



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9636

1

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 2, 1936.

Dear Sir:

You will find inclosed, for your information, a copy of a letter received by the Board under date of June 18, 1936, from the Administrator of the Federal Housing Administration, and a copy of the Board's reply of June 22, 1936, with respect to the question whether loans insured under the provisions of the National Housing Act are eligible as collateral for advances by Federal reserve banks to their member banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL PRESIDENTS.

COPY

X-9636-a

FEDERAL HOUSING ADMINISTRATION
Washington

June 18, 1936

Honorable Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

In the absence of any specific ruling by the Board of Governors of the Federal Reserve System, there appears to be a question in the minds of some member banks as to whether mortgage loans and modernization loans insured under the provisions of the National Housing Act are eligible as collateral for advances by the Federal Reserve banks.

My attention has been called to the fact, however, that one of the Federal Reserve member banks has recently asked the Federal Reserve Bank of its district "on what basis loans would be granted when secured by Federal Housing Administration mortgage or modernization loans," and has received from the Federal Reserve Bank the following answer:

"Loans on the security of FHA Mortgage or Modernization loans are not considered in the same category as the direct obligations of the United States or the guaranteed obligations such as Home Owners Loan Corporation bonds, and for that reason would not be eligible as collateral to a member bank's fifteen day note at our regular rediscount rate.

"There is no reason, however, why they would not be considered under Section 10b, in which Section Federal Reserve Banks are authorized to make loans to member banks on any sound assets owned by the member banks. The Board of Governors has not yet issued its new Regulation A, but this is our interpretation of the Act."

Explaining its reasons for having sought to learn the attitude of its reserve bank with respect to loans insured by the Federal Housing Administrator, the member bank writes to me as follows:

"This bank is very much interested in having as much liquidity attached to FHA mortgage loans and modernization loans as possible. We are planning to acquire all loans under both titles we can find in our community as long as

-2-

X-9636-a

we have available funds. We are very much interested, however, in knowing these mortgages and notes would be readily acceptable at the Federal Reserve Bank as security for loans should we find it necessary to borrow."

The bank then makes the following suggestions with regard to the answer which it received from the Reserve Bank:

"Wouldn't it be possible for you to take this matter up with the Federal Reserve Board at Washington and procure from them a ruling that would be applicable to all Federal Reserve Banks? It is my opinion if you could obtain such a ruling, every banking institution in the United States would feel inclined to invest a larger portion of their surplus funds in these securities."

I realize that when most banks, as at present, have available a large surplus of funds for investment, there is no occasion for their having to apply to the Federal Reserve banks for advances against loans insured by the Federal Housing Administration. Nevertheless, it would be helpful, I believe, if a formal ruling could be had from the Board of Governors as to whether the Federal Reserve Bank whose letter I have quoted has, in the opinion of the Board, correctly interpreted Section 10(b) of the Federal Reserve Act, as amended by the Banking Act of 1935, insofar as it may be construed to apply to loans insured under the provisions of the National Housing Act.

I shall appreciate your considering this matter with a view to obtaining a ruling on these questions if it is agreeable to the Board to make one at this time.

Very sincerely yours,

(Signed) Stewart McDonald

Stewart McDonald
Administrator

X-9636-b

June 22, 1936.

Dear Mr. McDonald:

Pursuant to your letter of June 18, 1936, regarding the status under Section 10(b) of the Federal Reserve Act of loans insured under the provisions of the National Housing Act, I have brought to the attention of the Board your request for an expression of the Board's views on the letter recently written by one of the Federal Reserve banks to a member bank which had inquired "on what basis loans would be granted when secured by Federal Housing Administration mortgage or modernization loans."

The Board notes that the answer of the Federal Reserve Bank which you have quoted is as follows:

"Loans on the security of FHA Mortgage or Modernization Loans are not considered in the same category as the direct obligations of the United States or the guaranteed obligations such as Home Owners Loan Corporation bonds, and for that reason would not be eligible as collateral to a member bank's fifteen day note at our regular rediscount rate.

"There is no reason, however, why they would not be considered under Section 10b, in which Section Federal Reserve Banks are authorized to make loans to member banks on any sound assets owned by the member banks. The Board of Governors has not yet issued its new Regulation A, but this is our interpretation of the Act."

Section 10(b) of the Federal Reserve Act as amended on August 23, 1935, reads as follows:

"Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

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X-9636-b

Any advance under this section must be secured to the satisfaction of the Federal Reserve bank, but there is no other limitation on the character of security which may be used for such an advance. Accordingly, it is the opinion of the Board that a Federal Reserve bank is authorized to make advances to a member bank under section 10(b) of the Federal Reserve Act upon the security of modernization loans insured under Title I of the National Housing Act or mortgage loans insured under Title II of the National Housing Act if such security is satisfactory to the reserve bank.

Of course the question whether such loans would in particular cases constitute acceptable security must be determined by the Federal Reserve banks as and when requests for such advances are received from the member banks, but, if satisfactory, the Federal Reserve banks are at liberty to make advances to member banks upon any such security in accordance with the provisions of section 10(b) of the Federal Reserve Act.

With kind regards, I am

Sincerely yours,

(Signed) Marriner S. Eccles

M. S. Eccles
Chairman.

Honorable Stewart McDonald
Federal Housing Administrator
Washington, D. C.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9637

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 3, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

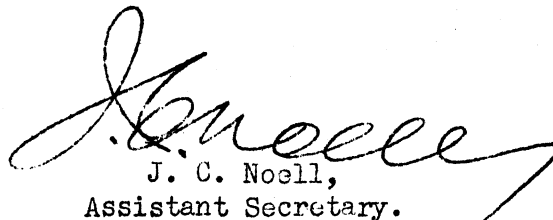
Dear Sir:

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:

"NOYOWL" - Treasury Bills to be
dated July 8, 1936, and
to mature April 7, 1937.

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


July 3, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Attached hereto for your information is a copy of the Board's letter of June 23, 1936, to Mr. H. F. Strater, Secretary of the Conference of Presidents, advising him of the Board's action on the resolutions in regard to shipment of currency and coin to nonmember banks adopted by the Governors' Conference of October 23, 1935.

Very truly yours,


L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL PRESIDENTS

X-9638-a

June 23, 1936.

Mr. H. F. Strater, Secretary
Conference of Presidents
Federal Reserve Bank of Cleveland
Cleveland, Ohio

Dear Mr. Strater:

Reference is made to your letter of June 3 inclosing a copy of a letter received from Mr. O. M. Attebery, First Vice President of the Federal Reserve Bank of St. Louis. You request advice as to whether the action of the Governors' Conference of October 23, 1935, on the recommendation in regard to shipments of currency and coin to nonmember banks within the Federal Reserve district and to adjacent points beyond district limits, meets with the approval of the Board of Governors of the Federal Reserve System.

The resolutions in regard to the shipment of currency and coin to nonmember banks adopted by the Governors' Conference of October 23, 1935, as quoted below, have been noted by the Board with approval.

"VOTED that this is a reasonable service to extend to nonmember banks within the district, provided the shipment is ordered by a member bank from its Federal Reserve bank; and, provided, further, that the shipping charges are reimbursed to the Federal Reserve bank.

"VOTED that there is no objection to performing the same service, upon the same basis, for nonmember banks in adjoining districts at the request of a member bank to its Federal Reserve bank, provided the nonmember bank is located in a city or town adjacent to the district boundary; and, provided, that such a service may be performed more expeditiously and conveniently than would be the case if it were initiated by a member bank in the adjoining district."

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9639

INTERPRETATIONBANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

July 3, 1936.

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

Dear Mr. O'Connor:

This refers to Deputy Comptroller Lyons' letter of June 17, 1936, inquiring whether the \$2500 exemption contained in section 22(g) of the Federal Reserve Act and section 3 of the Board's Regulation O applies to a partnership in which an executive officer of a member bank has a majority interest.

Section 22(g) provides that "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". The only prohibition contained in section 22(g) is that "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". There are certain exceptions to this prohibition, one of which is "that with the prior approval of a majority of the entire board of directors, any member bank may extend credit to any executive officer thereof,

and such officer may become indebted thereto, in an amount not exceeding \$2500".

It will be noted that this exception, by its terms, is not applicable to partnerships of the kind described. However, since it was not the purpose of the law to prevent an executive officer to become indebted to his member bank to the extent of \$2500, under the conditions prescribed, there would seem to be no purpose of the law to prevent such a partnership from doing likewise. Moreover, in some circumstances, the executive officers of a member bank may find it desirable for an obligation not in excess of \$2500 to be in the nature of a partnership obligation rather than of the individual executive officer's. As you know, under the usual principles of law applicable to partnerships each partner is individually liable for the debts of the partnership, and under the Board's authority to prescribe such regulations "as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes", section 3 of the regulation has been drafted so as to permit a partnership of the kind described to borrow from a member bank, provided that, as a result of such borrowing, an executive officer of the member bank does not become indebted to such bank in an amount in excess of \$2500.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9640

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 7, 1936.

SUBJECT: Collection of Liquor Drafts
in Interstate Shipments.

Dear Sir:

Referring to the Board's letter of June 21, 1935 (X-9240) and previous correspondence regarding the collection of liquor drafts in interstate shipments, there are inclosed herewith for your information and that of your counsel copies of an Act of Congress approved June 25, 1936, which contains an amendment to section 239 of the Criminal Code, which, in effect, limits the scope of such section to shipments of liquor into dry territory.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9641

12

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1936.

Dear Sir:

Regulations governing the hours of employment at the Bureau of Engraving and Printing have been modified so as to provide for a 5-day week, from Monday to Friday, both inclusive, and accordingly no shipments of Federal reserve currency will be made from Washington to the Federal reserve banks on Saturdays. Since United States notes and silver certificates are shipped from the Treasury building instead of from the Bureau of Engraving and Printing, shipments of such currency will continue to be made on Saturdays as heretofore.

Very truly yours,

A handwritten signature in cursive script, reading "Chester Morrill", is positioned above the typed name.

Chester Morrill,
Secretary.

TO ALL CHAIRMEN.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9642

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1936.

Dear Sir:

There are enclosed herewith
copies of statement rendered by the
Bureau of Engraving and Printing,
covering the cost of preparing Fed-
eral reserve notes for the month of
June, 1936.

Very truly yours,

A handwritten signature in cursive script, reading "O. E. Foulk", is written over the typed name.

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. PRESIDENTS.

X-9642-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
June 1 to 30, 1936.

Federal Reserve Notes, Series 1934.

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	70,000	89,000	40,000	17,000	10,000	226,000	\$ 19,436.00
New York,	160,000	403,000	15,000	-	-	578,000	49,708.00
Philadelphia,	-	83,000	26,000	30,000	12,000	151,000	12,986.00
Cleveland,	-	-	30,000	-	-	30,000	2,580.00
Richmond,	-	73,000	55,000	-	-	128,000	11,008.00
Atlanta,	30,000	-	-	-	-	30,000	2,580.00
Chicago,	120,000	263,000	-	-	-	383,000	32,938.00
St. Louis,	-	20,000	8,000	-	-	28,000	2,408.00
Minneapolis,	27,000	-	-	-	-	27,000	2,322.00
Kansas City,	-	-	6,000	-	-	6,000	516.00
San Francisco,	78,000	62,000	-	-	-	140,000	12,040.00
	<u>485,000</u>	<u>993,000</u>	<u>180,000</u>	<u>47,000</u>	<u>22,000</u>	<u>1,727,000</u>	<u>\$148,522.00</u>

1,727,000 sheets @ \$86.00 per M,..... \$148,522.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Thursday, July 9, 1936.

July 8, 1936.

The Board of Governors of the Federal Reserve System
today announced the following appointments:

Robert E. Wood, appointed Class C director of the Federal Reserve Bank of Chicago for the unexpired portion of the term ending December 31, 1938, and Deputy Chairman for the remainder of this calendar year.

Frank J. Lewis, appointed Class C director of the Federal Reserve Bank of Chicago for the unexpired portion of the term ending December 31, 1937.

Walton N. Moore, at present a Class C director and Deputy Chairman, designated as Chairman of the Board of Directors of the Federal Reserve Bank of San Francisco and as Federal Reserve Agent at San Francisco for the remainder of this calendar year.

Ashby O. Stewart, appointed Class C director of the Federal Reserve Bank of San Francisco for the unexpired portion of the term ending December 31, 1938, and as Deputy Chairman for the remainder of this calendar year.

Note for the Press: Biographies of Wood, Stewart and Moore are in Who's Who. Mr. Lewis, of 105 West Adams Street, Chicago, was formerly president of the F. J. Lewis Manufacturing Co., and since his retirement from active business has devoted himself to civic and philanthropic activities.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9644

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 8, 1936.

SUBJECT: Advances under Section 10(b) of the Federal Reserve Act to Member Banks Which Have Not Exhausted Their Eligible Paper.

Dear Sir:

The question has been raised as to whether a Federal Reserve bank may lawfully make an advance under section 10(b) of the Federal Reserve Act to a member bank which at the time has in its portfolio paper eligible for rediscount or as security for advances from a Federal Reserve bank under other provisions of the Federal Reserve Act.

Section 10(b) of the Federal Reserve Act, as it previously existed, authorized advances by a Federal Reserve bank in exceptional and exigent circumstances to any member bank having no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal Reserve bank or other method provided by the Federal Reserve Act. No such limitation on the authority to make advances under section 10(b), however, is contained in the section as it was amended by the Banking Act of 1935 and the legislative history of the section and of the Banking Act of 1935 shows that it was not intended by Congress that a member bank must have exhausted its eligible paper in order to receive an advance from the Federal Reserve bank under the provisions of the section.

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X-9644

In the opinion of the Board, therefore, a Federal Reserve bank may lawfully make an advance in accordance with the provisions of section 10(b) of the Federal Reserve Act to a member bank which has assets eligible for rediscount or as security for advances from a Federal Reserve bank under other provisions of the Federal Reserve Act. Moreover, such eligible assets may be used as security for an advance under section 10(b) of the Federal Reserve Act, if this should be desired for any reason and the security is satisfactory to the Federal Reserve bank.

However, as you know, the question in any case whether advances should be made by a Federal Reserve bank is one for the determination of such bank as and when applications for such advances are received, and the further question of whether advances should be made by a Federal Reserve bank under section 10(b) when the borrowing member bank has paper which is eligible for rediscount or as security under other provisions of the Federal Reserve Act is a matter for the determination of the Federal Reserve bank in the light of the circumstances existing in each particular case.

Very truly yours,



Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9645

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 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:

"NOYOZY" - Treasury Bills to be
dated July 15, 1936, and
to mature April 14, 1937.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Noell", with a long, sweeping flourish extending to the right.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9646



July 10, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

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 June, 1936.

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,

A handwritten signature in dark ink, appearing to read "O. E. Foulk", written in a cursive style.

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 JUNE, 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	51,112	1,759	52,871	\$ 319.37	\$ --	\$ 319.37	\$ 640.57	\$ 319.37	\$ 321.20
New York	165,299	--	165,299	1,333.74	--	1,333.74	2,002.73	1,333.74	668.99
Philadelphia	48,013	2,086	50,099	236.39	--	236.39	606.99	236.39	370.60
Cleveland	68,690	1,453	70,143	374.14	--	374.14	849.84	374.14	475.70
Richmond	79,480	1,443	80,923	264.92	230.00	494.92	980.45	494.92	485.53
Atlanta	99,371	1,481	100,852	275.76	--	275.76	1,221.90	275.76	946.14
Chicago	120,208	2,742	122,950	1,667.08	--	1,667.08	1,489.64	1,667.08	177.44(a)
St. Louis	112,132	2,208	114,340	184.91	--	184.91	1,385.32	184.91	1,200.41
Minneapolis	42,713	2,435	45,148	222.19	--	222.19	547.00	222.19	324.81
Kansas City	99,650	2,404	102,054	259.43	--	259.43	1,236.46	259.43	977.03
Dallas	84,175	2,014	86,189	267.55	--	267.55	1,044.25	267.55	776.70
San Francisco	132,582	1,573	134,155	557.76	--	557.76	1,625.39	557.76	1,067.63
Board of Governors	837,228	--	837,228	2,573.12	15,007.85	17,580.97	10,143.67	17,580.97	--
Total	1,940,653	21,598	1,962,251	\$8,536.36	\$15,237.85	\$23,774.21	\$23,774.21	\$23,774.21	\$7,614.74
									177.44(a)
									\$7,437.30

- (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 (\$.012115784) for business handled during the month.
- (*) Credit.
- (a) Amount reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9647



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1936.

SUBJECT: Cooperation with the Federal Deposit Insurance Corporation in Connection with the Applications of Insured Nonmember Banks for Membership in the System.

Dear Sir:

The Board has been informed that in a number of instances State nonmember banks have been insured by the Federal Deposit Insurance Corporation subject to certain conditions to be complied with at a subsequent date. Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, has advised the Board that the Corporation will be glad to furnish the Federal reserve banks upon request information regarding conditions imposed by the Federal Deposit Insurance Corporation precedent to the extension of Federal deposit insurance which have not been complied with by an insured bank applying for membership in the System. In addition to prescribing conditions in connection with extension of deposit insurance to some banks, the Federal Deposit Insurance Corporation, as you know, has been endeavoring in other cases to obtain corrections of various matters or the adoption of a program for strengthening a given situation.

It is reported that in some instances insured nonmember banks may have endeavored to seek or are contemplating seeking admission to

membership in the System with the hope of avoiding either compliance with conditions prescribed by the Federal Deposit Insurance Corporation in connection with the granting of insurance or completion of programs urged by the Federal Deposit Insurance Corporation for strengthening the situation.

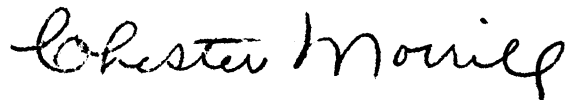
While the responsibility of determining whether the condition of a nonmember State bank is such as to justify admission to membership rests with the Federal reserve banks and the Board of Governors, and there is no intention or desire to escape such responsibility, nevertheless, it is most desirable that the Federal Deposit Insurance Corporation, on the one hand, and the Federal reserve banks and Board of Governors, on the other, supplement each other's efforts in the interests of a sound banking system, and that the respective agencies not be placed in a position of appearing to work at cross purposes. In particular, it is believed that a situation should not be permitted to develop where nonmember banks will seek admission to the System in order to escape their obligations to the Federal Deposit Insurance Corporation or to avoid reasonable requests of that Corporation made to promote sound banking.

It is requested, therefore, that, in connection with each application of an insured nonmember bank for membership in the System, representatives of the Reserve bank communicate with the supervising examiner of the Federal Deposit Insurance Corporation in the district where the applicant bank is located for the purpose of determining whether the applicant is subject to any conditions imposed by the Federal Deposit

Insurance Corporation which have not been complied with and whether the Federal Deposit Insurance Corporation is endeavoring to obtain corrections or adoption of a program for strengthening the bank's condition. In case an applicant has not complied with the conditions imposed by the Federal Deposit Insurance Corporation or the Corporation has been unable to obtain the major corrections which it considers necessary, the Board should be fully advised of all of the facts in connection therewith when the bank's application is forwarded to the Board.

It is suggested, also, that it would prove helpful if the representatives of the Reserve bank, before seriously discussing with an insured nonmember bank the filing of an application for membership, obtain from the Federal Deposit Insurance Corporation's supervising examiner information regarding any conditions imposed by the Corporation upon the bank and any corrective measures the Corporation is endeavoring to obtain.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9648



July 13, 1936

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Guarantor, Lessor, or Majority Stockholder
as "Obligor or Maker" within Section 5136
of Revised Statutes.

Dear Sir:

There are inclosed herewith for your information copies of the following:

1. Letter dated May 6, 1936, and inclosures, from the Assistant Federal Reserve Agent at Cleveland to the Board.
2. Letter dated May 29, 1936, from the Deputy Comptroller of the Currency to the Board.
3. Letter dated July 13, 1936, from the Board to the Assistant Federal Reserve Agent at Cleveland.

These letters relate to the question whether, under the provision of section 5136 of the Revised Statutes which states that the total amount of the investment securities of any one obligor or maker, held by a bank for its own account, shall not exceed at any time 10 per cent of the bank's capital and surplus, the words "obligor or maker" include, in addition to a corporation primarily liable on an obligation, another corporation which has guaranteed such obligation, a parent corporation, or a lessor corporation.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS

C
O
P
Y

FEDERAL RESERVE BANK OF CLEVELAND

X-9648-a

May 6, 1936.

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

Gentlemen:

Enclosed with this letter you will find copies of correspondence between this office and that of our counsel relating to the question whether bonds of affiliated or subsidiary companies, in some instances guaranteed both as to principal and interest, should be included with obligations of the parent company or the guarantor in determining the maximum amount of securities of one obligor or maker which member banks may lawfully purchase under section 5136 of the Revised Statutes, as amended by the Banking Act of 1935.

It is noted in this connection that section 5200 provides that the ten per cent limitation prescribed therein shall include, in the case of a corporation, all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest. Section 5136 contains no such provision.

The question was raised with counsel because of what appears to be a difference in practice between the examiners of this office and examiners representing the Comptroller of the Currency. It has not been our custom to include with bonds on which an obligor is primarily liable, bonds of subsidiary or affiliated companies, or bonds of other corporations guaranteed as to principal or interest by the corporation whose line was being considered. In a recent report of examination of a national bank in this district, whose authority to purchase the bonds of one obligor or maker is limited to \$18,000, the examiner classes as unlawfully acquired \$10,000 of Pennsylvania Company 4% bonds of 1963, because the bank already held \$10,000 Pennsylvania RR 4's of 1960. The Pennsylvania Company is a wholly owned subsidiary of the Pennsylvania RR Company.

In view of the fact that the terms of section 5136 are applicable uniformly to national and State banks, the question is referred to the Board of Governors of the Federal Reserve System for whatever consideration it may deem appropriate.

Very truly yours,

/s/ Howard Evans,
Assistant Federal Reserve Agent

C
O
P
Y

SQUIRE, SANDERS & DEMPSEY

Counsellors at Law

X-9648-a

Cleveland, Ohio.

May 4, 1936

Mr. J. B. Anderson,
Assistant Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Anderson:

We have given consideration to the questions raised in your letter of April 10th and beg to advise as follows:

Your first inquiry raises the question as to whether the term "obligor" in section 5136 of the Revised Statutes would extend to corporations other than the issuer in cases where affiliate or subsidiary relations are maintained, and also whether issues which are guaranteed by a company other than the issuer would be included in determining the percentage of securities issued by the guarantor which might be held by national banking associations.

The statute uses the term "investment securities of any one obligor or maker". We believe the answer to your question is determined by the meaning to be ascribed to the term "obligor". The dictionary definition of this term is:

"One who binds himself, or gives his bond to another; one who places himself under a legal obligation." (Webster's New International Dictionary).

In 46 Corpus Juris 851, the term "obligor" is defined as follows:

"In its more technical sense (obligor means) the maker of a bond or writing obligatory; in its more general sense it designates persons obligated, in whatever manner it may be, to the doing or forbearing of an act".

As Congress was dealing with securities, it seems reasonable to assume that the term "obligor" was used in its technical, rather than its general sense, and that consequently it was not intended to comprehend such relationships to the security as guarantors. The obligation or debt evidenced by a corporation bond is that of the maker and not of the guarantor, if there be one. A maker's promise is to meet or pay his own obligation when due, while the guarantor's promise

is always to pay the debt of another. In other words, the guarantor is the insurer of the solvency of the maker or debtor, and is secondarily liable. See Daniels Negotiable Instruments, 6th Edition, Section 1753. Consequently, the maker and not the guarantor is the obligor on a promissory note or bond of indebtedness. It follows, therefore, that a guarantor is not an obligor within the meaning of section 5136 and that the investment securities of a guaranteeing corporation are not included in determining whether a bank's holdings of investment securities of the maker corporation are in excess of the 10% limitation prescribed in this section, or vice versa, that the investment securities of the guarantor held by the bank include those of the maker whose securities it has guaranteed. In other words, we believe that it was the intention of this provision to cover only investment securities upon which a corporation was obligated as a "maker" as distinguished from the case of a corporation which might be conditionally obligated as a guarantor.

