to the shareholders thereof. There shall also be attached operating statements (including therein detailed statement of income and expenses) and analyses of applicant's surplus and undivided profits account covering at least the last two fiscal years and the portion of the current fiscal

year up to the date of the statement of financial condition of the applicant contained in this exhibit, including full information concerning dividends and fees for management and service charges received from and contributions made to, subsidiaries and other affiliated organizations and an explanation concerning the manner in which any paid-in, initial, or capital surplus was created and any changes therein.

If applicant is exercising fiduciary powers, there shall also be attached to this exhibit a financial statement of condition of the applicant's trust department, together with a supplementary statement setting forth the amount of capital stock, bonds, debentures, or other obligations of or guaranteed by the applicant or any subsidiary or other organization with which the applicant or any of its subsidiaries is affiliated, which are held in any of the trusts or other fiduciary accounts in the trust department of the applicant. This supplementary statement shall set forth the name of each such trust, the amount of the corpus thereof, the name of the co-fiduciary, if any, the amount invested in such capital stock or obligations, the dates when such investments were made, and pertinent information as to the amounts of such capital stock or obligations which were purchased, acquired in the original inventory, or otherwise acquired for each such trust, with an explanation as to the authority or instructions for the purchases.

Exhibit E. In the event that the applicant is an organization (other than a member bank) subject to examination by a State supervisory authority, a complete copy of the latest report of examination made by

such authority shall be included in this exhibit. This shall be supplemented by a statement showing what action has been taken with respect to any doubtful assets, estimated losses, and depreciation in securities shown by such report.

Exhibit F. This exhibit shall contain a detailed statement regarding the management and personnel of the applicant, including the names, addresses and principal business connections (including all connections with any subsidiary of the applicant or any other organization with which applicant or any of its subsidiaries is affiliated) of all directors and officers, and a list of the principal shareholders of the applicant showing the number of shares owned by each.

Exhibit G. This exhibit shall contain the following information concerning the relationships between the applicant and its subsidiaries and other organizations with which the applicant or any of its subsidiaries is affiliated and the relationships between such subsidiaries and other affiliated organizations:

1. A description of the function of each subsidiary and each other affiliated organization.

2. The date on which each such relationship was established.

3. The purpose for which each such relationship was established.

4. The number of shares of each class of stock of each subsidiary and each other affiliated organization: (a) authorized, (b) outstanding, (c) owned by the applicant, (d) owned by any subsidiary of the applicant, (e) held by a trustee or trustees for the benefit of the shareholders or members of the applicant, (f) controlled in any other manner by the applicant and/or any subsidiary thereof (stating the manner in which controlled).

5. Full details concerning the manner in which the applicant controls the election of a majority of the directors of any subsidiary other than through ownership or control of stock of the subsidiary.

6. Full details concerning the manner in which each organization (other than a subsidiary) is affiliated with the applicant or a subsidiary thereof.

7. The number of shares of each class of stock of each subsidiary and each other affiliated organization acquired by the applicant or a subsidiary thereof: (a) for cash or its equivalent, (b) in exchange for stock of the applicant or a subsidiary thereof.

8. A list of the names and addresses of all directors and officers of each subsidiary and each other affiliated organization.

9. Full details concerning any shares of stock of any subsidiary or other affiliated organization held by directors thereof subject to agreements to convey such shares to the applicant or a subsidiary thereof.

10. A list of all subsidiaries and other affiliated organizations divorced or dissolved since June 16, 1933, stating the manner in and date on which each such relationship was terminated or dissolution effected.

If control of any subsidiary is held through trustees there shall be attached to this exhibit a copy of the agreement creating the trust and a copy of each other instrument directly affecting the trust, together with the following information:

1. The names of the trustees.

2. The names of the beneficiaries for whom the trust is maintained.

3. The purpose of the trust.

This exhibit shall also contain a statement of financial condition of each of the applicant's subsidiaries other than banks and of each other organization with which the applicant or any of its subsidiaries

is affiliated. Each such statement shall be prepared as of the date of the applicant's statement of financial condition contained in Exhibit D or, if this be impracticable, then at the nearest date thereto which is practicable and shall show separately each control account or each principal group or class of assets, liabilities, and net worth. There shall also be attached operating statements (including therein detailed statement of income and expenses) and analyses of surplus and undivided profits accounts of each such organization covering at least the last two fiscal years and the portion of the current fiscal year up to the date of the statement of financial condition of such organization, together with an explanation concerning the manner in which any paid-in, initial, or capital surplus was created and any changes therein.

Exhibit H. Each of the required statements of financial condition of subsidiary banks shall be prepared as of the date of the applicant's statement of financial condition contained in Exhibit D. Each such statement shall show separately each control account or each principal group or class of assets, liabilities, and net worth and shall be supported by schedules and detailed information with respect to the following:

1. Funds of each subsidiary bank invested in capital stock, bonds, debentures, or other obligations of applicant or of any subsidiary of applicant or of any other organization with which applicant or any of its subsidiaries is affiliated.

2. Loans, advances, or extensions of credit made against the capital stock, bonds, debentures, or other obligations of applicant or of any subsidiary of applicant or of any other organization with which applicant or any of its subsidiaries is affiliated, showing the market value of any other collateral which may

be held in connection with such loans.

3. Loans, advances, or extensions of credit "due to" and "due from" the applicant and each subsidiary of applicant and each other organization with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, nature and purpose of each and the description of any collateral thereto.

4. Other accounts "due to" and "due from" the applicant and each subsidiary of applicant and each other organization with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, nature and purpose of each and the description of any collateral thereto.

If a subsidiary bank of the applicant is exercising fiduciary powers, there shall be attached to this exhibit a statement of financial condition of the trust department of such bank, together with a supplementary statement setting forth the amount of capital stock, bonds, debentures, or other obligations of or guaranteed by the applicant, or any subsidiary, or other organization with which the applicant or any of its subsidiaries is affiliated, which are held in any of the trusts or other fiduciary accounts in the trust department of such bank. This supplementary statement shall set forth the name of each such trust, the amount of the corpus thereof, the name of the co-fiduciary, if any, the amount invested in such capital stock or obligations, the dates when such investments were made, and pertinent information as to the amounts of such capital stock or obligations which were purchased, acquired in the original inventory, or otherwise acquired for each such trust, with an explanation as to the authority or instructions for such purchases.

Exhibit K. This exhibit shall contain a detailed statement of any plan of reorganization, consolidation, merger, liquidation or

adjustment of capital structure involving any of applicant's subsidiary banks or other subsidiaries or other organizations with which applicant or any of its subsidiaries is affiliated, which is proposed or pending or which has been effected since the latest examination of any such organization. In each case involving the reorganization or adjustment of the capital structure of any subsidiary or affiliated bank full information shall be submitted relative to the amounts of doubtful assets, estimated losses, and depreciation in securities which have been eliminated since the latest examination of such bank and the manner in which the eliminations were made or which are to be eliminated upon proposed or pending plans.

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-9457

January 21, 1936.

Dear Sir:

For your information, you are advised that in response to a request from one of the Federal reserve banks the Board stated that it had no objection to the sending of copies of the Board's letter to Mr. Awalt of January 10, 1936, X-9424, to all member banks in the district, but requested that the X number be omitted from such copies.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE GOVERNORS OF ALL FEDERAL
RESERVE BANKS EXCEPT SAN FRANCISCO

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9458

January 21, 1936.

SUBJECT: Change in inter-district time schedule.

Dear Sir:

Upon the request of the Federal Reserve Bank of Chicago, with the concurrence of the other Federal Reserve banks affected, the Board of Governors of the Federal Reserve System has approved the following changes in the inter-district time schedule for cash items:

	From	To
Chicago to Houston	3 days	2 days
Chicago to Jacksonville	3 days	2 days
Chicago to Nashville	2 days	1 day
Chicago to Omaha	2 days	1 day
Chicago to Pittsburgh	2 days	1 day
Chicago to San Antonio	3 days	2 days

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL GOVERNORS

FEDERAL RESERVE BOARD

WASHINGTON

X-9459

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 22, 1936.

SUBJECT: Reports of Violations of the Criminal Provisions of the Banking Laws of the United States.

Dear Sir:

The Board has recently been advised by the Department of Justice of its desire that apparent violations of the criminal provisions of the banking laws of the United States be reported promptly, so that there would be no danger of a prosecution failing because of the running of the statute of limitations or because the cause of action became too stale before proceedings were begun, and suggests that each State member bank be sufficiently impressed with the importance of an immediate report of criminal irregularities to the Federal reserve agent for the proper district.

In the circumstances, it is suggested that you advise each State member bank in your district of the views of the Department of Justice and request each such bank to make an immediate report to your office of any apparent violation of the criminal provisions of the banking laws of the United States. It is contemplated that in connection with reports by State member banks of violations of the Act of May 18, 1934 (the Bank Robbery Statute), to local authorities and to the local field office of the Federal Bureau of Investigation

in accordance with the procedure established under the Board's letter of March 15, 1935 (X-9147), State member banks should also immediately make reports of the apparent violations of such statute to your office, including advice as to whether reports have been made to the local authorities and to the local field office of the Federal Bureau of Investigation.

Upon the receipt of a report of an apparent violation of the criminal provisions of the banking laws of the United States, or in the case of any apparent violation of such laws which otherwise comes to your attention in the performance of your duties, including any violation of the Act of May 18, 1934, above referred to, involving State member banks, you are requested to make an immediate report thereof to the local United States Attorney and to the Board for submission to the Department of Justice in accordance with the usual procedure. Apparent violations of such laws which involve national banks should, of course, be handled in the manner set forth in the Board's letters of February 8, 1928 (X-5072), and September 24, 1934 (X-8017).

The Board has had some correspondence with the Department of Justice regarding this matter, and for your information in connection therewith there is inclosed a copy of a letter from Assistant Attorney General Keenan, dated December 10, 1935.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

COPY

X-9459-a

DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

WHR:an

JBK WHR
185913
29-100-42-

December 10, 1935

The Board of Governors of the
Federal Reserve System,
Washington, D. C.

Re: Method of reporting violations of bank robbery and other criminal banking statutes.

Sirs:

The Department has received your letter of October 28, 1935, referring to the matter of reporting bank robberies and your letter of November 13, relating to reports of other violations of the Federal criminal banking laws.

Offenses other than Robberies.

As indicated in the Department's letter of August 16, last, its chief purpose was to insure promptness in reporting violations, so that there would be no danger of a prosecution failing because of the running of the statute of limitations or because it became too stale before proceedings were begun. At the same time the Department desires that the end be attained with the least possible increase of work on the part of your office and the examiners and agents.

The Department apprehends that those ends may be achieved best by the method which will involve the fewest exceptions to your established customs. Probably it will be adequate for present purposes if the mind of each state member bank is sufficiently impressed with the importance of an immediate report of criminal irregularities to the Federal Reserve Agent for the proper district, who will then make prompt report to you and to the local United States Attorney, with sufficient copies to you for transmission to this Department as heretofore.

In Cases of Bank Robberies.

In such cases, as pointed out in Department letter of September 21, 1935, it is of chief importance that the bank should immediately, after notifying local authorities, notify also the local field office of the Federal Bureau of Investigation. The Department conceives that less confusion is likely to result if thereafter the bank makes immediate written report to the Federal Reserve Agent, with subsequent steps as indicated above in the case of other offenses. The additional service required by such method would be the report by the bank to the Bureau office. If there should be a duplication of reports in a given case by this method, that would not be a serious matter. I am sending a copy of this letter

to the Comptroller of the Currency. It is understood that a similar method of dealing with such matters in the case of National Banks will be satisfactory to the Comptroller.

Respectfully,

For the Attorney General,

(Signed) JOSEPH B. KEENAN

JOSEPH B. KEENAN,
Assistant Attorney General.

INTERPRETATION X-9460

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 20, 1936.

_____,
_____,
_____,
_____.

Gentlemen:

This refers to your letter dated December 26, 1935, in which you ask to be advised whether a deposit of funds of a corporation in liquidation may be classified as a savings deposit within the meaning of section 1(e) of Regulation Q .

You state that, under the laws of _____, directors of a corporation organized under the laws of such State become trustees for the stockholders of such corporation upon filing the consent for dissolution. You further state that you are attorneys for a _____ corporation in liquidation which has a savings deposit in the name of such corporation and that the signatures required for withdrawal from such deposit are those of the liquidating trustees and not of any particular officer. It is understood that the liquidating trustees have deposited in such account their cash assets pending collection of certain outstanding assets, all of which will inure to the benefit of the stockholders. The question presented is whether such a deposit may be classified as a savings deposit as defined in Regulation Q .

Section 1(e) of Regulation Q provides, in part, as follows:

"The term 'savings deposit' means a deposit evidenced by a pass book, consisting of funds (i)

> deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit, or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization * * * ."

It is the view of the Board that deposits of funds of the liquidating trustees of a business corporation may not be considered as deposits of funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes. Accordingly, such deposits in a member bank of the Federal Reserve System may not be classified as savings deposits within the definition contained in Regulation Q .

However, as you are no doubt aware, there is nothing in Regulation Q which would prevent such funds from being deposited in an interest-bearing time deposit, as defined in such regulation.

If you have any further questions regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of _____, which will be glad to answer your inquiries.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION X-9461

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 20, 1936.

Mr. _____, Receiver,
_____,
_____,
_____.

Dear Sir:

This refers to your letter dated December 27, 1935, and inclosures, in which you present the question whether a deposit made by you as Federal receiver in equity may be classified as a savings deposit within the meaning of section 1(e) of Regulation Q .

You state that you are Federal receiver in equity of the _____, a corporation organized under the laws of _____ as a holding company for building and loan associations. You state that the funds deposited by you in special savings accounts are the accumulation of collections made by you as receiver. You also state that your official duty as receiver is to act as conservator of assets and that your operations as receiver have not been for profit.

Section 1(e) of Regulation Q provides, in part, as follows:

> "The term 'savings deposit' means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit, or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization * * * ."

It is the view of the Board that a deposit by you as Federal receiver in equity of the _____ may not properly be considered as a deposit of funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes. Accordingly, without regard to the question whether your operations as receiver have or have not been for profit, it is the view of the Board that deposits by you as receiver of the business corporation under consideration may not be classified as savings deposits within the definition contained in Regulation Q .

However, as you are no doubt aware, there is nothing in Regulation Q which would prevent such funds from being deposited in an interest-bearing time deposit, as defined in such regulation.

If you have any further questions regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Bank of _____, which will be glad to answer your inquiries.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9462

January 23, 1936.

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

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9462-a and X-9462-b, covering in detail operations of the main lines of the Leased Wire System, during the month of December, 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 Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF DECEMBER, 1935

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	34,889	1,644	36,533	4.88
New York	151,746	-	151,746	20.25
Philadelphia	28,359	1,734	30,093	4.02
Cleveland	42,404	1,685	44,089	5.88
Richmond	47,162	1,574	48,736	6.50
Atlanta	51,425	1,621	53,046	7.08
Chicago	78,155	2,108	80,263	10.71
St. Louis	55,130	1,953	57,083	7.62
Minneapolis	35,919	1,680	37,599	5.02
Kansas City	61,175	1,750	62,925	8.40
Dallas	56,194	1,918	58,112	7.76
San Francisco	86,926	2,102	89,028	11.88
Total	729,484	19,769	749,253	100.00

Board business	316,321	1,065,574
Reimbursable business Incoming & Outgoing		548,142
Total words transmitted over main lines		1,613,716

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9462-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, 1935.

Name of bank	Operators' Salaries	Retirement Contributions	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Board
Boston	$ 260.00	$ 24.65	$ -	$ -	$ 284.65	$ 762.74	$ 284.65	$ 478.09
New York	1,275.44	115.30	1.00	-	1,391.74	3,165.08	1,391.74	1,773.34
Philadelphia	225.00	20.25	-	-	245.25	628.33	245.25	383.08
Cleveland	306.66	27.60	-	-	334.26	919.04	334.26	584.78
Richmond	190.00	17.35	-	230.00(&)	437.35	1,015.95	437.35	578.60
Atlanta	262.50	21.52	-	-	284.02	1,106.61	284.02	822.59
Chicago	4,050.28(#)	299.86	1.00	-	4,351.14	1,673.97	4,351.14	2,677.17(*)
St. Louis	195.00	17.43	-	-	212.43	1,191.01	212.43	978.58
Minneapolis	200.07	10.76	-	-	210.83	784.63	210.83	573.80
Kansas City	287.00	25.83	-	-	312.83	1,312.92	312.83	1,000.09
Dallas	251.00	12.35	1.50	-	264.85	1,212.89	264.85	948.04
San Francisco	380.00	32.03	-	-	412.03	1,856.85	412.03	1,444.82
Board	-	-	-	14,928.88	14,928.88	-	-	-
Total	$7,882.95	$624.93	$3.50	$15,158.88	$23,670.26	$15,630.02	$8,741.38	$9,565.81
Less Reimbursable Charges					8,040.24			2,677.17(a)
					$15,630.02(b)			$6,888.64

(&) Main line rental, Richmond-Washington
(#) Includes salaries of Washington operators
(*) Credit
(a) Amount reimbursable to Chicago
(b) Includes $367.61, which represents the cost of handling contingent expense telegrams for the Treasury Department for the month of December.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9464

January 25, 1936.

SUBJECT: Discounts for Individuals, Partnerships and Corporations.

Dear Sir:

The authority granted by the Federal Reserve Board to all Federal Reserve banks in its circular of July 26, 1932 (X-7215-a), as amended by its letter of July 8, 1935 (X-9257), 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, 1936. The Board has decided to extend such authorization for an additional six months.

The Board has revised its circular of July 26, 1932 (X-7215-a), effective February 1, 1936, in order to conform to a change in the law on this subject made by section 322 of the Banking Act of 1935, and a copy of the circular as revised is inclosed herewith. You will observe that section 2 of the revised circular contains an authorization by the Board to all Federal Reserve banks, for a period ending at the close of business on July 31, 1936, 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 the circular.

You may if you wish have the revised circular printed or mimeographed and give copies thereof to persons making inquiries regarding this subject, together with copies of the Board's Regulation A and of any supplemental circular and any forms which your bank may adopt with the approval of your counsel.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN AND GOVERNORS OF ALL FEDERAL RESERVE BANKS

X-9464-a

February 1, 1936.

SUBJECT: DISCOUNTS FOR INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Acts of July 21, 1932, and August 23, 1935, provides as follows:

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

In view of the fact that the power conferred by this provision can be exercised only in "unusual and exigent circumstances", the Board of Governors of the Federal Reserve System has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Board will expect to be followed are outlined below for the information of

the Federal reserve banks and any individuals, partnerships or corporations that may contemplate applying to them for discounts.

1. LEGAL REQUIREMENTS.

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

(a) The power conferred upon the Board of Governors of the Federal Reserve System to authorize Federal reserve banks to discount eligible paper for individuals, partnerships or corporations may be exercised only:

(1) In unusual and exigent circumstances,

(2) By the affirmative vote of not less than five members of the Board of Governors, and

(3) For such periods as the Board of Governors may determine.

(b) When so authorized, a Federal reserve bank may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13, 13a, and 24) of the Federal Reserve Act. (Such paper must, therefore, comply with the applicable requirements of the Regulations of the Board of Governors of the Federal Reserve System.)

(c) Paper discounted for individuals, partnerships or corporations must be either (1) indorsed or (2) otherwise secured to the satisfaction of the Federal reserve bank.

(d) Before discounting paper for any individual, partnership

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

(e) Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Board of Governors of the Federal Reserve System.

(f) All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.

2. AUTHORIZATION BY THE BOARD OF GOVERNORS.

The Board of Governors of the Federal Reserve System, 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, 1936, 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.

3. FOR WHOM PAPER MAY BE DISCOUNTED.

A Federal reserve bank may discount for individuals, partnerships or corporations notes, drafts or bills of exchange, which are the obligations of such individuals, partnerships, or corporations or which are the obligations of other parties actually owned by such individuals, partnerships or corporations.

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

4. APPLICATIONS FOR DISCOUNT.

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

(a) A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

(b) Evidence sufficient to satisfy the Federal reserve bank as to (1) the legal eligibility of the paper offered for discount under the provisions of the Federal Reserve Act and the Regulations of the Board of Governors of the Federal Reserve System and (2) its acceptability from a credit standpoint;

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

(d) A list showing each bank with which the applicant has

had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate date upon which such banking relations commenced and, if such banking relations have been terminated, the approximate date of their termination;

(e) Complete credit data regarding the financial condition of the principal obligors and indorsers, if any, on the paper offered for discount;

(f) A list and description of any collateral or other security offered by the applicant;

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

(h) An agreement by the applicant, in form satisfactory to the Federal reserve bank, (1) to furnish additional credit information to the Federal reserve bank, when requested, (2) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank at the expense of the applicant, whenever requested by the Federal reserve bank, and (3) to furnish additional security whenever requested to do so by the Federal reserve bank.

5. GRANT OR REFUSAL OF APPLICATION.

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

(a) That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;

(b) That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

(c) That the indorsement or the security offered is adequate to protect the Federal reserve bank against loss;

(d) That there is a reasonable need for such credit accommodations; and

(e) That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

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

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

In discounting paper for individuals, partnerships or

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

6. LIMITATIONS.

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

7. ADDITIONAL REQUIREMENTS.

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

Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9465

January 25, 1936.

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:

"NOYHAS" - Treasury Bills to be dated January 29, 1936, and to mature October 28, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

X-9466

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Saturday, January 25, 1936

January 24, 1936

The Board of Governors of the Federal Reserve System today approved an amendment to Regulation T and issued a supplement thereto, both effective February 1, 1936.

The amendment provides that the margin requirements applicable to members of national security exchanges and brokers or dealers who transact a business in securities through the medium of such members shall be as prescribed from time to time by the Board of Governors of the Federal Reserve System in supplements to the regulation.

The supplement approved today provides that the maximum loan value of registered securities (other than exempted securities) shall be 45% (instead of 55%) of the current market value of the security in those cases in which this amount is greater than the lowest market price of the security during the prescribed base period.

Attached are copies of the amendment and the supplement.

X-9466

SUPPLEMENT TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective February 1, 1936.

Maximum loan values of registered securities (other than exempted securities) for purposes of Regulation T.

Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 3 of its Regulation T, as amended, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered securities (other than exempted securities) for the purposes of Regulation T:

(1) General rule.- Except as provided in paragraphs (2) and (3) of this supplement, the maximum loan value of a registered security (other than an exempted security) shall be whichever is the higher of:

(A) 45 percent of the current market value of the security; or

(B) 100 percent of the lowest market value of the security computed at the lowest market price therefor during the period of 36 calendar months immediately prior to the first day of the current month, but not more than 75 percent of the current market value: Provided, That until July 1, 1936, for the purpose of this regulation, the lowest price at which a security has sold on or after July 1, 1933, but prior to the first day of the current month, shall be considered as the lowest market price of such security during the preceding 36 calendar months; and Provided, That the lowest market price which could be used under the provisions of this regulation during any calendar month may be used during the first 7 calendar days of the succeeding calendar month.

(2) Extension of credit to other members, brokers and dealers. - The maximum loan value of a registered security (other than an exempted security) in a special account with another member, broker or dealer, which special account complies with subsection (b) of section 3 of Regulation T, as amended, shall be 80 percent of the current market value of the security.

(3) Extension of credit to distributors, syndicates, etc. - The maximum loan value of a registered security (other than an exempted security) in a special account with a distributor, syndicate, etc., which special account complies with subsection (c) of section 3 of Regulation T, as amended, shall be 80 percent of the current market value of the security.

Amendment No. 7 of Regulation T - Effective February 1, 1936.

Subsections (a), (b) and (c) of section 3 of Regulation T are hereby amended to read as follows:

"(a) General Rule.- No creditor shall make any initial extension of credit to any customer on any registered security (other than an exempted security) for the purpose of purchasing or carrying any security, in an amount which causes the total credit extended on such registered security to exceed the maximum loan value of such registered security. Except as specifically provided elsewhere in this regulation, the maximum loan value of a registered security (other than an exempted security) shall be the maximum loan value which the Board of Governors of the Federal Reserve System shall prescribe as of general application under this regulation from time to time in supplements to this regulation, which will be issued in advance of the date upon which such maximum loan value becomes effective.

"(b) Extension of credit to other members, brokers and dealers. -

In a special account recorded separately, any creditor may extend credit on any registered security to any other member, broker or dealer in an amount not greater than the maximum loan value of such security, which (except in the case of an exempted security) shall be such special maximum loan value as the Board of Governors of the Federal Reserve System shall prescribe for the purposes of this subsection (b) from time to time in supplements to this regulation, which will be issued in advance of the date on which such maximum loan value becomes effective: Provided, That (1) such other member, broker, or dealer is subject to the provisions of this regulation or has places of business only in foreign countries, (2) such credit is extended or maintained solely for the purpose of enabling such member, broker, or dealer to carry accounts for his customers other than his partners, and (3) any credit extended or maintained by such creditor to or for such other member, broker, or dealer for the purpose of purchasing or carrying securities for his own account or for the account of his firm or any of his partners shall not be included in such special account and shall be subject to the other provisions of this section.

"(c) Extension of credit to distributors, syndicates, etc. - In a special account recorded separately, any creditor may extend credit on any registered security to the persons and for the purposes specified below in an amount not greater than the maximum loan value of such security, which (except in the case of an exempted security) shall be such special maximum loan value as the Board of Governors of the Federal Reserve System shall prescribe for the purposes of this subsection (c) from time to time in supplements to this regulation, which will be issued in advance of the date upon which such maximum loan value becomes effective: Provided, That such credit is extended:

(1) To any dealer, for the purpose of financing the distribution of an issue of securities at wholesale or retail; or

(2) To any group, joint account or syndicate, for the purpose of underwriting or distributing an issue of securities."

INTERPRETATION X-9467

Banking Act of 1935

(Copies to be sent to all Federal reserve banks)

December 18, 1935.

WALSH

DALLAS

Retel December 16, 1935, reference liquidation of _____ State Bank, _____, _____, and _____ State Bank of _____, _____, _____. Pursuant to section 9 of the Federal Reserve Act the holding company affiliates of such banks agreed to be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes in the case of holding company affiliates of national banks. The Board is of the opinion that section 311 of the Banking Act of 1935, amending section 5144 of the Revised Statutes to make it unnecessary for holding company affiliates to obtain voting permits to vote in favor of placing subsidiary national banks in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such banks, likewise made it unnecessary for holding company affiliates to obtain voting permits for such purposes in connection with subsidiary State member banks. Assuming that the stockholders' action was taken subsequent to August 23, 1935, it was not necessary for the holding company affiliates of the above-named banks to obtain voting permits to vote in favor of placing such banks in voluntary liquidation and to elect the liquidating officers.

(Signed) Chester Morrill

X-9469

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 28, 1936

INTERPRETATION OF PROVISION IN
SECTION 6 OF REGULATION T
REGARDING THE SEVEN DAY PERIOD.

Ruling No. 48 interpreting Regulation T. In reply to an inquiry regarding the provisions of section 6 of Regulation T, as amended May 10, 1935, the Board of Governors of the Federal Reserve System rules that the seven day period referred to in that section, which deals with "cash transactions", ends at midnight of the seventh day following the date on which the period commences to run.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9470

January 29, 1936.

Dear Sir:

In the Board's letter of October 31, 1922 (X-3548), the Federal reserve banks were requested to forward to the Board biographical sketches of Federal reserve bank and branch directors, governors, deputy governors, assistant Federal reserve agents and branch managers. On March 8, 1929, the Board in its letter X-6259 requested the Federal reserve banks to advise it from time to time of any changes in the business affiliations of the bank and branch directors in order that the biographical sketches might be kept up to date.

The biographical information which the Board has received from the reserve banks in accordance with the above requests has been submitted in widely differing form, and in order that the information contained in the Board's files may be complete and of a uniform nature, you are requested to forward to the Board on forms 242 and 243, which should be filled out by typewriter, such information as is called for thereon covering each director and each officer of your bank and branches, if any. Both forms should be filled out for the chairman and Federal reserve agent and for managing directors of branches. It is also requested that the Board be furnished with similar information for each person who becomes a director or officer of the bank in the

future and that it be kept currently informed of any changes in the data submitted.

The official signature of the officer concerned should be affixed at the bottom of his biographical sketch on form 243, but this requirement does not apply to biographical sketches of directors and it is assumed that in most cases form 242 can be prepared at your bank from information already contained in its files. Printed copies of forms 242 and 243 are attached and a supply of each is being forwarded to you under separate cover. Additional copies of this form may be obtained upon request.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL CHAIRMEN

FEDERAL RESERVE BANK X-9471

OF ATLANTA

January 24, 1936.

Mr. Chester Morrill, Secretary,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Mr. Morrill:

Reference is made to Mr. Kettig's letter of January 11, 1936, written in reply to your letter of December 27, 1935 (X-9407), concerning the desirability that meetings of the boards of directors of the twelve Federal reserve banks be held on the same day.

Set out next below is an excerpt of the action taken by our Board of Directors at the January meeting:

> "After the above communication was read the Governor of the bank was, on motion, duly seconded and unanimously carried, authorized to confer with representatives of the other Federal reserve banks and to agree with them upon a day upon which the meetings of the directors of all of the banks would be held.
>
> "It was the sense of the meeting that if any such agreement were reached prior to the time fixed by the by-laws for the February, 1936, meeting, the February meeting should be held on the day so agreed upon.
>
> "Director Clay thereupon made a motion, which was seconded by Director McCrary, that the by-laws of the bank be amended, effective as of the time when such agreement as to meeting day might be reached, by fixing the monthly meetings of the Board in accordance with that agreement.
>
> "Each director of the bank was present in the meeting and each director expressly waived notice of an intended change in the by-laws, whereupon the motion, as made, was put to a vote and was unanimously carried, and the Secretary was authorized without further instructions to make the appropriate amendment to the by-laws."

During the discussion a poll was taken and the directors expressed a preference for the regular monthly meeting to be held on

the second Friday of each month (as at present) and registered as second choice, the second Thursday of each month, and, in the event either date falls on a holiday, the meeting to be held on the next succeeding full business day.

Very truly yours,

(Signed) L. M. Clark

L. M. Clark,
Secretary of the Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9472

January 29, 1936

SUBJECT: Enforcement of Clayton Act.

Dear Sir:

Section 4 of Regulation L, as recently revised, provides in substance that each Federal Reserve Agent shall cause available information to be analyzed in the light of the provisions of section 8 of the Clayton Act, take steps whenever necessary to obtain compliance with the law, and communicate with the Board in any case in which the interlocking relationships involved are not brought into conformity with the law within a reasonable time.

These provisions of the regulation, of course, supersede the requests and suggestions contained in the Board's letter of May 1, 1933 (X-7426) and its telegram of March 5, 1935 (Trans. 2225) regarding the submission of reports and reviews to the Board.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL F. R. AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9473

January 30, 1936.

Dear Sir:

For your information, and assistance in the event similar questions arise in your district, there are inclosed herewith copies of several letters and telegrams containing interpretations of various provisions of the agreement which accompanied the Board's letter of December 3, 1935, (X-9385), relating to the issuance of general voting permits.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS

X-9473-a

December 17, 1935.

_____,
_____.

Gentlemen:

This refers to the letter of November 25, 1935, written to the Board on your behalf by Mr. _____, counsel for your corporation, with reference to the seven tentative standard conditions set out in the Board's letter of November 9, 1935, (X-9360), relating to the issuance of general voting permits. Certain comments contained in that letter will be discussed herein in order that there may be no misunderstanding concerning the meaning of the conditions as finally approved.

Referring to the opening clause of tentative conditions numbered 2, 3, 4, 5, and 6, to the effect "that the undersigned will take such action within its power as may be necessary to cause each of its subsidiary" corporations to perform certain actions, Mr. _____ states:

> "These words therefore can mean nothing else legally except that under these tentative conditions _____ would agree to take such corporate action within its corporate power as may be necessary, etc. There is no other legal action which _____ can take, it being a body corporate. In other words under this phraseology it can take only such action as may be authorized by its own charter and by the charter, laws and regulations governing the corporate entity of its subsidiaries, for reasons well known to the Board. _____ could not take any corporate action to intervene into the operations of a

> national bank to direct its executive officers or its Board to take corporate action as a national bank. * * * * * * * *.
>
> "With this clarification of the applicability of this clause to us we see no objection to the language in question since we would take it to be a legal obligation in so far as legally applicable and legally possible. Our management would voluntarily assume a moral obligation to make the conditions effective as far as may be practicable."

It is noted that, in referring to _____,

Mr. _____ states:

> "Its management is naturally in contact with the management of its subsidiaries and the management is thus in a position to use moral suasion and to have informal conferences and conversations with respect to the formulation and execution of policies. In this manner the policies of _____ ____ and those of its subsidiaries have been made harmonious."

As suggested elsewhere in Mr. _____' letter, there is an important element of good faith involved in compliance with the agreement containing the standard conditions, and the conditions in question contemplate that the holding company affiliate will use, in good faith, every power, corporate or otherwise, at its disposal to cause its subsidiaries to comply with such conditions. The Board feels that in this connection the holding company affiliate cannot be properly distinguished from its management and that the officers and directors of the holding company affiliate would be required to use their powers of moral suasion and to make use of informal conferences to influence the action of the subsidiaries.

In connection with tentative condition numbered 3, Mr.

_____ states that it is assumed that the Board intends that your corporation should use its judgment as to what constitutes adequacy of capital. In connection with tentative condition numbered 7 he infers that your corporation should be the judge as to whether a given policy is sound and whether its net capital and surplus is adequate. Such an interpretation would, of course, virtually nullify the conditions and the Board feels that it is obviously contrary to their intent. The Board must make the final determination concerning these matters and concerning all other questions relating to the compliance or noncompliance with the agreement containing the conditions. Any holding company affiliate will, of course, be given every opportunity to present its views in any instance in which a question arises and, under the law, any holding company affiliate is entitled to a hearing before its permit is revoked.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9473-b

December 24, 1935.

CASE
NEW YORK

Reference your letter of December 11 relating to voting permit application of _____, _____, _____. Having authorized the issuance of the general voting permit to the applicant subject to standard conditions, Board does not feel that it should grant limited permit entitling applicant to vote to elect directors and to act upon routine matters at 1936 annual meetings of stockholders of its subsidiary member banks. The tentative conditions then under consideration by the Board in connection with the granting of general voting permits were submitted to, and received careful consideration by, the applicant some weeks ago and the Board feels that the applicant will have ample time to complete its consideration of the prescribed agreement containing the standard conditions. It is understood that the applicant has expressed certain objections to paragraph lettered (D) of the prescribed agreement. Such paragraph was added pursuant to the suggestions of certain applicants in order to make it entirely clear that in the event of disagreements between a holding company affiliate and any designated representative of the Board pertaining to certain matters, the holding company affiliate should have a right to appeal to the Board. While it was not considered essential, it was incorporated for the protection of the holding company affiliates and was not intended to limit their rights or to give the Board any rights which it would not otherwise have. The Board has no objection to the omission of such paragraph from the agreement and,

accordingly, the condition stated following the letter "C" in the Board's telegram of December 9, 1935, authorizing the issuance of a general voting permit to _____, is hereby modified by adding thereto the words "except that paragraph lettered (D) of such agreement may be omitted upon the request of the applicant". Please advise the applicant accordingly.

(Signed) Chester Morrill

MORRILL

X-9473-c

January 2, 1936.

SARGENT
SAN FRANCISCO

Retel December 28 requesting expression of Board's views regarding following inquiry from _____ with reference to agreement to be executed in connection with issuance of general voting permit: "Is it the intention of the Federal Reserve Board that such agreement applies to the present investment in stock of affiliates and also to any future investments in stock of affiliates?" Generally speaking, it is Board's view that such agreement applies to subsidiary and affiliated organizations, stock of which is acquired after date of execution of such agreement, as well as to subsidiary and affiliated organizations, stock of which is owned at the date of execution of such agreement. If applicant desires expression of Board's views as to applicability of particular provision to particular set of facts it should submit inquiry as to such provision together with full statement of facts.

(Signed) Chester Morrill

MORRILL

X-9473-d

January 10, 1936.

_____,
_____,
_____,
_____.

Dear Sir:

This refers to your letter dated December 30, 1935, containing comments on the Board's letter of December 17, 1935, relating to the agreement to be executed as a condition to the issuance of a general voting permit to _____.

You state that the management of _____ and its subsidiary banks is not identical and that no agreement executed by such corporation would relieve the directors of the subsidiary banks of any of the responsibilities placed upon them by law. The Board is aware of the fact that differences of opinion upon matters of policy may arise between a holding company affiliate and the directors of a subsidiary bank and that the holding company affiliate may not be able immediately to bring the policies of the subsidiary bank into conformity with its own policies. Nevertheless, it is the view of the Board that the ultimate responsibility for the policies of a subsidiary bank rests upon the stockholders thereof and that they are able to discharge this responsibility through their power to elect directors who will carry out policies which meet with the approval of the stockholders.

You call attention to the fact that paragraph 4 of the

prescribed agreement provides that the holding company affiliate will take such action within its power as may be necessary to cause each of its subsidiary national banks to comply with the recommendations or suggestions of the Comptroller of the Currency based upon any report of examination of such bank made to him pursuant to authority conferred by law. You point out that such paragraph does not limit the recommendations or suggestions of the Comptroller to those made pursuant to authority conferred by law and you state that this would appear to confer on the Comptroller extra-legal powers.

It is the view of the Board that paragraph 4 of the agreement requires a holding company affiliate to comply with recommendations or suggestions of the Comptroller which are within the scope of his general supervisory jurisdiction even though such recommendations or suggestions are not based upon any specific statutory provision. Such paragraph does not, of course, require a holding company affiliate to comply with recommendations or suggestions which are outside the supervisory jurisdiction of the Comptroller.

This provision of the agreement was patterned after the second paragraph of section 21 of the Federal Reserve Act which provides that the Comptroller is authorized "to publish the report of his examination of any national banking association or affiliate which shall not within one hundred and twenty days after notification of the recommendations or suggestions of the Comptroller, based on said examination, have complied with the same to his satisfaction."

Neither the provisions of the second paragraph of section 21 nor the provisions of paragraph 4 of the voting permit agreement are limited to recommendations or suggestions of the Comptroller based upon specific statutory provisions.

You indicate in your letter that you have confidence in the Board and have every reason to assume that it will give a reasonable interpretation to the agreement. If this is your belief, it would appear that the paragraph in question should cause you no apprehension, since control over the enforcement of the provisions of such paragraph would be vested exclusively in the Board. The penalty for violation of the agreement is revocation of the voting permit, but before invoking such penalty the Board would be required by the law to afford the holding company affiliate an opportunity for a hearing.

You state that your letter is prompted by the desire that the regulation of holding company affiliates may be conducted on a sound and equitable basis and by the desire to avoid all possibility of future controversy and misunderstanding. The Board appreciates the spirit in which your letter is written and trusts that the questions raised therein have been satisfactorily answered.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9473-e

January 10, 1936.

FLETCHER

CLEVELAND

This refers to the voting permit applications of _____ ____, _____, _____, and _____, _____, _____ _____, and to your letter of December 30, 1935, relating to the interpretation of paragraph numbered 1 of the form of agreement to be executed as a condition to the issuance of general voting permits to such applicants and inclosing copy of letter of December 28, 1935, from _____ submitting an alternative form of agreement. The Board interprets paragraph numbered 1 of the prescribed agreement to require the holding company affiliate to make the specified eliminations on the basis of the latest reports of examination available on the date the holding company affiliate elects to comply with the provisions of such paragraph and advises the Federal Reserve agent of such compliance. It is to be noted that such paragraph requires the holding company affiliate to make such eliminations as soon as practicable and not merely to do so at any time within two years. Paragraph numbered 2 should be interpreted in accordance with the same principles as paragraph numbered 1. Paragraph numbered 4 requires the holding company affiliate to cause its subsidiary national banks and their affiliates to comply with the recommendations and suggestions of the Comptroller of the Currency based upon any

report of examination which may be made at any time during the life of the voting permit and not merely to comply with those based on the latest report of examination available on the date the agreement is signed. Paragraph numbered 5 should be interpreted in accordance with the same principles as paragraph numbered 4. Paragraph lettered (D) was incorporated in the agreement pursuant to suggestions made by certain holding company affiliates and was designed for their protection. If, however, such paragraph is objectionable to any holding company affiliate the Board has no objection to it being eliminated from the agreement executed by such holding company affiliate. The Board does not feel that it can approve any of the modifications of the prescribed agreement suggested by _____ except that, of course, it has no objection to the words "two years" in paragraphs numbered 1 and 2 being changed to "one year" as suggested by _____. Please advise the interested organizations in accordance with this telegram.

(Signed) Chester Morrill

MORRILL

X-9473-f

January 11, 1936.

CASE
NEW YORK

Representatives of _____, _____, met with representatives of the Board on January 3, 1936, and suggested certain changes in the standard agreement prescribed by Board in connection with granting general voting permits. Such standard agreement having already been executed by many holding companies, Board does not feel that it should modify the agreement as suggested by representatives of _____ but the discussion contained in this telegram may be helpful to _____. Therefore, please promptly deliver a copy of this telegram to that corporation for its information.

Board does not feel that paragraphs numbered 1 and 2 in standard agreement should be omitted in case of _____ since Board is not in a position to determine definitely at this time that requirements of such paragraphs have been complied with. However, when such paragraphs have actually been complied with by _____ those paragraphs, of course, will no longer be effective.

In connection with applicant's suggestion relating to paragraph numbered 3 of standard agreement, attention is called to fact that such paragraph requires holding company to take such action within its power as may be necessary to cause "each" of its subsidiary banks to maintain a sound financial condition, and the Board contemplates that consideration will be given to the needs of all of the subsidiary banks.

Paragraph numbered 4 of standard agreement requires compliance with recommendations or suggestions of Comptroller which are within scope of his general supervisory jurisdiction even though such recommendations or suggestions are not based upon any specific statutory provision. This portion of the agreement would not require compliance with recommendations or suggestions beyond supervisory jurisdiction of Comptroller. The language here used is based upon the second paragraph of section 21 of Federal Reserve Act which provides for compliance with the "recommendations or suggestions of the Comptroller, based on said examination". Neither provisions of section 21 just quoted nor provisions of paragraph 4 of standard agreement are limited to recommendations or suggestions of Comptroller based upon specific statutory provisions. Attention is called to fact that enforcement of provisions of paragraph 4 is vested exclusively in Board. Penalty for violation of agreement is revocation of voting permit and, before invoking such penalty, Board would be required by law to afford holding company affiliate an opportunity for a hearing. Therefore, it would appear that holding company affiliate is adequately protected against any unreasonable requirements. Detailed comments relating to paragraph 5 of standard agreement do not appear necessary.

In connection with argument of applicant that the prescribed agreement may result in discrimination between banks which are subsidiaries of holding company affiliates and other banks, attention is directed to the fact that the execution of such agreement and the

terms thereof have been prescribed by the Board in the discharge of responsibilities placed upon it by law and that any differences between the situation of banks which are subsidiaries of holding companies and other banks necessarily arise from the enactment of the legislation by Congress relating specifically to holding company affiliates and their banking subsidiaries.

In connection with suggestion of _____ that words "take such action within its power as may be necessary to" be inserted in two clauses of paragraph numbered 7 of standard agreement, attention is called to the fact that throughout standard agreement that phrase has been used only in those provisions which affect other corporations and which require holding company affiliate to cause certain action by such other corporations to be taken. Clauses of paragraph numbered 7 which are in question relate solely to holding company affiliate itself and suggested amendment of paragraph numbered 7 therefore does not seem necessary or appropriate.

The standard agreement contemplates that a holding company affiliate will use in good faith every power, corporate or otherwise, at its disposal to cause its subsidiaries to take the prescribed action. The Board feels that in this connection a holding company affiliate cannot be properly distinguished from its management and that officers and directors of a holding company affiliate would be expected to use their powers of moral suasion and to make use of informal conferences where necessary to influence the action of subsidiaries. This is merely

making use of the means and methods commonly employed by any holding company in furthering the execution of policies adopted by it.

Consideration has been given to suggestion that execution of agreement might possibly subject _____ to certain State taxation. However, Board feels that in determining the conditions upon which it will grant general voting permits in the discharge of the responsibilities placed upon it by law, it cannot undertake to consider or determine the effect of local tax laws in particular situations.

Having adopted standard agreement for execution by holding companies in connection with the granting of general voting permits, and having authorized issuance of general voting permit to _____, Board does not feel that it should comply with request of that corporation for a permit which might be surrendered at any time after the end of a period of two years at the election of that corporation.

If the _____ executes the agreement, a letter confirming the above statements will be addressed directly to that corporation for its records.

The Board extends to January 31, 1936, the time within which you may issue to _____ the general voting permit authorized in the Board's telegram to you of December 9, 1935.

(Signed) Chester Morrill

MORRILL

X-9473-g

January 11, 1936.

SARGENT

SAN FRANCISCO

This refers to your letter of December 28, 1935, recommending that the Board authorize the issuance of a limited permit to _____, _____, _____, entitling it to vote to elect directors and act on routine matters at the 1936 annual meetings of its subsidiary member banks. In connection with requests made by other holding company affiliates, the Board has taken the position that it should not authorize the issuance of such limited voting permits after it has authorized the issuance of general voting permits subject to the standard conditions and it does not feel that it can depart from that position in connection with _____. In his letter of December 26, 1935, a copy of which accompanied your letter, Mr. _____, President of the applicant, raised certain questions concerning paragraphs numbered 1, 3 and 7 of the agreement to be executed as a condition to the issuance of a general voting permit to the applicant. The use of valuation reserves in the manner outlined by Mr. _____ is an acceptable manner in which to make the eliminations required by paragraph numbered 1. However, on the basis of the latest information submitted to the Board, it appears that compliance with the provisions of that paragraph at this time would require eliminations amounting to substantially more than _____, the amount mentioned

by Mr. _____. In connection with Mr. _____'s suggestions relating to paragraph numbered 7, it should be noted that the clause of that paragraph which deals with net capital and surplus funds relates solely to the holding company affiliate and not to its subsidiary banks. With reference to his suggestions relating to paragraph numbered 3, the Board feels that, in view of the responsibilities placed upon it in granting general voting permits, it must consider questions as to compliance with the terms of this paragraph by applying principles of sound banking practice to the concrete facts and circumstances of the particular cases and, according, it can not approve the suggested modification of this paragraph. It should also be noted that this paragraph relates to all subsidiary banks and not merely to subsidiary national banks. Please advise the applicant in accordance with this telegram.

(Signed) Chester Morrill

MORRILL

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9474

January 31, 1936.

Dear Sir:

For your information and guidance, there is inclosed a copy of a letter sent to the Federal Reserve Agent at St. Louis, with respect to reports of deposits for reserve purposes rendered by member banks pursuant to the requirements of the Board's letter X-9397 of December 19, 1935.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT ST. LOUIS.

X-9474-a

January 31, 1936.

Mr. John S. Wood,
Federal Reserve Agent,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Wood:

Receipt is acknowledged of your letter of January 17, from which it is noted that, in submitting semi-monthly reports of deposits for reserve purposes in accordance with the revised reserve formula outlined in the Board's letter X-9397 of December 19, 1935, a number of member banks showed allowable deductions but calculated their reserve requirements against gross demand deposits, while others merely reported gross deposits and also calculated their required reserves on the basis of gross deposits. It is noted further that in most cases no comment was made by the reporting member banks, but that one explained its action as follows:

> "On account of our reserve balance being so much in excess of Federal Reserve requirements, and in order to save time in calculations, deductions are waived on this report."

The form prescribed by the Board in its letter X-9397 of December 19, 1935, for use by member banks in submitting current reports of deposits to Federal Reserve banks for reserve computation purposes contemplates that every member bank shall report the amount of its (1) gross demand deposits, (2) balances subject to immediate withdrawal due

from other banks, (3) cash items in process of collection, and (4) time deposits. Please, therefore, advise any member bank concerned that, regardless of whether or not it desires to have allowable deductions taken into consideration in the determination of its reserve requirements, the amount of each of the four items must be shown in the required report of deposits submitted pursuant to the Board's letter above referred to.

It might be well to call the attention of such banks to the fact that, in reports of deposits submitted for reserve computation purposes, cash items forwarded to a correspondent bank for collection and credit and charged to "due from banks" may be included in "balances subject to immediate withdrawal due from other banks", instead of in "cash items in process of collection". This suggestion is made because some member banks apparently are under the impression that they must keep a separate record of all cash items in process of collection, if they wish to deduct such items from gross demand deposits. This confusion has resulted partly from the requirements of the Federal Deposit Insurance Corporation that such a record must be kept if the bank wishes to deduct "float" in determining the amount of deposits subject to assessment for insurance purposes.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9475

January 31, 1936.

SUBJECT: Reduction of Preferred Stock or Capital Notes or Debentures by State Member Banks.

Dear Sir:

The Board's attention has been called to a case where a State member bank having a capital of less than $50,000, and situated in a place the population of which does not exceed 3,000 inhabitants, desires to reduce its capital to an amount not less than $25,000, through the retirement of capital debentures issued to the Reconstruction Finance Corporation. As you know, a national bank may not be organized with a capital of less than $50,000, whereas a State bank located in a town the population of which does not exceed 3,000 inhabitants may be admitted to membership in the Federal Reserve System, under certain conditions, with a capital of not less than $25,000.

The Board has held, under applicable provisions of the Federal Reserve Act, that where a State member bank reduces its capital to an amount below that required for the organization of a national bank in the place where the State member bank is located it is a violation of the technical requirements of the Federal Reserve Act for which the bank's membership might be forfeited. However, whether such action should be taken in any case is a matter involving the

exercise of a discretion by the Board. On the basis of the facts involved in the case described above, the Board felt that the proposed action by the State member bank referred to did not constitute a violation of the purposes of the requirements of the Federal Reserve Act, and that the Board would be justified in raising no objection to the proposed retirement of capital debentures. In reaching this conclusion, the Board was influenced by the fact that the State member bank could withdraw from the System, effect the retirement of the capital debentures, and, in view of its location in a place with a population of less than 3,000 inhabitants, still have sufficient capital to meet the requirements of the Federal Reserve Act for readmission to membership in the System.

It is understood that a number of State member banks located in places with a population of less than 3,000 inhabitants have issued preferred stock or capital notes or debentures at a time when they were in need of additional capital on account of the condition of their assets to enable them to meet the demands of their depositors or for other purposes. Some of these banks may now be in a position to retire preferred stock or capital notes or debentures without affecting the soundness of their capital structures and without jeopardizing the interests of depositors or other creditors. In the circumstances, you are authorized to state that the Board will interpose no objection to reductions of capital notes or debentures sold to the Reconstruction Finance Corporation or preferred stock by State member banks located in places

having a population which does not exceed 5,000 inhabitants, where, in your opinion, all of the circumstances involved warrant such a reduction and where, after such reduction is accomplished, the member bank will have a capital of at least $25,000. In considering a reduction in any such case, you should be guided by the principles and instructions contained in the Board's letter of December 15, 1934 (X-9048) relating to approval of reductions of preferred stock or capital notes or debentures generally.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9476

February 1, 1936.

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:

"NOYHID" - Treasury Bills to be dated February 5, 1936, and to mature November 4, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

INTERPRETATION

BANKING ACT OF 1935

X-9477

(Copies to be sent to all Federal Reserve banks)

January 31, 1936.

Mr. John S. Wood,
Federal Reserve Agent,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Wood:

This refers to your letter of December 13, 1935, with inclosure, from which it apppears that Mr. _____, who is chairman of the board of directors of _____ Bank, _____, _____, a State member bank, is also a partner with his brother in the firm of _____, each having an equal one-half interest in such firm. You inquire whether, in view of the provisions of section 2 of the Board's Regulation O, a member bank is permitted to extend credit to a partnership in which an executive officer of such bank has a 50 per cent interest therein.

Under the provisions of subsection (g) of section 22 of the Federal Reserve Act, as amended by the Banking Act of 1935, "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 prohibition of this subsection". In the case of an executive officer of a member bank who has exactly a 50 per cent interest in a partnership, such an interest would not amount to a "majority" interest within the meaning of that term as it is generally understood

and it is, therefore, the view of the Board that the prohibitions contained in section 2 of the Board's Regulation O are not applicable to such a partnership.

Moreover, it is a well settled rule of law that partners are presumed to have equal interests in the firm in the absence of competent evidence of an agreement to the contrary. In view of this legal presumption and the statement that Mr. _____ does not have a majority interest in the partnership, you are authorized to advise the _____ Bank that the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation O are not applicable to the partnership in question.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION X-9478

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 31, 1936.

Mr. _____, President,
The _____ National Bank,
_____, _____.

Dear Sir:

This refers to your letter of December 28, 1935, in which you state that the chairman of the board of directors of your bank merely presides over meetings of the board and that during the six months of each year spent in (name of city in which bank is located) his activities in connection with the bank are only those of a director. You suggest that the board of directors of your bank pass a resolution expressly providing that the duties of the chairman are not of an executive nature, or amending the by-laws to this effect, and upon this basis you inquire whether it would be possible for the Board of Governors of the Federal Reserve System to except the chairman of the board of directors of your bank from the classification of an executive officer.

The chairman of the board of directors of a bank in many instances exercises executive functions in addition to merely presiding at meetings of the board of directors, and it is generally understood by the public that the chairman of the board of directors of a bank performs such functions. At the time of its consideration of Regulation O, the Board was aware of the fact that some banks had

honorary or inactive officers who did not actively participate in the management of the bank, but it was the view of the Board that bank officials whose titles may cause the public to consider them executive officers should comply with the rules governing executive officers. Also, Congress did not make a distinction in section 22(g) of the Federal Reserve Act between active and inactive officers, and the Board, in prescribing a general rule applicable to all member banks alike, did not feel that it should make such a distinction when defining the term "executive officer" pursuant to the authority vested in the Board by the law. Accordingly, the chairman of the board of directors has been included within the definition as contained in subsection (b) of section 1 of the Board's Regulation O, whether or not he is active.

The Board also considered the suggestion that a provision be included in the regulation to the effect that a person, even though he holds one or more positions specified in the Board's Regulation O, such as president or chairman of the board of directors, would not be considered an executive officer of the bank if his duties were restricted by a resolution of the board of directors or by a provision in the by-laws of the bank. The Board, however, for the reasons indicated above, did not feel that it should make such an exception in the regulation and, accordingly, it would not be fair to the other banks to which the regulation is applicable to except the chairman of the board of your bank from the provisions of the regulation on such a basis.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION X-9479

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 30, 1936.

_____,
_____,
_____,
_____.

Dear Sir:

Reference is made to your letter dated January 8, 1936, addressed to Senator _____, regarding the question whether a business corporation may maintain a savings deposit in a member bank of the Federal Reserve System. Your letter has been referred by Senator _____ to the Board of Governors of the Federal Reserve System for reply.

The Banking Act of 1935 conferred upon the Board authority to define the term "savings deposits" and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of the law and prevent evasions thereof. This authority was granted in order to enable the Board to correct certain well-recognized abuses which had grown up in connection with savings deposits.

As you may know, member banks are forbidden by law to pay interest on demand deposits or to pay time deposits before maturity, except in certain exceptional circumstances. However, member banks are permitted to pay savings deposits on demand, provided they retain the right to require thirty days' notice of withdrawal, and are also permitted to pay interest on such deposits. In addition, member banks

are permitted to carry with the Federal Reserve banks a reserve of only 3 per cent against savings deposits, although they are required to carry reserves of 7, 10, or 13 per cent, depending upon the location of the bank, against all other deposits which are payable on demand.

It will be seen from the above that savings deposits are an exceptionally favored class of deposits having special privileges not granted to any other class of deposits. These privileges are granted to such deposits because of the desire to encourage thrift. However, the granting of this favored status to savings deposits has led to certain abuses by member banks, chief of which were the classification of ordinary demand deposits as savings deposits in order to pay interest on such funds and to carry the lower reserves against them, and the classification of idle funds of business corporations as savings deposits even though such funds were not accumulated for the purposes sought to be encouraged by the favored status given to savings deposits.

It is believed that "savings deposits" in the true meaning of the term are deposits which consist of the accumulation of savings of individuals, usually of limited financial means, in order to provide for sickness, accident, old age or other exigencies, to meet anticipated expenses, or for other similar purposes, and, although there are certain non-profit organizations which may properly be included in the class of those who are afforded the privilege of maintaining savings deposits, it is not believed that funds of corporations operated for profit fall within this category. Accordingly, in section 1(e) of Regulation Q the Board has provided that a savings deposit

must consist of the funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit.

It is hoped that the above explanation of this matter will answer the question which you have in mind as to the basis for the distinction in the definition of savings deposits between deposits of individuals and those of organizations operated for profit.

With reference to your statement that the member bank had informed you that the deposit of your corporation must be placed in a checking account, it should be noted that although Regulation Q does not permit deposits of a business corporation to be classified as savings deposits, there is nothing in such regulation to prevent a business corporation from placing its funds in an interest-bearing time deposit.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9480

February 6, 1936.

SUBJECT: Reduction of Capital of State Member Banks.

Dear Sir:

Standard condition of membership numbered 2 as printed in the Board's Regulation H, effective January 1, 1936, provides in part that the capital of a bank subject to such condition "shall not be reduced except with the permission of the Board of Governors of the Federal Reserve System." Footnote 9 in the Regulation, however, provides:

> "A reduction in capital, however, shall not be deemed to be contrary to this provision if, at the same time, the capital is correspondingly increased or a specific reserve in an amount not less than the amount of the capital reduction is set aside to provide for an increase in capital and can be used for no other purpose; provided, of course, the transaction does not violate any provision of applicable laws."

The interpretation incorporated in the above footnote is hereby made applicable in all cases where a bank has been admitted to membership in the past subject to a condition of membership that the bank's capital shall not be reduced except with the permission of the Board. Please be guided accordingly.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9481

February 6, 1936.

SUBJECT: Change in inter-district time schedule

Dear Sir:

Upon the request of the Federal Reserve Bank of Dallas and with the concurrence of the other Federal Reserve banks affected, the Board of Governors of the Federal Reserve System approves the following changes in the inter-district time schedule for cash items:

	From	To
Dallas to Helena	4 days	3 days
Houston to Boston	4 days	3 days
San Antonio to Boston	4 days	3 days
San Antonio to Seattle	5 days	4 days

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL GOVERNORS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9482

February 6, 1936.

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:

"NOYHOK" - Treasury Bills to be dated February 11, 1936, and to mature November 10, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

X-9483

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

TELEGRAM

February 6, 1936.

WOOD
ST. LOUIS

Retel February 3, 1936. Reports of indebtedness required by section 22(g) prior to amendment thereto contained in Banking Act of 1935 were to be made to the chairman of the board of directors, while under provisions of that section as amended such reports are to be made to the board of directors. Accordingly, under provisions of section 5 of Regulation O, an executive officer of a member bank indebted to other banks on January 1, 1936, effective date of Regulation O, is required to report such indebtedness to board of directors of member bank of which he is an executive officer regardless of whether such indebtedness has been reported to chairman of board of directors. Footnote 2 section 5 of Regulation O merely relates to renewals or extensions of an indebtedness which has been reported to the board of directors.

(Signed) Chester Morrill

MORRILL

X-9484

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For information,
not quotation.

February 8, 1936.

For release morning newspapers
of Sunday, February 9, 1936.

At the request of the Board of Governors of the Federal Reserve System, Dr. Adolph C. Miller has consented to continue, in an advisory capacity, the supervision he has exercised over the plans for and construction of the Board's new building since its inception.

Mr. Charles S. Hamlin, who was the first governor of the Board and whose service, like Dr. Miller's, has extended over the entire period of the Board's existence since the creation of the Federal Reserve System in 1914, has also consented to remain as a special counsel to the Board, acting in an advisory capacity so that the new Board will have the benefit of his long experience.

Mr. J. J. Thomas has been appointed a Class C director of the Federal Reserve Bank of Kansas City and designated as Chairman and Federal Reserve Agent to fill the vacancy existing since the death of Mr. M. L. McClure. Judge Thomas' appointment as a Class C director is for the unexpired term ending December 31, 1938, and his designation as Chairman and Federal Reserve Agent is for the remainder of the current year.

Mr. George R. James, who had requested to be relieved as a member of the Board when his term expired in 1931 and who accepted reappointment at that time in order to carry on through the emergency period, has announced that he will resume his business connections in Memphis.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9485

February 8, 1936.

Dear Sir:

Referring to the Board's letter of July 26, 1935 (X-9271), in regard to the quarterly audit of the books and records of the Board's Fiscal Agent by the Auditor of the Federal Reserve Bank of Cleveland, there is transmitted herewith, for your information, a copy of the auditor's certificate in connection with his audit of the Board's accounts for the period October 20 to December 31, 1935, inclusive.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL CHAIRMEN.

COPY X-9485-a

I, F. V. Grayson, hereby certify:

(a) That a complete audit has been made of all entries in the accounts, "Board of Governors of the Federal Reserve System-Special Fund", "Board of Governors of the Federal Reserve System-Building Account", "Board of Governors of the Federal Reserve System-Fiscal Agent" and "Board of Governors of the Federal Reserve System-Fiscal Agent Building Account", for the period October 20 to December 31, 1935, inclusive.

(b) That all cash receipts received by the Board as shown by the "Collection Schedules" furnished the Fiscal Agent by the Secretary's office have been deposited by the Fiscal Agent and properly credited by the Federal Reserve Bank of Richmond in the account, "Board of Governors of the Federal Reserve System-Special Fund" except schedule No. 795 for $2.60 which was credited by the Richmond bank on January 15, 1936.

(c) That all remittances made direct to the Richmond bank for the account of the Board of Governors of the Federal Reserve System by the Federal reserve banks and others in compliance with the Board's instructions have been properly credited to the accounts, "Board of Governors of the Federal Reserve System-Special Fund" and "Board of Governors of the Federal Reserve System-Building Account."

(d) That each expenditure made by the Fiscal Agent was properly authorized by an administrative officer of the Board.

(e) That the items of receipts and expenditures shown by the books of the Fiscal Agent have been reconciled with the items shown in the statements of the Board of Governors of the Federal Reserve System's accounts prepared by the Federal Reserve Bank of Richmond.

(f) That the balances in each account as shown by the books of the Fiscal Agent have been reconciled with the balances standing to the credit of the Board of Governors of the Federal Reserve System on the books of the Federal Reserve Bank of Richmond as certified by the auditor of that bank.

(g) That all "Transfers of funds" have been properly authorized by a member of the Board's Executive Committee.

Respectfully submitted,

(Signed) F. V. Grayson

Auditor

January 31, 1936

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9486

February 11, 1936

SUBJECT: Code words in connection with applications for membership or for voluntary withdrawal under provisions of Regulation H.

Dear Sir:

In order to conform to the revision of the Board's Regulation H, which became effective January 1, 1936, the following changes in code words are effective immediately:

The code words "ANCHORIVETED" and "ANCHOROME", referred to in the Board's letter of June 30, 1933 (X-7469), are discontinued.

Hereafter, in giving you telegraphic advice of the Board's approval of an application for membership in the Federal Reserve System, the code word "ANCHOROOT" will follow the name and location of the applying bank and will mean:

> "Application of such bank for membership has been approved by Board subject to conditions of membership numbered 1, 2 and 3 set forth in Board's Regulation H, effective January 1, 1936, and special conditions specifically stated hereafter. Please advise such bank of Board's approval and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership. Letter containing detailed advice regarding such approval will be forwarded bank through you as soon as possible. When you have received

certified copy of resolution of board of directors of such bank accepting conditions of membership prescribed by Board and advice of compliance with any special conditions required to be complied with prior to admission to membership, together with the advice of your counsel that such conditions have been properly accepted, the Federal Reserve bank is authorized to take such action as may be necessary to complete admission of applying bank to membership. Please wire Board through use of code word "NARRATELL" the same day membership of bank becomes effective and forward copy of resolution accepting conditions of membership, together with copy of advice of compliance with any conditions to be complied with prior to admission and copy of your counsel's opinion that all conditions prescribed have been properly accepted by bank."

If the Board's approval is made subject also to the three conditions of membership set forth in Regulation H relating to the exercise of trust powers, such conditions will be referred to as conditions numbered 4, 5 and 6 immediately following the code word "ANCHOROOT" in the Board's telegram.

The code word "NARRATELL", referred to in the Board's letter of October 30, 1931 (X-7009), has been used by you in giving the Board telegraphic advice of the completion of arrangements for membership by an applying bank. In such cases in the future, this code word should follow the name and location of the bank involved and will have the following meaning:

"Such bank has completed arrangements for membership. Certificate of stock of Federal Reserve bank, or, if applying bank is a mutual savings bank not authorized to subscribe for Federal Reserve bank stock, certificate representing acceptance of deposit

with Federal Reserve bank in place of payment on account of subscription to stock, has been issued."

In your telegram to the Board, the date as of which the certificate referred to therein is issued and the number of shares or the amount of the deposit, as the case may be, represented by the certificate should follow the code word "NARRATELL".

The code word "ANGLO", as defined in the Board's TRANS. 1744 of April 1, 1933 (X-7424), has been used by the Board in furnishing you telegraphic advice of its approval of applications for permission to withdraw immediately from membership in the Federal Reserve System under the provisions of section 9 of the Federal Reserve Act. In the future, this code word will follow the name and location of the applying bank and will mean:

"Referring application of such bank for permission to withdraw immediately from membership, Board waives usual requirement of six months' notice. Accordingly, upon surrender of the Federal Reserve bank stock issued to such bank, the Federal Reserve bank is authorized to cancel such stock and make appropriate refund thereon. Before such stock is canceled, you are requested to obtain advice of your counsel that the documents filed with you pursuant to section 10 of Board's revised Regulation H comply substantially with the requirements of that section. Please advise Board when cancelation is effected and refund is made, and forward to the Board the documents required by section 10 of Regulation H. Certificate of membership issued to bank should also be obtained, if possible, and forwarded to Board. State banking authorities should be advised promptly when bank's withdrawal from membership has been effected and informed that you will be glad, if desired,

to furnish information as to reasons advanced by bank in support of its request for waiver of usual requirements of six months' notice of intention to withdraw. Confirmation follows."

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9487
February 11, 1936.

SUBJECT: Expenses of the Federal Advisory Council.

Dear Sir:

An examination of the Board's records indicates that some of the Federal Reserve banks have not been submitting to the Board annually for approval the amount of compensation and allowances to be paid to the member of the Federal Advisory Council and that it has not been the practice of the banks to submit for Board approval the annual payment made to cover expenses of the office of the Council's Secretary.

In this connection attention is directed to the fact that paragraph 1 of Section 12 of the Federal Reserve Act, relating to the Federal Advisory Council, contains the following provision:

> "Each Federal Reserve bank by its board of directors shall annually select from its own Federal Reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Board of Governors of the Federal Reserve System."

In accordance with the above provision of the law each Federal Reserve bank should submit to the Board annually for approval the amounts proposed to be paid to the member of the Federal Advisory

Council as compensation and allowances. It should also obtain the approval of the Board for any payments it proposes to make to cover the expenses of the Secretary's office of the Federal Advisory Council. If you have not already done so, please submit to the Board for its consideration the compensation and allowances fixed by your board of directors for the Federal Advisory Council member for your district in 1936. Please also submit for the consideration of the Board any payment your bank proposes to make to cover 1936 expenses of the Secretary's office of the Federal Advisory Council.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL GOVERNORS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9488

February 11, 1936.

SUBJECT: Extended Leave of Absence With Pay.

Dear Sir:

At their conference in Washington on October 23, 1935, the Governors of the Federal Reserve banks, after considering the topic "Granting of sick leave to employees in excess of 30 days", adopted the following resolution:

> "Voted that a definite procedure for the payment of salaries to employees absent on account of sickness be adopted by the Board of Directors at each Federal Reserve bank and that such procedure be submitted to the Board of Governors.
>
> "It was further voted that Governors Hamilton and Martin are appointed a Committee to discuss this matter with the Board of Governors."

In its letter of December 5, 1932, X-7303, the Board stated that its Division of Examinations had been requested, as part of the examination of each Federal Reserve bank, to review all cases where it appeared that leaves of absence with pay in excess of thirty days had been granted to employees on account of sickness, for the purpose of ascertaining whether in each case the approval of the Board of Directors of the bank had been obtained. The members of the above mentioned committee of the Governors' Conference have suggested,

however, that such cases might properly be passed upon by the Executive Committee and subsequently reported to the Board of Directors.

While it is believed desirable that the Board of Directors be fully advised of the facts in each instance of extended leave with pay granted on account of sickness, it will be satisfactory to the Board if such leave is approved by the Executive Committee of the bank and reported to the Board of Directors at its next meeting.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL GOVERNORS

X-9489

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

February 8, 1936.

_____,
_____,
_____.

Dear Sir:

This refers to your letter dated January 23, 1936, regarding the question whether a person having a savings deposit in a member bank may leave his pass book with the bank and draw checks against the deposit payable to third parties.