Having reached this conclusion with respect to guaranteed obligations, it necessarily follows that the obligations of an affiliate or subsidiary would not be included as investment securities of the parent, or vice versa, that obligations of the parent would not be included as investment securities of the subsidiary in determining the application of this section. The latter conclusion is further warranted because the parent and its subsidiary or affiliate companies are separate and distinct corporate entities, neither one of which is obligated upon the securities of the other in the absence of a contract to that effect.

The second question raised in your letter relates to investment holdings of State member banks. You list five different issues which have been guaranteed either as to interest or as to both principal and interest by a corporation other than the issuer.

Unless the obligation has been assumed by the so-called "guarantor" so as to make it primarily liable, it is our opinion that the investment security represented by the obligation of the maker would not be included in computing the investment securities of the guarantor held by the member bank.

As the first question raised by you relates primarily to investment securities which may be held by national banking associations, and as a uniform application of section 5136 should be made with respect to both national banking associations and State member banks, we would suggest the advisability of referring this matter to the Board with the view of possibly securing an interpretation by the Comptroller of the Currency.

Very truly yours,

(signed) SQUIRE, SANDERS & DEMPSEY

C
O
P
Y

FEDERAL RESERVE BANK OF CLEVELAND

X-9648-a

April 10, 1936

Squire, Sanders & Dempsey,
Union Trust Building,
Cleveland, Ohio.

ATTENTION: Mr. Paul Holden

Dear Mr. Holden:

Section 5136 of the Revised Statutes, as amended by the Banking Act of 1935, provides in part as follows:

"In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, * * * * ."

There has been presented to us for determination the question whether the term "obligor" would extend to corporations other than the issuer in cases where affiliate or subsidiary relationships are maintained and more particularly in cases where issues are guaranteed by companies other than the issuer.

With respect to investment holdings of State member banks, should the following described securities be considered as part of the "investment securities of any one obligor or maker" in the situations cited below:

- (1) Central Pacific Ry. Co. 1st Ref 4's 1949
This issue is guaranteed as to principal and interest by the Southern Pacific Company.
- (2) El Paso & Southwestern RR Co. 1st Ref 5's 1965
This issue is not guaranteed, but the road is operated under lease by the Southern Pacific Company.
- (3) St. Louis Southwestern Ry. Co. 1st 4's 1989
This obligation is not guaranteed either as to principal or interest by the Southern Pacific Company, although it has a controlling interest in the road.
- (4) Chicago, Indiana & Southern RR 1st 4's 1956
This issue is guaranteed as to principal and interest by the Lake Shore & Michigan Southern Ry., which guarantee has been assumed by the New York Central RR., parent company.

Squire, Sanders & Dempsey

- 2 -

X-9648-a

- (5) Peoria & Eastern RR 1st Cons. 4's 1940
This obligation is guaranteed as to interest by
the Cleveland, Cincinnati, Chicago & St. Louis Ry.,
of which control is held by the New York Central
RR.

It seems to me that obligations cited in cases (2), (3),
and (5) may scarcely be considered as obligations of the Southern
Pacific Company and the New York Central RR Company, respectively.
Case (1), in which the Southern Pacific Company appears to be
legally bound to pay both principal and interest in the event of
default by the issuer, and case (4), in which the New York Central
RR Company has assumed the guarantee of a subsidiary company, would
appear to present legitimate questions as to whether such issues
should be included with the direct issues of the Southern Pacific
Company and the New York Central RR Company in determining the max-
imum amount of investment securities of those two companies which
may lawfully be acquired by a State member bank.

Very truly yours,

(signed) J. B. ANDERSON

Assistant Federal Reserve Agent

C
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TREASURY DEPARTMENT

X-9648-b

COMPTROLLER OF THE CURRENCY
WASHINGTON, D. C.

May 29, 1936

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

Dear Sirs :

This acknowledges yours of May 25, enclosing copy of a letter dated May 6, 1936, received by you from the Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland with copies of enclosures to that letter, all relating to interpretation of Section 5136 of the Revised Statutes of the United States.

The particular provision of the statute with respect to which an expression of our views is requested reads as follows:

"In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and ten per centum of its unimpaired surplus fund."

In connection with this provision of the statute there should also be taken into consideration the statutory definition of investment securities, reading as follows:

"As used in this section the term 'investment securities' shall mean marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes, and/or debentures, commonly known as investment securities, under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency."

Five illustrative examples are submitted for opinion as to whether or not a bank which holds its limit of the securities issued by one particular obligor is prohibited from investing in securities of another issuer or obligor by reason of certain relationships between the two issuers. The examples submitted are

as follows:

- (1) Central Pacific Ry. Co. 1st Ref 4's 1949, guaranteed as to principal and interest by the Southern Pacific Company.

It is our opinion that where the bank holds its limit in securities of the Central Pacific Ry. Co., it may not purchase securities of the Southern Pacific Company, and vice versa.

- (2) El Paso & Southwestern R.R.Co. 1st Ref 5's 1965. This issue is not guaranteed, but the road is operated under lease by the Southern Pacific Company.

In our opinion the relationship indicated does not operate to prohibit the bank from investing up to its limit in the securities of each Company.

- (3) St. Louis Southwestern Ry. Co. 1st 4's 1989. This obligation is not guaranteed either as to principal or interest by the Southern Pacific Company, although it has a controlling interest in the road.

In our opinion the relationship indicated does not operate to prohibit the bank from investing up to its limit in the securities of each Company.

- (4) Chicago, Indiana & Southern RR 1st 4's 1956. This issue is guaranteed as to principal and interest by the Lake Shore & Michigan Southern Ry. which guarantee has been assumed by the New York Central R.R., parent company.

In our opinion where the bank holds its ten per cent limit in Chicago, Indiana & Southern RR 1st 4's, it is prohibited from purchasing securities issued by either the Lake Shore & Michigan Southern Ry. or by the New York Central RR.

- (5) Peoria & Eastern RR 1st Cons. 4's 1940. This obligation is guaranteed as to interest by the Cleveland, Cincinnati, Chicago & St. Louis Ry. of which control is held by the New York Central RR.

In our opinion where the bank holds its limit in Peoria & Eastern RR 1st Cons. 4's, it may not purchase obligations of the Cleveland, Cincinnati, Chicago & St. Louis Ry., but is not prevented from purchasing obligations of the New York Central RR.

We have adopted this position as reflecting the spirit of the provisions of Section 5136, which are evidently aimed at requiring certain diversification of investment and limitation of risk on the part of the banks. We believe it is clear that where one corporation has assumed and agreed to pay the obligations of another, such obligation when held by the bank in fact represents the obligation of both corporations. It may be conceded that the situation is not so clear where one corporation has merely guaranteed the obligations of the other corporation and that there may be some question as to whether or not one who holds the obligations of a corporation which are guaranteed by a second corporation is, strictly speaking, holding obligations of both corporations. However, such guarantees are customarily given because deemed essential to the ready marketability of the obligations in question, and such obligations are frequently purchased with considerable reliance on the responsibility of the guarantor. Where a bank invests up to its ten per cent limit in such guaranteed obligations and makes a ten per cent additional investment in other obligations of the guarantor, then when, as may very well happen, with the maturity of the guaranteed obligations, the bank must look to the guarantor for payment, the bank at that time will be in the position of holding securities for which a single obligor must then respond by way of payment, the total of which securities will at that time be twice the amount of obligations of a single obligor permitted to be held under the statute.

We do not believe, however, that the foregoing reasoning should be extended or that the language of the statute permits its extension to the length of requiring application of this rule to issues of corporations which merely have interlocking relationships or affiliations.

Very truly yours,

(signed) GIBBS LYONS

Gibbs Lyons,
Deputy Comptroller

X-9648-c

July 13, 1936.

Mr. Howard Evans,
Assistant Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Evans:

This refers to your letter of May 6, 1936, and inclosures, presenting the question whether, under the provision of section 5136 of the Revised Statutes which states that the total amount of the investment securities of any one obligor or maker, held by a bank for its own account, shall not exceed at any time 10 per cent of the bank's capital and surplus, the words "obligor or maker" include, in addition to a corporation primarily liable on an obligation, another corporation which has guaranteed such obligation, a parent corporation, or a lessor corporation.

Copies of your letter and its inclosures were submitted to the Comptroller of the Currency for an expression of his views thereon, and a copy of his reply is inclosed herewith.

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

July 13, 1936

X-9649

SUBJECT: Effect of Social Security
Act upon National Banks.

Dear Sir:

There are inclosed herewith for your information and that of your counsel two copies of a letter addressed by the Commissioner of Internal Revenue to the Comptroller of the Currency under date of July 8, 1936, expressing the opinion of the Bureau of Internal Revenue that national banks are instrumentalities of the United States within the meaning of the provisions of the Social Security Act and that neither the banks nor their employees are subject to the taxes imposed by the Act.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosures

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C
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TREASURY DEPARTMENT
WASHINGTON

X-9649-a

July 8, 1936

Office of
Commissioner of Internal Revenue

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

Sir:

Further reference is made to your letter of March 17, 1936, requesting an expression of the views of this Bureau as to whether a national bank will be considered an instrumentality of the United States within the meaning of sections 210(b) (5), 811(b) (6) and 907(c) (5) of the Social Security Act. The sections read as follows:

"The term 'employment' means any service, of whatever nature, performed within the United States by an employee for his employer, except -

* * * * *

"Service performed in the employ of the United States Government, or of an instrumentality of the United States;".

The language of the statute applies in its terms to all employees of the United States Government and of all instrumentalities thereof, and there is nothing in the act to indicate an intention to limit its application to employees engaged in activities of an essentially governmental nature. A contrary intention is indicated by the fact that sections 811(b) (7) and 907(c) (6) as they appeared in the bill for the Act as submitted to the House Ways and Means Committee contained the additional clause "in the course of the exercise of an essential governmental function", and that such clause was deleted before the bill was enacted. Moreover, since the same exemption is given with respect to employees of the United States Government and its instrumentalities as is given with respect to employees of a State or its instrumentalities, it is indicated that there was no intention to grant the exemption to merely such employments as were protected by the constitutional limitation against taxation.

- 2 -

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

X-9649-a

In *Davis v. Elmira Savings Bank* (161 U. S. 283), it is stated, following *McCulloch v. Maryland* (4 Wheat. 316), that:

"National banks are instrumentalities of the Federal Government, created for a public purpose, and as such necessarily subject to the paramount authority of the United States."

The conclusion is based on the fact that such banks are required "for the fiscal operations of the Government." As stated by Chief Justice Marshall in *McCulloch v. Maryland*, supra, the bank is "employed with other means to carry into execution the powers of the government."

There is no indication that Congress intended, in the Social Security Act, to use the term "instrumentality" of government in any different sense than it has been used by the Supreme Court. On the contrary, in the Congressional Record for June 18, 1935, page 9920, appears a statement of Senator Harrison that employees of national banks and of banks which are a part of the Federal Reserve System are exempt.

It is, therefore, the opinion of this Bureau that national banks are instrumentalities of the United States within the meaning of the above-quoted provisions of the Social Security Act, and that neither the banks nor their employees are subject to the taxes imposed by the Act.

Respectfully,

(Signed) Guy T. Helvering.

Commissioner.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9650



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 17, 1936.

Dear Sir:

There is inclosed, for your information, a copy of a letter written, under date of July 17, 1936, to Mr. J. N. Peyton, President, Federal Reserve Bank of Minneapolis, in reply to his letter of July 7, a copy of which it is understood has already been furnished you by Mr. Peyton, with respect to Circular No. 424 relating to non-cash collections, recently issued by that bank.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS EXCEPT AT MINNEAPOLIS

X-9650-a

July 17, 1936.

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

Dear Mr. Peyton:

Reference is made to your letter of July 7 in reply to the Board's letter of July 2 in regard to the suggestion of the recent conference of Presidents that your bank might wish to recall its Circular #424 until such time as the Presidents had had an opportunity to consider the forthcoming report of the committee on free services.

In view of the circumstances as set forth in your letter, and particularly of the saving in expense under your present procedure and of the fact that no complaints have been received by your bank, the Board will interpose no objection to the continuance of the procedure outlined in your Circular #424 until the matter has received further consideration by the conference of Presidents and by the committee on free services.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9651

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 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:

"NOYPAL" - Treasury Bills to be
dated July 22, 1936, and
to mature April 21, 1937.

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

Very truly yours,

A large, stylized cursive signature of S. R. Carpenter, written in dark ink. The signature is fluid and extends across the width of the block.

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



July 20, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Reference is made to the Board's letter of May 2, 1932, and to its telegrams of March 2, 1933, and April 29, 1933, with respect to the amounts of Government securities that may be pledged by the Federal reserve banks with the Federal reserve agents as collateral security for Federal reserve notes.

For some time the amount of Government securities pledged by the Federal reserve banks with the Federal reserve agents as collateral security for Federal reserve notes has been comparatively small and it is believed that it is no longer necessary to limit by a fixed formula the amount of Government securities that may be so pledged by a given Federal reserve bank.

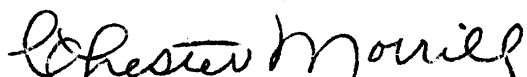
Accordingly, beginning August 1, 1936, you are authorized to pledge with the Federal reserve agent, and the Federal reserve agent is authorized to receive, United States Government obligations as collateral security for Federal reserve notes in such amounts as may be reasonably necessary to avoid frequent interchanges of United

-2-

X-9652

States Government obligations and gold certificates as collateral security for Federal reserve notes.

Very truly yours,

A handwritten signature in cursive script, reading "Chester Morrill". The signature is written in dark ink and is positioned below the typed name.

Chester Morrill,
Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9653



July 20, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

There is attached, for the information of your bank, a copy of a letter addressed to the Federal Reserve Agent at Minneapolis under date of July 13, 1936, with respect to the question whether deposits of certain organizations may be classified by member banks as savings deposits under the provisions of Regulation Q "Payment of Interest on Deposits".

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL PRESIDENTS

X-9653-a

July 13, 1936.

Mr. W. B. Geery,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Geery:

This refers to your letter dated June 12, 1936, with which was inclosed a copy of a letter from the Vice President and General Counsel of the _____ National Bank and Trust Company, _____, presenting the question whether deposits of certain organizations may be classified by member banks as savings deposits under the provisions of section 1(e) of Regulation Q.

It is the view of the Board that deposits of business groups, such as the Rotary Club and Kiwanis Club, and of professional associations, such as bar associations, medical associations, and dentists associations, may not be classified by member banks as savings deposits because such organizations are not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes within the meaning of section 1(e) of Regulation Q. Likewise, deposits of luncheon or dinner clubs, the primary purpose of which is social, may not be classified by member banks as savings deposits because they are not operated primarily for the purposes stated above. All of the above rulings are based upon the fact that the organizations are not operated primarily for the purposes stated in section 1(e) of Regulation Q and are made

without regard to the question whether or not the organizations are operated for profit.

The question is also presented as to whether deposits of mutual benefit clubs or societies may be classified as savings deposits. These clubs and societies are described as follows:

"They include such organizations as _____ Police Benevolent Association, which has established a fund to take care of the families of deceased members, said fund being made up of contributions by the members and proceeds derived from annual policemen's balls and other entertainment. Another example is an association made up of all of the maintenance of way employees of a certain large railway company, each of whom contributes to a fund which is used to take care of members in distress and matters of that kind."

Although it is believed to be undesirable to make a ruling applicable to all mutual benefit clubs and societies without examining the facts of each particular case, it is the view of the Board that organizations of the kinds described in the above-quoted paragraph may be considered as organizations operated primarily for the purposes stated in section 1(e) of Regulation Q and that deposits of such organizations may be classified by member banks as savings deposits if they meet the other requirements of the regulation.

With respect to publications of professional associations, such as the _____ Law Review, it is believed that the ruling published at page 119 of the Federal Reserve Bulletin for February, 1936, provides an answer to the question presented. In the published ruling, the Board stated that if the non-profit

- 3 -

X-9653-a

organizations in question 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. However, in view of the fact that the Board is not informed as to the organization which publishes the _____ Law Review, it is unable to express an opinion upon the question whether this deposit may be classified by a member bank as a savings deposit.

It will be appreciated if you will advise the _____ National Bank and Trust Company of the Board's views regarding the above matters.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

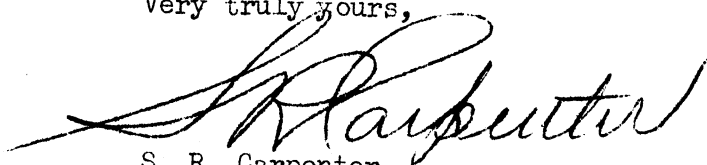
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 20, 1936

Dear Sir:

There is attached, for the information of your bank, a copy of a letter addressed to the Assistant Federal Reserve Agent at Richmond under date of July 2, 1936, with respect to the interpretation of subsection (b) of section 7 of the Board's Regulation F, "Trust Powers of National Banks".

Very truly yours,


S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL PRESIDENTS.

Copy

X-9654--a

July 2, 1936

Mr. J. G. Fry,
Assistant Federal Reserve Agent,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Fry:

This refers to your letter of June 8, 1936, inclosing a copy of a letter from Mr. _____, Vice President and Trust Officer, _____ National Bank, _____, _____, relating to subsection (b) of section 7 of the Board's Regulation F, revised effective June 1, 1936, which reads as follows:

"Record of pending litigation.--Every such national bank shall keep an adequate record of all litigation pending against it in connection with its administration of any trust."

The above provision is intended to apply only to litigation involving alleged negligence or misconduct of the bank for which the bank is answerable individually. While such provision does not apply to litigation involving the validity of a will or claims against an estate where there is no allegation of negligence or misconduct of the bank for which the bank is answerable individually, it is assumed that the bank will, of course, keep such records in that connection as will enable it properly to discharge its duties as a fiduciary.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9655



July 20, 1936

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

There is attached, for the information of your bank, a copy of a letter addressed to the cashier of a national bank in the Richmond district with respect to the application of Regulation U, "Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange", to loans made prior to May 1, 1936.

Very truly yours,

A handwritten signature in cursive script, reading "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL PRESIDENTS.

Copy

X-9655-a

June 26, 1936

Mr. _____, Cashier,
The _____ National Bank,
_____, _____.

Dear Sir:

Your letter of June 1, 1936, addressed to the Comptroller of the Currency, has been referred to this Board for reply.

Such regulations as are in effect concerning loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange are incorporated in the Board's Regulation U, a copy of which is inclosed herewith for your information.

You will observe that the regulation does not apply to loans made prior to May 1, 1936, even if the proceeds thereof were used for the purpose of purchasing or carrying registered stocks, nor to the collateral securing them unless it also secures another loan made on or after that date which is subject to the regulation. The loan to which you refer in your letter and its collateral appear to be in this category unless the situation is changed by the fact that when stock is sold the note is not reduced but the proceeds of the sale are used to purchase a cashier's check of the bank which in turn is pledged to secure the loan, and subsequently the cashier's check is used to buy stock registered on a national securities exchange. Under

-2-

such circumstances however, it would not appear that a new loan has been made for the designated purpose, and consequently the provisions of Regulation U do not apply.

In passing, it is noted that the particular customer to whom you refer buys and sells the stocks in your name and in this connection it is suggested that consideration be given to Section III(g) of the interpretative rulings of the Comptroller of the Currency made with respect to section 5136, U. S. R. S. These interpretative rulings were issued on February 15, 1936 and for your convenience a copy of them is also inclosed with this letter.

If you have any further questions regarding Regulation U it is believed that it will be more convenient for you to communicate first with the Federal Reserve Bank of Richmond, whose officers will be glad to answer your questions.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Y-9656



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 21, 1936

SUBJECT: Holidays during August, 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 the month of August:

Saturday, August 1	Denver	Colorado Day
Tuesday, August 4	St. Louis Kansas City	Primary Election Day
Thursday, August 6	Nashville Memphis	Primary Election Day
Wednesday, August 12	Havana Agency	Anniversary of Fall of Machado Government
Tuesday, August 25	San Francisco Los Angeles	Primary Election Day

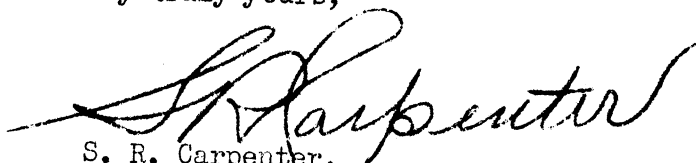
On the dates given the offices mentioned will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices affected on each of the holidays with your credits for the following business day. No debits covering Federal Reserve note shipments for account of the head offices concerned should be included

-2-

in your note clearings of August 4 and 25.

Please notify branches.

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

TO ALL PRESIDENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9657



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 21, 1936

SUBJECT: Securities and Exchange Commission's
Rulings Under Section 17(c) of Public
Utility Holding Company Act of 1935.

Dear Sir:

There is inclosed a copy of Release No. 271 of the Securities and Exchange Commission, consisting of the rules of the Commission under section 17(c) of the Public Utility Holding Company Act of 1935 and of a preliminary statement issued in connection therewith.

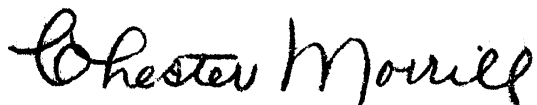
Section 17(c) makes it unlawful after August 26, 1936 for a registered holding company or any of its subsidiaries to have as an officer or director any person who is an officer or director of a bank, trust company, investment banker or similar financial institution, except in such cases as rules prescribed by the Commission may permit; and the inclosed rules are those prescribed by the Commission pursuant to this section.

The office of the Comptroller of the Currency has not circularized the national banks regarding this 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

- 2 -

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,

A handwritten signature in cursive script that reads "Chester Morrill". The signature is written in dark ink and is positioned below the typed name.

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

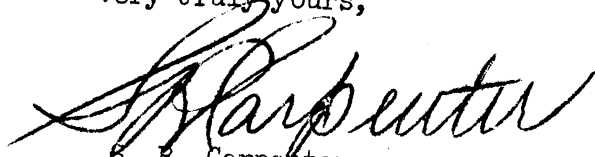
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 21, 1936

Dear Sir:

There is attached, for the information of your bank, a copy of a letter addressed by the Board under date of July 16, 1936, to the Vice President of the Federal Reserve Bank of St. Louis with respect to the question whether the indebtedness of an officer of a member bank to a trust company as trustee should be reported to the board of directors of the member bank.

Very truly yours,


E. R. Carpenter,
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

July 16, 1936.

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

Dear Mr. Wood:

This refers to your letter of June 5, 1936, inquiring whether the indebtedness of Mr. _____, President of the _____ Bank and Trust Company, _____, to the _____ Bank and Trust Company in its capacity as trustee of the estate of _____ should be reported by Mr. _____ to the board of directors of the _____ Bank and Trust Company in order to comply with the requirements of section 22(g) of the Federal Reserve Act and section 5 of the Board's Regulation O.

It is understood that Mr. _____ became personally indebted to _____ & Company, a brokerage firm, in 1924 as a result of losses sustained by him in connection with certain stock transactions; that upon the death of Mr. _____ (creditor) the indebtedness in question was included in the assets of his estate which is now being administered by the _____ Bank and Trust Company as trustee; and that Mr. _____ gave his renewal note covering such indebtedness to the trustee bank in 1929.

Section 22(g) of the Federal Reserve Act provides, in part, that if any executive officer of a member bank be indebted to any bank other than a member bank of which he is an executive officer he shall

-2-

make a written report of such indebtedness to the board of directors of the member bank of which he is an executive officer, and section 5 of the Board's Regulation O provides, among other things, that an executive officer of a member bank who, on the effective date of such regulation, is indebted to any bank other than the member bank of which he is an executive officer shall make the report required by the law. It appears from the facts stated above that Mr. _____ was indebted to the _____ Bank and Trust Company, as trustee, on the date of the enactment of section 22(g) and also on the effective date of the Board's Regulation O and is now so indebted, and the only question is whether the indebtedness to the bank in its capacity as trustee is required to be reported.

The Board's ruling dated March 20, 1936 (X-9528), referred to in your letter, related to an indebtedness of an executive officer of a member bank to another bank arising as a result of the lending of trust funds but the effect of such ruling was to disregard any technical distinction between a bank lending funds in its own capacity or in its capacity as trustee. The fact that the original indebtedness of Mr. _____ did not arise as a result of the lending of trust funds by the trustee bank but accrued to the trustee bank by virtue of its appointment as trustee is not sufficient to remove the transaction from the provisions of the law. It is apparent that Congress contemplated that the board of directors of a member bank should be advised of the indebtedness of the executive officers of such bank to other

-3-

banks without regard to the manner in which the indebtedness arose and, therefore, the indebtedness in question should be reported by Mr. _____ as provided in section 5 of the Board's Regulation O.