This practice is not permitted by the definition of the term "savings deposit" in section 1(e) of the Board's Regulation Q, which contains the following provision:

> "Withdrawals are permitted in only two ways, either (i) upon presentation of the pass book, through payment to the person presenting the pass book, or (ii) without presentation of the pass book, through payment to the depositor himself but not to any other person whether or not acting for the depositor."

Under the above provision, the depositor himself may make withdrawals, without presentation of the pass book, either in person or through the mails, or he may draw a check payable to a third party, but in the latter case the pass book must be presented with the check in order to effect a withdrawal.

This provision was adopted in order to eliminate certain abuses which had grown up in connection with savings deposits. As you may know, member banks are forbidden by law to pay interest on demand deposits or to pay time deposits before maturity, except in certain unusual

circumstances. However, member banks are permitted to pay savings deposits on demand, provided they retain the right to require thirty days' notice of withdrawal, and are also permitted to pay interest on such deposits. In addition, member banks are permitted to carry with the Federal Reserve banks a reserve of only 3 per cent against savings deposits, although they are required to carry reserves of 7, 10, or 13 per cent, depending upon the location of the bank, against all other deposits which are payable on demand.

It will be seen from the above that savings deposits are an exceptionally favored class of deposits having special privileges not granted to any other class. These privileges are granted to such deposits because of the desire to encourage thrift. However, the granting of this favored status to savings deposits led to certain abuses by member banks, one of which was the classification of ordinary checking accounts as savings deposits in order to pay interest on such accounts and to carry the lower reserves against them.

The above-quoted provision regarding withdrawals is designed to eliminate the use of savings deposits as ordinary checking accounts. The requirement that the savings pass book must accompany a check payable to a third party is designed to prevent the drawing of more than one check at a time against a savings deposit since, as a practical matter, the depositor must wait until his pass book is returned before he can draw another check.

It is hoped that the above explanation of the provision regarding withdrawals from savings deposits will answer the question which you

have in mind. The stamped self-addressed envelope inclosed with your letter is returned herewith.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure

X-9490

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release. February 11, 1936.

The first meeting of the Federal Advisory Council for 1936 was held on Tuesday, February 11. 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. Cohen, of Huntington, West Virginia
	No. 6.	H. Lane Young, of Atlanta, Ga.
	No. 7.	Edward E. Brown, 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.

F E D E R A L A D V I S O R Y C O U N C I L

1936

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	Edward E. Brown	Pres., The First National Bank of Chicago, 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 12, 1936.

X-9492

REPRESENTATIVES OF THE FEDERAL RESERVE BANKS UPON THE FEDERAL OPEN MARKET COMMITTEE

The Board of Governors of the Federal Reserve System has been asked by certain officers and directors of Federal Reserve banks for an informal expression of its views as to whether under section 12A of the Federal Reserve Act (providing that the Federal Open Market Committee "shall consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks, to be selected as hereinafter provided") representatives of the Federal Reserve banks may be selected outside of the executive personnel of the Federal Reserve banks to serve on the Open Market Committee.

A comprehensive review of the historical development of the Committee and of all available sources reflecting the legislative intent when the section was enacted and the purposes sought to be achieved clearly demonstrates that selection of representatives by the Federal Reserve banks from the ranks of banking, industry or commerce would constitute a flagrant violation of what Congress intended.

Realization of the importance and effect of open-market operations upon the national credit structure resulted in a gradual development of methods of control or coordination of activities culminating in the "Open Market Committee" created by section 12A of the Federal Reserve Act as revised effective March 1, 1936. This development is best reflected by a chronological listing of the various committees and bodies created for such purpose as follows:

1. "Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities" - This committee was composed of five governors of Federal Reserve banks and functioned from May 1922 to April 7, 1923.

2. "Open Market Investment Committee" - This committee was created on April 7, 1923 as a result of resolution passed by the Federal Reserve Board on March 22, 1923 from which time open-market operations were not engaged in by the Federal Reserve banks except with the approval of the Federal Reserve Board. It was composed of five governors of Federal Reserve banks and functioned until March 31, 1930.

3. "Open Market Policy Conference" - This committee was created as the result of conferences by

representatives of the 12 Federal Reserve banks with the Board for the purpose of recommending policies and plans regarding open-market operations. It was composed of the twelve governors of the Federal Reserve banks and functioned until the passage of the Banking Act of 1933.

4. "Federal Open Market Committee" - This committee was created on June 16, 1933, by the Banking Act of 1933 and was composed of the twelve governors of the Federal Reserve banks.

5. "Federal Open Market Committee" - As provided in section 12A of the Federal Reserve Act as now in force, creating a committee consisting of "The Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks".

At no time throughout the history of the Federal Reserve System have open-market operations been conducted by other than executive officials of the Federal Reserve banks, their actions being subject to approval of the Federal Reserve Board, all such executives as well as Board members being full-time officials who were required by established practice or by law to discontinue all active participation in outside business.

The issue as to whether representatives of private enterprise should serve upon a public body created for the purpose of discharging such responsibilities in the public interest seems to have been met and settled in the original enactment of the Federal Reserve Act when banker representation was forcefully argued and as forcefully denied both by Congress and by the President.

Senator Glass, in his authoritative book on the Federal Reserve System, entitled "An Adventure in Constructive Finance", described how a committee of bankers visited President Wilson and sought to persuade him to agree to banker representation on the Federal Reserve Board. Senator Glass wrote:

"When they had ended their arguments Mr. Wilson, turning more particularly to Morgan and Wade, 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 painful silence for the longest single moment I ever spent; and before it was broker Mr. Wilson further inquired: 'Which of you gentlemen thinks the railroads should select members of the Interstate Commerce Commission?' There could be no convincing reply to either question, so the discussion turned to other points of the currency bill; and, notwithstanding a desperate effort was made in the Senate to give the banks minority representation on the reserve board, the proposition did not prevail."

At the time of revision of Section 12A by the Banking Act of 1935, the issue was whether the primary initiative and responsibility for open-market operations should be fixed exclusively in the Board of Governors of the Federal Reserve System as then being set up, or left in a committee consisting exclusively of the then Governors of the Federal Reserve Banks, or committed to a combination of both, and at no stage in the development of the legislation was it contemplated by any of those actively interested therein, irrespective of differing viewpoints, that the responsibility should be shifted to or shared with those outside of the official executives of the banks and members of the Board.

The bill, as introduced and passed in the House (H.R. 7617), definitely fixed such responsibility in the Federal Reserve Board. In Congressman Steagall's report upon the bill the following was stated:

"Under the present law, open-market policies are formulated by the Federal Open Market Committee, which consists of the governors of the 12 Federal Reserve banks."

After explaining that the proposed bill would place the primary responsibility in the Board, his report continued:

"The participation of Federal Reserve banks governors in the deliberations leading to the adoption of open-market policies will be preserved. Open market operations may be initiated either by the committee of the governors or by the Board, but the ultimate responsibility for making a final decision and the power for adopting and carrying out national policies will be concentrated in a national body, as they properly should be in the public interest."

The bill was amended in the Senate to provide for the creation of a "Federal Open Market Committee" consisting of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks to be selected annually, but throughout the discussion it is evident that although the word "representatives" was used in place of "Presidents", to which the titles of "Governors" were changed by the Senate Committee, there was no intention of altering the original meaning and purpose to confine representation to members of the Board and executives of the banks.

During the consideration of the Banking Act of 1935 by the Banking and Currency Committees in both the House and the Senate, many distinguished bankers appeared before one or both of the Committees and expressed a unanimity of opinion that Governors of the Federal Reserve banks should be members of the Open Market Committee. The very fact that they so testified is indicative of the fact that the issue at stake in the pending legislation was whether or not responsibility for this important function should be vested in the Governors of the Federal Reserve banks or in the Federal Reserve Board. It appears that these witnesses never had in mind a selection of representatives of Federal Reserve banks from other than Governors or other executive officers of the Federal Reserve banks.

The recommendation of the special committee of the American Bankers Association was "that the Open Market Committee shall consist of the entire Federal Reserve Board, (reduced to five members), and four Governors of the Federal Reserve banks, selected by the Governors of the twelve Federal Reserve banks annually."

The recommendation of the Federal Advisory Council was that "The Federal Open Market Committee shall consist of the five members of the Federal Reserve Board (reduced in membership) and four Governors of the Federal Reserve banks."

The Commission on Banking Law and Practice of the Association of Reserve City Bankers in its "Summary of Arguments on Title II of the Banking Act of 1935" clearly recognized that the only point of difference was in whether the power to determine the open market policy of the Federal Reserve System was to be in the Federal Reserve Board or in a committee, as then constituted, of Governors of the Federal Reserve banks.

The Committee on Banking Legislation of the Chamber of Commerce of the United States, in an analysis and report filed with the sub-committee of the Senate Committee on Banking and Currency, recommended "that open market policies should continue, as at present, to be formulated by a committee representing the twelve Federal

Reserve banks." The Committee as then constituted was composed of the twelve Governors of the Federal Reserve banks.

The legislative policy with respect to outside domination or influence in the administration of the Federal Reserve Act is illustrated by section 10 of the Act, wherein it is provided that the members of the Board shall devote their entire time to its business and that "No member of the Board of Governors of the Federal Reserve System shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company." It is hardly conceivable that Congress, in setting up an administrative body to control and supervise credit, should zealously strive to insure that body's immunity from outside banking influence and then assign an important power over credit to a committee, five of whose 12 members could retain their private connections with outside business or banking.

It is self-evident that in order to render efficient service on the Open Market Committee a member must be in constant touch with the operations of the Reserve banks and have a continuing knowledge of the condition of the member banks, of the trends in loans and deposits, of the fluctuations in interest rates and of the money market and credit situation generally. Regardless of his ability, an outsider, engrossed as he would be most of the time in his own affairs, could not establish and maintain that interest and knowledge necessary to discharge properly his duties as a member of the Committee. Inevitably his attitude would not in the very nature of the case be truly representative of the Federal Reserve banks. It is only human nature that a person engaged in an enterprise for profit would be primarily concerned with the administration of that enterprise. Frequently, it might become the duty of such member to move in the direction opposite from that which would be advantageous to his private interests. Whether or not members finding themselves in that position could subordinate their private interests to the general public interest which the Open Market Committee is intended to subserve, it would be unfair to place any member of that Committee in the embarrassing position of being required to make such choices. Such a relation to the System would tend seriously to impair the efficiency and prestige of the directors and officers of the Reserve banks and produce at times confusion and embarrassment.

Members of the Committee are in a sense the trustees of the credit policy of the nation and, like trustees, they should not be in the attitude of purchasing from or selling to themselves. Such trustees must be scrupulous to place themselves beyond reproach and above suspicion. The prestige, and indeed the preservation of the Federal Reserve System, depend upon it.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9493

February 14, 1936.

SUBJECT: By-laws of the Federal Reserve Banks.

Dear Sir:

Due to amendments to the Federal Reserve Act contained in the Banking Act of 1935, certain modifications in the by-laws of the Federal Reserve banks appear to be necessary and some of the banks have already made changes in certain provisions of their by-laws to conform to amendatory provisions of the Banking Act of 1935. It is believed that the necessity for modifying the by-laws to conform to changes in the law affords a suitable opportunity for certain other changes in the by-laws of the Federal Reserve banks which appear to be desirable. While it is not believed that the by-laws of the several Federal Reserve banks should necessarily be uniform in all particulars, the Board of Governors wishes to make certain suggestions for the consideration of the board of directors of each of the banks with respect to provisions which may be incorporated in its by-laws.

In order to conform to the law as amended by the Banking Act of 1935, it appears that there should be included in the by-laws provisions relating to the appointment, functions, and terms of office of the president and first vice president. If amendments for this

purpose have not already been incorporated in your by-laws, it seems desirable, in view of the fact that the law providing for the appointment of a president and a first vice president takes effect March 1, 1936, that action upon the necessary changes should be taken before that date, if possible, to become effective on that date.

The Board of Governors also feels that it is desirable that the executive committee of a Federal Reserve bank should be composed exclusively of persons who are directors of the bank, including the chairman of the board, and wishes to suggest for the consideration of your board that the by-laws be amended accordingly. The executive committee performs a number of duties between meetings of the board of directors and exercises important functions in the supervision of the conduct of the affairs of the bank. The operations of the bank are carried out by its officers and their actions during the intervals between meetings of the board of directors are subject only to the direction of the executive committee. Inasmuch as the executive committee is charged with the duty of reviewing and approving the actions of the executive officers of the bank, it would not seem proper for such officers to be members of that committee and, therefore, in the position of reviewing and approving their own actions. Moreover, it is generally true that executive committees of banks as well as commercial institutions are composed entirely of directors of such institutions, and this is natural in view of the fact that such a committee acts for the board of directors and performs many of its functions.

The by-laws of some of the Federal Reserve banks provide for a separate committee to pass upon discounts and advances and, if your bank is one of those whose by-laws do not now provide for such a committee, it is possible that you may wish to give consideration to the incorporation in the by-laws of provisions establishing such a committee, to be known as a discount committee or given some other suitable title. If such committee should be established, it is suggested that the by-laws require that it make a report of all discounts and advances to the executive committee for review at the next meeting of the latter.

The Board of Governors suggests that the board of directors of your bank give consideration to the suggestions which have been outlined above at the earliest practicable date and that you advise the Board of its action thereon as soon as possible.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9494

February 15, 1936.

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:

"NOYHUB" - Treasury Bills to be dated February 19, 1936, and to mature November 18, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9495

February 19, 1936.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of January, 1936.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. AGENTS.

X-9495-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
January 2 to 31, 1936.

SERIES 1934

	$5	$10	$20	Total Sheets	Amount
Boston,.....	-	-	40,000	40,000	$3,440.00
New York,.....	-	147,000	-	147,000	12,642.00
Philadelphia,..	30,000	35,000	-	65,000	5,590.00
Cleveland,.....	6,000	150,000	34,000	190,000	16,340.00
Richmond,.....	4,000	-	9,000	13,000	1,118.00
Atlanta,.....	33,000	105,000	-	138,000	11,868.00
Chicago,.....	-	77,000	-	77,000	6,622.00
St. Louis,.....	-	18,000	7,000	25,000	2,150.00
Minneapolis,...	10,000	11,000	-	21,000	1,806.00
Kansas City,...	7,000	19,000	6,000	32,000	2,752.00
Dallas,.....	-	1,000	2,000	3,000	258.00
San Francisco,.	-	-	3,000	3,000	258.00
Total.....	90,000	563,000	101,000	754,000	$64,844.00

754,000 sheets, @ $86.00 per M,.....$64,844.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9496
February 19, 1936.

SUBJECT: Holidays during March, 1936.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal Reserve banks and branches during March, 1936:

Monday	March 2	Dallas El Paso Houston San Antonio	Texas Independence Day
Wednesday	March 25	Baltimore	Maryland Day

On the dates given the offices mentioned will not participate in either the transit or the Federal Reserve note clearing through the Inter-district Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day. No debits covering Federal Reserve note shipments for account of the Federal Reserve Bank of Dallas should be included in your note clearing of March 2.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL GOVERNORS.

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

February 19, 1936.

Mr. John S. Wood,
Federal Reserve Agent,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Wood:

This refers to your letter of January 23, 1936, with inclosures, presenting an inquiry from the Bank of _____, _____, a member bank, as to whether it would be contrary to the provisions of subsections (d) or (g) of section 22 of the Federal Reserve Act for such bank to make a loan to the _____ _____ Company, a _____ corporation, whose president, general manager, and largest stockholder is also chairman of the board of directors of the bank.

Subsection (d) of section 22 has to do with the purchase of securities or other property from a director of a member bank or a firm of which any such director is a member. It does not appear, therefore, that a loan to a corporation in which a director of a member bank is interested as a stockholder or officer would come within the provisions of such subsection, but it would be desirable, as indicated by your counsel, for the member bank to bear in mind the provisions of subsection (d) in connection with the proposed transaction in order to avoid any possible violation of that subsection.

While subsection (g) of section 22 prohibits loans 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 the partnership, that subsection does not by its terms prohibit a loan by a member bank to a corporation even though an executive officer of the member bank is substantially interested in the corporation. A corporation is an entity separate and distinct from the stockholders, whereas in the case of a partnership the partners are individually liable for the debts of the partnership. It is apparently on the basis of this distinction that Congress has included partnerships of the kind described within the prohibitions of subsection (g) of section 22 but has made no reference therein to corporations. Of course, there may be circumstances in a particular case where a loan by a member bank to a corporation in which an executive officer of the member bank is substantially interested would be an attempted evasion of the provisions of the law and, therefore, in contravention of such provisions. However, while it is not definitely stated, it is assumed that the loan will be made to the _____ Company in good faith and that the proceeds thereof will be used by the corporation for its corporate purposes. On such a basis, it is the Board's view that the loan in question would not be in contravention of section 22(g) of the Federal Reserve Act.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9498

February 21, 1936.

Dear Sir:

In the belief that you will be interested in the official comments of all of the Federal Reserve banks concerning the tentative draft of Regulation U, we are sending you herewith a full set of all the documents containing these comments.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9499

February 21, 1936.

SUBJECT: Code Word in Connection with Establishment Without Change of Rates of Discount and Purchase in Existing Schedule.

Dear Sir:

In order to expedite and simplify advice of the Board's approval of the establishment without change in the existing schedules of rates of discount and purchase at the Federal reserve banks, the following code word has been designated for use, beginning March 2, 1936, and will have the meaning indicated below:

"MARSOPE" - Board of Governors of the Federal Reserve System approves establishment by your bank, without change, of the rates of discount and purchase in bank's existing schedule, advice of which was contained in your telegram or letter dated _____.

The date of the telegram or letter from your bank will be indicated immediately following the foregoing code word in the Board's advice.

The new code word should be inserted in the Federal Reserve Telegraph Code book, following the code word "MARSOON" on page 149.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL CHAIRMEN.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9500

February 21, 1936.

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:

"NOYJAM" - Treasury Bills to be dated February 26, 1936, and to mature November 25, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9501

February 24, 1936.

Dear Sir:

There is inclosed herewith for your information a copy of a telegram which the Board has sent to one of the Federal Reserve banks relating to meetings of its board of directors and the establishment of discount rates.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS

X-9501-a

Copy

T E L E G R A M

February 24, 1936.

WALSH
DALLAS

Your wire February 17. No action has as yet been taken by Board regarding uniform meeting date for boards of directors of Reserve banks and you will be advised promptly of any action which may be taken. Board will offer no objection for the present to continuance of practice of your bank of holding meetings of board of directors once a month or to inclusion of provisions in by-laws authorizing establishment of discount rates, subject to review and determination of Board of Governors, by executive committee composed as suggested in Board's letter of February 14 (X-9493).

(Signed) Chester Morrill

MORRILL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9503

February 25, 1936.

Subject: Comptroller's Regulation
re Investment Securities.

Dear Sir:

There has been sent to you under separate cover a supply of copies of the "Regulations Governing The Purchase Of Investment Securities, And Further Defining The Term 'Investment Securities' As Used In Section 5136 Of The Revised Statutes As Amended By The 'Banking Act Of 1935'", issued by the Comptroller of the Currency.

It is understood that the Comptroller has already forwarded copies of this regulation to all national banks, and it will be appreciated if you will forward copies of the regulation to all State member banks in your district.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9504

February 26, 1936.

Dear Sir:

Referring to the Board's letter of January 13, 1936 (X-9427) transmitting a copy of a letter addressed by the Board to the Federal Reserve Bank of San Francisco with regard to the establishment of discount rates every fourteen days, there is inclosed for your information in this connection a copy of a letter addressed by the Board to the Federal Reserve Bank of San Francisco under date of February 24, 1936. The telegram referred to in the last paragraph of the inclosed letter is that addressed to the Chairman of the Federal Reserve Bank of Dallas under date of February 24, 1936, a copy of which was sent to you with the Board's letter of that date (X-9501).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

X-9504-a
February 24, 1936.

Mr. S. G. Sargent, Secretary,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Sargent:

This refers to your letter of January 18, 1936, in reply to the Board's letter of January 13, 1936, with regard to the requirement of the statute that rates of discount be established every fourteen days or oftener if deemed necessary by the Board of Governors. You state that, in order to comply with the requirements of section 14(d) of the Federal Reserve Act as amended, your board of directors changed the dates for its regular meetings from the first and third Thursdays of each month to alternate Thursdays. You point out, however, that, if the date for a meeting of the board falls on a holiday, the meeting must be held either the day before or the day after such holiday and that, if held the day before, fifteen days will elapse until the next meeting is held, whereas, if held the day after, fifteen days will have elapsed since the previous meeting.

As pointed out in its letter of January 13, the Board of Governors feels that all possible steps should be taken by the Federal Reserve banks to insure action upon discount rates within the period required by the statute. However, it is the view of

the Board that there will be a substantial compliance with the provisions of the statute if rates of discount are established by a Federal Reserve bank on alternate Thursdays or, when such an alternate Thursday falls on a holiday, then on the next preceding or the next succeeding business day.

On the other hand, when failure to establish discount rates results from the absence of a quorum at a meeting of the directors, a different question is presented. It can only result from a failure of a majority of the directors to attend the meeting, and it would seem obvious that all possible steps should be taken to avoid such an occurrence.

For your information in this connection, there is inclosed herewith a copy of a telegram which is being sent by the Board today to one of the other Federal Reserve banks relating to the establishment of discount rates.

Very truly yours,

(Signed) Chester Morrill,

Chester Morrill,
Secretary.

Inclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9505

February 27, 1936.

SUBJECT: Expense, Main Lines, Leased Wire System, January, 1936.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9505-a and X-9505-b, covering in detail operations of the main lines of the Leased Wire System, during the month of January, 1936.

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 Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1936.

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	32,795	1,199	33,994	4.66
New York	136,491	-	136,491	18.70
Philadelphia	27,320	1,162	28,482	3.90
Cleveland	42,719	1,195	43,914	6.02
Richmond	47,313	1,286	48,599	6.66
Atlanta	48,806	1,191	49,997	6.85
Chicago	76,722	1,747	78,469	10.75
St. Louis	57,608	1,645	59,253	8.12
Minneapolis	33,933	1,217	35,150	4.81
Kansas City	66,283	1,332	67,615	9.26
Dallas	56,287	1,528	57,815	7.92
San Francisco	88,561	1,607	90,168	12.35
Total	714,838	15,109	729,947	100.00

Board business	309,030	1,038,977
Reimbursable business Incoming & Outgoing		557,584
Total words transmitted over main lines		1,596,561

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9505-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.

0272

X-9505-b

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, JANUARY, 1936.

Name of bank	Operators' Salaries	Retirement Contributions	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Board
Boston	$ 260.00	$ 12.45	$ -	$ -	$ 272.45	$ 709.68	$ 272.45	$ 437.23
New York	1,283.30	64.80	-	-	1,348.10	2,847.84	1,348.10	1,499.74
Philadelphia	225.00	11.39	-	-	236.39	593.94	236.39	357.55
Cleveland	306.66	15.03	-	-	321.69	916.79	321.69	595.10
Richmond	190.00	9.79	-	230.00(&)	429.79	1,014.26	429.79	584.47
Atlanta	262.50	13.26	-	-	275.76	1,043.19	275.76	767.43
Chicago	4,077.74(#)	183.76	1.00	-	4,262.50	1,637.13	4,262.50	2,625.37(*)
St. Louis	176.00	8.91	-	-	184.91	1,236.60	184.91	1,051.69
Minneapolis	154.16	8.29	-	-	162.45	732.52	162.45	570.07
Kansas City	287.00	16.16	-	-	303.16	1,410.22	303.16	1,107.06
Dallas	251.00	12.35	-	-	263.35	1,206.15	263.35	942.80
San Francisco	380.00	19.11	-	-	399.11	1,880.80	399.11	1,481.69
Board	-	-	-	14,942.41	14,942.41	-	-	-
Total	$7,853.36	$375.30	$1.00	$15,172.41	$23,402.07	$15,229.12	$8,459.66	$9,394.83
Less Reimbursable Charges					8,172.95			2,625.37(a)
					$15,229.12(b)			$6,769.46

(&) Main line rental, Richmond-Washington
(#) Includes salaries of Washington operators
(*) Credit
(a) Amount reimbursable to Chicago
(b) Includes $349.69, which represents cost of handling contingent expense telegrams for the Treasury Department for the month of January, 1936.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9506

February 28, 1936.

SUBJECT: Procedure under Conditions of Membership Regarding Maintenance of Adequate Capital Structure.

Dear Sir:

In accordance with Regulation H as revised effective January 1, 1936, the standard condition of membership regarding maintenance of an adequate capital structure as now prescribed reads as follows:

"2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities, and its capital shall not be reduced except with the permission of the Board of Governors of the Federal Reserve System."

Footnote 8 of the Regulation further provides:

"8. If at any time, in the light of all the circumstances, the aggregate amount of the bank's net capital and surplus funds appears to be inadequate, the bank, within such period as shall be deemed by the Board to be reasonable for this purpose, shall increase the amount thereof to an amount which in the judgment of the Board shall be adequate in relation to the bank's aggregate deposit liabilities and other corporate responsibilities."

Prior to the adoption of the new standard condition of membership quoted above, the following standard condition of membership

relative to capital structure had been prescribed:

> "15. Such bank shall maintain an amount of paid-up and unimpaired capital and unimpaired surplus which, in the judgment of the Federal Reserve Board, will be adequate in relation to its total deposit liabilities, having due regard to the general principle that a bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liabilities, and, in some circumstances, should be more than one-tenth of such amount."

In the Board's letter dated June 30, 1933 (X-7469), it was stated that the letter addressed to banks advising of the Board's approval of their applications for membership would contain the following comments regarding condition of membership numbered 15:

> "In connection with condition numbered fifteen above and in the absence of any special action by the Board, if in any period of twelve months ending on the thirtieth day of November the average amount of deposit liabilities of the bank during such period as determined on the basis of reports made by the bank to the Federal Reserve bank for the purpose of computing its required reserve, exceeds ten times the aggregate amount of the bank's paid-up and unimpaired capital stock and unimpaired surplus, the Board will expect that the bank, as soon as possible and within the next succeeding six months, will increase the aggregate amount of its paid-up and unimpaired capital and unimpaired surplus to an amount at least equal to ten per cent of the average amount of its deposit liabilities during such twelve months."

In letter X-7469 it was also stated that while each bank subject to condition of membership numbered 15 was expected to comply with its provisions without any special action on the part of the Board, the Board would, in special circumstances and upon the specific recommendation of the Federal Reserve Agent, consider whether, in view of all of the facts involved in the particular case, it would

be justified in not requiring the bank to increase its capital and surplus to an amount at least equal to one-tenth of its deposit liabilities, or whether, on the other hand, a larger proportion of capital and surplus should be required in order to afford adequate protection because of special conditions existing in the case of the particular bank under consideration.

The revision of former standard condition of membership numbered 15 does not reflect in any degree whatsoever a modification of the Board's position that it is essential that member banks maintain a sound and adequate capital structure. It is anticipated, however, that the condition, as revised in the Board's existing Regulation H, while maintaining the fundamental principle, will provide the flexibility necessary to facilitate administration. The Board feels, therefore, that a compliance by each State member bank subject to former condition numbered 15 with the portion of the new standard condition of membership numbered 2 relating to the adequacy of its capital structure and with footnote 8, set forth in Regulation H, should be considered a compliance with the former condition numbered 15. In any case in which a member bank subject to condition numbered 15 complies with such portion of the new condition numbered 2 and with footnote 8 of Regulation H the detailed requirements contained in condition numbered 15 and in the Board's letter X-7469 regarding such condition may be disregarded. In the circumstances, it will be appreciated if you will advise each such State member bank in your district accordingly.

It is requested that, annually as of the close of the year, the Federal Reserve Agents review the condition of each member State bank subject to the new standard condition of membership numbered 2 or former standard condition of membership numbered 15 and advise the Board of any situation in which it appears that the net capital and surplus funds of any such bank are inadequate under the provisions of the condition of membership, supplementing such advice with a brief statement as to the facts of each case and a recommendation as to the action which should be taken. Of course, if, during the year, any situation should develop which would require more immediate action under the conditions of membership in question, the Federal Reserve Agents are requested to advise the Board fully as to the situation and submit a recommendation as to the action which should be taken in the matter.

It is expected that the Federal Reserve Agents will continue to keep themselves currently advised as to the condition of all State member banks in their districts, whether or not subject to the new standard condition numbered 2 or former standard condition numbered 15, and in the case of any State member bank which appears to be in need of additional capital will take such action as may be appropriate in the circumstances, advising the Board fully in the premises.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9507

February 28, 1936.

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:

"NOYJET" - Treasury Bills to be dated March 4, 1936, and to mature December 2, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

X-9508

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

February 27, 1936.

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

Dear Mr. Case:

This refers to your letter of February 15, 1936, presenting certain questions arising under the provisions of Regulation Q.

You ask to be advised of the Board's views upon the question whether deposits of municipalities and subdivisions or departments thereof, such as sinking fund commissions, boards of education, and police and fire departments, and deposits of funds of a municipality set aside for playground and other similar purposes, may be classified as savings deposits under the definition contained in section 1(e) of Regulation Q. In the opinion of the Board, deposits of the type described above may not be classified as savings deposits within the meaning of section 1(e) of Regulation Q because municipal corporations may not be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, nor may it be considered that the beneficial interest in deposits of such corporations is in one or more individuals.

The Board is also of the opinion that a deposit in the name of a municipality consisting of funds given to the municipality for a charitable purpose, such as the erection of a memorial gate, may not be classified as a savings deposit. The Board believes that a construction of the regulation which would permit funds of a municipal corporation held for a charitable purpose to be considered as funds held for one or more individuals on the theory that the public consists of a group of individuals would open the door to evasions of the regulation. As indicated in your letter, such a construction would seem to involve an extension of the language of the regulation, which bases the privilege of maintaining a savings deposit upon the nature of the depositor or the person holding the beneficial interest in the deposit rather than upon the purpose for which the funds are to be used.

With regard to deposits of close corporations operated for profit, where all of the stock of the corporation is owned by one individual or by members of a family, the Board agrees with your opinion that such deposits may not be classified as savings deposits under the definition contained in section 1(c) of Regulation Q.

You also present the following question arising under section 4(d) of Regulation Q: If a time deposit which has been such for two and one-half months is then paid before maturity, and interest has actually been paid by check at the end of each thirty day interest period or has been credited to the depositor on the books of

the bank at the end of each thirty day interest period, should the member bank, on paying the deposit before maturity, deduct from the principal of the deposit the amount of the interest so paid or credited?

In the opinion of the Board the above question should be answered in the negative. Section 4(d) of Regulation Q provides for the forfeiture of "accrued and unpaid" interest, but it is the view of the Board that interest which has been paid by check or credited to a depositor's account at the end of a regular interest period should not be considered as "accrued and unpaid" interest and, therefore, such interest is not subject to the forfeiture.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9509

March 3, 1936.

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:

"NOWKUY" - 1 1/2% Treasury Notes, Series A-1941, to be dated and to bear interest from March 16, 1936, and to mature March 15, 1941.

"NOWCOPA" - 2 3/4% Treasury Bonds of 1948-51, to be dated and to bear interest from March 16, 1936, and to mature March 15, 1951.

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 PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9510

March 4, 1936.

Dear Sir:

For your information and guidance, there is inclosed a copy of a letter sent to the Cashier of the Federal Reserve Bank of San Francisco, with respect to the deduction of "branch clearing" accounts from gross demand deposits in the determination of required reserve balances of member banks.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

X-9510-a

March 4, 1936.

Mr. W. M. Hale, Cashier,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Hale:

In the fifth paragraph of your letter of January 10, 1936, giving the results of a comparison made of deposits as shown in the November 1, 1935 call reports and as shown in the reports of deposits submitted for reserve purposes, you state that the only differences that were difficult to reconcile or to discuss with the member banks were in connection with "branch clearing" balances carried on the books of branch banking institutions, and you make inquiry as to the proper classification of such balances in preparing call reports and in computing the daily deposit liability for reserve reports.

As you know, this matter has been considered informally on a number of occasions in the past, from the standpoint of whether such "branch clearing" accounts could be considered as constituting balances "due from banks" within the meaning of the former provisions of section 19 of the Federal Reserve Act. It appears from a letter which Mr. Sargent addressed to the Board under date of March 5, 1934, that most of the items in the "branch clearing" account represent (1) checks drawn on a member bank (or offices

or branches thereof) for which deposit credit or its equivalent has been given at offices or branches of such member bank other than those at which the depositors' accounts are carried, and that sufficient time has not elapsed for the items to have reached the latter offices or branches and be charged to the depositors' accounts, and (2) checks drawn on another bank which have been deposited in a member bank (or offices or branches of such member bank) and have been forwarded for collection to other offices or branches of the member bank located in the same city or vicinity as the drawee bank.

It is the view of the Board that items of the type described above constitute "cash items in process of collection" within the meaning of paragraph (g) of section 1 of Regulation D and, accordingly, to the extent that the "branch clearing" account consists of such items, the balance in the account may be deducted from gross demand deposits in determining required reserve balances and should be included in item 2 of Schedule I in call reports.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

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Annual Report 1936

X-9511

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For the Press

For release in morning newspapers
Thursday, March 5, 1936.

March 4, 1936.

Upon the expiration of their terms on December 31, 1935, the Chairmen and Federal Reserve Agents at those banks in which no vacancy existed in this office were reappointed until March 1, 1936, in order that the Board of Governors which took office as of February 1, 1936, might designate appointees of its own selection and adopt such policies as it considered advisable in connection with the Chairmanships.

The present Board of Governors, in discharging under the law its responsibility for efficient and economical operation of the System, has initiated a procedure looking toward the placing of the Chairmanships upon a largely honorary basis. Under this procedure various non-statutory duties now performed in the office of the Chairman and Federal Reserve Agent would be placed under the President of the bank, who under the Banking Act of 1935, is selected for a term of five years by the Board of Directors of the bank, subject to the approval of the Board of Governors, and is recognized by law as the chief executive of the bank. The technical duties of the office of the Federal Reserve Agent may then be performed by an Assistant Federal Reserve Agent, making it possible for the Chairman to discharge the important responsibilities of his office without being required to devote more than a limited portion of his time to the bank. The Board believes that a more

efficient organization, avoiding a dual executive responsibility at the Federal Reserve Banks, and substantial economies in the operation of the System may thus be accomplished, while at the same time it will be possible to obtain the services of men, who are not only well qualified, but public spirited to serve as Chairmen.

In accordance with these objectives, the Board has designated as Chairmen and Federal Reserve Agents for terms from March 1 to December 31, 1936: E. S. Burke, Jr., Cleveland; and H. W. Martin, Atlanta.

In furtherance of this procedure, the Board has decided to terminate the services of the following Chairmen and Federal Reserve Agents as of April 30, 1936, and they have accordingly been redesignated only for the period from March 1 to April 30, 1936: F. H. Curtiss, Boston; J. H. Case, New York; R. L. Austin, Philadelphia; E. M. Stevens, Chicago; J. S. Wood, St. Louis; C. C. Walsh, Dallas.

The Board has also designated as Chairman and Agent from March 1 to December 31, 1936, W. B. Geery, Minneapolis; and the Board had previously designated J. J. Thomas, Kansas City, to serve until December 31, 1936.

Vacancies remain in the Chairmanships at Richmond and San Francisco.

INTERPRETATION X-9513

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

March 3, 1936.

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

Dear Mr. O'Connor:

This refers to former Deputy Comptroller Awalt's letter of January 17, 1936, in which he inquires whether the indorsement of a note or other evidence of indebtedness by an executive officer of a member bank, which is purely for the accommodation of a third party and from which the executive officer derives neither directly nor indirectly any financial benefit, is included within the definition contained in section 1(c) of the Board's Regulation O.

Section 1(c) of the Board's Regulation O provides, in part, that the terms "loan", "loaning", "extension of credit" and "extend credit" include:

> "(2) The acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, indorser, guarantor, or surety;" and
>
> "(5) Any other transaction as a result of which an executive officer becomes obligated to a bank, directly or indirectly by any means whatsoever, by reason of an indorsement on an obligation or otherwise, to pay money or its equivalent."

An accommodation indorsement by an executive officer of a member bank

upon a note or other evidence of indebtedness is included within the definition quoted above, if the executive officer may be liable as indorser or becomes obligated to a bank by reason of such an indorsement. In this connection, under the usual rules of law an accommodation indorser is one who has signed an instrument as an indorser, without receiving value therefor and for the purpose of lending his name to some other person, and such an indorser is liable on the instrument to a holder for value.

Moreover, a loan or extension of credit to a third person based in part upon the credit of an executive officer, as represented by his accommodation indorsement, is a transaction which it is believed should be subject to the same restrictions as a loan or extension of credit to the executive officer himself. The abuses which led to the enactment of section 22(g), including the undue influence exercised by executive officers in obtaining credit from the banks they serve, may also be present to a certain extent in the case where a loan to a third person is supported by the accommodation indorsement of an executive officer. Accordingly, the mere fact that an executive officer receives no financial benefit as the result of his accommodation indorsement would not be justification for excluding the liability arising as the result of an accommodation indorsement by an executive officer from the provisions of Regulation O.

In the circumstances, it is the Board's view that the liability of an executive officer of a member bank by reason of an

accommodation indorsement on a note or other evidence of indebtedness held by a bank is included within the definition contained in section 1(c) of the Board's Regulation O.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9514

March 7, 1936.

Dear Sir:

In considering several applications for membership in the Federal Reserve System which have been made by State banks on the Board's revised Form 83, it has been noted that the Federal reserve agent at the Federal reserve bank involved has not submitted a statement from the counsel for that bank showing in detail what powers, if any, other than usual commercial banking powers, the applying institution is authorized to exercise under its charter or State law.

As you know, it has been the practice of the Federal reserve agents, in accordance with the Board's TRANS. telegram 1695 of March 17, 1933, to submit such a statement in the case of each State bank applying for membership. While the Board's revised Form 83 now requests each applying bank to furnish a statement of the powers or functions that have been or are now being exercised or performed by it other than those usual to commercial banking, it is not intended that information heretofore furnished by counsel relating to unusual powers of applying institutions shall no longer be furnished. In

the circumstances, it will be appreciated if in the future you will submit with each application for membership the statement from your counsel requested in the Board's TRANS. telegram 1695.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9515

March 7, 1936.

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:

"NOYJIX" - Treasury Bills to be dated March 11, 1936, and to mature December 9, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

March 5, 1936.

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

Dear Sir:

This refers to your letter to Mr. Ransom of February 6, 1936, with regard to reports of executive officers of member banks of their indebtedness to other banks under the provisions of section 22(g) of the Federal Reserve Act and section 5 of the Board's Regulation O. You indicated that you had construed the Board's regulation as not contemplating that such reports would be made available to the board of directors of the member bank involved.

Under the provisions of section 22(g), an executive officer of a member bank who becomes indebted to another bank is specifically required to make a written report to the board of directors of the member bank of which he is an executive officer. It is clear from the legislative history of section 22(g) that, in making such specific requirement, Congress contemplated that the board of directors of a member bank should have available the information contained in any such report, since by the Banking Act of 1935 it amended section 22(g) so as to make the specific requirement that any such report of an executive officer of a member bank be made to the board of directors rather than to the chairman of

the board of directors as had previously been provided in section 22(g).

The Board has noted your comments regarding the abuses which section 22(g) was designed to correct and is in agreement with you that the board of directors of a member bank should be fully advised of the indebtedness of its executive officers to other banks. Accordingly, in promulgating its Regulation O, the Board, in section 5 of such regulation, has again stated the requirement of the law that each report of the kind referred to above shall be made to the board of directors of the member bank involved. As a matter of maintaining appropriate records, the Board did not wish to impose what might appear to be an unnecessary hardship upon a member bank by requiring it to transcribe the full details of a report of indebtedness of an executive officer in the minute book of the bank, but has merely required that the receipt of the report be recorded in the minutes and that each such report be retained by the member bank and be made available upon request for inspection by duly authorized examiners. It is contemplated, however, by the law and also by the Board's regulation that the full report of an executive officer will be received by the board of directors of the member bank of which he is an executive officer. Accordingly, the purposes of the law and the requirements of the regulation will not be met if the secretary of the board of directors of a member bank, or any other person who may receive such a report, merely records the receipt

thereof in the minute book of the bank and does not take appropriate steps to see that the board of directors has an opportunity to be fully informed as to the contents of such report.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9517

March 9, 1936.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of February, 1936.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. AGENTS.

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes
February 1 to 29, 1936.

Series 1934

	$5	$20	$50	$100	$500	$1000	$5000	$10000	Total Sheets	Amount
Boston,.....	70,000	36,000	3,000	3,000	-	-	-	-	112,000	$ 9,632.00
New York,.....	160,000	50,000	24,000	14,000	1,350	-	-	50	249,400	21,448.40
Philadelphia,..	-	-	3,000	4,000	-	-	-	-	7,000	602.00
Cleveland,.....	30,000	36,000	11,000	3,000	-	-	-	-	80,000	6,880.00
Richmond,.....	38,000	-	5,000	5,000	1,500	750	100	50	50,400	4,334.40
Atlanta,.....	32,000	18,000	4,000	5,000	1,500	750	100	50	61,400	5,280.40
Chicago,.....	124,000	34,000	21,000	13,000	2,500	1,250	200	100	196,050	16,860.30
St. Louis,.....	-	-	5,000	6,000	1,500	750	100	50	13,400	1,152.40
Minneapolis,...	28,000	36,000	1,000	3,000	700	400	-	-	69,100	5,942.60
Kansas City,...	50,000	15,000	5,000	5,000	1,500	750	100	50	77,400	6,656.40
Dallas,.....	70,000	38,000	7,000	6,000	1,500	750	100	50	123,400	10,612.40
San Francisco,.	80,000	36,000	6,000	7,000	2,000	1,000	150	50	132,200	11,369.20
Total.....	682,000	299,000	95,000	74,000	14,050	6,400	850	450	1,171,750	$100,770.50

1,171,750 sheets, @ $86.00 per M,.....$100,770.50

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9518

March 10, 1936.

Dear Sir:

The pamphlet which has been distributed by the Board since 1929 under the title "Verification of Financial Statements" was recently revised by the American Institute of Accountants under the title "Examination of Financial Statements by Independent Public Accountants" and is sold by the Institute at 15¢ a copy. Accordingly, the Board will make no further distribution of the pamphlet "Verification of Financial Statements" except to persons desiring a copy of the old edition.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO ALL F. R. AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9519

March 12, 1936.

Dear Sir:

For your information there is inclosed a copy of a letter sent to the Federal Reserve Agent at New York with respect to the acceptance by the Board of a single publication of condition reports rendered by State bank members in New Jersey pursuant to the requirements of State and Federal law in cases where the report is modified so as to show "Bonds and Mortgages on Real Estate" separately immediately following Item 1, Loans and Discounts.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT NEW YORK.

X-9519-a

March 12, 1936.

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

Dear Mr. Case:

Receipt is acknowledged of your letter of March 2 stating that the Commissioner of Banking and Insurance of New Jersey has expressed a desire to work out some arrangement whereby the requirements of both State and Federal law, for publication of condition reports by State bank members in New Jersey, could be satisfied by the publication by such banks of only one form of report at each call, and that in order to bring this about the Commissioner is willing to adopt the Board's Form 105e, as recently revised, with one change consisting of the addition of an item directly following Item 1, Loans and Discounts, to read as follows:

"1(a) Bonds and Mortgages on Real Estate".

You recommend that, in order to avoid the expense and necessity of duplicate publication when calls are made as of the same date by the State banking department and the Board of Governors of the Federal Reserve System, the Board permit the amended form of publication for State bank members in New Jersey. As you know, the Board has heretofore decided (in telegram TRANS 2359 of January 11, 1936) that, when additional information is required to be published by State law or the State banking department, such additional information should be shown

following all information called for by the Board's Form 105e and under an appropriate heading. The Board also recently advised one Federal Reserve bank that it would have no objection to a member bank's adding the words "Includes Federal Reserve bank cashier's checks for $_____" after the caption "Other assets", in order to reflect the amount of such checks pledged against deposits.

In the case of State bank members in New Jersey, the Board would have no objection to their showing in parentheses following the item "Loans and discounts" the following: "Includes $_____ bonds and mortgages on real estate". This method of presentation would leave the captions in the Board's Forms 105 and 105e unchanged but would enable the banks in New Jersey to comply with the desire of the Commissioner of Banking and Insurance of New Jersey that bonds and mortgages on real estate be shown separately. If such a procedure is agreeable to the Commissioner, it is suggested that, in sending out blank forms for the next call to State bank members in New Jersey, you advise them of the requirement of the State banking department and request that, in call reports Form 105 and published statements Form 105e, they show the amount of bonds and mortgages on real estate held by them against the caption "(Includes $_____ of bonds and mortgages on real estate)" following the caption of Item 1, Loans and discounts.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9520

March 14, 1936.

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:

"NOYJOG" - Treasury Bills to be dated March 18, 1936, and to mature December 16, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

X-9521

Reimbursement for expenses of persons traveling on official business of the Board shall be as hereinafter set forth.

1. Members of the Board shall be allowed either (a) actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed $12.00 or (b) their actual necessary travel expenses, as shown on travel vouchers submitted by them. The terms underscored are defined below. Members of the Board shall also be allowed reasonable expenses for telephone, telegraph, cable and radio service, and for miscellaneous expenses, including stenographic and other clerical service, when such expenditures are necessary for the transaction of official business while in a travel status.

2. Heads or assistant heads of divisions of the Board's Washington staff (who shall include Assistants to the Chairman or the Board), the Federal reserve bank auditors who audit the accounts of the Board's Fiscal Agent, and any other persons traveling on official business of the Board upon specific authorization of the Chairman, the Vice-Chairman or Chairman pro tem, shall be allowed either (a) actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed $8.00 or (b) upon specific authorization of the Chairman, Vice-Chairman or Chairman pro tem, their actual necessary travel expenses when the travel voucher is supported by satisfactory receipts as required by the standardized Government travel regulations as amended.

3. All other persons traveling on official business of the Board pursuant to proper authorizations shall be allowed actual necessary

transportation expenses and a per diem in lieu of subsistence of $5.00.

4. For the purposes of paragraphs 1, 2 and 3 above, the term actual necessary transportation expenses includes the cost of all necessary official travel by railroad, airline, steamboat, bus, streetcar, taxicab, automobile and other means of conveyance, together with minimum priced single first-class accommodations in staterooms on vessels or one standard lower berth or single seat in a sleeping or chair car, except that persons referred to in paragraphs 1 and 2 above may be allowed any Pullman accommodations obtainable in connection with a single fare. This item also includes reasonable expenditures for the ordinary incidentals to transportation which are not covered by the definition of per diem in lieu of subsistence, such as cost of baggage transfer; official telegraph, telephone, radio and cable messages relating to transportation; steamer chairs and steamer rugs; fees or tips to baggagemen, to hotel, station, sleeping or chair car, and cabin porters, or cabin boys, for service rendered in connection with sleeping or Pullman accommodations en route or with baggage, and to room and library stewards on vessels; and the usual taxicab, streetcar or bus fares from station or wharf or other terminal to place of abode or place of business and from place of abode or place of business to station or wharf or other terminal, while in a travel status. When using his own automobile in official travel, the traveler may be allowed mileage at a rate not to exceed 5¢ per mile in lieu of actual operating expenses, except that persons referred to in paragraph 3 above may be allowed reimbursement on such basis only to the extent that such allowance does not exceed the cost of transportation

by common carrier over the shortest usually traveled route between the points of travel.

When savings can be effected by the purchase of round trip or special rate tickets, they shall be obtained.

Extra expense incurred by persons referred to in paragraphs 2 and 3 above by reason of travel on airlines, extra fare trains, or unusual means of conveyance, will be allowed only when the travel voucher is accompanied by a satisfactory showing of the necessity therefor, or that the cost thereof, less the amount of subsistence allowance saved by more expeditious travel and the amount of salary of the traveler for the time thus saved, does not exceed the cost of rail or steamer transportation and Pullman or stateroom fare between the points of travel.

5. For the purposes of paragraphs 1, 2 and 3 above, the term per diem in lieu of subsistence includes all meals; lodgings; personal use of room during daytime; baths; fees or tips to waiters, bellboys, and other hotel servants, and dining room stewards and others on vessels, in connection with subsistence; telegrams and telephone calls reserving hotel accommodations; laundry and valet service; and transportation between places of lodging or where meals are taken and places of duty.

When meals are included in the cost of passage ticket on vessels, per diem in lieu of subsistence will not be allowed while traveler is on shipboard, but for such period he will be reimbursed on the basis of actual necessary travel expenses.

When a member of the Board's staff finds it necessary to take

leave of absence on account of illness while in a travel status, he may be allowed (with the approval of the Chairman, Vice-Chairman or Chairman pro tem in the case of a head of a division, and with the approval of the head of the division in the case of other employees of the Board per diem in lieu of subsistence during such absence for a period not to exceed one week and, in the event the illness extends beyond one week, he may be allowed per diem in lieu of subsistence for such additional period as may be fixed by the Board.

6. For the purposes of paragraphs 1 and 2 above, the term actual necessary travel expenses includes all actual necessary expenditures covered by the definitions of (a) actual necessary transportation expenses and (b) per diem in lieu of subsistence.

7. Except to the extent specifically allowed otherwise by this regulation, the provisions of the standardized Government travel regulations as amended shall continue to apply to all persons other than members of the Board traveling on official business of the Board.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9522

March 19, 1936.

SUBJECT: Holidays during April, 1936.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal reserve banks and branches during April, 1936:

Friday, April 10	Philadelphia Pittsburgh Baltimore Jacksonville Nashville New Orleans Havana Agency Memphis Minneapolis	Good Friday
Monday, April 13	Charlotte	In observance of Halifax Day which falls on Sunday
	Birmingham	Anniversary of birth of Thomas Jefferson
Monday, April 20	Boston	In observance of Patriot's Day which falls on Sunday
Tuesday, April 21	Dallas El Paso Houston San Antonio	San Jacinto Day

Wednesday, April 22	Omaha	Arbor Day in Nebraska
Monday, April 27	Atlanta Birmingham Jacksonville	In observance of Southern Memorial Day which falls on Sunday

On the dates given the offices listed will not participate in either the transit or the Federal reserve note clearing through the Inter-district Settlement Fund. Please include transit clearing credits for the direct settling offices affected on each of the holidays with your credits for the following business day. No debits covering shipments of Federal reserve notes for the head offices named should be included in your Federal reserve note clearing telegrams of April 10, 20, 21 and 27.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9524

March 21, 1936.

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:

"NOYKIK" - Treasury Bills to be dated March 25, 1936, and to mature December 23, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

March 20, 1936

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

Dear Mr. Comptroller:

This refers to Mr. Lyons' letter of January 16, 1936, presenting a case involving the question whether liability of an executive officer of a member bank on a mortgage loan insured under the provisions of Title II of the National Housing Act and held by a bank is excepted from the provisions of section 22(g) of the Federal Reserve Act.

Under the provisions of Title II of the National Housing Act, a bank as well as other financial institutions may be approved by the Federal Housing Administrator as a "mortgagee", and such term is defined to include the original lender under a mortgage. Any person desiring to obtain a loan secured by a mortgage which may be insured under such Act deals directly with an approved mortgagee. The liability on mortgage loans insured under the provisions of the National Housing Act is not excepted from the provisions of section 22(g) of the Federal Reserve Act and liability of an executive officer of a member bank on such loans held by a bank is therefore subject to the provisions of that section. Inasmuch as a bank may deal directly with the person desiring to obtain such a loan, the opportunity for

an executive officer of a member bank to use his influence in the obtaining of such a loan is present to the same extent as in other types of loans and it appears, therefore, that such a transaction would fall within the purposes of the law as well as its terms.

In the particular case presented by Mr. Lyons, which arose out of an inquiry he received from a national bank, it appears that the insured mortgage loan is on the property of the wife of an executive officer of a member bank and that the payment of such loan is predicated upon her husband's income. It is not clear whether the husband is liable to a bank for the payment of the loan, or whether the loan was made under such circumstances as to indicate an attempt to evade the provisions of section 22(g). In the circumstances, the Board cannot undertake to advise you definitely whether the particular case comes within the provisions of section 22(g). However, the fact that the payment of the loan to the wife of the executive officer is predicated upon his income at least indicates that he may be liable on the obligation and would warrant a further inquiry by your office as to all of the circumstances involved in order to determine whether the executive officer of the national bank is violating the provisions of section 22(g).

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9526

March 24, 1936.

SUBJECT: Revised Personnel Classification Plans.

Dear Sir:

Replies received from the Federal Reserve banks to the Board's letter, X-9352, of October 30, 1935, on the proposed revised personnel classification plan prepared by the Sub-committee of the personnel classification plan conference, which met at Chicago on April 17, 1935, were referred to the Chairman of the Sub-committee for consideration and recommendation. After reviewing the comments of the Federal Reserve banks on the proposed plan, the Sub-committee has recommended that the plan be approved as submitted.

In the opinion of the Board the proposed plan is a distinct improvement over the plan now in use and, accordingly, it has approved the plan as submitted by the Sub-committee. It will be appreciated, therefore, if you will have the personnel classification plan for your bank revised in accordance with the plan submitted by the Sub-committee and submit the revised plan to the Board for its consideration at your early convenience.

Forms for use in submitting the new personnel classification plans will be printed by the Board and a supply forwarded to the banks at an early date. In accordance with the recommendation of the Sub-committee, the titles and duties of employees occupying general junior positions will be printed on the first five pages of the forms.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL PRESIDENTS.

X-9527

March 20, 1936.

INTERPRETATION

Banking Act of 1935.

(Copies to be sent to all Federal reserve banks)

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

Dear Mr. Comptroller:

This refers to Mr. Awalt's letter of January 22, 1936, requesting an expression of the Board's views with respect to the question whether, under section 22(g) of the Federal Reserve Act, a loan which was made by a member bank in June 1935, to an individual who was not at that time an executive officer of the bank may now be renewed or extended at maturity where such individual is now an executive officer of the bank within the meaning of that term as defined in the Board's Regulation O.

As you know, section 22(g) of the Federal Reserve Act, as amended by the Banking Act of 1935, provides that loans made to executive officers of member banks prior to June 16, 1933, may be renewed or extended, under certain conditions, for periods expiring not more than five years from that date. Since, under the facts here stated, the loan in question was not made to an executive officer of a member bank prior to June 16, 1933, a renewal of such loan would not fall within the scope of this provision of section 22(g) of the Federal Reserve Act and the making of such a renewal

would not therefore be subject to the conditions prescribed in the statute or in section 4 of the Board's Regulation O.

A renewal of a loan in the circumstances described would be prohibited by the statute only if such renewal may be regarded as a loan or extension of credit within the meaning of its provisions. As you know, the Board has expressed the view, in letters addressed to you under dates of July 17, 1934 and March 28, 1935, that the renewal of an existing loan does not constitute an extension of credit within the meaning of section 23A of the Federal Reserve Act which relates to loans and extensions of credit to affiliates of member banks. It will be recalled that, while the question was not then directly involved, the Board expressed the view in its letter of March 28, 1935, that the proviso in section 22(g) of the Federal Reserve Act, permitting the renewal of loans made to executive officers prior to June 16, 1933, may properly be interpreted as imposing a limitation upon the period during which such loans may be renewed or extended, rather than as conferring a right of renewal or extension which did not otherwise exist. Moreover, as indicated in that letter, it is believed that under the more usual interpretation of the words "extension of credit", such words mean a grant or an allowance of credit rather than an extension of the time of payment of a debt already in existence.

It is the opinion of the Board, therefore, that the renewal or extension of the loan made subsequent to June 16, 1933, referred

to in Mr. Awalt's letter, is not to be regarded as a loan or extension of credit within the meaning of the prohibitions of section 22(g) of the Federal Reserve Act.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9528

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

March 20, 1936.

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

Dear Mr. Austin:

This refers to Mr. Hill's letter of January 7, 1936, inquiring (1) whether the restrictions contained in section 22(g) of the Federal Reserve Act and the Board's Regulation O include loans to executive officers of member banks from trust funds administered by such banks and (2) whether executive officers of member banks are required to report to the board of directors of such banks loans made to them from trust funds held by other banking institutions. The Board has noted Mr. Hill's statement that the answer to the first inquiry will only be of interest to member trust companies which are not subject to the condition of membership to the effect that a member bank shall not invest trust funds held by it as a fiduciary in obligations of the bank's directors, officers, or employees.

The primary purpose underlying the enactment of section 22(g) was to prevent executive officers of member banks from using their influence to obtain credit from the banks they serve. Congress also apparently felt that the board of directors of a member bank should be advised as to the indebtedness of the executive officers of such bank to other banks.

In the amendment to section 22(g) made by the Banking Act of 1935, Congress expressly conferred upon the Board the authority to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of such subsection in accordance with its purposes and to prevent evasions thereof. The Board feels that an indebtedness of an executive officer of a member bank arising as the result of the lending of trust funds administered by a bank falls within the purposes of the law, since his opportunity to use his influence to obtain a loan of such funds is present, and it would seem that the board of directors of a member bank should be informed of an indebtedness of its executive officers arising out of the lending of funds of trusts administered by other banks. Moreover, there is no justification, under well recognized rules of statutory construction, to place a restricted meaning upon the provisions of such section so as to exclude an indebtedness arising out of the lending of trust funds by a bank.

Since section 22(g) includes an indebtedness arising out of the lending of trust funds, the question might be raised as to what effect the $2500 exception contained in such subsection might have on the provision in section 11(k) of the Federal Reserve Act which prohibits a national bank exercising trust powers from lending funds held in trust to any of its officers, directors, or employees. The provision in section 22(g) can be applied to loans of the bank's own funds and thus be given full effect even though it is not considered as repealing the provision in section 11(k) just above referred to. Under the usual rules of statutory construction, the repeal of statutes by implication is not favored

where the provisions of both statutes involved can be given full effect and, in the circumstances, it is the opinion of the Board that section 22(g) does not in any manner affect the provision in section 11(k) referred to herein.

As you know, it is contrary to the established principles regarding the handling of trust funds for a trustee to have any interest in the funds of a trust which he is administering and likewise such principles are applicable to executive officers of a corporate trustee. These principles are so well established that some States have enacted laws forbidding corporate fiduciaries from lending trust funds to their own officers, directors, or employees; as noted above Congress has prohibited national banks from lending trust funds to their own officers, directors, or employees; and the Board has prescribed a similar prohibition in the form of a condition of membership applicable to State member banks. While there may be some State member banks which are not subject to the condition and the laws of the State under which they operate may not prohibit such loans, the Board feels that such banks should not lend trust funds to their own executive officers.

In view of all the circumstances, the Board is of the opinion that the restrictions contained in section 22(g) of the Federal Reserve Act and the Board's Regulation O include loans to executive officers of member banks from trust funds administered by such banks and likewise an indebtedness of an executive officer of a member bank to another bank arising out of the lending of trust funds should be reported to the board of directors as provided in section 5 of the Board's Regulation O.

Very truly yours,
(Signed) Chester Morrill
Chester Morrill,
Secretary.

X-9529

CREDIT CONTROL BY THE FEDERAL RESERVE SYSTEM

ADDRESS BY
M. S. SZYMCZAK, MEMBER,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DELIVERED BEFORE

THE RICHMOND CHAPTER OF

THE AMERICAN INSTITUTE OF BANKING

March 25, 1936,

8:00 p. m.

There are five principal means by which credit control may be exercised in the Federal Reserve System. These are:

Discount Rates
Open Market Operations
Direct Action
Reserve Requirements
Margin Requirements

Discount Rates

Under the original terms of the Federal Reserve Act two principal instruments of credit control were used. One of these was the discount rate; the other was the rate on bills, or as they are called in the Act, "Acceptances". The Act specifically provided that each Federal Reserve bank "establish from time to time, subject to review and determination of the Board of Governors of the Federal Reserve System, rates of discount to be charged by the Federal Reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business". To this the Banking Act of 1935 added the provision that such rates shall be established "every fourteen days, or oftener if deemed necessary by the Board". This does not mean that the rates have to be changed every time, but that they must be regularly and frequently reviewed. The Reserve banks usually take the initiative in any action on rates.

The discount rates of the Federal Reserve banks are usually somewhere between bill rates, which are usually lower, and other short-term rates in the open market, which are usually higher. They are also lower than rates which banks charge their customers for loans. They differ,

therefore, from the discount rate of foreign central banks, such as the Bank of England, for example, whose discount rate is higher than the market rate. Since the Federal Reserve bank discount rate is lower than the rates charged by member banks it has usually been possible for member banks to borrow from the Reserve bank and relend at a profit. It has not been the practice for them to do so, however, probably because they are averse to having borrowings show up in their published statements. Consequently, member banks as a usual thing borrow of the Reserve bank only when they have to in order to replenish their reserves and avoid the penalty for deficiencies in their reserve accounts.

Although each Federal Reserve bank's rate is determined largely with reference to local conditions, it is important, of course, not to fix rates at any one Reserve bank without reference to the conditions to which other Reserve banks are subject. The member banks in one district cannot go to the Federal Reserve bank of another district, but nevertheless if rediscount rates in one district were noticeably lower than in another it would be possible for funds to find their way through indirect channels (such as correspondent banks, for example) from the district where rates were low to the district where rates were high. Consequently, general conditions as well as local have to be taken into account in determining what the rediscount rate will be and what changes should be made.

The Federal Reserve Act formerly limited the classes of paper which Federal Reserve banks could discount for member banks, on the principle

that a definite preference should be maintained for short-term credit based on self-liquidating commercial transactions. The Reserve banks were, therefore, given the power to discount only short-term self-liquidating commercial paper, that is notes, drafts, bills of exchange and bankers' acceptances arising out of commercial, industrial and agricultural transactions, and to make advances to member banks on their promissory notes backed by paper eligible for discount or purchase or backed by United States Government obligations. It was a narrowly defined classification. Advances on a wide range of other assets which made up an important part of the total earning assets of banks were not authorized. These included advances on securities other than those of the United States Government, on real estate loans, and on other loans of considerable importance in the portfolios of banks.

As a result of many developments in our financial organization, paper which qualified for borrowing from the Reserve banks has constituted a constantly decreasing proportion of the total assets of member banks ever since the System was established. In 1929 it was only about twelve percent of total loans and investments of such banks, and in 1934 it was but eight percent. Consequently, in 1931 and 1932 when the great liquidation occurred, many banks with assets which were good but technically ineligible for borrowing at Reserve banks, were obliged to dump them on a falling market, suffering severe loss thereby and contributing to the deflation in values, or to close their doors.

The new banking act increases the powers of the Federal Reserve banks so that they may meet this situation. It authorizes the Reserve

banks to make advances to member banks for periods not exceeding four months on any security satisfactory to the Reserve bank, at a rate of interest at least one-half of one percent above the highest discount rate in effect at the particular Reserve bank. This amendment modifies and makes permanent the emergency legislation which was passed in 1932.

In addition to the foregoing general powers of discount and purchase the Federal Reserve banks have special powers with respect to loans to commerce and industry for working capital purposes. These powers are granted by Section 13b of the Act. Under this section the Reserve banks are authorized to discount loans made by member banks and other financing institutions to established industrial and commercial businesses for the purpose of supplying working capital.

These changes made by recent legislation enlarge very greatly the kind of credit which the Federal Reserve banks may deal in directly, and give the Reserve banks greater freedom of action in meeting requirements of the money market.

Open Market Operations

In addition to the discount rate and the bill rate, two other important means of credit control have been developed from Reserve System experience, although they were not specifically contemplated in the original Federal Reserve Act. These are open market operations and direct action. Open market operations consist of the purchase and sale by Reserve banks of certain classes of securities, chiefly Government obligations. They have the effect of increasing or decreasing the

supply of credit available in the money market as a whole. They do not leave control of the money market dependent upon the voluntary action of member banks in seeking funds for the replenishment of their reserves, but give to the Federal Reserve banks the initiative in influencing the market. By selling securities the Reserve banks withdraw funds from the market and less credit becomes available. By purchasing securities they put funds into the market and tend to ease credit conditions. If securities are sold they must be paid for, and in the process of paying for them the reserves of member banks are diminished, for every payment means a debit sooner or later to some member bank's reserve account. If the program is carried far enough the member banks will be forced to restrict their extensions of credit or dispose of some of their assets to the Federal Reserve banks either by sale or rediscount in order to replenish their reserves. When this happens, the member banks have been forced by the initiative of the Reserve banks to take action which they would otherwise not have had to take. If, on the contrary, market conditions are such that member banks have gone into debt to the Federal Reserve banks in order to replenish depleted reserves, the Federal Reserve banks may relieve the situation and the tightness which exists in the money market generally by buying securities on a large scale. The funds which they release in payment for the securities which they buy flow one way or another into the reserve accounts of the member banks and enable the latter to pay off their obligations. If the purchases continue beyond this point, they create excess reserves which it is likely the

member banks will try to put to some use.

By selling securities, therefore, the Federal Reserve banks may enable themselves to give an effectiveness to a discount rate which it would not have otherwise until such time as market conditions had stiffened and individual banks were forced by those conditions to go to the Reserve banks for funds. Open market operations, therefore, enable the Reserve banks to accelerate corrective action. They are especially useful in view of the tradition which makes banks refrain as much as possible from borrowing from the Federal Reserve banks. If member banks felt no inhibitions about being in debt, and built up their reserves by borrowings so that they might make more loans, they would more generally be amenable to control through the discount rate. As it is, however, the discount rate must depend for much of its effectiveness upon open market operations.

The powers of the Reserve banks to buy and sell securities in the open market were granted in general terms in the original Federal Reserve Act, but at the time were not generally considered to be of very great importance. It was not until 1922 that open market operations were conducted on a large enough scale to affect the money market. The first operations were carried on by the Federal Reserve banks independently of one another, but it was soon found that action had to be coordinated, for otherwise the banks would be buying or selling in competition with one another and following different, and perhaps conflicting, policies. Consequently, a committee representing several of the reserve banks was

formed for the purpose of coordinating their operations. About the same time the purpose of the operations was clarified. For some time there had been a tendency to allow purchases and sales to be influenced by the objective of profit, but it was eventually realized that such an objective was in conflict with that of moderating a given condition of the money market, and must, therefore, be subordinated or even abandoned. This is in line with the general policy of central banks in conducting open market operations; they do so quite definitely with the idea of correcting credit conditions and not for the purpose of making earnings.

The Banking Act of 1933 gave specific recognition to open market operations and established a Federal Open Market Committee of twelve members, one representing each Federal Reserve bank, to take the place of the former non-statutory committee. At the same time the law adopted substantially the statement of purpose which had already governed open market operations. The statute provides that open market operations "shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

The Banking Act of 1935 made further change by providing that the Federal Open Market Committee should comprise the members of the Board of Governors of the Federal Reserve System and five representatives chosen by the twelve Federal Reserve banks. The law also makes the decisions of this committee obligatory upon the Federal Reserve banks and provides that the record of the committee's actions shall be included in the annual report of the Board submitted to Congress. Thus an

activity which was barely recognized in the original Federal Reserve Act, and which was gradually developed in the process of administration of the System, has come to be emphasized in the law as one of the System's most important activities.

Direct Action

I also mentioned direct action as a means of credit control. Direct action means individual effort by the Federal Reserve banks to discourage credit policies of given member banks in given circumstances. For the correction of specific conditions, it is to be regularly resorted to by the Reserve banks in their relations with member banks. Opportunity for it occurs on various occasions, but particularly when the member bank is being examined, and when it is seeking to rediscount some of its paper. In this sense, direct action is largely an individual matter and the form taken by it in any case may have little or no reference to general credit conditions. It may also have reference either to regional or country wide conditions, however, and may then be resorted to for the purpose of enforcing general credit policy. The power to exercise direct action against member banks lies partly with the Federal Reserve banks and partly with the Board of Governors.

The effectiveness of direct action was specifically strengthened by the Banking Act of 1933 in several particulars. When it appears that undue use of bank credit is being made for the purpose of speculation in securities, real estate, or commodities, or for any other purpose inconsistent with sound credit conditions, the facts should be

reported by the Federal Reserve banks to the Board of Governors of the Federal Reserve System. The Board may in its discretion suspend any member bank making such use of credit from recourse to credit facilities of the System. Furthermore, authority has been given to the Board to remove from office any officer or director of a member bank who has violated the law governing the bank's operation or who has persisted in unsafe and unsound practices in conducting the bank's business. The Board also has power to limit for each Federal Reserve district the individual bank capital and surplus which may be represented by loans secured by stock or bond collateral.

It is to be presumed that these special powers will not often have to be used, in view of other broad powers designed for control of credit conditions, but in principle they are nevertheless significant, for they indicate that the law definitely contemplates the exercise of considerable responsibility by the Federal Reserve banks and the Board.