Your letter also referred to the question whether the examiner for the Federal Reserve bank should advise the directors of the _____ Bank and Trust Company of Mr. _____ indebtedness to the _____ Bank and Trust Company. Of course, it would be more desirable for Mr. _____ to make the required report of his indebtedness than for the examiner to have to make a report of such indebtedness to the directors of Mr. _____ bank, and it is assumed that Mr. _____ will make the required report upon receipt of advice of the Board's ruling in the matter. Please advise the Board of the disposition which is made of this matter and, if it should become necessary, further consideration can be given to the question whether the examiner for the Federal Reserve bank or your office should take any action in calling the matter to the attention of the directors of the _____ bank and Trust Company.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

July 22, 1936

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

There is attached, for the information of your bank, a copy of a letter to the Vice President of a national bank in the Cleveland district with respect to the question whether an executive officer of a member bank who gives his note to a commercial house which later discounts it with another bank is required to report such indebtedness to the board of directors of the bank of which he is an executive officer.

Very truly yours,

A handwritten signature in cursive script, reading "S. R. Carpenter", is written over the typed name.

S. R. Carpenter,
Assistant Secretary.

Inclosure.

TO ALL PRESIDENTS.

X-9659-a

July 21, 1936.

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

Dear Sir:

This refers to your letter of July 1, 1936, inquiring whether an executive officer of a member bank who gives his note to a commercial house which later discounts it with another bank is required under Regulation O to report such indebtedness to the board of directors of the member bank of which he is an executive officer.

Section 1(c) of Regulation O defines the terms "loan", "loaning", "extension of credit", and "extend credit" to include "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 contains certain exceptions which do not appear to be applicable to the question under consideration. Section 5 of such regulation provides, in substance, that if an executive officer of a member bank becomes indebted to any bank other than the member bank of which he is an executive officer he shall make a written report of such indebtedness to his board of directors. Therefore, when an obligation of an executive officer is acquired by another bank in the manner described in your letter he thereupon becomes indebted to such bank within the meaning of the Board's Regulation O and such indebtedness is required to be reported as provided in section

- 2 -

X-9659-a

5 of such regulation.

The Board realizes, of course, in the case of obligations of executive officers of member banks given to others than banks, that the executive officer involved will not always know when his obligation has been acquired by another bank. However, when the executive officer becomes aware of such fact, he should make a written report of such indebtedness as required in section 5 of the Board's Regulation O.

A copy of Regulation O is inclosed.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Inclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9661

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

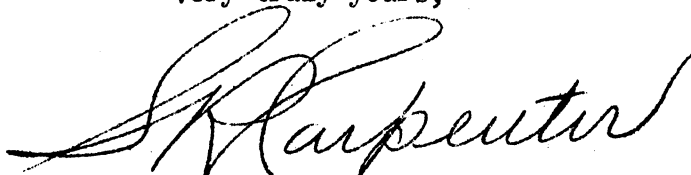
Dear Sir:

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:

"NOYPET" - Treasury Bills to be
dated July 29, 1936, and
to mature April 28, 1937.

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

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

July 30, 1936

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

CONFIDENTIAL

Dear Sir:

There is inclosed, for your information, a copy of the Board's letter of July 22, 1936, to the Federal Reserve Bank of New York, from which it will be noted that the Board has approved the extension by the bank of a loan, against the security of gold to be earmarked at the Federal Reserve Bank of New York, to the Banco de Venezuela, Caracas, Venezuela.

The Board approves the participation in the loan, if made, by the other Federal reserve banks.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS

July 22, 1936

Mr. Allan Sproul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Sproul:

Receipt is acknowledged of your letter of July 17, together with its inclosures, in regard to a recent inquiry of the Banco de Venezuela, Caracas, Venezuela, fiscal agent of the Venezuelan Government, as to the possibility of its obtaining a loan against gold for the purpose of forwarding the Government's plans of exchange control.

The Board has reviewed the information which you have submitted concerning the Banco de Venezuela and the exchange position of the country and approves the action of the executive committee of your board of directors in voting to grant to the Banco de Venezuela, against the security of gold to be earmarked at the Federal Reserve Bank of New York and having a present value of approximately \$4,900,000, a credit of up to \$4,500,000 for a period of three months, interest to be charged on amounts actually advanced under the credit at your bank's discount rate, at present $1\frac{1}{2}\%$ per annum, the question of renewal of the credit to be held in abeyance until the expiry of the three months, at which time a request for a renewal will be entertained if submitted by the Banco de Venezuela. It is understood that if the credit is granted to the Banco de Venezuela your bank will offer a participation therein to the other Federal reserve banks as you have done in like instances in the past.

The Board also approves the action of your executive committee in voting to hold in safekeeping at the Federal Reserve Bank of New York for the Banco de Venezuela 600,000 English gold sovereigns of a present value of approximately \$4,900,000, the charge for such custody to be $\frac{1}{2}$ per mille ($1/20$ of 1%) per annum on such part of the gold held in custody as is not pledged under the credit, which is the customary charge made for such custody in the case of foreign central banks which have no account with your bank. It is noted, however, that you propose to advise the Banco de Venezuela that no charge would be made for holding this gold in custody if it were to open and maintain an account with your bank along substantially the same general lines and subject to substantially the same terms and conditions as for other central banks having accounts with your bank. If a request should be forthcoming from the Banco de Venezuela that your bank open an account for it on your books, it is assumed that such request will be submitted to the Board for approval in the usual manner.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9663

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

FOR THE PRESS

For immediate release.

July 31, 1936.

The Board of Governors today appointed George C. Brainard of Youngstown, Ohio, a Class C Director of the Federal Reserve Bank of Cleveland for the term expiring on December 31, 1937.

Mr. Brainard is President of the General Fireproofing Company of Youngstown. He has had wide business and banking experience, and has been identified with civic welfare activities for many years.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9664

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 31, 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:

"NOYPIE" - Treasury Bills to be
dated August 5, 1936, and
to mature May 5, 1937.

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

Very truly yours,

A handwritten signature in cursive script, reading "S. R. Carpenter", is written over a horizontal line.

S. R. Carpenter,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON.
July 31, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



Dear Sir:

There is inclosed a confirmation of the telegram sent you today in which it was stated that the Treasury Department was being advised that the Board and the Federal Reserve banks will continue until December 31, 1936, to absorb the cost of sending over the main lines of the leased wire system telegrams chargeable to the Treasury appropriation for miscellaneous and contingent expenses.

For your further information in connection with this matter, there are inclosed a copy of the Board's letter of July 16, 1936, to the Secretary of the Treasury, a copy of the letter received by Chairman Eccles under date of July 29, 1936, from the Administrative Assistant to the Secretary, and a copy of the Board's reply of this date.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL F. R. BANKS

X-9665-a

TELEGRAM

Board of Governors
of the
Federal Reserve System
Washington

July 31, 1936.

Young - Boston
Harrison - New York
Sinclair - Philadelphia
Fleming - Cleveland
Leach - Richmond
Newton - Atlanta

Schaller - Chicago
Martin - St. Louis
Peyton - Minneapolis
Hamilton - Kansas City
McKinney - Dallas
Day - San Francisco

TRANS NO. 2422

Referring Board's letters November 29, 1935, X-9378, and March 26, 1936, X-9534, expenses of leased wire system, Board is advising Treasury today that Board and Federal reserve banks will continue until December 31, 1936, to absorb expense of sending over main line leased wires telegrams chargeable to Treasury appropriation for miscellaneous and contingent expenses. Letter follows.

(Signed) Chester Morrill

MORRILL

July 16, 1936.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

Reference is made to my letter to you under date of July 31, 1935, with respect to the absorption by the Federal reserve banks of the cost of sending over the Federal reserve leased wires telegrams chargeable to the Treasury appropriation for miscellaneous and contingent expenses, and to my letter of November 21, 1935, to Mr. McReynolds in which I advised that, in view of assurances that there had been included in the Treasury estimates of expenses for the fiscal year 1937 an amount sufficient to permit of reimbursement for the telegrams in question and that the Treasury Department would do all that it could to have the item included in its appropriations, the Board would continue to handle such telegrams without reimbursement during the remainder of the fiscal year 1936 with the understanding that if funds were not obtained the Treasury Department would make some other arrangement under which the Federal reserve banks would be relieved of this expense. In a letter dated November 25, 1935, Mr. McReynolds stated that he would be glad to advise the Board of the action taken by Congress on the requested appropriation.

Upon approval on June 23, 1936, of the Treasury Department Appropriation Act, 1937, the matter was taken up again with the Treasury and a letter was received by the Board on June 30 from Mr. McReynolds in which he stated that no amount had been included in the appropriation for contingent expenses to enable the Department to make reimbursement for the telegraph service in question and that it would be thoroughly appreciated if the Board would find it possible to continue the telegraph service without reimbursement.

The appropriation for miscellaneous and contingent expenses which, among other things, contains express authority for the payment of telegraph and telephone expenses, is in the sum of \$155,000, and provides, in addition to this amount, that "the appropriations for the Public Debt Service, Internal Revenue Service, Federal Alcohol Administration, and Division of Disbursement for the fiscal year 1937 are hereby made available for the payment of items otherwise properly chargeable to this appropriation". Therefore, it appears to the Board that there is ample legal authority for the payment of the cost of the telegrams designated by the Treasury as chargeable to this appropriation.

Accordingly, in view of the long time this matter has been pending,

-2-

X-9665-b

the fact that the total amount of the Treasury expense absorbed by the Federal reserve banks in this connection has exceeded \$45,000 to April 1, 1936, and the further fact that if the messages were handled commercially the Treasury Department would be faced with the necessity of paying therefor, the Board has requested me to advise that it does not feel justified in continuing the present arrangement after this month, and if the Treasury Department is not in a position to pay for the telegrams, some arrangement should be made under which the Board and the Federal reserve banks will be relieved of the further absorption of this expense.

It will be appreciated if you will advise me at your early convenience as to the action which will be taken.

Respectfully,

(Signed) Marriner S. Eccles

M. S. Eccles,
Chairman.

X-9665-c

July 29, 1936.

TREASURY DEPARTMENT

Washington

My dear Mr. Chairman:

The Secretary received your letter of July 16, 1936, with reference to reimbursement to the Federal Reserve System for Treasury telegrams sent over the leased wire system, and I assure you that it is our desire to arrange the matter in a manner entirely satisfactory to your Board.

There has been no question as to the legal authority for this reimbursement, the question being one solely of the availability of funds. Under the authorization in the Contingent Expense appropriation for the use of certain other appropriations indicated for contingent expenditures, we are limited in the use of such funds to expenditures made solely for the services named, and no funds are available from that source for the Federal Reserve reimbursement in question. Of the direct appropriation of \$155,000 for Contingent Expenses, \$140,000 is required for fixed charges, leaving but \$15,000 available for contingencies and the purchase of new typewriters, labor-saving machines, file cases, etc. The Department has several hundred thousand dollars worth of labor-saving equipment, which on a replacement basis of only five per cent per annum would absorb this whole balance of \$15,000. For the past fiscal year \$22,000 was available above fixed charges for Treasury Contingent Expenses and we were able to operate on this small amount only through the exercise of the strictest economy, the disapproval of many requisitions and the carrying over into the present fiscal year of a number of unfilled requisitions for imperative items. With only \$15,000 available during the current fiscal year for similar purposes, you can appreciate the restricted situation with which we are faced in operating under this contingent appropriation.

Nevertheless, I appreciate that this question of reimbursement has been pending for a number of years and that, as you suggest, some arrangement should be made by which the Board and the Federal Reserve Banks will be relieved of this expense. I should like to submit, therefore, for your consideration the proposal that your Board carry these charges through December 31, 1936, on the definite understanding that the Treasury will make full reimbursement for such costs from and after January 1, 1937.

-2-

When Congress convenes in January, we will submit a deficiency estimate to meet our contingent requirements for the remainder of the current fiscal year and in our regular budget estimates for 1938 we will include funds for these leased wire charges. Should Congress fail to provide the additional funds requested, the Treasury nevertheless will assume these reimbursement costs, notwithstanding that funds for the purpose will have to be obtained through the withholding of approval of requisitions for contingent expense items even to a larger extent than has been necessary heretofore.

I hope that this proposal may meet with the approval of your Board and your cooperation in the matter is much appreciated.

Very truly yours,

(Signed) Wm. H. McReynolds

Wm. H. McReynolds,
Administrative Assistant
to the Secretary.

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

X-9665-d

July 31, 1936.

Mr. Wm. H. McReynolds,
Administrative Assistant
to the Secretary,
Treasury Department,
Washington, D. C.

Dear Mr. McReynolds:

I have your letter of July 29 in regard to reimbursement for certain Treasury telegrams sent over the leased wires of the Federal reserve banks.

As you may know, the Federal reserve banks are confronted with the likelihood of continuing deficits, and the Board and the banks for some time past have been endeavoring to reduce expenses as well as increase the efficiency of their organizations. Naturally, therefore, we are disappointed to learn that the Treasury feels that it does not have the funds available for beginning the payment of the expense of these telegrams promptly.

However, in view of the assurances contained in your letter, the Board and the Federal reserve banks will continue to absorb this expense until the end of December, 1936, with the definite understanding as stated in your letter that the Treasury will make reimbursement for such costs beginning January 1, 1937.

Very truly yours,

(Signed) Marriner S. Eccles

M. S. Eccles,
Chairman

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9666

August 4, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Authority of Federal Reserve Banks to
Accept Deposits of Funds of Federal
Deposit Insurance Corporation Held in
its Capacity as Receiver of Closed
Insured State Banks.

Dear Sir:

There is inclosed herewith a copy of a letter from the Board to the President of the Federal Reserve Bank of Richmond regarding the question whether a Federal Reserve bank may accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed insured State banks.

There is also inclosed a copy of a letter dated July 1, 1936, from Mr. Albert H. Dudley, Chief of the New and Closed Bank Division of the Federal Deposit Insurance Corporation, outlining the arrangement under which it is proposed that deposits of these funds will be made in Federal Reserve banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

COPY

X-9666-a

August 4, 1936

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Leach:

This refers to your letter of July 6, 1936, and inclosures, requesting the views of the board upon the question whether a Federal Reserve bank may accept deposits made by the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed insured State banks.

Section 12B(n)(1) of the Federal Reserve Act provides in part as follows:

"Money of the Corporation not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States."

The question arises as to whether funds held by the Federal Deposit Insurance Corporation in its capacity as receiver of closed insured State banks may properly be considered as "funds of the Corporation" within the above quoted provision of the Federal Reserve Act, which Federal Reserve banks may accept as deposits.

There is, of course, a marked difference between funds

held by the Corporation in its own right and funds held by the Corporation in its capacity as receiver but, under a liberal construction of the language of the above statute, which is believed to be justified in this case, all of these funds may be considered as "funds of the Corporation". It is believed that the provisions of section 12B(n)(1) were intended to facilitate the operations of the Federal Deposit Insurance Corporation and, since Congress has provided that one of its functions shall be that of acting as receiver of closed insured State banks, it seems reasonable to believe that in the performance of this function Congress intended the Corporation to have the power to make deposits in Federal Reserve banks under the above quoted provision of the statute.

Accordingly, the Board has reached the conclusion that funds held by the Federal Deposit Insurance Corporation in its capacity as receiver of closed insured State banks may properly be considered as "funds of the Corporation" within the above quoted provision of the Federal Reserve Act, and that Federal Reserve banks may accept deposits of such funds under the arrangement outlined in the letter dated July 1, 1936, to your bank from Mr. Albert H. Dudley, Chief of the New and Closed Bank Division of the Federal Deposit Insurance Corporation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

COPY

X-9666-b

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON

July 1, 1936

Federal Reserve Bank of Richmond
Richmond, Virginia

Gentlemen:

Subject: Deposits by Federal Deposit
Insurance Corporation as
Receiver of State Banks.

From time to time this Corporation is being appointed to serve in the capacity of receiver of insured state banks that suspend. In these cases the Corporation necessarily requires the services of an agent at the location of the suspended bank, who is designated by resolution of the Board of Directors of the Corporation with the title "Liquidator" and who acts for the receiver under the supervision and direction of this office.

For purposes of convenience and clearing miscellaneous checks and items accepted during liquidation a local bank is usually designated as the depository for trust funds held in the liquidator's account in an amount not exceeding \$5,000.00. It is the thought that, as the balance in this account increases to above the limit mentioned, transfers in even sums will be made periodically to the Federal Reserve Bank of the district in which the suspended bank is located for deposit in an account entitled "Federal Deposit Insurance Corporation, Receiver" of a given bank, and any withdrawals of funds from the account will be made by an officer of the Corporation duly authorized by resolution of the Board of Directors to act in that capacity. Such an account would be built up in the Federal Reserve Bank until sufficient funds were in hand to warrant the declaration of a dividend; whereupon one check would be issued against the receiver's account in the Federal Reserve Bank transferring the total amount required for such dividend to the Fiscal Agent of the Corporation, who would issue the dividend checks required against his account with the Treasurer of the United States.

While the Banking Act of 1935 clearly provides that the Corporation may carry its funds not otherwise employed on deposit with a Federal Reserve Bank, the question has arisen as to whether funds in the hands of the Corporation as the receiver of a closed insured state bank falls within that category. It is true that balances remaining in the proposed accounts are trust funds held by the Corporation in its capacity as receiver of a closed bank for the benefit of the creditors of such bank; however, it is a fact that this Corporation is the principal creditor, in many cases to the extent of one hundred percent, due to its being the assignee of insured deposit claims against the

X-9666-b

Federal Reserve Bank of Richmond
Page #2

estate of the closed institution arising out of payments of insured deposits made by the Corporation to the depositors. Consequently, the Corporation has a potential ownership of a very large share of proceeds derived from all such liquidations.

In these circumstances it would appear that the receivership trust funds held by the Corporation as receiver of closed insured state banks would come within the meaning and intent of the framers of the Act, and we are desirous of perfecting an arrangement with you for the opening of an account such as outlined above, except in the isolated cases where possibly the provisions of state law would not permit. May we request advice that such a plan would be acceptable to you, in order that we may proceed to complete our system with respect to the depository for trust deposits?

Yours very truly,

(Signed) Albert H. Dudley

Albert H. Dudley
Chief New and Closed Bank Division



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

79

X-9667
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 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 July, 1936.

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,

Josephine E. Lally

Josephine E. Lally,
Deputy 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 JULY, 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	45,820	1,110	46,930	\$ 252.45	\$ --	\$ 252.45	\$ 621.15	\$ 252.45	\$ 368.70
New York	140,814	--	140,814	1,217.15	--	1,217.15	1,863.76	1,217.15	646.61
Philadelphia	38,309	1,184	39,493	236.39	--	236.39	522.71	236.39	286.32
Cleveland	58,702	1,118	59,820	374.14	--	374.14	791.75	374.14	417.61
Richmond	73,362	1,164	74,526	347.78	230.00	577.78	986.40	577.78	408.62
Atlanta	92,195	1,118	93,313	275.73	--	275.73	1,235.05	275.73	959.32
Chicago	103,093	1,402	104,495	1,746.44	--	1,746.44	1,383.05	1,746.44	363.39(*)
St. Louis	99,638	1,424	101,062	184.91	--	184.91	1,337.61	184.91	1,152.70
Minneapolis	42,060	1,268	43,328	182.92	--	182.92	573.47	182.92	390.55
Kansas City	85,080	1,416	86,496	259.43	--	259.43	1,144.82	259.43	885.39
Dallas	79,447	1,190	80,637	267.55	--	267.55	1,067.28	267.55	799.73
San Francisco	115,078	1,181	116,259	593.19	--	593.19	1,538.76	593.19	945.57
Board of Governors	802,879	--	802,879	2,573.12	14,951.18	17,524.30	10,626.57	17,524.30	--
Total	1,776,477	13,575	1,790,052	\$8,511.20	\$15,181.18	\$23,692.38	\$23,692.38	\$23,692.38	\$7,261.12

363.39(a)
\$6,897.73

- (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 (\$.013235581) for business handled during the month.
- (*) Credit.
- (a) Amount reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



X-9669
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 7, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

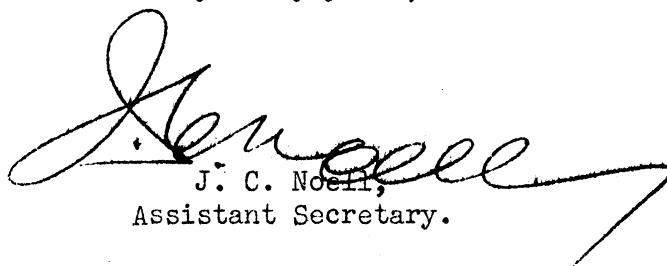
Dear Sir:

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.

"NOYPOD" - Treasury Bills to be
dated August 12, 1936, and
to mature May 12, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYPIE" 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-9670

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 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 July, 1936.

Very truly yours,

Josephine E. Lally

Josephine E. Lally,
Deputy Fiscal Agent.

Enclosure.

TO ALL F. R. PRESIDENTS.

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
July 1 to 31, 1936.

Federal Reserve Notes, Series 1934.

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>\$500</u>	<u>\$1000</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	-	50,000	10,000	10,000	-	200	70,200	\$ 6,563.70
New York,	-	-	150,000	10,000	10,000	3,100	3,700	176,800	16,530.80
Philadelphia,	-	50,000	60,000	12,000	-	-	400	122,400	11,444.40
Cleveland,	50,000	50,000	100,000	20,000	12,000	150	200	232,350	21,724.73
Richmond	-	-	-	10,000	11,000	-	100	21,100	1,972.85
Atlanta	-	20,000	20,000	3,000	8,000	-	-	51,000	4,768.50
Chicago	-	-	100,000	-	12,000	-	2,100	114,100	10,668.35
St. Louis	-	20,000	-	1,000	-	-	50	21,050	1,968.18
Minneapolis	-	20,000	-	-	5,000	-	-	25,000	2,337.50
Kansas City	-	20,000	-	-	10,000	-	400	30,400	2,842.40
Dallas,	50,000	20,000	-	-	-	-	-	70,000	6,545.00
San Francisco,	-	100,000	100,000	-	-	-	450	200,450	18,742.07
	<u>100,000</u>	<u>300,000</u>	<u>580,000</u>	<u>66,000</u>	<u>78,000</u>	<u>3,250</u>	<u>7,600</u>	<u>1,134,850</u>	<u>\$106,108.48</u>

1,134,850 sheets @ \$93.50 per M,.....\$106,108.48



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9671

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 15, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

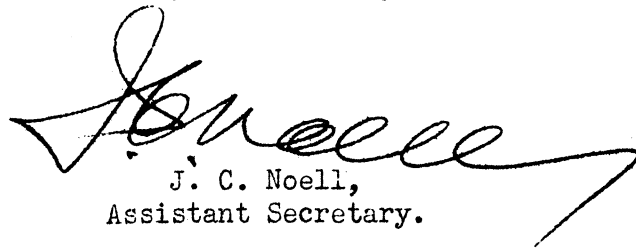
Dear Sir:

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.

"NOYPUG" - Treasury Bills to be
dated August 19, 1936, and
to mature May 19, 1937.

This word should be inserted in the Federal Re-
serve Telegraph Code book, following the supplemental
code word "NOYPOD" on page 172.

Very truly yours,


J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. E. BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

X-9672

WASHINGTON
August 17, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Holidays during September, 1936.

Dear Sir:

On Monday, September 7, Labor Day, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

The Board is advised that the following holidays also will be observed during September:

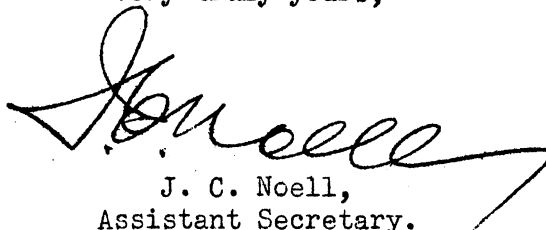
Wednesday, September 9,	San Francisco	Admission Day
	Los Angeles	

Saturday, September 12,	Baltimore	Defenders' Day
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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 mentioned on each of the holidays with your credits for the following business day. No debits covering shipments of Federal Reserve notes for account of the Federal Reserve Bank of San Francisco should be included in your note clearing of September 9.