Power to Change Reserve Requirements

Recent legislation has also established two other new forms of general credit control which previously did not exist. The first of these is the power given the Board to change the reserve requirements imposed upon member banks by the statute. For most banks the requirement is and has been for years that they have reserves on deposit with the Federal Reserve bank equal to at least 7 percent of their demand deposits, and 3 percent of their time deposits. The power to alter these reserve requirements was first given the Board by an amendment

to the Federal Reserve Act May 12, 1933, but under limitations which were later removed by the Banking Act of 1935. The Board is now authorized to change the reserve requirements "in order to prevent injurious credit expansion or contraction", but it is not permitted to lower them below the present requirements nor increase them to more than twice the present requirements. The effect of raising them, which is the only action that could now be taken, because the reserves are now at the point of legal requirement, would be to decrease the lending power of member banks and consequently the available credit. The effect of subsequently lowering them would be, of course, to enlarge the lending power and the amount of available credit. This means of credit control is one of the most powerful and direct that the law has bestowed.

Margin Requirements

The second new form of general credit control recently authorized pertains to margin accounts and loans made for the purpose of purchasing or carrying listed securities. Authority for the Board to issue regulations in this field was granted by the Securities Exchange Act of 1934. This grant of authority was in line with various provisions of the Federal Reserve Act, such as I have already referred to, aimed at restricting the use of credit for speculative purposes. In the language of the Securities Exchange Act, the authority it bestows is to be exercised with the object of preventing "the excessive use of credit for the purchase or carrying of securities". The standard established in the Act and adopted by the Board as an initial regulation limits the loans which a broker or dealer may make on a security to whichever is higher of the

two following ratios:

(a) Fifty-five percent of the current market price of the security, or

(b) One hundred percent of the lowest market price of the security since July 1, 1933, but not more than seventy-five percent of the current market price.

This standard permitted the extension of credit up to seventy-five per cent of current market value on securities that had made little or no advance from the lows of recent years, and up to fifty-five percent on securities that had made considerable advance. The Board, however, was given authority to alter this initial standard, making it either higher or lower as conditions might warrant, and it has recently changed the fifty-five per cent limitation to forty-five per cent. The reason for this action was realization of the possibility that recent increases of stock market values might lead to such excesses as the law sought to prevent.

The determination of margin requirements is designed to exert a restraining influence on speculative trading. By imposing higher margin requirements on securities that have had a rapid rise, credit is made less freely available for trading in speculative stocks. A limitation is also imposed on the extent to which speculative profits on securities can be used as margins for further speculation, a practice that is known as pyramiding.

The power of the Board to raise margin requirements provides an

instrument for controlling the demand for credit from speculators in the stock market without restricting the supply available for other borrowers. It differs from other means of credit control in that it affects directly the demand for credit rather than the available supply or cost. Through the use of this instrument it may be possible for the Board to exert a restraining influence on the use of credit for speculation in the stock market before it has reached a stage at which the general business and credit situation is unfavorably affected. The use of the instrument exercises a restraint on speculation without limiting the supply or raising the cost of credit to agriculture, trade, and industry.

The Securities Exchange Act specifically exempts from its provisions all obligations of the United States Government, of any state, municipal, or other political subdivision, and of agencies or instrumentalities of a State or local government. Additional exemptions of a similar nature are provided for.

Brokers and securities dealers subject to the Act are not permitted by the Act to borrow from banks which are not members of the Federal Reserve System, unless such banks agree to comply with the same conditions relating to the use of credit to finance transactions in securities as are imposed on member banks.

The foregoing provisions governing the credit activities of brokers and dealers are covered in Regulation T of the Board of Governors.

Insofar as banks are concerned, the Board's authority relates to

loans made for the purpose of purchasing or carrying securities registered on national securities exchanges. It does not apply, therefore, to loans made solely for industrial, agricultural, or commercial purposes, regardless of the question whether these loans are secured or unsecured, and, if secured, regardless of the character of the collateral. The determining factor is the purpose of the loan and not the nature of the security offered. If a loan is made for the purpose of purchasing or carrying securities registered on a national securities exchange, it comes under this section of the act; if it is made for any other purpose -- industrial, agricultural, or commercial -- then it is exempt. It is also exempt if it is secured by certain types of collateral other than stocks, such as bonds and government obligations. In general, the law, insofar as it applies to control over banks, is intended to prevent the banks from being used for the purpose of circumventing the margin requirements prescribed for loans extended by brokers to their customers, and to prevent undue expansion of bank credit in the securities markets.

The law imposes upon the Board no duties in connection with supervision of stock exchanges or prevention of undesirable practices among members of such exchanges. Responsibility for these matters rests upon the Securities and Exchange Commission.

Conclusion - Limitation on Means of Credit Control

Although the five means I have discussed by which credit control may be exercised - discount rates, open market operations, direct action,

reserve requirements, and margin requirements - appear to be very comprehensive and powerful, it would be a mistake to convey the impression that a perfect control of credit will be effected through them. In the first place, their application cannot be mechanical nor governed by simple unvarying rules. Credit and economic relationships are extremely intricate, and the circumstances under which the need for action arises are always to some extent different and special. Let me mention a few things that complicate the task of credit control.

In the first place, if there were a clear connection between given extensions of credit and the uses to which the credit is ultimately put, the control of credit would be simplified. This connection was formerly assumed to exist and to afford an important means of control. The thought was that the Reserve bank could shut off speculation by refusing to discount the notes of speculators. That, of course, is far from the facts. A bank may borrow from the reserve bank on bills of lading covering the sale of merchandise and at the same moment it may buy the mortgage of a man who is speculating in industrial stocks. The extension of credit on bills of lading was specifically favored by the original Federal Reserve Act, yet in such an instance as I mention, it might make possible a speculative activity directly opposed to the purposes of the Act.

Another important fact is that more than half the banks of the United States are not members of the Federal Reserve System. The system has consequently only a partial and indirect influence on their credit activities.

For another thing, there is always the important consideration that United States Treasury activities must be taken into account. These have to do in part with the operations of the Exchange Stabilization Fund and the issue of circulating media, e.g., coins, silver certificates, and United States notes; and in part with the public debt, and the government's receipts and expenditures. These operations involve such large sums and so intimately affect the banking and credit situation that Federal Reserve policy and Treasury policy must always be coordinated with one another.

Finally there are conditions that arise not only outside the System, but outside the country, and yet affect the domestic banking situation powerfully. There is, for example, the recent great movement of gold to the United States from abroad - a movement that in the last two years has added over three billion dollars to the reserves of member banks.

These factors, among others, necessarily limit and modify the exercise of credit control.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9531.

March 25, 1936.

SUBJECT: Expense, Main Lines, Leased Wire System, February, 1936.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9531-a and X-9531-b, covering in detail operations of the main lines of the Leased Wire System, during the month of February, 1936.

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 Inter-district Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosures.

TO PRESIDENTS 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, 1936.

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	32,223	1,219	33,442	5.24
New York	122,281	-	122,281	19.16
Philadelphia	24,313	1,222	25,535	4.00
Cleveland	37,102	1,229	38,331	6.01
Richmond	42,673	1,281	43,954	6.89
Atlanta	40,549	1,173	41,722	6.54
Chicago	70,270	1,585	71,855	11.26
St. Louis	51,380	1,413	53,293	8.35
Minneapolis	29,876	1,168	31,044	4.86
Kansas City	57,128	1,305	58,433	9.16
Dallas	39,715	1,316	41,031	6.43
San Francisco	75,671	1,554	77,225	12.10
Total	623,681	14,465	638,146	100.00

Board business	302,865	941,011
Reimbursable business Incoming & Outgoing		628,855
Total words transmitted over main lines		1,569,866

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9531-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, FEBRUARY, 1936.

Name of bank	Operators' Salaries	Retirement Contributions	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Board
Boston	$ 260.00	$ 12.45	$ -	$ -	$ 272.45	$ 730.66	$ 272.45	$ 458.21
New York	1,283.30	64.80	-	-	1,348.10	2,671.64	1,348.10	1,323.54
Philadelphia	225.00	11.39	-	-	236.39	557.75	236.39	321.36
Cleveland	306.66	15.03	-	-	321.69	838.02	321.69	516.33
Richmond	190.00	9.78	-	230.00(&)	429.78	960.73	429.78	530.95
Atlanta	262.50	13.26	-	-	275.76	911.93	275.76	636.17
Chicago	3,965.60(#)	184.14	4.00	-	4,153.74	1,570.08	4,153.74	2,583.66(*)
St. Louis	176.00	8.91	-	-	184.91	1,164.31	184.91	979.40
Minneapolis	154.16	8.29	-	-	162.45	677.67	162.45	515.22
Kansas City	287.00	16.16	-	-	303.16	1,277.26	303.16	974.10
Dallas	251.00	12.35	-	-	263.35	896.59	263.35	633.24
San Francisco	380.00	19.11	-	-	399.11	1,687.20	399.11	1,288.09
Board	-	-	-	14,911.28	14,911.28	-	-	-
Total	$7,741.22	$375.67	$4.00	$15,141.28	$23,262.17	$13,943.84	$8,350.89	$8.176.61
Less Reimbursable Charges					9,318.33			2,583.66(a)
					$13,943.84(b)			$5,592.95

(&) Main line rental, Richmond-Washington
(#) Includes salaries of Washington operators
(*) Credit
(a) Amount reimbursable to Chicago
(b) Includes $316.42, which represents cost of handling contingent expense telegrams for the Treasury Department for the month of February, 1936.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

X-9532

March 25, 1936.

Dear Sir:

In considering salaries of officers at the Federal Reserve banks for the year 1936 recommended by the Boards of Directors of the respective Federal Reserve banks, the Board of Governors of the Federal Reserve System, as constituted prior to February 1, 1936, decided to approve salaries of Governors, Deputy Governors, and Assistant Deputy Governors for the period January 1 to February 29, 1936, and of other officers of the bank for the year 1936 at the rates the officers were receiving at the end of 1935, and in so doing expressed the view that there should be no increases in salaries of officers, except in exceptional circumstances, until a thorough and careful analysis had been made of the organizations of the Federal Reserve banks.

Since entering upon its duties the new Board of Governors has had before it many important questions with respect to the personnel and salary payments of the Federal Reserve banks and the distribution of duties between the Federal Reserve banks and the Federal Reserve agents. After studying these matters the Board decided to approve all recommendations submitted by the respective Boards of Directors with respect to salaries of Presidents, First Vice Presidents, Vice Presidents, and Assistant

Vice Presidents for the period March 1 to December 31, 1936, inclusive, at the rates which were being paid to such officers prior to that date, and that no recommendation involving an increase in salary should be approved in the absence of unusual circumstances or a change in position.

Before taking this action the Board decided to ask the Presidents of the Federal Reserve banks to institute promptly a thorough survey of the organizations and salary payments of their respective Federal Reserve banks and, in order that the Board might fully acquaint the Presidents with the policies it had adopted with respect to these and other matters, it asked them to come to Washington for a conference with the Board of Governors on Monday, March 16. At the conference the Board told the Presidents that it had already instituted a thorough survey of its own organization here in Washington.

In connection with the distribution of duties between the Federal Reserve banks and the Federal Reserve agents, the Board had in mind a procedure looking toward the placing of the Chairmanships largely upon an honorary basis, with the thought that the routine duties with respect to the issuance of Federal Reserve notes and the holding of collateral security therefor would actually be performed by assistant Federal Reserve agents who would be experienced in such work and who would receive salaries commensurate with the duties and responsibilities to be assumed. This would make it possible for the Board to obtain outstanding men of recognized prestige and influence in their communities to act in the capacity of Chairmen and Federal Reserve agents with the understanding

that it would not be necessary for them to devote their full time to the position. The procedure contemplated would result in the transfer of the bank examination work and the research work heretofore handled by the Federal Reserve agents to the banking departments with the understanding, however, that such functions would as heretofore be conducted under the general supervision of the Board of Governors. Heretofore, as you know, all appointments of Federal Reserve Examiners have been subject to the approval of the Board of Governors and the Board would expect such appointments, including particularly that of the person in charge of the examination function, to continue to be subject to its approval.

The Board of Governors at the Conference held in Washington on March 16 and 17 asked the Presidents to review their entire organizations with a view to effecting economies wherever possible to do so without impairing the efficient operation of the banks. The Presidents were also asked to furnish the Board with reports as to how they would propose to effect the transfer of certain duties now handled by the Federal Reserve agents to the banking departments; of the personnel they would expect to place in charge of the several operations; and of the economies which would be effected by making such transfers, in addition to the economies which would be effected by placing the Chairmanships of the Federal Reserve banks largely upon an honorary basis.

The Board would like to have the report to be submitted by each President include an organization chart which will bring out clearly the

principal functions or units into which the bank is to be divided after the transfer of certain duties from the Agent's department to the bank. Such charts should show the name of the officer in charge of each unit and be accompanied by a brief description of the duties of each officer of the bank. Separate charts should be prepared for the head office and each branch. In making these studies it is important that careful thought be given to the operations now handled by branches of Federal Reserve banks with particular reference to the necessity for the branches. If the branches are considered necessary a review of their operations should be made to determine whether any of the operations now being handled by them could be transferred to the head office at a substantial saving in operating cost and without impairing the services which the System is now rendering to member banks and through them to commerce, industry, and agriculture.

Pursuant to a recommendation made by a sub-committee of a conference of representatives of all Federal Reserve banks the Board has approved a revised personnel classification plan which will necessitate the Federal Reserve banks' classifying all non-official positions in accordance with the revised plan. Under this plan the duties of each non-official position of the bank will be described briefly and this, together with the organization charts, should give the Board of Governors a complete picture of the organization adopted by the Federal Reserve banks following the completion of the survey which the Board has requested the Presidents to undertake.

In making the survey the Board will expect the management of each Federal Reserve bank to give careful consideration to the qualifications and salary of each officer and employee of the bank and to the need for their services. As you have been previously advised, the Board expects that salaries paid to employees of the Federal Reserve banks will not be out of line with salaries paid for corresponding work by local member banks. With respect to salaries of officers, the Board realizes that the duties required of officers of Federal Reserve banks are substantially different from those required of officers in the larger member banks and for that reason the salaries paid by local member banks, particularly to the senior officers of such banks, cannot, of course, be considered as a guide in fixing salaries of the senior officers of the Federal Reserve banks.

The Board hopes that the survey which the Presidents of the banks have been asked to make will be undertaken and carried forward as promptly as practicable and that the results of the survey will be communicated to the Board at an early date.

The Board of Governors hopes that each member of your board will take an active interest in the survey of the personnel and operations of the bank, and that they will lend every possible assistance in effecting such reorganizations and economies as may be consistent with the proper functioning of the bank.

It is requested that a copy of this letter be furnished to each member of your board and to the chief executive officer of your bank.

Very truly yours,

M. S. Eccles,
Chairman.

TO ALL CHAIRMEN

X-9533

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For the Press

For release in morning newspapers
of Thursday, March 26, 1936.

March 25, 1936.

REGULATION U

LOANS BY BANKS
FOR THE PURPOSE OF PURCHASING OR CARRYING
STOCKS REGISTERED ON A NATIONAL SECURITIES EXCHANGE

Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934, the Board of Governors of the Federal Reserve System today issued Regulation U relating to loans made by banks on or after May 1, 1936, for the purpose of purchasing or carrying stocks registered on a national securities exchange.

The regulation is not retroactive. It does not restrict the right of a bank to extend credit, whether on securities or otherwise, for any commercial, agricultural, or industrial purpose, or for any other purpose except the purchasing or carrying of stocks registered on a national securities exchange.

The regulation does not prevent a bank from taking for any loan collateral in addition to that required by the regulation, nor does it require a bank to reduce any loan, to obtain additional collateral for any outstanding loan, or to call any outstanding loan because of insufficient collateral.

At the same time, Regulation T, which applies to loans by brokers, dealers and members of national securities exchanges, has been modified

so as to make applicable to brokers and dealers the same margin requirements that have been determined for loans by banks on equity securities.

The maximum loan value applying to registered stocks has been fixed at 45% of current market value which is the percentage now applicable, under Regulation T, to three-fourths of the trading on the exchanges at the present time.

Attached is a copy of Regulation U and the supplement thereto, both effective May 1, 1936, and also a copy of the revised supplement to Regulation T effective April 1, 1936.

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION T

Effective April 1, 1936

Maximum loan values of registered securities (other than exempted securities) for purposes of Regulation T.

Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 3 of its Regulation T, as amended, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered securities (other than exempted securities) for the purposes of Regulation T:

(1) General rule. - Except as provided in paragraphs (2) and (3) of this supplement, the maximum loan value of a registered security (other than an exempted security) shall be 45 per cent of the current market value of the security.

(2) Extension of credit to other members, brokers and dealers. - The maximum loan value of a registered security (other than an exempted security) in a special account with another member, broker or dealer, which special account complies with subsection (b) of section 3 of Regulation T, as amended, shall be 60 per cent of the current market value of the security.

(3) Extension of credit to distributors, syndicates, etc - The maximum loan value of a registered security (other than an exempted security) in a special account with a distributor, syndicate, etc, which special account complies with subsection (c) of section 3 of Regulation T,as amended, shall be 80 per cent of the current market value of the security.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9534

March 26, 1936.

SUBJECT: Expenses of Leased Wire System.

Dear Sir:

The Board of Governors of the Federal Reserve System has given consideration to the report of the leased wire committee, dated October 21, 1935, which was submitted to, and approved by, the Governors' Conference on October 23, 1935, and transmitted to the Board by Deputy Governor Strater, Secretary of the Conference, with the official minutes of the Conference, under date of November 25, 1935.

The Committee has recommended that messenger service, printing and stationery, and expenses in connection with branch lines be not charged to the leased wire system. The Board is in agreement with these recommendations.

The Committee has also recommended that the Board of Governors assume as a direct expense the cost of messages sent by it over the main line leased wires; that the cost of clerical work on main line business such as the counting of the number of words in messages, and supper money paid employees working overtime be charged to the leased wire system; that the salaries of the Washington operators be paid by

the Board; and that each Federal Reserve bank bill the various Government departments and agencies direct for the cost of messages sent by such bank over the main line leased wires for their account. The Board approves these recommendations effective as of April 1, 1936.

The adoption of these recommendations will require certain changes in procedure and it is requested that, in lieu of the figures which are now being reported monthly to the Board, the items shown below covering April telegraph operations be reported to reach the Board not later than May 6. Similar information should be reported for subsequent months to reach the Board not later than the 6th day of each following month.

(1) Total amount expended for personal services. This should include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

(2) Total words sent by bank over main lines (which should include, without segregation, words sent on reimbursable business). New York will report separately, as at present, the number of words sent by that bank chargeable to other Federal Reserve banks. In arriving at the word count in messages, the address and signature should be counted, but punctuation marks should not be counted. Each digit, decimal and comma in a number or amount should be counted as one word. Signs such as $ and % should each be counted as one word.

After all information necessary to compile the monthly main line leased wire expense statement has been received by the Board, the per word cost of main line messages sent during the month will be computed and telegraphed to the Federal Reserve banks. For this purpose

the code word OPENMIND will be used which will have the following meaning:

> Per word cost of messages sent over the main lines of the leased wire system for the month shown is given herewith (month covered followed by per word cost).

Immediately thereafter the monthly statement will be sent to all of the Federal Reserve banks, following receipt of which each bank will, as at present, credit the amount payable by the bank to the Federal Reserve Bank of Richmond in the daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors. A specimen copy of the statement, revised in accordance with the changed procedure, is attached for your information.

The per word cost of main line messages as thus furnished should be used as the basis for determining the amounts payable by the various Government departments and agencies for the cost of messages sent by your bank over the main line leased wires for their account during April and subsequent months. The Board will follow a similar procedure in billing the various Government departments and agencies for the cost of sending telegrams from Washington for their account during April and subsequent months. The amounts payable by the various Government departments and agencies for messages sent by your bank for their account should be included in the usual monthly vouchers requesting reimbursement for Fiscal Agency, Custodianship, and Depositary expenses and copies of all telegrams should be attached in accordance with the requirements of the General Accounting Office. Since the Reserve banks

cannot be advised by the Board as to the per-word cost of telegrams sent in April until after the first of May, the charges for telegrams sent in April for the account of the various Government departments and agencies should be included in the regular monthly vouchers requesting reimbursement of expenses incurred in May and thereafter each monthly voucher should include the cost of telegrams dispatched in the prior month.

It appears that the Federal Reserve banks are now submitting claims for reimbursement of expenses to all interested Government agencies but apparently have not had occasion to request reimbursement for certain expenses which are chargeable against specific appropriations of the Treasury Department. For your information, a list of such Treasury appropriations, together with a brief description of the type of telegrams chargeable to each, is given below:

APPROPRIATION:

Expenses of Loans, Act of September 24, 1917, as Amended and Extended

Includes the cost of telegrams chargeable to the "Current Issues" unit on the bank's functional expense report, Form E. Cost of such telegrams should be included in the bill for other "Current Issues" expenses on Form PD 849 and submitted to "Commissioner of the Public Debt, Section of Administrative Accounts".

Contingent Expenses, Public Moneys

Includes the cost of telegrams sent by Federal Reserve banks to the Treasurer of the United States for the purpose of determining whether balances of disbursing officers are sufficient to permit the Reserve banks to cash disbursing officers' checks (Code, "FINCH").

Includes the cost of telegrams sent to the Treasurer of the United States acknowledging receipt of, and advising of credit

APPROPRIATION (continued)

for, United States currency shipped by the Treasurer of the United States (Code, "TRENCYMENT").

Includes the cost of telegrams relating to shipments of coin from Federal Reserve banks for account of the Treasurer of the United States (Code, "SHIPCON").

Cost of above mentioned telegrams, without segregation, should be billed separately on Form No. 1034 and submitted to "Division of Bookkeeping and Warrants".

Expenses, Emergency Banking, Gold Reserve and Silver Purchase Act

Includes the cost of telegrams relating to the receipt and custody of gold and gold certificates for account of the Treasurer of the United States; the licensing of member banks; and the purchasing of silver. Cost of such telegrams, without segregation, should be billed separately on Form No. 1034 and submitted to "Chief Clerk, Treasury Department".

Emergency Relief Act of 1935, Treasury Administrative Expenses

Includes the cost of telegrams relating to Work Relief checks. Cost of such telegrams should be included in the bill for other "Work Relief Checks" expenses on Form 6591 and submitted to "Treasurer of the United States, Accounting Division".

Comptroller of the Currency - Division of Insolvent National Banks

Includes the cost of telegrams relating to collateral held to secure deposits of insolvent National banks. Cost of such telegrams should be billed separately on Form No. 1034 and submitted to "Comptroller of the Currency, Division of Insolvent National Banks".

Miscellaneous and Contingent Expenses - Treasury Department

Includes cost of sending telegrams relating to the Treasurer's balances in depositaries; the redemption of silver certificates, National bank notes and other forms of Treasury currency; and miscellaneous matters.

In connection with this appropriation, reference is made to the letter of the Board's Fiscal Agent, dated November 29, 1935 (X-9378) in which you were informed that the Board had advised the Treasury Department that the leased wire system would continue to handle telegrams chargeable to the Treasury appropriation for miscellaneous and contingent expenses for the remainder

APPROPRIATION (continued)

of the fiscal year 1936, with the understanding that if an appropriation be not made to enable the Department to make reimbursement for the telegrams beginning with the fiscal year 1937, the Department would make some arrangement under which the leased wire system would be relieved of this expense.

In a few cases in the past the Board has found that messages have been sent for an agency that was not in a position to make reimbursement. Under the arrangement outlined above, where an expense voucher forwarded to a Government agency cannot be paid because the agency has no available appropriation or for some other reason, the cost of such telegrams will have to be borne by the sending bank and the question determined whether the bank will discontinue handling such telegrams or elect to absorb the expense.

Under the revised method, the following expenses should be included in item No. 22 "Telegraph" on the bank's current expense report, form 96, and it is requested that the necessary adjustments be made in the expense reports for the month of April to make this change effective as of January 1, 1936.

(a) Salaries of telegraph operators and clerical help assisting in the operation of main and branch line leased wires.
(b) Retirement System contributions at the current service rate based on salaries of employees included in (a) above.
(c) Amount payable to the Board of Governors as shown in the monthly main line leased wire expense report.

Amounts payable by Government departments and agencies covering the cost of leased wire service on and after April 1, 1936, should be credited to "Telegraph" and included in reimbursable expenses. The cost of messages sent for the account of the loan agency of the

Reconstruction Finance Corporation should, of course, be billed to the loan agency and charged to "Sundry items receivable" pending payment.

With respect to the Committee's recommendation that each Federal Reserve bank request reimbursement from the various Government departments and agencies for the cost of messages sent over branch wires for their account if the volume, in the opinion of the bank, warrants reimbursement, the Board is of the opinion that reimbursement should be requested for sending messages over branch wires for the account of the various Government departments and agencies and believes that, for the sake of uniformity, charges should be made for branch line messages at the per word cost of main line messages as advised by the Board. It is requested, therefore, that each Federal Reserve bank bill the various Government departments and agencies direct for the cost of messages sent over the branch wires for their account during April and subsequent months.

It is noted from the report of the leased wire committee that the committee is giving further study to the question of the style of teletype machines it would recommend for use in the event of the installation of teletype equipment in the telegraph offices at the banks now using the Morse system. In this connection it is assumed that each Federal Reserve bank has given or is giving consideration to the recommendation of the leased wire committee with regard to the personnel problem connected with such a change in telegraph facilities. It is

also noted that the committee is giving further study to the question of the possible rerouting of certain of the main line wires.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

(SPECIMEN FORM)

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF _____, 193_

	Number of words sent	Words sent by New York chargeable to other F. R. Banks	Total words chargeable	Personal services(1)	Wire rental	Total expenses	Pro rata share of total expenses(2)	Credits	Payable to Board of Governors
Federal Reserve Bank:									
Boston	42,804	966	43,770	$284.65	--	$284.65	$668.55	$284.65	$383.90
New York	150,397	--	150,397	1,398.22	--	1,398.22	2,297.20	1,398.22	898.98
Philadelphia	40,403	1,022	41,425	245.25	--	245.25	632.74	245.25	387.49
Cleveland	57,090	1,034	58,124	334.26	--	334.26	887.80	334.26	553.54
Richmond	58,531	1,068	59,649	207.35	$230.00	437.35	911.09	437.35	473.74
Atlanta	85,994	981	86,975	284.02	--	284.02	1,328.48	284.02	1,044.46
Chicago	105,151	1,450	106,601	1,818.99	--	1,818.99	1,628.25	1,818.99	(3)-190.74
St. Louis	86,393	1,420	87,813	212.43	--	212.43	1,341.28	212.43	1,128.85
Minneapolis	38,271	992	39,263	217.07	--	217.07	599.71	217.07	382.64
Kansas City	76,180	998	77,178	312.83	--	312.83	1,178.83	312.83	866.00
Dallas	68,839	1,698	70,537	273.34	--	273.34	1,077.40	273.34	804.06
San Francisco	109,341	1,373	110,714	412.03	--	412.03	1,691.07	412.03	1,279.04
Board of Governors	631,864	--	631,864	2,550.90	15,112.30	17,663.20	9,651.24	17,663.20	--
Total	1,551,308	13,002	1,564,310	$8,551.34	$15,342.30	$23,893.64	$23,893.64	$23,893.64	$8,011.96

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business such as counting the number of words in messages; also, overtime and supper money and Retirement System contributions at the current service rate.
(2) Based on cost per word ($.015274236) for business handled during the month.
(3) Credit. Amount reimbursable to Chicago.

NOTE: Retirement System contributions are included in this specimen form at the rate actually charged in November 1935, i.e., at the full rate. Beginning January 1, 1936, the rate used will be the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9535

March 28, 1936.

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:

"NOYKOL" - Treasury Bills to be dated April 1, 1936, and to mature December 30, 1936.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

X-9536

INTERPRETATION

Banking Act of 1935

(Copies to be sent to all Federal reserve banks)

March 24, 1936.

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

Dear Mr. Austin:

This refers to your letter dated March 12, 1936, presenting the question whether deposits of a volunteer fire company and of a ladies auxiliary affiliated with the fire company may be classified as savings deposits, under the definition contained in section 1(e) of Regulation Q.

The Board understands from your letter that the fire company is chartered by the State as a non-profit organization; that its membership includes the citizens of the community who pay annual dues of a nominal amount; that most of the income of the company is derived from dues, festivals, carnivals, and rental of the fire hall for meetings; that the Borough in which the fire company is located contributes a flat sum of $150 per month which is used largely to pay the driver; and that the Borough sometimes gives assistance in the purchase of new equipment.

It is also understood that the ladies auxiliary is comprised of members of the firemen's families and friends and that its activities are partly social, although it often assists in the raising of money for the benefit of the fire company by serving

dinners to various organizations.

It is the view of the Board that organizations of the type described above are not in the same category as fire departments of municipalities and that the question here presented is not governed by the ruling contained in the Board's letter of February 27, 1936 (X-9508), regarding deposits of municipalities and departments thereof.

The Board is of the opinion that volunteer fire companies and ladies auxiliaries of such companies, of the type described above, may properly be considered as organizations "operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes" and, since it is understood that the organizations are not operated for profit, deposits of their funds in a member bank may be classified as savings deposits, provided they conform to the other requirements of section 1(e) of Regulation Q.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9537

THE FEDERAL RESERVE SYSTEM AND THE BANKING ACT OF 1935

ADDRESS BY

M. S. SZYMCZAK, MEMBER,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DELIVERED BEFORE

PACIFIC NORTHWEST CONFERENCE ON BANKING
UNDER THE AUSPICES OF THE
STATE COLLEGE OF WASHINGTON

AT

PULLMAN, WASHINGTON

Thursday, April 9, 1936
2:30 P.M.
110 Mechanic Arts Building

Released for Publication
April 10, 1936
Morning Papers.

X-9537

THE FEDERAL RESERVE SYSTEM AND THE BANKING ACT OF 1935.

The four states which are represented in this meeting - Washington, Oregon, Idaho and Montana - are remarkable for their highly diversified resources. Among a host of other things, they produce beef, butter, copper, fish, fruit, gold, grain, lumber, mutton, petroleum, and wool. These products moreover are all important - they are not merely incidental. The geography of your region is full of variety. You span the great Divide, and of your two great river systems, one carries you to the Pacific and one toward the Atlantic. You have in Puget Sound and in the mouth of the Columbia two of the greatest of American harbors. You have some of the most strikingly beautiful mountains in the world, and some of the loveliest lakes. Furthermore, the fixed plant that has been built up in your four states in the course of two generations is remarkable. You have great irrigation systems, hydro-electric systems, mines, docks, railways, and steamship lines. You have in abundance the things that should maintain your people in comfort and make their lives interesting.

I am not telling you these things to flatter you. I am speaking of them because they are the background to the banking of the region. Banking takes its character from the economic life in which it is carried on. It adapts itself to what the people do, and their interests become the banker's interests.

In one sense, banks are engaged in individual extensions of credit. It is a question of one risk after another - who can be safely financed and to what extent and on what security, and who can not. But that is

not all. In another and larger sense banks are constantly engaged in moving the products of their regions out to the markets and consumers of the world and in moving in to their own population the things it buys in exchange. Here in the Palouse country where we are meeting, the bankers every year move the great wheat crop out to the ports and the mills. Over in Wenatchee they move the great crops of apples. Down in the Snake River valley in Idaho they move the crops of potatoes. Back in Billings they move the wool-clip. The value of the products shipped from your four states to the markets of the United States and of the world is great, and it is through the bankers that these products are exchanged for what the people of your region buy from the outside. During a long season of the year you are financing your farmers, your stock men, your orchardists. They are drawing on your reserves to meet the cost of equipment, of feed, of labor, and of supplies. Then as their crops are marketed and funds are placed to your credit in Chicago, in New York, in San Francisco, and other cities, your reserves again accumulate, and your customers are ready for the new season.

It is unfortunate that people generally fail to realize this fundamental function of the banks. They think of the banks as merely local affairs, which they have a hard time borrowing from at one season of the year and a hard time repaying at another. They do not see that because of the banks, credit is enabled to flow into the region to pay them for their products, and is enabled to flow out again in payment for the products they buy elsewhere. They see very plainly that steamers and

railways carry away their wheat, their fruit, and their wool, and in exchange bring in to them from other regions the clothing and the machinery they need, but it is not so easy to see that without the system of credit the system of transportation would be of little use.

The importance of bank credit in the form of deposits is indicated by the fact that people almost invariably prefer it for payments in large amounts. A farmer who is selling his year's crop usually expects a check and would be surprised and inconvenienced if he were paid in currency or coin. The check represents bank credit; and when the farmer takes or sends it to the bank, the credit goes on the bank's books under his name. The arrangement is safe and convenient.

But there is far more to be said for bank credit in the form of deposits than that its use is convenient and safe. In our economy it has become indispensable. Without it how would it be possible for the people all over the United States and all over the world who use the products of your region, to pay for the timber, the metals, the wool-clip, and the salmon-pack, which you furnish them? Should currency be shipped in to pay for it all; and then shipped out again to pay for the carpets, the tractors, and the securities that your people buy?

The system of bank credit ties together things that are far apart in space and time. It enables the cattle and sheep raiser to build up his herds and flocks over a period of years to the point of their greatest value. It enables the farmer to be paid for his wheat even when it is eaten on the other side of the earth. It enables funds

which are idle in New York to be put to use in Spokane within a few moments. It enables the people of your region to enjoy the various products of regions different from theirs.

These things are possible because the system of bank credit covers the whole country like a net-work of power lines, and supplies means of payment wherever needed. Wherever and whenever local bank reserves run low, as must regularly be the case in a region which is predominantly agricultural, the temporary deficiency can be made up. Whenever things produced in one place are paid for and consumed by people in another place the system of bank credit makes it possible to effect the payment readily. There is, however, one essential - the credit must be everywhere liquid and based on sound values; otherwise the system becomes clogged and stops working. The loss in that event is more than a loss to local stockholders and depositors. The loss is to the community whose processes of production and consumption have been to some extent disrupted.

Before 1914 this country had quite inadequate means of mobilizing its bank credit. Every bank in the country constituted a separate pool of credit - a pool that was not always adequate for local purposes, and yet that had no close connection by which it could always be replenished swiftly and easily. The banking system bore the same relation to what we have now, as a scattered number of independent power plants with potential connections would bear to an articulated power net-work. The banks in regions such as yours were comparatively well off under such

an arrangement because, as I said in the first place, your economic activities are highly diversified. But in the south and back in the middle west, where whole regions are dominated by a few great cash crops, and where everyone is being paid at one period of the year and is paying out the rest of the time, the difficulties of mobilizing bank credit were extreme.

It was such difficulties as these that led to the establishment of the Federal Reserve System. They were difficulties that arose from the fact that the nation-wide exchange of commodities and services - especially the inter-regional exchange - had to be accomplished with banks whose interests and facilities were primarily local. In order that banks might meet the requirements of their communities more adequately, they needed closer interconnections with other communities, and a system through which means of payment for their regional products might be always and unfailingly available. The Federal Reserve banks were established to meet that need. They bind the 6,400 member banks of the country into a system which can make credit available for production and trade wherever and whenever it is required and in any amount. Practically all the functions which the Federal Reserve banks perform were previously performed in one way or another by different agencies, but it is believed that they are now performed more systematically and smoothly than before.

II.

In the course of twenty-two years much experience and knowledge have been derived from the operations of the Federal Reserve System.

Some problems which the System was devised to remedy have now been settled and others have taken their place. At the same time the conception of central banking functions has changed in many respects. The net result is that the System presents in certain ways a different aspect from what it did formerly.

Twenty-two years ago the ideas prevailed that the important functions of the Federal Reserve banks were to furnish an elastic currency, to lend to member banks which were short of money some of the reserve funds accumulated by other member banks, and to curb the speculative use of credit by rediscounting only paper representing self-liquidating commercial transactions. These ideas now appear quite inaccurate, or at least inadequate. Furnishing currency is seen to be less important than it was thought to be, because currency cuts a very small figure in the total of payments that are made by people in their dealings with one another. What they use for the most part, as I have already indicated, is bank credit in the form of deposits. The control of bank credit as a whole is, therefore, of greater importance than the control merely of the currency supply; it is also incomparably more difficult.

In the second place, the reserve banks do not depend on the deposits which member banks maintain with them for the ability to make loans and buy securities. They have the same kind of power you bankers have, to acquire additional assets by entering deposit credits on your books in favor of the person who discounts a note with you or sells you a bond or mortgage. Consequently, if a member bank's reserves

are deficient, it can turn over some of its assets to the reserve bank and receive a credit to its reserve account. The reserve bank in such a transaction is not lending to one bank what it owes to another; it is exercising the familiar banking power of paying for assets by the entry of deposit credit.

In the third place, it is recognized that there is no necessary connection between the form in which credit is procured from a bank and the form in which it is used. Money may be borrowed on acceptances and yet be used in the stock market. It may be borrowed on a real estate mortgage and yet be used to buy merchandise. It may be borrowed on the security of speculative stocks and yet be used to finance the production and shipment of commodities. Consequently, any discrimination for or against a certain type of paper offered for discount does not mean that speculation is being controlled or that credit is being supplied for the needs of commerce. The task of controlling the use of credit is far more difficult than such a supposition would imply.

The instrumentality that is now considered the most important for the control of credit is one that in the original reserve act was given only rudimentary attention. I refer to open market operations. These operations are important because they make it possible for the central banking organization - in this case the Federal Reserve banks directed by the Federal Open Market Committee - to exercise control over the volume of bank deposits and reserves. This means control over the volume of "money", or means of payment, required by the people in their economic life.

The principle of open market operations is of course simple. If securities are sold in the market by the Federal Reserve banks, they must of necessity be paid for with bank funds, for they will be bought either by the banks themselves or by bank customers. Consequently, in the process of paying for them there will necessarily be debits to be entered against the reserve accounts maintained with the reserve bank by the member banks. Upon completion of these entries, the reserve bank will have disposed of certain assets and simultaneously will have decreased the total amount outstanding to the credit of member banks in their reserve accounts. The Reserve bank does not know in advance of its transactions what particular member bank accounts will be affected nor by how much, but it knows that if it sells a million dollars worth of securities, approximately a million dollars worth of available bank credit will be extinguished.

If, as a consequence, reserves are reduced to a minimum, the member banks are immediately impelled to restrict their extensions of credit, for they cannot continue making loans and increasing the deposit credit outstanding on their books without incurring a deficiency in their reserves. The result of the Reserve bank's action in selling securities, therefore, is to curtail the lending power of member banks and to tighten the money market.

On the other hand, if securities are bought by the Reserve bank, the result will be that in the process of paying for them the Reserve bank will have to credit the reserve accounts of member banks. Again

it does not know to what extent particular member banks will be affected, but it does know that reserves in general will be increased. By the same token the lending power of the member banks will be increased and general credit conditions will be eased. In the first stages of a buying program, the effect will be to enable banks to pay off any obligations they may owe, but if a buying program is continued long enough it may result in an accumulation of excess reserves.

In addition to the effect upon the reserves of member banks, there is also an effect upon bank deposits in general - even non-member bank deposits; because, if an investor or an institution buys some of the securities sold by the Reserve bank, payment will ordinarily be made out of a checking account and deposits will be decreased by so much. If, on the other hand, the Reserve bank is buying securities, and institutions and individuals are selling to it, the payments made by the Reserve bank will increase the deposit credit outstanding on the books of banks. Accordingly, banks which are not members of the Federal Reserve System and banks which themselves have not purchased or sold securities as a result of the Reserve bank's action, will nevertheless be affected by it, either in their reserves or in their deposits, or in both. The money market as a whole will be influenced.

The effect of open market operations may be expressed in various ways, according to what one considers the most important aspect. It may be said when purchases are being made, that funds are thereby being placed at the disposal of member banks which can be used to pay off

indebtedness at the Reserve banks or as a basis of additional credit expansion. Contrariwise, it may be said, when sales are being made, that funds are being withdrawn from the member banks and that the latter are being compelled either to increase their indebtedness at the Reserve banks or to contract their loans and investments. It may be said, therefore, that open-market purchases tend to encourage an expansion of credit and open-market sales tend to encourage a contraction of it.

Turning to the other side of the balance sheet, it may be said that open-market operations have the effect of expanding or contracting bank deposits and thereby of increasing or decreasing the volume of money, or means of payment, required by the people for the transaction of their business. It may be said, without confining the statement to member banks, that open-market operations increase or decrease the supply of funds in the money market, and if they are timely, that they moderate any tendencies either to tightness or excessive ease. All of these descriptions are fair; all merely emphasize various aspects of what open-market operations tend to accomplish.

So much for principle. In practice, of course, all kinds of factors may conflict with a given program; just as all kinds of things may conflict with a man's attempt to drive his car straight through town without stopping. The proper exercise of open market powers is an art. It requires constant study of means and ends, and appraisal of the conditions under which a given program of action can be expected to accomplish its purpose.

The Federal Reserve banks at first attempted to carry on their open market operations independently of one another, but it soon became clear that their actions must be coordinated. Otherwise they might find themselves competing with one another, and in conflict as between their own transactions and those transactions which as fiscal agents of the Government they were conducting for the United States Treasury. Accordingly, in 1922 a committee of Reserve bank officers was appointed for the purpose of coordinating the operations. About the same time the purpose of the operations was clarified. The principle laid down was: "That the time, manner, character, and volume of open-market investments purchased by Federal Reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation."

For some time prior to this there had been a tendency to allow purchases and sales of securities to be influenced by profit as an objective. The statement of principle which I have just quoted meant a definite abandonment of that objective. This was in line with the general policy of central banks in conducting open market operations; they do so definitely with the idea of correcting market tendencies and not for the purpose of making earnings.

The Banking Act of 1933 gave open market operations more specific recognition than they had had in the original Act. It gave statutory standing to the Federal Open Market Committee, which by then comprised one representative from each Federal Reserve bank. No Reserve bank

could engage in open market operations except in accordance with regulations of the Board. At the same time the Act adopted substantially the same statement of purpose which had already governed open market operations.

The Banking Act of 1935 gave still further attention to the machinery of open market operations and to recognition of their importance. The Federal Open Market Committee was reconstructed to comprise the members of the Board of Governors of the Federal Reserve System and five representatives chosen regionally by the twelve Federal Reserve banks. This made the members of the Board constitute a majority of the Committee, and marked considerable development away from the original informal arrangements by which the Federal Reserve banks first conducted open market operations on their own initiative and then under the direction of a Committee on which the Board was not specifically represented. Furthermore, under the terms of the Banking Act of 1935, the Federal Reserve banks may neither engage nor decline to engage in such operations except in accordance with the directions and regulations of the Committee.

Another requirement of the Act is that a complete record be kept of the action taken on all questions of policy relating to open market operations, including a record of votes taken in connection with the determination of open market policies and a statement of the reasons underlying the action taken, and that this record be included in the Board's annual report. The publication of this record will give the public an opportunity to study the decisions as to open market policy

and credit policy in general, and should help clarify public discussions of national credit policy. It will also accentuate the individual sense of responsibility, for members of the Committee will be called on not only to decide on credit policy, but to give publicly the reasons for their decisions.

It is clear, I think, that as a result of experience and statutory amendments, open market operations have taken a far more important place in general credit policy than they formerly had. It is also clear, I think, that open market operations have become a more important or at least a more positive device of credit control than discount rates. When the Federal Reserve Act was adopted the prevailing idea probably was that discount rates were not only the most definite means of credit control, but the most important. The thought was that as banks felt more and more demand from borrowers and went to the Reserve banks to procure the funds to meet it, they would encounter a rising discount rate, which would have the effect of tempering the demand and preventing an excessive use of credit. Conversely, as conditions improved, business activity would be encouraged by the fact that banks could procure funds to lend at a progressively lower rate. The most obvious difficulty with this theory, however, is that banks have not shown a disposition to borrow from the Reserve banks in order to relend. Banks don't like to borrow, and as a general thing they won't borrow unless they have to, no matter how low the discount rate is. Consequently, the effectiveness of the Federal Reserve discount rate is, by itself,

rather limited. It is significant as an index of the cost of credit, but it does not come into action otherwise until a member bank finds it necessary to replenish its reserves. As I have already indicated, however, a member bank may be forced into such a position as the result of sales of securities by the Reserve bank, and the discount rate then becomes effective.

In other words, an important difference between discount rates and open market operations in practical effect is that open market operations give the central banking organization the initiative in the control of credit, whereas the discount rate by itself offers the controlling authority no handles to seize; it must bide its time passively until the situation is so bad that demand for funds is voluntarily made. This delay may seriously impair the power of the Federal Reserve bank to help the situation.

The Banking Act of 1935 made only one change in respect to discount rates. This was to require that they be established every fourteen days or oftener. It is not necessary that the rates be changed every time, but they must at least be reviewed and reestablished.

With respect to the reserves which member banks are required to maintain, the Banking Act of 1935 makes a very important change, by simplifying the conditions under which the Board of Governors of the Federal Reserve System may alter the amount of reserves which is prescribed in the law. Prior to 1933, there was no authority to change reserve requirements administratively, but an act of May 12 of that

year empowered the Board, with the approval of the President, to declare that an emergency existed and during the emergency to increase or decrease the reserve balances to be required. The Banking Act of 1935 allows reserve requirements to be changed by the Board without declaration that an emergency exists and without approval of the President. It does not permit, however, requirements to be reduced below the percentages stated in the statute nor to be more than doubled. The purpose of any change made in the requirements must be, in the words of the law, "to prevent injurious credit expansion or contraction."

With this power to alter reserve requirements and with the change by which the members of the Board constitute a majority of the Federal Open Market Committee, the Banking Act of 1935 definitely strengthened and centralized the control of credit. Another movement in the same direction was taken by the Securities Exchange Act of 1934, which authorized the Board to regulate the amount of security to be required on margin accounts by stock brokers and dealers and to regulate the making of loans by banks and others for the purpose of purchasing and carrying listed securities. These changes give the Governors of the Federal Reserve System more effective powers for the control of credit than ever before.

On the other hand, the regional autonomy of the Federal Reserve banks in their relations with member banks is preserved. Generally speaking, the Reserve banks are responsible for member bank relations and act as the agencies of system activities, while the Board in

Washington, with the help of representatives of the Reserve banks, is responsible for central credit and monetary policy.

The Banking Act of 1935 also made important changes in the constitution of the governing body of the Federal Reserve System, which is no longer known as the Federal Reserve Board, but as the Board of Governors of the Federal Reserve System. The Secretary of the Treasury and the Comptroller of the Currency ceased to be ex officio members of the Board February 1, and provision was made for the Board to consist thereafter of seven members appointed by the President. The members now in office have terms ranging from 2 to 14 years and upon the expiration of the present terms all succeeding members will be appointed for terms of 14 years instead of 12 years as under the previous law. As formerly, not more than one member may be appointed from any one Federal Reserve district, and the President, in selecting the members, is to "have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country".

Since March 1, under the provisions of the Act, the chief executive officer of each Federal Reserve bank has the title "president", instead of "governor", and the title "vice-president" replaces that of "deputy governor". Both the president and the first vice-president are appointed by the Board of Directors for a five-year term with the approval of the Board in Washington. Formerly, as you know, the offices of governor and deputy governor were not specifically recognized by statute.

The responsibilities of the Federal Reserve banks as fiscal agents of the United States were not changed by the Banking Act of 1935, except for a provision which permits the Reserve banks to buy government obligations only in the open market; direct purchases from the Treasury are not authorized.

III.

I think I have covered sufficiently the more prominent changes which the Banking Act of 1935 made with respect to Federal Reserve functions, and I wish to speak now of those features of the Act which more directly affect the operations of member banks.

The first of these has to do with lending powers.

Indirectly, the Act tends to broaden member bank lending powers by giving the Reserve banks authority to make advances to member banks on any satisfactory security. The former provisions still stand as to paper that is known under the original terms of the Federal Reserve Act as "eligible" for discount - paper, that is, which originates in connection with industrial, commercial or agricultural transactions - and they also still stand as to advances to member banks on notes secured by eligible paper or by Government obligations. The new provisions are added to these old ones without altering them. Advances authorized by the new provisions are simply required to be secured to the satisfaction of the Reserve bank, to bear a rate of interest at least one-half per-cent above the Reserve bank's discount rate, and to have maturities of

not more than four months. At present, when the banks have large excess reserves, this new provision in the law may not seem very important. But times may change. If and when they do, the new provisions mean that, assuming a bank's assets are good, the Federal Reserve bank will be able to advance money on them, no matter what the type of paper, or the nature of the transactions in which they originated. In other words, borrowing from the Federal Reserve bank has now been made possible on other than technical conditions of eligibility alone. This is very important. Many banks in recent years would have had much less trouble if they could have taken to the Reserve bank some of their assets which were good, but not legally eligible under the old terms of the law, instead of having to sacrifice them on a demoralized market. Provision for such advances was first adopted as a temporary, emergency measure in 1932, but the Banking Act of 1935 made it permanent.

The original provisions of the law with respect to eligible paper were based on the principle that since the liabilities of banks were payable on demand they should be offset by short-term self-liquidating paper based on specific transactions involving the exchange of goods. The amendments added by the Banking Act of 1935 are based on the principle that in fact American banks do not specialize in one type of credit as against another. They deal in credit of all sorts. They combine long term and short term credit functions. There is not enough short-term commercial paper to fill more than a small part of their portfolios. They accept the savings and time deposits of their

communities and they also hold long term obligations of their communities. The new provisions for eligibility make the Federal Reserve Act cognizant of these realities and adapt the powers of the Reserve banks to them.

In a more direct way, the Banking Act of 1935 broadened lending powers by liberalizing the conditions under which National banks may make real estate loans. The old stipulation that the real estate upon which such loans are made must be situated in the bank's Federal Reserve district or within a hundred miles of the bank, has been removed; and loans which are amortized are now permitted in amounts up to 60 percent of the appraised value of the property and with maturities of as much as ten years, provided installment payments are sufficient to repay at least 40 percent of the principal in that time.

The permissible aggregate of real estate loans which a national bank may hold has been changed by the Act from 25 percent of its capital and surplus or 50 percent of its savings deposits, whichever is greater, to 100 percent of its capital and surplus or 60 percent of its time and savings deposits, whichever is greater.

In connection with this subject of enlarged lending powers I want also to mention the provision of the Federal Reserve Act authorizing loans for working capital purposes. The provision is a year older than the Banking Act of 1935, but it belongs logically with these more recent ones I have just been discussing.

Under this provision loans with maturities not exceeding five years

which have been made by member banks or other financing institutions to established industrial and commercial businesses in need of working capital may be discounted by the Federal Reserve bank. Nor is that all. If the member bank wishes to hold the loan, but wishes also to be assured that it can be disposed of at any time if need be, a commitment may be procured binding the Federal Reserve bank to take over the loan when and if requested to do so. It may also be arranged that the loan be taken over without recourse for as much as 80 percent. Under such circumstances, the member bank has a loan which is insured 100 percent as to liquidity and 80 percent as to loss. This arrangement, however, is not restricted to member banks; it is open to non-members as well.

These loans have been made to all kinds of enterprises, industrial and commercial. In many cases they have been loans which bankers have not been accustomed to making, and which would not have been made were it not for the fact that the Reserve bank stands behind them.

I think I have now covered the changes of most general interest that were brought about by the Banking Act of 1935, but there are numerous other provisions that it may be worth while to mention without attempting to discuss them.

First there is the matter of deposit insurance, which has been made permanent on a basis similar to that originally adopted as temporary. As you know, insured banks are now subject to an annual assessment at a fixed rate - one-twelfth of 1 percent of deposits - instead

of being under unlimited liability as would have been the case under the old permanent plan. Insurance covers deposits up to $5,000 for any one depositor, instead of $10,000 or more as the first permanent plan contemplated.

After July 1, 1942, no state bank with average deposits of $1,000,000 or more may be an insured bank without becoming a member of the Federal Reserve System. This provision had the effect of postponing required membership for several years. At the same time, the Board was given the power to waive in whole or in part the statutory requirements with respect to admission of State banks to membership.

The former prohibition against a member bank's purchasing and holding more than 10 percent of a particular issue of investment securities has been eliminated, but the total of the obligations of one obligor which may be purchased and held by a member bank is reduced from 15 percent of the bank's capital and 25 percent of its surplus to 10 percent of its capital and surplus. Banks are not required to dispose of securities lawfully held at the time the law was enacted. It has also been made clear, in conformity with previous rulings of the Board and of the Comptroller of the Currency, that member banks may purchase and sell stocks for the account of their customers. They may not purchase and sell stocks for their own accounts, however.

Several important changes were made by the Banking Act of 1935 with respect to affiliates and holding company affiliates of member banks. These changes modify considerably the original requirements. When the

first legislation defining affiliates and requiring reports of them was adopted in the Banking Act of 1933, it was undoubtedly directed primarily at securities affiliates and affiliates formed for the purpose of engaging in activities in which member banks were either not authorized to engage or in which it was not felt expedient for them to engage. The definitions, however, were made extremely comprehensive, and as a result a very large number of organizations were caught in a net that was never intended for them. It frequently happened that banks were surprised to discover that under the law they had "affiliates", when as a matter of fact no such idea was in their minds. A bank might find that it had as an affiliate a corporation which belonged to an estate of which it was trustee; or it might find that it had as an affiliate a corporation whose stock happened to be owned by persons who owned the bank's stock. There might be no financial connection between the two and yet at every call date a report would have to be procured from the affiliate and published. The original purpose of the law had been accomplished so far as affiliates dealing in securities were concerned, for they all disappeared, but the number of other affiliates reported to the Board was increasing - not because banks were forming new affiliations, but because unknown and unintended affiliations, quite accidental in fact, were constantly coming to light.

Under amendments made by the Banking Act of 1935 the Board and the Comptroller of the Currency are now authorized to waive reports which are not necessary to disclose fully the relations between a member bank

and its affiliate and the effect thereof upon the affairs of the bank. The result of the new provisions will be to relieve a large number of banks from the requirement originally imposed without exception. Roughly speaking, under the conditions of waiver that have been announced, organizations which are affiliates under the terms of the law need not submit reports unless they are indebted to the affiliated member bank or unless shares of their stock or other obligations are owned by the member bank in excess of certain minimum amounts. Reports of affiliations which are based solely on ownership or control of an organization's stock by a member bank in a fiduciary capacity are also waived. This, it is believed, has been welcome news to many banks.

In addition, organizations which own or control the stock of a bank, but are found by the Board of Governors of the Federal Reserve System not to be engaged as a business in holding bank stocks, have been exempted by the law from the requirements imposed on holding company affiliates, except in the matter of indebtedness to their affiliated member banks. This provision has made possible a distinction between holding companies organized for the purpose of holding bank stock, and companies which incidentally own control of a bank, while their principal business lies in a different field.

Double liability on National bank stock issued after June 16, 1933, was ended by the Banking Act of 1933, and under the Banking Act of 1935 National banks may terminate on July 1, 1937, or thereafter, the double liability on stock issued prior to June 16, 1933. It is possible,

therefore, that all shareholders of active National banks will soon be relieved of personal liability on their shares. At the same time National banks are required to accumulate a surplus equal to the amount of their common capital. This change should be better both for bank shareholders and for the public. Personal liability for bank shares has never been a satisfactory protection to depositors, and it has placed a burden on shareholders of banks not borne by shareholders of other corporations.

There are several provisions which are of importance in connection with deposits and the interest payable thereon. In the first place, the rate of interest paid at offices of the Postal Savings system is not to exceed the maximum that Federal Reserve regulations allow to be paid on savings deposits by member banks in the same place; and postal savings depositories may deposit funds on time with member banks subject to the provisions of the Federal Reserve Act and to regulations of the Board of Governors of the Federal Reserve System regarding payment of interest on time deposits. In addition, the Federal Deposit Insurance Corporation was required to forbid the payment of interest on demand deposits by insured non-member banks, and to regulate the rate of interest paid by them on time and savings deposits. This provision explicitly gave the Federal Deposit Insurance Corporation authority with respect to non-member insured banks similar to that which the Board of Governors of the Federal Reserve System has with respect to member banks. The Act also repealed the former statutory definitions of demand and

time deposits; the Board of Governors is authorized to formulate new definitions in their place, and to determine what is to be deemed a payment of interest.

For the purpose of computing the reserves which member banks are required to carry, amounts due from other banks (except Federal Reserve banks and foreign banks) and certain cash items in process of collection may now, as you know, be deducted from gross demand deposits. As a result of this change country banks, which hold no balances due to other banks, may now make their deductions on the same basis as city banks, which hold balances due to other banks in large volume.

I think it is not necessary to go further into details of the 1935 Act. They are numerous, but most of them that I have not mentioned are technical and minute. I have discussed the essential points of Title II of the Act, and a few of the more important points of Title I, which deals with deposit insurance, and Title III, which mainly clarifies or modifies technical provisions already in force.

You will realize that the changes effected by the law have necessitated a great deal of work upon the regulations which the Board has to issue. Regulations on new subjects have had to be prepared and old regulations have had to be altered.

IV.

The general results of the changes I have spoken of, which have been largely but not wholly effected by the Banking Act of 1935, may be summarized as follows:

In the first place, the 6,400 member banks have broader lending powers, and the facilities of the Federal Reserve banks have been made available to them on less technical and restrictive terms.

Second, the Federal Reserve banks remain essentially unchanged in organization and function, though the importance of their central banking activities has been more clearly recognized.

Third, the Federal Open Market Committee has been given a more effective position in the System and more definite authority.

Fourth, the Board of Governors has been given larger powers and more direct responsibilities, and the principles upon which the System is to be administered have been more clearly developed.

I do not mean to imply that with these changes brought about by recent legislation the task of credit control has been made easy. Far from it. It is hard to imagine that the control of credit ever will be a simple matter. There are too many conditions affecting it. To mention only one thing that has an important bearing on credit control, there has never been a time when the membership of the Federal Reserve System included as many as half the banks in the country. It does not now. The majority of banks in the United States are outside the System. Although it is true that the System includes most of the large banks and that it, therefore, includes the bulk of the banking business of the country, still from the point of view of the communities they serve and of relations with other banks, the importance of the thousands of small banks which are outside the System is not negligible. But I

feel that in spite of difficulties - indeed because of them, perhaps - there is a growing sense of the importance of the System as an instrumentality of public service. The function of central banking, which looks definitely to the public good as a whole, is one that legislation is more and more emphasizing.

What we are now seeking to do in the field of bank credit may well be compared with what past generations attempted to do in establishing coinages of uniform and honest value, in simplifying currency, and in preventing wholesale issues of counterfeit and spurious notes. In the past, repeated efforts had to be made almost universally in order to standardize and protect the legal-tender - efforts that were the more important because people more generally depended on paper currency and coin for means of payment then than they do now. Today, with the increasing use of deposit credit in our interdependent economic system, the nature of the monetary problem has changed again. Bank credit must be kept always available in adequate amounts for the monetary needs of the country. Whether our problem is harder than those that previous generations had, I will not pretend to say. In some respects it is the same, but in the swift pressure of our economic life it is always presenting new aspects even while we study it, and requiring the adaptation of the old instrumentalities to newly developed needs.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9538

April 4, 1936.

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:

"NOYKUD" - Treasury Bills to be dated April 8, 1936, and to mature January 6, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9539

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1936.

SUBJECT: Interpretation of Comptroller's Regulation re Investment Securities.

Dear Sir:

There are inclosed herewith a copy of a letter dated February 28, 1936, from the President of the Federal Reserve Bank of New York, a copy of a letter dated March 2, 1936, from the Assistant Federal Reserve Agent at Cleveland, and a copy of a telegram dated March 6, 1936, from the Assistant Federal Reserve Agent at San Francisco, each of which presents certain questions arising under the provisions of the regulation of the Comptroller of the Currency governing the purchase of investment securities.

Copies of these inquiries were referred to the Comptroller for a statement of his views concerning the questions presented therein. There are inclosed herewith copies of the Comptroller's replies and of the Board's letters to the President of the Federal Reserve Bank of New York, to the Federal Reserve Agent at Cleveland, and to the Assistant Federal Reserve Agent at San Francisco, inclosing copies of such replies.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

COPY X-9539-a

FEDERAL RESERVE BANK
OF NEW YORK

February 28, 1936.

Dear Governor Broderick:

Referring to my conversation over the telephone yesterday, there appears to be some confusion among member banks as to the interpretation and effect of the "Regulations Governing the Purchase of Investment Securities, and Further Defining the Term 'Investment Securities' as Used in Section 5136 of the Revised Statutes as Amended by the 'Banking Act of 1935'", promulgated by the Comptroller of the Currency on February 15, 1936. We received copies of these regulations from the Board on February 26, 1936, and in accordance with the Board's request on that day we mailed copies to all State member banks in this district, copies having previously been sent to all national banks by the Comptroller of the Currency.

Judging from the inquiries which we have received, the confusion in regard to these regulations relates principally to the following points:

1. Whether the regulations prohibit the purchase by member banks of certain municipal obligations which are not readily "marketable" as that term is defined in the regulations.

2. Whether member banks may continue to hold securities which were purchased prior to the issuance of the present regulations and which do not meet the test of "investment securities" as laid down in such regulations, but which the banks were permitted to acquire under the terms of the regulations in effect at the time of purchase.

3. Whether or not the ratings of securities by recognized rating manuals conclusively establish the status of securities as being, or not being, securities "in which the investment characteristics are distinctly or predominantly speculative" within the meaning of subdivision (3) of Section II of the regulations; and, if so, at what point in such scale of ratings are securities to be conclusively deemed to be "distinctly or predominantly speculative", or, in other words, how many of the highest grades of securities as so rated may be considered not to be "distinctly or predominantly speculative". The section in question, and the footnote thereto, read as follows:

"(3) The purchase of 'investment securities' in which the investment characteristics are distinctly or predominantly speculative, or 'investment securities' of a lower designated standard than those which are distinctly or predominantly speculative, is prohibited.* The purchase of securities which are in default, either as to principal or interest, is also prohibited.

* The terms employed herein may be found in recognized rating manuals, and where there is doubt as to the eligibility of a security for purchase, such eligibility must be supported by not less than two rating manuals."

4. Whether all so-called "convertible" bonds are ineligible for purchase by member banks by reason of subdivision (5) of Section II which reads: "Purchase of securities convertible into stock at the option of the issuer is prohibited."

It would be helpful if these points could be clarified and I am therefore calling the matter to your attention in the hope that it may be possible to discuss these questions with the Comptroller's office with a view to such clarification.

With respect to the first point, it is our understanding that as a matter of law neither Section 5136 of the Revised Statutes, nor any regulation of the Comptroller issued thereunder, can apply to "general obligations of any state or of any political subdivision thereof", which would include most municipal securities.

With respect to the second point, it is our understanding that while the present regulations are silent on the question, they do not in fact prohibit a member bank from holding securities which the bank purchased prior to the issuance of such regulations and which the bank was permitted to acquire under the terms of the regulations in effect at the time of purchase.

With respect to the third point, we question the advisability of making the manual ratings the conclusive test of whether or not securities are "distinctly or predominantly" speculative. This is particularly true in the case of new issues which have not yet received ratings and which are often offered to banks on the original issue at a few points below the retail price. Many of these new issues may be entirely sound, and we believe the bank officers should be permitted to exercise their discretion in the

purchase of them when they are honestly believed to be sound investments and otherwise comply with the legal requirements. If, however, it is the Comptroller's purpose to make manual ratings the conclusive test, it would seem to us that the regulations should be more definite as to which grades include, or may include, eligible securities and which are necessarily considered ineligible as speculative. We construe the regulations as now drawn as permitting the purchase of securities in any of the four highest grades, since the definitions in the manuals of the fourth highest grade, that is, the highest of the three grades in the B group, indicate that in general the securities included therein are in the investment class, although in some instances having speculative elements. It appears that there has been considerable confusion on this point, however, as we understand that conflicting views have been expressed as to whether the securities eligible for purchase under the terms of the regulations as now drawn are limited to the three or four highest grades.

With respect to the fourth point, subdivision (5) of Section II in terms prohibits the purchase only of securities convertible into stock "at the option of the issuer" and would not appear to apply to securities convertible only at the option of the holder. Most, if not all, of what are commonly referred to as "convertible" bonds, are convertible only at the option of the holder. These undoubtedly include some entirely sound issues which can be purchased on an investment yield basis without paying any substantial premium for the conversion privilege.

Very truly yours,

(Signed) George L. Harrison

George L. Harrison,
Governor.

Hon. Joseph A. Broderick,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

COPY FEDERAL RESERVE BANK X-9539-b

OF CLEVELAND

March 2, 1936.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Gentlemen:

In order that we may make prompt and accurate replies to inquiries concerning the interpretation of the Comptroller's regulation dated February 15, 1936, governing the purchase of investment securities and further defining the term "investment securities" as used in section 5136 of the Revised Statutes, as amended, we should appreciate it if our understanding of the following items is confirmed.

(1) That investment securities lawfully acquired prior to February 15, 1936, need not be disposed of if such obligations do not conform to terms of the regulation made effective as of that date.

(2) That under the Moody classification bonds rated Baa, defined as those "in which speculative elements begin distinctly to appear," may lawfully be purchased since they may scarcely be classed as investments whose characteristics are "distinctly or predominantly speculative".

(3) Under the Standard Statistics classification, bonds rated B, which are classed as "semi-speculative" are in the twilight zone, their eligibility for purchase being dependent upon the degree to which speculative elements appear.

(4) In Fitch's ratings it is our impression that bonds rated to and including BB may be regarded as proper investments under the terms of the regulation.

(5) Under the Poor classification it is our impression that all bonds rated to and including B* meet the requirements of the regulation.

It is assumed in all cases that bonds are otherwise legally purchasable.

Very truly yours,

(Signed) J. B. Anderson

Assistant Federal Reserve Agent.

COPY X-9539-c

FEDERAL RESERVE SYSTEM

TELEGRAM

263gc

San Francisco Mar 6 338p

Board

Washn

Reference is made to the Comptrollers regulations Governing the purchase of investment securities referred to in the Board's telegram No. 2379. Some State bank members have informed us that prior to receiving the subject regulations they had invested in some instances in non excepted bonds in amounts permitted under State law but in excess of limit prescribed under Section 5136, and wish to be advised whether, in the circumstances, immediate reduction to conform to the provisions of said Section and regulations will be required. It would seem equitable that if reductions are to be required, an orderly liquidation to avoid loss to the bank should be permitted. The Board's advice as to requirements and policy to be followed in the circumstances will be appreciated

Sargent

649p

COPY X-9539-d

TREASURY DEPARTMENT

Comptroller of the Currency

Washington

March 18, 1936.

Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Sir:

Reference is had to yours of March 3, enclosing a copy of a letter received by you from the Governor of the Federal Reserve Bank of New York, dated February 28, 1936, presenting various questions rising under the regulations issued by this office February 15, 1936, governing the purchase of investment securities.

With respect to the questions raised, our position is as follows:

(1) The regulations do not prohibit the purchase by Member Banks of municipal obligations which are not readily "marketable" as defined by the regulations, if such municipal obligations are in fact "general obligations" as distinguished from limited or special obligations, and further provided that such obligations are in fact obligations of a "political subdivision" of the State. This question sometimes becomes important, as, for example, bond issues for the improvement of a municipal electric light plant, where the issue is not by its terms an obligation of the municipality but some unit, board or entity within the municipality.

It will be understood that even though a "municipal" obligation is not a "general obligation" and even though the entity issuing it is not a political subdivision of the State, such obligation may still be eligible for investment provided it meets with all the requirements of the regulations.

(2) The regulations do not require the banks to dispose of securities which are now ineligible under the present regulations but which were purchased prior to the issuance of the regulations, if they were otherwise lawfully acquired at the time of their purchase.

(3) On the question as to whether or not eligibility from a non-speculative standpoint under the regulations is to be conclusively determined by the ratings of rating manuals, we have dealt with this question at length in a separate communication of this date addressed to you, in reply to an inquiry submitted by the Assistant Federal Reserve Agent at Cleveland. Governor Harrison does raise one point not discussed in the above referred to separate communication, namely: the fact that new issues which have not yet received ratings are often offered to the banks, which issues are entirely sound; the query being whether or not absence of a rating in such cases would operate to prevent the acquisition of such securities.

The absence of a rating in no instance is conclusive and if any issue of securities otherwise meets the requirements of the regulations, and if its investment characteristics are not distinctly or predominately speculative, as judged by whatever means are available for determining such question, then the purchase of such a security would be permissible.

(4) With regard to the provision "Purchase of securities convertible into stock at the option of the issuer is prohibited", it was not intended that such provision should operate to prohibit the purchase of securities convertible only at the option of the holder.

Very truly yours,

(Signed) J. F. T. O'Connor

J. F. T. O'CONNOR,
Comptroller.

COPY X-9539-e

TREASURY DEPARTMENT

Comptroller of the Currency

Washington

March 18, 1936.

Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Sirs:

This acknowledges yours of March 10, enclosing a copy of a letter dated March 2, 1936, received by you from the Assistant Federal Reserve Agent at Cleveland, and a copy of a telegram dated March 6, 1936, from the Assistant Federal Reserve Agent at San Francisco, both of which raise certain questions of interpretation under the regulations recently issued by this office relative to investment securities.