Please notify branches.

Very truly yours,


J. C. Noell,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9673



August 18, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

The Board's letters of June 15, 1933, (X-7499) and December 14, 1933, (Z-7716) stated that unless otherwise indicated "X" letters (including interpretations of the banking acts) sent to the Federal reserve banks by the Board were not for distribution outside of the Federal reserve banks but that the information contained therein could be used in answering inquiries received by the banks.

It has come to the Board's attention that examiners and possibly officers and other members of the staffs of the Federal reserve banks have been hesitant about discussing interpretations and rulings contained in "X" letters and felt that they were somewhat restricted in giving out the information contained therein. It is not the Board's intention to restrict the use of the substance of the interpretations and rulings contained in "X" letters or of the identical language thereof in answering inquiries received by the banks so long as the "X" letters themselves are not given out or the language quoted or identified as being an interpretation or ruling contained in a specific "X" letter. In other words, members of your staff should feel entirely free to incorporate to the extent appropriate in the circumstances the substance, or even the

language containing the substance, of rulings and interpretations embodied in "X" letters issued by the Board, in replies to written or other inquiries received from banks and other interested parties, and it is believed that this practice can be followed without distribution of the "X" letters themselves or the language thereof being quoted or identified with a particular "X" letter.

The suggestion has also been made that "X" letters sent by the Board to the Federal reserve banks containing interpretations and rulings under the Board's regulations or the Banking Act of 1935 be given a distinctive letter or number for purposes of prompt identification with the subject matter involved and as a means of determining whether the Federal reserve bank's file with respect thereto is complete. The Board has given consideration to this matter and has adopted a procedure under which the "X" letters and telegrams which are sent to all Federal reserve banks and which contain interpretations and rulings issued in connection with regulations of the Board (or provisions of law on which regulations are based, such as Sec. 11(k)) will carry in each case a reference to the applicable regulation and a serial number, such as X-9425 Reg. F5, or, in the event a particular ruling or interpretation is under a section of the law but not under a regulation of the Board, it will be so designated by a reference to the law followed by a serial number such as X-9426 Sec. 4FRA-6 or X-9427 Emergency Banking Act-6. In some cases there may be differences of opinion as to the appropriateness of the designations given but, notwithstanding some possible difficulties of this kind, it is hoped that the

-3-

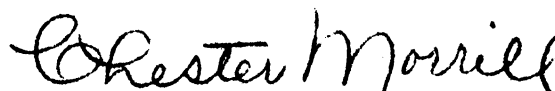
X-9673

new procedure may be of assistance to the Federal reserve banks in classifying and identifying the Board's rulings and interpretations.

In order that this procedure may be applied to interpretations issued since approval of the Banking Act of 1935, auxiliary numbers have been assigned to such "X" letters and telegrams issued since August 23, 1935, and there is inclosed herewith a list of such "X" letters and telegrams giving the appropriate designation and number in each case. The inclosed list includes all of the interpretations sent to all Federal reserve banks which have been issued under Regulation T, commencing with Ruling Number One under this regulation, dated September 29, 1934. Of course, X-letters which will not contain rulings or interpretations and which will not be affected by the new procedure, will continue to be sent by the Board to the Federal reserve banks and will bear in each case only an X-number as in the past.

In the past the series of "X" numbers has been applied to inter-office memoranda and statements as well as communications sent to the Federal reserve banks. Hereafter, in order that Federal reserve banks may be able to check the completeness of their files of "X" letters, "X" numbers will be applied only to communications sent to all Federal reserve banks, so that the numbers on such communications will run consecutively in all cases.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

LIST OF X-LETTERS AND TELEGRAMS CONTAINING
RULINGS OR INTERPRETATIONS OF THE BOARD
WHICH HAVE BEEN SENT TO ALL FEDERAL RESERVE
BANKS SINCE AUGUST 23, 1935, WITH SUBJECT
MATTER SERIAL DESIGNATIONS.

<u>Subject-Matter Designation</u>		<u>X-Number or Trans. Number</u>
<u>Reg. D</u>	- 1	Trans. No. 2301
	- 2	Trans. No. 2361
	- 3	Trans. No. 2369
<u>Reg. F</u>	- 1	X-9321
	- 2	X-9396
	- 3	X-9654
<u>Reg. H</u>	- 1	X-9406
	- 2	X-9418
	- 3	X-9480
	- 4	X-9506
	- 5	X-9617
<u>Reg. L</u>	- 1	X-9318
	- 2	X-9336
	- 3	X-9341
	- 4	X-9472
	- 5 (Also Reg. R-1)	X-9554
<u>Reg. O</u>	- 1	X-9333
	- 2	X-9430
	- 3	X-9431
	- 4	X-9432
	- 5	X-9433
	- 6	X-9445
	- 7	X-9449
	- 8	X-9455
	- 9	X-9477
	- 10	X-9478
	- 11	X-9483
	- 12 (Also sec. 22(d) FRA-1)	X-9497
	- 13	Trans. No. 2380
	- 14	X-9513
	- 15	X-9516

Subject-Matter Designation	X-Number or Trans. Number
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Reg. O (continued)

- 16	X-9525
- 17	X-9527
- 18	X-9528
- 19	X-9557
- 20	X-9576
- 21	X-9625
- 22	X-9659
- 23	.....	X-9658
- 24	.....	X-9659

Reg. P		Trans. No. 2305
- 1	.....
- 2	.....	X-9380
- 3	.....	X-9360
- 4	.....	X-9385
- 5	.....	X-9456
- 6	.....	X-9467
- 7	.....	X-9473
- 8	.....	X-9540
- 9	.....	X-9591

Reg. Q		
- 1	.....	X-9386
- 2	.....	X-9387
- 3	.....	X-9419
- 4	.....	X-9420
- 5	.....	X-9421
- 6	.....	X-9424
- 7	.....	X-9429
- 8	.....	X-9446
- 9	.....	X-9447
- 10	.....	X-9448
- 11	.....	X-9460
- 12	.....	X-9461
- 13	.....	X-9479
- 14	.....	X-9489
- 15	.....	X-9508
- 16	.....	X-9536
- 17	.....	X-9545
- 18	.....	X-9546
- 19	.....	X-9569
- 20	.....	X-9573
- 21	.....	X-9592
- 22	X-9597
- 23	X-9627
- 24	X-9653

Subject-Matter Designation	X-Number or Trans. Number
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Reg. R - 1 (Also Reg. L-5)	X-9554
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Reg. T - 1	Trans. No. 2095
- 2	Trans. No. 2097
- 3	Trans. No. 2100
- 4	Trans. No. 2103
- 5	Trans. No. 2105
- 6	Trans. No. 2107
- 7	Trans. No. 2108
- 8	Trans. No. 2109
- 9	Trans. No. 2110
- 10	Trans. No. 2111
- 11	Trans. No. 2112
- 12	Trans. No. 2114
- 13	Trans. No. 2115
- 14	Trans. No. 2116
- 15	Trans. No. 2117
- 16	Trans. No. 2119
- 17	Trans. No. 2120
- 18	Trans. No. 2121
- 19	Trans. No. 2122
- 20	Trans. No. 2125
- 21	Trans. No. 2126
- 22	Trans. No. 2127
- 23	Trans. No. 2128
- 24	Trans. No. 2130
- 25	Trans. No. 2131
- 26	Trans. No. 2133
- 27	Trans. No. 2134
- 28	Trans. No. 2136
- 29	Trans. No. 2137
- 30	Trans. No. 2140
- 31	Trans. No. 2141
- 32	Trans. No. 2142
- 33	Trans. No. 2145
- 34	Trans. No. 2146
- 35	Trans. No. 2154
- 36	Trans. No. 2155
- 37	Trans. No. 2157
- 38	Trans. No. 2159
- 39	Trans. No. 2173
- 40	Trans. No. 2175
- 41	Trans. No. 2222
- 42	Trans. No. 2242
- 43	Trans. No. 2252

Subject-Matter Designation	X-Number or Trans. Number
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Reg. T (continued)

- 44	Trans. No. 2276
- 45	Trans. No. 2239
- 46	Trans. No. 2290
- 47	Trans. No. 2327
- 48	Trans. No. 2367
- 49	X-9604

Reg. U - 1	Trans. No. 2399
- 2	X-9575
- 3	X-9590
- 4	X-9599
- 5	X-9602
- 6	X-9615
- 7	X-9620
- 8	X-9655

Sec. 5 FRA - 1	X-9324
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Sec. 9 FRA - 1	X-9475
- 2	X-9580

Sec. 10(b) FRA - 1	X-9327
- 2	X-9337
- 3	X-9636
- 4	X-9644

Sec. 12B FRA - 1	X-9666
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Sec. 13 FRA - 1	X-9464
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Sec. 14(d) FRA - 1	X-9427
- 2	X-9504

Sec. 21 FRA - 1	X-9312
- 2	B-1124
- 3	X-9619

<u>Subject-Matter Designation</u>	<u>X-Number or Trans. Number</u>
<u>Sec. 22(a) FRA</u> - 1	X-9331
<u>Sec. 22(d) FRA</u> - 1 (Also Reg. O-12)	X-9497
<u>Sec. 5136 R.S.</u> - 1 - 2 - 3 - 4 - 5 - 6 - 7	X-9322 X-9539 X-9563 X-9581 X-9608 X-9611 X-9648
<u>Sec. 5204 R.S.</u> - 1	X-9306

X-9674
Reg. F-4

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

July 22, 1936.

Mr. Z. G. Fenner,
Acting Assistant Federal Reserve Agent,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Fenner:

This refers to your letter of July 7, 1936, inquiring whether subsection (a) of section 11 of Regulation F prohibits the investment of trust funds by a national bank in obligations executed by an officer of the bank as a receiver appointed by a Federal court.

The pertinent provisions of the regulation read as follows:

"(a) Obligations of trustee bank or its directors, officers, etc.--Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank."

With respect to such provisions, footnote numbered 10 states:

"* * * this requirement contemplates that the national bank will not invest trust funds in the obligations of any organization in which officers, directors, or employees of the bank have such an interest as might affect the exercise of the best judgment of the management of the bank in investing trust funds."

While, of course, the interest of the officer of the bank when acting as receiver would be an official interest rather than a

-2-

personal interest in the obligation, the Board agrees with the suggestion contained in your letter that even an official interest of this kind is such as might influence the action of the bank and affect the exercise of the best judgment of the bank in investing trust funds. Accordingly, the Board feels that the investment in question comes within the intent and purpose of the prohibition contained in the above-quoted provisions of the regulation.

Attention is also called to the following provisions of section 11(k) of the Federal Reserve Act, although the Board cannot undertake to interpret or determine the applicability of such statutory provisions since they impose a criminal penalty and their enforcement falls within the jurisdiction of the Department of Justice:

"It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court."

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

August 4, 1936.

Mr. W. B. Geery,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Geery:

Receipt is acknowledged of your letter of June 18, 1936, requesting advice as to whether section 9(b) of the Board's Regulation F requires the collateral specified therein to be pledged with the trust department of a national bank if agency, escrow, receivership and custodianship funds are deposited in its commercial department.

Section 9(b) of Regulation F requires funds received or held by a national bank in a fiduciary capacity to be protected by a pledge of collateral to the trust department if such funds are used by the bank in the conduct of its business; and the question whether particular deposits made by the trust department in the commercial or savings department should be so protected depends upon whether or not the funds involved are received or held in a fiduciary capacity. The Board feels that in any case the question whether or not the funds are held in a fiduciary capacity is a question which must be determined on the basis of all the facts and circumstances involved. In this connection, your attention is invited to the Board's rulings published in the Federal Reserve Bulletin for December 1921 (p. 1435), and May 1922 (p. 572). Generally

- 2 -

X-9675
Reg. F-5

speaking, if it is evident that no fiduciary relationship exists, section 9(b) of Regulation F does not require collateral to be pledged with the trust department if funds received or held by such department are used by the bank in the conduct of its business; but where doubt exists as to the status of any such funds and the funds are used in the commercial or savings department of the bank, such funds should be protected by collateral in the manner required by the regulation, the presumption being that an account handled through the trust department involves a fiduciary relationship. Hence, if such protection is not afforded under the circumstances to which you have referred, it should be clearly shown that a fiduciary relationship does not exist.

As indicated above, the Board has not deemed it desirable to attempt to lay down any general rule as to what funds are or are not held in a fiduciary capacity, but if a member bank desires a ruling in any case in connection with funds held by it and full information is furnished as to the facts involved the Board, of course, will be glad to advise as to its views regarding such funds. If any such case is submitted to the Board, it will be appreciated if it is accompanied by a copy of an opinion of the counsel for your bank on the question involved.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

July 30, 1936.

Mr. E. C. Hill,
Assistant Federal Reserve Agent,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Hill:

This refers to your letter of June 20, 1936, in which you have called attention to the fact that, during 1934 and the early part of 1935, certain trust companies in your district were admitted to membership in the Federal Reserve System subject to a condition of membership which, without specifying any exceptions, prohibits them from engaging in the business of acting as agent in the purchase and sale of real estate, or of acting as agent for others in the renting of real estate, while in the case of other trust companies more recently admitted to membership the Board has prescribed the following condition of membership:

"Such bank shall not, except to the extent usually necessary in the transaction of a commercial banking or trust business, directly or indirectly, engage in the business of dealing in real estate or other properties, either for its own account or as agent for others, or of acting as agent for others in the renting of real estate, in the collection of rents thereon, or in care, custody and management of real or personal property, * * * ." (Underscoring supplied)

You have inquired whether the exception contained in the above quoted condition of membership may be considered as being

X-9676
Reg. H-6

-2-

applicable to the trust companies which have accepted a condition of membership in which such an exception was not specifically made. The latter condition of membership was not intended to preclude a member State bank from engaging in real estate operations of the kind referred to therein if such operations are considered to be usually necessary in the transaction of a commercial banking or trust business, and the Board has ruled that, under a similar condition of membership which was prescribed for a member State bank in another State, the bank is not prohibited from renting, selling or disposing of real estate in connection with the administration of trusts in which it is authorized to act. In the circumstances, the Board feels that all State member banks in your district subject to a condition of membership covering their real estate operations which does not contain the exception referred to above may be considered as having the benefit of such exception.

You have also requested advice as to whether this exception is applicable to a case in which a trust company subject to the condition of membership enters into an agreement to act as custodian and agent, whereby it will collect and account for the income on certain securities deposited with it, and will have the care, custody and management of two parcels of real estate on which it will collect the rentals and pay the taxes. You have explained that, while you do not have sufficient information in this case definitely to indicate the relative importance of the management of the securities in comparison

X-9676
Reg. H-6

-3-

with the management of the real estate, there are many trust companies in your district which have entered into trust agreements of this kind, and that the activities engaged in thereunder constitute an important part of the trust business handled by such institutions. It is the view of the Board that where an agreement of this kind represents a bona fide fiduciary undertaking, the management of the real estate and collection of rents being an incident to the administration of the trust, and such an agreement does not represent merely an undertaking to carry on a real estate business of the kind described in the condition of membership, the type of relationship involved is one which it is contemplated would come within the exception under discussion.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 13, 1936.

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Leach:

This refers to the circular dated May 27, 1936, which you transmitted to the member banks in your district advising of the admission to membership, on the date of the circular of the _____ Trust Company of _____, _____, _____, and which also contained the statement that "in due course license will be issued by the Secretary of the Treasury as of the date of admission".

The Board's records show that, after the date upon which the membership of the _____ Trust Company of _____ became effective, the Acting Secretary of the Treasury authorized the Federal Reserve bank to issue a license to such bank to transact business as a member of the Federal Reserve System, and it is understood that such license was issued as of the date of the bank's admission to membership. In the circumstances, it is suggested that in any future case involving similar facts it would be desirable to avoid in any statement released to the public any expression which indicates that the State bank was transacting business as a member bank prior to the date when the Secretary of the Treasury authorized the issuance of the license. In order to avoid any possible question being raised,

it is also suggested that the Federal Reserve bank advise the Secretary of the Treasury of the approval by the Board of an application of a State bank for admission to membership and submit its recommendation regarding the issuance of a license sufficiently far in advance of the effective date of membership to permit the Secretary of the Treasury to authorize the issuance of the license simultaneously with the entrance of the bank into the System.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9678



August 22, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

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:

"NOYPYX" - Treasury Bills to be
dated August 26, 1936, and
to mature May 26, 1937.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Noon", is written over the typed name and title.

J. C. Noon,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9679

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1936.



Dear Sir:

Recommendations to the Secretary of the Treasury with respect to the licensing of newly admitted State bank members of the Federal Reserve System have been submitted by some of the Federal Reserve banks over the signature of the Federal Reserve Agent or Assistant Federal Reserve Agent and by others over the signature of the President or a Vice President. In view of the fact that the Bank Examinations function has already been transferred from the Federal Reserve Agent's supervision to that of the President at some of the Federal Reserve banks and as it is contemplated that similar action will soon be taken at the other Reserve banks, it is suggested that in the interest of uniformity all recommendations to the Secretary of the Treasury with respect to the licensing of newly admitted State bank members be made hereafter over the signature of the President or a Vice President of the Federal Reserve bank. In so far as the licenses themselves are concerned, it is understood that they are being signed by the President or a Vice President of the bank acting on behalf of the Secretary of the Treasury.

Very truly yours,

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



X-9680
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1936.

SUBJECT: Monthly Report of Bank and
Public Relations Activities.

Dear Sir:

One of the Federal reserve banks has been furnishing the Board copies of reports prepared by officers and representatives of the bank covering information gathered during trips through various sections of the district for the purpose of visiting banks and observing banking, business and agricultural conditions. The Board has found these reports very interesting and valuable and would be glad to receive similar reports in connection with the bank and public relations activities of the other Federal reserve banks.

As you know, at the present time monthly reports on bank and public relations activities are submitted by the Federal reserve banks to the Federal Reserve Bank of Cleveland where they are summarized by Mr. Strater, Secretary of the Presidents' Conference, and copies are sent to the Federal reserve banks and to the Board. It is believed that these reports would be of still more value and interest from the standpoint of the Board if they were accompanied by reports of the character referred to in the preceding paragraph. Accordingly, it will be

appreciated by the Board if, beginning with the month of September, each Federal reserve bank will send a statement to the Board of Governors in accordance with the attached form and forward with the statement copies of the individual reports of the officers and representatives of the bank, as suggested above, covering their bank and public relations activities during the month.

The reports prepared by the officers and field representatives setting forth information gathered by them in connection with their visits to banks and attendance at meetings in the district should, in addition to covering briefly the more important features of the banking and business conditions in the territory visited or the matters of interest to the Federal Reserve System which develop at a meeting or convention attended, include special reference to criticisms and comments, favorable or unfavorable, with respect to the Federal reserve banks or the Board of Governors, the attitude of member and nonmember banks toward membership and the System generally, reasons given by nonmember banks for not joining the System, and any suggestions which would be of interest to the Board or which would tend to improve the System or its relations with the banks and the public. In this connection, the Board would like to have similar reports of suggestions or criticisms of a substantial nature made by bankers or others during visits to the Federal reserve banks.

Such reports need not follow any set form. The desire of the Board is to obtain from the Federal reserve banks information which

-3-

X-9680

comes to them in the course of their regular bank and public relations activities which will enable the Board to perform its duties more intelligently and capably with a better understanding of the viewpoint of the banking and business communities in the several Federal reserve districts.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill". The signature is written in dark ink and is centered below the typed name.

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS.

REPORT OF BANK AND PUBLIC RELATIONS ACTIVITIES

Month of _____ Federal Reserve Bank of _____

Visits to Banks

<u>Date</u>	<u>Officer or Representative</u>	<u>Member</u>	<u>Nonmember</u>	<u>Total</u>
-------------	--------------------------------------	---------------	------------------	--------------

Meetings Attended

<u>Date</u>	<u>Officer or Representative</u>	<u>Organization and Place of Meeting</u>	<u>Estimated Attendance</u>
-------------	--------------------------------------	--	---------------------------------

Addresses Made

<u>Date</u>	<u>Officer or Representative</u>	<u>Organization and Place of Meeting</u>	<u>Subject of Address *</u>	<u>Estimated Attendance</u>
-------------	--------------------------------------	--	---------------------------------	---------------------------------

*See Board's letter of October 2, 1934, (X-8033)



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

109

X-9682

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 28, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

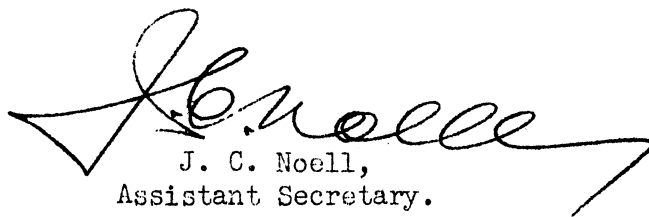
Dear Sir:

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:

"NOYQUE" - Treasury Bills to be dated
September 2, 1936, and to
mature June 2, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYPYX" 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-9683
Sec. 12B FRA - 2

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



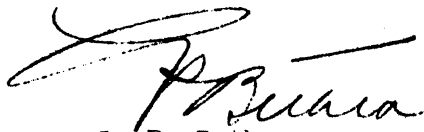
August 28, 1936.

Subject: Receipt of deposits by Federal
Reserve banks from the Federal
Deposit Insurance Corporation.

Dear Sir:

For your information there is inclosed herewith a copy of a letter received from the President of the Federal Reserve Bank of San Francisco, together with a copy of the Board's reply thereto, relating to the authority of Federal Reserve banks to accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed national banks.

Very truly yours,


L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

X-9683-a
Sec. 12B FRA-2

August 26, 1936.

Mr. W. A. Day, President,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Day:

This refers to your letter dated August 14, 1936 in which you state that, in view of the Board's letter of August 4, 1936 (X-9666) expressing the conclusion that Federal Reserve banks may accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed insured State banks, you assume that Federal Reserve banks may accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed national banks.

It is the view of the Board that the provisions of section 12B(n)(1) of the Federal Reserve Act authorize Federal Reserve banks to accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed insured national banks under the provisions of section 12B(1)(3) of the Federal Reserve Act.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9683-b
Sec. 12B FRA-2

FEDERAL RESERVE BANK OF SAN FRANCISCO

August 14, 1936.

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

Dear Sirs:

In your letter of August 4, X-9666, you enclosed a copy of a letter from the Board to the President of the Federal Reserve Bank of Richmond, expressing the opinion that Federal Reserve banks may accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed, insured State banks.

In view of this conclusion, it is assumed that Federal Reserve banks might likewise accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed National banks, if such deposits should be tendered by the Federal Deposit Insurance Corporation.

We would appreciate your confirmation.

Yours very truly,

(Signed) Wm. A. Day

President.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

113

X-9684

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 29, 1936.

SUBJECT: Proceedings under Provisions of Section 30 of the Banking Act of 1933.

Dear Sir:

Under the provisions of section 30 of the Banking Act of 1933, an officer or director of a State member bank who continues to violate any law relating to such bank or continues unsafe or unsound practices in conducting the business of the bank, after having been warned by the Federal reserve agent to discontinue the violations of law or unsafe or unsound practices, may, after a hearing, be removed from office by the Board upon the basis of the facts certified to the Board by the Federal reserve agent. As you know, the revised form of report of examination forwarded to all of the Federal reserve agents with the Board's letter of April 12, 1934 (X-7857) contained instructions to the examiners for the Federal reserve banks to report in connection with the examination of any State member bank whether a warning should be issued under section 30 of the Banking Act of 1933 to any officer or director of the bank. The specific instructions on this point were as follows:

(Page B of the confidential section)

"16. State whether any director or officer is violating any law relating to the bank or is responsible for unsafe

or unsound banking practices, against which he should be warned by the Federal Reserve Agent in accordance with section 30 of the Banking Act of 1933.

If previously warned, have such violations or unsafe or unsound practices been continued?"