As respects the letter from the Assistant Federal Reserve Agent at Cleveland, the questions raised therein are as follows:

(1) Whether or not investment securities lawfully acquired prior to February 15, 1936, need to be disposed of if such obligations do not conform to the terms of the regulations.

If the investment securities were lawfully acquired prior to the issuance of the regulations, there is no obligation under the regulations to dispose of same.

Under questions (2), (3), (4) and (5) the inquiry is made as to whether bonds classified under certain rating symbols by the various rating services are to be considered as within the eligible classification defined in Section II (3) of the regulations.

This office has had numerous inquiries of a similar nature from banks and from the public, and we have consistently refrained from specifically advising whether or not a security under a specific rating classification of a specific rating service is eligible. This position has been taken for the reason that such information may operate to cause those responsible for the investments of the bank to assume that their responsibility has been borne when they determine that a particular security falls within a specific rating classification, with the result that the judgment of the rating service supplants

the responsibilities of those primarily charged with properly investing the bank funds. Furthermore, it is not possible to draw a definite line that would operate satisfactorily in the case of all rated securities. In individual cases a security of a rating one class below what would be generally considered satisfactory might for particular reasons still be eligible, and vice versa.

It was intended that reference to the rating manuals was not to be the exclusive guide on the question of eligibility but that the use of such manuals was to be permissible as an aid in determining eligibility, particularly in the case of banks which do not have the facilities for making an independent investigation of the history and prospects of an issuer.

You will appreciate from the foregoing considerations that we cannot state that a security having a specific rating is necessarily within the eligible class.

The question raised by telegram from your Assistant Federal Reserve Agent at San Francisco involves a situation where the State banks, prior to receiving the regulations, had invested in non-excepted bonds in amounts permitted under State law but in excess of the limit prescribed under Section 5136, and the question is raised as to whether in the circumstances immediate reduction to conform to the limitations will be required, it being suggested that if reductions are to be required, an orderly liquidation to avoid loss to the bank should be permitted.

Inasmuch as the limitations as to amount prescribed in Section 5136 of the Revised Statutes were made effective as to State Member Banks by the Banking Act of 1933, as of June 16, 1933, the limitations prescribed by Section 5136 as amended from time to time naturally operated from that date. Consequently, securities purchased in excess of the limitations subsequent to June 16, 1933, by the State Member Banks were held in violation of law independent of our regulations, and it would seem to follow that such holdings should be reduced in conformity to the limitations. As to whether or not such reduction must be immediate or gradual in order to avoid loss, that is a matter of policy, and as respects National Banks which may have excess holdings of securities, a gradual liquidation in most cases would be permissible if immediate liquidation would involve loss to the bank.

Very truly yours,

(Signed) J. F. T. O'Connor

J. F. T. O'CONNOR,
Comptroller.

COPY

X-9539-f

April 4, 1936.

Mr. George L. Harrison, President,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Harrison:

This refers to your letter to Mr. Broderick dated February 28, 1936, regarding the interpretation of the regulation issued under the provisions of section 5136 of the Revised Statutes by the Comptroller of the Currency, governing the purchase of investment securities.

Your letter was referred to the Comptroller for an expression of his views upon the questions presented therein. There is inclosed herewith a copy of a reply from the Comptroller, which was received by the Board on March 25, 1936, setting forth his views concerning the questions presented in your letter.

A copy of the letter referred to in paragraph numbered (3) of the Comptroller's letter is also inclosed herewith.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures

COPY

X-9539-g

April 4, 1936

Mr. E. S. Burke, Jr.,
Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Burke:

This refers to Mr. Anderson's letter of March 2, 1936, presenting certain questions concerning the interpretation of the Comptroller's regulation governing the purchase of investment securities which was promulgated under the authority of section 5136 of the Revised Statutes.

A copy of Mr. Anderson's letter together with a copy of a telegram from the Assistant Federal Reserve Agent at San Francisco was submitted to the Comptroller of the Currency with a request for an expression of his views thereon.

A copy of the Comptroller's reply, which was received by the Board on March 25, 1936, is inclosed herewith.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

COPY X-9539-h

April 4, 1936.

Mr. S. G. Sargent,
Assistant Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Sargent:

This refers to your telegram dated March 6, 1936, presenting a question regarding the interpretation of the Comptroller's regulation governing the purchase of investment securities which was promulgated under the authority of section 5136 of the Revised Statutes.

A copy of your telegram, together with a copy of a letter from the Assistant Federal Reserve Agent at Cleveland, was submitted to the Comptroller of the Currency with a request for an expression of his views thereon. There is inclosed herewith a copy of the Comptroller's reply, which was received by the Board on March 25, 1936.

It will be observed that the Comptroller has stated that, in the case of national banks which hold securities in excess of the limitations prescribed by section 5136, a gradual liquidation in most cases would be permissible if immediate liquidation would involve loss to the bank.

Likewise, it is the view of the Board that, in cases of the kind described in your telegram where a State member bank holds investment securities in excess of the limitations prescribed by section 5136, a gradual liquidation is permissible if immediate liquidation would involve loss to the bank.

Very truly yours,
(Signed) Chester Morrill
Chester Morrill,
Secretary.

Inclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9540

April 4, 1936.

Dear Sir:

In its letter of December 3, 1935, (X-9385), relating to the issuance of general voting permits, the Board advised you that, as a condition to the issuance of such permits, each holding company affiliate would be required to execute an agreement in the form accompanying such letter, subject to any changes and with any additional provisions prescribed by the Board in the particular case.

Paragraph numbered 7 of the form of agreement contains the following provision:

> "and that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments."

In view of the restrictions and limitations imposed upon national banks by law, the Board has recently decided that such a provision is not essential where the holding company affiliate is a national bank. Therefore, in authorizing the issuance of general voting permits to national banks in the future, the Board will modify the above-mentioned paragraph of the required agreement to read as follows:

> "That the management of the undersigned will be, and the undersigned will take such action within its power as may be necessary to cause the management of each of its subsidiaries to be, conducted under sound policies governing its financial and other operations, including statements issued relating thereto; that the undersigned will maintain a sound financial condition; and that its net capital and surplus funds shall be adequate in relation to the character and condition of its assets and to its liabilities and other corporate responsibilities."

Appropriate action will be taken to modify in a similar manner the agreements heretofore executed by national banks.

It may also be noted that, in authorizing the issuance of general voting permits to national banks, the Board has uniformly modified the standard form of agreement by providing that paragraphs numbered 1 and lettered (C) should be omitted and that paragraph numbered 4 should be changed to read as follows:

> "That the undersigned will comply, and will take such action within its power as may be necessary to cause each subsidiary national bank or affiliate of such subsidiary national bank or of the undersigned to comply, with the recommendations or suggestions of the Comptroller of the Currency based upon any report of examination made to him pursuant to authority conferred by law and with the regulations or requirements of the Board of Governors of the Federal Reserve System made pursuant to authority vested in it by law;".

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9541

April 6, 1936.

Dear Sir:

One of the Federal Reserve banks has requested the Board of Governors of the Federal Reserve System to modify the instructions contained in its letter, X-9405, of December 27, 1935 so as to permit a Federal Reserve bank, in its discretion, to pay to an employee under age 55 with 10 years or more of service who is involuntarily separated from the service of the Federal Reserve bank a dismissal wage equal to 6 months' salary in lieu of the payments authorized in the Board's letter above referred to.

The Board has given careful consideration to this request and, inasmuch as employees who lack many years of having attained age 55 may find it more advantageous to them to receive a dismissal wage equal to 6 months' salary rather than the payments authorized in the Board's letter X-9405, the Board authorizes your bank, in its discretion, to pay not to exceed 6 months' salary in a lump sum, or in not to exceed 6 monthly installments, to employees under age 55 with 10 years or more of service who are involuntarily

separated from the service of your bank, in lieu of the benefits authorized in paragraph (a) of its letter, X-9405, of December 27, 1935.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9542

April 7, 1936.

Dear Sir:

I am writing this letter for the further information of your bank in connection with the construction of the new building for the Board of Governors at Washington, D. C.

The occupancy of the existing temporary building on the Board's site by another Government agency caused some delay in starting the work of demolition but on December 30, 1935, a contract was entered into with Hechinger Engineering Corporation of Washington, D. C., which was the highest bidder, for the sum of $18,358, which was paid in cash to the Board of Governors, and work was started on January 2, 1936. This work has been completed.

The studies prepared by Mr. Cret following his selection as architect were approved by the National Capital Park and Planning Commission and the Fine Arts Commission.

After considering carefully the various types of contracts which might be entered into for the construction of the new building, the Board decided to issue invitations to a number of leading builders to bid for the work on a lump sum competitive basis

and on January 29, 1936, these bids were opened. The George A. Fuller Company was found to be the lowest bidder and the contract was awarded to that company for the aggregate sum of $3,484,000. The contract was entered into on January 30, 1936, and calls for completion of the work within 485 calendar days from the date of notice to proceed, which was given on January 31. The work of excavation is nearing completion and pile driving has been started.

The Board decided not to avail itself of the option under its contract with the architect of requiring the architect to provide the inspection of the building operation, but instead decided to employ a superintendent and the necessary help, who would be directly responsible to the Board for this aspect of the job but would cooperate fully with the architect.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9543

April 10, 1936.

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:

"NOYLAF" - Treasury Bills to be dated April 15, 1936, and to mature January 13, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9544

April 13, 1936.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of March, 1936.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. PRESIDENTS

X-9544-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
March 2 to 31, 1936.

SERIES 1934

	$5	$10	$20	Total Sheets	Amount
Boston,.....	72,000	90,000	2,000	164,000	$14,104.00
New York,.....	160,000	404,000	20,000	584,000	50,224.00
Philadelphia,....	-	44,000	18,000	62,000	5,332.00
Cleveland,.....	26,000	43,000	30,000	99,000	8,514.00
Richmond,.....	76,000	50,000	-	126,000	10,836.00
Atlanta,.....	35,000	20,000	20,000	75,000	6,450.00
Chicago,.....	124,000	106,000	34,000	264,000	22,704.00
St. Louis,.....	-	24,000	-	24,000	2,064.00
Minneapolis,.....	30,000	28,000	-	58,000	4,988.00
Kansas City,.....	50,000	48,000	24,000	122,000	10,492.00
Dallas,.....	50,000	56,000	10,000	116,000	9,976.00
San Francisco,...	80,000	41,000	26,000	147,000	12,642.00
	703,000	954,000	184,000	1,841,000	$158,326.00

1,841,000 sheets, @ $86.00 per M,..... $158,326.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9545

April 13, 1936.

SUBJECT: Payment of Interest after Maturity on Time Certificate of Deposit Renewed Within Ten Days after Maturity.

Dear Sir:

There is inclosed herewith a copy of a letter to the Assistant Federal Reserve Agent at Chicago relating to the payment after maturity of interest on a time certificate of deposit which has been renewed within ten days after maturity.

It will be appreciated if you will bring the substance of this letter to the attention of all of the member banks in your district.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT CHICAGO AND MINNEAPOLIS.

X-9545-a

April 13, 1936.

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

Dear Mr. Young:

This refers to the letter of March 13, 1936, from Mr. Stevens, regarding the difference between section 3(f) of Regulation Q and section 3(e) of Regulation IV of the Federal Deposit Insurance Corporation, relating to the payment of interest after maturity on deposits which are renewed within ten days after maturity.

The terms of Regulation Q do not contain a provision for the payment by a member bank of interest on a time deposit between the date of maturity of the certificate representing such deposit and the date of the renewal of such certificate even though such renewal certificate is dated back to the date of the maturity of the original certificate.

However, after considering all of the attendant circumstances, the Board has decided that it will offer no objection to the payment by a member bank of interest on a time deposit at a rate not exceeding the applicable maximum rate prescribed in Regulation Q for the period between the maturity date of the certificate representing such deposit and the date of renewal thereof, provided such certificate is renewed within ten days after maturity

and the renewal certificate is dated back to the date of maturity of the original certificate.

It will be appreciated if you will bring the substance of this letter to the attention of all of the member banks in your district.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

April 10, 1936.

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

Dear Mr. Young:

This refers to your telegram dated April 7, 1936, requesting a specific ruling by the Board upon the question whether a deposit of a labor union may be classified by a member bank as a savings deposit under the provisions of section 1(e) of Regulation Q.

As you know, this section provides that a deposit of a corporation, association, or other organization may not be classified as a savings deposit unless the organization is not operated for profit and, in addition, is operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes. Without regard to the question whether or not labor unions are operated for profit, it is the view of the Board that they may not properly be considered as organizations operated primarily for the above purposes within the meaning of section 1(e) of Regulation Q. Accordingly, deposits of labor unions may not be classified by member banks as savings deposits.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9547

(Not to be released
to the press)

THE BANKING ACT OF 1935 - TITLE II

Address by

M. S. SZYMCZAK, MEMBER
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Delivered at

The Forum Dinner of the
Baltimore Chapter of the American Institute of Banking

Friday, April 17, 1936
6:00 p. m.

Main Ballroom, Lord Baltimore Hotel,
Baltimore, Maryland.

BANKING ACT OF 1935

TITLE II

The Banking Act of 1935 is divided in three parts. The first part, Title I, deals exclusively with Federal Deposit Insurance. The third part, Title III, comprises almost exclusively amendments intended to clarify and correct previously existing provisions of the law, and is chiefly of technical importance. The second part, Title II, makes changes in the organization of the governing board of the Federal Reserve System and in its authority to control credit. I shall limit myself to discussion of the provisions of Title II.

In general terms, I think the most important accomplishment of the Banking Act of 1935 so far as the Federal Reserve System is concerned is that it strengthened and clarified the lines of credit control. A few changes affecting the organization and functions of the Federal Reserve banks were made, but they were not changes in essentials. The most conspicuous of these changes was that the title of President was given to the principal executive officer. Formerly his title was Governor. The title of Vice President now replaces the former title of Deputy Governor. As you know, the former titles, Governor and Deputy Governor, were not mentioned in the Federal Reserve Act. The office of Governor was originally created under the general authority which the Federal Reserve Act gave the directors of the Federal Reserve banks to arrange for such officers as were necessary for the administrative work of the banks. Originally, the only

office specifically mentioned by the Act, other than that of director, was that of Federal Reserve Agent and Chairman, with assistant agents and deputy chairmen. The Banking Act of 1935 in designating the President of the Federal Reserve bank as its chief executive officer merely recognized an arrangement that had developed under general authority and that had proved itself desirable from the point of view of Federal Reserve Bank administration.

The organization of the governing board of the System was changed considerably by the Banking Act of 1935. In the first place, the old name "Federal Reserve Board" was changed to "Board of Governors of the Federal Reserve System". At the same time, the chief executive officer of the Board was designated as Chairman. Furthermore, the number of members of the Board was changed from eight to seven and all of these members were made appointive. Formerly, as you know, the Secretary of the Treasury and the Comptroller of the Currency were ex officio members of the Board.

The term of office of the members of the Board was formerly 12 years. Under the new law, the terms of members now in office range from 2 to 14 years and their successors in office will have terms of 14 years so arranged that the term of one member will expire every 2 years. Since a member who has served a full term of 14 years is not eligible for reappointment, there will be a regularly recurring change in membership; one member leaving the Board and a new one being appointed every 2 years, unless more frequent changes occur from deaths

or resignations.

The more important changes effected by the 1935 Act, however, have not to do with these matters of organization so much as with the function and authority of the governing Board in the field of credit.

The instrumentality that is now considered the most important for the control of credit is one that in the original reserve act was given only rudimentary attention. I refer to open market operations, with respect to which very significant changes were made by the Banking Act of 1935.

The principle of open market operations is of course simple. If securities are sold in the market by the Federal Reserve banks, they must of necessity be paid for with bank funds, for they will be bought either by the banks themselves or by bank customers. Consequently, in the process of paying for them there will necessarily be debits to be entered against the reserve accounts maintained with the reserve bank by the member banks. Upon completion of these entries, the reserve bank will have disposed of certain assets and simultaneously will have decreased the total amount outstanding to the credit of member banks in their reserve accounts. The Reserve bank does not know in advance of its transactions what particular member bank accounts will be affected nor by how much, but it knows that if it sells securities available member bank credit will be diminished.

If, as a consequence, reserves are reduced to a minimum, the member banks are immediately impelled to restrict their extensions of

credit, for they cannot continue making loans and increasing the deposit credit outstanding on their books without incurring a deficiency in their reserves. The result of the Reserve bank's action in selling securities, therefore, is to curtail the lending power of member banks and to tighten the money market.

On the other hand, if securities are bought by the Reserve bank, the result will be that in the process of paying for them the Reserve bank will have to credit the reserve accounts of member banks. Again it does not know to what extent particular member banks will be affected, but it does know that reserves in general will be increased. By the same token the lending power of the member banks will be increased and general credit conditions will be eased. In the first stages of a buying program, the effect will be to enable banks to pay off any obligations they may owe, but if a buying program is continued long enough it may result in an accumulation of excess reserves.

In addition to the effect upon the reserves of member banks, there is also an effect upon bank deposits in general - even non-member bank deposits; because, if an investor or an institution buys some of the securities sold by the Reserve bank, payment will ordinarily be made out of a checking account and deposits will be decreased by so much. If, on the other hand, the Reserve bank is buying securities, and institutions and individuals are selling to it, the payments made by the Reserve bank will increase the deposit credit outstanding on the books of banks. Accordingly, banks which are not members of the

Federal Reserve System and banks which themselves have not purchased or sold securities as a result of the Reserve bank's action, will nevertheless be affected by it, either in their reserves or in their deposits, or in both. The money market as a whole will be influenced.

In the early days of the System the Federal Reserve banks at first attempted to carry on their open market operations independently of one another, but it soon became clear that their actions must be coordinated. Otherwise they might find themselves competing with one another, and in conflict as between their own transactions and those transactions which as fiscal agents of the Government they were conducting for the United States Treasury. Accordingly, in 1922 a committee of Reserve bank officers was appointed for the purpose of coordinating the operations. About the same time the purpose of the operations was clarified. The principle laid down was: "That the time, manner, character, and volume of open-market investments purchased by Federal Reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation."

For some time prior to this there had been a tendency to allow purchases and sales of securities to be influenced by profit as an objective. The statement of principle which I have just quoted meant a definite abandonment of that objective. This was in line with the general policy of central banks in conducting open market operations; they do so definitely with the idea of correcting market tendencies

and not for the purpose of making earnings.

The Banking Act of 1933 gave open market operations more specific recognition than they had had in the original Act. It gave statutory standing to the Federal Open Market Committee, which by then comprised one representative from each Federal Reserve bank. No Reserve bank could engage in open market operations except in accordance with regulations of the Board. At the same time the Act adopted substantially the same statement of purpose which had already governed open market operations.

The Banking Act of 1935 gave still further attention to the machinery of open market operations and to recognition of their importance. The Federal Open Market Committee was reconstructed to comprise the members of the Board of Governors of the Federal Reserve System and five representatives chosen regionally by the twelve Federal Reserve banks. This made the members of the Board constitute a majority of the Committee, and marked considerable development away from the original informal arrangements by which the Federal Reserve banks first conducted open market operations on their own initiative and then under the direction of a Committee on which the Board was not specifically represented. Furthermore, under the terms of the Banking Act of 1935, the Federal Reserve banks may neither engage nor decline to engage in such operations except in accordance with the directions and regulations of the Committee.

Another requirement of the Act is that a complete record be kept

of the action taken on all questions of policy relating to open market operations, including a record of votes taken in connection with the determination of open market policies and a statement of the reasons underlying the action taken, and that this record be included in the Board's annual report. The publication of this record will give the public an opportunity to study the decisions as to open market policy and credit policy in general, and should help clarify public discussions of national credit policy. It will also accentuate the individual sense of responsibility, for members of the Committee will be called on not only to decide on credit policy, but to give publicly the reasons for their decisions.

It is clear, I think, that as a result of experience and statutory amendments, open market operations have taken a far more important place in general credit policy than they formerly had. It is also clear, I think, that open market operations have become a more important or at least a more positive device of credit control than discount rates. When the Federal Reserve Act was adopted the prevailing idea probably was that discount rates were not only the most definite means of credit control, but the most important. The thought was that as banks felt more and more demand from borrowers and went to the Reserve banks to procure the funds to meet it, they would encounter a rising discount rate, which would have the effect of tempering the demand and preventing an excessive use of credit. Conversely, as conditions improved, business activity would be encouraged

by the fact that banks could procure funds to lend at a progressively lower rate. The most obvious difficulty with this theory, however, is that banks have not shown a disposition to borrow from the Reserve banks in order to relend. Banks don't like to borrow, and as a general thing they won't borrow unless they have to, no matter how low the discount rate is. Consequently, the effectiveness of the Federal Reserve discount rate is, by itself, rather limited. It is significant as an index of the cost of credit, but it does not come into action otherwise until a member bank finds it necessary to replenish its reserves. As I have already indicated, however, a member bank may be forced into such a position as the result of sales of securities by the Reserve bank, and the discount rate then becomes effective.

In other words, an important difference between discount rates and open market operations in practical effect is that open market operations give the central banking organization the initiative in the control of credit, whereas the discount rate by itself offers the controlling authority no handles to seize; it must bide its time passively until the situation is so bad that demand for funds is voluntarily made. This delay may seriously impair the power of the Federal Reserve bank to help the situation.

With respect to discount rates the Banking Act of 1935 made only one change. This was to require that they be established every fourteen days or oftener. It is not necessary that the rates be changed every time, but they must at least be reviewed and reestablished.

With respect to the reserves which member banks are required to maintain, the Banking Act of 1935 simplified the conditions under which the Board of Governors of the Federal Reserve System may alter the amount of reserves which is prescribed in the law. Prior to 1933, there was no authority to change reserve requirements administratively, but an act of May 12 of that year empowered the Board, with the approval of the President, to declare that an emergency existed and during the emergency to increase or decrease the reserve balances to be required. The Banking Act of 1935 allows reserve requirements to be changed by the Board without declaration that an emergency exists and without approval of the President. It does not permit, however, requirements to be reduced below the percentages stated in the statute nor to be more than doubled. The purpose of any change made in the requirements must be, in the words of the law, "to prevent injurious credit expansion or contraction."

I mentioned the requirement of the Banking Act of 1935 that a record be kept and published of the action taken with respect to open market operations. The Act also makes a similar requirement with respect to all questions of policy determined by the Board. A record of action taken, of votes upon policy, and of reasons underlying decisions is to be included in the annual report of the Board.

The responsibilities of the Federal Reserve banks as fiscal agents of the United States were not changed by the Banking Act of 1935, except for a provision which permits the Reserve banks to buy

government obligations only in the open market; direct purchases from the Treasury are not authorized.

I think that the foregoing covers sufficiently the more prominent changes which the Banking Act of 1935 made with respect to Federal Reserve functions. There are also two provisions of Title II which bear on member bank lending powers.

Indirectly, the Act tends to broaden these powers by giving the Reserve banks authority to make advances to member banks on any satisfactory security. The former provisions still stand as to paper that is known under the original terms of the Federal Reserve Act as "eligible" for discount - paper, that is, which originates in connection with industrial, commercial or agricultural transactions - and they also still stand as to advances to member banks on notes secured by eligible paper or by Government obligations. The new provisions are added to these old ones without altering them. Advances authorized by the new provisions are simply required to be secured to the satisfaction of the Reserve bank, to bear a rate of interest at least one-half percent above the Reserve bank's discount rate, and to have maturities of not more than four months. At present, when the banks have large excess reserves, this new provision in the law may not seem very important. But times may change. If and when they do, the new provisions mean that, assuming a bank's assets are good, the Federal Reserve bank will be able to advance money on them, no matter what the type of paper, or the nature of the transactions in which

they originated. In other words, borrowing from the Federal Reserve bank has now been made possible on other than technical conditions of eligibility alone. This is very important. Many banks in recent years would have had much less trouble if they could have taken to the Reserve bank some of their assets which were good, but not legally eligible under the old terms of the law, instead of having to sacrifice them on a demoralized market. Provision for such advances was first adopted as a temporary, emergency measure in 1932, but the Banking Act of 1935 made it permanent.

The original provisions of the law with respect to eligible paper were based on the principle that since the liabilities of banks were payable on demand they should be offset by short-term self-liquidating paper based on specific transactions involving the exchange of goods. The amendments added by the Banking Act of 1935 are based on the principle that in fact American banks do not specialize in one type of credit as against another. They deal in credit of all sorts. They combine long term and short term credit functions. There is not enough short-term commercial paper to fill more than a small part of their portfolios. They accept the savings and time deposits of their communities and they also hold long term obligations of their communities. The new provisions for eligibility make the Federal Reserve Act cognizant of these realities and adapt the powers of the Reserve banks to them.

In a more direct way, the Banking Act of 1935 broadened lending

powers by liberalizing the conditions under which National banks may make real estate loans. The old stipulation that the real estate upon which such loans are made must be situated in the bank's Federal Reserve district or within a hundred miles of the bank, has been removed; and loans which are amortized are now permitted in amounts up to 60 percent of the appraised value of the property and with maturities of as much as ten years, provided installment payments are sufficient to repay at least 40 percent of the principal in that time. The Act also increased the permissible aggregate of real estate loans which a national bank may hold.

I think the principal effects of the Banking Act of 1935 may be summarized as follows:

In the first place, while the Federal Reserve banks remain essentially unchanged in organization and function, the importance of their central banking activities has been more clearly recognized.

Second, the Federal Open Market Committee has been given a more effective position in the System and more definite authority.

Third, the Board of Governors has been given larger powers and more direct responsibilities, and the principles upon which the System is to be administered have been more clearly developed.

Fourth, the 6,400 member banks have been given broader lending powers, and the facilities of the Federal Reserve banks have been made available to them on less technical and restrictive terms.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9548
April 15, 1936.

SUBJECT: Employment of special counsel
by Federal Reserve banks.

Dear Sir:

In connection with the Board's letter, X-4531, of February 15, 1926 ruling, as an administrative matter, that the compensation paid by the Federal Reserve banks to attorneys employed to assist the bank's regular counsel should have its approval and that before employing a special attorney whose services were likely to require an expenditure by a Reserve bank in excess of $1,000 the matter should be submitted to the Board, one of the Federal Reserve banks has pointed out that from time to time cases arise of such a nature that it cannot be said in advance what services will be necessary and consequently where the likelihood of the fee exceeding $1,000 is dependent entirely upon the development of the case after the time of the original employment.

The counsel for the Federal Reserve bank in question advised that in such cases it had heretofore been his practice to employ associate counsel where necessary but that such associate counsel had

been asked to agree that the fee would be subject to the review of the Board of Governors of the Federal Reserve System if the Board wished to review it. The Board was asked if such practice was in accordance with its requirements in connection with the previous ruling.

The Board has considered the matter and has decided that in cases where there is a possibility that the entire fee may exceed $1,000 but where the initial fee does not exceed such sum and where there is reasonable expectation that the case will be disposed of without the necessity of the payment of an additional fee, Federal Reserve banks, without the necessity of submitting the matter to the Board, may employ special counsel subject to the following conditions:

1. That an agreement be obtained from such special counsel that the fee will be subject to final review and approval by the Board; and

2. That such Federal Reserve bank, before paying any fee, which together with fees already paid, will exceed $1,000, submit the same to and obtain the approval of the Board.

Yours very truly,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9549

April 15, 1936.

Subject: Deposits of Uninvested Trust Funds in Federal Reserve Banks.

Dear Sir:

At the conference of Governors of the Federal Reserve banks on October 23, 1935, the matter of the acceptance of deposits of uninvested trust funds from member banks by Federal Reserve banks was discussed, and the conference expressed itself as favoring such a practice with the qualification that transactions in an account in which such trust funds are received be confined to transfers to and from the reserve account of the member bank. Four of the Governors voted in the negative.

This matter had been placed upon the program of the Governors' conference pursuant to a suggestion contained in a letter addressed by the Board to the Deputy Governor of the Federal Reserve Bank of San Francisco, a copy of which was inclosed with the Board's letter of July 1, 1935 (X-9253). The Board's letter suggested that the Governor and Counsel for each Federal Reserve bank give careful consideration to the practical and legal aspects of the problem involved.

Since the action of the Governors' conference this matter has been receiving study, but before any conclusions are reached by the Board it is desired to have the benefit of the consideration which has been given to the problem by the Federal Reserve banks. Accordingly, it will be appreciated if you will furnish to the Board copies of any opinions or memoranda (not previously submitted to the Board) which may have been prepared by Counsel or other officers of your bank, either prior to the consideration of this question at the Governors' conference in October or since that time, with regard to the authority of your bank to receive such deposits of uninvested trust funds or as to the legal or practical responsibilities which may be assumed by the bank in accepting such deposits.

It will also be appreciated if you will advise the Board of your views, after consulting with Counsel, on the question whether, if deposits of uninvested trust funds are received from member banks by Federal Reserve banks, a member bank should be permitted to deposit in one account with the Federal Reserve bank the funds of any number of trust estates held by the member bank without earmarking or segregation, or whether it is necessary or advisable from the standpoint either of the Federal Reserve bank or member bank that a separate account be opened for each trust estate whose funds are deposited in the Federal Reserve bank. In this connection attention is invited to the principle that a fiduciary should keep the properties of various trusts separate and distinct one from another.

The action of the Governors' conference appears to contemplate the possibility of a Federal Reserve bank receiving trust funds awaiting investment or distribution not only from a member bank but also from a trust company engaged exclusively in conducting a trust business and owned by a member bank. Such a trust company, it is assumed, would not be a member of the Federal Reserve System and it does not appear on what basis the receipt by a Federal Reserve bank of uninvested trust funds from such an institution could be legally justified, even if the receipt of such funds from a member bank is legally authorized. The Board will be glad to have any comments you may care to offer with respect to this or any other aspect of the problem which you feel might well be considered in arriving at a conclusion in this matter.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9550

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

April 16, 1936.

SUBJECT: Extended Leaves of Absence with Pay.

Dear Sir:

There is attached, for the information and guidance of your bank, a copy of a letter which the Board has today addressed to the Federal Reserve Agent at the Federal Reserve Bank of Dallas, in which the Board states that it will offer no objection, in the circumstances stated therein, to granting employees of the bank sufficient leave in addition to their regular annual leave to enable them to attend the special two weeks' course offered by the Graduate School of Banking at Rutgers University or to attend as delegates the annual conference of the American Institute of Banking.

The Board's action in this case modifies the instructions contained in its letter of December 5, 1932 (X-7303), by relaxing to the extent indicated above the requirement that "the Board's advance approval should be obtained in any case where annual leave is extended beyond the regular vacation to any officer or employee."

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

X-9550-a

April 16, 1936.

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

Dear Mr. Walsh:

Reference is made to your letter of March 31 reporting that leave of absence has been granted, subject to the Board's approval, from June 17 to June 19, inclusive, and from July 6 to July 8, inclusive, in excess of the usual annual vacation, to _____ _____ to enable him to attend the second annual session of the Graduate School of Banking at Rutgers University from June 20 to July 5.

The Board will offer no objection to your granting to employees of your bank who have been accepted for special courses offered by the Graduate School of Banking at Rutgers University, which it is understood is a two weeks' course, sufficient leave in addition to their regular annual leave to enable them to attend the course. The Board will also offer no objection to your granting such additional leave as may be necessary to enable employees of the bank who have been elected as delegates to the annual conference of the American Institute of Banking to attend such conference.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9551

April 17, 1936.

SUBJECT: Daylight Saving, 1936.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that, beginning Monday, April 27, and ending Saturday, September 26, 1936, the following Federal Reserve banks and branches will operate under daylight saving time:

Boston	Philadelphia
New York	Pittsburgh
Buffalo	
	Atlanta

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9552

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 17, 1936.

SUBJECT: Holidays During May, 1936.

Dear Sir:

On Saturday, May 30, there will be neither transit nor Federal reserve note clearing and the books of the Board's Inter-district Settlement Fund will be closed. The offices of the Board and all of the Federal reserve banks and branches will be closed on that day except those listed below:

Atlanta	Little Rock
New Orleans	Memphis
Birmingham	
Nashville	
Jacksonville	

The Board of Governors is further advised that holidays will also be observed during the month of May, as follows:

Tuesday, May 5	San Francisco Los Angeles	Primary election day
Monday, May 11	Charlotte	Observance of Confederate Memorial Day (which falls on Sunday)
Friday, May 15	Portland	Primary election day
Wednesday, May 20	Charlotte	Mecklenburg Independence Day

On the dates given, the offices mentioned will not participate in either the transit or the Federal reserve note clearing through the

Inter-district Settlement Fund. Please include transit clearing credits for the offices concerned on each of the holidays with your credits for the following business day. No debits covering shipments of the Federal reserve notes for the account of the Federal Reserve Bank of San Francisco should be included in the Federal reserve note clearing on Tuesday, May 5.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9553

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1936.

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:

"NOYLES" - Treasury Bills to be dated April 22, 1936, and to mature January 20, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9554

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1936.

SUBJECT: Reports by Comptroller of Violations of Clayton Act and Section 32 of the Banking Act of 1933.

Dear Sir:

Heretofore it has been the practice of the office of the Comptroller of the Currency to report to the Board apparent violations of section 8 of the Clayton Act which were noted in reports of examination of national banks. Recently, however, instructions have been issued in his office that it is no longer necessary to report such apparent violations to the Board. Apparently these instructions were issued in view of the provisions of section 4 of Regulation L, as revised, which provides among other things that each Federal reserve agent shall cause the information contained in reports of examination of member banks and other information available to him to be analyzed with a view to discovering apparent violations of that Act.

It is understood that the same procedure will be followed in the office of the Comptroller with respect to apparent violations of section 32 of the Banking Act of 1933, on the assumption that the Federal reserve agents will take steps, in connection with that

section, similar to those prescribed in Regulation L in connection with the Clayton Act.

It is assumed, of course, that such steps are being taken by your office in connection with section 32, and therefore the Board has not suggested the advisability of any modifications in the procedure adopted in the office of the Comptroller with respect to these two statutory provisions.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9555

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1936.

SUBJECT: Expense, Main Lines, Leased Wire System, March, 1936.

Dear Sir:

Inclosed herewith you will find two mimeographed statements, X-9555-a and X-9555-b, covering in detail operations of the main lines of the Leased Wire System, during the month of March, 1936.

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 Inter-district Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosures.

TO PRESIDENTS 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, 1936.

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	35,994	1,378	37,372	4.89
New York	150,575	-	150,575	19.72
Philadelphia	29,175	1,457	30,632	4.01
Cleveland	44,444	1,391	45,835	6.00
Richmond	51,590	1,444	53,034	6.94
Atlanta	53,151	1,527	54,678	7.16
Chicago	83,397	1,789	85,186	11.16
St. Louis	55,371	1,793	57,164	7.49
Minneapolis	33,570	1,427	34,997	4.58
Kansas City	62,845	1,577	64,422	8.44
Dallas	63,707	1,571	65,278	8.55
San Francisco	82,505	1,937	84,442	11.06
Total	746,324	17,291	763,615	100.00

Board business	338,335	1,101,950
Reimbursable business Incoming & Outgoing		520,209
Total words transmitted over main lines		1,622,159

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-9555-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, 1936.

Name of bank	Operators' Salaries	Retirement Contributions	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Board
Boston	$ 260.00	$ 12.45	$1.00	$ -	$ 273.45	$ 775.22	$ 273.45	$ 501.77
New York	1,283.30	64.80	1.00	-	1,349.10	3,126.24	1,349.10	1,777.14
Philadelphia	225.00	11.39	-	-	236.39	635.71	236.39	399.32
Cleveland	306.66	15.03	-	-	321.69	951.19	321.69	629.50
Richmond	190.00	9.79	-	230.00(&)	429.79	1,100.21	429.79	670.42
Atlanta	262.50	13.26	-	-	275.76	1,135.09	275.76	859.33
Chicago	3,948.71(#)	184.21	8.00	-	4,140.92	1,769.21	4,140.92	2,371.71(*)
St. Louis	176.00	8.91	-	-	184.91	1,187.40	184.91	1,002.49
Minneapolis	154.16	8.29	-	-	162.45	726.07	162.45	563.62
Kansas City	287.00	16.16	-	-	303.16	1,338.01	303.16	1,034.85
Dallas	251.00	12.35	-	-	263.35	1,355.44	263.35	1,092.09
San Francisco	380.00	19.11	-	-	399.11	1,753.36	399.11	1,354.25
Board	-	-	-	14,997.02	14,997.02	-	-	-
Total	$7,724.33	$375.75	$10.00	$15,227.02	$23,337.10	$15,853.15	$8,340.08	$9,884.78
Less Reimbursable Charges					7,483.95			2,371.71(a)
					$15,853.15(b)			$7,513.07

(&) Main line rental, Richmond-Washington
(#) Includes salaries of Washington operators
(*) Credit
(a) Amount reimbursable to Chicago
(b) Includes $386.19, which represents cost of handling contingent expense telegrams for the Treasury Department for the month of March, 1936.

X-9556

(Not to be released to the press)

THE FEDERAL RESERVE SYSTEM AND THE BANKING ACT OF 1935

Address by

M. S. SZYMCZAK, MEMBER
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Delivered Before The

Forty-Fifth Annual Convention of the
Georgia Bankers Association

Thursday, April 23, 1936
9:00 P. M.

Bon Air Hotel
Augusta, Georgia.

THE FEDERAL RESERVE SYSTEM AND THE BANKING ACT OF 1935.

In the course of my duties, I have occasion from time to time to visit different parts of the country, and it happens that week before last I was in the state of Washington, the extreme opposite corner of the United States from where we are today. Such visits as these, with the opportunities they afford to observe from place to place the special economic activities in which people are engaged, always give me a fresh idea of how important and significant the business of banking is, and how firmly it ties the interests of different communities and regions into one great whole. Banking has both a local and a universal significance.

In one sense, banks are local institutions engaged in local extensions of credit; and banking from this point of view is a question of one risk after another - who can be safely financed and to what extent and on what security, and who can not. But that is not all. In another and larger sense every local bank is part of a nation-wide, even a world-wide, credit system; and individual banks are constantly engaged with one another in moving the products of their regions out to the markets and consumers of the world and in moving in to their own population the things it buys in exchange. The communities which you bankers represent are partly agricultural and partly industrial, for Georgia is one of the states that has considerable diversification of economic activity.

Your economic activity is partly devoted to the production of commodities which are disposed of outside the state, and partly to the production of commodities which find their market within the state. You

ship to outside markets your cotton, cottonseed-oil, and cotton goods, your lumber, furniture, and naval stores, your sugar cane syrup, your fruit, and your tobacco; Georgia peaches, Georgia peanuts, Georgia watermelons, and Georgia marble are known everywhere. Great shipments of these products are made annually from the state, by rail, by truck, and by sea. And it is through you bankers that they are exchanged for what your people buy from outside. As these products are sold in New York, Chicago and Liverpool, the reserves of your banks accumulate and those reserves enable your customers to purchase the special products of other regions, such as flour, meats, oil, gasoline, automobiles and electrical apparatus.

Here in this delightful and interesting old city, where we are today, we must remember that the climate and the beauties of your state are also products which increase your wealth; they bring money into your state quite as substantially as do the physical commodities you produce and sell.

Your banks are also instrumental in the exchange of products which are consumed as well as produced within the boundaries of Georgia, such as fertilizer and cotton goods. It is through the banks that the fertilizer manufacturers are able to receive payment from farmers in all parts of the state. It is through the banks that the producers of the fruit and vegetables, which are consumed in your cities, receive their payment. It is through the banks that payment is made to producers and distributors of clothing, groceries, printed matter, and similar

things sold in every community. Wherever producers are situated and whatever their products, nine times out of ten they receive payment for those products in bank funds.

It is unfortunate that people generally fail to realize this fundamental function of the banks in effecting payments between consumers and producers in different communities and regions. They think of the banks as merely local affairs, which they have a hard time borrowing from at one season of the year and a hard time repaying at another. They do not see that because of the banks, credit is enabled to flow into the region to pay them for their products, and is enabled to flow out again in payment for the products they buy elsewhere. Your customers see very plainly that steamers and trucks and railways carry away their cotton, their fruit, and their yellow pine, and in exchange bring in to them from other regions the clothing and the automobiles they need, but it is not so easy to see that without the system of credit the system of transportation would be of little use.

The importance of bank credit in the form of deposits is indicated by the fact that people almost invariably prefer it for payments in large amounts. A farmer who is selling his year's crop usually expects a check and would be surprised and inconvenienced if he were paid in currency or coin. The check represents bank credit; and when the farmer takes or sends it to the bank, the credit goes on the bank's books under his name. The arrangement is safe and convenient.

But there is far more to be said for bank credit in the form of deposits than that its use is convenient and safe. In our economy it

has become indispensable. Without it how would it be possible for the people all over the United States and all over the world, who use the products of your state, to pay for the things you furnish them? Should currency be shipped in to pay for it all; and then shipped out again to pay for what your people buy?

The system of bank credit covers the whole country like a net-work of power lines; it supplies means of payment wherever needed. Wherever and whenever local bank reserves run low, as must regularly be the case in a region where productivity is seasonal, the temporary deficiency can be made up. Whenever things produced in one place are paid for and consumed by people in another place the system of bank credit makes it possible to effect the payment readily. There is, however, one essential - the credit must be everywhere liquid and based on sound values; otherwise the system becomes clogged and stops working. The loss in that event is more than a loss to local stockholders and depositors. The loss is to the community whose processes of production and consumption have been to some extent disrupted.

Before 1914 this country had quite inadequate means of mobilizing its bank credit. Every bank in the country constituted a separate pool of credit - a pool that was not always adequate for local purposes, and yet that had no close connection by which it could always be replenished swiftly and easily. The banking system bore the same relation to what we have now, as a scattered number of independent power plants with potential connections would bear to an articulated power net-work. The banks in regions such as yours were comparatively well off under such

an arrangement because your economic activities are diversified. But in regions which are dominated to a greater extent than Georgia is by a few great cash crops, and where everyone is being paid at one period of the year and is paying out the rest of the time, the difficulties of mobilizing bank credit were extreme.

It was such difficulties as these that led to the establishment of the Federal Reserve System. They were difficulties that arose from the fact that the inter-regional exchange of commodities and services had to be accomplished with banks whose interests and facilities were primarily local. In order that banks might meet the requirements of their communities more adequately, they needed closer interconnections with other communities, and a system through which means of payment for their regional products might be always and unfailingly available. The Federal Reserve banks were established to meet that need. They bind the 6,400 member banks of the country into a system which can make credit available for production and trade wherever and whenever it is required and in any amount.

In the course of the twenty-two years which have elapsed since the Federal Reserve banks were established, much experience and knowledge have been accumulated. Some problems which the System was devised to remedy have now been settled and others have taken their place. At the same time the conception of central banking functions has changed in many respects. The net result is that the System presents in certain ways a different aspect from what it did formerly.

The instrumentality that is now considered the most important for the control of credit is one that in the original reserve act was given only rudimentary attention. I refer to open market operations. These operations are important because they make it possible for the central banking organization - in this case the Federal Reserve banks directed by the Federal Open Market Committee - to exercise control over the volume of bank deposits and reserves. This means control over the volume of "money", or means of payment, required by the people in their economic life.

The principle of open market operations is of course simple. If securities are sold in the market by the Federal Reserve banks, they must of necessity be paid for with bank funds, for they will be bought either by the banks themselves or by bank customers. Consequently, in the process of paying for them there will necessarily be debits to be entered against the reserve accounts maintained with the reserve bank by the member banks. Upon completion of these entries, the reserve bank will have disposed of certain assets and simultaneously will have decreased the total amount outstanding to the credit of member banks in their reserve accounts. The Reserve bank does not know in advance of its transactions what particular member bank accounts will be affected nor by how much, but it knows that if it sells securities, bank credit in general will be diminished.

If, as a consequence, reserves are reduced to a minimum, the member banks are immediately impelled to restrict their extensions of credit, for they cannot continue making loans and increasing the deposit credit

outstanding on their books without incurring a deficiency in their reserves. The result of the Reserve bank's action in selling securities, therefore, is to curtail the lending power of member banks and to tighten the money market.

On the other hand, if securities are bought by the Reserve bank, the result will be that in the process of paying for them the Reserve bank will have to credit the reserve accounts of member banks. Again it does not know to what extent particular member banks will be affected, but it does know that reserves in general will be increased. By the same token the lending power of the member banks will be increased and general credit conditions will be eased. In the first stages of a buying program, the effect will be to enable banks to pay off any obligations they may owe, but if a buying program is continued long enough it may result in an accumulation of excess reserves.

In addition to the effect upon the reserves of member banks, there is also an effect upon bank deposits in general - even non-member bank deposits; because, if an investor or an institution buys some of the securities sold by the Reserve bank, payment will ordinarily be made out of a checking account and deposits will be decreased by so much. If, on the other hand, the Reserve bank is buying securities, and institutions and individuals are selling to it, the payments made by the Reserve bank will increase the deposit credit outstanding on the books of banks. Accordingly, banks which are not members of the Federal Reserve System and banks which themselves have not purchased or sold securities as a result of the Reserve bank's action, will nevertheless be affected

by it, either in their reserves or in their deposits, or in both. The money market as a whole will be influenced.

In the early days of the System, the Federal Reserve banks attempted to carry on their open market operations independently of one another, but it soon became clear that their actions must be coordinated. Otherwise they might find themselves competing with one another, and in conflict as between their own transactions and those transactions which as fiscal agents of the Government they were conducting for the United States Treasury. Accordingly, in 1922 a committee of Reserve bank officers was appointed for the purpose of coordinating the operations. About the same time the purpose of the operations was clarified. The principle laid down was: "That the time, manner, character, and volume of open-market investments purchased by Federal Reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation."

For some time prior to this there had been a tendency to allow purchases and sales of securities to be influenced by profit as an objective. The statement of principle which I have just quoted meant a definite abandonment of that objective. This was in line with the general policy of central banks in conducting open market operations; they do so definitely with the idea of correcting market tendencies and not for the purpose of making earnings.

The Banking Act of 1933 gave open market operations more specific recognition than they had had in the original Act. It gave statutory standing to the Federal Open Market Committee, which by then comprised

one representative from each Federal Reserve bank. No Reserve bank could engage in open market operations except in accordance with regulations of the Board. At the same time the Act adopted substantially the same statement of purpose which had already governed open market operations.

The Banking Act of 1935 gave still further attention to the machinery of open market operations and to recognition of their importance. The Federal Open Market Committee was reconstructed to comprise the members of the Board of Governors of the Federal Reserve System and five representatives chosen regionally by the twelve Federal Reserve banks. This made the members of the Board constitute a majority of the Committee, and marked considerable development away from the original informal arrangements by which the Federal Reserve banks first conducted open market operations on their own initiative and then under the direction of a Committee on which the Board was not specifically represented. Furthermore, under the terms of the Banking Act of 1935, the Federal Reserve banks may neither engage nor decline to engage in such operations except in accordance with the directions and regulations of the Committee.

Another requirement of the Act is that a complete record be kept of the action taken on all questions of policy relating to open market operations, including a record of votes taken in connection with the determination of open market policies and a statement of the reasons underlying the action taken, and that this record be included in the Board's annual report. The publication of this record will give the public an opportunity to study the decisions as to open market policy and credit

policy in general, and should help clarify public discussions of national credit policy. It will also accentuate the individual sense of responsibility, for members of the Committee will be called on not only to decide on credit policy, but to give publicly the reasons for their decisions.

It is clear, I think, that as a result of experience and statutory amendments, open market operations have taken a far more important place in general credit policy than they formerly had. It is also clear, I think, that open market operations have become a more important or at least a more positive device of credit control than discount rates. When the Federal Reserve Act was adopted the prevailing idea probably was that discount rates were not only the most definite means of credit control, but the most important. The thought was that as banks felt more and more demand from borrowers and went to the Reserve banks to procure the funds to meet it, they would encounter a rising discount rate, which would have the effect of tempering the demand and preventing an excessive use of credit. Conversely, as conditions improved, business activity would be encouraged by the fact that banks could procure funds to lend at a progressively lower rate. The most obvious difficulty with this theory, however, is that banks have not shown a disposition to borrow from the Reserve banks in order to relend. Banks don't like to borrow, and as a general thing they won't borrow unless they have to, no matter how low the discount rate is. Consequently, the effectiveness of the Federal Reserve discount rate is, by itself, rather limited. It is

significant as an index of the cost of credit, but it does not come into action otherwise until a member bank finds it necessary to replenish its reserves. As I have already indicated, however, a member bank may be forced into such a position as the result of sales of securities by the Reserve bank, and the discount rate then becomes effective.

In other words, an important difference between discount rates and open market operations in practical effect is that open market operations give the central banking organization the initiative in the control of credit, whereas the discount rate by itself offers the controlling authority no handles to seize; it must bide its time passively until the situation is so bad that demand for funds is voluntarily made. This delay may seriously impair the power of the Federal Reserve bank to help the situation.

With respect to discount rates the Banking Act of 1935 made only one change. This was to require that they be established every fourteen days or oftener. It is not necessary that the rates be changed every time, but they must at least be reviewed and reestablished.

With respect to the reserves which member banks are required to maintain, the Banking Act of 1935 makes a very important change, by simplifying the conditions under which the Board of Governors of the Federal Reserve System may alter the amount of reserves which is prescribed in the law. Prior to 1933, there was no authority to change reserve requirements administratively, but an act of May 12 of that year empowered the Board, with the approval of the President, to declare that

an emergency existed and during the emergency to increase or decrease the reserve balances to be required. The Banking Act of 1935 allows reserve requirements to be changed by the Board without declaration that an emergency exists and without approval of the President. It does not permit, however, requirements to be reduced below the percentages stated in the statute nor to be more than doubled. The purpose of any change made in the requirements must be, in the words of the law, "to prevent injurious credit expansion or contraction."

The Banking Act of 1935 also made important changes in the constitution of the governing body of the Federal Reserve System, which is no longer known as the Federal Reserve Board, but as the Board of Governors of the Federal Reserve System. The Secretary of the Treasury and the Comptroller of the Currency ceased to be ex officio members of the Board February 1, and provision was made for the Board to consist thereafter of seven members appointed by the President. The members now in office have terms ranging from 2 to 14 years and upon the expiration of the present terms all succeeding members will be appointed for terms of 14 years instead of 12 years as under the previous law.

Since March 1, under the provisions of the Act, the chief executive officer of each Federal Reserve bank has the title "president", instead of "governor", and the title "vice-president" replaces that of "deputy governor". Both the president and the first vice-president are appointed by the Board of Directors for a five-year term with the approval of the Board in Washington. Formerly, as you know, the offices of governor and deputy governor were not specifically recognized by statute.

The responsibilities of the Federal Reserve banks as fiscal agents of the United States were not changed by the Banking Act of 1935, except for a provision which permits the Reserve banks to buy government obligations only in the open market; direct purchases from the Treasury are not authorized.

I think I have covered sufficiently the more prominent changes which the Banking Act of 1935 made with respect to Federal Reserve functions, and I wish to speak now of those features of the Act which more directly affect the operations of member banks.

The first of these has to do with lending powers.

Indirectly, the Act tends to broaden member bank lending powers by giving the Reserve banks authority to make advances to member banks on any satisfactory security. The former provisions still stand as to paper that is known under the original terms of the Federal Reserve Act as "eligible" for discount - paper, that is, which originates in connection with industrial, commercial or agricultural transactions - and they also still stand as to advances to member banks on notes secured by eligible paper or by Government obligations. The new provisions are added to these old ones without altering them. Advances authorized by the new provisions are simply required to be secured to the satisfaction of the Reserve bank, to bear a rate of interest at least one-half percent above the Reserve bank's discount rate, and to have maturities of not more than four months. At present, when the banks have large excess reserves, this new provision in the law may not seem very important. But times may change. If and when they do, the new provisions mean that, assuming a

bank's assets are good, the Federal Reserve bank will be able to advance money on them, no matter what the type of paper, or the nature of the transactions in which they originated. In other words, borrowing from the Federal Reserve bank has now been made possible on other than technical conditions of eligibility alone. This is very important. Many banks in recent years would have had much less trouble if they could have taken to the Reserve bank some of their assets which were good, but not legally eligible under the old terms of the law, instead of having to sacrifice them on a demoralized market. Provision for such advances was first adopted as a temporary, emergency measure in 1932, but the Banking Act of 1935 made it permanent.

The original provisions of the law with respect to eligible paper were based on the principle that since the liabilities of banks were payable on demand they should be offset by short-term self-liquidating paper based on specific transactions involving the exchange of goods. The amendments added by the Banking Act of 1935 are based on the principle that in fact American banks do not specialize in one type of credit as against another. They deal in credit of all sorts. They combine long term and short term credit functions. There is not enough short-term commercial paper to fill more than a small part of their portfolios. They accept the savings and time deposits of their communities and they also hold long term obligations of their communities. The new provisions for eligibility make the Federal Reserve Act cognizant of these realities and adapt the powers of the Reserve banks to them.

In a more direct way, the Banking Act of 1935 broadened lending powers by liberalizing the conditions under which National banks may make real estate loans. The old stipulation that the real estate upon which such loans are made must be situated in the bank's Federal Reserve district or within a hundred miles of the bank, has been removed; and loans which are amortized are now permitted in amounts up to 60 percent of the appraised value of the property and with maturities of as much as ten years, provided installment payments are sufficient to repay at least 40 percent of the principal in that time. The Act also increased the permissible aggregate of real estate loans which a national bank may hold.

I have covered the most important provisions of Title II of the Banking Act of 1935. I think it is not necessary to go further into details of the Act; they are numerous, but most of them, which I have not mentioned, are technical and minute. In my judgment the principal effects of the Banking Act of 1935 may be summarized as follows:

In the first place, while the Federal Reserve banks remain essentially unchanged in organization and function, the importance of their central banking activities has been more clearly recognized.

Second, the Federal Open Market Committee has been given a more effective position in the System and more definite authority.

Third, the Board of Governors has been given larger powers and more direct responsibilities, and the principles upon which the System is to be administered have been more clearly developed.

Fourth, the 6,400 member banks have broader lending powers, and the facilities of the Federal Reserve banks have been made available to them on less technical and restrictive terms.

X-9557

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

April 21, 1936.

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

Dear Mr. O'Connor:

This refers to Deputy Comptroller Gough's letter of March 9, 1936, requesting advice as to whether a loan made to an executive officer of a member bank prior to June 16, 1933, which has been extended by resolution of the board of directors of such bank even though secured by marketable collateral sufficient to liquidate the loan, can be considered to have been properly extended in view of the requirement of section 22(g) of the Federal Reserve Act that the board of directors must be satisfied that the officer has "made reasonable effort to reduce his obligation". Advice is also requested on the same question, with the additional facts included that a part of the loan has been charged off and the marketable collateral to the loan is sufficient to liquidate the remainder. The applicable provisions of section 22(g) are as follows:

> "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: * * *".

You will observe that the law requires that the board of directors of the member bank shall be satisfied as to the matters prescribed by the law before extending or renewing a loan of the kind under discussion, and that, in addition to determining whether the officer "has made reasonable effort to reduce his obligation", the board of directors must also be satisfied that the extension or renewal "is in the best interest of the bank". It seems clear, therefore, that the primary responsibility for the extension or renewal of such a loan is placed by law upon the board of directors of the member bank involved and that it is contemplated that in reaching a determination in the matter the board of directors will consider all of the facts and circumstances in the particular case. It is the view of the Board, therefore, that the fact that a loan of the kind under discussion is secured by marketable collateral in an amount sufficient to liquidate the loan would not of itself show that an extension of the loan was not in conformity with the requirements of section 22(g) but that all of the facts in the particular case would have to be given consideration in determining this question. The fact that a part of the loan had been charged off and the marketable collateral would liquidate the remainder would not change such conclusion. Of course, in any case where it appears that a loan may have been extended without a proper regard

for the provision of law quoted above, it would be desirable for the bank examiner, in connection with his examination of the bank, to give particular consideration to all the facts involved in the case in order to determine whether or not the directors have acted arbitrarily in extending the loan.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9558

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 23, 1936.

Dear Sir:

Reference is made to my letter of December 31, 1935, (X-9409), with which was transmitted a copy of a resolution adopted by the Board of Governors of the Federal Reserve System levying an assessment upon the various Federal reserve banks in an amount equal to six hundred five thousandths of one per cent (.00605) 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 December 31, 1935, to defray the estimated general expenses of the Board for the period January 1 to June 30, 1936, together with approximately $1,000,000 to be applied upon the cost of the erection of a building for the Board of Governors of the Federal Reserve System. The resolution provided that twenty-two and three tenths per cent of such assessment was to be paid in on January 2, 1936, a like per cent on March 2, 1936, and the remainder (fifty-five and four tenths per cent) at such times and in such amounts as the Board might call for the payment thereof during the six months period beginning January 1, 1936.

The Board has decided to transfer to the Federal Reserve Bank of Richmond on May 1, 1936, a part of the unpaid portion of the assessment,

and you are requested, therefore, to credit the Federal Reserve Bank of Richmond on May 1, 1936 with forty-five per cent (45%) of the unpaid fifty-five and four tenths per cent (55 4/10%) in your daily statement of credits through the Inter-district Settlement Fund for credit to the account of the Board of Governors of the Federal Reserve System - Building Account, with telegraphic advice to Richmond of the purpose and amount of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT RICHMOND.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9560

April 24, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Amendment to Federal
Income Tax Regulations.

Dear Sir:

There is inclosed a copy of a recent amendment to the Regulations issued under the Revenue Act of 1934 and the Revenue Act of 1932, relating to the deductibility, in computing net income for the purpose of Federal income tax, of debts charged off in whole or in part during the taxable year in obedience to the specific orders of supervisory authorities. For ready reference there are also inclosed copies of the two paragraphs which were affected by the amendment.

The Comptroller of the Currency has already advised the national banks of the amendment, and it is suggested that you advise the State member banks in your district for their information.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

(T. D. 4633)

Income Tax

Last paragraph of article 23(k)-1 of Regulations 86 and last paragraph of article 191 of Regulations 77, Amended.

TREASURY DEPARTMENT,
Office of Commissioner of Internal Revenue,
Washington, D. C.

TO COLLECTORS OF INTERNAL REVENUE
AND OTHERS CONCERNED:

The last paragraph of article 23(k)-1 of Regulations 86 and the last paragraph of article 191 of Regulations 77 are amended to read:

"Where banks or other corporations which are subject to supervision by Federal authorities (or by State authorities maintaining substantially equivalent standards) in obedience to the specific orders of such supervisory officers charge off debts in whole or in part, such debts shall be conclusively presumed, for income tax purposes, to be worthless or recoverable only in part, as the case may be, but in order that any amount of the charge-off may be allowed as a deduction for any taxable year it must be shown that the charge-off took place within such taxable year."

This document is issued under the authority prescribed by section 62 of the Revenue Act of 1934, and section 62 of the Revenue Act of 1932.

GUY T. HELVERING,
Commissioner of Internal Revenue.

Approved: April 3, 1936.

WAYNE C. TAYLOR,
Acting Secretary of the Treasury.

(Filed with the Federal Register Division April 7, 1936)

Last paragraph of Article 23(k)-1 of Regulations 86 (relating to Revenue Act of 1934):

> "Federal or State authorities incident to the regulation of banks and certain other corporations may require that debts be charged off in whole or in part. If, in any such case, the basis of the requirement is the worthlessness or partial recoverability of the debt, as the case may be, such charging off will, for income tax purposes, be considered prima facie evidence of worthlessness; but if the charging off is due to market fluctuations, or if no reasonable attempt has been made to determine to what extent recovery may be made, no deduction for income tax purposes of the amount so charged off can be allowed."

Last paragraph of Article 191 of Regulations 77 (relating to Revenue Act of 1932):

> "Where banks or other corporations which are subject to supervision by Federal authorities (or by State authorities maintaining substantially equivalent standards) in obedience to the specific orders, or in accordance with the general policy of such supervisory officers, charge off debts in whole or in part, such debts shall, in the absence of affirmative evidence clearly establishing the contrary, be presumed, for income tax purposes, to be worthless or recoverable only in part, as the case may be."

X-9561

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release. April 24, 1936.

TRANSFERS OF LOANS

Ruling No. 1 interpreting Regulation U. In response to an inquiry from certain banks in New York City concerning section 3(e) of Regulation U, the Board of Governors of the Federal Reserve System rules as follows:

A bank may accept the transfer of a loan from another lender, provided the loan is not increased and the collateral for the loan is not changed, even though the "maximum loan value" of the collateral be less than the amount of the loan, but may not thereafter permit at any time withdrawals or substitutions of collateral that would increase the deficiency at such time.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9562

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1936.

Dear Sir:

It will be appreciated if reports of examinations of State member banks made by your examiners and the analyses thereof, with the recommendation as to what action, if any, should be taken by the Board of Governors on the basis of the condition of the bank as reflected in the report of examination, are forwarded to the Board as soon as they are available.

It is requested, also, that in cases where the examination discloses a critical situation, by reason of a serious capital impairment or otherwise, the Division of Examinations be advised as to the general situation as soon as practicable without waiting for the submission of the complete report.

Very truly yours,

Leo H. Paulger

Leo H. Paulger,
Chief, Division of Examinations.

TO ALL FEDERAL RESERVE AGENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9563

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1936.

SUBJECT: Comptroller's "Interpretative Rulings With Respect To Section 5136, U.S.R.S." Dated February 15, 1936.

Dear Sir:

For your information there is quoted below an extract from a letter sent by the Board to the Assistant Federal Reserve Agent at San Francisco regarding an inquiry from a State member bank concerning the "Interpretative Rulings With Respect to Section 5136, U.S.R.S.", issued by the Comptroller of the Currency under date of February 15, 1936:

> While the practices covered by questions (a), (b), (d), and (f) on page 2 of the letter from the State member bank are not fully described, it appears, on the basis of the information presented, that a State member bank is not prohibited from engaging in such practices by the provisions of section 5136 or the "Regulations" of the Comptroller issued thereunder. These questions, as well as question numbered 3 on page 2 of such letter, appear to relate to the provisions of the "Interpretative Rulings With Respect To Section 5136, U.S.R.S.", which were issued to all national banks by the Comptroller under date of February 15, 1936. Although the limitations and conditions of section 5136, including the limitations and conditions contained in the Comptroller's regulations issued pursuant to such section, are made applicable to State member banks by the provisions of section 9 of the Federal Reserve Act, it will be observed that the "Interpretative Rulings With Respect To Section 5136, U.S.R.S.", dated February

15, 1936, are addressed only to national banks, and it is understood that they were not intended to apply to State member banks. Accordingly, it appears to be unnecessary to answer the questions relating to such "Interpretative Rulings."

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9564

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1936.

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:

"NOYLIT" - Treasury Bills to be dated April 29, 1936, and to mature January 27, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9565

April 25, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Under the regulations of the Federal Open Market Committee adopted on March 19, 1936, relating to open market transactions of the Federal Reserve banks, the term "System Open Market Account" is designated to apply "to government securities and other obligations heretofore or hereafter purchased in accordance with open market policies adopted by the Committee and held for the account of the Federal Reserve banks".

To insure uniformity in the use of the new title by the Federal Reserve banks, the name of the account when referred to in code words in the Federal Reserve Telegraph Code book should be changed, effective immediately, from "System Special Investment Account" to "System Open Market Account". The code words in which the term is used are MOCKLER, MOCKLOVE, NEGROAT, NAPPINTLE, NAVIDE and NEBULONG.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9566

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1936.

Dear Sir:

There are being sent to you under separate cover copies of a List of Stocks Registered on National Securities Exchanges as of March 31, 1936. This list is being published by the Board to facilitate compliance by banks with the provisions of Regulation U.

One copy of this list is also being sent to each member and nonmember bank in the United States. The copies which are being sent to you are not only for the information of the Reserve bank but also for distribution to banks desiring additional copies and to other interested persons. If you have use for more copies, please notify the Board before May 15.

The Board plans to issue, in June and from time to time during the remainder of the year 1936, supplementary lists indicating changes in the present list. The Board will be glad to mail these supplementary lists directly, not only to banks but also to other interested persons. Please supply the Board before June 1, therefore, with a list of persons in your district desiring these

supplementary lists and a list of the banks in your district desiring more than one such list.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

X-9567

(Not to be released
to the press)

THE FEDERAL RESERVE SYSTEM AND CREDIT CONTROL

ADDRESS BY

M. S. SZYMCZAK, MEMBER,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DELIVERED BEFORE

THE ECONOMIC CLUB OF CHICAGO

Wednesday, April 29, 1936
8:00 P. M.
The Palmer House
Chicago, Illinois

X-9567

THE FEDERAL RESERVE SYSTEM AND CREDIT CONTROL

It is now nearly three years since I left Chicago to take up my present duties in Washington. In those three years the administrative organization and functions of the Federal Reserve System have undergone important and interesting changes, mainly brought about by the Banking Acts of 1933 and 1935.

In general terms, I think the most important accomplishment of recent legislation so far as the Federal Reserve System is concerned is that it strengthened and clarified the lines of credit control. A few changes affecting the organization and functions of the Federal Reserve banks were made, but they were not changes in essentials. The most conspicuous of these changes was that the title of President was given to the principal executive officer. Formerly his title was Governor. The title of Vice President now replaces the former title of Deputy Governor. As you know, the former titles, Governor and Deputy Governor, were not mentioned in the Federal Reserve Act. The office of Governor was originally created under the general authority which the Federal Reserve Act gave the directors of the Federal Reserve banks to arrange for such officers as were necessary for the administrative work of the banks. Originally, the only office specifically mentioned by the Act, other than that of director, was that of Federal Reserve Agent and Chairman, with assistant agents and deputy chairmen. The Banking Act of 1935 in designating the President of the Federal Reserve bank as its chief executive officer merely

recognized an arrangement that had developed under general authority and that had proved itself desirable from the point of view of Federal Reserve bank administration.

The organization of the governing board of the System was changed considerably by the Banking Act of 1935. In the first place, the old name "Federal Reserve Board" was changed to "Board of Governors of the Federal Reserve System". At the same time, the chief executive officer of the Board was designated as Chairman. Furthermore, the number of members of the Board was changed from eight to seven and all of these members were made appointive. Formerly, as you know, the Secretary of the Treasury and the Comptroller of the Currency were ex officio members of the Board.

The term of office of the members of the Board was formerly 12 years. Under the new law, the terms of members now in office range from 2 to 14 years and their successors in office will have terms of 14 years so arranged that the term of one member will expire every 2 years. Since a member who has served a full term of 14 years is not eligible for reappointment, there will be a regularly recurring change in membership; one member leaving the Board and a new one being appointed every 2 years, unless more frequent changes occur from deaths or resignations.

The most important changes effected by the 1935 Act, however, have not to do with these matters of organization so much as with the function and authority of the governing Board in the field of credit.

In the course of the twenty-two years that have elapsed since the Federal Reserve banks were established much experience and knowledge have been accumulated. Some problems which the System was devised to remedy have now been settled and others have taken their place. At the same time the conception of central banking functions has changed in many respects. The net result is that the System presents in certain ways a different aspect from what it did formerly.

Twenty-two years ago the ideas prevailed that the important functions of the Federal Reserve banks were to furnish an elastic currency, to lend to member banks which were short of money some of the reserve funds accumulated by other member banks, and to curb the speculative use of credit by rediscounting only paper representing self-liquidating commercial transactions. These ideas now appear quite inaccurate, or at least inadequate. Furnishing currency is seen to be less important than it was thought to be, because currency cuts a very small figure in the total of payments that are made by people in their dealings with one another. What they use for the most part is bank credit in the form of deposits. The control of bank credit as a whole is, therefore, of greater importance than the control merely of the currency supply; it is also incomparably more difficult.

In the second place, the reserve banks do not depend on the deposits which member banks maintain with them for the ability to make loans and buy securities. They pay for such assets by entering deposit

credits on their books in favor of the member banks whose paper they discount or whose investments they buy. If a member bank's reserves are deficient, it can turn over some of its assets to the Reserve Bank and receive a credit to its reserve account. The Reserve Bank in such a transaction is not lending to one bank what it owes to another; it is exercising the familiar banking power of paying for assets by the entry of deposit credit.

In the third place, it is recognized that there is no necessary connection between the form in which credit is procured from a bank and the form in which it is used. Money may be borrowed on acceptances and yet be used in the stock market. It may be borrowed on a real estate mortgage and yet be used to buy merchandise. It may be borrowed on the security of speculative stocks and yet be used to finance the production and shipment of commodities. Consequently, any discrimination for or against a certain type of paper offered for discount does not mean that speculation is being controlled or that credit is being supplied for the needs of commerce. The task of controlling the use of credit is far more difficult than such a supposition would imply.

Under various provisions of federal law there are five principal means of credit control which the Federal Reserve banks or the Board of Governors may use. These are:

Discounts
Open Market Operations
Direct Action
Reserve Requirements
Margin Requirements

Discounts

The Federal Reserve Act has from the beginning provided that each Federal Reserve bank establish from time to time rates of discount to be charged by it on various classes of paper; these rates to be subject to review and determination by the Board of Governors of the Federal Reserve System, and to be fixed with a view of accommodating commerce and business. To this the Banking Act of 1935 added the new requirement that such rates shall be established "every fourteen days, or oftener if deemed necessary by the Board". This does not mean that the rates must be changed every time, but that they must be regularly and frequently reviewed. In general the initiative in making changes in discount rates rests with the Federal Reserve banks, but the Board has authority to make changes on its own initiative if the public interest demands.

When the Federal Reserve Act was adopted the prevailing idea seems to have been that discount rates were not only the most definite means of credit control but the most important. This idea was apparently based upon a belief that member banks would seize the opportunity to borrow funds from the Reserve banks at a low rate of interest, in order to relend them to their own customers at a higher rate. This was a logical supposition and it appears to be widely held even at the present time. As a matter of fact, it has not worked out that way in practice at all. Member banks rarely show a disposition to borrow from the Reserve banks for the purpose of relending. They do not like

to borrow and as a general thing they will not borrow unless they have to, no matter how low the rediscount rate is. Custom appears to exercise a very imperious control over them in this respect. As a consequence, they borrow from the Reserve banks as a usual thing only when they have to augment depleted reserves.

The Federal Reserve Act formerly limited the classes of paper which Federal Reserve banks could discount for member banks, but the Banking Act of 1935 eased these limitations. The principle followed in the original provisions was that a definite preference should be maintained for short-term credit based on self-liquidating commercial transactions. The Reserve banks were, therefore, given the power to discount only such paper, that is notes, drafts, bills of exchange and bankers' acceptances arising out of commercial, industrial and agricultural transactions, or paper backed by United States Government obligations. These were narrowly defined classifications. Advances on a wide range of other assets which made up an important part of the total earning assets of banks were not authorized.

Moreover, as a result of various financial and economic developments the classes of paper which could be used as a basis for borrowing from the Reserve banks had for many years constituted a decreasing proportion of the assets of member banks. In 1929 it was only about twelve percent of their total loans and investments, and in 1934 it was only eight percent. Consequently, in 1931 and 1932 when the great liquidation occurred, many banks whose assets as a whole were good

nevertheless had very little that was technically eligible for use in borrowing at the Reserve bank. They therefore had to dump their assets on a falling market in order to raise the funds they needed.

The new banking act increases the powers of the Federal Reserve banks so that such a necessity may be avoided. It authorizes advances to be made to member banks for periods not exceeding four months on any security satisfactory to the Reserve bank. This amendment modifies and makes permanent the emergency legislation which was adopted in 1932.

Beside the foregoing general powers of discount and purchase, special authority was given the Reserve banks in 1934 to discount loans which member banks and other financing institutions may make to established industrial and commercial businesses for the purpose of supplying them with working capital.

These changes made by recent legislation enlarge very greatly the kind of credit which the Federal Reserve banks may deal in directly, and allow greater freedom of action in meeting the requirements of the money market.

Open Market Operations

It must be obvious, however, that the power of a Federal Reserve Bank to grant credit at predetermined rates of discount and interest can be exercised only when credit is asked for. Consequently, if the Reserve bank had no other means of credit control than the power to discount the paper of member banks at given rates, it might have to

wait passively and idly until individual member banks decided that they would like to borrow. Then only would it have opportunity to act and what it might do then would be far from constituting real credit control. As a consequence of the need of meeting the Federal Reserve System's responsibilities more positively, two other means of credit control have been developed. These are open market operations and direct action. Both are outgrowths of experience, primarily.

Open market operations consist of the purchase and sale by the Reserve banks of certain classes of securities, mainly government obligations, for the purpose of increasing or decreasing the supply of credit available in the money market as a whole. By selling securities the Reserve banks withdraw funds from the market and less credit becomes available. The reason for this is that in the process of paying for the securities that are sold the reserves of member banks become diminished, because every payment means a debit sooner or later to some member bank's reserve account. And as a member bank's reserves decline toward the legal minimum it is less able to make extensions of credit.

On the other hand, by purchasing securities the Reserve banks put funds into the market and more credit becomes available; because the funds which are released in payment flow directly or indirectly into the reserve accounts of the member banks and enlarge them. And as their reserves expand, they are in a position to extend more and more credit.

In principle, therefore, the Reserve banks can increase or decrease the funds available for lending, accordingly as they buy or sell securities. Of course, there are in practice many limitations on the effectiveness of open market operations, but their tendency is to enable the Federal Reserve banks to take corrective action with respect to abnormal credit conditions on their own initiative.

The powers of the Reserve banks to buy and sell securities in the open market were granted in general terms in the original Federal Reserve Act, and at the time were not generally considered to be of very great importance. The first operations were carried on by the Federal Reserve banks independently of one another, but it was soon found that action would have to be coordinated; otherwise the banks would be buying or selling in competition with one another and following different, and perhaps conflicting, policies. To avoid this, a committee representing several banks was formed for the purpose of directing the operations. About the same time the purpose of the operations was clarified. For some time purchases had been made with the idea of providing income to meet expenses, but it was eventually realized that such an objective was in conflict with that of moderating a given condition of the money market, and must, therefore, be subordinated or even abandoned.

The Banking Act of 1933 gave specific recognition to open market operations as a System matter and established a Federal Open Market Committee of twelve members, one representing each Federal

Reserve bank, to take the place of the former non-statutory committee. At the same time the law adopted substantially the statement of purpose which had already governed open market operations. This was to the effect that they be conducted "with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

The Banking Act of 1935 made a further change by providing that the Federal Open Market Committee should comprise the members of the Board of Governors of the Federal Reserve System and five representatives chosen by the twelve Federal Reserve banks. The law also makes the decisions of this committee obligatory upon the Federal Reserve banks and provides that the record of the Committee's actions shall be included in the annual report of the Board submitted to Congress. Thus an activity which was barely recognized in the original Federal Reserve Act, and which was gradually developed in the process of administration of the System, has come to be emphasized in the law as one of the System's most important functions.

Direct Action

I also mentioned direct action as a means of credit control. Direct action means efforts by the Federal Reserve banks or the Board to discourage credit policies of given member banks in given circumstances. Opportunity for it occurs on various occasions, but particularly when a member bank is being examined, and when it is seeking to rediscount some of its paper. In this sense, direct action is

aimed at the correction of specific conditions in particular banks. It may also be resorted to, however, with reference to general conditions and for the purpose of enforcing general credit policy.

The effectiveness of direct action was specifically strengthened by the Banking Act of 1933 in several particulars. If a member bank makes undue use of bank credit for any purposes inconsistent with sound credit conditions, it may be suspended from recourse to credit facilities of the Federal Reserve System. Furthermore, authority has been given to the governing Board of the System to remove from office any officer or director of a member bank who continues to violate the law governing the bank's operation or who has persisted in unsafe and unsound practices in conducting the bank's business. The Board also has power to limit for each Federal Reserve district the individual bank capital and surplus which may be represented by loans secured by stock or bond collateral.

Power to Change Reserve Requirements

Recent legislation has also established two other new forms of general credit control which previously did not exist. The first of these is the power given the Board to change the reserve requirements now imposed upon member banks by the statute. For most banks (chiefly those outside the larger cities) the requirement is and has been for years that they have reserves on deposit with the Federal Reserve bank equal to at least 7 percent of their demand deposits, and 3 percent of their time deposits. The power to alter these

reserve requirements was first given the Board in 1933, but under limitations which were later removed by the Banking Act of 1935. The Board is now authorized to change the reserve requirements "in order to prevent injurious credit expansion or contraction", but it is not permitted to lower them below the present requirements nor increase them to more than twice the present requirements. The result of raising them - which is the only action that could now be taken, since the minimum is already in effect - would be to decrease the lending power of member banks and consequently the amount of available credit. The effect of lowering them later on would be, of course, to enlarge the lending power and the amount of available credit.

Margin Requirements

The second new form of general credit control recently authorized pertains to margin accounts and loans made for the purpose of purchasing or carrying registered securities. Authority for the Board to issue regulations in this field was granted by the Securities Exchange Act of 1934. This grant of authority was in line with various provisions of the Federal Reserve Act, such as I have already referred to, aimed at restricting the use of credit for speculative purposes.

Pursuant to these provisions the Board has issued twin Regulations, T and U. Regulation T, following Sections 7 and 8(a) of the Securities Exchange Act of 1934, governs the extension and maintenance

of credit by brokers and dealers in securities for the purpose of purchasing or carrying securities. Regulation U, following Section 7(d) of the Act, governs loans made by banks for the purpose of purchasing or carrying stocks registered on exchanges. In general, these regulations fix the maximum loan value of securities subject to their provisions at 45 percent of their current market value. This means a margin requirement of 55 percent. This loan value applies equally to margin accounts with brokers and to similar loans made by banks.

In the case of brokers who are financing other brokers in order to enable them to carry accounts of their customers - as may happen, for example, when a large city broker is financing a correspondent broker in a smaller community - loan values of 60 percent are permitted. Special provision is also made to facilitate the financing of securities' distribution.

The Board has authority to change the loan value percentages as necessary in order to prevent, in the language of the Act, "the excessive use of credit for the purchase or carrying of securities."

The provisions of the law and of the regulations are too technical and too numerous for me to discuss in detail, but I shall mention a few distinctions and exceptions which are to be observed. To begin with, Regulation U does not prevent a bank from taking collateral in addition to that required by regulation; it does not require a bank to have any outstanding loan reduced or paid, nor additional collateral put up. Neither regulation applies to loans on

government obligations, nor on a number of similar types of exempted securities. They do not apply to loans, however secured, which were not made for the purpose of purchasing or carrying registered securities. I wish to emphasize this last point. Regulation U does not restrict the right of a bank to extend credit, whether on securities or otherwise, for any commercial, agricultural or industrial purpose, or for any other purpose except the purchasing and carrying of stocks registered on a national securities exchange. In other words, it does not interfere with the available supply of credit in general. Instead, it achieves its purpose by imposing restrictions upon the demand for credit from the speculative quarter.

For example, under the regulation last issued, it is possible to borrow $45 on each $100 of stocks, valued at the market. That obviously means a very definite restriction upon the extent to which speculators can expand their holdings. If market prices nevertheless rise so that the $100 worth of securities becomes worth $125, $150, or $200, at the market, the amount that can be borrowed, namely 45 percent, becomes of course progressively greater, until such time as the Board finds it advisable to reduce the ratio of loan value. As the Board reduces the ratio, the effective demand is checked. In principle, therefore, the Board has the power to prevent the use of too much credit for speculation and to prevent an expansion dependent too largely upon the ease with which money can be borrowed. Moreover it is enabled to do this without making credit any the less available

for commercial, agricultural or industrial purposes, and without raising its cost for such purposes. It is not the function of the Board to attempt control of security prices nor to do anything in conflict with the responsibilities of the Securities and Exchange Commission in its supervision of securities exchanges. The function of the Board is confined to control of credit.

As you will recall, one of the conditions at which the original provisions of the Federal Reserve Act were aimed was the use of bank funds to finance stock market speculation. It has always been clear that the Act sought to make credit ample for commercial, industrial, and agricultural purposes without encouraging its speculative use; but the difficulty has been to make measures of control work in one field without producing corresponding but undesired results in the other. A discount rate that was advantageous to agriculture was advantageous to speculation, and a rate that was disadvantageous to speculation was disadvantageous to agriculture. This difficulty in the way of discriminating between the possible uses to which credit might be put was characteristic of attempts to reach the objective by control from the angle of supply. It appears to be obviated in the new provisions, which, as I have said, attempt to reach the objective from the angle of demand.

This is because the power which has been given the Board to impose and relax restraints upon the demand for credit for speculative purposes is definitely selective. It is aimed at a particular use

of credit and at the specific channels through which demand becomes effective. For this purpose, it extends the powers of the Board outside the Federal Reserve System to reach directly brokers and non-member banks. It differs from powers of discount, because while these powers may be exercised to discriminate against paper directly involved in speculative uses, they cannot prevent the speculative use of funds procured by the discount of paper not directly involved in speculation. Moreover, the discount power is not of effect until such time as individual banks make up their minds to dispose of some of their assets.

Open Market Operations are even more general in their effect. They influence the total amount of funds but not the uses to which they can be put. The same thing is true of the power to alter reserve requirements. Direct action can be used to discriminate against the speculative use of credit, but only in individual cases. It cannot be applied comprehensively, uniformly, and simultaneously in all relevant cases as can the power to fix the loan values of securities.

In the case of margin accounts, the regulation is directed at an unmistakable objective and cannot miss affecting the speculative use of credit. In the case of loans by banks for purposes of speculation it may be felt that the objective is less distinct, since the purpose of such loans may be disguised. This may appear especially possible since Regulation U permits a bank to rely upon a signed statement, accepted in good faith, as to the purpose of a given loan.

Of course if means of evasion develop, they will have to be dealt with, but the Board has chosen to avoid imposing inquisitorial investigations in the absence of reason for believing that evasions will be deliberate or of serious consequence.

I have alluded to the exemptions from these new regulations; I imagine they are of special interest to you and should be mentioned in detail. The regulations covering brokers and dealers do not apply to United States Government obligations, State, county, and Municipal obligations, and such other securities as the Securities and Exchange Commission may exempt. These regulations also do not apply to credit extended by a broker for bona fide commercial or industrial purposes or extended for limited periods to finance bona fide cash transactions in securities.

In the case of the regulations covering bank loans made for the purpose of purchasing or carrying stocks, the following are some of the transactions to which the regulations are not applicable:

Any loan made for any agricultural or industrial purpose, even though the loan be collateraled by stocks.

Any loan for the purpose of purchasing or carrying securities not registered on a national securities exchange.

Any temporary advance to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction.

Any loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange.

Any loan to a broker or dealer that is made in exceptional circumstances in good faith to meet his emergency needs.

Conclusion - Limitation on Means of Credit Control

Although the five means I have discussed by which credit control may be exercised - discounts, open market operations, direct action, reserve requirements, and margin requirements - appear to be very comprehensive and powerful, it would be a mistake to convey the impression that a perfect control of credit will be effected through them. In the first place, their application cannot be mechanical nor governed by simple unvarying rules. Credit and economic relationships are extremely intricate, and the circumstances under which the need for action arises are always to some extent different and special. Let me mention a few things that complicate the task of credit control.

For one thing, there has never been a time when the membership of the Federal Reserve System included as many as half the banks in the country. It does not now. The majority of banks in the United States are outside the System. Although it is true that the System includes most of the large banks and that it, therefore, includes the bulk of the banking business of the country, still from the point of view of the communities they serve and of relations with other banks, the importance of the thousands of small banks which are outside the System is not negligible.

For another thing, there is always the important consideration that United States Treasury activities must be taken into account. These have to do in part with the operations of the Exchange

Stabilization Fund and the issue of circulating media, e.g., coins, silver certificates, and United States notes; and in part with the public debt, and the government's receipts and expenditures. These operations involve large sums and intimately affect the banking and credit situation.

Finally there are conditions that arise not only outside the System, but outside the country, and yet affect the domestic banking situation powerfully. There is, for example, the recent great movement of gold to the United States from abroad - a movement that in the last two years has added over three billion dollars to the reserves of member banks and created a quite unprecedented credit situation.

These factors, among others, necessarily limit and modify the exercise of credit control.

In concluding I want to assure you how much I appreciate the opportunity you have given me to discuss these matters with you. In the first place, it is particularly important to me because I am at home here. I feel as if I were coming back to report to friends who have more than a formal interest in what I have to say; certainly in addressing you I feel more than a formal interest in my subject matter.

In the second place, it is important to discuss matters with people such as yourselves who have understanding and who are able to enlighten others. I feel, as I have probably said before, that

an administrative agency cannot function properly without having behind it a well informed and sympathetic public interest. Credit control unfortunately is a matter which bristles with technical difficulties and abstract ideas; but it is nevertheless essential, if the important objectives of credit control are to be achieved, that at least their general purpose and philosophy be understood.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

April 27, 1936

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Applicability of Public Utility Holding Company Act of 1935 to banks.

Dear Sir:

There is inclosed a copy of a letter dated April 7, 1936, addressed to the Chairman of the Board by the Chairman of the Securities and Exchange Commission, with reference to the applicability of the Public Utility Holding Company Act of 1935 to banks, as well as a copy of the letter referred to therein and a copy of the Commission's Rule 3A3-1 and of its Form U-3A3-1.

In view of the fact that the matter has been brought to the attention of a number of the largest banks in the country and that a statement regarding it has been released to the press, the office of the Comptroller of the Currency has not thought it desirable to circularize the national banks regarding the matter, and it is not suggested that you should circularize the State member banks in your district. However, the matter is being brought to your attention in order that you may be in a position to answer any questions which may arise in connection with member banks in your district.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

COPY

X-9568-a

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

Office of the Chairman

April 7, 1936

Mr. Marriner S. Eccles, Chairman
Board of Governors of the Federal
Reserve System
Washington, D. C.

Dear Mr. Eccles:

It has come to my attention that until just recently two of the larger banks which hold voting securities of public utility companies in one capacity or another were unaware of the fact that they may be subject to the provisions of the Public Utility Holding Company Act of 1935 and were equally unaware of the rules adopted by this Commission granting them exemptions in connection with certain types of holdings. We have felt that it would be unfortunate if any banks should inadvertently come into conflict with the statutory provisions so I am sending the enclosed letter to the hundred largest banks of the country as listed in the American Banker of January 21, 1936, and to mutual savings banks having deposits of $50,000,000 or more, as listed in the same publication. The letter has also been released to the press.

I hope that, directly and indirectly, this letter will result in a general understanding of the situation among the banks of the country. It is obvious, however, that there may be many smaller banks which own, control, or hold substantial blocks of voting securities in utility or holding companies. Accordingly, the Commission will greatly appreciate anything you can do to promote a more general understanding of the situation.

Very truly yours,

(Signed) James M. Landis

James M. Landis
Chairman

Encl.
Holding Company Act
Rule 3A3-1
Form U-343-1

Copies to:
J. F. T. O'Connor
Comptroller of the Currency

Robert V. Fleming, President
American Bankers Association

COPY X-9568-b

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

Office of the Chairman

Gentlemen:

It has come to our attention that a number of banks are apparently unaware of the fact that, as a result of acquiring public utility securities in liquidation of debts or holding them in trust capacities, or otherwise, such banks may constitute "holding companies" as defined in the Public Utility Holding Company Act of 1935.

Section 2(a)(7) of the Act defines as a "holding company" any company which owns, controls, or holds with power to vote, 10% or more of the outstanding voting securities of a public utility company. A public utility company is defined in Section 2(a)(5) as an electric or gas utility company, and the latter are further defined in paragraphs (3) and (4) of Section 2(a).

Section 4(a) of the Act requires all holding companies which use the mails or interstate commerce in any of the ways therein specified, to register with this Commission, except that the Commission is directed by Section 3(a) to exempt certain classes of holding companies. Acting pursuant to this authority, the Commission has promulgated Rule 3A3-1 exempting certain banks from the provisions of the Act applicable to them as holding companies, subject to the condition that they file quarterly statements with this Commission on Form U-3A3-1. The first of these statements is due not later than April 30, 1936.

Enclosed you will find copies of the Act and also of the Rule and Form mentioned above.

Very truly yours,

(Signed) James M. Landis

James M. Landis
Chairman

Enclosures.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

Rule 3A3-1, as promulgated November 25, 1935 (Release No. 24) and amended March 18, 1936 (Release No. 115)

Rule 3A3-1. Exemption of certain banks. (a) Any bank as defined in paragraph (b) of this Rule shall, except insofar as specified in paragraphs (c) and (d) of this Rule, be exempt from any obligation, duty, or liability imposed by the Act upon such bank as a holding company, if such bank does not own, control, or hold with power to vote, 10% per cent or more of the voting securities of any public-utility or holding company other than

(1) securities of which such bank is not the beneficial owner;

(2) securities pledged as security for, or acquired in connection with the liquidation of, a debt resulting from a loan or other credit at any time in good faith extended by such bank either alone or in conjunction with other lenders;

(3) securities acquired by such bank, under any plan of reorganization or otherwise, in satisfaction in whole or in part of any such debt or in exchange for such debt;

(4) securities acquired by such bank in exchange for securities described in paragraphs (1), (2) and (3) above, as a result of any reorganization or recapitalization of the issuer of such securities.

(b) The term "bank" as used in this Rule shall mean (1) a banking institution organized under the laws of the United States, (2) a banking institution or trust company incorporated under the laws of any State or of the District of Columbia, which is primarily engaged in the commercial banking business or in the business of exercising fiduciary powers, or both, or (3) a receiver, conservator, or other liquidating agent of any of the foregoing in his capacity as such.

(c) Any bank exempted under paragraph (a) of this Rule shall, within thirty days after the last day of February, May, August and November in each year or such later date thereafter as the Commission may by order prescribe, file with the Commission a statement on Form U-3A3-1, as required by the instructions for said form, containing the information therein specified and such further information as the Commission may require; provided, however, that the statement for the quarter ending February 29, 1936, may be filed not later than April 30, 1936.

(d) No bank exempted by paragraph (a) of this Rule shall enter into or take any step in the performance of any service contract, as the term is used in Section 13(a), whereby such bank is given the exclusive right to render financial services to any associate company thereof which is a public-utility or holding company.

(e) In addition to its power to amend or rescind this Rule, the Commission by order, after notice and opportunity for hearing, may terminate, suspend, or modify the exemption provided by this Rule as to any bank, if (1) such bank shall fail to comply with any of the provisions of paragraphs (c) or (d) of this Rule, or (2) such bank shall evade, seek to evade, or be used to evade the provisions of the Act.

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

April 25, 1936.

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

Dear Mr. Austin:

This refers to your letter dated April 9, 1936, regarding the maximum rate of interest payable by The _____ National Bank of _____, _____, on a time certificate of deposit issued to Mr. _____ under date of April 4, 1936.

This certificate provides that the principal amount thereof is payable to the order of the depositor upon presentation and surrender of the certificate after 6 months' written notice of intention to withdraw it, together with interest thereon, at the rate of 2½ per cent per annum. The certificate also contains the following provision: "This certificate may be called for payment by the bank at any time by giving thirty days' notice thereof to the depositor - - - after the expiration of which thirty days' notice all interest shall cease."

Section (3) of the supplement to Regulation Q provides that no member bank shall pay interest accruing after January 1, 1936, at a rate in excess of 1 per cent per annum, compounded quarterly, on a time deposit "having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days".

It is the view of the Board that a provision authorizing the bank to call a time certificate of deposit for payment at any time by giving 30 days' written notice thereof to the depositor would cause the certificate to be "payable upon written notice of less than 90 days" within the meaning of section (3) of the supplement to Regulation Q and, accordingly, the maximum rate of interest payable thereon would be 1 per cent per annum. In other words, when a certificate provides that it is payable upon a written notice by the depositor and also provides that the bank may call the certificate by giving a written notice to the depositor, the shorter period of notice controls in determining the maximum rate of interest payable by a member bank on the certificate.

Your attention is invited to the fact that the certificate under consideration does not require that the 30 days' notice to be given by the bank to the depositor shall be in writing and, therefore, does not comply with the definition of a time certificate of deposit in section 1(c) of Regulation Q, which requires that written notice of not less than 30 days shall be given before payment.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9570

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For release in morning newspapers of
Friday, May 1, 1936. April 30, 1936.

Statement for the Press

At the request of the Board of Governors of the Federal Reserve System, F. H. Curtiss of Boston, R. L. Austin of Philadelphia, and C. C. Walsh of Dallas, who were designated as Chairmen and Federal Reserve Agents until April 30, 1936, have consented to remain as Chairmen and Federal Reserve Agents at the Federal Reserve Banks in those cities, respectively, until the end of the current year, serving on an honorary basis in accordance with the procedure initiated by the Board on March 1st.

J. H. Case, Chairman of the Federal Reserve Bank of New York, whose term also expired today, preferred to sever his official connection with the New York Bank in order to be free to engage in private business and, accordingly, tendered his resignation as Chairman and Class C Director, which has been accepted by the Board.

J. S. Wood, previously Chairman and Federal Reserve Agent at the Federal Reserve Bank of St. Louis, has been elected Vice President of that bank, effective May 1.

Vacancies in the office of Chairman and Federal Reserve Agent remain to be filled at New York, San Francisco, St. Louis and Chicago.

X-9571

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release. May 1, 1936.

The following stock should have been included in the "List of Stocks Registered on National Securities Exchanges as of March 31, 1936," published by the Board for purposes of Regulation U, and will be added by the supplementary list to be issued in June:

Corn Exchange Bank Trust Company, registered on New York Stock Exchange.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9572

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 2, 1936.

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:

"NOYLOX" - Treasury Bills to be dated May 6, 1936, and to mature December 15, 1936.

"NOYLUG" - Treasury Bills to be dated May 6, 1936, and to mature February 3, 1937.

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

Very truly yours,

S. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

X-9573

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

May 5, 1936.

Mr. S. G. Sargent,
Assistant Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Sargent:

This refers to your letter of April 23, 1936, presenting the question whether, under the terms of the Board's letter of April 13, 1936 (X-9545-a) stating that no objection would be offered to the payment by a member bank of interest after maturity on a time certificate of deposit renewed within ten days after maturity, the bank is required to date the renewal certificate back to the date of maturity of the original certificate.

As you know, section 19 of the Federal Reserve Act prohibits the payment of interest on deposits payable on demand, and it appears that when a time certificate of deposit matures on a certain date and is subsequently renewed as of a later date there is an intervening period during which the deposit is payable on demand. It is believed that the position taken in the Board's letter of April 13, 1936, which regards the renewal certificate as taking effect as of the maturity date of the original certificate, represents a liberal interpretation of the statute and in the circumstances it does not appear that an extension of the provisions of

the letter by the elimination of the requirement that the bank date the renewal certificate back to the date of maturity of the original certificate would be justified.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9574

BUSINESS RECOVERY AND INDUSTRIAL LOANS

Address by

M. S. SZYMCZAK, MEMBER
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Before the
Real Estate Board of Kansas City

Friday, May 8, 1936
12:10 P.M.

Francis I Room, Baltimore Hotel,
11th and Baltimore Streets,
Kansas City, Missouri.

X-9574

BUSINESS RECOVERY AND INDUSTRIAL LOANS

There are three principal aspects to be noted in the credit situation during the last three years. These are:

1. The growth of bank reserves.
2. The increase in the volume of bank deposits.
3. The limited use by business and by individuals of the funds which banks have available.

Growth of bank reserves

Since June 1933 the reserves of member banks have shown exceptional growth. They now stand at the highest levels on record, $5,800,000,000. Between June 1933 and March of this year total member bank reserve balances had increased $3,500,000,000. Required reserves increased in that period by about $1,000,000,000, which left an increase, therefore, of about $2,500,000,000 in excess reserves. Excess reserves are now about $3,000,000,000.

The growth of reserves has resulted principally from the movement of about $3,300,000,000 of gold to this country from abroad.

Since June 1933 the public debt has increased about $9,000,000,000. Banks (including Federal Reserve banks, member banks, mutual savings banks, and other non-member banks) increased their holdings of Government obligations by nearly $6,000,000,000, or 2/3 of the total increase of the public debt. These funds borrowed by the Government from the banks have been expended to provide relief and employment. They increased bank deposits.

The increase in the volume of bank deposits

The deposits of the general public, excluding inter-bank and United States Government deposits, but including deposits at non-member as well as at member banks, now total about $45,000,000,000. There has been an increase of about $11,000,000,000 since June, 1933. Deposits at present are still below the 1929 peak by about $5,000,000,000. However, since that time Postal Savings deposits not redeposited in banks have increased by nearly $900,000,000, and money in circulation outside of banks has increased by $1,500,000,000. Accordingly, the available cash resources of the public are altogether only about $3,000,000,000 - or 5 percent - less than they were in 1929.

The increase of $11,000,000,000 in deposits since June 1933 is due largely to an increase of about $4,000,000,000 in monetary gold and silver stock and of about $5,500,000,000 of Government expenditures from the proceeds of direct obligations purchased by banks, including the Federal Reserve banks, and by the Postal Savings System.

The limited use by business of the funds which banks have available

Although the volume of bank deposits is now almost as large as at the peak in 1929, the rate of turn-over is still relatively small; deposits turned over about fifteen times per annum in 1935 as compared with twenty-seven times in 1929, and as compared with twenty times in other years more normal than 1929. Accordingly, although it is to be expected that deposits will increase still further this year, as the result of government borrowing and expenditure, it does not necessarily follow that the rate of turn-over will increase.

It is unusual for banks to have any large amount of excess reserves such as they now have. Prior to 1931 they never had excess reserves of more than $75,000,000 or $100,000,000 altogether for any great length of time. With excess reserves in such an amount as $3,000,000,000 it is natural that the banks should be seeking ways of putting these funds to use.

It is obvious that the possible expansion that may take place on the basis of present reserves is far greater than may be needed for sound business conditions. On the present basis, credit could be extended and bank deposits thereby increased to $90,000,000,000 or $100,000,000,000. This would be about twice what deposits are now, and about twice the amount that they were in 1929 at the peak. These deposits would represent funds immediately available for use.

The possibility of increasing the use of funds and also the amount of funds to be used depends upon two things: First, it depends upon the desire of owners of existing deposits to use what they have either for spending on a freer scale or for permanent investment. In the second place, it depends upon the desire of business to use the funds already available and to borrow still more for the purpose of expanding operations.

In the past year developments in capital markets were marked by a sharp increase of activity. Stock market trading increased and securities prices rose by over 50 percent. New security issues in 1935 were the largest since 1930. The principal issues however were for refunding; these totaled $3,300,000,000. Issues to raise new capital totaled only $1,400,000,000, of which $1,000,000,000 represented issues of States, municipalities, and Federal land banks. Corporate issues for new capital totaled

only $400,000,000. This compares strikingly with the figures in the late twenties when corporate issues for new capital amounted to $4,000,000,000 or more a year.

Although the greater portion of the financing indicated has been for refunding of existing indebtedness, this refunding has been at lower interest rates and consequently has tended to decrease costs and to increase the profitableness of enterprise. The small volume of issues for new capital is not in any event an accurate measure of business expenditures for plant and equipment, since not all the proceeds of such issues are used for this purpose, and since, on the other hand, corporations have a large volume of idle funds available. Moreover, developments in the business situation indicate that these funds are being more freely used.

Industrial loans

In this connection I think it will be interesting to mention the experience of the Federal Reserve banks in making industrial loans. In June 1934 the Federal Reserve Act was amended by the addition of a new section, namely 13b, authorizing the Federal Reserve banks to make credit available for working capital purposes to established industrial and commercial enterprises on maturities not exceeding five years. This authorization was made because it was felt that as a result of the depression a good many business enterprises had suffered such depletion of working capital that they were unable to take advantage of new business opportunities. It was also felt that the local banks in many instances were still reluctant to make credit advances. Under these circumstances the Reserve banks were authorized to discount such paper for local banks, and also to grant commitments to local

banks insuring such paper up to as much as 80 percent of its face value. The Reserve banks were also authorized, in exceptional cases where credit was not available from the usual sources, to make loans for working capital purposes direct to the borrower. This was a marked departure for the Federal Reserve banks, which hitherto had held only short term obligations or marketable securities, and had not made loans direct to the borrowing public. The new functions seemed required by the emergency however, and the Reserve banks set out energetically to make the fact known to the business public that credit for working capital purposes was amply available. Local banks were also informed of the exceptionally favorable conditions upon which they could make loans for such purposes. At the time banks were especially anxious to maintain a highly liquid condition, and would not have been interested in long term loans unless there were provision for their liquidity. This was provided however by the commitments granted by the Reserve banks. Under their terms, the Reserve banks would agree to purchase such loans from local banks practically on demand, provided of course the loan had been approved in advance by the Reserve bank. When it is considered that beside this provision for liquidity, there was also a provision that the local bank might be relieved of 80 percent of the risk, it is apparent that the terms were calculated to give substantial encouragement to the local banks to make the loans which the depleted condition of many businesses made necessary. By the same token it is clear that the Reserve banks were in no sense entering into competition with local banks.

As of April 29 the Federal Reserve banks had approved 2,139 applications for working capital credit in the amount of $131,000,000. In recent

months there has been very little increase in the amount of such applications approved. At the same time, however, there has been a distinct falling off in the number and the amount of applications received. In the first three months of last year 841 applications were received and the total amount was $29,000,000. In the first three months of this year the number of applications received was only 347 and the amount was only $13,000,000. Both in number and amount, applications were less than half what they were in the corresponding period last year. Moreover, there has been an almost uninterrupted decline every quarter since the beginning of last year.

Repayments, on the other hand, show marked increases. In the first quarter of last year they amounted to about $1,700,000; in the second quarter, $2,100,000; in the third quarter, $1,600,000; in the fourth quarter, $3,600,000; and in the first quarter of this year, $3,500,000.

The Federal Reserve banks still stand ready to make this credit available wherever it can be done on a reasonable and sound basis and local institutions are unwilling to advance it. In this connection, however, it is important to emphasize that the law permits the Reserve banks to make this credit available only for working capital purposes and only to established industrial and commercial businesses. The credit is not available for permanent capital, nor to refund existing indebtedness (except in minor amounts incidental to provision of working capital), nor to new enterprises.

Increased production and trade

In 1935 there was a large increase in production and trade following an irregular upward movement since 1932. The index of industrial production for 1935 as a whole averaged 90 percent of the 1923-1925 average and rose to 104 in December, partly because of an unusually large output in the automobile and related industries. There has since been some decline, February and March showing an index of 94. There appears to have been an advance in the index since that time. It appears, therefore, that the recovery in industry reached in 1935 is being maintained in 1936.

This recovery appears in many lines of industry. It is apparent to some extent in non-durable goods, comprising mostly articles of everyday consumption, which declined but moderately in the depression. It is apparent principally in durable goods, comprising building material, industrial equipment, automobiles, and more lasting household equipment.

The greatest decline in the depression occurred in the field of construction. Residential building, which in 1933 declined to 11 percent of the 1923-1925 average, did not increase until 1935. Then, however, contracts almost doubled those of the previous year. In the first quarter of 1936 there was an important increase in private construction other than residential. The greatest hope for expansion lies in the field of private construction. Shortages of residences have developed; new and improved types of housing are available;

financing costs are lower; the burden of financing as a whole has been lightened; and the facilities for financing have improved. Construction costs are also somewhat lower.

In the field of trade, consumer purchasing has increased. Department store sales in 1935 were at 79 percent of the 1923-1925 average, compared with 67 percent in 1933. Sales in March of this year were up to 88 percent. In rural areas sales have shown a marked increase in recent years, which indicates that the status of farmers has improved. In recent weeks automobile sales have been at high levels, and gasoline consumption has been the largest on record. Wholesale sales have increased considerably, particularly in the durable goods lines - agricultural implements, hardware, and household equipment.

These, then are the facts and figures on business recovery as of today.

Let me suggest in connection with industrial loans under section 13b that you avail yourself of the willingness of the Kansas City Federal Reserve Bank to give you further and more detailed information on the subject for the general good of your community.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9575

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1936.

Dear Sir:

For your information there is inclosed a copy of a letter sent to the Assistant Federal Reserve Agent at San Francisco pertaining to certain questions raised regarding responsibilities of examiners for the Federal reserve banks in connection with loans made by banks under the provisions of the Securities Exchange Act of 1934.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-9575-a

May 6, 1936.

Mr. S. G. Sargent,
Assistant Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Sargent:

This refers to the letter of Mr. A. H. Sonne, Assistant Chief Examiner, dated December 3, 1935, regarding certain questions raised by Mr. Swengel, one of your examiners, with regard to bank loans which come under the provisions of the Securities Exchange Act of 1934 and as to examining procedure in connection with such loans. Specifically, Mr. Swengel asks:

1. Is a bank on notice to restrict such credits as it may grant to members of national security exchanges and/or brokers and/or dealers to the margin requirements, as set forth in Regulation T?

2. To what extent is an examiner, as incidental to an examination of a bank, expected to investigate loans to brokers and dealers? In particular, is it necessary to investigate all transactions in connection with a loan, including substitutions and withdrawals of collateral made since inception of the loan or since previous examination?

Since Mr. Swengel's letter was written the Board has issued Regulation U which relates to loans made by banks on and after May 1, 1936, for the purpose of purchasing or carrying stocks registered on a national securities exchange and Regulation U, rather than Regulation T, is the regulation governing bank loans under the Securities Exchange Act.

In their examinations of a member or nonmember bank, your

examiners should see that all loans outstanding on the date of examination and subject to Regulation U comply with the provisions thereof, and any violations of the regulation should be reported. The compliance or noncompliance of a loan with the regulation depends upon the circumstances at the time a loan was made or increased and the circumstances in connection with the withdrawal or substitutions of collateral, and not upon subsequent variations in the value of the collateral. As a practical matter it would seem that in most cases if a loan were found to comply at the time of the examination with the requirements of the regulation as of that date, no further investigation under the regulation need be made. However, if the examiner has reason to believe that the loan may have been made or handled in violation of Regulation U, because the loan value of the collateral at the time of examination is barely sufficient and there has been a substantial rise in its value since the date of the loan, or for other reasons, he should then make appropriate investigation to determine whether such has been the case. Also, if the examiner has reason to believe that in connection with loans no longer held other violations of Regulation U have occurred since the previous examination, he should make appropriate investigation of such transactions and report any violations disclosed.

Under the provisions of the Securities Exchange Act of 1934 itself, it is unlawful for any member of a national securities exchange or any broker or dealer who transacts a business in securities through

the medium of any such member, to borrow in the ordinary course of business as a broker or dealer on any registered security other than an exempted security from any nonmember bank unless such nonmember bank shall have filed with the Board of Governors of the Federal Reserve System an agreement which is still in force and which is in the form prescribed by the Board's Regulation T. Your examiners, therefore, should report any instances discovered in their examinations of nonmember banks (in connection with applications for membership or because of affiliate relationships or for other special reasons) where nonmember banks which have not executed the agreement referred to in Regulation T have made loans of the type described above.

It is to be noted also that those few member or nonmember banks which are members of registered securities exchanges are subject to Regulation T to the same extent as other members of such an exchange, in their loans to other members, or to brokers or dealers.

This letter relates to the specific questions discussed and does not attempt to cover all possible implications of the Securities Exchange Act and Regulation U as they may affect bank loans. It is contemplated that, after Regulation U has been in effect and rulings and interpretations have been issued thereunder, further instructions will be forwarded as a guide to examiners.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9576

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

May 4, 1936.

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

Dear Mr. Curtiss:

This refers to your letter of March 3, 1936, submitting an inquiry from the _____ Trust Company, _____, and an opinion of counsel for your bank as to whether members of the boards of managers of branches of the trust company, chairmen of the boards of managers of branches of the trust company, and members of the finance committees of such branches are "executive officers" within the meaning of that term as defined in section 1(b) of the Board's Regulation O.

It appears from the information submitted that the members of the Board of managers of a branch of the trust company are chosen by the board of directors of the trust company; that such members give no regular time to the business of the bank other than attendance at meetings of the board; that the individual member of the board has no powers in the management of the branch other than his vote as a member of the board of managers and has no compensation other than fees for attendance at meetings; and that the board of managers elects branch officers, passes on loans of limited amount, and acts as a board of directors of the branch, but with every act subject to the approval and control of the board of directors of the trust company. While it is clear that

such members are not strictly directors, since they are not elected by the stockholders, it is apparent that their duties are analogous to the functions usually exercised by a board of directors of a bank and, on the basis of the facts stated above, it is the view of the Board that the members involved are not included within the definition of the term "executive officer" as contained in the Board's Regulation O.

The chairman of the board of managers of a branch would not be considered an "executive officer" unless he "participates in the management of the bank or any branch thereof" within the meaning of that phrase as used in section 1(b) of Regulation O, and the determination of this question must be based upon the facts in each case. It appears from the by-laws of the trust company that the chairman of the board of managers of a branch is appointed by the board of managers subject to the approval of the board of directors of the trust company, and that such chairman is only authorized to preside at meetings of the board at which he may be present. It is stated in the letter from the trust company that the only duties of a chairman are to preside at meetings of the board of managers. It is also understood that there are two chairmen of boards of managers of branches of the trust company who are paid a small salary in lieu of a fee for attendance at meetings. These salaries are reported as being $250.00 and $528.00 per annum. Although the payment of a salary may in some cases indicate that the recipient has duties to perform in an individual capacity which would bring him within the classification of an "executive officer", it is the Board's understanding that the chairmen involved perform no other duties than to preside at

meetings of the boards of managers. Therefore, on this basis, it is the opinion of the Board that such chairmen are not included within the meaning of the term "executive officer" as contained in the Board's Regulation O.

In connection with members of the finance committees of such branches, it appears that such committees are appointed by the boards of managers pursuant to the general authority of the by-laws of the trust company and that the functions of such committees are similar to the functions of the executive committee of the trust company, such as passing upon loans in a preliminary way between meetings of the boards of managers. Assuming that the members of such committees exercise no other duties in the management of the bank or branch except those of attending committee meetings and voting upon matters considered at such meetings, it is the Board's view that such members are not executive officers within the meaning of the Board's Regulation O.

The conclusions reached above are limited to those persons whose only duties are to serve in the capacities referred to above, and who hold no other office in the trust company or any branch thereof.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

For release in morning newspapers
of Saturday, May 9, 1936.

ADDRESS OF
CHAIRMAN MARRINER S. ECCLES
AT THE
CONFERENCE ON
DEBT, TAXATION AND INFLATION

SEVENTH ANNUAL WHARTON INSTITUTE
OF
THE UNIVERSITY OF PENNSYLVANIA
SPONSORED BY
THE ALUMNI AND FACULTY OF
THE WHARTON SCHOOL OF FINANCE AND COMMERCE

HELD AT THE WALDORF-ASTORIA
NEW YORK CITY
FRIDAY EVENING, MAY 8, 1936

X-9577

THE THEORY AND PROGRESS OF THE RECOVERY PROGRAM

The Problem in 1933

As one who has followed with keen interest the comprehensive program adopted three years ago to bring about recovery, I should like to attempt to explain my understanding of developments since it was adopted, and how, in my view, it may achieve and maintain the complete restoration which we all desire.

Let me first direct your attention to the conditions prevailing in 1932 and early 1933, and to that most fundamental of all economic data, the national income. The national income, which was estimated at more than $80 billions in 1929, had shrunk to half that amount by 1932. The annual buying power and debt-paying capacity of the community, therefore, had been reduced by more than $40 billions. The problem of recovery was to raise that national income to above its 1929 level, which could only be brought about by the government undertaking activities and expenditures which private enterprise was not in a position to undertake. How could it be accomplished?

Leaving aside plans which involved fundamental and far-reaching changes in our whole economic organization, the solutions offered to the country in 1933 were of two main types. On the one hand there were those who contended that all that was needed was the restoration of confidence. They insisted that it was essential to balance the budget; that the gold standard must be retained at all costs; that no legislation disturbing to business should be enacted. On the other hand there were those who, like myself, felt that recovery in the present situation could only be achieved by bold and aggressive intervention by the government, largely through underpinning the entire private credit structure which had collapsed, and undertaking to restore purchasing power

through relief, public expenditures and other measures.

I think the hope of success by the former method rested on faith rather than logic. After all, a budgetary surplus did not prevent the downturn in 1929; a balanced budget in 1930 did not prevent an acceleration of the decline. Not only were we on the gold standard in those years, but gold was flowing in steadily. Efforts to balance the budget in 1931 and 1932, maintenance of the gold standard, and the absence of reform legislation, did not prevent us from descending to lower and yet lower economic depths. What reason was there for thinking that factors which failed to prevent or check the downturn would in themselves lead to an upturn?

The Question of Confidence

Looking at this question of confidence a little more closely, let us try to see exactly what conditions are necessary for its establishment. With the national buying power cut in half the demand for goods of all kinds was reduced accordingly. Industry as a whole possessed more than enough equipment to satisfy the current demand. What does confidence mean in conditions such as these? Does it not mean confidence that increased expenditure on plant, equipment and inventory will be profitable? What business man would have added to his plant, when he already possessed a great amount of excess capacity, merely because he read that the budget had been balanced? It is difficult to understand why people would be expected to invest money in new enterprise when existing investments were becoming less profitable every day. It should not require any great insight to understand that a reduction of government expenditures while everybody else as a matter of self-protection was being forced to reduce expenditures, could only accentuate the processes of deflation by re-

ducing buying power. An increase in tax rates at such a time would have had a deflationary effect to the extent that they reduced expenditures that otherwise would be made, and would consequently have yielded little, if any, additional revenue.

A belief that industry would have voluntarily entered upon capital expenditures in 1933 if the government had restricted its expenditures and raised taxes is unrealistic to the highest degree. It displays an utter miscomprehension of the considerations that influence a business man in planning expenditures. There must be reason to believe that capital expenditures can be profitably made before they are undertaken. This profitable outlook existed at the bottom of the depression in but few industries, such as brewing, distilling and gold mining. In these industries plant expenditures actually occurred and an abundance of capital was readily available. Why? Because there was confidence, that is, an expectation that funds could be profitably invested in these industries, which had been renewed by repeal of prohibition and the premium on gold.

What was the opportunity generally throughout the country for profitable investment in new enterprise? Throughout industry there was excess capacity in relation to consumer buying power, nor was there any inducement for residential construction so long as it was cheaper to rent or buy than it was to build.

The Theory of the Recovery Program

Obviously, what was needed to absorb excess capacity generally was an increased demand arising from increased consumer buying power. And here, it seems to me, is the crux of the matter. Increased demand could come about only as a result of increased incomes; and increased incomes depended upon increased disbursements by industry or by government or by both. As far as industry was concerned, it was being forced, in self-preservation, to reduce wages and expenditures of all kinds, thus rapidly increasing the number of unemployed, further shrinking consumer buying power and accelerating the deflationary forces which threatened complete collapse of the entire credit structure.

The only alternative, under the circumstances, was intervention by government. Only in this way was it possible to arrest the forces of deflation by bringing about an increase in incomes and hence an increase in the demand for goods and services of all kinds, through increasing disbursements financed initially by borrowings rather than by taxes. Those of us who advocated this course believed that an increase in incomes brought about in this way would lead to an increase in the demand for goods. Industry would pay out more in wages and materials in making these goods. These payments would result in further increased demands until finally the stage would be reached when here and there individual business men would see some point in taking up deferred maintenance, in adding to plant or venturing to establish a new type of service or industry. Here and there it would become profitable to build new houses as the demand for houses, and consequently rents, rose. As this process pro-

ceeded, we anticipated that tax revenues would increase as incomes increased, and the gap between expenditures and receipts would gradually close. A little later the whole burden of the recovery movement could rest on increasing business and individual expenditures and the Federal Government could not only balance the budget, but could begin to retire the debt built up in the depression. The expenditures of the Federal Government can be fully justified solely on humanitarian grounds--on the urgent necessity of relieving the home-owners and the farmers, who were about to lose their homes and their farms, and aiding the great army of unemployed who were destitute and helpless through no fault of their own. However, I feel that the expenditures are fully justified as a means of achieving business recovery.

Has the Program Been Successful to Date?

Has the economic philosophy of the past three years which I have attempted to outline fulfilled reasonable expectations?

The answer is to be found by looking without bias at the results to date. On the debit side we should put the gross increase in the Federal debt from $20,935,000,000 on February 28, 1933, to $31,459,000,000 on March 31, 1936, and the continuing large number of unemployed, many of whom are dependent on relief. Neither of these adverse factors is as unfavorable as most of the business and financial community have been led to believe. Against the increase in the debt must be offset the increase in the Treasury's cash balance from $221,000,000 to $2,866,000,000 in the same period (exclusive of the Stabilization Fund), and an increase in the recoverable assets of Government agencies from an estimated $2,400,000,000 to $4,300,000,000, largely in the Reconstruction Finance Corporation which was used very largely to support directly

the banking and private credit structure. So that this leaves a net increase in the national debt of $5,979,000,000, which is less than a month's national income in 1928-1929. The annual interest charge on the Federal debt as computed at the end of March, 1936, increased by only 8 percent over the end of March, 1933. This may be compared with an increase in the gross debt of 50 percent in the same period. The total carrying charges amount to a little over 1 percent of our current national income, not, I think you will admit, an excessive burden.

In considering the continuing heavy volume of unemployment, it should be remembered that there were 2,000,000 to 2,500,000 of unemployed prior to the depression, and that the number of people seeking work has increased since then by 3,500,000 to 4,000,000, due to the increase in the number of those reaching employment age. The lack of employment in many cases of the principal bread-winner of the family is also responsible for other members of the family, who would not ordinarily be employed, seeking employment. More important than these considerations, however, is the fact that millions of workers who were formerly working only one or two days a week and yet were listed as employed are now working four and five. The increase in man hours worked, in other words, has been much greater than the increase in the number of men working. The introduction of labor-saving machinery has doubtless also played its part. I am not saying that the employment situation is at all satisfactory. I am merely saying that the progress has been far more substantial than appears at first sight. Because of the various factors I have just mentioned, the burden of relief has not diminished correspondingly with the increase in employment. As recovery proceeds, we can, of course, expect relief expenditures to diminish.

Income, Production and Restoration of Money Supply

On the favorable side of the recovery program to date, I would stress particularly the rise in the national income and production, the restoration of the supply of money, increasing tax revenues, and the rise in building activity.

Although current direct estimates are not available, it would appear from other evidence that the national income is running currently about 60 billions a year as contrasted with approximately 40 billions in 1932. The index of production has risen from 58 percent to 94 percent of its 1923-25 level. The supply of deposits of all commercial banks rose from $27,000,000,000 on June 30, 1933, to $37,000,000,000 on December 31, 1935, or about the pre-depression level, so that the contraction in the money supply which occurred as a result of deflation has been largely offset. This replenishing of bank deposits is chiefly attributable to the increase in bank holdings of government securities and to the inflow of gold. It is directly attributable, in other words, to the relief and recovery expenditures of the government and indirectly attributable to the revaluation of gold, which was a necessary condition for the reversal of the international flow of capital. In the absence of government borrowing and the revaluation of gold no progress would have been made toward a restoration of the community's supply of purchasing power, since private loans and investments of banks continued to decline until 1935. It is encouraging to note that recovery is bringing about some increase in the demand for an extension of private credit by the banking system.

Progress Toward a Balanced Budget

Turning to government revenues, the trend is most reassuring. In the calendar year 1932 they amounted to $1,880,000,000. In 1935, despite the non-payment of part of the processing taxes, they amounted to $3,857,000,000, an increase of nearly $2 billions. With bonus payments met and a revision in taxes enacted, this favorable trend should be accelerated so that we would have every reason to expect a balanced budget within a reasonable period. Balancing the budget through increasing taxes or decreasing expenditures, or both, as the national income is restored, is an absolutely indispensable element in the eventual and complete success of a program of recovery requiring government intervention which entails large deficit-financing.

Orderly Character of the Recovery Movement

Finally, I would stress the increasing activity in the heavy industries and in building construction. During 1934 and 1935 it was constantly said that the deficit-financing experiment had been a failure because heavy industry and building construction had not picked up substantially. Such criticism displayed a misconception of the necessary sequence of events. First, the process of forced liquidation, caused by deflation, had to be stemmed. Second, the demand for consumer goods had to be greatly increased before there could possibly be any inducement for corporations or individuals to add to productive capital facilities to provide more goods and services. Third, long-term interest rates had to be brought down to encourage and make profitable the use of capital for new enterprise, and to adjust, through refunding, a substantial portion of the existing debt structure on a supportable basis.

In the real estate field liquidation had to be stopped and rents had to rise, this together, with lowered interest rates, bringing about a reopening of the mortgage market. All of these necessary steps took time. They could not have been accomplished in a much shorter space of time considering the depth of the depression and the immensity of the problems thus created. For more than a year the improvement of underlying conditions has become increasingly steady and orderly in character. The ground has been well prepared. The national income has been increased by some 50 percent. Industry and finance have been enabled by the recovery program to improve greatly their financial position through increased earnings, adjustment and reduction of debts and refunding on more favorable terms. Favorable long-term interest rates are available for financing in practically every field of activity. Rents have risen, hence real estate values have increased, making it again profitable to increase building construction. Excess capacity in nearly every field of production is rapidly diminishing. The index of commodity prices has remained steady for more than a year.

The Present Phase of the Recovery Movement

The present phase of the recovery movement is a most important one. Will the disbursements of private business and individuals increase sufficiently to warrant a lessening of the government's contribution to the growth in the national income? It is encouraging to note that activity in the housing field is rapidly increasing; capital financing is gradually being undertaken for new enterprise; an expansion of private credit on the part of the banking system is in evidence; activity in the machine tool, industrial equipment and heavy industries reflects substantial improvement.

Barring unforeseen contingencies, the present improvement should continue. The outlook at the moment is very encouraging.

Conclusion

The Federal Government cannot and should not decrease its expenditures on recovery faster than private industry is able profitably to take over the load. To do so would reduce consumer buying power and thus retard, if not reverse, the progress of recovery.

The flow of money must be maintained and increased in an expanding economy. If private capital fails to maintain and expand the flow, and widespread unemployment exists or develops, government must act as a compensatory factor.

Purchasing power can only be maintained by private business as a whole disbursing its income, or insofar as it fails to do so, by government expenditure either on the basis of deficit-financing, or by taxing in such a way as to insure the flow of funds that individuals and corporations otherwise would accumulate and maintain in idle balances, so that socially beneficial work will be provided for those who are able and willing to work but for whom private enterprise fails to provide.

I am sure that we will all agree that our objective should be the maintenance of long-term prosperity and the avoidance of the twin evils of inflation and deflation. The attainment of this objective depends not only upon the effective coordination of monetary and fiscal policies, but also upon an enlightened body of public opinion.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9578

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 8, 1936.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of April, 1936. This report is in the form which accompanied the Board's letter of March 26, 1936 (X-9534).

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-district Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL F. R. BANKS.

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1936.

Federal Reserve Bank	Number of words sent	Words sent by N. Y. chargeable to other F. R. Banks	Total words chargeable	Personal services(1)	Wire rental	Total expenses	Pro rata share of total expenses(2)	Credits	Payable to Board of Governors
Boston	42,412	1,076	43,488	$ 251.50	$ --	$ 251.50	$ 694.24	$ 251.50	$ 442.74
New York	150,188	--	150,188	1,391.87	--	1,391.87	2,397.60	1,391.87	1,005.73
Philadelphia	40,512	1,129	41,641	236.39	--	236.39	664.76	236.39	428.37
Cleveland	59,174	1,084	60,258	363.65	--	363.65	961.96	363.65	598.31
Richmond	64,464	1,066	65,530	263.92	230.00	493.92	1,046.12	493.92	552.20
Atlanta	86,697	1,087	87,784	275.76	--	275.76	1,401.38	275.76	1,125.62
Chicago	105,873	1,439	107,312	1,645.28	--	1,645.28	1,713.13	1,645.28	67.85
St. Louis	92,267	1,499	93,766	196.88	--	196.88	1,496.88	196.88	1,300.00
Minneapolis	40,862	1,149	42,011	162.47	--	162.47	670.66	162.47	508.19
Kansas City	79,865	1,120	80,985	259.43	--	259.43	1,292.84	259.43	1,033.41
Dallas	89,665	1,126	90,791	267.55	--	267.55	1,449.39	267.55	1,181.84
San Francisco	112,521	1,134	113,655	399.11	--	399.11	1,814.39	399.11	1,415.28
Board of Governors	488,759	--	488,759	2,581.01	14,881.07	17,462.08	7,802.54	17,462.08	--
Total	1,453,259	12,909	1,466,168	$8,294.82	$15,111.07	$23,405.89	$23,405.89	$23,405.89	$9,659.54

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business such as counting the number of words in messages, also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.015963989) for business handled during the month.

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

May 6, 1936.

Mr. _____, Vice President,
_____ Bank and Trust Co.,
_____.

Dear Sir:

This refers to your letter dated March 24, 1936, addressed to the Comptroller of the Currency, which has been referred to the Board of Governors of the Federal Reserve System for reply. You request a ruling as to whether a State member bank of the Federal Reserve System is permitted to purchase called preferred stock.

As you know, under the provisions of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act, State member banks are not permitted to purchase stock for their own account.

After considering this matter in the light of the decisions of the courts on similar questions, it is the view of the Board that preferred stock which has been called for redemption or retirement must still be considered as stock within the meaning of section 5136 of the Revised Statutes and, therefore, may not be purchased by a State member bank for its own account.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

May 6, 1936.

Mr. W. A. Day, President,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Day:

This refers to your letter of April 23, 1936, requesting an interpretation of the underscored portion of the following provisions of the twentieth paragraph of section 9 of the Federal Reserve Act:

> "After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any State member bank shall bear any statement purporting to represent the stock of any other corporation, except * * * a corporation engaged on June 16, 1934, in holding the bank premises of such member bank, * * *." (Underscoring added.)

The question is whether such exception is limited to corporations engaged solely in holding the bank premises of the affiliated bank.

Prior to the enactment of the Banking Act of 1935, such statutory provisions read as follows:

> "After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any State member bank shall represent the stock of any other corporation, except * * * a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such State member bank, * * *." (Underscoring added.)

The memorandum accompanying your letter correctly summarizes the legislative history of the provisions of the Banking Act of 1935 amending the above-quoted provisions of section 9 of the Federal Reserve Act and the corresponding provisions of section 5139 of the

Revised Statutes of the United States relating to national banks. The Board concurs in your counsel's opinion that, in view of such legislative history, the exception, in its present form, can not properly be interpreted as being limited to corporations engaged solely in holding the bank premises of the affiliated bank.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 8, 1936.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

X-9581

Subject: Rulings by the Comptroller of the Currency interpreting his regulations governing the purchase of investment securities.

Dear Sir:

There is inclosed herewith for your information a copy of a letter which has been addressed to the Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, setting forth the views expressed by the Comptroller of the Currency with regard to certain questions presented by a State member bank concerning the interpretation of the regulations governing the purchase of investment securities issued by the Comptroller under the provisions of section 5136 of the Revised Statutes.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

X-9581-a

May 6, 1936.

Mr. S. G. Sargent,
Assistant Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Sargent:

This refers to your letter dated March 24, 1936 with which was inclosed a copy of a letter from Mr. _____ _____, Auditor of the _____ Bank, _____, _____, a State member bank, presenting certain questions concerning the interpretation of the regulations governing the purchase of investment securities, issued by the Comptroller of the Currency under the provisions of section 5136 of the Revised Statutes. Several of the questions presented in Mr. _____'s letter were answered by the Board's letter to you dated April 25, 1936.

Question numbered 2 and the second and third questions under the heading "Additional Questions" have been submitted to the Comptroller of the Currency for an expression of his views thereon. The questions and the Comptroller's views thereon are set forth below.

Question numbered 2 in Mr. _____'s letter reads

as follows:

> "Item 4(a) of Section 2 of the Regulations covering the purchase of investment securities reads in part, 'Purchase of investment security at a price exceeding par is prohibited unless the bank shall: provide for the regular amortization of the premium paid - - - - and the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security.' Is it the intention of the Regulations that any bonds bearing a call provision may not be carried at a price in excess of the call price, so that an immediate writedown is required of any such bonds carried in excess of the call price, or is it the intent that such bonds be amortized so that they shall be written down to the call price by the date upon which a call may legally be made?"

With regard to the above question, the Comptroller of the Currency stated the following:

> "The first inquiry refers to Item 4(a) of Section 2 of the regulations, relative to amortization of premium bonds. The question is whether or not an immediate writedown is required to call price on such bonds.
>
> "It was not the intention that an immediate writedown of the call price need be made but it was the intent of the regulation that the premium be gradually written down to the call price by the call date so that at the call date the bond will be carried at an amount not in excess of the call price."

The second question under the heading "Additional Questions" reads as follows:

> "Do the regulations intend that no bond can be carried in excess of call price, whether or not a call has been made? What about premium above call price on bonds purchased after call date is set (and is within - say 6 months or less), where the bonds are usually purchased on a low yield basis, as a temporary investment,

'and the entire investment will be liquidated on the near future call date?"

With reference to this question, the Comptroller made the following statement:

"The second inquiry is as to whether or not a bond can be carried in excess of call price, regardless of whether or not a call has been made, and refers particularly to the purchase of bonds at a premium above call where the call date has been set and is within six months of purchase.

"The first part of the inquiry is not clearly understood but it is our position as respects bonds which are callable within a short time after purchase, as for instance bonds that may be callable on thirty days' notice, or may be callable on any semi-annual payment date, that in such cases the premium should be immediately amortized down to the call price. Usually such a bond is purchased at a very slight premium above the call price due to the imminence of the call date."

The third question under the heading "Additional Questions" reads thus:

"Where bonds have been amortized to the call price by the earliest possible call date (which was in the past, and no call was made), and such amortization is in excess of normal amortization as ordinarily calculated, is it necessary to amortize balance of premium (which equals the excess of call price over par) over the remaining life of bonds to maturity, or can credit be taken for excess premium therefor set up?"

The Comptroller stated the following with reference to the above question:

"Inquiry is made with reference to bonds purchased at a time when a call could have been made prior to purchase, but was not. It is assumed that the type of

"callable bond contemplated is one that is callable on any semi-annual interest date. After such bond has been amortized to call price, the question is submitted as to whether or not it is necessary to amortize the balance of the premium (which equals the excess of call price over par) over the remaining life of the bond to maturity, or can credit be taken for excess premium theretofore set up.

"It is our position that the amount of premium represented by the excess of call price over par should be gradually amortized over the remaining life of the bonds, without taking credit for the excess premium over call price theretofore amortized."

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9582

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 9, 1936.

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:

"NOYMAG" - Treasury Bills to be dated May 13, 1936, and to mature December 15, 1936.

"NOYMEA" - Treasury Bills to be dated May 13, 1936, and to mature February 10, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9583

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 9, 1936.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of April, 1936.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. PRESIDENTS

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
April 1 to 30, 1936.

SERIES 1934

	$5	$10	$20	Total Sheets	Amount
Boston,.....	72,000	90,000	-	162,000	$ 13,932.00
New York,.....	160,000	404,000	20,000	584,000	50,224.00
Philadelphia,...	90,000	44,000	36,000	170,000	14,620.00
Cleveland,.....	-	-	30,000	30,000	2,580.00
Richmond,.....	75,000	-	-	75,000	6,450.00
Atlanta,.....	35,000	-	20,000	55,000	4,730.00
Chicago,.....	124,000	-	98,000	222,000	19,092.00
St. Louis,.....	-	24,000	7,000	31,000	2,666.00
Minneapolis,....	30,000	14,000	24,000	68,000	5,848.00
Kansas City,....	25,000	46,000	10,000	81,000	6,966.00
Dallas,.....	30,000	54,000	9,000	93,000	7,998.00
San Francisco,..	80,000	82,000	13,000	175,000	15,050.00
	721,000	758,000	267,000	1,746,000	$150,156.00

1,746,000 sheets, @ $86.00 per M $150,156.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9584

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 13, 1936.

SUBJECT: Necessity of Receiving Request From Secretary of Treasury for Performance of Certain Fiscal Agency Functions.

Dear Sir:

There is inclosed herewith for your information a copy of a letter by the Board to the First Vice President of the Federal Reserve Bank of St. Louis regarding the necessity of a Federal reserve bank's receiving a request from the Secretary of the Treasury for the performance of certain functions in connection with the redemption of joint stock land bank bonds.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

X-9584-a

May 13, 1936.

Mr. O. M. Attebery, First Vice President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Attebery:

This refers to your letter of April 29, 1936, which sets forth the acts performed by the _____ Branch of the Federal Reserve Bank of St. Louis in connection with the redemption of bonds of the _____Joint Stock Land Bank and the _____ Joint Stock Land Bank of _____ by the _____ National Bank, _____ _____.

It appears from your letter that the _____ Branch of your bank receives funds which are held subject to the order of the Governor of the Farm Credit Administration to pay for the total amount of the called issues of bonds of the joint stock land banks; that the Branch makes entry on its general ledger crediting "Fiscal Agency Account of the Governor of the Farm Credit Administration" and notifies the treasurers of the joint stock land banks and the Governor of the Farm Credit Administration of the receipt of such funds; that the Branch receives bonds from the _____ National Bank giving its receipt therefor and thereafter cancels such bonds; that the Branch credits _____ National Bank with the face amount of the bonds deposited and debits the account "Fiscal Agency Account of the Governor of the Farm Credit Administration"; that the Branch notifies the

Registrar at the _____ Federal Land Bank of the receipt of the bonds and notifies the Farm Credit Administration and the treasurers of the two joint stock land banks, giving them lists of the securities redeemed; and that the Branch delivers the canceled securities to the Registrar at the _____ Federal Land Bank and takes his receipt.

As stated in the Board's letter of April 17, 1936, to President Martin, in view of the provisions of the first paragraph of section 15 of the Federal Reserve Act, the Board has been customarily guided by the views of the Secretary of the Treasury as to what constitutes a fiscal agency function and has taken the position that, in the absence of a specific authorization such as that appearing in the third paragraph of section 15 of the Federal Reserve Act relating to Federal Intermediate Credit Banks, Federal Reserve banks should perform fiscal agency functions only after receiving a request to do so from the Secretary of the Treasury.

Although it appears that the Farm Credit Administration has requested the _____ Branch of your bank to perform the acts described in your letter in connection with the redemption of joint stock land bank bonds, the Board is of the opinion that these acts constitute functions which should be performed only after receiving a request from the Secretary of the Treasury. Accordingly, if the Farm Credit Administration desires your bank to continue to perform these functions and your bank wishes to continue to do so, it is suggested

that you advise the Farm Credit Administration of the opinion of the Board expressed above, with the suggestion that it take the matter up with the Secretary of the Treasury with a view to having the Secretary request your bank to perform the functions in question.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9585

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1936.

Dear Sir:

As you know, on May 8, 1936, Chairman Eccles addressed the Seventh Annual Wharton Institute of the University of Pennsylvania, at New York. Because of the public interest in the matters discussed in the address, it was felt that copies should be sent to the Federal reserve banks for the information of the officers and directors of the bank who may wish to read it. Accordingly, six copies of the address are being forwarded to you today under separate cover and additional copies will be sent to you on request.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL PRESIDENTS.

X-9586

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 14, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Referring to the Board's letter of July 26, 1935 (X-9271), in regard to the quarterly audit of the books and records of the Board's Fiscal Agent by the Auditor of the Federal Reserve Bank of Cleveland, there is transmitted herewith, for your information, a copy of the auditor's certificate in connection with his audit of the Board's accounts for the period January 1 to April 18, 1936, inclusive.

For your further information in this regard, the Board is today addressing a letter to the Auditor of the Federal Reserve Bank of Cleveland approving his recommendation that audits of the Board's books and accounts be limited to three in each calendar year, one to be made at the close of each year and the other two at irregular dates.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL CHAIRMEN.

I, F. V. Grayson, hereby certify:

(a) That a complete audit has been made of all entries in the accounts, "Board of Governors of the Federal Reserve System-Special Fund", "Board of Governors of the Federal Reserve System-Building Account", "Board of Governors of the Federal Reserve System-Fiscal Agent" and "Board of Governors of the Federal Reserve System-Fiscal Agent Building Account", for the period January 1 to April 18, 1936, inclusive.

(b) That all cash receipts received by the Board as shown by the "Collection Schedules" furnished the Fiscal Agent by the Secretary's office have been deposited by the Fiscal Agent and properly credited by the Federal Reserve Bank of Richmond in the account, "Board of Governors of the Federal Reserve System-Special Fund" except schedules Nos. 888 to 892 inclusive totaling $5,070.97 which according to the Richmond bank's availability schedule are to be credited on April 20 and April 24.

(c) That all remittances made direct to the Richmond bank for the account of the Board of Governors of the Federal Reserve System by the Federal reserve banks and others in compliance with the Board's instructions have been properly credited to the accounts, "Board of Governors of the Federal Reserve System-Special Fund" and "Board of Governors of the Federal Reserve System-Building Account."

(d) That each expenditure made by the Fiscal Agent was properly authorized by an administrative officer of the Board.

(e) That the items of receipts and expenditures shown by the books of the Fiscal Agent have been reconciled with the items shown in the statements of the Board of Governors of the Federal Reserve System's accounts prepared by the Federal Reserve Bank of Richmond.

(f) That the balances in each account as shown by the books of the Fiscal Agent have been reconciled with the balances standing to the credit of the Board of Governors of the Federal Reserve System on the books of the Federal Reserve Bank of Richmond as certified by the auditor of that bank.

(g) That all "Transfers of funds" have been properly authorized by the Chairman or Chairman pro-tem of the Board.

Respectfully submitted,

(Signed) F. V. Grayson

Auditor

May 4, 1936

X-9587

"THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM"

Address before the Annual Convention
of the
Texas Bankers Association

by

Walter Wyatt, General Counsel
Board of Governors of the Federal Reserve System

Houston, Texas, May 20, 1936.

For release in afternoon papers
Wednesday, May 20.

Mr. Chairman, Ladies and Gentlemen:

I have selected as the subject of my talk the "Board of Governors of the Federal Reserve System," which is the new name given by the Banking Act of 1935 to the organization in Washington formerly known as the Federal Reserve Board.