Proceedings under section 30 in the case of State member banks are based upon findings of the Federal reserve agent and, after the transfer of the nonstatutory duties of the Federal reserve agent to the Federal reserve bank, the officer in charge of examinations should be charged with the responsibility of keeping the Federal reserve agent advised of any situations wherein it might be advisable to proceed under the provisions of section 30. Sound management is of primary importance in the maintenance of a sound bank, and use should be made of the powers conferred by section 30 to stop abuses and prevent the development of dangerous trends whenever the circumstances warrant such action. In this connection, however, it may be stated that the Board of Governors feels that in enacting the provisions of section 30 Congress did not contemplate that proceedings under that section would be utilized for the correction of trivial matters. The powers conferred by such section should be exercised in cases where other means of obtaining corrections of significant violations of law or of unsound banking practices of substantial importance or indicative of a dangerous trend have failed, or where such other means apparently would be less appropriate or should be supplemented by action under section 30.

It is suggested that, if you have not already done so, you impress upon the examiners for your bank the necessity of developing

-3-

X-9684

information as to whether any violations of law or any unsound banking practices disclosed by their examination of a State member bank warrant a warning of the kind contemplated by the provisions of section 30 of the Banking Act of 1933. It is assumed, of course, that in reviewing reports of examination of State member banks careful consideration will also be given by the Federal reserve banks to the question of management and to the responsibilities of the Federal reserve agents and the Federal reserve banks under section 30 of the Banking Act of 1933. It is requested that whenever any such warning is issued a copy thereof be forwarded promptly to the Board for its information.

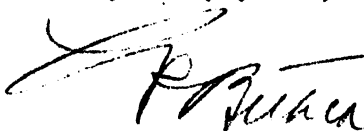
In some cases which have come to the attention of the Board, it was questionable whether the warning given under the provisions of section 30 complied with the technical requirements of that section. In view of the controversial questions which may be presented in any proceedings under section 30 to remove an officer or director from office, it is of the utmost importance that any warning given under the provisions of that section, as well as any other proceedings thereunder, should comply with the technical requirements of the law. It is requested, therefore, that you confer with your counsel regarding the form of any such warning and the manner of the service upon the person or persons involved. As you know, such a warning constitutes the first step in the proceedings leading up to a hearing by the Board under the provisions of section 30 for the purpose of determining whether an officer or director of a State member bank should be removed

-4-

X-9684

from office. Accordingly, if in view of the facts in any particular case your counsel feels that it would be desirable for him to consult with counsel for the Board before the warning is issued, it is requested that he do so.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'L. P. Bethea', written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

TO THE FEDERAL RESERVE AGENTS AND PRESIDENTS
OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9685



September 2, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Some of the Federal reserve banks have discontinued the leased telegraph wires between their head offices and branches and have contracted for time wire service with a commercial telegraph company. Having this in mind, one of these banks has made the suggestion that a considerable amount of telegraph expense could be saved between the head offices and branches if settlements between the Federal reserve banks through the Interdistrict Settlement Fund were made in even thousands of dollars instead of in exact amounts as at present.

If this suggestion were adopted it might be desirable to have the settlement for each Wednesday made in dollars and cents instead of even thousands in order that those offices that have relatively small credits to certain of the Federal reserve banks might have their books cleared of such credits once a week.

It will be appreciated if you will give consideration to this suggestion and advise the Board of your views with respect thereto.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

TO ALL PRESIDENTS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

118

X-9686

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD


September 3, 1936.

Dear Sir:

In the Board's letter of January 25, 1936, X-9464, you were advised that it had extended for a further period of six months, ending July 31, 1936, 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 the circular inclosed with the Board's letter.

Since advances under this authority during the six months ending July 31, 1936, were made to only one company and in the amount of \$13,060.73, the Board does not contemplate renewing the authority which expired on July 31, 1936. It will be appreciated, however, if you will advise the Board whether you see any necessity at this time for extending for a further period the authority of the Federal Reserve banks to discount eligible paper under the provisions of the third paragraph of Section 13 of the Federal Reserve Act.

Very truly yours,


L. P. Bothea,
Assistant Secretary.

TO ALL PRESIDENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9687

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

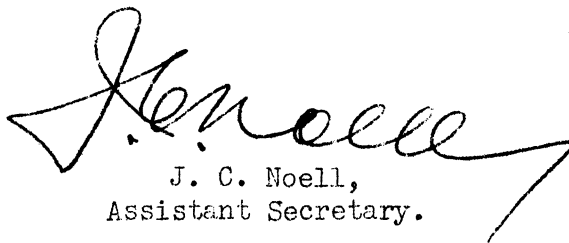
Dear Sir:

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:

"NOYRAM" - Treasury Bills to be dated
September 9, 1936, and to
mature June 9, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYQUE" 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-9688

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 3, 1936.

Dear Sir:

In response to an inquiry from a Vice President in charge of examinations at a Federal reserve bank, the Board has advised that following the transfer to the bank of the non-statutory duties of the Federal Reserve Agent, certificates of issuance or cancellation on applications by member banks for changes in their holdings of Federal reserve bank stock, made pursuant to the provisions of Regulation I may be signed by any officer of the bank instead of by the Assistant Federal Reserve Agent as heretofore.

Accordingly, if the non-statutory duties of the Federal Reserve Agent at your bank have been transferred, or, if not, after the effective date of such transfer, such certificates on applications filed by member banks in your district may be approved by any officer of your bank.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

X-9689
Reg. 0-25

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 3, 1936.

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

Dear Sir:

This refers to your letter of August 6, 1936, in which you state that your bank had a loan to a certain individual for \$6,122.79 supported by a real estate mortgage upon which interest was long overdue; that taxes on the property were in arrears; that foreclosure was probable; and that the property was sold to the vice president of your bank who paid a certain amount in cash and assumed the mortgage for \$5,379.50. On the basis of these facts you inquire whether such transaction is in violation of the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation 0.

The determination of this question depends upon whether the transaction comes within an exception contained in section 22(g) of the Federal Reserve Act and in section 3(a)(3) of the Board's Regulation 0 which is to the effect that the provisions of section 22(g) shall not apply to "any loan, indebtedness, or extension of credit, regardless of the amount thereof, for the purpose of protecting a member bank against loss or giving financial assistance to it". You will observe that whether or not a particular indebtedness of an executive officer to a member bank comes within this exception depends

upon the purpose for which such an indebtedness was incurred and that, under the law, such an indebtedness must be for the purpose of protecting the member bank against loss or giving it financial assistance. The facts submitted are some indication that in the particular case to which you refer the indebtedness was incurred for one of these purposes, but such facts standing alone do not necessarily show that the indebtedness was incurred for one of such purposes. In the absence of full information showing the purpose for which the indebtedness was incurred in the particular case to which you refer, the Board is not able to advise you definitely with regard to that case, but it is believed that in the light of the comments contained in this letter the board of directors of your bank should be able to determine whether or not the transaction is in violation of the provisions of section 22(g). However, if you should desire further information in this matter, it is suggested that you will find it more convenient to communicate with the Federal Reserve Bank of _____ which will be glad to advise you further regarding the matter and if you do so you should give that bank full information as to all of the facts involved.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9690

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 10, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bonds.

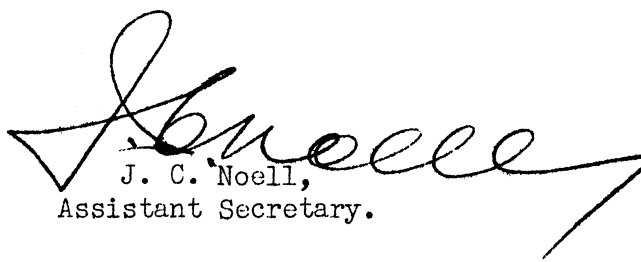
Dear Sir:

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

"NOWCOSY" - 2 3/4% Treasury Bonds of
1956-59, to be dated September 15, 1936, and to
mature September 15, 1959.

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

Very truly yours,


J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9691

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 11, 1936.

Dear Sir:

There are enclosed herewith
copies of statement rendered by the
Bureau of Engraving and Printing,
covering the cost of preparing Fed-
eral reserve notes for the month of
August, 1936.

Very truly yours,

A handwritten signature in cursive script, reading "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. PRESIDENTS.

X-9691-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
August 3 to 31, 1936.

Federal Reserve Notes, Series 1934.

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	-	50,000	13,000	26,000	89,000	\$ 8,321.50
New York,	-	-	100,000	20,000	20,000	140,000	13,090.00
Philadelphia,	-	50,000	50,000	-	10,000	110,000	10,285.00
Cleveland,	100,000	50,000	50,000	44,000	12,000	256,000	23,936.00
Richmond,	20,000	-	-	11,000	-	31,000	2,898.50
Atlanta,	50,000	50,000	10,000	-	-	110,000	10,285.00
Chicago,	-	50,000	100,000	42,000	9,000	201,000	18,793.50
St. Louis,	-	50,000	10,000	-	12,000	72,000	6,732.00
Minneapolis,	-	20,000	10,000	-	-	30,000	2,805.00
Kansas City,	-	20,000	10,000	-	-	30,000	2,805.00
Dallas,	100,000	45,000	5,000	-	-	150,000	14,025.00
San Francisco,	50,000	100,000	50,000	6,000	28,000	234,000	21,879.00
	<u>320,000</u>	<u>435,000</u>	<u>445,000</u>	<u>136,000</u>	<u>117,000</u>	<u>1,453,000</u>	<u>\$135,855.50</u>

1,453,000 sheets, @ \$93.50 per M,..... \$135,855.50



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9692

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 11, 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 August, 1936.

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,

A handwritten signature in cursive script, reading "O. E. Foulk", is positioned above the typed name.

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 AUGUST, 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	42,524	1,101	43,625	\$ 251.45	\$ --	\$ 251.45	\$ 603.65	\$ 251.45	\$ 352.20
New York	161,401	--	161,401	1,214.15	--	1,214.15	2,233.35	1,214.15	1,019.20
Philadelphia	38,449	1,111	39,560	236.39	--	236.39	547.40	236.39	311.01
Cleveland	57,720	1,108	58,828	374.14	--	374.14	814.02	374.14	439.88
Richmond	67,399	1,089	68,488	263.78	230.00	493.78	947.69	493.78	453.91
Atlanta	85,361	1,117	86,478	275.73	--	275.73	1,196.62	275.73	920.89
Chicago	97,633	1,568	99,201	1,591.91	--	1,591.91	1,372.67	1,591.91	219.24(*)
St. Louis	81,462	1,165	82,627	185.66	--	185.66	1,143.33	185.66	957.67
Minneapolis	35,566	1,086	36,652	135.55	--	135.55	507.16	135.55	371.61
Kansas City	75,604	1,090	76,694	259.43	--	259.43	1,061.24	259.43	801.81
Dallas	65,757	1,193	66,950	267.55	--	267.55	926.40	267.55	658.85
San Francisco	111,884	1,161	113,045	550.26	--	550.26	1,564.23	550.26	1,013.97
Board of Governors	790,737	--	790,737	2,571.90	15,451.49	18,023.39	10,941.63	18,023.39	--
Total	1,711,497	12,789	1,724,286	\$8,177.90	\$15,681.49	\$23,859.39	\$23,859.39	\$23,859.39	\$7,301.00
									219.24(a)
									\$7,081.76

(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 (\$.013837257) for business handled during the month.

(*) Credit.

(a) Amount reimbursable to Chicago.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9693

128

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 12, 1936

Dear Sir:

One of the Federal reserve banks has raised a question as to the desirability of continuing the practice now followed by the Board of forwarding by mail confirmations of all telegrams sent to Federal reserve banks or branches. The reserve bank pointed out that when it received such confirmations it felt obliged to compare them with the original telegrams and place them in its files, thereby entailing additional clerical work and cluttering the files. The bank in question also advised that it had been its experience that telegrams were invariably of such character that errors in transmission were noticed by the recipient and that it had discontinued the practice of sending confirmations of telegrams to its branches years ago with no resulting difficulties.

It will be appreciated if you will advise the Board as to your views in the matter.

Very truly yours,

L. P. Bethea
Assistant Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9694

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 12, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

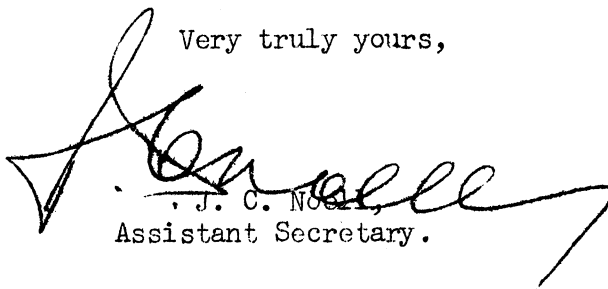
Dear Sir:

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

"NOYREX" - Treasury Bills to be dated
September 16, 1936, and to
mature June 16, 1937.

This word should be inserted in the Fed-
eral Reserve Telegraph Code book, following the
supplemental code word "NOYRAM" on page 172.

Very truly yours,


J. C. NOEL
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9695

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 12, 1936

Subject: Applications for membership
of newly organized banks.

Dear Sir:

There is attached for the information of your bank a copy of a telegram sent today to the Vice President of the Federal Reserve Bank of San Francisco in reply to a request for an expression of the Board's views as to whether a newly organized bank should be admitted to membership in the System upon its opening for business or whether the application of such a bank should be discouraged until it has been in existence for some time in order that its management might prove itself and its ability to operate profitably be substantiated.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Inclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

X-9695-a

September 12, 1936

COPY

SARGENT
San Francisco

Retel September 8. A newly organized bank is eligible for membership in the System and whether its application should be approved or deferred depends upon the circumstances in each case. Upon occasion Board has approved membership applications of banks being organized, membership to become effective upon opening for business. If a Federal reserve bank feels that there is justification for organization of proposed bank, is satisfied with proposed management, and feels that Board of Governors would be warranted in executing certificate required under section 12B (e), it would seem that bank should not be denied membership simply because it is a newly organized bank. On the other hand, if there are serious reservations as to any of the factors enumerated above, it would seem to be appropriate to discourage membership until the bank has been in existence a sufficient time to prove that it merits membership. It is suggested that in the case of an application for membership to become effective upon the opening for business, the views of the Federal Deposit Insurance Corporation supervising examiner as to the situation be obtained.

(Signed) L. P. Bethea

BETHEA

X-9696

Sec. 19 FRA - 1

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 3, 1936.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____.

Dear Mr. _____:

Receipt is acknowledged of your letter of August 27, 1936, with reference to the question whether the participation certificates issued to The _____ State Savings Bank Company, _____, _____, representing the amount of the deposits waived by it at the time of the reorganization of The _____ Trust and Savings Bank, _____, _____, a nonmember bank, should be included in determining whether the balance maintained with the nonmember bank by the member bank is in excess of the limitations of section 19 of the Federal Reserve Act and of condition of membership numbered 11 which the Board has prescribed for it in this connection.

As you know, section 19 provides that a member bank shall not keep a sum in excess of 10 per cent of its capital and surplus with a State nonmember bank or trust company and the Board's condition of membership requires The _____ State Savings Bank Company at all times to maintain its balances with nonmember banks and trust companies within such limits. The Board understands that from your investigation of the matter you and your counsel are of the opinion that the participation certificates under discussion merely evidence the right of The _____ State Savings Bank Company to

X-9696
Sec. 19 FRA - 1

-2-

share with the holders of other similar certificates in the distribution of the proceeds of the liquidation of certain assets formerly held by The _____ Trust and Savings Bank which were set aside at the time of its reorganization for the benefit of such certificate holders, and that the nonmember bank itself is under no liability to The _____ State Savings Bank Company for the payment of the participation certificates held by it.

On the basis of such information, it is the Board's view that the amount represented by the participation certificates need not be included in computing the balance The _____ State Savings Bank Company may maintain with The _____ Trust and Savings Bank under the provisions of section 19 of the Federal Reserve Act and the Board's condition of membership referred to above. In the circumstances, if, after excluding such participation certificates, the amount of funds the member bank has on deposit with the nonmember bank is not in excess of 10 per cent of its capital and surplus no violation of such provisions is involved.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea
Assistant Secretary.

X-9697
Reg. 0-26

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 24, 1936.

Honorable _____,
_____,
_____.

Dear Mr. _____:

This refers to Mr. _____ letter of July 7, 1936, regarding the applicability of section 22(g) of the Federal Reserve Act and the Board's Regulation 0 to the liability to a bank of an executive officer of a member bank arising as the result of his indorsement of the note of a partnership in which he has less than a majority interest.

You have not furnished detailed facts as to the circumstances involved in the particular case and as to why indorsement by the individual partner on the partnership obligation is desirable. Therefore, the Board is not in a position to undertake to rule upon a particular case, but it will advise as to its views with respect to the general question whether the liability to a bank resulting from such an indorsement comes within the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation 0.

If an executive officer is a member of a partnership under an agreement whereby his liability for partnership debts is limited, and is, therefore, liable under the law for the debts of the firm only to the extent of his contribution to its assets or to a limited

extent on some other basis, his individual indorsement of a note of the partnership would clearly increase the extent of his liability.

Even in the case of an unlimited partnership, the act of a partner in adding his individual indorsement to a note of the partnership would appear to create a liability distinct from, and in addition to, his liability as a partner arising by operation of law. In the marshaling of assets of an insolvent partnership, it appears to be a general rule in equity that firm creditors shall be paid first from partnership property and that they may not resort to the individual property of a partner until the partner's individual creditors have been paid in full. However, a creditor holding the note of a partnership bearing the individual indorsement of one of the partners would be an individual as well as a firm creditor and would, therefore, be entitled to payment from the individual property of the partner in preference to other firm creditors. In this respect, the liability of the indorsing partner would appear to be greater, as to the holder of the partnership note indorsed by him, than it would have been had he not indorsed such note.

As indicated in the Board's letter to you under date of April 4, 1936, it seems clear that the prohibitions of section 22(g) of the Federal Reserve Act are not applicable to a loan by a member bank to a partnership in which one or more executive officers of such bank have either individually or together less than a majority interest. As stated in the Board's letter, it is believed that the evident

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X-9697
Reg. O-26

policy of the law to exempt such partnership loans would be defeated if the law were construed as including the liability of an executive officer who is a member of such a partnership arising solely by virtue of the operation of law which makes him individually liable as a partner for the debts of the firm. However, the Board does not feel that it would be justified in extending the exemption permitted by the statute beyond the point clearly contemplated by its provisions and beyond the point necessary to give full effect to the purposes of the statute.

In the circumstances, it is the view of the Board that the liability to a bank of an executive officer of a member bank arising from his indorsement of a note of a partnership in which he has less than a majority interest would constitute a liability falling within the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation O.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 12, 1936.

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

Dear Sir:

This refers to your letter of August 27, 1936, to Mr. _____, inquiring whether the Board would consider the investment of trust funds by your bank in securities purchased from its affiliate, Trust Company of _____, (name of city), a violation of subsection (a) of section 11 of Regulation F, revised effective June 1, 1936, which reads as follows:

"(a) Obligations of trustee bank or its directors, officers, etc.--Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank."

It is understood that Trust Company of _____ is an affiliate of your bank solely by reason of the fact that the same persons own or control a majority of the shares of stock of each institution.

The Board is of the opinion that the investment of trust funds by a national bank in securities purchased from an organization which is for any reason an affiliate of such bank, within the meaning of that term as defined by Congress in section 2(b) of the

X-9698
Reg. F-6

-2-

Banking Act of 1933, violates the above quoted provisions of Regulation F and that, therefore, the investment of trust funds by your bank in securities purchased from Trust Company of _____ is prohibited. As you know, the pertinent provisions of Regulation F are based upon long established principles of law and sound practices relating to the administration of trusts and, while circumstances may reduce the danger of abuses in some instances, the Board has not felt that it could justify making exceptions.

In this connection, it may be noted that the American Law Institute's Restatement of the Law of Trusts, section 170, comment (i), states:

"* * * A corporate trustee cannot properly purchase for the trust property owned by an affiliated or subsidiary corporation in which it has the entire interest or a controlling interest or an interest of such a substantial nature that there would be a temptation to consider its own advantage in making the sale and not to consider solely the advantage to the beneficiaries of the trust. The rule is the same where the shares of the selling corporation are owned by the shareholders of the corporate trustee. * * *"
(Underscoring supplied)

It may also be noted that the Statement of Principles of Trust Institutions, adopted by the Trust Division of the American Bankers Association, states:

"It is a fundamental principle that a trustee should not have any personal financial interest, direct or indirect, in the trust investments, bought for or sold to the trusts of which it is trustee, and that it should not purchase for itself any securities or other property from any of its trusts. Accordingly, it follows that a trust institution should not buy for or sell to its estates or trusts any securities or other property in which

X-9698
Reg. F-6

-3-

it, or its affiliate, has any personal financial interest, and should not purchase for itself, or its affiliate, any securities or other property from its estates or trusts."

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9699

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 17, 1936.

SUBJECT: Holidays during October, 1936.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that on Saturday, October 10, the Havana Agency will be closed in observance of the anniversary of the Revolution of Yara.

On Monday, October 12, Columbus Day, 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 the following Federal reserve banks and branches will be open for business as usual:

Charlotte	St. Louis
	Little Rock
Nashville	Memphis
Detroit	Minneapolis
	Kansas City
	Oklahoma City.

Please notify branches.

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Noell", with a long, sweeping horizontal stroke extending to the right.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9700

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 18, 1936.

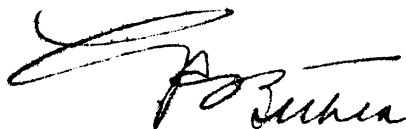
SUBJECT: Change in inter-district
time schedule.

Dear Sir:

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

	<u>From</u>	<u>To</u>
Detroit to Charlotte	3 days	2 days
Detroit to Jacksonville	3 days	2 days
Detroit to Dallas	3 days	2 days

Very truly yours,



L. P. Bethen,
Assistant Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9701

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 19, 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:

"NOYRID" - Treasury Bills to be dated
September 23, 1936, and to
mature June 23, 1937.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Noell", is written over the typed name and title.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

X-9702
Reg. Q-25

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

September 22, 1936.

Mr. _____, Assistant Cashier,
The _____ National Bank,
_____, _____.

Dear Sir:

This refers to your letter of June 26, 1936, addressed to the Comptroller of the Currency, regarding the question whether your bank may classify a deposit in the name of the _____ Company, collateral for (name of individual), as a savings deposit under the provisions of section 1(e) of Regulation Q. As stated in the Board's letter to you dated August 5, 1936, your letter has been referred by the Comptroller of the Currency to the Board for reply.

You state that the funds in question were deposited in your bank by (name of individual) to the credit of the _____ Company to secure the company on an appearance bond furnished for (name of individual). The quoted portion of the letter from the surety company states that the funds deposited would become the property of the company only upon breach of the bond in connection with which the collateral was given. The surety company also states that upon the discharge of the company's liability on the appearance bond, without loss, and upon payment of any premium due, the funds in the deposit with accumulated interest would be returned to the depositor.

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X-9702
Reg. Q-25

Under the circumstances stated above, it is the view of the Board that the deposit may be considered one in which the entire beneficial interest is held by an individual and that the deposit may be classified as a savings deposit if it complies with the other requirements of section 1(e) of Regulation Q.

Of course, if the surety company should hereafter assert any claim to the fund in any capacity other than as a mere holder for the purposes stated above, a different situation would be presented.

If you should have any further questions regarding this matter or any similar matter, it is believed that you may find it more convenient to communicate with the Federal Reserve Bank of Kansas City.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-9703
Reg. Q-26

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

September 22, 1936

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter dated June 29, 1936, and inclosures, requesting a ruling by the Board upon the question whether a member bank may classify as a savings deposit funds consisting of a cash bond given by an employee to his employer, such funds to be withdrawn from the deposit account only upon the joint signatures of the employer and the employee. A reply to your letter has been delayed pending consideration by the Board of a number of similar questions.

Section 1 of the California Act Regulating Employees' Bonds (Act approved April 20, 1917, Stats. 1917, p. 151, Chap. 108, as amended,) provides that "no employer shall demand, exact or accept any cash bond from any employee or applicant for employment unless * * * the said cash received as a bond is deposited in a savings account in a bank authorized to do business in this State, to be drawn out only upon the joint signatures of the said employer and the said employee or applicant for employment, * * *."

Section 1 $\frac{1}{2}$ of the above Act provides that "any money or property put up by any employee or applicant for employment as a cash

bond in any case must not be used for any purpose other than liquidating accounts between the employer and his said employee or return to the said employee or applicant for employment, and shall be held in trust for this purpose and not mingled with the money or property of the employer who receives same, any provision of any contract between the employer and employee or applicant for employment to the contrary notwithstanding."

It is the view of the Board that deposits of cash bonds made in accordance with the above statutory provisions may be considered deposits in which the entire beneficial interest is held by an individual and that such deposits may be classified by member banks as savings deposits under the definition in section 1(e) of Regulation Q, provided they comply with the other requirements of the section.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-3705

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 25, 1936.

SUBJECT: Compilation of Federal Laws Affecting
National Banks Prepared by the Office
of the Comptroller of the Currency.

Dear Sir:

The Comptroller of the Currency has advised that the supply of the recent publication of his office entitled "Federal Laws Affecting National Banks as of January 1, 1936" is being rapidly depleted. The price of this volume is \$1 a copy and, in the event your bank should desire to purchase any copies, it is suggested that you communicate with the office of the Comptroller of the Currency.

Very truly yours,



L. P. Bethoa,
Assistant Secretary.

TO THE PRESIDENTS OF
ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9706

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 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:

"NOYROB" - Treasury Bills to be dated
September 30, 1936, and to
mature June 30, 1937.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Noell", with a long, sweeping horizontal stroke extending to the right.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9707



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 28, 1936.

Dear Sir:

One of the Federal reserve banks has raised the question as to whether the authority given under the Board's letter, X-9405, of December 27, 1935, to make special contributions to the Retirement System for the purpose of providing supplementary retirement allowances in the case of involuntary separations from the service, is applicable to cases of retirement on account of disability.

Contributions may be made to the Retirement System in accordance with the authority contained in the Board's letter X-9405 in the case of employees retired on account of disability. However, the limitation at the end of paragraph (a) of the above mentioned letter--that an employee under age 55 may not be granted an annuity of greater actuarial value than he might be granted if he were 55 years of age--would operate to prevent the payment of any special contributions in most cases of retirement on account of disability before age 55.

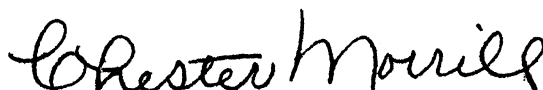
Notwithstanding the above mentioned limitation, the Board authorizes your bank in its discretion to pay to the Retirement System, for the purpose of supplementing the retirement allowance of an employee retired for total disability prior to age 55 not to exceed

-2-

X-9707

the amount that could be contributed under the authorization contained in its letter, X-9405, if the employee were 55 years of age. Under the Board's authorization, as thus modified, payment to the Retirement System of six months' salary may be made at the discretion of a Federal reserve bank in the case of any employee retired on account of disability after not less than 10 years of service, regardless of age. As stated in the Board's letter, X-9405, that part of any salary in excess of \$12,000 should be disregarded in determining the maximum contribution that may be made under the Board's authorization.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL PRESIDENTS

INTERPRETATION OF LAW OR REGULATION

X-9708

Sec. 9 FPA-3

(Copies to be sent to all Federal reserve banks)

September 26, 1936.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to previous correspondence with regard to the question whether the removal of the branch of the _____ Trust Company, _____, _____, from 1201 Broadway to 1399 Broadway, _____, _____, constitutes the establishment of a branch at the new street address which would require the Board's approval under the provisions of section 9 of the Federal Reserve Act.

In Mr. _____ letter to the Board of June 16, 1936, it was stated that the branch in question was established on January 18, 1926, at 1201 Broadway, _____, _____; that it was operated at this location continuously from such date through Saturday, February 29, 1936, on which date it moved to the new location, 1399 Broadway, _____, _____, opening for business Monday morning, March 2, 1936; that there was no interruption in the business of the branch in connection with its removal; that there has been no change in the character of the business conducted by the branch at the new location; that there are no new elements of competition with other banks resulting from the change in location; and that the branch will continue to serve the same customers as

heretofore to better advantage. While Mr. _____ letter is not entirely clear, it is understood that Broadway-_____ (apparently a subdivision in the city of _____) is located more than a mile from the business center of _____ proper; that the business district of Broadway-_____ is confined to Broadway Avenue, extending four blocks thereon; and that the former location of the branch was at the extreme edge of the Broadway-_____ business district while the new location is in the heart of it. In this connection, it appears that the branch has not moved into the business district of _____ proper, but the new location is substantially in the same business district as theretofore. It is also noted that the removal of the branch in question was effected in accordance with the laws of the State of _____ and with the approval of the Superintendent of Banks and that Counsel for your bank is of the opinion that the removal of the branch in question could not properly be considered as the establishment of a new branch office within the meaning of the applicable provisions of the laws of the State of _____.

On the basis of the facts stated above the Board has reached the conclusion that the removal of such branch to the new street address does not constitute the establishment of a branch within the meaning of the applicable provisions of section 9 of the Federal Reserve Act and, therefore, the Board's approval is not required.

The Board's conclusion in this case should not be considered as having general application to all cases where an out-of-town branch

of a State member bank moves to a new street address in the same city. Therefore, in any future case where it comes to your attention that a State member bank in your district has changed or intends to change the location of an out-of-town branch, whether such change is to a new street address in the same city or not, it will be appreciated if you will advise the Board fully as to all the facts and circumstances involved in order that the Board may determine whether such removal constitutes the establishment of a branch within the meaning of section 9 of the Federal Reserve Act, thereby requiring the Board's approval.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9709
Sec. 13 FRA-2

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 1936.

Subject: Deposits of uninvested trust
funds in Federal Reserve banks.

Dear Sir:

As will be recalled, the conference of Governors of Federal Reserve banks on October 23, 1935, discussed the matter of the acceptance of deposits of uninvested trust funds from member banks by Federal Reserve banks, and the conference expressed itself as favoring such a practice, with four of the Governors voting in the negative. Replies which have been received to the Board's letter of April 15, 1936, on this subject, however, show that the large majority of the Federal Reserve banks are unfavorably disposed toward the acceptance of uninvested trust funds on deposit from member banks.

While some member banks would derive benefit from the privilege of depositing uninvested trust funds with Federal Reserve banks in that they would have a safe depository and would not be required to pledge securities for funds so deposited, it does not appear that any large number of member banks have expressed a desire for this service. It is doubtful whether the receipt of such deposits can be said to fall within the scope of the purposes for which the Federal Reserve banks were established and it is believed that the acceptance

-2-

of such deposits would, in addition to the extra work which would be entailed, subject the Federal Reserve banks to annoying complications and possible legal liabilities, against some of which, at least, adequate precautions could not be taken.

The Board of Governors has given consideration to the matter in the light of the views expressed by the Federal Reserve banks and feels that it is not desirable that Federal Reserve banks engage as a general practice in receiving uninvested trust funds on deposit from member banks. However, in view of the fact that in the Board's judgment it cannot be said that Federal Reserve banks are without the legal authority to accept such deposits, and since two or three of the Federal Reserve banks are desirous of performing the service in some circumstances, the Board for the present will offer no objection to the receipt of deposits of uninvested trust funds in a special account when in the judgment of the Federal Reserve bank special circumstances render such service to a particular member bank desirable for a temporary period. Any such account which is established, however, should have constant attention and should be discontinued as soon as the special circumstances justifying the account are eliminated. In opening any such account an agreement between the Federal Reserve bank and the member bank should be carefully prepared with the assistance of counsel for the Federal Reserve bank, and such other precautions as may seem necessary should be taken to minimize the possibility of litigation or loss to the Federal Reserve bank.

-3-

It would seem that the opening of a separate account for each trust estate whose funds are deposited with the Reserve bank, in lieu of one account for the receipt of all uninvested trust funds deposited by a particular member bank, would be so burdensome to a Federal Reserve bank as to be impracticable.

While the action of the Governors' conference in October 1935 contemplated that transactions in an account in which trust funds are received would be confined to transfers to and from the reserve account of the member bank, it is believed that this practice would involve a commingling of the funds of the fiduciary with trust funds, which would be objectionable both from the standpoint of the fiduciary and the Federal Reserve bank, with possible ensuing liabilities. For this reason, it is suggested that, in any case in which a Federal Reserve bank feels it necessary to establish an account of this kind, transactions between the trust account and the reserve account be not permitted but that some other method of effecting deposits in and withdrawals from the account be followed.

It should be understood, of course, that deposits of funds received by a member bank in a fiduciary capacity and deposited with a Federal Reserve bank in such an account may not be counted as a part of the member bank's reserve balance with the Federal Reserve bank.

The action of the Governors' conference in October 1935 appears to contemplate the possibility of a Federal Reserve bank's

-4-

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. It is the view of the Board that the receipt by a Federal Reserve bank of uninvested trust funds from a nonmember institution would not be legally authorized.

There is inclosed herewith for your information a copy of a memorandum prepared in the office of the Board's counsel regarding this matter, together with a summary of views expressed by the Federal Reserve banks in their letters replying to the Board's letter of April 15, 1936, on this subject.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

X-9709-a
Sec. 13 FRA-2

OFFICE CORRESPONDENCE

September 17, 1936

TO Board of Governors

SUBJECT: Deposits in Federal Reserve
banks of uninvested trust
funds of member banks.

FROM Mr. Vest

The attached file presents the question whether Federal Reserve banks should receive on deposit from member banks deposits of trust funds of such member banks awaiting investment or distribution. This matter was considered by the Governors' Conference in October 1935, and the Governors voted eight to four in favor of receiving such deposits. However, a letter was sent to the Federal Reserve banks in April of this year requesting copies of opinions or memoranda prepared in the respective banks with regard to this subject and it appears from the replies which have now been received that at least nine of the banks are unfavorable to accepting deposits of uninvested trust funds of member banks on deposit.

CONCLUSIONS

It appears that there is not any great demand among the member banks for the acceptance of uninvested trust funds on deposit by Federal Reserve banks and that the great majority of Federal Reserve banks are opposed to the practice. It also appears that disadvantages of the practice from the standpoint of the Reserve banks outweigh the possible advantages. Moreover, it is doubtful whether the receipt of trust funds is a function which was contemplated by Congress in establishing the Federal Reserve banks and the acceptance of such deposits might, in certain circumstances at least, involve the Federal Reserve banks in legal responsibilities which might lead to loss. In addition, a considerable burden of work might be entailed.

On the other hand, there seems to be technical legal authority for the practice. Some member banks would like to have the service rendered to them and two or three Federal Reserve banks are disposed to perform the service.

In all the circumstances, it is recommended that the Board write a letter to the Federal Reserve banks indicating that the practice is not a desirable one, with a statement, however, that the Board will offer no objection to the receipt of deposits of uninvested trust funds subject to proper safeguards when in special circumstances a Federal Reserve bank may feel that it is necessary or desirable to render the service for a temporary period to particular member banks. A draft of such a letter is attached.

FACTS AND HISTORY

Under the provisions of section 11(k) of the Federal Reserve Act, a national bank exercising trust powers may not use trust funds in the conduct of its business unless it sets aside in the trust department United States bonds or other securities approved by the Board of Governors. A similar requirement, in the form of a condition of membership, is now imposed upon State banks exercising trust powers which become members of the Federal Reserve System (this requirement being subject to exception where trust funds are fully protected by a statutory preference). However, a member bank may deposit such trust funds awaiting investment or distribution in another institution without depositing securities in its trust department.

There have been several suggestions from member banks in the last year or two that Federal Reserve banks receive such deposits of uninvested trust funds from member banks. In a letter to the Federal Reserve Bank of San Francisco in June, 1935, Mr. C. K. McIntosh, President of the Bank of California National Association, points out that present conditions make it profitable for concerns having outstanding bond issues for which banks or trust companies act as trustee to call these issues for payment and to refinance them at the lower rates now prevailing. As a result, large amounts of funds are temporarily in the hands of such trustees and these funds must either be retained in cash, deposited in another institution or secured by the deposit of securities. Mr. McIntosh contends that the demand for large sums in cash would be a burden upon the Federal Reserve bank and that it would be impracticable for banks in many instances to have free securities in large amounts sufficient to cover the amount of uninvested trust funds. Of course, the banks are unwilling to deposit the funds in large amounts in another institution unless they are entirely satisfied as to its financial condition because such funds so deposited are unsecured. Therefore, as a solution of the matter, the Federal Reserve banks are asked to accept such deposits.

This matter was presented to the Board by the Federal Reserve Bank of Richmond in 1934. Counsel for the bank had indicated doubt as to whether the bank was authorized under the law to receive such deposits and the bank advised the Board that it felt, in view of the legal and practical questions involved, that it would be undesirable to accept such deposits. In these circumstances, the Board expressed the opinion that since it was doubtful whether the receipt of uninvested trust funds from member banks by Federal Reserve banks falls within the purposes of the Federal Reserve Act and since such a deposit in a Federal Reserve bank could not be counted as a part of the depositing member bank's reserve balance, and in view of the legal responsibilities which might be assumed by a Federal Reserve

-3-

X-9709-a
Sec. 13 FRA-2

bank in accepting such deposits, it would not be advisable for Federal Reserve banks to receive uninvested trust funds from member banks. The same question, however, was subsequently raised by the Federal Reserve Bank of Minneapolis and the Federal Reserve Bank of Dallas, and as a result the matter was considered by the Governors' Conference in October 1935. As indicated above, the Governors voted eight to four in favor of the acceptance by Federal Reserve banks of deposits of uninvested trust funds from member banks.

Mr. Robert Neill, Chief National Bank Examiner for the 8th district, has addressed a memorandum to the Comptroller of the Currency recommending strongly that national banks deposit uninvested trust funds in Federal Reserve banks.

It is understood that many Federal Reserve banks have for a number of years accepted securities for safe-keeping for the account of the trust department of member banks and the Board has recognized that fact without objecting to the practice.

In view of the difference of opinion on this subject which was apparent from the action of the Governors' Conference in October 1935 and in view of the many legal and practical considerations involved, a letter was addressed to the Presidents of all Federal Reserve banks on April 15, 1936, requesting copies of any opinions or memoranda prepared by counsel or other officers of the banks with regard to the various aspects of this problem. The replies to this letter are contained in the attached file. There is attached hereto a summary of the replies of the Federal Reserve banks on this question, together with a tabular synopsis indicating very briefly and without appropriate qualifications the position taken by the Federal Reserve banks and their counsel with regard to various points arising in connection with this matter.

These replies show that the large majority of Federal Reserve banks (at least nine) are unfavorably disposed toward the acceptance of uninvested trust funds on deposit from member banks. They feel that they would not be justified in assuming the legal and practical responsibilities which would be involved in the receipt of such deposits. Apparently only one Federal Reserve bank, San Francisco, feels that the Federal Reserve banks should perform this function as a general practice. Another bank, Dallas, feels that the practice should be permitted if and when in the judgment of the Federal Reserve banks circumstances warrant, but that the trust account should be discontinued as soon as circumstances indicate that a proper need no longer exists. A third bank, Philadelphia, indicates that it would receive such deposits in particular cases when emergency or temporary conditions make such action desirable as a service to member banks.

The replies received from the Federal Reserve banks do not indicate that very many member banks desire the proposed service.

LEGAL AUTHORITY OF FEDERAL RESERVE BANKS TO RECEIVE
SUCH DEPOSITS

The first paragraph of section 13 of the Federal Reserve Act provides in part as follows:

"Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts payable upon presentation, and also, for collection, maturing notes and bills; * * * *."

Section 4 of the Federal Reserve Act empowers a Federal Reserve bank "To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act."

It will be observed that under the above provisions of the statute a Federal Reserve bank is authorized to receive deposits from any of its member banks and is authorized to exercise such incidental powers as are necessary to carry on its banking business within the limitations of the Federal Reserve Act. No restriction is made by the law as to the number of accounts which a Federal Reserve bank may receive from any one member bank, nor is there any provision requiring such accounts to consist of funds held by the member bank in its own right, rather than as trustee or other fiduciary. It cannot be said that Federal Reserve banks are prohibited by the provisions of the law from receiving deposits of trust funds from member banks, nor is there any implication to be derived from the Act which in my opinion would justify the restrictive interpretation that the authority to receive deposits of member banks does not include authority to receive on deposit funds held by a member bank as trustee as well as funds to which the member bank has both the legal and equitable title.

This provision of the law has heretofore been given a rather broad interpretation. For example, with regard to this provision, in the case of Pascagoula National Bank v. Federal Reserve Bank of Atlanta, one of the most important cases in which any Federal Reserve bank has ever been involved, the statement was made in the brief filed on behalf of the Federal Reserve Bank, in the preparation of which this office participated, that "the word 'deposits' is obviously used, as in other sections of the act, in its broad,

non-technical sense, and contemplates the physical receipt of checks". Although this point was not referred to specifically in the opinion of the court, the decision was in favor of the Federal Reserve bank. Moreover, during the banking holiday of 1933 the Board authorized the Federal Reserve banks to open special accounts on their books for receipt from member banks of funds representing new deposits in such banks which were subject to an agreement that they be repaid in full on demand. These so-called new deposits were in effect trust funds, and this action appears to be a precedent for the receipt of uninvested trust funds in a separate account, so far as the legal question is concerned.

Counsel for the Federal Reserve banks, it is indicated in the letters received from the banks, divide almost equally in their opinions on the question whether Federal Reserve banks have the legal authority to accept deposits of trust funds from member banks.

The Federal Reserve Act constitutes remedial legislation and therefore under established rules of statutory construction the powers conferred by the law upon Federal Reserve banks should have a liberal interpretation. Accordingly, while it is conceded that in enacting the original Federal Reserve Act Congress did not have in mind the acceptance of trust deposits from member banks by Federal Reserve banks and the conclusion is open to doubt, it is my opinion that the Federal Reserve banks have the requisite legal authority under the provisions of sections 13 and 4 of the Federal Reserve Act to receive deposits of uninvested trust funds from a member bank and to place such deposits in a separate account, segregated on the books of the Federal Reserve bank from the reserve account of the member bank.

It may be well in this connection to call attention to two rulings of the Board heretofore made, which at first glance might not seem to be in harmony with the opinion above expressed, but which in reality are believed to be in no wise inconsistent. Prior to the Banking Act of 1935 section 19 of the Federal Reserve Act provided that the net difference of amounts due to and from other banks should be taken as the basis for ascertaining the deposits against which required reserve balances of member banks are determined. In 1922 the Board took the position that trust funds deposited by a member bank as fiduciary in another member bank should be treated by the depository member bank as an individual deposit rather than a bank deposit and therefore might not be included by the depository bank among the amounts due to other banks within the meaning of the provision of section 19 in question. It is obvious, however, that the purpose of this provision of section 19 is very different from that of the provision of section 13 which is under consideration. The purpose of the provision of section 19 was to permit an off-set

of bank balances in computing reserves on the theory that such balances owing to a member bank would be readily available to it at any time for meeting demands upon it. Obviously, balances owing to a member bank in its capacity as fiduciary could not be utilized for any such purpose. This ruling, therefore, does not seem to me to affect the present question.

In a ruling in June 1936 the Board took the position 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 that no member bank shall keep on deposit with a State nonmember bank a sum in excess of 10 per cent of its own paid-up capital and surplus. Attention was called to the fact, in this connection, that the statutory limitation was 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 to exceed the specified percentage. If Congress had intended the limitation to apply to a deposit of trust funds it would seem that it would have provided a limitation bearing a relation to the funds of each individual trust. In view of these considerations and the purpose for which this provision was enacted, it does not seem that this precedent is inconsistent with a broad interpretation of the provisions of the first paragraph of section 13.

For the reasons stated, it is my conclusion, while recognizing the doubt with regard to this matter, that Federal Reserve banks have implied authority to receive the deposits in question.

The action of the Governors' Conference in October 1935 appears to contemplate the possibility of a Federal Reserve bank's 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 there does not appear to be any legal authority for the receipt by a Federal Reserve bank of uninvested trust funds from such an institution. On this point, counsel for the twelve Federal Reserve banks are unanimous in the view that there is no legal authority.

USE OF SUCH DEPOSITS AS RESERVE OR AS A SET-OFF FOR
INDEBTEDNESS OWING TO THE RESERVE BANK

Such deposits of trust funds in a Federal Reserve bank would not be placed in a member bank's reserve account but would be placed in a special account in which the funds would be segregated on the books of the Federal Reserve bank from other funds standing

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to the credit of the member bank and would be in the name of the member bank as trustee or other fiduciary. Such deposits could not be counted as a part of the lawful reserve of the member bank against its deposits since they are trust funds deposited by the member bank in its capacity as fiduciary and are not funds held by it in its own right. Likewise, it is believed that they would not be subject to any claim by the Federal Reserve bank against the member bank for indebtedness due by the latter to the Reserve bank, because they are not funds belonging to the member bank in its own right.

NECESSITY FOR MORE THAN ONE TRUST ACCOUNT

In its letter to the Federal Reserve banks of April 15, 1936, the Board requested the views of the Federal Reserve banks, in consultation with their 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 a 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 that a separate account be opened for each trust estate whose funds are deposited in the Federal Reserve bank. In this connection, attention was invited to the principle that a fiduciary should keep the properties of various trusts separate and distinct one from another.

With regard to this matter, the majority of counsel for the Federal Reserve banks seem to feel that it is not necessary to have separate accounts for each trust but that one account is sufficient provided the member bank keeps proper records on its books showing the ownership of the funds in such account, and that the Federal Reserve bank would be taking little risk in accepting only one account representing the funds of several estates.

In this connection, the following statement from Bogert on Trusts, Vol. 3, page 1888, is pertinent:

"(3) It is also a breach of trust of this type if the trustee commingles two distinct trust funds. If the same person is trustee of two trusts even though there is some identity in the personnel of the two groups of cestuis, he should set up the trusts separately, tag the property of each with the appropriate name, and keep the res of each trust distinct both physically with respect to all records and marks of identification. He should not maintain a single bank account for the two trusts, nor should he use a mixed fund to purchase a mortgage as an investment. There has been some tendency, however, to permit the mingling of two or more trust

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funds in an investment, provided the trustee keeps accurate books with regard to the shares of each trust, and each cestui is given notice of his exact interest."

On the other hand, however, the following is an excerpt from the Restatement of the Law of Trusts of the American Law Institute, Volume I, page 457:

"Where the trustee holds the funds of numerous beneficiaries, and it would be unreasonable and not subserve any purpose in protecting the interests of the beneficiaries of the several trusts to require him to keep separate the funds of the different trusts, it may be proper for the trustee to mingle funds of the different trusts by deposit thereof in a common bank account. Thus, ordinarily a trust company can properly deposit in a single trust account in another bank the funds of several trusts, provided that it keeps an accurate record of the contributions of the separate trusts. * * *"

It is apparent, therefore, that the law on this subject is not entirely settled, but as stated by counsel for the Federal Reserve Bank of Cleveland "It does not seem to us that any protection to the beneficiaries of the various trusts is achieved through complicating the machinery of deposit of the individual trust funds by keeping individual records with respect thereto. The possibility of loss to the beneficiaries is not increased by the common deposit of such funds in one account if proper accounting for the individual trusts is kept upon the books of the trustee. If a shortage arises in the account of any individual beneficiary, it does not seem to us that the proximate cause of such shortage is the method of depositing the trust funds. No liability therefore should accrue to the Federal Reserve banks."

Mr. Hackley, Law Clerk in this office, has prepared a memorandum with regard to the deposit of funds of several trusts by a fiduciary in a single bank account. He reaches the conclusion that a fiduciary bank may properly deposit trust funds of several trust estates in a lump sum in a single account in another institution provided certain requirements are met. The cases which he has found having a bearing on this subject relate generally to the right of a fiduciary to invest in one investment the funds of several trusts and not to the right of the fiduciary to deposit the funds of several trusts in one account. Regardless of the right to make collective investments of trust funds, and on this point the decisions are not in harmony, it would seem that most of the objections which may be raised against such collective investments would not apply with respect to a mingling of funds of different estates in one bank account if proper records are kept by the fiduciary showing the interest of each estate in such account.

At any rate, there would appear to be little likelihood of any liability on the part of a Federal Reserve bank arising from the fact that it may have received on deposit the funds of a number of different trust estates in a single account. While a Federal Reserve bank might be held liable for the misappropriation of trust funds deposited with it if it had actual knowledge of such misappropriation by the trustee, it would be a remote possibility that any such liability would be any more likely to occur where one account was received on deposit than where a number of different accounts were received.