In discussing the Board, I wish to make it perfectly clear that I am not referring personally to the distinguished gentlemen who constitute the Board today or have served on the Board at various times in the past. On the contrary, I always think, and I am now speaking, of the Board as an institution or an organization, and I hope that you will interpret all of my remarks in this light.

The Federal Reserve System consists of three principal elements -- the member banks, the Federal Reserve banks, and the Board in Washington.

The member banks are as much a part of the Federal Reserve System as the Federal Reserve banks or the Board in Washington. They own all of the stock of the Federal Reserve banks and elect two-thirds of the directors. It is principally through the member banks that the Federal Reserve banks serve the public.

The System is fundamentally a cooperative arrangement by which member banks join together and pool a portion of their resources for mutual assistance. The member banks in each district make their contributions by depositing their reserves in their own Federal Reserve bank; and, when any member bank needs assistance, it goes to its own

Federal Reserve bank in its own district.

The Federal Reserve banks are neither Government institutions nor private institutions. They are privately owned but they are devoted entirely to the public service. The Supreme Court of the United States has declared that banking is a business affected with a public interest. That is true of all banking business; but it applies to Federal Reserve banks with much greater force than it does to ordinary commercial banks.

The Federal Reserve System is not a central banking system but a regional banking system. This country is too vast and conditions in different parts of the country vary too much to make it feasible or desirable to have a single central bank for the entire country. Instead, therefore, we have twelve Federal Reserve banks, each serving a definite geographical area and managed by directors, officers and employees who live in and are familiar with the conditions in its district. However, each Federal Reserve bank is authorized, and may be required, to go to the assistance of any other Federal Reserve bank which needs assistance in handling any situation arising in its district.

With respect to matters affecting the country as a whole the activities of the twelve Federal Reserve banks are coordinated by the Board of Governors in Washington. The Board is given the broad power to exercise general supervision over the twelve Federal Reserve banks and certain specific powers designed to enable the Board to see that

they pursue a banking policy which is uniform and harmonious for the country as a whole.

The fundamental characteristics of the Federal Reserve System were stated by Honorable Carter Glass in the official report which he made to the House of Representatives on the bill which became the original Federal Reserve Act. He said:

> " * * * The only factor of centralization which has been provided in the committee's plan is found in the Federal reserve board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relationships between Federal reserve banks and between them and the Government itself. Careful study of the elements of the problem has convinced the committee that every element of advantage found to exist in cooperative or central banks abroad can be realized by the degree of cooperation which will be secured through the reserve-bank plan recommended, while many dangers and possibilities of undue control of the resources of one section by another will be avoided. Local control of banking, local application of resources to necessities, combined with Federal supervision, and limited by Federal authority to compel the joint application of bank resources to the relief of dangerous or stringent conditions in any locality are the characteristic features of the plan as now put forward. * * * It is proposed that the Government shall retain a sufficient power over the reserve banks to enable it to exercise a directing authority when necessary to do so, but that it shall in no way attempt to carry on through its own mechanism the routine operations of banking which require detailed knowledge of local and individual credit and which determine the actual use of the funds of the community in any given instance. In other words, the reserve-bank plan retains to the Government power over the exercise of the broader banking functions, while it leaves to individuals and privately owned institutions the actual direction of routine."

In this form of organization we have something which is characteristically American -- local management of local affairs, national

management of national affairs, and the strength which lies in unity, coordination and cooperation.

The Board is an independent establishment carefully safeguarded from political influence and pressure.

Under the original Federal Reserve Act it consisted of the Secretary of the Treasury, the Comptroller of the Currency, and five members appointed by the President with the advice and consent ot the Senate. The appointive members were given ten year terms and their appointments were arranged so that not more than one term would expire within any two years. By the Agricultural Credits Act of 1923, a sixth appointive member was added to represent agriculture. By the Banking Act of 1933 the appointive members were given twelve year terms of office and the terms were rearranged accordingly.

By the Banking Act of 1935 the Board was given a still greater measure of independence by the amendments which removed from membership on the Board the Secretary of the Treasury and the Comptroller of the Currency and provided for a Board of seven members serving for terms of fourteen years each, with such terms arranged so that not more than one of them would expire in any two years. Furthermore, a member who has served a full term of fourteen years is ineligible for reappointment, so that his actions while in office will not be influenced by the desire to be reappointed.

In selecting the members of the Board, not more than one of whom may be selected from any one Federal Reserve district, the President

is required to have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country. Before taking office, the members of the Board are required to divest themselves of all interest in any bank, banking institution or trust company; and the members of the Board are made ineligible during the time they are in office and for two years thereafter to hold any office, position or employment in any member bank, except that this restriction does not apply to a member who has served the full term for which he was appointed.

Another feature of the original Federal Reserve Act, which has been preserved and which affords the Board very important protection against political pressure is the fact that it is not dependent upon Congress for appropriations but defrays all of its expenses out of assessments levied on the Federal Reserve banks.

Appointments to and promotions within the Board's staff, and appointments by the boards of directors of the Federal Reserve banks of their own officers and employees, are entirely free of politics and entirely on a merit basis. A real student of the subject told me recently that he believed that the Federal Reserve System comes closer to having an effective merit system of appointments and promotions than any other Governmental or business organization in the United States.

In view of the vast injury which could be done if the official actions of the Board of Governors and the Federal Reserve banks were

influenced by politics or favoritism, it is vitally important that this merit system be preserved. It is not only important to the public interest, but it is of especial and immediate importance to every member bank. It is vitally important to keep banking out of politics and politics out of banking.

Nobody realizes this more thoroughly than the Board of Governors and no one has done more throughout the history of the Federal Reserve System to promote, protect and preserve the merit system than the Board in Washington. The present Board has demonstrated its purpose to maintain this fine tradition.

Some bankers feared that the amendment contained in the Banking Act of 1935 which makes the appointment of the presidents of the Federal Reserve banks subject to approval by the Board of Governors of the Federal Reserve System would inject an element of politics into the management of the Federal Reserve banks. That such is not the case is demonstrated by what has happened with respect to the appointments of presidents and first vice presidents of Federal Reserve banks.

Of the twelve presidents elected by the directors of the Federal Reserve banks, eleven were already the executive heads of such banks and one was the Chairman of his bank. Of these twelve, nine were promptly approved by the Board of Governors in Washington. Three were not approved because they were over seventy years of age and the Board felt that it would not be consistent with the purpose of the law or the System's established policy to approve for terms of five

years persons who had already passed the compulsory retirement age adopted by the Federal Reserve System for its own guidance several years ago.

However, the vacancies created by the retirement of those three governors were all filled by men who were not only the free choice of the directors of the respective Federal Reserve banks, but were already serving those banks in official capacities. In other words, the vacancies were filled entirely from promotions within the existing official staffs of the Federal Reserve banks. Moreover, every one of the original first vice presidents appointed to date was selected by the directors of the Federal Reserve banks from the existing official staff of the Federal Reserve System and every one of them was promptly approved by the Board of Governors in Washington.

These appointments were all for statutory terms of five years, giving the appointees a greater measure of independence and permanence than they have ever enjoyed before.

The result has been that the established practice of making appointments to and promotions within the staffs of the Federal Reserve banks solely on the basis of merit and ability has been preserved and strengthened.

The most important and most widely discussed powers of the Board relate to national credit policies. These include the power to approve or disapprove discount rates of the Federal Reserve banks, to change reserve requirements or member banks, to prescribe margin

requirements for loans by brokers and dealers in securities and by banks for the purpose of purchasing or carrying securities, and to regulate the rates of interest which may be paid by member banks on time and savings deposits. In addition, the Federal Open Market Committee, which consists of the seven members of the Board and five representatives of the Federal Reserve banks, is given control over the open market operations of the Federal Reserve banks - that is over the amount of credit which they can place in or remove from the money market through the purchase or sale of Government bonds, bankers' acceptances or other obligations of the kinds which Federal Reserve banks are authorized to purchase and sell in the open market. These powers are of vast importance; but they have been so thoroughly discussed during recent years in public speeches both in and out of Congress and in numerous articles by economists and financial writers that I shall not dwell upon them now.

The most numerous powers of the Board relate to the operations of the Federal Reserve banks and are a part of an intricate system of checks and balances designed to leave the management of local affairs and the granting of individual credits to the directors and officers of the Federal Reserve banks but at the same time to give the Board in Washington sufficient powers of general supervision and regulation, and in some instances the power of veto, to enable the Board to coordinate the activities of the twelve Federal Reserve banks and see that they carry out the purposes of the Federal Reserve Act and

pursue policies which are harmonious for the country as a whole. However, most of these powers affect the member banks only indirectly, if at all, and an adequate discussion of them would require much more time than I have available.

I believe that you would be much more interested in a discussion of some of the powers entrusted by Congress to the Board which directly affect the daily operations of the member banks and especially some of the powers in connection with which the Board has issued regulations which member banks have been receiving in increasing numbers in recent years.

There have been complaints about the number of new regulations issued by the Board since the passage of the Banking Act of 1935, and you probably will be interested in that subject.

I sympathize with the member banks; because they have been through very trying times since 1929. After all the troubles which they experienced in the unhappy years leading up to the banking holiday in March, 1933, and the very difficult months of reorganization and rehabilitation following that period, they had to contend with many perplexing new provisions of law imposed upon them by the Banking Act of 1933. That was distinctly a reform measure resulting from public resentment over certain practices which were brought to light by the large number of bank failures in the years immediately preceding.

The Banking Act of 1933 made it necessary for the Board to issue a number of new regulations; and, before the banks finished familiarizing

themselves with these new laws and regulations and adjusting themselves to them, we had the Banking Act of 1935 and a new set of regulations issued thereunder. The banks probably feel that they are being legislated and regulated to death; but an analysis of the situation will disclose that it is not as bad as it seems.

Since the passage of the Banking Act of 1935, the Board has issued nine regulations under that Act and one under the Securities and Exchange Act of 1934, making ten in all issued since last summer. Of these ten only two are new or additional regulations. Eight of them are merely revisions of pre-existing regulations, and most of the changes made are in the direction of greater liberality, simplicity and clarity.

In view of the fact that the Board designates its various regulations by the letters of the alphabet and has now reached the letter U, you may wonder what the Board will do when it has exhausted the alphabet. I personally hope that the Board will never exhaust the alphabet, but that it will be able in time to work out ways and means of simplifying its regulations and greatly diminishing their number.

There being one gap in the Board's series of regulations lettered from A to U, inclusive, the Board has outstanding at the present time twenty different regulations. This sounds like a tremendous volume of regulations; but it is not really as formidable as it sounds. Each regulation is limited to a particular subject and only a few affect the operations of member banks to any material extent. A quick review

of the list of regulations will illustrate my point. With your indulgence, I shall take them up in alphabetical order and run through the entire list from A to U.

Regulation A relates to discounts and advances by Federal Reserve banks to member banks; but it does not affect member banks unless they are discounting with, or obtaining advances from, the Federal Reserve banks.

Regulation B relates to the purchase of bills of exchange, trade acceptances and bankers' acceptances by Federal Reserve banks on the open market. It only affects indirectly those member banks who issue bankers' acceptance credits or have occasion to sell bills of exchange, trade acceptances or bankers' acceptances on the open market.

Regulation C relates to the granting of bankers' acceptance credits by member banks, but affects only the relatively small number of member banks which issue such credits.

Regulation D relates to the reserves of member banks. It affects all member banks; but, it is something to which they have become adjusted over a long period of time and is of little practical importance at a time like the present when most member banks have reserves greatly in excess of the legal requirements.

Regulation E relates to the purchase of State and municipal warrants by Federal Reserve banks on the open market and has practically no effect on member banks.

Regulation F relates to trust powers of national banks and has

recently been revised, effective June 1, 1936. It states the procedure under which national banks obtain and surrender permits to exercise trust powers and a few general principles regarding the management of the trust department, the investment of trust funds, and similar matters.

Regulation G relates to the rediscount by Federal Reserve banks of notes secured by adjusted service certificates and is practically a dead letter today.

Regulation H relates to the membership of State banks in the Federal Reserve System, but has no effect whatever upon national banks. Even as to State banks, it relates only to such matters as the procedure for obtaining or relinquishing membership in the System, the conditions upon which such banks will be admitted to the System, the circumstances under which they will be permitted to establish or maintain branches, and the publication of reports of member banks and their affiliates.

Regulation I relates to the increase or decrease of holdings by member banks of capital stock of Federal Reserve banks. It affects member banks only at the time of their organization or admission to the Federal Reserve System and at times when they increase or decrease their capital or surplus, consolidate with other banks, become insolvent, go into voluntary liquidation, or withdraw from membership in the Federal Reserve System.

Regulation J relates to the clearance and collection of checks by

Federal Reserve banks. It affects all member banks, but only with respect to the terms and conditions upon which Federal Reserve banks receive checks from them for collection and make the credits therefor available to them.

Regulation K relates to the organization and regulation of foreign banking corporations, and is of no interest to member banks except the few owning stock in such foreign banking corporations or contemplating the organization of such corporations.

Regulation L relates to interlocking bank directorates under the Clayton Act and affects only those member banks which have directors, officers or employees serving also as directors, officers or employees of other banks.

Until March 1st, 1936, the Board had a Regulation M relating to open market operations by Federal Reserve banks. It did not affect member banks at all and has now been superseded by a regulation issued by the Federal Open Market Committee, which likewise does not affect member banks.

Regulation N pertains only to the relations of Federal Reserve banks with foreign banks and bankers, and has no effect upon member banks.

Regulation O relates to loans by member banks to their executive officers, but was issued to relieve the member banks from the more onerous provisions of the pre-existing criminal statute on this subject.

Regulation P relates to holding company affiliates of member banks and affects only indirectly those member banks which are controlled by bank holding companies.

Regulation Q relates to the payment of interest on deposits by member banks and affects all member banks.

Regulation R relates only to those member banks who desire to have security dealers or underwriters serving as their officers, directors or employees.

Regulation S relates to loans by Federal Reserve banks to furnish working capital to established industries and affects only those member banks which participate in such loans or which make such loans themselves and obtain commitments from the Federal Reserve banks to take them off of their hands.

Regulation T relates to the extension and maintenance of credit by brokers, dealers and members of national securities exchanges, and does not affect any member banks except a very few which are members of national securities exchanges. Incidentally, it prescribes the procedure under which nonmember banks may qualify to make advances to brokers and dealers in securities.

Regulation U, which became effective May 1, 1936, relates to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange but probably will not have much effect on the operations of any member banks except those located in the large financial centers.

Out of twenty regulations which the Board has in effect at the present time, therefore, I think it is fair to state that five of them have no effect whatever upon member banks, ten of them affect the member banks only occasionally or affect only a few of them, and only five of them materially affect the ordinary operations of all member banks.

Of these five, Regulation D, relating to reserves of member banks and Regulation J, relating to the clearance and collection of checks by Federal Reserve banks, are so well-established and so well known to all member banks that they require no further discussion at this time.

That leaves Regulation O, relating to loans to executive officers of member banks, Regulation Q, relating to the payment of interest on deposits, and Regulation U, relating to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange. I shall discuss these three regulations a little further.

Regulation O, relating to loans by member banks to their executive officers may not have gone as far in the direction of liberality as some member banks desired; but it is much more liberal and practical than what preceded it.

When the Banking Act of 1933 was under consideration by Congress there was much public resentment over the fact that a number of banks which had failed in the years immediately preceding had sustained large losses on loans made to their own executive officers. This

resulted in a provision in the Banking Act of 1933 making it a criminal offense, punishable by fine or imprisonment, for any executive officer of a member bank to borrow from or otherwise become indebted to such bank or for any member bank to make any loan or extend credit in any other manner to any of its own executive officers.

The term "executive officer" was not defined, and the Board received a large number of requests for rulings as to what officers of member banks should be considered "executive officers" within the prohibitions of the Act. Unfortunately, the Board had to decline to express any opinion on these questions, because the enforcement of Federal criminal statutes is entirely within the jurisdiction of the Department of Justice and any opinion expressed by the Board would not have been binding upon that Department.

If the Board had expressed the opinion that certain officers of member banks were not "executive officers" within the meaning of the statute, they might have obtained loans from their banks in good faith and in reliance upon the Board's opinion. If the Department of Justice had subsequently adopted a different interpretation of the law such officers might have been prosecuted for obtaining loans which the Board had told them were entirely lawful. In the circumstances, the only thing the Board could do was to decline to express opinions on such questions.

It was contrary to the established policy of the Department of Justice to issue rulings interpreting penal statutes; and there was

no place for the member banks to go to obtain authoritative rulings on such questions.

The situation was extremely unsatisfactory; and the Board and the Comptroller of the Currency jointly sought relief for the member banks in the Banking Act of 1935. As a result of their efforts, the section was rewritten by the Banking Act of 1935 so as to repeal the criminal penalties, thus withdrawing the subject entirely from the jurisdiction of the Department of Justice. It also authorized the Board to define the term "executive officer", to determine what should be deemed a borrowing, indebtedness, loan, or extension of credit and to prescribe rules and regulations to effectuate the purposes of the section and prevent evasions thereof. In addition, certain exceptions were made to the prohibitions of the section, one of which permits any member bank with the approval of a majority of its own board of directors, to extend credit to any executive officer thereof in an amount not exceeding $2,500.

Regulation O issued by the Board pursuant to the provisions of this section adds nothing whatever to the restrictions contained in the law itself, but consists principally of a definition of the term "executive officer" and answers to other questions on which member banks had been clamoring for interpretative rulings. Instead of creating additional burdens for the member banks, therefore, this regulation should be of great assistance to them.

There was one respect in which the Board could not see its way

clear, in defining the term "executive officer", to make a concession which many banks desired but which others felt could not properly be made -- namely, the proposal to exempt honorary or inactive officers. After hearing all of the arguments on both sides, the Board adopted the view that a person who accepts the title of an executive officer and holds himself out to the public as an executive officer should be required to comply with the rules governing executive officers. I know that there are some who differ with this view; but I have never heard any one who could successfully answer the moral arguments upon which it is based.

Regulation Q relates to the payment of interest on deposits by member banks and also grows out of provisions added to the Federal Reserve Act by the Banking Act of 1933, which were later amended and modified by the Banking Act of 1935.

The underlying purposes which Congress had in mind when it enacted these provisions have never been authoritatively stated; but it is my personal opinion that they were two-fold: First, to put an end to cut-throat competition for deposits, which frequently led the banks to pay higher rates of interest than they could afford to pay and thus tended to weaken their financial condition; and, second, to compensate the banks somewhat for the assessments, which under another provision of the Banking Act of 1933, they were required to pay for the insurance of their deposits. The section was adopted for the benefit and protection of the banks; and it is in the interest of

every bank to cooperate with the Board in its efforts to obtain compliance with the spirit as well as the letter of this law and to eliminate every form of unfair competition for bank deposits. The sole purpose of Regulation Q is to accomplish this result.

In view of the technical nature of the subject and the many points in respect to which there was a danger that some banks would attempt to gain unfair advantages over their competitors, it was necessary to go into considerable detail in defining the different classes of deposits, in determining what shall be considered a payment of interest, and in regulating the circumstances under which time and savings deposits may be withdrawn. Every effort was made, however, to produce a regulation which was as clear and practicable as possible and which eliminates as far as possible unfair competition between member banks. Many practical difficulties encountered under the Banking Act of 1933 and the regulation issued thereunder were corrected by the amendments contained in the Banking Act of 1935 and the revised regulation.

The Banking Act of 1935 contained an amendment authorizing the Federal Deposit Insurance Corporation to issue similar regulations governing insured nonmember banks in order to eliminate unfair competition between member and nonmember banks. In order to promote this result, the Board conferred with the Federal Deposit Insurance Corporation at every step in the preparation of its own regulation from August, 1935, until the Board's regulation was issued about the

first of December; and the Board had every reason to expect that the Federal Deposit Insurance Corporation's regulation would be substantially the same as the Board's. The regulation of the Federal Deposit Insurance Corporation, however, which was issued over a month after the Board's, differed in a number of respects from the Board's regulation and gave nonmember banks some competitive advantages over member banks. Every effort is being made to reconcile these differences; and it is hoped that they will be successful.

Regulation U, which became effective May 1st, 1936, and which was issued pursuant to the Securities Exchange Act of 1934, governs loans by banks for the purpose of purchasing or carrying stocks registered on national securities exchanges. Unlike the Board's other regulations, it applies to nonmember banks as well as member banks.

The Board could have spared itself a great amount of trouble and expense by leaving this subject to regulation by the Federal Trade Commission or the Securities and Exchange Commission, as proposed in the original bill. But Governor Black and other members of the Board at that time felt that the banks were already subject to regulation by too many different supervisory authorities and that they would fare better if this additional duty were performed by the Board instead of some other agency less familiar with practical banking problems. Governor Black, therefore, persuaded Congress to impose this duty upon the Board instead of the Securities and Exchange Commission, even though, in order to accomplish this result, the Board

also had to accept the burden of regulating the extension of credit by brokers, dealers and members of national securities exchanges, which it was very reluctant to do.

In the preparation of Regulation U every effort was made to make it as short and simple as possible and to interfere no more with the ordinary operations of the banks than is absolutely necessary to accomplish the purpose of the regulation, which is to prevent the excessive use of bank credit for the purchasing or carrying of securities.

The regulation applies to no loans except those made after May 1, 1936 which are secured by stocks and are made for the purpose of purchasing or carrying stocks registered on a national securities exchange.

If a loan is not secured directly or indirectly by stocks, the regulation has no application to it and the bank need not inquire into the purpose of the loan. It is recognized that this leaves the regulation open to the possibility of some evasion; but it was believed better to accept this risk than to affect every loan a bank makes in order to regulate a relatively small portion of them. It is believed that most of the bankers will endeavor in good faith to comply with the regulation and will not make loans for the purpose of purchasing or carrying stocks without requiring the customers to pledge such stocks as collateral.

Even if a loan is secured by stocks the regulation does not

apply to it if the loan is made for a commercial, agricultural or industrial purpose or for any other purpose except the purpose of purchasing or carrying listed stocks. If the bank desires to do so for its own protection, it can obtain a written statement from the borrower or from one of the bank's own officers that the loan is not for the purpose of purchasing or carrying stocks. If such a statement is obtained in good faith the loan is completely exempted from the regulation.

Even if a loan is secured by stocks and the bank is unwilling to inquire into its purpose, the regulation will not be violated if the amount of the total loans to that customer does not exceed forty-five per cent of the current market value of the stocks pledged as collateral.

The net practical result is that a bank need not think about the regulation except with respect to loans that are secured directly or indirectly by stocks when the amount of the borrower's indebtedness exceeds forty-five per cent of the current market value of the stocks securing such indebtedness. Even with respect to this limited class of loans, the banker can forget about the regulation if he obtains in good faith a written statement from the customer or from one of the bank's own officers that the loan is not for the purpose of purchasing or carrying stocks.

I think it is fair to say, therefore, that the Board succeeded in promulgating a regulation which does not interfere with the

ordinary operations of the banks any more than is absolutely necessary to accomplish the purposes of the regulation.

While I am on the subject of regulations, I would like to tell you something about the procedure followed in preparing them.

A tentative draft of each proposed regulation is sent to all the Federal Reserve banks with a request that they give the Board the benefit of their criticisms and suggestions. In addition to studies and discussions by their officers and counsel, the Federal Reserve banks frequently consult some of the member banks about these tentative drafts. The criticisms and suggestions resulting from these studies, discussions and consultations are transmitted to the Board in writing.

Copies of the tentative drafts of all regulations affecting member banks are also sent to the American Bankers Association for study by a committee representing the Association. Special committees are appointed by the President of the Association for this purpose and the members of each special committee are practical operating officers of member banks carefully selected on the basis of outstanding ability and special familiarity with the particular subject dealt with in the regulation. If there is anything impractical or undesirable in the proposed regulation these men are sure to find it and bring it to light.

And, believe me, these committees really work. After each member has made a thorough study of the tentative draft sent to him for

that purpose, they meet, exchange views on the subject and formulate their tentative views as a committee. After it has finished its own deliberations, the committee has a joint conference with the members of the Board and its staff, at which there is a full and free round table discussion of every point about which any question has been raised.

Following this joint conference the committee prepares and files its written report and copies are furnished to every member of the Board and every division of its staff. Furthermore, in our final report to the Board, the staff has to tell the Board what it thinks should be done about every definite recommendation made by the American Bankers Association committee.

After all of this study, the regulations are taken up by the Board for final action; and there is a further discussion of the regulation between the members of the Board and the members of the staff and frequently further changes are made in the regulation before it is finally adopted.

While it is impossible to reconcile all conflicting viewpoints or to adopt all suggestions made from these various different sources, nevertheless it is believed that this thorough discussion and the attending criticisms and suggestions from so many different sources tend to produce regulations which are as reasonable and workable as it is possible to produce by any method. Certainly it provides elaborate safeguards against the danger of the issuance of regulations

which are undesirable or unworkable from a practical banking standpoint.

Probably the most important of these safeguards is the precaution which the Board takes in seeking the cooperation of the American Bankers Association. This practice was instituted at the suggestion of Chairman Eccles and has produced splendid results. The Board has received the finest kind of cooperation from the American Bankers Association, and I believe that the results have been very constructive and helpful. President Fleming and the other officials of the Association are rendering a very fine public service in this and many other respects, and not only the bankers but the general public owe them a large debt of gratitude.

In conclusion, please permit me to remind you that the Federal Reserve System is not something separate and apart from the member banks. They are as much a part of it as the Federal Reserve banks or the Board in Washington; and it is very much in their interest and in the public interest for them to cooperate with the Board in every possible way and to join with the Board and the Federal Reserve banks in their efforts to improve our banking system, in order that it may render to this great country of ours the greatest possible public service.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9588

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1936.

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:

"NOYMIS" - Treasury Bills to be dated May 20, 1936, and to mature December 15, 1936.

"NOYMUF" - Treasury Bills to be dated May 20, 1936, and to mature February 17, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9589

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1936.

Dear Sir:

There are inclosed, for your information, a copy of a letter dated April 8, 1936, from Mr. Young, President of the Federal Reserve Bank of Boston, inquiring whether all direct or participating transactions of Federal reserve banks in the purchase or sale of bills payable in foreign currencies will come under the jurisdiction of the Federal Open Market Committee, and a copy of the Board's reply thereto of May 15, both of which are self-explanatory.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

X-9589-a

FEDERAL RESERVE BANK

of Boston

April 8, 1936

Mr. Chester Morrill, Secretary
Federal Open Market Committee
Board of Governors of the Federal Reserve System
Washington, D. C.

Dear Mr. Morrill:

With further reference to your letter of March 24 regarding the action of the Federal Open Market Committee on March 19, 1936, I observe from the last paragraph that the Committee authorized the Federal Reserve Bank of New York to direct the purchase of bills payable in foreign currencies in such amounts as may be necessary to replace maturing bills now held for the account of the Federal reserve banks by foreign central banks, including the Bank for International Settlements.

I assume from this that all direct or participating transactions of Federal reserve banks in foreign transactions will come under the Federal Open Market Committee. At your convenience will you advise me if my assumption is correct.

Yours very truly,

(Signed) R. A. Young

R. A. Young
President.

X-9589-b

May 15, 1936.

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

Dear Mr. Young:

This refers to your letter of April 8, 1936, inquiring whether all direct or participating transactions of Federal Reserve banks in the purchase or sale of bills payable in foreign currencies will come under the jurisdiction of the Federal Open Market Committee. Inasmuch as this question involves the jurisdiction of the Board as well as that of the Federal Open Market Committee, I have submitted the question to the Board.

It is the Board's view that all open market operations of Federal Reserve banks under the provisions of section 14 of the Federal Reserve Act are within the jurisdiction of the Federal Open Market Committee, and Federal Reserve banks cannot lawfully engage or decline to engage in such transactions except in accordance with the direction of and regulations adopted by the Committee pursuant to section 12A.

This, however, is in addition to the requirements contained in section 14 of the Federal Reserve Act and no Federal Reserve bank can lawfully engage in open market transactions at home or abroad except in accordance with the provisions of section 14 and the regulations issued pursuant thereto. Thus, no Federal Reserve bank can open and maintain accounts in foreign countries, appoint correspondents or establish agencies in such countries except with the consent of the Board, nor can it engage

in the purchase or sale of bills through such accounts, correspondents or agencies without the consent also of the Federal Open Market Committee. Likewise, all relationships and transactions between Federal Reserve banks and foreign banks or bankers continue to be subject to the provisions of section 14(g) and the Board's Regulation N; and, if such transactions involve open market operations, they are also subject to the jurisdiction of the Federal Open Market Committee.

As the Board had already authorized the establishment of the foreign accounts referred to in my letter of March 24, 1936, written as Secretary of the Federal Open Market Committee, it was within the province of the Committee in the direction of open market operations to authorize the replacement of maturing bills held in such accounts by the purchase in the open market of a like amount of bills payable in foreign currency.

A copy of your letter and this reply is being forwarded to the Presidents of all Federal Reserve banks for their information.

Yours very truly,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9590

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

May 13, 1936

Mr. R. B. Coleman,
Vice President and Cashier,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Coleman:

This refers to your letter of April 10, 1936, in regard to a possible inconsistency that you believe may exist between the second paragraph of section 1 of Regulation U and the last clause of the third paragraph of that section. The discussion below will show, it is believed, that the provisions in question are in fact consistent.

The last clause of section 1 is to be regarded as making it clear that the first two paragraphs of that section do not prevent a bank which has made a loan subject to the Regulation from making another such loan regardless of the status of the collateral securing the first loan, if the borrower provides additional collateral having a maximum loan value at least equal to the amount of the additional loan. Even if the first loan is unsecured the second loan may be made if this amount of collateral is provided. Since a competing bank with no previous loans to the borrower would be permitted to make a loan on the basis of this amount of collateral, it seemed desirable to provide clearly that the first bank could do the same regardless of the status of prior loans.

The second paragraph of section 1, considered with the first paragraph of that section, permits a bank, if the maximum loan value of the collateral securing all the loans subject to Regulation U exceeds the total amount of such loans, to make an additional regulated loan equal to the amount of the excess. This is permissible regardless of the cause of the excess, whether an increase in the market value of the collateral, a decrease in the amount of the loan, or some other cause.

The second paragraph of section 1 also means that, after loans subject to the Regulation have been made, the bank must treat the total amount of such loans and the maximum loan value of all the collateral securing them, respectively, as "the amount of the loan" and "the maximum loan value" referred to in the first sentence of the third paragraph reading as follows:

> "After any such loan has been made, a bank shall not at any time permit withdrawals or substitutions of collateral that would cause the maximum loan value of the collateral at such time to be less than the amount of the loan."

The above discussion covers both your first and second questions.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill
Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9591

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1936.

Dear Sir:

With its letter of January 30, 1936, (X-9473), the Board inclosed copies of several letters and telegrams containing interpretations of various provisions of the agreement which accompanied the Board's letter of December 3, 1935, (X-9385), relating to the issuance of general voting permits. Inclosed herewith are copies of two additional letters of a similar nature.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

X-9591-a

February 5, 1936.

_____,
_____,
_____,

Dear Sir:

This refers to your letter of January 20, 1936, addressed to the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, in which you make certain inquiries concerning the agreement which the Board requires holding company affiliates to execute as a condition to the issuance of general voting permits.

With reference to your first question, it is not the intent of the Board that such agreement shall deprive the holding company affiliate or its subsidiary banks of any rights which they may have to resort to any court or other tribunal of proper jurisdiction.

With reference to your second question, it must be noted that the execution of the agreement and the terms thereof have been prescribed by the Board in the discharge of responsibilities placed upon it by law and that any differences between the situation of banks which are subsidiaries of holding company affiliates and the situation of other banks necessarily arise from the enactment of the legislation by Congress relating specifically to holding company affiliates and their banking subsidiaries. However, it is intended that the Board shall act in accordance with sound principles of banking practice in enforcing requirements relating to subsidiary banks pursuant to the agreement

prescribed. In view of its responsibilities under the holding company affiliate legislation, the Board could not be excused for a failure on its part to require holding company affiliates to cause their subsidiary banks to comply with sound principles of banking practice on the ground that other banks may not in all cases be required to do so. Moreover, the Board must be free to consider all of the facts and circumstances of each case and, in doing so, it cannot properly ignore the relationships between the particular bank and other members of the group. The Board, of course, does not feel that the mere fact that a bank is a subsidiary of a holding company affiliate justifies the imposition of arbitrary or unreasonable requirements relating to such bank and the Board has no intention to make or enforce such requirements in acting pursuant to the prescribed agreement.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9591-b

April 4, 1936.

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

Dear Mr. Curtiss:

This refers to Mr. McRae's letters of January 2, 1936, and their inclosures, relating to voting permit applications of _____ _____ and The National _____ Bank of _____, both of _____, _____. As you probably know, the matters referred to therein have since been discussed informally by representatives of the applicants and the Board.

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

Both of the applicants object to the following provision of paragraph numbered 7 of the form of agreement accompanying the Board's letter of December 3, 1935, (X-9385):

> "and that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments."

In view of the restrictions and limitations imposed upon national banks by law, the Board feels that such a provision is not essential where the holding company affiliate is a national bank and that, accordingly, there is no objection to authorizing its omission in such a case. Hence, the Board hereby amends the authorization contained in its ANCILDALE telegram of _____, relating to The

National _____ Bank of _____, to provide that the above-mentioned paragraph shall read as follows in the agreement to be executed by such bank as a condition to the issuance of a general voting permit to it:

> "That the management of the undersigned will be, and the undersigned will take such action within its power as may be necessary to cause the management of each of its subsidiaries to be, conducted under sound policies governing its financial and other operations, including statements issued relating thereto; that the undersigned will maintain a sound financial condition; and that its net capital and surplus funds shall be adequate in relation to the character and condition of its assets and to its liabilities and other corporate responsibilities."

The Board does not feel that it should authorize any modification of such paragraph in connection with the agreement to be executed by _____ _____. In connection with the matters which it is required by law to consider in granting voting permits, the Board must consider the character of the holding company affiliate's business and investments, and the Board feels that it should provide requirements to assure that during the life of the voting permit the general character of the business and investments will not be changed in a way which might have an adverse effect on the condition of the holding company affiliate or its relationships with its subsidiary banks. However, the Board has no intention or desire to exercise detailed supervision over the investments of the applicant or to pass upon individual investments and it is felt that the pertinent provisions of the agreement which refer to a change in the "general character" of business or investments do not indicate such supervision is contemplated.

_____ _____ states "To follow the regulations which you insist upon, we would have to mark up and down on our books, all securities every month". Paragraph numbered 1 of the standard form of agreement requires the elimination of losses and certain depreciation in securities by the applicant as soon as practicable and in any event within two years. However, when the particular eliminations described in paragraph numbered 1 have once been made, such paragraph does not require any further eliminations. Under paragraph numbered 7, the applicant's management must be conducted under sound policies governing its financial and other operations, including statements issued relating thereto. While the Board feels that in the public interest the books and published statements of a holding company affiliate should correctly reflect the value of its assets and the amount of its liabilities, this provision of the agreement contemplates only such adjustments in the books of the holding company affiliate as would not interfere with its normal operations, would be required by sound accounting practice, and would be necessary to prevent misrepresentation to shareholders and the public.

The National _____ Bank of _____ suggests a change of a perfecting nature in paragraph lettered (A) of the agreement to be executed by it. While it is not believed to be essential, the Board authorizes the substitution of the words "any of the undersigned's" for the words "the undersigned or by any of its" in such paragraph of the agreement to be executed by that applicant and amends the author-

ization contained in its ANCILDALE telegram of _____ __, _____, accordingly.

The Board extends to _____ __, ____, the time within which you may issue to The National _____ Bank of _____ and _____ _____ the general voting permits authorized in its ANCILDALE telegrams of _____ __, ____. Please advise applicants in accordance with this letter.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9592

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1936

SUBJECT: Requirement that Renewal Certificate be Dated Back to Date of Maturity of Original Certificate where Interest is Paid after Maturity on Time Certificate of Deposit Renewed within 10 Days after Maturity.

Dear Sir:

This refers to the Board's letter to the Assistant Federal Reserve Agent at Chicago dated April 13, 1936, (X-9545-a) stating that no objection would be offered to the payment by a member bank of interest after maturity on a time certificate of deposit renewed within 10 days after maturity provided the renewal certificate were dated back to the date of maturity of the original certificate. Reference is also made to the Board's letter to the Assistant Federal Reserve Agent at San Francisco dated May 5, 1936, (X-9573) with reference to the necessity for dating the renewal certificate back to the date of maturity of the original certificate in such circumstances.

After reconsidering this matter, the Board has reached the conclusion that, in cases where a member bank pays interest after maturity on a time certificate of deposit which is renewed within

10 days after maturity, it will not be necessary to date the renewal certificate back to the date of maturity of the original certificate.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

X-9593

"THE FEDERAL RESERVE SYSTEM AND THE BANKING ACT OF 1935."

ADDRESS BY

M. S. SZYMCZAK, MEMBER,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DELIVERED BEFORE

THE MARYLAND BANKERS' ASSOCIATION
AT ITS
FORTY-FIRST ANNUAL CONVENTION

Friday, May 22, 1936
10:00 A.M.
Marlborough-Blenheim Hotel
Atlantic City, New Jersey.

As I was on my way here from Washington yesterday afternoon and was turning over in my mind what I should be saying to you today, it occurred to me that I should by all means say something about the richness and diversity of the State of Maryland, which I was crossing. Cutting across the state in a northeasterly direction through Baltimore toward Philadelphia, I had on my right hand a part of the state that I understand is devoted largely to the production of tobacco and of tomatoes for canning. That part of the state also includes Chesapeake Bay with its shipping and its production of sea food. It includes the Eastern Shore with its fertile vegetable farms. It includes also the city of Baltimore, with its important shipping, manufacturing, and distributing activities.

To the left and running far out toward the west is another fertile region largely devoted to the cultivation of vegetables and other farm crops; and in the farther most counties, where the mountains rise, there is coal, buckwheat flour, and maple syrup.

It is the production of commodities such as these that furnishes the basis of the wealth of Maryland and of the business of its banks. Your customers live largely by producing these commodities and exchanging them for commodities produced outside the state. In facilitating this exchange, which is indispensable to the economic life of the state, you bankers perform an essential function. You make it possible for the tobacco, the sea food, and the vegetables produced in Maryland to be shipped outside to other markets, and to be paid for in the simplest and

surest way. If it were not for your instrumentality, and if all these exchanges of goods had to be effected by the actual handling of currency, the whole economic process would be disrupted. But, through the utilization of bank credit, the process is facilitated.

This monetary function that you bankers perform involves your cooperation with one another. The banks not only of your state but of the country as a whole and even of the world constitute a net work of credit connections by means of which the trade between different regions is carried on. One of the most important steps ever taken in this country in the way of making this net work more effective was the establishment of the Federal Reserve Banks. These institutions knit the banking business of different communities and regions closely together so that inter-regional and inter-community payments and exchanges can be smoothly effected. They help to bridge with credit the distances that separate consumers from producers, and the intervals of time that elapse between production and consumption - between seed time and harvest - between the fabrication of goods and their delivery.

Instead of going into special phases of federal reserve policy, I want to survey briefly but comprehensively the structure and functions of the Federal Reserve System as a whole. This means I must mention many things already quite familiar to you; I trust you will understand that I do so not because I underestimate your knowledge of the System, but because I want to fill in the whole picture.

The Federal Reserve Act, which in 1913 established the Federal Reserve

Banks, is one of the most important pieces of financial legislation ever passed in this country. It represented the decision reached after many years of dissatisfaction with our banking and currency facilities, brought to a head by the panic of 1907; after a thorough study of banking here and abroad by a National Monetary Commission established by Congress in 1908; and after long and earnest public discussions of banking reform over a period of twenty years or more. Since 1913, on the basis of actual experience and in response to new developments, numerous amendments have been made to the original Federal Reserve Act. During the depression changes were made by the Glass-Steagall Act of 1932, the Emergency Banking Act, the Banking Act of 1933, the Gold Reserve Act of 1934, and other acts. The most recent as well as the most important of these is the Act approved August 23, 1935.

Federal Reserve banks

The work of the System may be considered first from the point of view of the Federal Reserve banks in their relations with the banking institutions of the country, and then from the point of view of the broader responsibilities for credit policy which come under the central organization in Washington, now known, under the Banking Act of 1935, as the Board of Governors of the Federal Reserve System.

The location of the Federal Reserve banks was not determined by Congress, but by the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency acting as the Reserve Bank Organization Committee. To this Committee Congress delegated the authority to designate not less than eight nor more than twelve reserve cities

and to divide the continental United States into a corresponding number of reserve districts. These districts, according to the law, were to be apportioned with due regard to the convenience and customary course of business. They may be readjusted by the Board of Governors of the Federal Reserve System. In addition to the twelve reserve banks there are now in all twenty-five branches and two agencies. The Federal Reserve Bank of Richmond has branches in Baltimore and Charlotte.

All National banks were required to become members of the System, subscribing to the capital stock of the Reserve banks, and depositing their reserves therein. State banks were permitted to become members on similar terms, provided they fulfilled certain requirements as to capital structure and as to the general nature of their business. This division of the banks of the country into National and State banks, with different laws, powers, and supervisory authorities, was a basic condition upon which the Federal Reserve System was superimposed, and it is a basic condition to which its operations have always had to be adjusted.

About forty percent of the banks in the country now belong to the Federal Reserve System and these banks account for about seventy percent of the country's banking resources. About 35 percent of the banks in Maryland are members of the Federal Reserve System, and they hold about 50 percent of the banking business in the state. In the United States as a whole the member banks include 5,386 national banks and 1,001 State banks and trust companies. The State banking institutions which are still outside the System are for the most part small. There are about

9,000 non-members; about 1,400 of them have deposits of less than $100,000, and about 2,600 have deposits of less than $250,000.

Under provisions of the Banking Act of 1935 State non-member banks, with certain exceptions, having average deposits of $1,000,000 or over, must become members of the System after July 1, 1942 or lose the right of having their deposits insured with the Federal Deposit Insurance Corporation.

The Federal Reserve banks differ from ordinary commercial banks in both their organization and their functions. Their customers are the member banks who make deposits with them and secure credit or currency just as the public does with the local banks. Of the nine directors of each Federal Reserve bank, three known as Class C directors are selected by the Board of Governors of the Federal Reserve System and six are selected by the member banks, three known as Class A directors representing the stock holding member banks, and three known as Class B directors representing commerce, agriculture, or industry in the district. The chief executive officer of the bank, designated as president under the new banking act, is appointed by the board of directors of the bank subject to the approval of the Board of Governors of the System. The legal requirements for ownership and management of the Reserve banks, therefore, recognize that their functions must be performed in the public interest and that their management must take account of both the banking and the general business interests of the region.

Holding member bank reserves

One of the purposes of the Federal Reserve Act was to provide

institutions which would hold the reserves of the nation's banking system. Before the establishment of the Federal Reserve System, National banks were required to keep part of their reserves in their own vaults and part on deposit in other banks, usually metropolitan banks. Banks in the central reserve cities, however, of which there were then three, New York, Chicago and St. Louis, had to hold all their reserves in cash. When there was a general and heavy demand for funds, especially at crop moving times, for example, and country banks everywhere drew down their balances with their city correspondents, a situation was developed in which a currency and credit crisis of greater or less magnitude might readily occur. Country banks then had difficulty in getting money from the city banks, and the public in turn had difficulty in getting money from the country banks and from the city banks as well.

Now all member banks are required by law to keep their reserves on deposit in the Federal Reserve bank of their district and it is the business of the Reserve banks to supply member banks with credit or cash in such emergencies.

The required reserves vary with the type of deposit and the class of bank. Banks in central reserve cities, which now are only New York and Chicago, are required by law to maintain reserves equal to thirteen percent of demand deposits, that is, deposits which can be withdrawn without advance notice. For example, if a customer of a New York bank borrows $1,000, his deposit balance is credited with $1,000 and the bank in turn must provide for $130 of reserve deposit at the Federal Reserve Bank of New York, unless prior to the loan it already had excess reserves of that amount or more. Banks in so-called reserve cities, of which there are about sixty, are required to

maintain reserves of ten percent against demand deposits, and all other banks are required to maintain reserves of seven percent. Reserves of three percent against time deposits are required to be maintained by all banks. Member bank reserve balances on deposit with the twelve Reserve banks amount now to over $5,000,000,000. Because of unusual conditions, the total of these balances is about twice as much as the banks are required to have.

Loans to member banks

The Reserve banks also supply funds to member banks either by rediscounting paper or by making advances to member banks, as provided by law and Board regulations, or by purchasing bills and securities, and entering corresponding credits to the account of the member banks, thus increasing their reserve balances. Member banks in turn can increase their loans to the public in the aggregate by an amount several times the amount of the additional reserves.

The Federal Reserve Act, however, makes distinctions as to the character of paper on which loans may be obtained from the Reserve banks. For many years Reserve banks have had the power to discount only short-term self-liquidating commercial paper, that is notes, drafts, bills of exchange and bankers' acceptances arising out of commercial, industrial and agricultural transactions, and to make advances to member banks on their promissory notes backed by paper eligible for discount or purchase or by United States Government obligations. They were not authorized to make advances on a wide range of other assets which made up an important part of the total earning assets of banks. These included real estate loans, securities other than those of the United States Government, and loans to business men which did not meet the requirements of the narrowly-defined eligible commercial paper.

As a result of many developments in our financial organization, paper which qualified for borrowing from the Reserve banks has constituted a constantly decreasing proportion of the total assets of member banks ever since the System was established. In 1929 it was only about twelve percent of total loans and investments of such banks, and in 1934 it was but eight percent. Consequently, in 1931 and 1932 when the great liquidation occurred, many banks with assets which were good but technically ineligible for borrowing at Reserve banks, were obliged either to dump them on a falling market, suffer severe loss and contribute to the deflation in values or to close their doors.

The new banking act corrects this situation. It authorizes the Reserve banks to make advances to member banks for periods not exceeding four months on any security satisfactory to the Reserve bank, at a rate of interest at least one-half of one percent above the highest discount rate in effect at the particular Reserve bank. This amendment modifies and makes permanent the emergency legislation which it was necessary to pass in 1932.

In addition to the foregoing general powers of discount and purchase the Federal Reserve banks have special powers with respect to loans to commerce and industry for working capital purposes. These powers are granted by Section 13b of the Act. Under this section the Reserve banks are authorized to discount loans made by member banks and other financing institutions to established industrial and commercial businesses for the

purpose of supplying working capital. Such loans are to have maturities of not to exceed five years. The Reserve banks are authorized to discount these loans without recourse for as much as 80 percent of any loss thereon. The Reserve banks also have authority to grant commitments to discount such loans. This makes it possible for a member bank to hold in its portfolio loans which the Reserve bank is under obligation to take over upon request, and upon which the Reserve bank assumes 80 percent of any loss. In other words the member bank has an earning asset which is insured 100 percent as to liquidity and 80 percent as to loss. This arrangement is not restricted to member banks; it is open to non-members as well.

Under the same section the Reserve banks are authorized in exceptional cases, and when credit is not available from the usual sources, to make such loans for working capital purposes direct to the borrower.

As of May 13, the Federal Reserve Bank of Richmond had received 594 applications for working capital loans aggregating $24,000,000. Of these, 199, aggregating $11,000,000, had been approved. The Reserve bank's outstanding advances on that date were $4,200,000 and at the same time it had commitments outstanding for another $2,400,000.

These loans have been made to all kinds of enterprises, industrial and commercial. In many cases they have been loans which bankers have not been accustomed to making, and which would not be made were it not for the fact that the Reserve bank stands behind the bank which makes them. But as it is, they constitute secure and liquid assets, yielding a good rate of interest.

Currency issued by Reserve banks

Another activity of the Reserve banks is the issuance of Federal Reserve notes. These constitute the paper money authorized by the Reserve Act for the purpose of supplying the country an elastic currency - that is, a currency whose volume can be readily increased or decreased according to the public demand for it.

Federal Reserve notes are obligations of the United States and are secured by specific collateral pledged by the Reserve bank. The bank is required to keep reserves in gold certificates at least equal to forty percent of the notes in actual circulation. The Federal Reserve banks, of course, do not supply the entire currency of the country. The Government issues other paper money, silver dollars and minor coin, and National bank notes are still in circulation. The larger part of money in circulation, however, consists of Federal Reserve notes.

A member bank that has satisfactory assets can always secure all the currency that it needs. If it has a demand for more cash that it has in its vault, it can readily obtain Federal Reserve notes at its Reserve bank. It can borrow and take the proceeds in notes or it can draw against its account and, if necessary, restore the account to the required level by borrowing. If it receives on deposit from its customers more currency than it needs to keep on hand for current requirements, it can send the excess to the Reserve bank to be added to its reserve balance.

The function of supplying elastic currency is important, but it is less important than the lending power, because currency does not

play a major role in present-day business transactions. About ninety percent of our business is conducted by the use of checks. Currency is used, for example, for purchases at retail stores and filling stations, for car fare, and for payrolls, but such uses account for only about ten percent of the total monetary transactions in the country. Such fluctuations in the demand for currency as appear regularly on pay days, during the period of Christmas shopping, and near holidays, are met completely by the machinery provided by the Federal Reserve Act.

Other activites of Reserve banks

Beside their work in holding the banking reserves of the country, in making loans to member banks, and in supplying currency when needed, the Reserve banks have other important functions which facilitate the smoother working of our financial machinery.

The Reserve banks have greatly simplified the procedure whereby banks collect checks drawn on other banks. This has been very useful to business in general because it has permitted more prompt and cheaper settlement of monetary transactions. The Reserve banks in effect act as a nation-wide clearing house, not only for checks, but for other credit items such as notes, drafts, bonds and coupons.

In order to effect the prompt transfer of funds from one part of the country to another without actual movement of currency, the System maintains an inter-district Gold Settlement Fund in Washington. The fund was established by deposits of the twelve Federal Reserve banks, and transfers from one district to another are made daily by debits and credits to the

respective accounts of the Reserve banks.

The Federal Reserve System has centralized the work of the fiscal agencies of the United States Government. The Reserve banks act as fiscal agents in connection with the issue and retirement of Government debt and as depositaries of Government funds in administering deposit accounts of the Government in the Reserve banks.

Central control of credit policy

I wish to turn now from this discussion of the functions which the Federal Reserve banks perform for the local banks and consider how these activities tie in with the general responsibility of the System, through its Board of Governors, for the nation's credit policy.

When the Federal Reserve System was established it was realized that for certain activities, particularly those related to local banking conditions, a regional organization was necessary. Only in this way could the System meet local bank needs in a country as large as the United States, with economic conditions varying so much from one section to another. Each regional bank would have intimate knowledge of developments in agriculture, commerce and industry in its district and of the district's special credit needs and problems. The principle was also established by the original Federal Reserve Act that under the authority of the Act and of regulations of the Board in Washington the Reserve banks should have final responsibility in their dealings with member banks.

At the same time, it was also realized that the credit policy of the different Federal Reserve banks must be coordinated so that policies adopted in one district would not be harmful to another. More than that,

there should be a credit policy for the country as a whole which would take account of general business and credit conditions. The direction of this policy is the duty of the Board of Governors of the Federal Reserve System, which is the central organization located in Washington. The Board is aided by other organizations which work closely with it, the Federal Advisory Council and the Federal Open Market Committee.

Board of Governors of the Federal Reserve System

Experience has indicated that this power of the Board to affect the expansion and contraction of the general supply of credit is of vital importance to the country, since the volume of credit is a factor in determining the course of business, and proper changes in the cost and volume of credit may tend to moderate excessive expansion or contraction of business, or, in other words may reduce the danger of inflation and deflation.

The Board's ability to influence the volume of credit rests on three important powers: the power to determine discount rates, the power to change reserve requirements, and the power, exercisable through its majority of members on the Federal Open Market Committee, to determine open-market policies.

Discount rates

Discount rates are the rates charged by the Federal Reserve banks on loans to member banks. These rates determine the cost of borrowing by member banks and consequently have a bearing on the cost at which the public can borrow from these banks. Indirectly they affect other rates

in the money market. Under the Federal Reserve Act changes in discount rates are made by the various Federal Reserve banks but are subject to review and determination by the Board of Governors. This gives the Board final responsibility over the discount rates, and enables it to keep the cost of borrowing in the different sections of the country consistent with general credit conditions for the country as a whole.

The new banking act strengthens the Board's power to control these rates by making the further provision that discount rates must be submitted to the Board of Governors every fourteen days. This insures frequent review of the rates.

Reserve requirements

The Board of Governors also has the power to change the reserve requirements of member banks. The volume of credit which any member bank may extend is limited by the amount of reserves which are required by law to be maintained against its deposit liabilities. An increase in the reserve requirements reduces and a decrease increases the potential volume of member bank credit. Consequently the power to change reserve requirements gives the Board an important means of controlling the general volume of credit. Formerly this power could be exercised only in the event of an emergency arising out of credit expansion and then only with the approval of the President of the United States. Under the new act these conditions are omitted. The power is to be exercised in order to prevent injurious credit expansion or contraction, provided that reserve requirements may not be reduced below the present requirements specified in the law nor increased to more than twice the amount of these legal requirements.

Open-market operations

The third important means of control over the supply of credit are the so-called open-market operations, responsibility for which under the new banking act will be vested in a new Federal Open Market Committee. This committee will consist of the seven members of the Board of Governors and five representatives of the Reserve banks selected by the Reserve banks in different regions.

Open-market operations consist of the purchase and sale by Reserve banks of certain classes of securities, chiefly Government obligations. These operations have the effect of increasing or decreasing the supply of credit available in the market. By selling securities the Reserve banks withdraw funds from the market and there is a decrease in the supply of credit. Through a purchase of securities a Reserve bank puts funds into the market, thus tending to ease credit conditions.

Purchases and sales of securities by the Reserve banks were unimportant in the early days of the System. It was not until 1922 that they were large enough to affect the money market. At that time it became necessary to take steps to coordinate purchases and sales so that credit conditions for the country as a whole would not be adversely affected. Gradually these purchases and sales have become one of the most important means whereby the System can take the initiative in influencing credit conditions.

The responsibility for determining what security transactions should be undertaken and the authority for enforcing a program were not clearly defined by law until the new banking act. At the time this act was passed an

Open Market Committee consisting of representatives of the twelve Reserve banks was authorized to propose purchases and sales. Its proposals were then submitted to the Federal Reserve Board, which had the authority to approve or disapprove but not to initiate a policy.

The new act clearly places responsibility for determining open-market transactions on the new Open Market Committee and directs the Reserve banks to carry out the transactions determined by this committee. This is one of the most important changes in the Federal Reserve System which the new act introduces.

Other work of the Board

The Board of Governors has a variety of other duties which tie in with its general responsibility for supervision of the System. These include the examination of Reserve banks, passing on applications of State banks and trust companies for membership in the System, obtaining condition reports from State member banks, administration of those provisions of the Clayton Anti-trust Act which relate to interlocking bank directorates, regulation of the maximum rate of interest to be paid by member banks on time and savings deposits, regulations under the Security and Exchange Act governing the margin requirements for loans on securities listed on the stock exchanges, and maintenance and operation of the inter-district Gold Settlement Fund.

Information bearing on credit policy

It has always been a part of the System's work to watch credit trends and to develop a better general understanding of the facts bearing upon

credit policy. Information bearing on banking conditions throughout the country and on production, employment, trade and prices, has been regularly collected. In its monthly publication, the Federal Reserve Bulletin, and in its Annual Reports, the Board has undertaken from the beginning to give the public a comprehensive view of current banking and financial developments at home and abroad and also to furnish detailed information on conditions of banks throughout the country and on the business situation. Each of the Federal Reserve banks also publishes a monthly review of the business and banking conditions in its district.

There is no central bank in the world which makes available such exhaustive information on domestic banking and business developments and on the formulation of its credit policy as that which is published by the Federal Reserve System.

In the foregoing description of the System and its functions I have had occasion to mention most of the important changes effected by the Banking Act of 1935, but I think it is desirable to summarize them for the sake of completeness. I omit reference to Title I of the Act, for it deals exclusively with deposit insurance. I also omit reference to Title III, for the changes it effects are mainly technical and by way of clearing up previously existing provisions. The following changes are summarized from Title II:

1. Since March 1 the chief executive officer of each Federal Reserve bank is designated president instead of governor, and the deputy governors are designated as vice presidents.

2. The Board is given authority to waive in whole or in part the statutory requirements relating to the admission of State members to the Federal Reserve System, if such waiver is necessary to facilitate the admission of any State bank which is required to become a member in 1942 in order to be an insured bank or to continue to have its deposits insured.

3. The old designation of the Board as the Federal Reserve Board is changed to Board of Governors of the Federal Reserve System. An important change in the composition of the Board became effective February 1 when the Secretary of the Treasury and the Comptroller of the Currency ceased to be members, and the number of members was changed from eight to seven. The regular term is now fourteen years, and no member having served a complete term of fourteen years can be reappointed. The title of the chief executive officer of the Board has been changed from Governor to Chairman.

4. The Board is required to keep a complete record of the action taken by the Board and by the Open Market Committee upon all questions of policy and of the reasons underlying such action and to include a copy of the records in its annual report.

5. The Federal Reserve banks may make advances to member banks with maturities of not to exceed four months, secured to the satisfaction of the Reserve bank, and at a rate of interest not less than 1/2 percent higher than the Reserve bank's discount rate. This is the authorization I have already discussed which enables member banks to borrow from the

Reserve bank not merely on so-called eligible paper, but on any good assets.

6. The Open Market Committee is made to consist of the members of the Board and of five representatives of the Reserve banks, and is given definite authority over the open market operations of all the Reserve banks.

7. The express stipulation is made that direct obligations of the United States and obligations which are fully guaranteed by the United States may be bought and sold by Reserve banks without regard to maturities, but only in the open market. This is to prevent direct purchases of issues of government securities from the Treasury.

8. Federal Reserve bank discount rates are required to be established every fourteen days, or oftener if deemed necessary by the Board.

9. The Board of Governors, on the affirmative vote of four of its members may by regulation change the requirements as to reserves to be maintained against time and demand deposits by member banks; but the change shall not make the required reserves less than now established by law nor more than twice that now required. Formerly the existence of an emergency and the approval of the President were necessary conditions of such action by the Board.

10. National banks may make real estate loans up to 50 percent of the appraised value of the mortgaged property for periods not exceeding five years; except that if the loan is on an amortization basis it may be made up to 60 percent of appraised value and for a term of not longer

than ten years. Real estate loans must not exceed the capital and surplus of the bank, or 60 percent of the bank's time and savings deposits, whichever is greater.

There are two important changes effected under the new banking legislation, and I should like in conclusion to emphasize them.

First there are the provisions that fix responsibility more definitely for the determination and direction of national credit policy through control of open market operations, of discount rates, and of reserve requirements.

Second there are the provisions that broaden the classes of member bank assets eligible as security for loans from Reserve banks, and encourage local banks to meet a wider range of credit needs in their communities.

It must be recognized, however, that if the System is to achieve as much as we all hope, it will need more than these new provisions. It will need the cooperation of business men, bankers, and the general public. For that reason I appreciate the opportunity I have had of discussing with you the System's powers and purposes.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9594

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 22, 1936.

SUBJECT: Holidays during June, 1936

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following Federal Reserve banks and branches will be closed on Wednesday, June 3, in observance of the Birthday of Jefferson Davis and Confederate Memorial Day:

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

The Board is further advised that the Federal Reserve Bank of Boston will be closed on Wednesday, June 17, in observance of Bunker Hill Day.

On the dates given the offices mentioned will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day. No debits covering Federal

Reserve note shipments for account of the head offices concerned should be included in your note clearings of June 3 and 17.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9595

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 23, 1936

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:

"NOYNAK" - Treasury Bills to be dated May 27, 1936, and to mature December 15, 1936.

"NOYNEV" - Treasury Bills to be dated May 27, 1936, and to mature February 24, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9597

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1936.

SUBJECT: Maximum Rates of Interest Payable on Time Deposits under Regulation Q.

Dear Sir:

The Board has recently received an inquiry which indicated that there may be some misinterpretation of the provisions of the supplement to Regulation Q establishing a graduated scale of maximum rates of interest payable upon time deposits having different maturities or payable upon written notice of different periods. This inquiry indicated that such misinterpretation of the regulation may possibly have been caused in part by the forms of time certificates of deposit published at page 708 of the Federal Reserve Bulletin for November, 1933.

These forms complied with the definition of "time certificates of deposit" under the edition of Regulation Q in effect when they were published and also comply with the definition of such term in the current revision of Regulation Q. However, the rate of interest provided in such forms (3 per cent per annum) may not now be paid by a member bank.

The provision of these forms which may have caused misunderstanding is the following provision contained in forms 3 and 4:

"Interest payable for full months only at __ per cent per annum if left _____ or __ per cent if left more than _____."
(days or months) (days or months)

A time certificate of deposit payable upon 30 days' written notice which provides for interest at 1 per cent per annum if left 30 days but less than 90 days, or 2 per cent per annum if left 90 days but less than 6 months, or 2½ per cent per annum if left 6 months or longer is not permitted by the provisions of the supplement to Regulation Q. Since such a time certificate of deposit would be payable upon 30 days' written notice, it would fall within the provisions of section (3) of the supplement, and the maximum rate of interest payable thereon would be 1 per cent per annum even though the deposit were left with the bank for a year or more.

In other words, the applicable maximum rate of interest payable on a time deposit may not be determined by the length of time the deposit is left with the bank but must be determined by the length of the period from the date of the deposit to its specified maturity or the period of notice of withdrawal or payment required by the certificate. Of course, a certificate payable upon 30 days' written notice could provide for interest at 1/2 per cent per annum if left 2 months, 3/4 per cent per annum if left 3 months, or 1 per cent per annum if left 4 months, but no matter how long the deposit is left with the bank the rate of interest payable on such a certificate may not exceed 1 per cent per annum.

In any case in which a member bank, under a misapprehension

as to the rate of interest payable on a time certificate of deposit of the kinds published at page 708 of the Federal Reserve Bulletin for November 1933 has, in good faith, issued any time certificate of deposit which provides that interest shall be paid thereon at a rate determined by the length of time the deposit is left with the bank when such interest would be at a rate in excess of the maximum rate determined on the basis of the length of the period of notice required for withdrawal or payment, the Board will not object to the payment of interest on such certificate in accordance with its terms, provided that the certificate and the rate of interest payable thereon comply in other respects with the provisions of Regulation Q and that such steps be taken by the bank through notice to the depositor or otherwise as may be necessary to bring such certificate into conformity with the provisions of the regulation as soon as possible.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9598

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 29, 1936.

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:

"NOYNIP" - Treasury Bills to be dated June 3, 1936, and to mature December 15, 1936.

"NOYNOD" - Treasury Bills to be dated June 3, 1936, and to mature March 3, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9599

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1936.

Dear Sir:

There is inclosed, for your information, a copy of a letter sent to Mr. Oliver P. Wheeler, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, in connection with certain questions submitted to him by a national bank located in the Twelfth Federal Reserve District regarding the effect on the bank's operations under Regulation U of its "general pledge agreement".

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

X-9599-a

May 20, 1936.

COPY

Mr. Oliver P. Wheeler,
Assistant Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Sir:

This refers to your letter of May 11, 1936, containing questions submitted to you by the _____ National Bank regarding the effect on the bank's operations under Regulation U of its "general pledge agreement" enclosed with your letter.

Before answering the specific questions relating to this general loan agreement it may be pointed out that in the preparation of Regulation U consideration was given to the fact that most banks use a general loan agreement of this type. Although no attempt will be made in this letter to construe the legal effect of the enclosed agreement in the State of _____, it will be assumed that it will have an effect similar to general loan agreements which have been considered and which subject to the lien of each existing or future loan of the bank to a given borrower, all collateral or property of that borrower in the possession of the bank.

You first ask whether the pledge resulting from such a general loan agreement of all property in the possession of the bank as security for all the borrower's indebtedness prevents the separate allocation under Regulation U of certain collateral to loans subject to the regulation and of other collateral to loans not subject to the regulation. Regulation U is not intended to prevent a borrower from pledging specifically securities or other collateral for a particular loan or to prevent a bank from

allocating definite collateral to such a loan. However, if a general loan agreement be in effect by which collateral securing each loan also secures all other loans, the loan value of collateral specifically pledged for or allocated to loans not subject to the regulation may be considered as a basis for making or increasing loans subject to the regulation. Further, in determining whether collateral specifically pledged or allocated to loans not subject to the regulation may be withdrawn, the bank must combine the collateral for all loans. The bank may not in this case permit withdrawal of such an amount of collateral as will cause the maximum loan value of the remainder to be less than the amount of the loans subject to the regulation.

In answer to your second question, it follows from the foregoing that such a general loan agreement permits the use of collateral previously allocated to loans not subject to the regulation in computing the maximum loan value for the purpose of making a loan subject to the regulation. In this connection, it is recognized that resort to this practice would tend to nullify the regulation and that evidence of extensive use of the practice would give the Board reason to consider tightening the regulation.

Your last question is whether specific inclusion under the lien of a general loan agreement of all property deposited for safekeeping by the borrower conclusively indicates that securities in safekeeping are relied upon, so that under section 3(f) of Regulation U a bank must treat a loan as collateralled by such securities. Although subjection to the lien in such a case may not conclusively establish the reliance referred to in section 3(f), it will raise a presumption that the bank must have relied

upon the securities in safekeeping. This might be overcome, however, by clear evidence to the contrary in the records of the bank or elsewhere.

The Bulletin of the _____ Trust Company referred to by you represents, it is understood, the construction by that bank of Regulation U. The statements therein will be treated, it is believed, as a reasonable interpretation made in good faith by a member bank. This letter, however, will not attempt to approve or disapprove the construction quoted by you from that Bulletin, as the Board does not feel that it should, at least for the present, pass upon any documents published or used by member banks in connection with Regulation U. To do so in a particular case might result in requests from many banks for approval of their forms.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9600

THE FEDERAL RESERVE SYSTEM AND BANKING ACT OF 1935

Address by

M. S. SZYMCZAK, MEMBER,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

Delivered Before

BANK MANAGEMENT CONFERENCES,
SEATTLE CONVENTION, AMERICAN INSTITUTE OF BANKING,

June 9, 1936,
Seattle, Washington.

In speaking before the American Institute of Banking it is appropriate to stick to facts and fundamentals.

I want to describe the Federal Reserve System from the point of view first of the Federal Reserve Banks and then from the point of view of the Board of Governors in Washington, and in passing to indicate such changes as were effected by the Banking Act of 1935.

Federal Reserve Banks

The Federal Reserve Banks have direct relations with about 6,400 banks which are members of the Federal Reserve System. This is less than half the banks in the country. However the banks which belong to the System do about 70 percent of the banking business of the country; and the proportion of the total banking business handled by them has shown in recent years a strong tendency to increase.

Holding Member Bank Reserves

The fundamental purpose of the Federal Reserve Banks is to hold reserves of member banks. Before the establishment of the System it was long recognized that one of the greatest weaknesses of our banking was the lack of a scientific system of reserves. The requirements for national banks thirty years ago, for example, just before the panic of 1907, - which had much to do with bringing about the establishment of the Federal Reserve Banks - was that each country bank should keep reserves of 15 percent, of which at least 6 percent was to be kept as cash on hand and the rest on deposit in correspondent banks in reserve or central reserve cities. National banks in reserve cities had to

keep reserves of 25 percent, at least 12½ percent in cash and 12½ percent on deposit with correspondent banks in central reserve cities. There were three central reserve cities: New York, Chicago, and St. Louis. The banks in these cities had to keep reserves of 25 percent - all in vault cash.

The percentage of reserves which such banks are now required to keep on demand deposits is 7 percent for country banks, 10 percent for reserve city banks, and 13 percent for central reserve city banks; and on time deposits all banks must keep 3 percent.

The great difference, however, is that whereas at that time the banks partly kept their legal reserves in their own vaults and partly kept them with one another, and had no certain means of augmenting their reserves except when everything was easy, the banks now have to keep their legal reserves with the Reserve Banks and they have in the Reserve Banks a means of augmenting their reserves by the discount or sale of assets.

The Federal Reserve System substitutes a flexible arrangement for a rigid one; and a bank with sound assets can no longer find itself without the means of maintaining its reserves.

These conditions remain the same substantially as they were in the original act. With respect to the assets which a bank can discount at the Federal Reserve Bank, however, the law has made important changes.

Lending Powers

The original act sought to encourage banks to make commercial loans

and it therefore definitely discriminated in favor of such loans by limiting the class of paper eligible for discount. This comprises, in the words of the act, "notes, drafts, and bills of exchange issued or drawn for agricultural, industrial or commercial purposes." Moreover, such paper, to be eligible, had to mature in three months or less from the time of discount, except that agricultural paper might mature in six months.

Whatever the intention, this limitation did not in fact result in a preponderance of such paper in the portfolios of banks. On the contrary eligible paper has showed for many years a tendency to occupy relatively a smaller and smaller place among bank assets. In 1929 it was only about 12 percent of loans and investments of member banks, and in 1934 it was only 8 percent. This change is due to a variety of factors. In the large it represents the fact that American banks, instead of specializing in any one type of credit, have tended to deal in all kinds of credit, long term as well as short, required by their communities. The effect of this was to limit the power which it was originally intended that the Reserve Banks should have of enabling banks with sound assets to maintain their reserves. Consequently, banks which still needed to convert assets into reserves after having discounted their eligible paper were often forced to dump other sound assets on the market and get what they could.

The Banking Act of 1935 sought to correct this condition by amending the Federal Reserve Act to authorize the Federal Reserve Banks to

make advances to member banks for not to exceed four months on any security satisfactory to the Reserve Bank. Previous legislation had already enlarged the lending powers of the Reserve Banks, but this change went farthest by making it possible for a member bank to discount any sound asset at the Reserve Bank regardless of type.

Currency

At the time the Federal Reserve Act was adopted, probably its most important purpose in most people's minds was to furnish an elastic currency. The difficulties at which the System was aimed were thought of mainly as currency problems and not as credit problems. It is now generally recognized, however, that the supply of currency is principally a routine matter that presents no difficulties so long as credit and banking conditions are sound.

This brings me to the matter of general credit control and to the functions which pertain largely if not mainly to the Board of Governors of the Federal Reserve System.

Discount Rates

The establishment of discount rates as authorized by the Federal Reserve Act is partly the responsibility of the Federal Reserve Banks and partly the responsibility of the Board of Governors. The Reserve Banks, in the words of the act, are to establish the rates "subject to review and determination of the Board". Since discount rates affect other rates in the money market and since the rate in one district should take into account the rates in other districts, the Board has

to consider the question from the point of view of general credit conditions. It has, therefore, the final responsibility.

The Banking Act of 1935 strengthened the Board's power by requiring that rates be established every fourteen days or oftener. It is not necessary that the rates be changed every time, but they must at least be reviewed.

The great limitation upon discount rates as a means of general credit control is that they are not effective except as banks voluntarily seek to discount their paper. When the Federal Reserve Act was adopted the importance of this limitation was not fully realized, and discount rates were generally regarded as the most prominent means of credit control. At the same time a device that is now regarded as most important received at that time very little consideration. This is open market operations.

Open Market Operations

Open market operations are now regarded of great importance because they are not subject to the limitation just referred to. They enable the central banking organization to take the initiative instead of having to wait on individual banks to take the initiative. Moreover, their effect is comprehensive rather than local.

Open market operations consist of purchases and sales of securities - mainly government securities - by the Federal Reserve Banks. By selling securities the Reserve Banks withdraw funds from the market and there is a decrease in the supply of credit, because as the

securities are paid for the reserves of member banks are diminished. By purchasing securities the Reserve Banks put funds into the market, and tend to ease credit, because their payments increase the reserves of member banks.

It was not till 1922 that open market operations became large enough to affect the money market. As a result of war financing the Federal debt had increased from one to twenty-six billions with a correspondingly large volume of government securities. It then became necessary for the individual Reserve Banks to coordinate their purchases and sales. Accordingly a committee was formed for that purpose. At the same time it was definitely established that the purpose of the operations was not profit but control of credit. The principle was as follows:

> That the time, manner, character, and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation.

The Banking Act of 1935 gave statutory recognition to the Federal Open Market Committee, and forbade any Reserve Bank to engage in open market operations except in accordance with regulations of the Board. At the same time the Act adopted substantially the same statement of purpose as had already governed the operations.

The Banking Act of 1935 went still further. It directed that the

Federal Open Market Committee should consist of all the members of the Board of Governors and five representatives chosen by the Federal Reserve Banks regionally. This was a definite centralization of control.

Reserve Requirements

The Banking Act of 1935 increased the Board's power in another respect also by authorizing it to change the statutory reserve requirements, which have already been mentioned. The Board may increase them to as much as twice the present requirement, but may not lower them below the present. This is a very important power because the volume of credit which any member bank may extend is limited by the amount of reserves it is required to hold.

Formerly this power could be exercised only in emergency and with the approval of the President of the United States. The matter is now one simply of the Board's discretion.

Other Changes

The most important changes effected by the Banking Act of 1935 have been covered in the foregoing. A few others may be mentioned.

The title "president" was given to the chief executive officer of each Federal Reserve Bank instead of the former title "governor".

The old designation "Federal Reserve Board" was changed to "Board of Governors of the Federal Reserve System", and the title of the chief executive officer of the Board, which was formerly "governor", was changed to "chairman".

The ex officio membership of the Secretary of the Treasury and

the Comptroller of the Currency was discontinued and appointment of seven appointive members was authorized.

Other Activities

The Federal Reserve Banks and the Board of Governors have a variety of duties which cannot be mentioned in brief space. Notable among these is the compilation and publication of information bearing on banking and credit conditions, here and abroad, and including data on production, employment, trade, and prices. In the Federal Reserve Bulletin, which is published monthly, and in the Annual Report of the Board, a comprehensive view is presented of the current banking and financial situation. Each of the Federal Reserve Banks also publishes a monthly review and an annual report.

No other central banking organization in the world makes available such comprehensive information on domestic banking and business developments, and on the considerations taken into account in formulating credit policy, as does the Federal Reserve System.

X-9601

CREDIT CONTROL

Address by

M. S. SZYMCZAK, MEMBER,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,

Delivered Before

OREGON BANKERS ASSOCIATION CONVENTION - PORTLAND, OREGON,

June 13, 1936.

X-9601

Under various provisions of federal law there are five principal means of credit control which the Federal Reserve Banks or the Board of Governors may use. These are:

Discounts
Open Market Operations
Direct Action
Reserve Requirements
Margin Requirements

Discounts

The Federal Reserve Act provides that each Federal Reserve Bank establish from time to time rates of discount, subject to review and determination by the Board of Governors of the Federal Reserve System. To this the Banking Act of 1935 added the new requirement that such rates shall be established "every fourteen days, or oftener if deemed necessary by the Board". This does not mean that the rates must be changed every time, but that they must be regularly and frequently reviewed.

When the Federal Reserve Act was adopted the prevailing idea seems to have been that discount rates were the most important means of credit control. This idea was apparently based upon a belief that member banks would borrow funds at a low rate of interest in order to relend at a higher rate. As a matter of fact, banks rarely borrow from the Reserve Banks for the purpose of relending. They do not like to borrow and as a general thing they will not borrow, no matter how low the rediscount rate is, except when they have to augment depleted reserves.

The Federal Reserve Act formerly limited the classes of paper which Federal Reserve Banks could discount for member banks, on the principle that a definite preference should be maintained for short-term credit based on self-liquidating commercial transactions. The Reserve Banks were, therefore, given the power to discount only paper arising out of commercial, industrial, and agricultural transactions, or paper backed by United States Government obligations.

As a result of various financial and economic developments, the classes of paper which could be used as a basis for borrowing from the Reserve Banks for many years constituted a decreasing proportion of the assets of member banks. In 1929 it was only about twelve percent of their total loans and investments, and in 1934 it was only eight percent. Consequently, in 1931 and 1932 when the great liquidation occurred, many banks whose assets as a whole were good nevertheless had very little that was technically eligible. They therefore had to dump their assets on a falling market in order to raise the funds they needed.

The new banking act increases the powers of the Federal Reserve Banks so that advances may be made to member banks for periods not exceeding four months on any security satisfactory to the Reserve Bank. This amendment modifies and makes permanent the emergency legislation which was adopted in 1932.

Open Market Operations

If the Reserve Bank had no other means of credit control than the power to discount the paper of member banks at given rates, it might

have to wait passively and idly until individual member banks decided that they would like to borrow. As a consequence of the need of meeting responsibilities more positively, other means of credit control have been developed.

Open market operations consist of the purchase and sale by the Reserve Banks of securities, mainly government obligations, for the purpose of increasing or decreasing the supply of credit available in the money market as a whole. By selling securities the Reserve banks withdraw funds from the market and less credit becomes available; because in the process of paying for the securities that are sold the reserves of member banks become diminished. And as a member bank's reserves decline toward the legal minimum it is less able to make extensions of credit.

On the other hand, by purchasing securities the Reserve Banks put funds into the market and more credit becomes available; because the funds which are released in payment flow directly or indirectly into the reserve accounts of the member banks and enlarge them. And as their reserves expand, they are in a position to extend more and more credit.

In principle, therefore, open market operations enable the Reserve banks to increase or decrease the funds available for lending, by buying or selling securities. They enable the Federal Reserve banks to take corrective action with respect to abnormal credit conditions on their own initiative.

The powers of the Reserve Banks to buy and sell securities in the open market were granted in general terms in the original Federal Reserve Act. The first operations were carried on by the Federal Reserve Banks independently of one another, but it was soon found that action would have to be coordinated; and a committee representing several banks was formed for the purpose of directing the operations. For some time purchases had been made with the idea of providing income to meet expenses, but it was eventually realized that such an objective was in conflict with that of moderating a given condition of the money market, and must, therefore, be subordinated or even abandoned.

The Banking Act of 1933 gave specific recognition to open market operations and established a Federal Open Market Committee of twelve members, one representing each Federal Reserve Bank, to take the place of the former non-statutory committee. At the same time the law adopted substantially the statement of purpose which had already governed open market operations. This was to the effect that they be conducted "with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

The Banking Act of 1935 made a further change by providing that the Federal Open Market Committee should consist of the members of the Board of Governors of the Federal Reserve System and five representatives chosen by the twelve Federal Reserve Banks.

Direct Action

Direct action means efforts to discourage credit policies of

given member banks in given circumstances. Opportunity for it occurs on various occasions, but particularly when a member bank is being examined, or when it is seeking to rediscount some of its paper. In this sense, direct action is aimed at the correction of specific conditions in particular banks. It may also be resorted to with reference to general conditions and for the purpose of enforcing general credit policy.

The effectiveness of direct action was increased by the Banking Act of 1933 in several particulars. If a member bank makes undue use of bank credit for any purposes inconsistent with sound credit conditions, it may be suspended from recourse to credit facilities of the Federal Reserve System. Furthermore, authority has been given to remove any officer or director of a member bank who continues to violate the law governing the bank's operation or who has persisted in unsafe and unsound practices in conducting the bank's business.

Power to Change Reserve Requirements

Recent legislation has also given the Board power to change reserve requirements. For most banks (chiefly those outside the larger cities) the requirement is and has been for years that they have reserves equal to at least 7 percent of their demand deposits, and 3 percent of their time deposits. The power to alter these requirements was first given the Board in 1933, but under limitations which were later removed by the Banking Act of 1935. The Board is now authorized to change the reserve requirements "in order to prevent injurious

credit expansion or contraction", but it is not permitted to lower them below the present requirements nor increase them to more than twice the present requirements. The result of raising them would be to decrease the lending power of member banks and consequently the amount of available credit. The effect of lowering them later on would be, of course, to enlarge the lending power and the amount of available credit.

Margin Requirements

Another new form of general credit control recently authorized pertains to margin accounts and loans made for the purpose of purchasing or carrying registered securities. Authority for the Board to issue regulations in this field was granted by the Securities Exchange Act of 1934.

Pursuant to these provisions the Board has issued twin Regulations, T and U. Regulation T, following Sections 7 and 8(a) of the Securities Exchange Act of 1934, governs the extension and maintenance of credit by brokers and dealers in securities for the purpose of purchasing or carrying securities. Regulation U, following Section 7(d) of the Act, governs loans made by banks for the purpose of purchasing or carrying stocks registered on exchanges. In general, these regulations fix the maximum loan value of securities subject to their provisions at 45 percent of their current market value. This means a margin requirement of 55 percent. This loan value applies equally to margin accounts with brokers and to similar loans made by banks.

In the case of brokers who are financing other brokers in order to enable them to carry accounts of their customers - as may happen, for example, when a large city broker is financing a correspondent broker in a smaller community - loan values of 60 percent are permitted. Special provision is also made to facilitate the financing of securities' distribution.

The Board has authority to change the loan value percentages as necessary in order to prevent, in the language of the Act, "the excessive use of credit for the purchase or carrying of securities."

For example, under the regulation last issued, it is possible to borrow $45 on each $100 of stocks, valued at the market. If market prices nevertheless rise so that the $100 worth of securities becomes worth $125, $150, or $200, at the market, the amount that can be borrowed, namely 45 percent, becomes of course progressively greater, until such time as the Board finds it advisable to reduce the ratio of loan value. As the Board reduces the ratio, the effective demand is checked. In principle, therefore, the Board has the power to prevent the use of too much credit for speculation and to prevent an expansion dependent too largely upon the ease with which money can be borrowed. Moreover it is enabled to do this without making credit any the less available for commercial, agricultural or industrial purposes, and without raising its cost for such purposes.

The power which has been given the Board to impose and relax restraints upon the demand for credit for speculative purposes is

definitely selective. It is aimed at a particular use of credit and at the specific channels through which demand becomes effective. For this purpose, it extends the powers of the Board outside the Federal Reserve System to reach directly brokers and nonmember banks. It differs from powers of discount, because while these powers may be exercised to discriminate against paper directly involved in speculative uses, they cannot prevent the speculative use of funds procured by the discount of paper not directly involved in speculation. It also differs from the power to conduct open market operations which influence the total amount of funds but not the uses to which they can be put. The same thing is true of the power to alter reserve requirements. Direct action can be used to discriminate against the speculative use of credit, but only in individual cases.

In the case of margin accounts, however, the regulation is directed at an unmistakable objective and cannot miss affecting the speculative use of credit. In the case of loans by banks for purposes of speculation it may be felt that the objective is less distinct, since the purpose of such loans may be disguised. This may appear especially possible since Regulation U permits a bank to rely upon a signed statement, accepted in good faith, as to the purpose of a given loan. Of course if means of evasion develop, they will have to be dealt with, but the Board has chosen to avoid imposing inquisitorial investigations in the absence of reason for believing that evasions will be deliberate or of serious consequence.

It is not the function of the Board to attempt control of security prices nor to do anything in conflict with the responsibilities of the Securities and Exchange Commission in its supervision of securities exchanges.

Conclusion - Limitation on Means of Credit Control

Although the five means I have discussed by which credit control may be exercised - discounts, open market operations, direct action, reserve requirements, and margin requirements - appear to be very comprehensive and powerful, it would be a mistake to convey the impression that a perfect control of credit will be effected through them. In the first place, their application cannot be mechanical nor governed by simple unvarying rules. Credit and economic relationships are extremely intricate, and the circumstances under which the need for action arises are always to some extent different and special.

For one thing, there has never been a time when the membership of the Federal Reserve System included as many as half the banks in the country. Although it is true that the System includes most of the large banks and that it, therefore, includes the bulk of the banking business of the country, still from the point of view of the communities they serve and of relations with other banks, the importance of the thousands of small banks which are outside the System is not negligible.

For another thing, United States Treasury activities must be taken into account. These have to do in part with the operations of

the Exchange Stabilization Fund and the issue of circulating media, e.g., coins, silver certificates, and United States notes; and in part with the public debt, and the government's receipts and expenditures. These operations involve large sums and intimately affect the banking and credit situation.

Finally there are conditions that arise not only outside the System, but outside the country, and yet affect the domestic banking situation powerfully. There is, for example, the recent great movement of gold to the United States from abroad - a movement that in the last two years has added over three billion dollars to the reserves of member banks and created a quite unprecedented credit situation.

These factors, among others, necessarily limit and modify the exercise of credit control.

In concluding I want to assure you how much I appreciate the opportunity you have given me to discuss these matters. I feel, as I have probably said before, that an administrative agency cannot function properly without having behind it a well informed and sympathetic public interest. Credit control unfortunately is a matter which bristles with technical difficulties and abstract ideas; but it is nevertheless essential, if the important objectives of credit control are to be achieved, that at least their general purpose and philosophy be understood.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9602

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 2, 1936.

Dear Sir:

There are inclosed, for your information, copies of a letter dated April 14, 1936, and its inclosures, received from Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, and of the Board's reply thereto, with regard to the Board's Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Very truly yours,

S. R. Carpenter

S. R. Carpenter,
Assistant Secretary

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

COPY X-9602-a

FEDERAL RESERVE BANK

OF ATLANTA

April 14, 1936.

Mr. Ronald Ransom,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Mr. Ransom:

At the request of Mr. _____, Vice President of The _____ National Bank of _____, I am transmitting to you a memorandum that he has prepared of Regulation U.

Mr. _____ is anxious to have a meeting of branch managers and credit officials of the main office for the purpose of studying Regulation U. Prior to that meeting he would like to have the benefit of the Board's views as to whether the statements contained in the memorandum are in accordance with the provisions of the regulation, and have answered the questions raised in the second paragraph of item 1 and item 5 under (A) and item 4 under (B).

Any further interpretations or rulings that the Board might wish to give in this connection I know will be greatly appreciated by Mr. _____.

With kindest regards, I am

Very truly yours,

(Signed) L. M. Clark

L. M. Clark,
Assistant Federal Reserve Agent.

enclosure

Under the above regulation the following points appear of interest and are apparently worthy of note:

A - Loans to brokers and dealers.

1. On all loans made to brokers and dealers accompanied by Certificate "A", 60% of the market value of the collateral pledged can be loaned if the collateral consists of listed stocks.

   When Certificate "A" is used and the collateral tendered includes both listed and unlisted stocks, what percentage of the market value of the unlisted stocks can be used as the maximum loan value?

2. If accompanied by Certificate "B", a loan signed by a broker or dealer will not be subject to the regulation.

3. A loan which is not accompanied by either Certificate must not be in excess of 45% of the market value of the stocks offered as collateral.

4. A temporary loan to a dealer for the purpose of completing a transaction where securities are purchased against a bonafide order is not subject to the regulation.

5. Does Item "C" of Section Two refer to the distribution of new issues, exclusively, or will it include the distribution of issues already outstanding and presently listed on a national exchange?

B - Loans to others than dealers and brokers.

1. If the bank accepts in good faith Certificate "B", executed by a borrower, the loan in connection with which it is executed is not subject to the regulations and the margin to be required is optional to the bank.

2. After May 1, when both secured and unsecured loans are made to the same borrower at the same time or at different times, the total indebtedness of that borrower must not exceed the maximum loan value of the collateral as prescribed in the regulation and any loan not considered in the total must be accompanied by Certificate "B".

3. According to our attorneys and according to the attorneys of the Federal Reserve Bank, the regulation does not in any way restrict the substitution or release of collateral securing loans which were in existence prior to the effective date and which have not been increased except as provided for in the regulation.

4. Does item "L" of Section Three intend to include bonds convertible into stock at the option of the holder or carrying warrants entitling the holder to purchase stock under certain conditions?

X-9602-a

CERTIFICATE "A"

April 1936.

_____National Bank of _____,
_____, _____.

Dear Sirs:

For the purpose of enabling you to make a loan to me in excess of 45% of the current market value of certain stocks registered on a national securities exchange which I will pledge to you as security for said loan, I certify that

1. I am subject to the provisions of Regulation T of the Board of Governors of the Federal Reserve System, prescribed in pursuance of the Section 7 of the Securities Exchange Act of 1934

   or (indicate which)

   I do not extend or maintain credit to or for customers except in accordance with such Regulation T as if we were subject thereto,

   and

2. That the securities hypothecated to secure said loan are securities carried for the account of my customers other than my partners.

Yours very truly,

X-9602-a

CERTIFICATE "B"

I hereby certify that the loan evidenced by this note is not being obtained for the purpose of purchasing or carrying stocks registered on a national securities exchange and that the proceeds will not be used for either of said purposes.

X-9602-b

May 20, 1936.

Mr. L. M. Clark
Assistant Federal Reserve Agent
Federal Reserve Bank
Atlanta, Georgia

Dear Mr. Clark:

Reference is made to your letter of April 14 to Governor Ransom, enclosing a memorandum on the subject of Regulation U prepared by Mr. _____, Vice President, (national bank), and to the copy of Mr. Parker's letter to Mr. _____ of April 21 which was forwarded to the Board.

The statements made and the questions asked in the memorandum appear to relate to matters upon which you may receive further inquiries, and for this reason they will be discussed somewhat fully. They will be treated in the order in which they appear in the memorandum.

A-1. Stocks which are not registered on a national securities exchange have a maximum loan value of 45 percent when serving as collateral for a regulated loan, even in the case of a loan to a broker made in accordance with the second paragraph of the supplement to Regulation U. It is only registered stocks that have, in this case, a loan value of 60 percent.

A-2. The Board does not feel that it should attempt to approve or disapprove, at the present time at least, the forms which banks may employ in complying with the provisions of Regulation U. To do so in any particular instance might have the result that requests for approval of many forms would be made of the Board by many banks. In this connection it should be pointed out that such certificates are not required by the regulation but the bank is permitted to rely upon them if it obtains them in good faith.

A -3. It may be noted that neither "Certificate 'A'" nor "Certificate 'B'" attached to the memorandum relates to loans which are excepted by the provisions of section 2 of Regulation U. It is not, therefore, correct to say that a "loan which is not accompanied by either certificate must not be in excess of 45 percent of the market value of the stocks offered as collateral."

A-4. A loan of the following description comes within the provisions of section 2(f) of Regulation U:

> A dealer in securities receives an offer from a customer to purchase a registered stock. It is agreed between the dealer and the customer that the dealer will deliver the stock to the

customer promptly, and that the customer will pay for the stock promptly upon delivery of the security. The dealer purchases the security, instructing the seller to deliver it to a designated bank against payment. The bank, knowing the facts of the case and understanding that it will be repaid by the dealer as soon as the dealer can arrange for his customer to take delivery of and pay for the stock, makes a loan to the dealer for the purpose of paying the seller of the stock.

If Mr. _____ has in mind a case differing from that described above, it is suggested that he address a new question to you, giving you the facts of his case.

A-5. It is suggested that in order to assist the Board in answering this question, which relates to the interpretation of section 2(c) of Regulation U, you ask Mr. _____ to give you a specific case, describing in some detail the exact nature of the operation which the bank is being asked to finance.

B-1. If a given loan is not "for the purpose of purchasing or carrying a stock registered on a national securities exchange", a bank may make the loan without being required to obtain the margin prescribed by Regulation U. Withdrawals and substitutions of collateral securing any such loan are not subject to the regulation unless the collateral secures also a loan for the purpose specified in section 1 of the regulation.

B-2. The question which the memorandum seeks to answer is not altogether clear. If this question is how a loan which is made after May 1 for the purpose of purchasing or carrying registered stocks, but which is unsecured, shall be treated in the event that the bank makes, or has made, another loan to the same borrower after May 1 for the same purpose secured by a stock, the answer is as follows:

If a bank has outstanding to a borrower no loan whatever which is secured directly or indirectly by any stock, any loan by the bank to such borrower, even if the purpose of the loan be to purchase or carry registered stocks, is not subject to the regulation, if it is itself not secured by any stock. If, however, a bank has outstanding a loan to a borrowe which, by reason of its purpose and its collateral, is subject to Regulation U, the bank may not make to the borrower any additional loan secured, under a general loan agreement, by stock securing the first loan or by other stock and for the purpose of purchasing or carrying registered stock unless the bank obtains the margin on the additional loan required by the regulation.

If a bank has outstanding a loan to a borrower which is unsecured or which is not secured by any stock, and is, therefore, not subject to Regulation U, it may make a second loan which is subject to the regulation, without regard to the status of the first loan,

i.e., if the bank obtains additional collateral with a maximum loan value at least equal to the amount of the second loan. Thereafter, however, if the bank permits withdrawals or substitutions of collateral for either loan, it is obliged to ascertain the purpose of the first loan. If the first loan was for the purpose of purchasing or carrying registered stocks, the two loans must be treated as a single loan, and all the collateral securing both loans must be considered in determining whether or not the contemplated withdrawals or substitutions may be made.

B-3. As a general rule, the provisions of Regulation U are not applicable to the withdrawal or substitution of collateral for any loan made prior to May 1, 1936. This general rule is subject, however, to one qualification: If a bank has made another loan on or after that date (other than a loan excepted by section 2 of the regulation) which is secured directly or indirectly by any stock and is for the purpose of purchasing or carrying a stock registered on a national securities exchange, and if the terms of the bank's agreements with the borrower are such that the collateral securing the first loan also secures the second loan, the bank must then combine the collateral for both loans in determining whether any of the collateral for either loan may be withdrawn. The bank may not, in this case, permit withdrawal of such an amount of collateral as would cause the maximum loan value of the remainder to be less than the amount of the second loan.

B-4. The term "stock" as used in section 3(1) of Regulation U does not include any bond, even a bond convertible into stock, or a bond carrying stock purchase warrants.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill
Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 2, 1936

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

X-9603

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:

"NOWKYNE" - 1 3/8% Treasury Notes, Series B-1941, to be dated and to bear interest from June 15, 1936, and to mature June 15, 1941.

"NOWCORN" - 2 3/4% Treasury Bonds of 1951-54, to be dated and to bear interest from June 15, 1936, and to mature June 15, 1954.

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 PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9604

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 4, 1936.

Dear Sir:

There is inclosed, for your information, a copy of a letter dated May 26, 1936, to Mr. Oliver P. Wheeler, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, in reply to a question submitted to him with regard to the Board's Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-9604-a

May 26, 1936.

Mr. Oliver P. Wheeler,
Assistant Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Wheeler:

This refers to your letter of May 12, 1936, inclosing a copy of a letter from Messrs. _____, _____, and _____, submitting the following case under Regulation T:

> The account of a customer with a broker is restricted. The customer sells 100 shares of stock realizing the sum of $1000 after taxes and commissions. On the same day he asks the broker to pay him from the account the sum of $450. Would this combination of transactions effected on the same day result in a net withdrawal from the account under section 4(d) of the Regulation?

The net effect of such a combination of transactions made on the same day would be a "net withdrawal" as defined in section 2(l) of Regulation T, since there would occur a payment from the account of money ($450) and delivery of registered securities having an aggregate current market value ($1000), together exceeding the amount of money ($1000) paid into the account on the same day.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9605

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 4, 1936.

Dear Sir:

In the Board's letter of April 16, 1936, (X-9550) you were advised that no objection would be offered to your granting employees of your bank sufficient leave, in addition to their regular annual leave, to enable them to attend the special two weeks' course offered by the Graduate School of Banking at Rutgers University.

The Board has since decided to grant members of its staff attending the summer session leave of absence with pay, in addition to the regular annual leave, of sufficient duration to enable them to attend the session, and also to assume the transportation expenses of such employees to and from the University.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9606

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 4, 1936.

Dear Sir:

Recently the Board made arrangements whereby the mailing of all statements and publications issued by it may be handled by its personnel or by the printer and, accordingly, the Board beginning July 1 will mail direct from Washington copies of the weekly statement of debits to individual accounts and the member bank quarterly call report now furnished the Federal reserve banks for mailing.

By mailing these statements from Washington their receipt by the addressees will be expedited and at the same time there will be a considerable saving in postage and in expenses incident to their rehandling at the Federal reserve banks.

It will be appreciated, therefore, if you will furnish the Board with a copy of your mailing lists for each of the above statements arranged alphabetically by states and keep the Board currently advised of changes therein. In replying to this letter please state the number of copies you will wish to have sent to your head office and to each of your branches, if any, after July 1.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9607

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 4, 1936.

SUBJECT: Basis of Issuance of Federal Reserve Bank Stock.

Dear Sir:

There is inclosed for your information and guidance, in the event that cases involving similar circumstances come to your attention, a copy of a letter to the Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City regarding the basis of subscriptions to Federal Reserve bank stock.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT KANSAS CITY.

X-9607-a

June 4, 1936.

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

Dear Mr. McAdams:

Reference is made to your letter of April 29, in which you refer to the Board's letter X-9324 of September 20, 1935, and inquire whether, in the circumstances described in your letter, it will be satisfactory to defer adjustments of Federal Reserve bank stock holdings of member banks when it appears that an existing impairment in the book surplus account (by reason of a deficit in the undivided profits account) will be eliminated within a reasonably short period.

It is noted that in the case in question the member bank holds Federal Reserve stock issued on a basis of $100,000 capital and $12,500 surplus; that the December 31, 1935, and March 4, 1936, call reports showed net surplus of $5,234.92 and $7,737.08, respectively; that the bank has advised you that its net surplus account has been increased to $9,328.64 and that it anticipates that the book surplus of $12,500 will show no impairment by June 30, 1936; and that the bank has inquired whether, in view of the circumstances, an immediate adjustment of Federal Reserve bank stock holdings is necessary.

It is also noted that you feel that it would be better from a practical standpoint to base the Federal Reserve bank stock holdings on the amount of book capital and surplus, with a possible exception in cases in which a deficit in the undivided profits account is greater

than the amount of book surplus, on the theory that any impairment in the book surplus account is a purely temporary condition which, unless corrected promptly through the accumulation of earnings, profits, or recoveries, will be corrected by a reduction in the amount of surplus shown by the books. This suggestion is in harmony with the ruling contained in the Board's letter X-7459 of June 19, 1933, that, while any impairment in a member bank's capital stock or surplus should be corrected as soon as possible, its holdings of Federal Reserve bank stock should be based upon the amount of issued and outstanding capital stock and surplus as shown on its books, rather than upon unimpaired capital and surplus. That ruling was somewhat modified by the Board's letter X-9324 primarily to avoid the issuance of any Federal Reserve bank stock against book surplus in cases where the book surplus was less than the deficit in the undivided profits account. To be consistent, letter X-9324 also provided that, if a bank shows a deficit in its undivided profits account not in excess of the amount of surplus shown by its books, the deficit should be deducted from the book surplus in determining the basis for required Federal Reserve bank stock holdings.

The Board feels that, if a bank has a deficit in its undivided profits account, the ruling contained in letter X-9324 should continue to be observed. If, however, the deficit in the undivided profits account is relatively small and the Federal Reserve bank is satisfied that it is likely to be extinguished either by accumulation of earnings

or by a formal reduction in surplus, there is no objection to deferring the adjustment of Federal Reserve bank stock holdings until the end of the current semi-annual period. As you know, the procedure outlined in paragraph number 6 of the Board's letter X-9371 of November 26, 1935, contemplates that as a general rule semi-annual adjustments in holdings of Federal Reserve bank stock will be sufficient.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9608

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 5, 1936.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

SUBJECT: Purchase of Convertible Bonds under Regulations of Comptroller Regarding Investment Securities.

Dear Sir:

There is inclosed herewith a copy of a telegram received from the Assistant Federal Reserve Agent at Chicago presenting the question whether the statements of the Comptroller of the Currency in his address before the California Bankers Association at Sacramento, California, on May 22, 1936, affected the Comptroller's previous ruling, stated in X-9539-d, that the provisions of section II(5) of the regulations were not intended to prohibit member banks from purchasing bonds convertible into stock only at the option of the holder. This question was submitted to the Comptroller of the Currency and a copy of his reply is inclosed herewith.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

COPY X-9608-a

FEDERAL RESERVE SYSTEM
(Leased Wire Service)

Received at Washington, D. C.

Chicago May 27-28 916am

Board

Washn

Reference is made to Comptroller's letter to Board dated March 18 1936 governing purchase of investment securities by member banks wherein comptroller states "With regard to the provision 'purchase of securities convertible into stock at the option of the issuer is prohibited', it was not intended that such provision should operate to prohibit the purchase of securities convertible only at the option of the holder". The larger state banks of this district have raised the question whether in view of comptroller's speech before California Bankers Association it is now intended that such provision referred to above should operate to prohibit the purchase of securities of any convertible bonds. One large bank in particular desires to buy a large block of bonds today convertible into stock at the option of the holder. After carefully reading the Comptroller's speech it is my opinion that the Comptroller intended to prohibit the purchase of all bonds convertible into stock. Shall appreciate your advice today if possible.

Young

930am

COPY X-9608-b

TREASURY DEPARTMENT
COMPTROLLER OF THE CURRENCY
Washington

May 29, 1936

Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Sirs:

This acknowledges yours of May 28, forwarding copy of a telegram you have received from the Assistant Federal Reserve Agent at the Federal Reserve Bank of Chicago, with regard to the purchase by member banks of bonds convertible into stock at the option of the holder.

The telegram raises the question whether or not in view of the speech of the Comptroller of the Currency before the California Bankers Association it is now intended that the banks should be considered as prohibited from the purchase of any convertible securities even though convertible only at the option of the holder.

The provisions of Paragraph (5) of Section II of the investment security regulations of February 15, 1936, stating that "purchase of securities convertible into stock at the option of the issuer is prohibited" by implication permit the purchase of convertible securities which are convertible only at the option of the holder. However, what was said by the Comptroller of the Currency in his speech, with respect to investment in securities carrying stock purchase rights, and the purchase price of such securities, frequently reflecting in part the conjectural value of the stock right, may also apply to securities carrying conversion rights, with the result that the question will arise in each case as to whether or not a particular security complies with Paragraph (3) of Section II of the regulations, prohibiting the purchase of investment securities in which the investment characteristics are distinctly or predominantly speculative.

It is consequently our position that while there is no prohibition on the purchase of securities convertible into stock at the option of the holder, the purchaser thereof must be prepared to satisfy the Examiners that the purchase is not in conflict with the provisions of Paragraph (3) of Section II of the regulations.

Very truly yours,

/s/ Gibbs Lyons,

GIBBS LYONS,
Deputy Comptroller.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9609

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 6, 1936.

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:

"NOYNUT" - Treasury Bills to be dated June 10, 1936, and to mature December 15, 1936.

"NOYOA" - Treasury Bills to be dated June 10, 1936, and to mature March 10, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1936.

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal reserve notes for the month of May, 1936.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. PRESIDENTS

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
May 1 to 29, 1936.

SERIES 1934

	$5	$10	$20	$50	$100	Total Sheets	Amount
Boston,.....	72,000	90,000	-	-	-	162,000	13,932.00
New York,.....	160,000	404,000	20,000	-	-	584,000	50,224.00
Philadelphia,..	42,000	84,000	26,000	20,000	5,000	177,000	15,222.00
Cleveland,.....	-	55,000	31,000	-	-	86,000	7,396.00
Richmond,.....	-	74,000	55,000	-	-	129,000	11,094.00
Atlanta,.....	30,000	-	-	-	-	30,000	2,580.00
Chicago,.....	124,000	264,000	-	-	-	388,000	33,368.00
St. Louis,.....	154,000	21,000	10,000	-	-	185,000	15,910.00
Minneapolis,...	28,000	8,000	-	-	-	36,000	3,096.00
Kansas City,...	-	---	8,000	-	-	8,000	688.00
San Francisco,.	80,000	63,000	13,000	-	-	156,000	13,416.00
Totals.....	690,000	1,063,000	163,000	20,000	5,000	1,941,000	$166,926.00

1,941,000 sheets, @ $86.00 per M,.....$166,926.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9611

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1936.

SUBJECT: Exchange of Defaulted Bonds by Member Bank under Comptroller's Regulations Regarding Investment Securities.

Dear Sir:

There is inclosed herewith for your information a copy of a letter dated June 1, 1936, from the Comptroller of the Currency relating to the question whether member banks may exchange defaulted bonds for other defaulted bonds under the provisions of the regulations of the Comptroller of the Currency governing the purchase of investment securities.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

COPY X-9611-a

TREASURY DEPARTMENT
COMPTROLLER OF THE CURRENCY
Washington

June 1, 1936.

Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Sirs:

This acknowledges your letter of May 6, submitting an inquiry you have received from a State member bank with respect to regulations issued by this office under date of February 15, 1936, governing the purchase of investment securities.

The inquiry in question is as follows:

> "This bank is carrying in Non-Book Assets approximately $100,000.00 of defaulted bonds, principally Real Estate issues. These have all been entirely charged off and do not appear in any way in our assets.
>
> "During the past two years we have at times sold, or exchanged certain of our charged off bonds, for others which seemed to present better opportunities for recovery, and the results so far have been very satisfactory. In view of the recent requirements laid down by the Comptroller of the Currency, we are wondering if we will be permitted to continue this practice of exchanges. Of course, the bonds which we have heretofore obtained in this manner do not measure up to the Comptroller's requirements as to investment quality, but occasions frequently arise where defaulted Real Estate Subdivision issues which are in apparently hopeless condition can be switched into other issues which have better prospects of recovery. Of course, the bonds acquired in this manner are likewise carried in Non-Book Assets, and we have made, and will make no exchanges that will require the outlay of any additional cash."

The regulations prohibit the purchase of securities which are in default and also prohibit the purchase of securities in which the investment characteristics are distinctly or predominantly speculative. Consequently, the sale of a defaulted or sub-standard bond and purchase with the proceeds therefrom of another defaulted or sub-standard bond, even though such security in itself may be better than those sold, would, nevertheless, constitute a prohibited purchase of a sub-standard or defaulted security under the regulations.

We do, however, recognize an exception to the foregoing interpretation in that we will not consider it a prohibited purchase of a defaulted or sub-standard security where the security purchased is purchased exclusively with funds derived from the sale of a sub-standard or defaulted security and both the securities sold and the securities purchased are obligations of the same obligor, provided that as a result of the transaction the bank can satisfy the Examiner that through the exchange of securities it has definitely improved its position with respect to its holdings of obligations of the issuer in question. Such situation has come to our attention on several occasions with respect to certain railroad issues where two issues of a particular railroad are outstanding, both of sub-standard or defaulted classification but one having a definitely better underlying security than the other. A similar situation exists with respect to the so-called "Dawes" bonds and "Young" bonds of the German government.

We emphasize the point that this exception is recognized only where the securities sold and the securities purchased are obligations of the same obligor, and the sale and purchase are so closely connected in point of time that the transaction for practical purposes may be considered in effect an exchange of obligations for the purpose and with the result of improving the bank's position with relation to the particular obligor involved.

Very truly yours,

(Signed) J. F. T. O'Connor

J. F. T. O'CONNOR,
Comptroller.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9612

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 9, 1936.

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of May, 1936. This report is in the form which accompanied the Board's letter of March 26, 1936 (X-9534).

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-district Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Inclosure.

TO PRESIDENTS OF ALL F. R. BANKS.

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1936.

Federal Reserve Bank	Number of words sent	Words sent by N. Y. chargeable to other F. R. Banks	Total words chargeable	Personal services(1)	Wire rental	Total expenses	Pro rata share of total expenses(2)	Credits	Payable to Board of Governors
Boston	44,721	936	45,657	$ 251.50	$ --	$ 251.50	$ 699.53	$ 251.50	$ 448.03
New York	145,949	--	145,949	1,523.16	--	1,523.16	2,236.15	1,523.16	712.99
Philadelphia	45,210	929	46,139	236.39	--	236.39	706.91	236.39	470.52
Cleveland	58,082	935	59,017	374.14	--	374.14	904.22	374.14	530.08
Richmond	66,795	929	67,724	263.92	230.00	493.92	1,037.63	493.92	543.71
Atlanta	88,058	944	89,002	275.76	--	275.76	1,363.64	275.76	1,087.88
Chicago	98,355	1,366	99,721	975.13	--	975.13	1,527.87	975.13	552.74
St. Louis	91,933	1,245	93,178	196.88	--	196.88	1,427.62	196.88	1,230.74
Minneapolis	42,373	980	43,353	158.82	--	158.82	664.23	158.82	505.41
Kansas City	75,363	1,080	76,443	259.43	--	259.43	1,171.22	259.43	911.79
Dallas	80,144	1,256	81,400	267.55	--	267.55	1,247.16	267.55	979.61
San Francisco	108,711	1,036	109,747	563.38	--	563.38	1,681.48	563.38	1,118.10
Board of Governors	552,622	--	552,622	2,573.12	14,985.43	17,558.55	8,466.95	17,558.55	--
Total	1,498,316	11,636	1,509,952	$7,919.18	$15,215.43	$23,134.61	$23,134.61	$23,134.61	$9,091.60

(1) Includes salaries of main line operators and of clerical help engaged in work on main line business such as counting the number of words in messages, also, overtime and supper money and Retirement System contributions at the current service rate.

(2) Based on cost per word ($.01532142) for business handled during the month.

X-9613

INDUSTRIAL LOANS

ADDRESS BY
M. S. SZYMCZAK, MEMBER
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DELIVERED BEFORE

WASHINGTON BANKERS ASSOCIATION CONVENTION - SPOKANE, WASHINGTON

June 18, 1936.

INDUSTRIAL LOANS

When the Federal Reserve Banks were established they were authorized to discount for member banks only certain eligible types of paper. These represented advances of credit for short terms only on the basis of commercial and agricultural activities. The idea in limiting the discount powers of the Federal Reserve Banks to these classes of paper was to facilitate the use of bank credit for legitimate commercial and productive purposes, and to discourage its use for speculative and non-productive purposes.

Without departing from this objective, it has been found necessary from time to time in recent years to modify the limitations in the original Act. Most of these departures were made as the result of emergency needs arising during the depression. It was for this reason that in 1932 the Federal Reserve Banks were authorized under certain conditions to make advances to member banks on the basis of any collateral satisfactory to the Reserve Banks. In the Banking Act of 1935 this provision, which had previously lapsed, was restored to the Federal Reserve Act in Section 10b and made more general in its application. The result is that at the present time, as you know, Reserve Banks may make advances to member banks on any type of collateral satisfactory to them, provided the paper has not more than four months to run. This power is no longer restricted, as it formerly was, to periods of emergency. Advances of Federal Reserve Bank credit on such bases as well as on the basis of the class of paper originally defined as eligible are now within the scope

of the regular powers of the Federal Reserve Banks. At the present time, of course, when banks in general have an abundance of funds, the authorization for the Federal Reserve Banks to make such advances has little occasion to be exercised. If the banks have occasion to borrow in the future as they have in the past, however, these powers may come to be of great importance.

There is one special type of loan which the ordinary bank would probably hesitate to make if the law did not permit the loans to be discounted at the Reserve Bank on especially favorable terms. These are working capital loans with five year maturities, authorized by Section 13b of the Federal Reserve Act.

The difference between Section 10b and 13b is mainly that 10b authorizes advances on any satisfactory collateral for not more than four months; whereas 13b authorizes advances and discounts for working capital purposes for not more than five years.

The powers to discount industrial loans were given to the Federal Reserve Banks under the terms of an Act of June 19, 1934, which added Section 13b to the Federal Reserve Act. The adoption of this measure was preceded by considerable discussion as to the proper means of making credit available to business enterprises whose working capital had been depleted. One suggestion that has often been made is that there should be intermediate credit banks established for the purpose. The basis for the suggestion usually is that small business enterprise has great difficulty in procuring capital. Whatever the merits of this question, Congress

decided to use an existing agency rather than establish new ones, and to provide the facilities aimed at through extension of the powers of the Federal Reserve Banks.

The amendment which was adopted authorized the Federal Reserve Banks to discount loans made by member banks and others for working capital purposes, or in cases where credit was not procurable from the usual sources to make such loans direct. The law stipulated that the loans were to be made to established industrial or commercial enterprises; they were to be for the purpose of furnishing working capital; and they were to have maturities not exceeding five years. With respect to such loans to be discounted by the Federal Reserve Banks, the law reads as follows:

> "Each Federal Reserve Bank shall also have power to discount for, or purchase from, any bank, trust company, mortgage company, credit corporation for industry, or other financing institution operating in its district, obligations having maturities not exceeding five years, entered into for the purpose of obtaining working capital for any such established industrial or commercial business; to make loans or advances direct to any such financing institution on the security of such obligations; and to make commitments with regard to such discount or purchase of obligations or with respect to such loans or advances on the security thereof, including commitments made in advance of the actual undertaking of such obligations. Each such financing institution

shall obligate itself to the satisfaction of the Federal Reserve bank for at least 20 per centum of any loss which may be sustained by such bank upon any of the obligations acquired from such financing institution, the existence and amount of any such loss to be determined in accordance with regulations of the Board of Governors of the Federal Reserve System."

You will notice that the Federal Reserve Banks may make these discounts not only for member banks, but for non-member banks or any other type of financing institution.

The arrangements that may be made under this authorization are extremely favorable to the bank which desires to make the loans in cooperation with the Federal Reserve Bank; for the commitment which the Federal Reserve Bank is authorized to grant is an agreement under which a local bank may carry such a loan in its own portfolio at a good rate of interest and with the privilege of disposing of it at any time at the Federal Reserve Bank. Moreover, when it is sold or transferred to the Federal Reserve Bank, the latter will assume without recourse as much as 80 percent of any eventual loss on the loan. The commitment, therefore, gives the local bank assurance that the loan is perfectly liquid even though it may run for a period of five years, and also that its own loss on the loan may be limited to 20 percent.

The Federal Reserve Bank of San Francisco makes a charge of from 1/2 to 2 percent per annum on the commitments it grants. The exact rate depends upon various factors of credit risk, maturity, etc. It

charges a discount rate of from 3 to 4 percent on that portion of any loan for which the bank which made the loan retains obligation, and from 4 to 5 percent on that portion from which the bank which made the loan is released from obligation.

In granting a commitment, of course, the Federal Reserve Bank has to consider the credit risk exactly as if it were making the loan itself. It may be said indeed that the Federal Reserve Bank assumes somewhat more risk in granting a commitment than in making a direct loan, since a loan which it makes itself is under its own immediate care, whereas a loan held by another institution is not. Obviously the circumstances are such that the Federal Reserve Bank must be assured that the loan is a good one and that it will be properly serviced. In practice, therefore, applications for such loans are usually considered simultaneously by the Federal Reserve Bank and by the bank which contemplates making the loan.

In cases where a loan is refused by the local banker but is considered by the Federal Reserve Bank a good loan, the Reserve Bank may make it direct. Under such circumstances it cannot be said that the Reserve Bank is competing with member banks. The Reserve Banks in general prefer that local business be handled by local banking agencies. They do not desire to develop direct banking relations with the public as a matter of policy in any cases where local banking facilities are adequate.

As you know, the central banks of some other countries, for example, the Bank of England and the Bank of France, have a certain amount of private business which they conduct in competition with other banking institutions. Before their central banking functions developed, these insitutions

had much more of such business. The private business which they still have, however, is not essential to their functioning as central banking organizations. The same thing is true in the United States. The basic functions of the Federal Reserve Banks are central bank functions. The Reserve Banks are in the main intended to supplement regular banking facilities and to stand in reserve behind the local banks. They are not competitors of their members.

It is now nearly two years since the Federal Reserve Banks were given the authority I have been discussing. In that period they have received, as of June 3, 8,127 applications of which 2,165 have been approved. The total amount that has been applied for is $330,026,000. The amount approved is $132,626,000. Of this amount, $27,144,000 has been conditionally approved, and $105,482,000 finally approved. These final approvals include direct advances outstanding of $30,701,000 and commitments outstanding of $24,878,000. Repayments have amounted to $14,988,000. Withdrawals of approved applications, etc. have amounted to $21,676,000. Financing institutions participations with the Federal Reserve Banks have amounted to $11,970,000, and there is in process of completion advances and commitments of about one and one-quarter million.

During the same period, that is since June, 1934, the Federal Reserve Bank of San Francisco has received 1,065 applications, of which 254 have been approved. The total amount applied for was $31,324,000, and the amount approved was $11,942,000. Outstanding advances now amount to $1,668,000, and commitments outstanding amount to $4,363,000. Repayments have amounted to $150,000. The Bank now has in process of completion

approved advances and commitments of about $463,000.

The statute limits the amount available for these loans and commitments to $280,000,000 for all the Federal Reserve Banks, of which the Federal Reserve Bank of San Francisco has $19,500,000. This constitutes a revolving fund, so that as payments are received and new loans made, the total credit that may be extended far exceeds the amount mentioned.

In order to assist the Federal Reserve Banks in dealing in a field of credit which Congress felt might be new to them, it provided that each Reserve Bank should have an Industrial Advisory Committee. The members of the Industrial Advisory Committee of the Federal Reserve Bank of San Francisco are as follows:

Stuart L. Rawlings	V.P., Calaveras Cement Co.	San Francisco, Calif.
Ralph Burnside	V.P., Eatonville Lumber Co.	Eatonville, Wash.
Shannon Crandall	Pres., Calif. Hardware Co.	Los Angeles, Calif.
Henry D. Nichols	V.P., Tubbs Cordage Co.	San Francisco, Calif.
William G. Volkmann	Sec., A. Schilling & Co.	San Francisco, Calif.

All applications received by the Reserve Bank are considered by the Industrial Advisory Committee and recommended for approval or disapproval. The Bank's action, however, is final. It is lending its own funds and it has the say as to whether or not a loan should be made. Consequently it may reject a loan recommended by the Industrial Advisory Committee or

it may decide to make one even though the Industrial Advisory Committee's recommendation is adverse.

Furthermore, applications are not referred to Washington. They are considered and passed upon finally by the Reserve Bank of the district in which they originate.

X-9614

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 9, 1936.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

Dear Sir:

In accordance with Paragraph 22 of Section 4 of the Federal Reserve Act, the Board, on December 21, 1914, wrote to the Federal reserve banks with respect to the fees, compensation, and traveling expenses of directors. An examination of our files indicates that the fees and compensation now paid by the Federal reserve banks are in substantial accord with those set forth in the Board's letter.

In order, however, that the Board may review the existing practice of the Federal reserve banks with respect to fees, compensation, and traveling allowances provided for directors, it will be appreciated if you will furnish the Board with a statement on the attached form showing the fees, compensation and traveling allowances paid to directors for attending Board meetings, meetings of the Executive and Discount Committees, and other meetings. The term other meetings, as here used, is intended to include all services rendered by directors except those rendered in connection with directors' meetings and meetings of the Executive and Discount Committees. Such information should be furnished with respect to directors of the head office and of branches, if any, and should cover all payments to

directors residing in the city in which the meeting is held, to directors residing within 50 miles of the place of meeting, and to directors residing more than 50 miles from the place of meeting.

It will also be appreciated if you will submit to the Board any suggestions you may wish to make with respect to the method of compensating directors, with particular reference to whether the 50 mile radius mentioned in the Board's letter of December 21, 1914, is a satisfactory basis for per diem allowances.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS

STATEMENT AS TO FEES, COMPENSATION, AND TRAVELING EXPENSES PAID DIRECTORS

Federal Reserve bank or branch

	Meetings of Board of Directors	Meetings of Executive Committee	Other Meetings
A. Fees for attendance at Meetings:			
1. Amount paid for meeting not exceeding one day			
2. Amount paid for meetings held on two or more consecutive days			
(a) First day			
(b) Subsequent days-per day			
3. Amount paid for an adjourned meeting where a day intervenes between the original meeting and the adjourned meeting			
(a) First day			
(b) Intervening days-per day			
(c) Subsequent days-per day			
4. Amount paid for meeting where a quorum is not present			
5. Is more than one fee paid when two or more meetings are held on the same day?			
B. Per diem allowance to directors residing more than 50 miles from place of meeting for each day of absence from place of residence:			
1. Amount			
2. When absence from place of residence includes a part of one or more calendar days in addition to the day or days on which director is in attendance at meetings, is per diem allowance paid for			
(a) Day or days of meeting only			
(b) For each fractional part of a calendar day away from home			

C. Subsistence expenses or allowance therefor:

1. Are directors residing in city in which meeting is held given luncheon at bank's expense

2. Are nonresident directors living within 50 miles of place of meeting reimbursed for any subsistence expense not covered by item 1

3. Are directors residing more than 50 miles from place of meeting
   (a) Reimbursed for actual subsistence expenses
   (b) Given an allowance in lieu of actual expenses
   (c) If answer to (b) is "Yes", what is amount of per diem allowance

D. Transportation expenses or allowance therefor

1. Are directors residing in city in which meeting is held reimbursed for any transportation expenses

2. Are nonresident directors living within 50 miles of place of meeting
   (a) Reimbursed for actual transportation expenses
   (b) Given an allowance in lieu of actual expenses
   (c) If answer to (b) is "Yes" does allowance closely approximate actual cost (If not please explain in footnote)

3. Are directors residing more than 50 miles from place of meeting
   (a) Reimbursed for actual transportation expenses
   (b) Given an allowance in lieu of actual expenses
   (c) If answer to (b) is "Yes" does allowance closely approximate actual cost (If not please explain in footnote)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9615

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1936.

Dear Sir:

There is inclosed, for your information, a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis under date of June 5, 1936, in reply to certain inquiries made of him by the president of a national bank with respect to the provisions of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

X-9615-a

June 5, 1936

Mr. W. B. Geery,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Geery:

Reference is made to your letter of May 22, 1936, inclosing a copy of a letter addressed to you by Mr. _____, President of the _____ National Bank & Trust Company, _____, making certain inquiries with respect to the provisions of Regulation U.

The first inquiry is addressed to a hypothetical case in which a borrower who has borrowed $1,000 without security from a bank for a purpose other than purchasing or carrying a registered stock applied to the bank after May 1, 1936, for a further loan of $900 which is for the designated purpose and otherwise subject to Regulation U, to be secured by stocks having a market value of $2,000. Since, in connection with the second loan, the borrower in the hypothetical case provides additional collateral having a maximum loan value equal to the amount of the loan, it can be made under the provisions of the last paragraph of section 1 of the regulation and this would be true even if the first loan were for the purpose of purchasing or carrying registered stocks.

The second inquiry is addressed to a hypothetical case in which a borrower who has received a loan subject to Regulation U in

the amount of $900 for which he has deposited as collateral stocks having a market value of $2,000 applies to the bank after May 1, 1936, for a further loan of $1,000 to be used in his business and not subject to the regulation. Since the provisions of Regulation U restricting the making of loans apply only to loans for the purpose of purchasing or carrying stocks registered on a national securities exchange, the second loan, in so far as Regulation U is applicable, could be made without the deposit of additional collateral.

The third inquiry is addressed to a hypothetical case in which a borrower who has received a loan of $1,000 for business purposes and not subject to Regulation U, but which is secured by stocks having a market value of $2,000 applies after May 1, 1936, for a further $900 loan subject to the provisions of Regulation U. Under the provisions of Regulation U a loan subject to the regulation may be made in an amount not exceeding the maximum loan value of the collateral which secures it and loans previously made which are not subject to the regulation need not be combined with this loan in estimating the total amount of the loan subject to the regulation. Accordingly, without discussing the case from the standpoint of good banking practices, it follows that the second loan would be permissible without additional collateral, since the maximum loan value of the stocks which secure it, assuming that the loan agreement of the bank would have the effect of subjecting the collateral to the lien of the second loan as well as the first, is equal to the amount of the $900 loan applied for. However, all of the collateral securing

it would become subject to the restrictions upon withdrawals and substitutions of collateral as provided in the third paragraph of section 1.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9616

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1936.

Dear Sir:

During the Presidents' Conference on May 26, 1936, advice was given as to actions taken on May 25, 1936, by the Federal Open Market Committee in regard to the adoption of the formula for the allotment of securities in the system open market account to the individual Federal reserve banks; the transfer to the system account of Government securities held in the individual accounts of Federal reserve banks; the discontinuance by Federal reserve banks of purchases for their own investment accounts of Government securities pending sale of such securities for the account of member or non-member banks; authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements; and authority to individual Federal reserve banks to replace maturing securities and to make shifts between maturities of securities held in their individual accounts.

There is inclosed herewith for the records of your bank a set of copies of excerpts from the minutes of the meeting of the Federal Open Market Committee setting forth the resolutions adopted by the committee on these matters.

Since the date on which these actions were taken complications in working out the details connected with the allocations among the Federal reserve banks of the securities held in that account have developed with the result that the members of the Federal Open Market Committee who participated in its meeting on May 25 have unanimously approved deferring the effective date of the transfers to the system account of Government securities held in the individual accounts of Federal reserve banks and of the reallocations of the securities in the system account from June 15 to June 23.

Very truly yours,

Chester Morrill

Chester Morrill, Secretary,
Federal Open Market Committee.

Inclosures.

TO ALL PRESIDENTS

X-9616-a

Excerpts from Minutes of Meeting of Federal Open Market Committee on May 25, 1936.

"After detailed discussion of the various aspects of the questions involved, upon motion duly made and seconded and by unanimous vote, the Committee (a) approved and continued in effect the formula adopted by the Federal Open Market Committee as constituted prior to March 1, 1936, and the practice followed under its authority, with respect to allotments to the various Federal Reserve banks of Government securities held in the System open market account; (b) authorized and directed the executive committee to make such adjustments as of June 15, 1936, as may be necessary to bring the allotment to each Federal reserve bank of Government securities held in the System open market account into conformity with such formula; and (c) authorized and directed the executive committee to make thereafter from time to time such readjustments as may be necessary to maintain the distribution of Government securities among the Federal reserve banks in accordance with such formula: provided, however, that if at any time the reserve ratio of any Federal reserve bank should fall below 50% or would be reduced below 50% by reason of the operation of such formula the executive committee shall make such readjustments in the allotments as shall be necessary to raise the reserve ratio of such bank to 50% by allocating the necessary amount of securities to the other Federal reserve banks in accordance with the formula. In this connection it was agreed that any profit received by any individual Federal reserve bank as a result of the transfer as of June 15, 1936, to the System open market account of United States Government securities held in the individual investment account of such Federal reserve bank should be treated as a non-recurrent item which should not be taken into account in the application of such formula. It was also agreed that there should be obtained from each Federal reserve bank at quarterly intervals reports showing the nature and amount of any unusual charge-offs which such bank anticipates will be made during or at the end of each calendar year and that the Board of Governors of the Federal Reserve System should be requested to endeavor to bring about the observance of a uniform policy among the Federal reserve banks with reference to such charge-offs."

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

"Accordingly, upon motion duly made and seconded and by unanimous vote, the Committee directed that the Federal reserve banks transfer on June 15, 1936, to the System open market account, at the market prices prevailing on that date, all the United States

Government securities held in the individual investment accounts of such Federal reserve banks, including Government securities held as investments of self-insurance funds."

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

"Upon motion duly made and seconded, and by unanimous vote, the Committee directed that any Federal reserve bank which purchases and holds for its own investment account Government securities pending their sale for the account of member or non-member banks shall not later than June 15, 1936 discontinue such purchases and sell all Government securities so held."

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

"Upon motion duly made and seconded and by unanimous vote, the Committee granted authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days."

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

"Accordingly, upon motion duly made and seconded, and by unanimous vote, authority was granted, until June 15, 1936, to each Federal reserve bank holding Government securities in its individual investment account to replace maturing securities in such account and, with the approval of the executive committee, to make shifts between the maturities in such account, provided that no change in the total amount of Government securities held by such Federal reserve bank shall be effected by such transactions."

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9617

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1936.

Dear Sir:

There is inclosed, for your information, a copy of a letter to the Federal Reserve Agent at the Federal Reserve Bank of Boston, with regard to the question whether a deposit of trust funds by a State member bank in a State nonmember bank in excess of 10 per cent of the capital and surplus of the member bank is a violation of one of the conditions of membership to which the bank is subject.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

X-9617-a

June 11, 1936.

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

Dear Mr. Curtiss:

In the report of examination of the trust department of The ___ _____ Trust Company, _____, _____, made as of October 7, 1935, the examiner for your bank has presented the question whether a deposit of trust funds in a State nonmember bank by The _____ Trust Company in excess of 10 per cent of the capital and surplus of the latter is a violation of the following condition of membership to which it is subject:

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

Section 19 of the Federal Reserve Act provides, in part, that:

> "No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus."

While the condition of membership does not adopt the precise language used in section 19 of the Federal Reserve Act, the Board feels that, in so far as the present question is concerned, the same interpretation should be given to both requirements.

As you know, in a ruling published on page 572 of the Federal Reserve Bulletin for the year 1922, the Board distinguished between

trust funds deposited in another member bank by a member bank as fiduciary and deposits made by the member bank in its own right and ruled that a deposit falling within the former classification should be treated by the depositary member bank as an individual deposit rather than a bank deposit and, therefore, may not be included by the depositary bank among the amounts due to "other banks" from which the amounts due from other banks may be deducted in computing its required reserve under the provisions of section 19 of the Federal Reserve Act.

While the provision of section 19 of the Federal Reserve Act giving rise to the 1922 ruling was amended by the Banking Act of 1935, the Board is of the opinion that the principle announced in that ruling should be applied in the present case. In the circumstances, you are advised that a deposit of trust funds with a State nonmember bank by a member bank as fiduciary in excess of 10 per cent of the member bank's capital and surplus is not prohibited by the provision of section 19 or the condition of membership quoted above. Attention is also called to the fact that the limitation contained in this provision and in the condition of membership is based upon a specified percentage of the "capital and surplus" of the member bank and that it would be possible for all the funds of one trust to be deposited with a nonmember bank and still not exceed such specified percentage. It would seem that, had Congress intended the limitation of section 19 to apply to a deposit of trust funds, it would have provided an appropriate limitation for the protection of individual trusts bearing a relation to the funds

of each individual trust rather than to the capital and surplus of the member bank.

Of course, in any case a bank exercising fiduciary powers is charged with the responsibility of exercising due care in handling the funds of any trust which it is administering and, in carrying out its responsibility, such a bank, when it deposits trust funds in another bank, must among other things give consideration to what part of the funds of any individual trust and what aggregate amount of trust funds it is justified in depositing in any other single bank. If, in the light of comments contained herein, you or your examiner should feel at any time that The _____ Trust Company or any other member bank has not exercised appropriate care in depositing trust funds in another bank, you should take the matter up with the member bank.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9618

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1936.

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:

"NOYOLK" - Treasury Bills to be dated June 17, 1936, and to mature December 15, 1936.

"NOYOND" - Treasury Bills to be dated June 17, 1936, and to mature March 17, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

X-9619

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 15, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

There is inclosed, for your information, a copy of a letter to the Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, relating to the applicability of the Board's waiver of the requirement for reports of affiliates which accompanied the Board's letter of December 21, 1935 (B-1124).

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-9619-a

June 1, 1936.

Mr. R. M. Gidney,
Assistant Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Gidney:

This refers to your letter of January 10, 1936, and its inclosures, relating to reports of certain affiliates of _____ Trust Company and to the applicability of the following paragraph of the Board's waiver of the requirement for reports of affiliates which accompanied the Board's letter of December 21, 1935, (B-1124):

> "The Board of Governors of the Federal Reserve System also waives the requirement for the submission of reports of affiliates in all cases where the affiliate relationship is based solely on ownership or control of any voting shares of the affiliate by a member bank as executor, administrator, trustee, receiver, agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member banks."

It appears that _____ Trust Company owns or controls a portion of the stock of certain affiliates in its individual capacity and a portion of such stock in fiduciary capacities. Your inquiry relates specifically to the instances in which neither the shares held in the trust company's individual capacity nor the shares held in fiduciary capacities constitute a majority of the voting shares but the combined holdings amount to a majority of such shares. You assume that reports are waived in the instances in which the shares held in fiduciary capacities constitute a majority of the voting

shares although some shares are held by the trust company in its individual capacity.

It is not intended that reports shall be waived in either of such situations under the above-quoted paragraph of the Board's waiver. It is, of course, possible that other paragraphs of the Board's waiver are applicable and that the reports are waived thereunder. Please advise _____ Trust Company accordingly.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9620

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 15, 1936.

Dear Sir:

There is inclosed, for your information, a copy of a letter addressed to the Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, in reply to certain inquiries received by the San Francisco bank from national banks with regard to the meaning of section 2(c) of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

X-9620-a

June 5, 1936.

Mr. Oliver P. Wheeler,
Assistant Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Wheeler:

Reference is made to your letter of May 11, 1936, enclosing a copy of a letter from the _____ National Bank of _____ dated May 9, 1936, and to your letter of May 16, 1936, enclosing a copy of a letter from the _____ Bank of _____, _____, _____, dated May 13, 1936, all relating to the meaning of section 2(c) of Regulation U, which excepts from the limitations prescribed in section 1 of the regulation "any loan to a dealer, or to two or more dealers, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange".

We understand the question of the _____ National Bank to be whether the following loan would come within the description contained in section 2(c): The borrower is a dealer, a part of whose business consists of "making a market" in a stock registered on a national securities exchange. In this business he purchases this stock from time to time for his own account on the exchange, or "over the counter" from or through members of a national securities exchange or brokers or dealers who transact a business in securities through the medium of such members. In this business he also sells this stock from time to time for his own account on the exchange, but more often he sells the stock "over the counter" to his customers or to other persons, his sales in either case being on a cash basis. The loan to this dealer is secured by this stock, and is for the purpose of enabling him to purchase the stock and to carry it pending its sale.

We understand the question of the _____ Bank of _____ to be whether the following loan would come within the description contained in section 2(c) of Regulation U: The borrower is a dealer who is a member of a national securities exchange. A part of his business consists of purchasing on the exchange stocks registered thereon and of selling them on a cash basis to his customers or to other persons "over the counter". The loan is for the purpose of enabling the dealer to purchase these stocks and to carry them pending their sale. The loan might be expected to be outstanding for several months and to be reduced or increased several times during its life.

On the basis of the facts as stated above, neither of these loans comes within the description of a loan contained in section

2(c) of Regulation U, because neither loan is a loan to aid in the financing of the distribution of securities within the meaning of the term "distribution" as used in such section.

Although neither of these loans is within the exception expressed in section 2(c), the Board is granted power by section 7(d) of the Securities Exchange Act of 1934 to exempt loans of this nature if it deems it necessary or appropriate in the public interest or for the protection of investors. If either of the banks which presented the inquiries, or the dealers involved, regard such an additional exemption as necessary or desirable their recommendations will be given careful consideration by the Board, with such consultation with the Securities and Exchange Commission as may be necessary.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9621

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release. June 17, 1936.

Mr. Owen D. Young has been appointed by the Board of Governors as a Class C Director of the Federal Reserve Bank of New York for the unexpired portion of the term ending December 31, 1937, and has been designated as Deputy Chairman for the remainder of the current year, in which capacity he will act as Chairman of the New York Bank pending the filling of the vacancy in that position by the Board of Governors in accordance with its procedure initiated last March.

In addition to his broad experience in the business and industrial life of the country and in public affairs, Mr. Young has an intimate knowledge of the Federal Reserve System through his previous service as a Class B and Class C Director of the Federal Reserve Bank of New York.

The Board of Governors was unanimous in its request to Mr. Young to resume his official connection with the System to which he has long rendered distinguished service.

X-9622

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 18, 1936.

SUBJECT: Holidays during July, 1936.

Dear Sir:

On Saturday, July 4, the offices of the Board of Governors of the Federal Reserve System 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 Federal reserve banks and branches:

Tuesday, July 7	Oklahoma City	Primary Election Day
Monday, July 13	Nashville Memphis	Birthday of General Bedford Forrest
Friday, July 24	Salt Lake City	Pioneer Day
Saturday, July 25	Dallas El Paso Houston San Antonio	Primary Election Day
Tuesday, July 28	Oklahoma City	Run-off Primary Election

On the dates given the offices mentioned will not participate in either the transit or the Federal reserve note clearing through the Inter-district Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day. No debits covering Federal

reserve note shipments for account of the Federal Reserve Bank of Dallas should be included in your note clearing of July 25.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

X-9623

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

June 17, 1936.

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

Dear Mr. O'Connor:

This refers to Deputy Comptroller Lyons' letter of May 19, 1936, inquiring whether the discount with a national bank of commercial paper held by a hardware company which is solely owned by the president of the bank and indorsed by such company "without recourse" is to be considered a violation of Regulation O or an attempt to evade the provisions thereof. It is understood that the president of the bank is engaged in the hardware business under a trade name and that such business is not incorporated. It appears that you have previously advised the president that the unqualified indorsement in the trade name of the hardware company of paper held by it and discounted with the bank was considered the equivalent of the indorsement of the president of the bank, thereby bringing him within the prohibitions of Regulation O and that, following such advice, the hardware company continued to discount with the bank notes owned by the hardware company which it had received for merchandise sold but now indorses such paper "without recourse".

Section 1(c) of Regulation O defines the terms "loan", "loaning", "extension of credit", and "extend credit" as including, among other things, the acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange, or other evidence of indebtedness upon which an executive officer of a member bank may be liable "as maker,

drawer, indorser, guarantor, or surety", and it is further provided that such terms shall include any other transaction as a result of which an executive officer becomes obligated to a bank directly or indirectly by any means whatsoever, "by reason of an indorsement on an obligation or otherwise, to pay money or its equivalent". Under the usual rules of law an indorsement "without recourse" constitutes the indorser as the mere assignor of title to the instrument and such an indorsement is designed to protect the indorser from liability on the instrument. In the circumstances, it is the Board's view that where an executive officer merely indorses a note to his bank "without recourse" and does not become liable to the bank on such instrument, the transaction does not fall within the provisions of section 22(g) or of Regulation O.

While it might appear from the facts submitted that an indorsement "without recourse" by the hardware company is an attempted evasion of the law, the fact remains that the transaction described is not now covered either by the terms of section 22(g) or the Board's Regulation O and it is doubtful whether cases of this kind are of sufficient importance or will arise with sufficient frequency to justify an amendment to the Board's regulation. If, however, you feel that the continued acceptance by the bank of the notes of the hardware company indorsed "without recourse" is an unsafe or unsound practice, you might wish to consider proceeding against the president of the bank under the provisions of section 30 of the Banking Act of 1933. Furthermore, since the president of the national bank is required under the law also to be a director thereof, it is assumed that, if you have not already done so, you will determine

whether the transactions conform to the requirements contained in section 22(d) of the Federal Reserve Act, relating to transactions between a member bank and its directors.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9624

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 19, 1936.