On this particular point, therefore, it is my conclusion that if Federal Reserve banks are to be permitted to receive such deposits at all they should be permitted to receive deposits of funds of a number of different estates in one account. To require separate accounts would, as many Federal Reserve banks point out, involve great operating difficulties, as well as considerable expense, and would impose an unjustified burden upon the Reserve banks.

TRANSACTIONS BETWEEN TRUST ACCOUNT AND RESERVE ACCOUNT

The Conference of Governors in October 1935 approved the practice of receiving trust funds, but with the qualification that transactions in an account in which such trust funds are received should be confined to transfers to and from the reserve account of the member bank.

This raises a serious question as to whether or not a fiduciary bank might not in such circumstances violate one of the well established rules of the law of trusts that a trustee shall not mingle funds of a trust estate with his own funds. It is obvious that in transferring amounts to the trust account from the reserve account and withdrawing funds from the trust account and placing them in the reserve account, a member bank would be commingling its own funds with trust funds both at the time of the deposit in the trust account and the withdrawal therefrom. While the transaction might be handled on its books in such a way that the commingling would be a matter of short duration, possibly almost instantaneous, nevertheless, there would be at least a technical commingling in violation of the rule. It is possible that this might, in some cases at least, subject a Federal Reserve bank to embarrassment or to liability if it had knowledge of a wrongful appropriation of trust funds on the part of the fiduciary bank.

If a member bank transfers from its reserve account to the trust account a specified amount and later re-transfers the amount to the reserve account and misappropriates such amount, the Federal Reserve bank might be liable to the beneficiaries for the loss which

they suffered. For example, if a member bank were deficient in its reserve account and made a transfer from its trust account to make up the deficiency, it would seem that the Federal Reserve bank would be on notice of a wrongful use of trust funds and therefore, being charged with knowledge of the misappropriation, might be held liable.

The majority of counsel for the Federal Reserve banks feel that if the practice of receiving trust funds is to be permitted at all, there should not be transfers from the trust account to the reserve account. They feel that such a practice would be likely to involve the Federal Reserve bank in litigation with possible loss.

If trust funds are received on deposit by Federal Reserve banks, therefore, it is believed that it would be advisable not to adopt the practice suggested by the Governors' conference of having transactions between the reserve account and the trust account, but to adopt some other method for deposits in and withdrawals from the trust account.

ADVANTAGES AND DISADVANTAGES OF THE PRACTICE

There are listed below the chief advantages and disadvantages of the acceptance by Federal Reserve banks of uninvested trust funds on deposit from member banks.

Advantages

Member banks would be enabled to release from pledge with their trust departments securities now deposited there to secure deposits of trust funds in their commercial or savings departments; and hereafter could deposit uninvested trust funds in Federal Reserve banks without the necessity of putting up securities. It is sometimes inconvenient for banks to cover trust funds with securities, especially where there has been a temporary increase in such funds in connection with corporate bond issues.

Member banks would have a safe place of deposit for their uninvested trust funds. It is true that deposits made in other commercial institutions which are members of the Federal Deposit Insurance Corporation would be insured up to \$5,000 for each account, but unlimited amounts could be placed with Federal Reserve banks with assurance of safety.

A State member bank which is subject to the condition of membership that trust funds deposited by the bank in its banking department shall be secured by a pledge of collateral with the trust department finds itself unable to carry uninvested trust funds in its own banking department in those States where the laws

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do not permit the pledging of collateral for this purpose. The Board has been urged to waive this requirement in some of such cases, as the banks are usually unwilling to deposit trust funds in other commercial banks. The acceptance of such deposits by Federal Reserve banks, by providing a safe depository for such funds, would remove one of the principal obstacles to the enforcement of this condition of membership.

Some member banks may be unwilling to deposit funds with their competitors or other commercial banks due to the feeling that such depository banks may use or disclose confidential information. This would not be the case, of course, with deposits in the Federal Reserve banks.

To the extent that member banks desire such facilities this service would be an added attraction to membership in the System.

As indicated in a memorandum addressed to Mr. Woodlief Thomas by Mr. Longstreet, to the extent that Federal Reserve banks may receive such deposits the Federal Reserve System's power over the money market is likely to be increased. The extent to which this would be the case cannot be predicted in the absence of information as to the amount of such deposits which there might be.

Disadvantages

The acceptance of such deposits of trust funds is not believed to be a function which Congress had in mind in establishing the Federal Reserve banks.

Federal Reserve banks would necessarily incur additional work and possibly some additional expense. If separate accounts for each trust were maintained the additional work would be tremendous and there would be considerable additional expense.

There is some possibility of loss to the Federal Reserve banks in engaging in the proposed practice. It is believed that this would be fairly remote, however, unless transfers between the trust account and the reserve account should be permitted.

If uninvested trust funds are deposited in a correspondent insured bank the depositing member bank avoids the deposit insurance assessments on such deposits, but this would not be the case if the funds were deposited in the Federal Reserve bank.

Some correspondent banks might view the receipt of deposits of trust funds by Federal Reserve banks as an unreasonable encroachment upon their correspondent relationships.

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If Federal Reserve banks perform this service, member banks would be encouraged to request other services from Federal Reserve banks, such as acting as trustee, escrow agent, and so on.

This service would further complicate the problem of free services rendered by Federal Reserve banks which has been under consideration for some time.

Experience proves that the member banks would in many cases confuse the charges and credits to be made to the reserve account, on the one hand, and the trust account, on the other.

As stated by one Federal Reserve bank, the acceptance of such deposits may subject the Federal Reserve banks to legal liability and annoying complications, some of which cannot be adequately guarded against.

Respectfully,

(Signed) George B. Vest

George B. Vest,
Assistant General Counsel.

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Summary of Views of Federal Reserve Banks Regarding
the Deposit of Uninvested Trust Funds of Member
Banks in Federal Reserve Banks

(In the following paragraphs no distinction is made between the views expressed by the President or other officers, on one hand, and Counsel for the Federal Reserve bank, on the other.)

BOSTON:

The view is expressed that the Federal Reserve bank does not possess authority to accept deposits of uninvested trust funds and that the acceptance of such deposits may subject the Federal Reserve banks to legal liabilities and annoying complications, some of which cannot be adequately guarded against.

It is suggested that it would be well, if such deposits are accepted, to permit credits from the reserve account of a member bank to a trust account, but not to permit credits in the reserve account for funds diverted directly from the trust account.

Attention is called to the complications which may result with respect to trust funds in which a member bank and a third party are co-trustees, the point being made that a Federal Reserve bank could not legally accept such deposits.

If a single account were accepted from each bank in the Boston district now operating a trust department, the volume of additional work would not be very great but if separate accounts were accepted for each trust there would be a considerable amount of additional work and expense.

However carefully the arrangement may be set up, some confusion may result between items drawn on the reserve account and items drawn on the trust account, and it is possible that there might be serious embarrassment in some such cases.

Some correspondent member banks might view the receipt of deposits of trust funds by Federal Reserve banks as an unreasonable encroachment upon their correspondent relationships.

There does not appear to be any general desire on the part of member banks in the Boston district to have the Federal Reserve bank receive deposits of uninvested trust funds.

If uninvested trust funds are deposited in a correspondent bank which is insured under section 12B of the Federal Reserve Act, the

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depositing member bank avoids the deposit insurance assessment on such deposits, an advantage which would not accrue to the depositing bank if the funds were deposited with the Federal Reserve bank.

The view is indicated that it is usually permissible to mingle in a single deposit funds of various trust estates.

The Reserve banks clearly lack the authority to receive deposits of uninvested trust funds from nonmember banks.

It is suggested that a member bank may now effect a deposit of trust funds in its Reserve bank by having the latter charge to its reserve account and issue a check payable to a designated trust fund or to the member bank which would endorse it over to a trust fund, the check to be held in the assets of the trust pending investment or distribution. It is pointed out, however, that this would not constitute the acceptance of a deposit of trust funds and that the relationship of the Reserve bank to such a check and the legal and practical responsibility involved are different from the case of the deposit of trust funds.

NEW YORK:

It is stated that there would be no real occasion for the Federal Reserve Bank of New York to accept separate accounts from member banks for the deposit of uninvested trust funds. Only one or two member banks have suggested that this be done and they have not indicated that the matter was of particular importance to them.

The question of the technical legal authority of the Federal Reserve banks to accept such deposits is doubtful, but no definite opinion is given. It is said that there are no practical considerations which make it desirable to undertake this function at this time.

While it is not felt that any liability would be incurred by the commingling in one account of the funds of several different trust estates, in view of a statute of the State of New York it is said that it would not be advisable for the Reserve bank to permit such commingling in a single account for banks in that State without proof of the fiduciary's authority to commingle.

It has been the experience of the Reserve bank that when a member bank has maintained two accounts on the books of the Reserve bank it has been extremely difficult to segregate the entries, due largely to errors made by the member bank. Checks and advices to

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make transfers are often erroneously marked. If separate accounts were opened by one bank for numerous trusts the accounting procedure would be very complicated and would take much time of the auditors, as well as considerable legal work.

While there may be some risk to the Federal Reserve bank if trust funds of several estates are mingled and deposited with the Reserve bank, it is believed that the risk is fairly remote.

In discussing the question, the advantages to member banks of depositing uninvested trust funds in Federal Reserve banks are stated briefly as (1) relief from the necessity of depositing securities with its own trust department, (2) a safe depository, and (3) a reluctance by member banks to deposit funds with another bank other than a Reserve bank due to the feeling that depositing banks may disclose confidential information.

There is believed to be no authority to accept deposits of uninvested trust funds from nonmember banks.

PHILADELPHIA:

The question is not a practical one in the Philadelphia district. As a matter of policy the Philadelphia bank is not inclined to accept such deposits from a member bank unless in a given case emergency or temporary conditions make such action desirable. No difficulty is found in arranging for a segregated account to be kept entirely apart from the reserve balance.

There is believed to be ample legal authority for the receipt of deposits of uninvested trust funds and that no unusual risk would be involved in doing so.

It is believed that it would be decidedly inadvisable to permit separate accounts for each trust estate and that there is no absolute rule prohibiting a fiduciary from commingling in one account the cash funds of several estates so long as proper records are maintained.

There is a technical question with respect to the right of a Pennsylvania State member bank to deposit uninvested trust funds with a Federal Reserve bank.

There would be no saving in the Federal Deposit Insurance Corporation insurance assessment by making these deposits in the Federal Reserve bank.

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There is no authority to receive such deposits from a non-member bank.

Transfers in the trust account to and from the reserve account would constitute a mingling of trust funds with a fiduciary's own funds and, therefore, be objectionable.

CLEVELAND:

There is no legal authority for the acceptance of deposits of uninvested trust funds either from member or nonmember banks.

It would not be practicable to have separate accounts for each trust estate and there would be no liability on Federal Reserve banks for failure to do so.

Reciprocal accounts are carried by member banks and there would apparently not be any great demand for accounts on the books of the Federal Reserve bank.

There would be no objection to the mingling of the funds of several estates, if the receipt of such funds is legal at all.

The President states that there would not be much risk in carrying one account for each bank, but Counsel indicates that there would be considerable risk if transactions in the account were permitted only by transfers to and from the reserve account.

Counsel takes the view that this arrangement would involve a commingling of trust funds with the general funds of the bank with the knowledge of the Federal Reserve bank and in case of a misappropriation by the member bank such as a transfer from the trust account in order to make up a deficiency in the reserve account the Reserve bank might be liable.

In response to the suggestion that this may be a proper service to be rendered by Federal Reserve banks for their members, it is said that if such functions are to be undertaken it should be only pursuant to statutory authority authorizing acceptance of such deposits.

No protection to the beneficiaries of various trusts is achieved through complicating the machinery of the deposits of individual trust funds. The possibility of loss to beneficiaries is not increased by the common deposit of such funds in one account if proper accounting for individual trusts is kept by the trustee.

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RICHMOND:

Only one inquiry from a member bank has been received on this subject and that several years ago.

There is legal authority (but no requirement) to accept un-invested trust funds from a member bank, but not from a nonmember bank.

It is not necessary to have separate accounts for each trust estate but one account will be sufficient if proper records are kept by the trustee.

The provision that transactions in the trust account should be confined to transfers to and from the reserve account might be embarrassing to the Federal Reserve bank in many instances and might actually cause losses in some, especially where the Reserve bank might have knowledge or be deemed to have knowledge of an improper use of the trust funds.

If the practice is to be engaged in, it is suggested that instead of having transfers to and from the reserve account it would be preferable to have all withdrawals from the trust account made on voucher checks designating the estate for which the funds are withdrawn and possibly also the purpose for which the withdrawal is to be used.

Although not expressly so stated, it is understood from the Richmond letter that the Richmond bank is opposed to the practice in question and Governor Seay voted against it at the 1935 Governors' conference.

ATLANTA:

In view of the practical responsibilities which might be assumed it is believed it would be inadvisable for Federal Reserve banks to accept deposits of trust funds.

Federal Reserve banks may be considered to have the incidental power to accept deposits of this character.

If proper precautions were taken the possibility of liability on the part of the Federal Reserve bank would be remote.

It would be advisable, if not legally necessary, to have separate accounts for separate trust estates.

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The taking of proper precautions to avoid liability would involve considerable work and might call for continual supervision of some skilled person.

There is no authority to receive such deposits from non-member banks.

CHICAGO:

In view of the additional responsibility which will be imposed upon Federal Reserve banks, they should not accept such deposits.

Counsel apparently takes the position that there is not even implied authority for the receipt of deposits of uninvested trust funds, although this is not entirely clear.

Some risk would be involved in accepting in a single account trust deposits of a number of different estates, whereas practical difficulties of a burdensome character would be presented if separate accounts were maintained.

If Federal Reserve banks perform this function requests would be encouraged from member banks to serve them in other capacities, such as trustee, escrow agent, etc., clearly not within the corporate powers of the Reserve banks.

There is no authority to receive such deposits from non-member banks.

ST. LOUIS:

It would be unwise for Federal Reserve banks to receive deposits of uninvested trust funds because (1) it will mean added work, put them in competition with member banks and further complicate the problem of free services; (2) if such uninvested funds are accepted it would be difficult to explain why the St. Louis bank declines to accept for safe-keeping securities held in trust estates; and (3) many legal and practical possibilities of trouble would be opened up. These difficulties should be avoided, especially as member banks can adequately care for these needs through other member banks.

Apparently it is felt that there is implied legal authority for the receipt of trust funds. It is stated that there would not be undue risk of loss to the Federal Reserve bank so long as transactions in the trust account are confined to transfers to and from the reserve account.

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It is not necessary to have separate accounts for each trust estate, provided the trustee's books show the amount of the funds belonging to each estate.

There is no authority for the receipt of such funds from a nonmember bank.

MINNEAPOLIS:

The officers of the bank unanimously recommend against the installation of the proposed service, confident that disadvantages in the 9th district far outweigh any advantages or good will that might accrue to the Federal Reserve bank from the service.

The Federal Reserve banks have the requisite legal authority to accept uninvested trust funds from member banks.

Separate accounts for each trust should be maintained. If proper safeguards were observed there would be little risk to the Federal Reserve bank but considerable additional expense. Transfers to the Reserve account should not be permitted.

There is no authority to receive such funds from nonmember banks.

A list of advantages and disadvantages of the proposed service is given, upon the assumption that it would be practical to open only one account for each bank.

Advantages

(1) In States where deposits of trust funds with self are illegal, State member banks and trust companies would not be required to deposit with competitors or with distant correspondents; but there are very few State member banks in the 9th district having trust departments.

(2) Banks would not have to pay for insurance on uninvested trust funds so deposited (Note: This appears to be incorrect) -- an inducement to join the System -- but as there are few nonmember State banks operating trust departments in the 9th district this would be of little use.

(3) Securities pledged with trust departments could be released but it is very seldom that a bank finds itself without eligible securities.

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Disadvantages

- (1) Bookkeeping burden would be great and operating expense would increase even with only one account for each bank.
- (2) Transactions between the reserve account and the trust account would be objectionable and Reserve bank might be held liable in some cases.
- (3) Neither Congress nor the Board ever contemplated the reception of such deposits as trust funds by Federal Reserve banks.
- (4) National banks may deposit trust funds with themselves upon putting up securities and would therefore have little or no use for the proposed service.
- (5) Member banks would confuse charges and credits to the two accounts.

KANSAS CITY:

Provisions of the Federal Reserve Act confer no legal authority upon Federal Reserve banks to accept such deposits.

Moreover, there are a number of practical considerations why the receipt of uninvested trust funds should not be undertaken.

It would be necessary to maintain separate accounts in order to comply with the rule forbidding the intermingling of trust estates and this would be burdensome. State banks can make such deposits only if permitted by law and Federal Reserve banks might have to determine at their own risk what the law of a particular State is.

Transfers to and from the trust account and the reserve account should not be permitted because of the rule against mingling trust funds with the fiduciary's own funds. In some cases the Federal Reserve bank might be liable.

There is no real need for the service in the 10th district, especially as trust funds are now insured up to \$5000 for each trust estate, even when deposited by the fiduciary bank in another insured bank.

DALLAS:

Federal Reserve banks should be free to accept such deposits

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in such cases and under such circumstances as to them at the time may seem warranted. Such an account should have the continued attention of the Federal Reserve bank with a view to discontinuing it whenever the circumstances indicated a proper need for such account no longer exists.

Only one account for each bank should be opened. It is common practice among all banks to commingle the cash funds of their several trust estates even when the money is held in the bank's own vaults, earmarking being accomplished entirely by bookkeeping.

The Federal Reserve banks have the requisite legal authority to receive such deposits from member banks but not from nonmember banks.

SAN FRANCISCO:

It is the opinion of counsel and officers of the San Francisco bank that a member bank should be permitted to carry in the name of its trust department one separate account on the books of the Federal Reserve bank. This is in harmony with the practice approved by the Board of a departmental bank carrying with its Reserve bank a separate account in the name of its savings department.

One account is sufficient, as ownership of the funds appears on the books of the fiduciary. No risk to the Federal Reserve bank would be involved inasmuch as no transactions will be permitted except to and from the reserve account. It is pointed out that the safe-keeping service which some Federal Reserve banks perform at great expense and considerable risk is ultra vires and the question of ultra vires should not be raised in one case and disregarded in another.

There is legal authority for receipt of such funds from member banks but not from nonmember banks. In no case should such deposits be received except under special contract with the member bank containing such provisions as reasonably will insure the Federal Reserve bank against the contingency of loss.

SYNOPSIS OF VIEWS OF FEDERAL RESERVE BANKS REGARDING ACCEPTANCE OF UNINVESTED TRUST FUNDS FROM MEMBER BANKS

	Should or should not Federal Reserve banks accept trust funds on deposit?	Is there legal authority for the acceptance of such funds from member banks?	Is there legal authority for the acceptance of such funds from nonmem- ber banks?	If accepted, is one ac- count from each member bank sufficient or should there be separate ac- counts for each trust?	Is it desirable that transfers be- tween the reserve ac- count and the trust account be permitted?	Is there any desire on the part of member banks for this service?
BOSTON	Unwise to do so.	No legal authority.	No legal authority.	One account sufficient.	Credits to reserve ac- count from trust ac- count inadvisable.	No general desire.
NEW YORK	Not advisable (apparently).	Doubtful but proba- bly no legal authority.	No legal authority.	Little risk in taking only one acc't but might be necessary to take separate acc'ts in N. Y.		Has been suggested by only one or two member banks.
PHILADELPHIA	Only when emergency or temporary conditions make such action desirable.	Ample legal authority.	No legal authority.	Separate accounts inadvisable.	Not desirable.	Apparently no general desire.
CLEVELAND	Should not do so chief- ly because of legal considerations.	No legal authority.	No legal authority.	One account sufficient.	Not desirable.	Apparently little desire.
RICHMOND	Not desirable (apparently).	Legally authorized.	No legal authority.	One account sufficient.	Not desirable.	Only one inquiry several years ago.
ATLANTA	Inadvisable.	Legal authority exists.	No legal authority.	Separate acc'ts for each trust.		
CHICAGO	Should not accept.	No legal authority.	No legal authority.	Some risk in one acc't but practical burdens if separate acc'ts rec'd.		
ST. LOUIS	Unwise to do so.	Legally authorized.	No legal authority.	One account sufficient.	No undue risk so long as transactions confined to transfers to and from reserve accounts.	

SYNOPSIS OF VIEWS OF FEDERAL RESERVE BANKS REGARDING ACCEPTANCE OF UNINVESTED TRUST FUNDS FROM MEMBER BANKS

	<u>Should or should not Federal Reserve banks accept trust funds on deposit?</u>	<u>Is there legal authority for the acceptance of such funds from member banks?</u>	<u>Is there legal authority for the acceptance of such funds from nonmem- ber banks?</u>	<u>If accepted, is one ac- count from each member bank sufficient or should there be separate ac- counts for each trust?</u>	<u>Is it desirable that transfers be- tween the reserve ac- count and the trust account be permitted?</u>	<u>Is there any desire on the part of member banks for this service?</u>
MINNEAPOLIS	Undesirable.	Requisite legal authority.	No legal authority.	Separate accounts for each trust.	Not desirable.	Apparently little desire.
KANSAS CITY	Undesirable.	No legal authority.		Separate accounts for each trust.	Should not be per- mitted.	No need for the service.
DALLAS	F.R.banks should be free to accept such deposits as and when warranted.	Requisite legal authority.	No legal authority.	One account sufficient.		
SAN FRANCISCO	Should be permitted.	Requisite legal authority.	No legal authority.	One account sufficient.	Desirable.	Apparently some desire but extent not indicated.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9710

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 5, 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:

"NCYRUK" - Treasury Bills to be dated
October 7, 1936, and to
mature July 7, 1937.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Moell", is written over the typed name and title.

J. C. Moell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9711

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 6, 1936.

Dear Sir:

Referring to the Board's letter of July 26, 1935 (X-9271), with respect to the audit of the accounts of the Fiscal Agent of the Board 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 April 19 to September 19, 1936, inclusive.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS.

I, F. V. Grayson, hereby certify:

- (a) That 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 April 19 to September 19, 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. 1018 and 1019, totaling \$45.80.
- (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 Vice Chairman of the Board.

Respectfully submitted,

(Signed) F. V. Grayson

Auditor.

October 2, 1936.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



X-9712

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

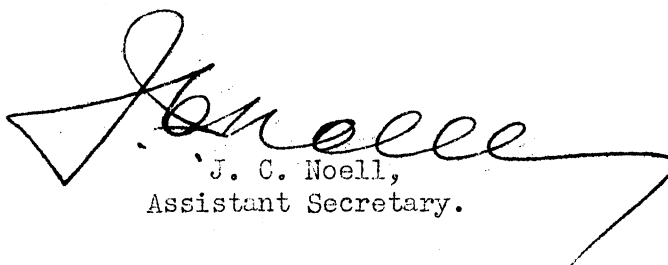
Dear Sir:

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:

"NOYSAD" - Treasury Bills to be dated
October 14, 1936, and to
mature July 14, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYRUK" 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-9713

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 8, 1936.

Dear Sir:

There are enclosed herewith
copies of statement rendered by the
Bureau of Engraving and Printing,
covering the cost of preparing Fed-
eral reserve notes for the month of
September, 1936.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. PRESIDENTS.

X-9713-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
September 1 to 30, 1936.

Federal Reserve Notes, Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,	-	50,000	50,000	-	-	100,000	\$ 9,350.00
New York,	-	-	150,000	10,000	10,000	170,000	15,895.00
Philadelphia,	-	50,000	25,000	-	-	75,000	7,012.50
Cleveland,	50,000	150,000	50,000	-	-	250,000	23,375.00
Richmond,	20,000	20,000	20,000	-	-	60,000	5,610.00
Atlanta,	50,000	50,000	10,000	-	-	110,000	10,285.00
Chicago,	-	150,000	100,000	-	-	250,000	23,375.00
St. Louis,	-	50,000	10,000	-	-	60,000	5,610.00
Minneapolis,	-	20,000	10,000	-	-	30,000	2,805.00
Kansas City,	-	20,000	15,000	-	-	35,000	3,272.50
Dallas,	83,000	-	-	-	-	83,000	7,760.50
San Francisco,	<u>50,000</u>	<u>100,000</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>18,700.00</u>
	<u>253,000</u>	<u>660,000</u>	<u>490,000</u>	<u>10,000</u>	<u>10,000</u>	<u>1,423,000</u>	<u>\$133,050.50</u>

1,423,000 sheets, @ \$93.50 per M, \$133,050.50

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9714



October 9, 1936


ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Replies have been received from all of the Federal reserve banks in response to letter X-9693 of September 12, 1936, raising a question as to the desirability of continuing the practice now followed by the Board of forwarding by mail confirmations of all telegrams sent to Federal reserve banks or branches.