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:

"NOYORM" - Treasury Bills to be dated June 24, 1936, and to mature December 15, 1936.

"NOYOST" - Treasury Bills to be dated June 24, 1936, and to mature March 24, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

X-9625

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 19, 1936.

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

Dear Sir:

With my letter of December 31, 1935 (X-9409), there was sent to your bank a copy of the resolution adopted by the Board of Governors of the Federal Reserve System 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 1936, and approximately $1,000,000 to be applied to the cost of the erection of a building for the Board. On April 23, 1936, you were requested to credit 45% of the building fund assessment to the Federal Reserve Bank of Richmond for the account of the Board of Governors of the Federal Reserve System - Building Account.

It has been decided to transfer to the Federal Reserve Bank of Richmond on June 26, 1936, the uncalled portion of the building fund assessment, and you are requested, therefore, to credit the Richmond bank on June 26, 1936, in your daily statement of credits through the Inter-district Settlement Fund, with the remaining 55% of the building fund assessment, for account of the Board of Governors of the Federal Reserve System - 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

O. E. Foulk,
Fiscal Agent.

TO PRESIDENTS OF ALL F. R. BANKS - EXCEPT RICHMOND.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9626

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1936.

Dear Sir:

There is attached a copy of a resolution adopted by the Board of Governors of the Federal Reserve System levying an assessment upon the various Federal reserve banks in an amount equal to seven-tenths of one per cent (.007) 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, 1936, to defray the estimated expenses and salaries of the members and employes of the Board from July 1 to December 31, 1936, together with $1,250,000 to be applied upon the cost of the erection of a building for the Board of Governors of the Federal Reserve System.

The resolution also contains instructions with regard to 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.

Inclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

X-9626-a

RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, contains the following provisions:

"The Board of Governors of the Federal Reserve System shall have power to levy semiannually 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, and such assessments may include amounts sufficient to provide for the acquisition by the Board in its own name of such site or building in the District of Columbia as in its judgment alone shall be necessary for the purpose of providing suitable and adequate quarters for the performance of its functions. After approving such plans, estimates, and specifications as it shall have caused to be prepared, the Board may, notwithstanding any other provision of law, cause to be constructed on the site so acquired by it a building suitable and adequate in its judgment for its purposes and proceed to take all such steps as it may deem necessary or appropriate in connection with the construction, equipment, and furnishing of such building. The Board may maintain, enlarge, or remodel any building so acquired or constructed and shall have sole control of such building and space therein.

" *

"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 Board of Governors of the Federal Reserve System for the six months period beginning July 1, 1936, and of the amounts which in the judgment of the Board may be needed during such period to provide for the costs, or part thereof, of the erection of a building suitable and adequate for the Board's quarters, that it is necessary that a fund equal to seven-tenths of one per cent (.007) 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 BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, That:

(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to seven-tenths of one per cent (.007) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business June 30, 1936.

(2) Twenty and five-tenths per cent of such assessment shall be paid in on July 1, 1936, twenty and five-tenths per cent thereof shall be paid in on September 1, 1936, and the remainder (fifty-nine per cent) shall be paid at such times and in such amounts as the Board may call for the payment thereof during such six months period beginning July 1, 1936.

(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 Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System 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 Board of Governors of the Federal Reserve System on the dates as above provided.

X-9627

INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

June 22, 1936.

Mr. L. E. Birdzell, General Counsel,
Federal Deposit Insurance Corporation,
Washington, D. C.

Dear Judge Birdzell:

This refers to your letter dated May 26, 1936, addressed to the Board of Governors and to your memorandum dated May 27, 1936, addressed to the Board's General Counsel, presenting certain questions regarding the interpretation of sections 1(e) of Regulation Q and Regulation IV.

The first question presented in your letter is whether a member bank may, on a telephone order from a depositor, transfer a specified sum from the depositor's savings account to his checking account, under the provisions of section 1(e) of Regulation Q. You state that in your opinion such a practice should not be permitted under the provisions of section 1(e) of Regulation IV, but that if the depositor wishes to transfer funds from a savings account to a checking account he should be required to make a withdrawal either by obtaining cash or a cashier's check, draft, or other order payable to himself and then make a deposit in a checking account in accordance with usual banking practice.

Careful thought has been given to this question and to the views which you express in your letter. In this connection it is to be observed that under Regulation Q a depositor desiring to effect a transfer

of a sum from his savings account to a checking account in the same bank might go to the bank and obtain a cashier's check or cash from the savings account and deposit it in his checking account. Likewise, under the regulation a depositor may mail a written order to the bank for a withdrawal of a sum from his savings account, obtain a cashier's check through the mails and immediately return the cashier's check to the bank for deposit to his credit in his checking account. Under an arrangement with the bank for the purpose it would also be possible for a depositor to shorten this procedure by mailing a written order to the bank requesting a withdrawal from his savings account, the issuance of a cashier's check to him for the amount withdrawn, and the deposit of such check to his credit in a checking account. This could be accomplished by one written order or letter and without the depositor ever actually coming into possession of the cashier's check. Accordingly, it does not appear that the regulation should be interpreted as preventing the transfer of a sum from a depositor's savings deposit to his checking account upon written order of the depositor, and it is felt that such an interpretation would be regarded by the banks as an irritating and unnecessary restriction on their business practices.

However, the Board is of the view that a member bank should not be permitted to transfer a sum from a depositor's savings account to his checking account or permit any other withdrawal from his savings account merely on a telephone or other oral order or request from the

depositor. While the regulation does not expressly so require, it does contemplate that a withdrawal from a savings deposit will be made only upon the written order or receipt of the depositor. In this connection, attention is called to the requirement that the depositor may at any time be required by the bank to give 30 days' notice in writing of an intended withdrawal and also to the requirement that every withdrawal made upon presentation of the pass book shall be entered therein at the time of withdrawal and every other withdrawal shall be entered therein as soon as practicable thereafter. The withdrawal of funds from a savings deposit in a case where the pass book is not presented, upon the oral request of the depositor, would facilitate evasion of the purpose of the regulation, would be inconsistent with sound banking practice and might give rise to numerous questions or even litigation between the bank and its depositors. The Board feels that such a practice should be discouraged and that a deposit with respect to which such withdrawals are permitted should not be classified as a savings deposit. While your inquiry presents the only case of this kind which has thus far come to the Board's attention, the Board will give consideration, upon the occasion of the next revision or alteration of its Regulation Q, to incorporating therein an express requirement that withdrawals from savings deposits be permitted only upon written order or receipt of the depositor.

You also present the question whether deposits of a corporation, association, or other organization engaged in the sale and maintenance of cemetery lots may be classified as savings deposits, provided such

organizations are not operated for profit. The Board agrees with your opinion that such organizations engaged in the sale and maintenance of cemetery lots may be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, within the meaning of section 1(e) of the regulations. Accordingly, if such organizations are in fact not operated for profit, their deposits in a member bank may be classified as savings deposits. As indicated in your proposed letter to The _____ & _____ Company of _____, _____, _____, the question of whether such organizations are or are not operated for profit will have to be scrutinized very closely and the determination of such question will depend upon the facts and circumstances of each particular case.

In your memorandum you also present the question whether deposits made by a city or town representing funds given to said city or town for the perpetual care of cemetery lots opened under a title similar to the following: "City of _____, Perpetual Care, Trust Fund, John Doe Lot" may be classified as savings deposits. If the municipal corporation is merely a trustee holding funds for the benefit of a particular individual or group of individuals, such as the members of a family, it appears that a deposit of such funds by the municipal corporation may be considered in the same category as any other deposit of funds held by a trustee for the benefit of certain individuals, and may be classified by a member bank as a savings deposit if it meets the other requirements of section 1(e) of Regulation Q.

However, it should be observed that the above expression of opinion applies only to those cases in which a municipal corporation holds funds as trustee for a particular individual or individuals, and does not apply to cases in which such funds are held for the benefit of the public.

In its letter to the Federal Reserve Agent at New York dated February 27, 1936 (X-9508), the Board took the position that a deposit in the name of a municipal corporation consisting of funds given to such corporation for a charitable purpose, such as the erection of a memorial gate, may not be classified as a savings deposit. The Board stated that it believed that a construction of the regulation which would permit funds of a municipal corporation held for a charitable purpose to be considered as funds held for one or more individuals on the theory that the public consists of a group of individuals, would open the door to evasions of the regulation. Accordingly, a deposit made by the city consisting of funds held by it for the purpose of maintaining a cemetery for the public or for indigent members of the public could not under the above ruling be classified as a savings deposit by a member bank but would be considered the same as any other deposit consisting of funds of the municipal corporation.

It is hoped that the above answers the questions submitted in your letter and memorandum. If you should have further questions regarding any similar matters which you desire to submit to the Board from time to time, the Board will be glad to give consideration to them in order that substantial uniformity may be achieved in the interpretation of the two regulations.

Very truly yours,
(Signed) Chester Morrill
Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9628

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1936.

Dear Sir:

There is inclosed, for your information, a copy of a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of Dallas under date of June 24, 1936, with respect to reports on indebtedness of officers and employees in the Federal reserve agent's department submitted in accordance with the Board's letter (B-1125) of December 26, 1935.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

June 24, 1936.

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

Dear Mr. Walsh:

This refers to your letter of June 8 with respect to reports on indebtedness of officers and employees in the Federal Reserve agent's department, submitted in accordance with the Board's letter (B-1125) of December 26, 1935.

In view of the changes which will occur in the list of officers and employees of the Federal Reserve agent's department in consequence of the transfer to the bank of the non-statutory duties of the Federal Reserve agent, you ask for information as to whether you should proceed at once, as you have done in the past, to call for information with respect to the indebtedness as of July 1, 1936, of the some thirty-five employees in your department.

In the case of most of the Federal Reserve banks the actual transfer of non-statutory duties from the agent to the bank will not have been made by July 1. In order, therefore, that reports from all Federal Reserve agents may be on a uniform basis, it is requested that your report cover all employees in the agent's department, including those in the examination and statistical departments, which it is contemplated will be transferred to the bank.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9630

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in afternoon newspapers
of Friday, June 26, 1936

AMENDMENT OF REGULATION T

Amendment No. 8 of Regulation T - Effective July 1, 1936.

Subsection (b) of section 3 of Regulation T is hereby amended by adding at the end thereof a new paragraph reading as follows:

> "Notwithstanding any provisions of section 4 of this regulation, the creditor may permit such other member, broker, or dealer to withdraw money or securities from such a special account if such withdrawal, in combination with any other transactions made on the same day and together with demands for additional margin in connection therewith, does not result in any increase of the excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in the afternoon
newspapers of Friday, June 26, 1936.

AMENDMENTS OF REGULATION U

Amendment No. 1 of Regulation U - Effective July 1, 1936.

Section 2 of Regulation U is hereby amended by adding at the end thereof two new subsections reading as follows:

"(j) Any loan to a member of a national securities exchange for the purpose of financing his or his customers' bona fide arbitrage transactions in securities;

(k) Any loan to a member of a national securities exchange for the purpose of financing such member's transactions as an odd-lot dealer in securities with respect to which he is registered on such national securities exchange as an odd-lot dealer."

Amendment No. 2 of Regulation U - Effective July 1, 1936.

Subsection (e) of section 3 of Regulation U is hereby amended to read as follows:

"(e) A bank may accept the transfer of a loan from another bank, or permit the transfer of a loan between borrowers, without following the requirements of this regulation as to the making of a loan, provided the loan is not increased and the collateral for the loan is not changed; and, after such transfer, a bank may permit such withdrawals and substitutions of collateral as the bank might have permitted if it had been the original maker of the loan or had originally made the loan to the new borrower."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9632

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1936.

Dear Sir:

In order to reduce the phraseology in telegrams sent by the Commissioner of Accounts and Deposits to the Federal reserve banks, covering authorization to hold for a temporary period collateral as security for deposits made with general and limited depositaries of public moneys, the following code word has been designated for use effective July 1, 1936:

"BROKISH" This collateral should be held for the account of the Secretary of the Treasury, subject to the order of the Commissioner of Accounts and Deposits or the Chief, Division of Deposits.

This word should be inserted in the Federal Reserve Telegraph Code book, following the code word "BROKENLY" on page 36.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9633

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1936.

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:

"NOYOTE" - Treasury Bills to be dated July 1, 1936, and to mature March 31, 1937.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

X-9634

June 30, 1936

Memorandum to All Division Heads

From Mr. Morrill

The Board today adopted the following regulations, effective immediately:

"Regulations of the Board of Governors of the Federal Reserve System Governing Hours of Duty.

"The Board of Governors of the Federal Reserve System hereby prescribes the following standard hours of duty for its employees: Employees in Group 1 - duty of 7 hours per day, with 39 hours per week. Employees in Group 2 - duty of 8 hours per day, with 44 hours per week.

"Every employee of the Board of Governors, however, will be expected to work from time to time for such additional hours as the head of his office may deem necessary for the performance of the work assigned to him.

"OCCUPATIONS COMING UNDER GROUP 1

Office workers in general.
Professional, scientific and technical employees, and sub-professional employees, employed principally in office or laboratory duty.
Office messengers and office laborers.
Bank and similar examiners.
And such other occupations as correspond in character more nearly to those listed above in Group 1 than to those listed in Group 2.

"OCCUPATIONS COMING UNDER GROUP 2

Professional, scientific and technical employees, and sub-professional employees, employed principally on outdoor work.
Custodial or maintenance employees: Examples: Janitors, cleaners, laborers, messengers with special assignments, matrons, etc.
Laborers employed in shops and on outdoor work.
Mechanical and crafts employees.
Employees engaged in the protection of life and property.
And such other occupations as correspond in character more nearly to those listed above in Group 2 than to those listed in Group 1."

The Board also directed the recording of overtime duty performed during the last six months of the current year by all employees of the Board's organization, exclusive of:

(1) The staff of the Chairman's office,
(2) Heads and assistant heads of divisions of the Board's staff,
(3) Private secretaries of Board members and of heads and assistant heads of divisions, and
(4) Field examining force and other members of the Board's staff while in a travel status,

with the understanding that the head of each division will be responsible for submitting monthly reports on the first day of each month as of the close of the preceding month to the Secretary's office which will consolidate such reports, insert the necessary information with respect to compensation, group employees according to certain salary classifications of the Civil Service Commission, and transmit to the Commission monthly reports on the forms furnished by it.

In order that employees in different divisions may be treated alike, each division should observe the following rules for recording and reporting overtime:

(1) Overtime performed by an employee less than thirty minutes in one day should not be included in the report,
(2) All overtime in excess of thirty minutes in any one day should be reported in multiples of fifteen minutes, and
(3) No overtime should be reported that has not been directed or approved by the head or an assistant head of the division.

In addition the Board authorized the Secretary's office, in the interests of uniformity and expedition, to work out the necessary procedure, including report forms, for the guidance of division heads. Accordingly, the forms described below, specimen copies of which are attached, have been prepared for recording and reporting overtime duty,

i.e., the total number of hours which employees have been on duty in excess of the minimum number required by the Board's regulations:

Form M-1 Overtime Certificate
Form M-2 Overtime Record
Form M-3 Monthly Report of Aggregate Overtime

Form M-1 shall be executed by each employee who has performed authorized overtime of thirty minutes or more, and turned over by him to the clerk in the division assigned to handle the detail work of recording and reporting overtime duty to the Secretary's office. The clerk handling overtime records will enter on the employee's Overtime Record card, Form M-2, the overtime reported, and file Form M-1 in the division for future reference. At the end of the month the overtime entered on the individual Overtime Record card shall be summarized and transferred to Form M-3, Monthly Report of Aggregate Overtime. The first, second and third columns of the report form shall be filled in by the respective divisions. The remaining columns, as indicated, are for use of the Secretary's office in making certain computations required by the Civil Service Commission. Upon completion of Form M-3, the head of the division shall sign the certificate thereon, and forward it to the Secretary's office.

It will be appreciated if each division head will bring to the attention of the employees of his division the foregoing regulations and procedure with regard to hours of duty and overtime, pointing out that this action was taken by the Board with a view to cooperating with the Civil Service Commission in its effort to carry out the requirements of recent legislation with respect to the various departments and establishments of the Government.

Chester Morrill
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9635

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1936.

Dear Sir:

You will find inclosed for your information a copy of a letter dated June 13, 1936, from President Schaller, Chairman of the Leased Wire Committee, and a copy of the Board's reply thereto, with respect to the recommendations of the Leased Wire Committee that the remaining circuits on the main lines of the leased wire system be equipped with teletype machines.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL PRESIDENTS

X-9635-a

FEDERAL RESERVE BANK OF CHICAGO

June 13, 1936

Board of Governors of the Federal Reserve System
Washington
D.C.

Attention of Mr. Chester Morrill, Secretary

Dear Mr. Morrill:

At the meeting of the Governors' Conference held in Washington on February 5, 1935, the recommendation of the Leased Wire Committee that teletype service be adopted throughout the Federal Reserve Leased Wire System was approved. In your letter of May 7, 1935, it was indicated * * "before anything is done in this direction a determination should be made by the Leased Wire Committee from the standpoint of the System as a whole as to the type of machine that should be used." Pursuant to this suggestion, careful consideration has been given to the practicability of page equipment as compared with tape equipment. Conferences on the subject have also been held with representatives from the Federal Reserve Bank of New York and the Board of Governors of the Federal Reserve System.

At present tape equipment is in use at the St. Louis, Dallas, San Francisco, Kansas City, Minneapolis, and Chicago offices of the Leased Wire System. The actual experience of these offices has demonstrated that the tape equipment is entirely practicable, and no difficulty is experienced in providing the necessary number of copies. Representatives of the New York bank favor the use of tape equipment and have indicated their willingness to install tape equipment between Chicago and New York at the convenience of the offices concerned. Correspondence with other Federal reserve banks which do not at present have teletype service indicates that while they are not in a position to speak from experience on the subject, they are ready to adapt themselves to the type of equipment that may be recommended by the committee. The Leased Wire Committee is of the opinion that the universal adoption of tape equipment is desirable and believes that it would fully meet the requirements of the System. The representative from the Board of Governors feels that it would be well first to try page equipment between Washington and Chicago, and that as soon as the operating details on that line are worked out the wire from Washington to New York should be equipped with tape machines. Under this arrangement, the Washington office would be in a position to study the service rendered by each type of equipment.

Therefore, it is recommended that -

1. Page equipment be installed on the Chicago-Washington wire.

2. At the convenience of the Washington and New York offices, tape equipment be installed on the Washington-New York circuit.

3. At the convenience of the New York office, the New York-Chicago line be converted into tape equipment.

4. After the Washington office has concluded its study of the tape and page machines, the remaining circuits be converted to teletype at the convenience of the Federal reserve banks affected.

These recommendations are made in the hope that the Washington office will find it practicable to use tape equipment, and that when the conversion of the remaining equipment is made it will be found feasible for all of the banks to adopt tape machines.

Very truly yours,

(Signed) Geo. J. Schaller

Chairman
Leased Wire Committee

X-9635-b

June 30, 1936.

Mr. G. J. Schaller, Chairman,
Leased Wire Committee,
c/o Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Schaller:

Receipt is acknowledged of your letter of June 13, 1936, referring to the approval given by the Governors of the Federal reserve banks on February 5, 1935, to the installation of teletype equipment on the leased wire system and transmitting the recommendations of the Leased Wire Committee that:

1. Page equipment be installed on the Chicago-Washington wire.

2. At the convenience of the Washington and New York offices, tape equipment be installed on the Washington-New York circuit.

3. At the convenience of the New York office, the New York-Chicago line be converted into tape equipment.

4. After the Washington office has concluded its study of the tape and page machines, the remaining circuits be converted to teletype at the convenience of the Federal reserve banks affected.

The Board approves the above recommendations and has authorized this office to proceed in accordance therewith. Arrangements are now being made with the American Telephone & Telegraph Company for the installation of sixty-speed page machines on the Chicago-Washington circuit. After the operating details are worked out on that line, and at the convenience of the Federal Reserve Bank of New York, tape machines will be installed on the Washington-New York and

New York-Chicago circuits, and after the study of the tape and page machines has been completed in the Washington office the change in the remaining circuits will be taken up with the banks affected.

Copies of your letter of June 13 and this reply are being sent to the Presidents of all Federal reserve banks for their information.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 13, 1936.
B-1129.

Dear Sir:

From time to time errors are discovered in the weekly reports of debits to individual accounts, reflecting principally either the inclusion of debits to deposit accounts of other banks or the omission of debits to the accounts of the United States Government, States, counties, municipalities, etc. Since September 1934 the weekly member bank condition reports, Form B-21, have made it possible to check the reports of debits to individual accounts, insofar as reporting member banks in 101 cities are concerned, as the weekly condition reports give a classification of debits to deposit accounts.

It will be appreciated if you will kindly have a check made between the figures reported in the weekly condition statements and those reported through the clearing houses or other agencies for the week ended January 8, 1936, unless such a check has already been made for some other recent week. It is suggested that this be done by furnishing to each clearing-house association or other agency from which weekly reports of debits to individual accounts are received, a list of the member banks in the city from which weekly condition reports, Form B-21, are received by your bank, with the request that the reporting agency

show for each such bank the total amount of debits to individual accounts reported by it for the week ended January 8, 1936. Upon receipt at your bank these figures should be checked against the aggregate of code items PILL, PURK and PAFF on Form B-21 (revised December 1935) and any differences reconciled with the reporting member bank. If the figures of debits to individual accounts furnished by a reporting member bank to the clearing-house association or other reporting agency have been incorrect, such agency should be requested to have the bank report on a correct basis in the future.

Please advise the Board of any outstanding differences that are found in checking the reports.

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

January 20, 1936.
B-1130.

SUBJECT: Specimen copies of Federal Reserve currency.

Dear Sir:

A representative of one of the Federal Reserve banks recently inquired whether it would be practicable for the Treasury Department to furnish his bank with specimen copies of Federal Reserve notes of the 1928 and 1934 series and of Federal Reserve bank notes of the 1932 series.

Before taking the matter up formally with the Treasury Department it will be appreciated if you will advise the Board whether your bank desires such specimen copies, and if so whether copies of all denominations of each series, or of only one denomination of each series, are desired.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

COPY TO ALL GOVERNORS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 20, 1936.
B-1131.

SUBJECT: Member Bank Call Report
for November 1, 1935.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 67 showing the condition of member banks on November 1, 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

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

January 31, 1936.
B-1134.

SUBJECT: Preliminary figures of loans and investments of member banks on December 31, 1935.

Dear Sir:

There is attached for your information and confidential use a copy of a statement prepared for the Board showing preliminary figures for each class of loans and investments of member banks on December 31, 1935, based upon data submitted by the Federal Reserve agents, in comparison with corresponding figures for November 1, 1935 and December 31, 1934.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS

CONFIDENTIAL

PRELIMINARY FIGURES OF LOANS AND INVESTMENTS OF ALL MEMBER BANKS ON DECEMBER 31, 1935, COMPARED WITH NOVEMBER 1, 1935, AND DECEMBER 31, 1934

(In millions of dollars)

B-1134

Call date	Total loans and investments	Loans to customers (except banks)						Loans to banks	Open market loans				Investments			
		Total	To brokers outside N. Y. City 1/	To others on securities	Real estate loans	Reporting banks' own acceptances	Otherwise secured and unsecured		Purchased paper: Acceptances payable in U.S.	Purchased paper: Bills payable abroad	Purchased paper: Commercial paper bought	Loans to brokers in N. Y. City 1/	Total	U.S. Government obligations: Direct	U.S. Government obligations: Fully guaranteed	Other securities
Total - All member banks																
1934 - Dec. 31	28,150	10,509	187	3,110	2,273	232	4,708	155	256	31	232	843	16,122	9,906	989	5,227
1935 - Nov. 1	29,301	10,465	179	2,885	2,279	159	4,963	94	154	27	260	841	17,460	10,080	1,784	5,615
1935 - Dec. 31	29,934	10,531	206	2,881	2,284	169	4,991	98	181	29	272	1,048	17,775	10,500	1,768	5,506
New York City*																
1934 - Dec. 31	7,761	2,202	54	820	139	164	1,024	63	210	16	6	662	4,602	3,246	278	1,078
1935 - Nov. 1	8,167	2,185	59	775	136	101	1,114	35	135	12	4	828	4,968	3,340	405	1,223
1935 - Dec. 31	8,400	2,191	62	791	140	107	1,091	42	158	16	5	1,018	4,972	3,425	401	1,146
Chicago*																
1934 - Dec. 31	1,581	435	29	170	18	16	202	11	29	5	27	26	1,049	743	78	229
1935 - Nov. 1	1,792	433	25	154	15	11	227	6	3	1	13	1	1,336	973	96	267
1935 - Dec. 31	1,865	454	28	149	15	14	248	6	1	1	12	1	1,390	1,060	88	242
Reserve city banks																
1934 - Dec. 31	10,028	4,024	90	1,124	1,090	49	1,671	55	13	9	108	105	5,715	3,809	279	1,628
1935 - Nov. 1	10,521	4,089	82	1,055	1,103	44	1,806	34	13	12	111	9	6,253	3,892	655	1,706
1935 - Dec. 31	10,767	4,140	98	1,055	1,094	46	1,848	34	19	10	119	21	6,423	4,078	656	1,689
Country banks																
1934 - Dec. 31	8,780	3,849	14	996	1,026	2	1,810	27	5	2	92	50	4,756	2,108	355	2,293
1935 - Nov. 1	8,821	3,758	13	902	1,026	3	1,815	19	3	2	132	3	4,903	1,874	609	2,419
1935 - Dec. 31	8,901	3,746	19	886	1,035	2	1,804	17	3	2	135	8	4,989	1,937	623	2,429

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS
JANUARY 29, 1936.

*Central reserve city banks only.

1/Loans (secured by stocks and bonds) to brokers and dealers in securities.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 30, 1936.
B-1135.

SUBJECT: Forms for use during 1936.

Dear Sir:

There are being forwarded to you today under separate cover, the number indicated of the following forms for use at your bank during 1936:

Form 44,	copies
Form 95,	copies
Form 160,	copies
Form 160-a,	copies
Form 160-b,	copies
Form 160-c,	copies
Form 194,	copies

A supply of forms 38 and 96 will be furnished within a few days when received from the printer.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO AGENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 17, 1936.
B-1138.

SUBJECT: Revision of Form 105,
Condition Report of
State Bank Members.

Dear Sir:

Some of the State banking departments may wish to amend the forms to be supplied by them to State banks for use on the next call for condition reports so as to conform to changes recently approved in the Board's Forms 105 and 105e, thereby making it possible to avoid duplicate publication of condition reports rendered by State bank members to the State banking departments and to the Federal Reserve banks. Accordingly, you are advised that certain items appearing on the face side of the Board's Forms 105 and 105e have been changed so that, on the next call for condition reports made upon State bank members, they will read as follows:

Item 9 of Assets -
"Cash, balances with other banks, and cash items in process of collection"

Item 14 of Liabilities -
"Demand deposits of individuals, partnerships, and corporations"

Item 15 of Liabilities -
"Time deposits of individuals, partnerships, and corporations"

Item 16 of Liabilities -
"State, county, and municipal deposits"

Item 18 of Liabilities -
On Form 105 this will read "Deposits of other banks, certified and officers' checks, and cash letters of credit and travelers' checks" and on Form 105e it will read "Deposits of other banks, certified and officers' checks, etc."

Memorandum Item 36b -
"Against State, county, and municipal deposits"

Please convey this information to the State banking departments in your districts.

It is understood that corresponding changes are being made in the forms to be used by national banks in submitting condition reports on the next call.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 18, 1936.
B-1139.

Dear Sir:

Certain questions have been raised regarding the correct interpretation of items 5, 6, 7, 8 and 9 on page 50 of the Board's "Manual of Instructions Governing the Preparation of Functional Expense Reports". For your information, these questions, together with the answers thereto, are shown below:

Item 5. "Notes Received as Collateral".

Inquiry: Does this include bills assigned as collateral to secure loans under Section 13b and if it includes bills assigned, does it also include accounts assigned?

Answer: This item should include bills pledged as collateral, including additional collateral, to secure loans under Section 13b actually held by Reserve bank, but it should not include accounts assigned as collateral, nor should it include any collateral held by a participating bank.

Item 6. "Payments received on customers' notes held as collateral".

Inquiry: Does this include payments received on bills and accounts assigned to secure loans under Section 13b?

Answer: This item should include payments received on bills and notes pledged as collateral and as additional collateral under Section 13b actually held by Reserve bank, but it should not include payments on accounts assigned as collateral.

Item 7. "Payments received on Section 13b loans".

Inquiry: Does this mean all payments on 13b loans or just those made when due? If it includes all payments made is it not duplicated in Item 9, captioned "Notes rebated"?

Answer: This item should include all payments which result in a reduction in the principal amount of advances made under Section 13b. Such payments are not duplicated in item 9, as item 9 is intended to refer only to notes received under sections other than 13b.

Item 8. "Releases applied on warehouse receipts held as collateral."

Inquiry: Does this include releases applied on warehouse receipts held as collateral to secure loans under Section 13b?

Answer: This item should include releases applied on warehouse receipts held in custody of Reserve bank as collateral to secure loans under Section 13b.

Item 9. "Notes rebated".

Inquiry: Is this intended to cover all payments received prior to the date such payments are due, including payments on loans under Section 13b? For example, under Section 13b we may have a loan say $400,000.00 payable in installments of $25,000.00 each month. During the course of one month there may be several payments prior to the due date of the first installment. Should each payment be counted as an item for this report under item 9 or is it intended that where all payments are made on one note that only the one note is counted? Also, if the reference is to the note only and not to the several payments should it be counted each time an installment is due and paid, or only at the final payment of the note?

Answer: The term "Notes rebated" refers only to those notes on which partial or full payments have been made prior to maturity, and for which interest has been rebated. (Member bank notes and rediscounts). This caption should not include any payments

received on Section 13b advances and commitments.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations

TO ALL GOVERNORS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 21, 1936.
B-1140.

SUBJECT: Condition of member banks.

Dear Sir:

There is inclosed, for use pending the printing of Member Bank Call Report No. 68, a statement showing the assets and liabilities of member banks on December 31, 1935, by classes of banks and by districts.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure

TO ALL GOVERNORS AND F. R. AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1936.
B-1141.

SUBJECT: 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 1936, if issued at your bank, there are shown on the attached statement revisions made in the weekly Federal Reserve bank press statements issued during 1935, which were received too late to be shown in the comparative column of the following week's statement.

Very truly yours,

E. L. Smead

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 1935, NOT SHOWN IN THE COMPARATIVE COLUMN OF THE FOLLOWING WEEK'S STATEMENT:

	Change from	Change to
	(In thousands of dollars)	
August 21 - Commitments to make industrial advances	24,781	24,779
September 18 - Secured by U. S. Gov't obligations, direct and/or fully guaranteed	4,703	4,690
Other bills discounted	4,935	4,948
December 31 - Surplus (Section 7)	145,772	145,501
Surplus (Section 13b)	24,233	24,235
Reserve for contingencies	34,869	35,081
All other liabilities	3,975	4,032

(B-1141a)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1936.
B-1142.

Dear Sir:

Recently a number of the Federal Reserve banks have made advances to member banks on promissory notes secured by bonds of the Home Owners' Loan Corporation and have inquired as to how such advances should be reported on Form 38. It will be appreciated if any such advances made by your bank are reported against the caption "Secured by HOLC bonds", to be inserted following the colon after the caption "Advances on member bank's own promissory notes".

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL GOVERNORS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 7, 1936
B-1143

SUBJECT: Call Reports of State Bank Members and their Affiliates.

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the six forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

Number of copies	Form
	Form 105, Report of condition of State bank member.
	Form 105b (Schedule"O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Form 105e, Publisher's copy of report of condition of State bank member.
	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 and 220a, being forwarded to you, is based on the number requested in response to telegram TRANS 2374

of February 12, 1936.

Please hold the forms at your bank until receipt of telegraphic advice from the Board giving the date on which the forms should reach State bank members in your district. Upon receipt of such advice please arrange to mail to each State bank member, scheduled to reach the bank as nearly as practicable on the date given in the Board's telegraphic advice, three copies of Form 105, two copies of Form 105e, and an appropriate number of copies of Forms 105b, 220, 220a and 220b, with the request that the forms be held pending the receipt of a call for reports thereon.

Please furnish the Board with a copy of the letter transmitting the forms to State bank members, a copy of the letter calling for reports, and a list of the State bank members on which the call is made.

The original copies of reports on Forms 105, 105b and 220 should be retained for the files of your bank, while the duplicate copies thereof and reports on Forms 105e and 220a should be forwarded to the Board.

Certain changes have been made on Form 105 in the captions of asset item 9, liability items 14, 15 and 16, memorandum item 36b, items 1 and 2 in Schedule I and item 7 in Schedule J. These changes do not affect the meaning of the items, but were made in the interest of simplicity and clarity, largely in the light of experience gained and inquiries made in connection with the last call for condition reports. Corresponding changes have been made in the form (2130) to be furnished by the Comptroller's office to national banks for use in submitting their next condition reports. Form 220b, Instructions for preparation of reports of affiliates and holding company

affiliates, has been reprinted so as to include the modified terms of waiver which were approved by the Board at the time of the last call for condition reports.

Please advise the State bank members of the Board's rulings contained in its letter X-9395 of December 17, 1935 and telegram TRANS 2359 of January 11, 1936, with regard to the conditions under which the Board will accept a single publication of reports of condition rendered by State bank members to State banking departments pursuant to requirements of State law and to Federal Reserve banks pursuant to the requirements of the Federal Reserve Act.

The reports should be examined at your bank in accordance with past procedure and any necessary corrections obtained, if practicable, before they are forwarded to the Board. The printed copies of reports of State bank members and their affiliates, clipped from the newspapers and attached to the reverse side of Forms 105e and 220a, should be examined to see that they appear to be in proper form. Copies of letters sent to State bank members in connection with published reports and of any replies received thereto should be furnished the Board, to assist the Board in determining whether the differences between the reports submitted to your bank and the published statements are sufficiently important in any case to warrant republication.

Please have compiled from the next call reports and mailed or wired in time to reach the Board within 3 weeks after the date on which the call

is made, if practicable, a summary statement showing separately for central reserve city member banks, reserve city member banks, and country 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 of Schedule G).

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures. (B-1143)

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

March 7, 1936
B-1144
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Federal Reserve Bank Stock Certificates.

Dear Sir:

In view of the provisions of the Banking Act of 1935, it will be necessary to amend the plates from which Federal Reserve bank stock certificates are printed in order to make provision for the signature of the President or a Vice-President of the Federal Reserve bank in lieu of the signature of the Governor. In the circumstances, the form of certificates issued by the Federal Reserve banks has been examined with the view of determining whether any other changes should be made at the same time.

The form of certificate now used at eight of the Federal Reserve banks is identical except for the name of the Federal Reserve bank and district, which changes are made in a single plate at the Bureau of Engraving and Printing without the requirement of a plate for each of the banks. The certificate in use at one bank differs from that in use at the majority of banks only in that it provides for the signature of the "Secretary" instead of the "Cashier". The certificates in use at two other banks differ from the one in use at the majority of banks in that the words "paid up" are used instead of "paid" in referring to the 50 percent

payment on the par value, etc., and the phrase "and is liable to further assessments aggregating not more than 50 percent of its par value" is omitted. The certificate of one of these banks provides for the signature of the Secretary and the other for the signature of the Cashier. The remaining bank issues non-negotiable receipts in lieu of stock certificates.

The differences in the form of certificates now issued by the Federal Reserve banks are not of major importance and it appears to the Board that a uniform certificate might well be adopted. It also appears to the Board that it should be sufficient to have the certificates signed by the President or a Vice-President and by the Secretary, instead of also requiring the countersignature of the Federal Reserve agent, since Federal Reserve bank stock is not transferable and cannot be hypothecated and the certificate is merely formal evidence that the member bank has made the required payment on its subscription to Federal Reserve bank stock. The Board would like to have any comments that your bank may wish to make on these proposals, together with suggestions for any additional changes that may appear desirable. In order to expedite consideration of the matter, there is inclosed a draft of a proposed revised form of certificate. It will be noted that the revised form provides for the signature of the First Vice-President, but when the certificates are prepared this title may be changed as desired by the individual Reserve banks (without making separate plates). Furthermore, even if the title "First Vice-President" appears on all of the certificates, the word "First" can be stricken out when the certificate is signed by another Vice-President and the words "First" and "Vice" can be stricken out when it is signed by the President.

Please advise the Board of the number of unissued certificates that you now have on hand and approximately how long the supply may be expected to last. If a uniform form of certificate is decided upon it will be desirable to cancel the existing supply of certificates and to issue certificates only on the new form. Please, therefore, also advise the Board of the number of certificates of the revised form that should be ordered, together with the serial numbers to be shown thereon.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

B-1144

Suggested revised form of Federal Reserve bank stock certificate:

F E D E R A L R E S E R V E B A N K

of

_____

Certificate
No._____

Number of Shares
_____

This is to certify that

_____

is the owner of _____ shares of the par value of One Hundred Dollars ($100) each, of the capital stock of the Federal Reserve Bank of _____, which shares of stock cannot be transferred or hypothecated. The stock represented by this certificate, issued in pursuance of the provisions of the Act of Congress, approved Dec. 23, 1913, known as the Federal Reserve Act, as amended, is paid up to the extent of fifty percent of its par value.

In Witness Whereof, the said Federal Reserve Bank of _____ has caused its corporate seal to be hereunto affixed and this certificate to be signed by its duly authorized officers this _____ day of _____ 19___.

_____ Secretary

_____ First Vice-President

B-1144

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 13, 1936.
B-1145.

SUBJECT: Member Bank Call Report
for December 31, 1935.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 68 showing the condition of member banks on December 31, 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

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1936.
B-1146.

Dear Sir:

There are enclosed for your information six copies of the fourth edition of circular No. 86, "Instructions relative to deposits of gold and gold certificates for credit in gold certificate fund account with the Board of Governors of the Federal Reserve System and payments therefrom under Act of June 21, 1917, as amended", which was issued by the Treasury Department as of March 4, 1936.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosures.

TO ALL PRESIDENTS

INSTRUCTIONS RELATIVE TO DEPOSITS OF GOLD AND GOLD CERTIFICATES FOR CREDIT IN GOLD CERTIFICATE FUND ACCOUNT WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AND PAYMENTS THEREFROM UNDER ACT OF JUNE 21, 1917, AS AMENDED.

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1936
Department Circular No. 86
Amended and Supplemented

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, D. C.,
March 4, 1936

Accounts and Deposits
(Fourth Edition) 1

To the Treasurer of the United States, Superintendents of the Mints at Philadelphia, Denver and San Francisco, and the Assay Office at New York, and the Federal Reserve Banks:

(1) Paragraph 16 of Section 16 of the Federal Reserve Act, as amended, authorizes and directs the Secretary of the Treasury to receive deposits of gold or of gold certificates with the Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Board of Governors of the Federal Reserve System, and requires the Secretary to prescribe by regulation the form of receipt to be issued by the Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, a duplicate of which receipt is to be delivered to the Board of Governors of the Federal Reserve System by the Treasurer at Washington. The Section of the Federal Reserve Act just cited also requires that deposits so made shall be held subject to the orders of the Board of Governors of the Federal Reserve System and shall be payable in gold certificates on the order of the Board of Governors of the Federal Reserve System to any Federal Reserve bank or any Federal Reserve agent at the Treasury; that the order used by the Board of Governors of the Federal Reserve System in making such payments shall be signed by the Chairman or Vice Chairman, or such other officers or members as the Board may by regulation prescribe; and that the form of such order shall be approved by the Secretary of the Treasury.

(2) The following regulations are prescribed in pursuance of the provisions of law cited in the preceding paragraph, and the Act approved May 29, 1920 (41 Stat. 654):

(a) Deposits of gold and/or gold certificates may be made by Federal Reserve agents or by Federal Reserve banks (either direct or through their branches) for credit in the Gold Certificate Fund account of the Board of Governors of the Federal Reserve System on the books of the Treasurer of the United States with the Superintendents of the coinage mints at Philadelphia, Denver, and San Francisco and the Superintendent of the Assay Office at New York. The amount of each such deposit shall be credited in the

Superintendent's daily transcript of the Treasurer's account on Form 17 supported by certificate of deposit on Form 1701, the original being forwarded with the transcript in support of the credit, and the duplicate given or sent to the depositor. Upon receipt of each deposit, immediate telegraphic advice will be given by the Superintendent to the Treasurer of the United States, who will make appropriate entries in his general account and deliver to the Board of Governors of the Federal Reserve System a receipt showing the amount credited in the Gold Certificate Fund account of the Board on his books, executed in substantially the following form:

Treasury of the United States,

_____,193_

Received from the Federal Reserve _____at _____ _____ the sum of _____ dollars, in gold or in gold certificates, for credit in the Gold Certificate Fund account with the Board of Governors of the Federal Reserve System.

This receipt is issued under authority of paragraph 16 of section 16 of the Federal Reserve Act, as amended, and the deposit made is held subject to the order of the Board of Governors of the Federal Reserve System in accordance with the provisions of said Act, as amended.

Gold certificates received by the Superintendents of the coinage mints and Assay Office at New York for credit in the Gold Certificate Fund account with the Board of Governors of the Federal Reserve System shall not be paid out except upon releases granted by the Secretary of the Treasury through the Treasurer of the United States.

(b) Deposits of gold and/or of gold certificates may be made also with the Treasurer of the United States by Federal Reserve agents and by Federal Reserve banks (either direct or through their branches) for credit in the Gold Certificate Fund account of the Board of Governors of the Federal Reserve System on the books of the Treasurer, for which receipts will be delivered by the Treasurer to the Board of Governors of the Federal Reserve System, executed in the above-described form.

(3) The following form of order for use by the Board of Governors of the Federal Reserve System in transmitting funds to Federal Reserve banks or Federal Reserve agents has been approved:

Washington,_____19__

TREASURER OF THE UNITED STATES

Pay to _____ $_____
_____ dollars, in gold certificates out of deposits made with the Treasurer of the United States under authority of paragraph 7 of Section 2 (b) of the Gold Reserve Act of 1934, approved January 30, 1934, amending Section 16 of the Federal Reserve Act.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

By _____ _____

Countersigned:

_____.

(4) The Board of Governors of the Federal Reserve System should file with the Treasurer of the United States a copy of any by-laws or regulations prescribed by it authorizing any of its officers or members other than the Chairman or Vice Chairman of the Board to execute such orders, and specimen signatures of any officers or members who are to sign such orders should be filed with the Treasurer.

(5) The Secretary of the Treasury reserves the right to amend or supplement these regulations from time to time.

H. MORGENTHAU, JR.,
Secretary of the Treasury.

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1 The first edition of this circular was issued June 26, 1917. The second edition was issued August 15, 1923. The third edition was issued January 30, 1934. They are entirely superseded by this edition, effective March 4, 1936.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1936.
B-1147.

Dear Sir:

In the Board's telegram Trans 2094 of September 28, 1934 each Federal Reserve agent was requested to notify each other Federal Reserve agent and the Board, by telegraph, of the name and location of every non-member bank which files an agreement with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934. It was further requested that each Federal Reserve agent prepare and have available for distribution a list of such banks and furnish a copy thereof to the Board as of the end of each month, until such time as it was decided to prepare the list at the Board's offices for distribution to all Federal Reserve agents.

A list of such banks as of March 31, 1936 has been prepared at the Board's offices, and twenty-five copies thereof are inclosed. It is requested that one or more master copies be kept up to date by your bank on the basis of telegraphic advices (code "Alightable") received from other Federal Reserve banks in accordance with the Board's telegram TRANS 2094. If and when a copy of the list is given out in response to a request, it should, of course, first be brought up to date in accordance with the master copy. From time to time the list will be brought up to date and re-mimeographed at the Board's offices, and copies of the

revised list will be furnished to you. Hereafter it will not be necessary for you to furnish the Board as of the end of each month with a copy of the list on file at your bank, but for checking purposes the Board will advise you at the end of each month of all changes made during the month in the copies of the list maintained at the Board's offices.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

LIST OF NONMEMBER BANKS IN THE UNITED STATES WHICH HAVE FILED AGREEMENTS WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM ON F. R. B. FORM T-1 PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934.

California		
	Anaheim	The Southern County Bank
	Modesto	Modesto Trust and Savings Bank
	Pasadena	Pasadena Savings Bank
	Paterson	Commercial Bank
	San Diego	San Diego Trust & Savings Bank
	San Francisco	Bank of America
	"	Bank of Montreal (San Francisco)
	"	The Canadian Bank of Commerce (California)
	Stockton	Stockton Savings and Loan Bank
Connecticut		
	Bridgeport	The West Side Bank
	Darien	The Home Bank and Trust Company of Darien
	Hartford	The Hartford-Connecticut Trust Company
	"	The Park Street Trust Company
	New Haven	The Community Bank and Trust Company
	Stamford	The Fidelity Title & Trust Company
Delaware		
	Dover	Farmers' Bank of the State of Delaware
	Wilmington	Delaware Trust Company
Idaho		
	Lewiston	American Bank & Trust Company
	Pocatello	Idaho Bank and Trust Co.
Illinois		
	Chicago	Banco di Napoli Trust Company of Chicago
	Oak Park	Prairie State Bank
Indiana		
	Jeffersonville	Clark County State Bank
	West College Corner (P.O.College Corner,Ohio)	Farmers State Bank of West College Corner, Indiana

Iowa		
	Waterloo	The Waterloo Savings Bank
Kentucky		
	Beaver Dam	The Beaver Dam Deposit Bank
	Brandenburg	Farmers Deposit Bank
	Campbellsburg	United Farmers Bank
	Carrollton	Kentucky State Bank
	Gravel Switch	Peoples Bank
	Hardinsburg	Farmers Bank
	Hopkinsville	First-City Bank & Trust Company
	LaGrange	First State Bank
	Monterey	The First State Bank
	New Hope	The Peoples Bank
	Perryville	Farmers Deposit Bank
	Sadieville	Farmers-Deposit Bank of Sadieville
	Shelbyville	Citizens Bank
	Springfield	Springfield State Bank
Maine		
	Rockland	Knox County Trust Company
Maryland		
	Baltimore	The Equitable Trust Company
	"	Mercantile Trust Company of Baltimore
Massachusetts		
	Boston	Banca Commerciale Italiana Trust Company of Boston
	"	Stabile Bank and Trust Company
	Clinton	Clinton Trust Company
	Lawrence	Arlington Trust Company
	Lynn	Essex Trust Company
	North Adams	North Adams Trust Company
	Stoneham	Stoneham Trust Company
	Worcester	Guaranty Bank & Trust Co.
Michigan		
	Detroit	Commonwealth-Commercial State Bank

New Jersey	
Asbury Park	Asbury Park and Ocean Grove Bank
Atlantic City	Guarantee Trust Company
Chatham	The Chatham Trust Company
Clayton	Clayton Title and Trust Company
Guttenberg	Guttenberg Bank and Trust Co.
Hammonton	Peoples Bank and Trust Company
Jersey City	Bessemer Trust Company
"	The Trust Company of New Jersey
North Bergen	Woodcliff Trust Company
Trenton	The Trenton Banking Company
"	Trenton Trust Company
Union City	Hudson Trust Company
Woodbury	Woodbury Trust Company
New York	
Albion	The Orleans County Trust Company
Auburn	Auburn Trust Company
"	Wm.H. Seward & Co.
Berlin	Taconic Valley Bank
Brooklyn (New York City)	Kings County Trust Company
Clarence	Bank of Clarence
Courtland	Courtland Trust Co.
Forest Hills (New York City)	Boulevard Bank
Hudson	Hudson River Trust Company
Jamestown	Union Trust Company of Jamestown, N. Y.
Kenmore	State Bank of Kenmore
Medina	Medina Trust Company
Middletown	Orange County Trust Company
Newburgh	The Columbus Trust Co.
New York City	Banca Commerciale Italiana Trust Company
"	The Bank of Athens Trust Company
"	Bronx County Trust Company
"	Brown Brothers Harriman & Co.
"	Empire Trust Company
"	Fiduciary Trust Company of New York
"	Heidelbach, Ickelheimer & Co.
"	Huth & Co.
"	Laidlaw & Company
"	Savings Banks Trust Company
"	Title Guarantee and Trust Company
"	Underwriters Trust Company
North Tonawanda	State Trust Company of North Tonawanda

(New York continued on page 4)

New York (Continued from page 3)

Oyster Bay	Oyster Bay Trust Company
Randolph	State Bank of Randolph
Riverhead, L. I.	Long Island State Bank & Trust Company
Rochester,	Genesee Valley Trust Co.
"	Rochester Trust & Safe Deposit Company
"	Security Trust Company of Rochester
"	Union Trust Company of Rochester
Tonawanda	The First Trust Company of Tonawanda
Troy	The Troy Trust Company

Ohio

Lisbon	The Firestone Bank
Milledgeville	The Milledgeville Bank
Ottoville	The Ottoville Bank Company
Sandusky	The Citizens Banking Company
Sugarcreek	Citizens Bank
Warren	The Union Savings & Trust Company
Youngstown	The City Trust & Savings Bank

Pennsylvania

Abington	Abington Bank & Trust Company
Altoona	The Altoona Trust Company
Homestead	Monongahela Trust Company
Philadelphia	Banca Commerciale Italiana Trust Company
"	Liberty Title and Trust Company
"	Mitten Bank and Trust Company
"	Northern Trust Company
"	Land Title Bank and Trust Company (Name changed as of January 31, 1936 from "The Real Estate-Land Title and Trust Company", in which name the agreement was executed.)
"	The Real Estate Trust Company of Philadelphia
"	Wyoming Bank and Trust Company
Pittsburgh	The Arsenal Bank
Pottsville	Safe Deposit Bank of Pottsville
Prospect Park	Prospect Park State Bank
Rankin	The Rankin Bank

Tennessee

Paris	Commercial Bank & Trust Co.

Texas		
	Houston	Guardian Trust Company of Houston
	"	Houston Land & Trust Company
Vermont		
	Barton	The Barton Savings Bank and Trust Company
	Bellows Falls	Bellows Falls Trust Company
Wisconsin		
	Cudahy	Cudahy State Bank

The following banks, which filed agreements with the Board of Governors of the Federal Reserve System pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, are no longer in operation as nonmember banks:

Bank of Batavia, Batavia, New York
(Merged into The Marine Trust Company of Buffalo, a member bank of the Federal Reserve System, as of January 15, 1936.)

The Dollar Savings and Trust Company, Youngstown, Ohio
(Admitted to membership in the Federal Reserve System on March 13, 1936)

The Reading Trust Company, Reading, Pennsylvania
(Admitted to membership in the Federal Reserve System on November 27, 1935)

March 31, 1936

LIST OF BANKS IN TERRITORIES, INSULAR POSSESSIONS, AND FOREIGN COUNTRIES, WHICH HAVE FILED AGREEMENTS WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM ON F.R.B. FORM T-2 PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934.

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Canada

Montreal	Bank of Montreal (including Agencies at New York City, Chicago and San Francisco)
Montreal	The Royal Bank of Canada (including Agency at New York City)
Toronto	The Bank of Nova Scotia (including Agencies at New York City, Boston and Chicago)
Toronto	The Canadian Bank of Commerce (including Agencies at New York City, Portland, Oregon, San Francisco and Seattle)
Toronto	The Dominion Bank (including Agency at New York City)

England

London	*Banque Belge pour l'Etranger (Overseas) Limited (including agency at New York City)

Hawaii

Honolulu	Bank of Hawaii
"	Bishop National Bank of Hawaii at Honolulu

The following bank, which filed an agreement with the Board of Governors of the Federal Reserve System pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, now has no agency or office in the United States and, therefore, no longer comes within the term "bank" as used in Section 8(a) of the Securities Exchange Act of 1934:

*Banque Belge pour l'Etranger, Brussels, Belgium.
(Formerly had an agency at New York City)

*Banque Belge pour l'Etranger (Overseas) Limited has succeeded to the business formerly transacted by the New York agency of Banque Belge pour l'Etranger, Brussels, Belgium.

March 31, 1936

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 22, 1936.
B-1148.

SUBJECT: Functional Expense Reports.

Dear Sir:

There are being sent you under separate cover copies of each of the following pages of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)", which have been revised effective as of January 1, 1936, unless otherwise indicated:

Pages 1-6	Pages 48	Pages 84a
" 8	" 62	" 87
" 10-11	" 64-66	" 89
" 18-18-c	" 68	" 96a
" 24-25	" 72-73	" 101-105
" 28-32	" 75	" 108-109
" 40	" 78	" 113-119
" 42	" 81-82	

Table of Contents

An additional set of these pages is inclosed.

As you know, the Presidents' Conference Committee on Reimbursable Expenditures and a Sub-committee have been studying reimbursable expenditures for some time, and on April 9 Mr. Fleming, Chairman of the Presidents' Conference Committee, wrote you with respect to certain recommendations in regard to the method of determining reimbursable expenditures and the method of billing therefor. Some of the changes

which are made in the above pages of the Manual are necessary in order that the instructions may conform with the revised method of submitting bills. Others are necessary to include instructions which have been issued by the Board since the date of the last previous revision of the Manual and to bring it up to date. Pages on which there are no changes except in the name of the Board and the designation of the executive officers of the Federal Reserve banks have not been rewritten. While the column "Expense not reimbursable" has been retained in the fiscal agency, custodianship, and depositary function, it is not intended that there will be any non-reimbursable expenses reported for units such as Current Issues, Reconstruction Finance Corporation, etc., as the cost of handling the work performed in such units is reimbursable.

The necessary changes will be made in Form E when reprinted. Should any additional copies of the revised pages of the Manual be required they will be sent upon request.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

Inclosures.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 23, 1936.
B-1149.

Dear Sir:

Available information indicates that a number of National and State bank examiners and one Federal Reserve bank employee were among those who attended the first session of the Graduate School of Banking of the American Institute of Banking held at Rutgers University, New Brunswick, New Jersey, last summer, and that a number of persons connected with the Federal Reserve System are planning to attend the second session of the Graduate School, to be held at Rutgers from June 22, 1936 to July 3, 1936.

It will be appreciated if you will kindly advise us as to the number, if any, of persons connected with your bank who are planning to attend the Graduate School this summer, and the policy of your bank with respect to granting leave of absence to those attending the session, and with respect to contributions, if any, to be made by your bank toward defraying tuition, traveling, or other expenses of those attending the second session of the Graduate School.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

B-1151

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 1, 1936

Dear Sir:

Referring to the Board's letter B-1147 of April 4, 1936, following is a statement of additions during April to the list of nonmember banks that have filed agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Kentucky

Shelbyville	Bank of Shelbyville
Shelbyville	The Farmers and Traders Bank

Vermont

Brattleboro	Brattleboro Trust Co.

Please correct the spelling of the name and location of the "Courtland Trust Co., Courtland, New York", shown on page 3 of the list, to "Cortland Trust Co., Cortland, New York".

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

B-1152

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 4, 1936.

Dear Sir:

The Federal Deposit Insurance Corporation has requested all insured member and nonmember banks to submit a report as of May 13, 1936, grouped by size of accounts and by class of depositors, in order to provide information that will serve as a basis of an estimate of insured deposits.

The Board is in accord with the desire of the Federal Deposit Insurance Corporation to obtain the information outlined in the proposed form of report for the purpose intended. For your information and in order that you may be in a position to answer any inquiries made of you in this connection by State bank members there are attached three copies of the letter, instructions and form sent by the Federal Deposit Insurance Corporation to each insured bank.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON

778½

May 1, 1936

TO THE BANK ADDRESSED

The Federal Deposit Insurance Corporation finds it essential to know the extent of the liability which it has assumed in insuring bank deposits. This information has not been obtained since October 1, 1934, and since the amount of deposits has increased rapidly during the past eighteen months it is desired to bring the information up to date.

We realize that an accurate report of the insured portion of bank deposits, involving a combination of all accounts held by a depositor in the same right and capacity, would impose a heavy burden of work upon banks. Therefore, we are asking only for data concerning your total deposit liability, the total number of your accounts, the total amount of deposits in accounts with balances of over $5,000 and the number of such accounts. Although the data reported on Form 89 will not correspond exactly in individual banks to the legal definition of "insured deposits", they will enable us to estimate that figure for all insured banks with a reasonable degree of accuracy.

You will find enclosed three copies of Form 89 (one to be returned to us, one for your files and one to serve as a worksheet). Please read the instructions carefully before beginning preparation of the data. For your convenience in mailing a self-addressed envelope is enclosed.

Upon receipt of this letter, kindly ask your correspondent banks to make statements to you of your accounts as of the close of business on May 13, 1936, in order that you may be able to report the amount of your outstanding drafts as of that date. This procedure should enable you to complete the form and to return it to us by May 25.

Yours very truly,

Leo T. Crowley,
Chairman.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

B-1153

May 8, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Recently the Board amended its regulations governing the amount of annual and sick leave which may be granted to its employees and in doing so followed closely the provisions of recent logislation governing the granting of leave to Federal employees.

The amended regulations permit the granting in each calendar year of 26 days annual leave with pay, with a provision that the part unused in any year shall be accumulated for succeeding years until it totals not exceeding 60 days. They also permit cumulative sick leave with pay at the rate of 1-1/4 days per month, the total accumulation not to exceed 90 days, and provide that in any case of serious illness or disability sick leave may be granted up to 30 days beyond the amount accrued, upon the recommendation of the division head. In special and meritorious cases where an employee is absent on account of serious illness for an extended period the question as to whether any further leave should be granted is presented to the Board for special consideration. All allowances of leave at any time during the year, even though for only small fractions of a day, are counted, and detailed leave records are kept.

In order that the Board may have information available with respect

to the amount of annual and sick leave granted to officers and employees of the Federal Reserve banks it will be appreciated if you will advise the Board of the rules and circumstances under which annual and sick leave is granted by your bank and the policy of your directors in making exceptions, if any, to the leave rules. In furnishing this information please state whether employees are granted any time off in addition to the annual leave schedule, and, if so, the circumstances under which such time is allowed; what records are kept of absences of a day or fractional parts thereof and the effect, if any, such absences have on the vacation period to which the officers and employees are entitled; whether and under what circumstances a doctor's certificate is required in the case of sick leave; and what provision has been made for granting leave to temporary employees.

Very truly yours,

E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1936
B-1154

SUBJECT: Member Bank Call Report for
March 4, 1936

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 69 showing the condition of member banks on March 4, 1936. 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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1936.
B-1155.

Dear Sir:

Replies to the Board's letter B-1144 of March 7, 1936, regarding the adoption of a revised and uniform form of Federal Reserve bank stock certificate, indicate that the proposed certificate is generally acceptable. Accordingly, an order has been placed with the Bureau of Engraving and Printing for the preparation of a plate to be used in the printing of the revised form of certificate and a supply of the revised certificates will be furnished you as soon as they become available. The form of certificate ordered to be plated is identical with the suggested revised form attached to letter B-1144, except that provision has been made for the signature of the "President" of the bank instead of the "First Vice-President". When a given certificate is signed by a Vice-President, the title can be appropriately amended.

One of the Federal Reserve banks suggested that the stock certificates supplied to it provide for the counter-signature of the "Secretary-Cashier", another suggested that provision be made for the counter-signature of the "Cashier-Secretary", and a third suggested that provision be made for the counter-signature of the "Cashier". In the case of these banks, provision will be made for the printing of these titles, rather than

the title "Secretary". In all other cases, provision will be made for the counter-signature of the "Secretary", in accordance with the draft of the form of stock certificate inclosed with the Board's letter B-1144, but if any Reserve bank desires its supply of certificates to provide for a different counter-signature the order for its supply of certificates will be appropriately modified upon receipt of advice to that effect.

Most of the Federal Reserve banks indicated that the new certificates should begin with the next succeeding number after the last number shown on the existing supply of certificates. This seems preferable to using any of the serial numbers that appear on the present certificates. Accordingly, if the first serial number to be shown on the revised certificates, as given in your reply to the Board's letter B-1144, is not the next succeeding number after the last number shown on your present stock of certificates, please advise the Board of that number, unless you desire the new certificates to begin with some other number, in which case please advise the Board thereof.

As soon as a proof of the revised certificates has been received and found satisfactory, an order will be placed with the Bureau of Engraving and Printing for the number of certificates requested in the respective replies to letter B-1144. If your reply did not give the number of certificates to be ordered, please furnish that information in response to this letter.

Upon receipt of the supply of new certificates, it is suggested that the stock of unissued certificates of the present form be canceled and only the revised form of certificates issued thereafter. It will not be necessary to call in the certificates now outstanding and to replace them with new certificates except incident to adjustments in holdings of Federal Reserve bank stock pursuant to the provisions of Regulation I.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS (EXCEPT SAN FRANCISCO)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

B-1156
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1936

Dear Sir:

Referring to the Board's letter B-1147 of April 4, 1936, following is a statement of additions during May to the list of nonmember banks that have filed agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Kentucky

Cave City - The H. Y. Davis State Bank

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 5, 1936
B-1157

SUBJECT: Call Reports of State Bank Members and their Affiliates.

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the six forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

Number of copies	Form
	Form 105, Report of condition of State bank member.
	Form 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Form 105e, Publisher's copy of report of condition of State bank member.
	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 hold the forms at your bank until receipt of telegraphic advice from the Board giving the date on which the forms should reach

State bank members in your district. Upon receipt of such advice please arrange to mail to each State bank member, scheduled to reach the bank as nearly as practicable on the date given in the Board's telegraphic advice, three copies of Form 105, two copies of Form 105e, and an appropriate number of copies of Forms 105b, 220, 220a and 220b, with the request that the forms be held pending the receipt of a call for reports thereon.

Please furnish the Board with a copy of the letter transmitting the forms to State bank members, a copy of the letter calling for reports, and a list of the State bank members on which the call is made.

The original copies of reports on Forms 105, 105b and 220 should be retained for the files of your bank, while the duplicate copies thereof and reports on Forms 105e and 220a should be forwarded to the Board.

The only change made in any of the forms is the addition of two memorandum items at the bottom of page 4 of Form 105. The first memorandum item is intended to include all loans on farm land and all agricultural loans (whether secured by farm land, otherwise secured, or unsecured). By "agricultural loans" is meant loans made for agricultural purposes, including the production of agricultural products, the marketing or the carrying of agricultural products by the growers thereof, and the breeding, raising, fattening, or marketing of live stock. Please advise State bank members accordingly, when transmitting the blank Forms 105 to them.

In order to avoid errors in the publication of condition reports in accordance with Form 105e, it is suggested that the State bank members

be advised that, when practicable to do so, they should examine and check the proof copy of the published statement before its actual publication in the newspaper.

The reports should be examined at your bank in accordance with past procedure and any necessary corrections obtained, if practicable, before they are forwarded to the Board. It is suggested that the reports be examined particularly to see that an amount or the word "none" is shown against the new memorandum items at the bottom of page 4 of Form 105, that the amount of the first memorandum item appears to be reasonable in comparison with the figures shown in Schedule E, and that the amount of the second memorandum item appears to be reasonable in comparison with the amount of Asset Item 7. The printed copies of reports of State bank members and their affiliates, clipped from the newspapers and attached to the reverse side of Forms 105e and 220a, should be examined to see that they appear to be in proper form. Copies of letters sent to State bank members in connection with published reports and of any replies received thereto should be furnished the Board, to assist the Board in determining whether the differences between the reports submitted to your bank and the published statements are sufficiently important in any case to warrant republication.

Please have compiled from the next call reports and mailed or wired in time to reach the Board within 3 weeks after the date on which the call is made, if practicable, a summary statement showing separately for central reserve city member banks, reserve city member banks, and

country 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 of Schedule G).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

(B-1157)

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1936.
B-1158

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, 1936.

It will be noted that the form has been revised to show separately six items which heretofore have been combined with other items. The new items, together with their definitions, are as follows:

Item 1(h) - Rent received. - Gross income from rental of banking house, other real estate, safe deposit boxes, etc.

Item 2(c) - Fees paid to directors and members of executive, discount, and advisory committees. - Total amount of fees paid to directors and members of committees for attendance at Board or committee meetings. (Retainer and other fees paid outside counsel should not be included in this item. Such fees, including court and recording costs and fees paid to notaries, should be included with "Other expenses", Item 2(j).)

Item 2(h) - Real estate taxes. - Taxes paid or accrued on bank premises and on other real estate owned by the bank.

Item 2(i) - Other taxes. - Federal, State and municipal taxes paid or accrued, other than taxes on real estate.

Item 4(b) - Recoveries on bonds, stocks, and other securities. - Recoveries of amounts charged off as losses or as depreciation on bonds, stocks and other securities against Item 6(b) (including any premium charged off and recovered upon the sale of securities).

Item 4(c) - Profits on securities sold. - Profits representing an excess of sale price, over purchase price less premium amortization, of bonds and other securities sold or exchanged. Any amounts previously charged off (including premium charged off but not premium amortized) which is recovered at the time of the sale of securities should be shown in Item 4(b).

The above definitions correspond with definitions of the same items included in revised instructions (Form 2129-A) governing the preparation of earnings and dividends reports which are being issued to national banks by the Comptroller of the Currency.

In the examination of the reports on Form 107, it is suggested that particular attention be paid to the reconcilement of the capital accounts as shown against Items 14 to 17 with the corresponding items as shown in condition reports on Form 105, and the items shown in Section 3 with the corresponding items in the report for the immediately preceding report period.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 25, 1936.
B-1159.

Dear Sir:

In view of the changes in the Manual of Instructions Governing the Preparation of Functional Expense Reports, of which you were advised in our letter (B-1148) of April 22, 1936, certain changes are necessary in a number of Form E pages for use during the first half of the current year. As it did not appear to be desirable to reprint these Form E pages at this time, we are inclosing a set of the January, 1935, edition of the form on which the changes have been indicated. It is requested that the forms used by the head office and branches of your bank, if any, in submitting reports for the first six months of this year be amended correspondingly, except that Item 4-e on page 6 in the case of branch reports should be changed to read "Payment to head office account leased wire system expense".

It is also requested that the operation "Making count of words sent over leased wire system" be eliminated from page 83 of the Manual of Instructions Governing the Preparation of Functional Expense Reports and be inserted among operations of the General Service function, Telegraph unit, at the top of page 29 of the Manual.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Inclosures.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 27, 1936.
B-1160.

SUBJECT: Expenses of Leased Wire System.

Dear Sir:

Certain questions have been raised regarding the interpretation of the Board's letter of March 26, 1936, X-9534, "Expenses of Leased Wire System". For your information these questions, together with the answers thereto, are shown below:

Inquiry: Should the number and amount of salaries of all main line operators be reported on head office Form E only, and share of main line expenses chargeable to the branches be reported on branch Form E, as share of main line leased wire expense?

Answer: The number and amount of salaries of all main line operators should be reported on head office Form E. The branch share of main line expenses should be reported on branch Form E in the Telegraph unit, item e, which should be amended to read "Payment to head office account leased wire system expense".

Inquiry: Are we correct in our interpretation of X-9534 that salaries of clerical help should be reported opposite item 22 "Telegraph" on Form 96 and be confined to employees actually assisting regular operators in receiving and transmitting messages and counting words? If our understanding is correct, salaries of department heads, messengers and other employees, such as typists who prepare office copies of incoming messages, etc., chargeable to "General Service - Telegraph" on Form E would be reported on Form 96 in items 2 and 3 "Salaries - Clerical Employees" and "Salaries - Other Employees", respectively, as at present.

Answer: The only salaries to be included in item 22, "Tele-

graph" on Form 96 are those of telegraph and teletype operators. Salaries of other employees assigned to the Telegraph unit should be included in items 2 and 3 "Salaries - Clerical Employees" and "Salaries - Other Employees", respectively, on Form 96. There will be no changes necessary in the method of reporting salaries on Form E. Salaries of clerical help engaged in work on main line business, such as counting the number of words in messages, should, as stated on page 2 of the Board's letter of March 26, 1936, X-9534, be included in the amount reported to the Board as "Personal Services", in connection with the main line leased wire statement.

Inquiry: Should office boy's salary and contribution to Retirement System be distributed to head office bank functions in proportion to the number of words sent over the main line leased wires?

Answer: Office boys' salaries should be reported on Form E under "General Service - Telegraph" item b, "Salaries - All Other" and be included in the total expenses of the Telegraph unit, which is completely distributed. They should be included on Form 96 in item 3 "Salaries - Other employees" and in accordance with the second paragraph of the Board's letter, X-9534, of March 26, 1936, should not be included in expenses for personal services in connection with operation of the main line leased wires as reported monthly to the Board.

Inquiry: In the event the per word cost of main line messages exceeds the actual cost of branch line messages, should reimbursement be requested from Government Agencies for messages sent over branch lines on the basis of the main line per word cost?

Answer: Reimbursement should be requested from Government Agencies for messages sent over branch lines on the basis of the lesser of the main line per word cost or the actual branch line per word cost.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL PRESIDENTS