Inasmuch as none of the reserve banks offered any objection to the discontinuance of the practice referred to, and since this course appears to be in the interests of economy and efficiency, the Board hereafter will not forward confirmations of telegrams to Federal reserve banks and branches, except in special cases when the circumstances warrant a departure from the customary procedure.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO ALL PRESIDENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9715

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 12, 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 September, 1936.

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,

A handwritten signature in cursive script, reading "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 SEPTEMBER, 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	41,564	1,474	43,038	\$ 314.31	\$ --	\$ 314.31	\$ 585.08	\$ 314.31	\$ 270.77
New York	145,949	--	145,949	1,214.15	--	1,214.15	1,984.11	1,214.15	769.96
Philadelphia	41,232	1,503	42,735	236.39	--	236.39	580.96	236.39	344.57
Cleveland	58,725	1,480	60,205	374.14	--	374.14	818.46	374.14	444.32
Richmond	64,214	1,469	65,683	263.78	230.00	493.78	892.93	493.78	399.15
Atlanta	75,366	1,448	76,814	275.73	--	275.73	1,044.25	275.73	768.52
Chicago	106,764	2,042	108,806	1,412.54	--	1,412.54	1,479.17	1,412.54	66.63
St. Louis	81,475	1,508	82,983	185.59	--	185.59	1,128.11	185.59	942.52
Minneapolis	35,935	1,544	37,479	135.55	--	135.55	509.51	135.55	373.96
Kansas City	76,081	1,466	77,547	259.03	--	259.03	1,054.22	259.03	795.19
Dallas	70,102	1,453	71,555	267.55	--	267.55	972.76	267.55	705.21
San Francisco	113,803	1,480	115,283	543.69	--	543.69	1,567.22	543.69	1,023.53
Board of Governors	809,949	--	809,949	2,571.90	15,343.31	17,915.21	11,010.88	17,915.21	--
Total	1,721,159	16,867	1,738,026	\$8,054.35	\$15,573.31	\$23,627.66	\$23,627.66	\$23,627.66	\$6,904.33

(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 (\$.013594537) for business handled during the month.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9716

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 12, 1936.



Dear Sir:

Referring to the Board's letter, St. 1254, of June 28, 1920, Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, advised the Board under date of October 3 that it will be satisfactory to the Treasury if the Federal Reserve banks will furnish a certified statement once a year with respect to deficiencies, if any, in their deposit reserves.

Accordingly, the monthly reports you have been submitting with respect to deficiencies in deposit reserves may be discontinued, and in lieu thereof a statement should be submitted after the end of each calendar year certifying that the Federal Reserve bank had no deficiencies in deposit reserves during the preceding calendar year, except on specified dates, if any. In the event that your bank has a deficiency in deposit reserves a report in duplicate on Form St. 1252 should be submitted promptly after the end of the month in which the deficiency occurred and the appropriate tax paid to the Treasury.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9717

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 16, 1936.

Dear Sir:

Occasionally in particular communications directed to Federal reserve banks the Board has asked specifically that such communications be brought to the attention of the directors because the nature of the subject matter was such that it was thought especially desirable that the directors be fully informed as to the Board's action or viewpoint.

However, the Board has assumed that all of its communications which might be of interest to the directors are brought to their attention even though they do not contain a specific request that this be done. Nevertheless, the thought has occurred to the Board during recent discussions that it might be well to advise you of its views in this respect. Accordingly, the Board has asked me to say to you that it desires that all of its communications with respect to actions taken by it on recommendations of your board of directors or which relate to questions of general policy or to other matters that are customarily passed upon by your directors be submitted to them at


- 2 -

X-9717

their regular meetings, or, in lieu thereof when it seems desirable to do so, that copies be supplied to them between meetings, for their information and such consideration as may be appropriate.

It is not intended, of course, that the directors should be burdened with the necessity of giving attention to ordinary routine correspondence between the Board and Federal reserve banks but only that matters of which the directors should be officially informed or correspondence which contains information necessary to a full understanding and co-operation between the Board of Governors and the directors of the Federal reserve banks in formulating and administering the policies of the system should be brought to their attention.

Very truly yours,

A handwritten signature in dark ink, reading "Chester Morrill". The signature is written in a cursive style with a large, prominent initial "C".

Chester Morrill,
Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9718

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 16, 1936.

Dear Sir:

There are transmitted herewith, for your information, a copy of a letter from the President of the Federal Reserve Bank of Minneapolis, a copy of its inclosure, and a copy of the Board's reply thereto of this date, in regard to making available to all banks in the Ninth Federal Reserve District the facilities of the reserve bank's library.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL PRESIDENTS

COPY

X-9718-a

FEDERAL RESERVE BANK OF MINNEAPOLIS

October 1, 1936.

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

Dear Mr. Morrill:

As you know, I have always been sold on the idea that the ultimate answer to bank management is education. As a step in this direction and also as a gesture of good will to both member and nonmember banks, we are forwarding the enclosed letter to all banks in our district, addressing the letter to the executive officer in each case.

I am in great hopes that this move will bear fruit and that the bankers in the country will begin to use our library when they have to make talks or when questions are asked them which they are unable to answer.

I am communicating with you because I believe the idea is a new one in the Federal Reserve System and it is possible that other Federal reserve banks might profit from it, if it has merit.

Best personal regards,

(Signed) J. N. Peyton

PRESIDENT

FEDERAL RESERVE BANK OF MINNEAPOLIS

October 9, 1936.

We have an extensive and valuable financial library, and it has occurred to me that we can perform a courteous and helpful act to all banks of the Ninth Federal Reserve District, whether members or nonmembers of the Federal Reserve System, by offering all bankers in the district the use of the library.

With this thought in mind I am sending you under separate cover a complete catalogue which has just been prepared and which will be supplemented from time to time. Upon written request from you, we shall be glad to forward you any of the books as outlined in the catalogue, without cost to you excepting that we shall expect you to reimburse us for our expense in postage.

That the books may be kept current and all bankers may avail themselves of the complete library, we believe no banker should hold any one book longer than two weeks.

We sincerely trust that this service may be of some benefit to you, and it will be a real pleasure to accommodate you when you decide to take advantage of it.

Best personal regards,

PRESIDENT

COPY

X-9718-c

October 13, 1936.

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

Dear Mr. Peyton:

Receipt is acknowledged of your letter of October 1, 1936, together with its inclosure, relative to your action in making available to both member and non-member banks of the Ninth Federal Reserve District the financial library of the Federal Reserve Bank of Minneapolis.

The Board has read your letter of October 1, as well as the copy of your letter to the executive officers of banks in your district, with much interest, and is today forwarding copies of them to the other Federal reserve banks for their information.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 17, 1936.

Dear Sir:

One of the Federal reserve banks has advised the Board that it has arranged with its branches to ship Federal reserve notes of other Federal reserve banks in even thousands of dollars, thus permitting the transmission of the note clearing telegrams over the branch lines in thousands of dollars. This appreciably reduces the number of words transmitted and results in quicker transmission.

Please advise the Board whether you would favor the adoption of this procedure by all Federal reserve banks and branches. If the plan is adopted, the Federal reserve note clearing would, of course, be made in thousands of dollars.

Very truly yours,

L. P. Bethen,
Assistant Secretary.

TO ALL PRESIDENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9720

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 17, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

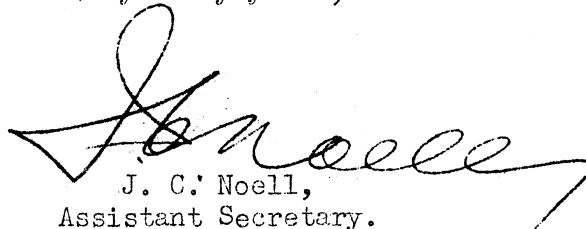
Dear Sir:

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:

"NOYSEC" - Treasury Bills to be dated
October 21, 1936, and to
mature July 21, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYSAD" 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-9721

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1936.

SUBJECT: Holidays during November, 1936.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that on Monday, November 2, the New Orleans Branch of the Federal Reserve Bank of Atlanta will be closed in observance of All Saints Day, which falls on Sunday. Please include transit clearing credits of November 2 for the New Orleans Branch with your credits for Wednesday, November 4.

On Tuesday, November 3, Election Day; Wednesday, November 11, Armistice Day, and Thursday, November 26, Thanksgiving Day, there will be neither transit nor Federal Reserve note clearing through the Interdistrict Settlement Fund. The following Federal Reserve banks and branches will be open for business on November 3:

Boston

Cleveland (until 1 P.M.)
Cincinnati (until 1 P.M.)

Little Rock
Louisville

Atlanta
New Orleans
Birmingham

Omaha
Salt Lake City

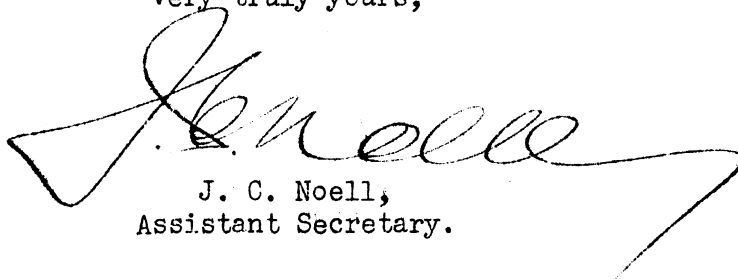
X-9721

-2-

The offices of the Board of Governors will be open for
business on November 3 and November 11.

Please notify branches.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'J. C. Noell', with a long, sweeping horizontal stroke extending to the right.

J. C. Noell,
Assistant Secretary.

TO ALL PRESIDENTS

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

October 19, 1936.

_____,
_____,
_____, ____.

Dear Mr. _____:

This refers to Mr. _____ letter of October 5, 1936, inclosing a copy of a letter of September 17, 1936, from The _____ National Bank, _____, _____, involving an interpretation of subsection (a) of section 11 of Regulation F and the last sentence of footnote numbered 10 appended thereto.

As you know, subsection (a) of section 11 reads as follows:

"Obligations of trustee bank or its directors, officers, etc.--Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank."

The last sentence of footnote numbered 10 reads as follows:

"This requirement shall not be deemed to prohibit investments which are expressly required by the instrument creating the trust or by court order."

It appears that The _____ National Bank is trustee under a trust instrument containing the following provisions:

"* * * and it (the Trustee) shall not be restricted to a class of investments which a Trustee is or may hereafter be permitted by law to make, but it shall use its discretion

-2-

and endeavor at all times to preserve the corpus of this trust estate and endeavor to realize as large an income as may be consistent with prudent and safe management."

The bank states that it contemplates making a loan of funds of such trust to another trust which is being administered by an individual who is a director of the bank. It also states that there is a (name of State) statute under which a fiduciary may, by petition, apply to the Circuit Court for instructions and advice as to the character of investments. The bank inquires whether the prohibition contained in Regulation F would apply to the loan in view of the above quoted language of the trust instrument and whether instructions by the Circuit Court under the statute referred to above would remove any question concerning the propriety of the loan.

The Board is of the opinion that the above quoted provisions of the trust instrument clearly do not require the bank to make the proposed loan and that the loan is prohibited by Regulation F unless it is required by court order. The Board does not have before it the provision of the (name of State) law mentioned above and is not informed as to the exact nature of the order which the Circuit Court may make pursuant thereto. However, if an order is obtained from a court of proper jurisdiction instructing the bank as trustee to make the specific loan under consideration, the Board is of the opinion that the loan will be an investment required by court order within the meaning of Regulation F and, therefore, will not be prohibited.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9723

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 23, 1936




SUBJECT: Change in Interdistrict
Time Schedule

Dear Sir:

Upon request of the Federal Reserve Bank
of Minneapolis the Board of Governors of the Fed-
eral Reserve System has approved the following
change in the Interdistrict Time Schedule for cash
items:

	<u>From</u>	<u>To</u>
Helena to Spokane	1 day	2 day.

Very truly yours,


L. P. Bethca,
Assistant Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

204



October 24, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Reference is made to my letter of June 22, 1936 (X-9626) 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 to defray the estimated general expenses of the Board for the period July 1 to December 31, 1936, together with approximately \$1,250,000 to be applied upon the cost of the erection of a building for the Board of Governors.

It has been decided to transfer to the Federal Reserve Bank of Richmond on October 31, 1936, a part of the remaining unpaid portion of the assessment, and you are requested, therefore, to credit the Federal Reserve Bank of Richmond on October 31, 1936, with eighty per cent (80%) of the unpaid fifty-nine per cent (59%) 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,

A handwritten signature in cursive script, appearing to read "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-9725

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 24, 1936

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

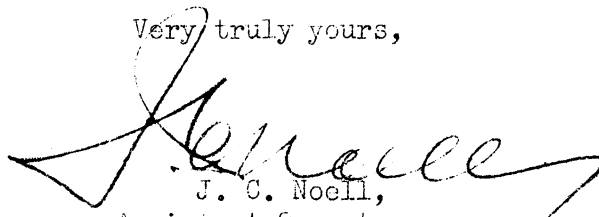
Dear Sir:

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:

"NOYSIP" - Treasury Bills to be dated
October 28, 1936, and to
mature July 28, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYSEC" 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-9727



October 28, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

There is being sent to you under separate cover a supply of forms of oaths of office to be taken hereafter by directors of Federal Reserve banks and branches and by Federal Reserve agents and their assistants when entering upon their duties as such. Form F.R. 253 is for use by class A directors, Form F.R. 254 for use by class B directors, Form F.R. 255 for use by class C directors, Form F.R. 256 for use by directors of the branches, and Form F.R. 257 for use by Federal Reserve agents, assistant Federal Reserve agents, alternate assistant Federal Reserve agents and acting assistant Federal Reserve agents, including those at branches. It will be appreciated if the oaths hereafter taken by the directors, officers and employees above mentioned are executed in each case on the appropriate printed form. No form of oath is included for the Deputy Chairman of the board of directors and it will be unnecessary for him to take an oath as such in addition to his oath as class C director.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9728

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 30, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

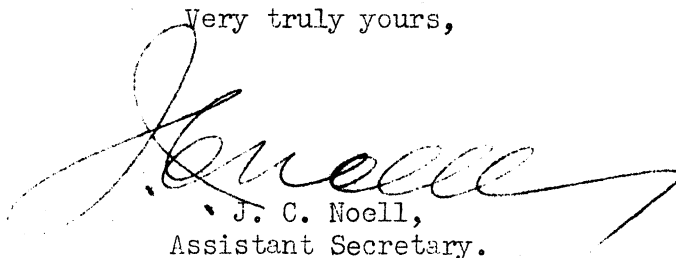
Dear Sir:

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

"NOYSOX" - Treasury Bills to be dated
November 4, 1936, and to
mature August 4, 1937.

This word should be inserted in the Fed-
eral Reserve Telegraph Code book, following the
supplemental code word "NOYSIP" 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-9729



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 30, 1936.

Dear Sir:

There is inclosed herewith, for your information, a copy of a letter to President Harrison, Chairman of the Presidents' Conference, together with the inclosure referred to therein, with respect to participation in and support of the activities of the American Institute of Banking by the Federal Reserve System.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

October 30, 1936.

Mr. George L. Harrison, Chairman,
Presidents' Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Harrison:

The Board has given consideration to the question of Federal reserve bank participation in and support of the activities of the American Institute of Banking and has prepared the attached statement setting forth a position that might be taken by the Board in this connection.

Inasmuch as it is desirable that the policy of the Federal reserve banks in this matter be as uniform as is feasible in the circumstances, the Board will appreciate it if you will place the statement on the program for discussion at the next Presidents' Conference, and, after it has received the consideration of the Presidents, submit to the Board the views of the Conference relative thereto.

Copies of the statement and this letter are being sent to the Presidents of all Federal reserve banks.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

X-9729-b

PARTICIPATION IN AND SUPPORT OF
ACTIVITIES OF THE AMERICAN INSTITUTE
OF BANKING BY THE FEDERAL RESERVE SYSTEM

Officers' Interest and Cooperation

The management of Federal reserve banks should encourage employees to interest themselves in A.I.B. activities and to enroll in study courses, and otherwise take the leadership in furtherance of sound banking methods and the development of efficient banking personnel. Reserve bank officers would make a substantial contribution toward the accomplishment of these objectives by showing a cooperative attitude toward A.I.B. activities in their contacts with department managers, supervisors and assistants, by granting necessary and reasonable time to employees to perform creditably duties assigned to a chapter appointment, by accepting assignments as class instructors where possible; and by attending the annual banquets of the local chapters. However, Federal reserve bank employees should not be subjected to any pressure to enroll in A.I.B. study courses, and, while proper recognition should be accorded for scholastic achievement in such courses when promotions are being considered, the importance of completing A.I.B. courses should not be emphasized to the detriment of employees who have comparable qualifications by way of education and experience obtained from other sources.

Contribution to the Support of Local Chapters

Each Federal reserve bank and branch may make an equitable contribution to the approved budget of the local chapter of the A.I.B. on the basis of the proportion of its eligible employees to the total

eligible employees in other contributing banks of the community, with the understanding that all or most of the other banks in the community are "contributing banks" and that the term "total eligible employees" in a reserve bank or branch shall be that number remaining after guards, elevator operators, building help, janitors, and other similar employees have been deducted.

Refunds made by a chapter for scholastic endeavor should be eliminated and considered as a separate item in computing the bank or branch's proportionate contribution to the chapter budget.

Membership Dues, Tuition Fees, Cost of Text-books and Other Expenses

Federal reserve bank officers and employees enrolling in A.I.B. courses leading to a pre-standard or standard certificate or in the Graduate School of Banking should assume personally the expense of membership dues, tuition fees and cost of text-books. Federal reserve banks or branches should not provide for payroll deductions to take care of an individual's educational expenses, since it is understood that tuition fees may be paid on an instalment basis and that students requiring financial aid may obtain scholastic loans from funds which the chapter has available for the purpose. On the other hand, as an incentive and reward for scholastic endeavor, the reserve banks may, in their discretion, refund tuition fees and the cost of text-books to such of their employees as complete A.I.B. study courses with a good scholastic average as distinguished from barely passing grades.

Each Federal reserve bank may assume the transportation expenses to and from the University of officers and employees selected to attend the Graduate School of Banking at Rutgers and may grant them leave of absence with pay of such duration as may be necessary to enable them to attend the two weeks session of the school, in addition to their regular annual vacation. In view of this contribution toward the educational expenses of such students and the fact that ordinarily they would be in the higher salaried group, no refunds should be made to them of tuition fees and the cost of text-books upon satisfactorily completing the course offered by the Graduate School.

Honor Students and Other Delegates to the National Convention

The selection of delegates to be sent by a Federal reserve bank to the A.I.B. national convention should rest in the discretion of the bank, but the following order of precedence warrants consideration:

First choice to be the honor student achieving the highest scholastic average,

Second choice to be any officer or employee who is president of the local chapter, chairman of a national committee, or a speaker at a departmental conference, and,

Third choice to be any officer or employee who has been elected as a delegate by the local chapter.

No officer or employee should be sent to more than one national convention in any four-year period, except in the case of an officer or employee becoming president of his chapter. The number of reserve bank delegates should not exceed a reasonable percentage of the bank's membership in the local chapter, say four per cent.

Federal reserve banks may, in their discretion, pay the whole or any part of the expenses of a reasonable number of delegates to the national convention, but the following allowances seem equitable: that each Federal reserve bank grant leave of absence with pay to all of its delegates for such period as may be required to attend the national convention in addition to the regular annual vacation allowance; that the reserve banks limit the payment of full expenses to the honor student delegate and assume only the transportation expenses to and from the convention city in the case of other delegates; that the reserve banks not adopt a more liberal policy than that generally followed by other local banks with respect to their delegates; and that, if any reserve bank representative is allowed a sum by the chapter for the trip, the reserve bank's contribution should not exceed the difference between the amount allowed other delegates and the amount contributed by the chapter.

Chapter Banquets

Federal reserve banks in their discretion may pay a portion of the cost of tickets to the annual chapter banquet for all employees who are chapter members, and, as a special recognition, pay the entire cost for those who have completed since the last banquet the courses necessary for a pre-standard or standard certificate and for those employees actively engaged in chapter work or administrative work.

Selection of Officers and Employees to Attend the Graduate School

The selection of officers and employees to attend the Graduate

School with the understanding that they will be allowed additional leave of absence for the purpose and be reimbursed for their transportation expenses, should be made by the executive committee of the reserve bank from a group of eligibles who desire to attend the school. The term "eligibles" should include all officers, and such employees as have the requisite educational foundation, as have demonstrated their ability to develop and who will be most valuable to the bank with the additional training. Preference therefore should not be given per se to Institute graduates.

Federal reserve banks should select not more than two individuals each year to attend the Graduate School on the basis of the bank's granting leave with pay and assuming transportation expenses. The adoption of this practice would limit the number of reserve bank students attending the Graduate School to not more than twenty-four new students each year. Assuming each reserve bank sent its full quota, there would be seventy-two officers or employees of Federal reserve banks in attendance at the third resident session of the school, and at every session thereafter. A larger representation from the reserve banks would seem disproportionate in relation to the entire student body, especially since there may be a number of Federal reserve officers and employees who elect to attend the school entirely at their own expense during their annual vacations. However, if it should develop that one or more of the reserve banks did not intend to send their full quota in a particular year, there would be no objection to another reserve bank sending more than two representatives within the aggregate limit for all Federal reserve banks.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9730

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1936

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

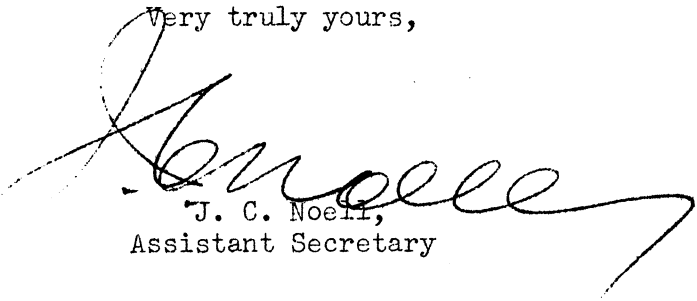
Dear Sir:

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:

"NOYSUR" - Treasury Bills to be dated
November 10, 1936, and to
mature August 11, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYSOX" 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-9731

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 6, 1936

Dear Sir:

Inclosed are copies of a pamphlet issued by Editorial Research Reports which it is believed will be of interest to your officers and directors. This pamphlet is, I understand, part of a service to newspaper editors supplied by an established, independent and non-political research organization here which made available to us enough copies of this report so that we could distribute them among members of the Board of Governors as well as among officers and directors of the Federal reserve banks.

While the Board, of course, does not stand sponsor for this material and it is not being sent to you with official endorsement, it is believed that the contents of this report are substantially correct. The only error noted by members of the staff is a minor one to the effect that the recent suit challenging the constitutionality of the Federal Reserve Act was filed in Philadelphia, whereas, in fact, it was filed in this jurisdiction.

Since numerous communications are received here as well as at the banks raising questions which this report undertakes to answer, it is felt that the material herein contained would be informative and perhaps of some value in answering such inquiries in the future.

A limited number of additional copies are available to us in case you should care to have a few more for distribution within the bank.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9732

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 7, 1936.

Dear Sir:

There is inclosed, for your information, a copy of a letter, dated November 7, 1936, to President Harrison, Chairman of the Presidents' Conference, together with the inclosures referred to therein, with respect to the fees and allowances paid to directors, and to the frequency of meetings of Boards of Directors, Executive Committees, Discount Committees, and other committees of Federal Reserve banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL PRESIDENTS

COPY

X-9732-a

November 7, 1936

Mr. George L. Harrison, Chairman,
Presidents' Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Harrison:

Reference is made to the Board's letter of June 9, 1936, (X-9614), requesting information with respect to fees, compensation and traveling allowances paid to directors of the Federal Reserve banks and branches for attending board meetings, meetings of the executive and discount committees, and other meetings.

Attached are two memoranda submitted by the Chief of the Board's Division of Bank Operations with respect to fees and allowances paid to directors and to the frequency of meetings of boards of directors, executive committees, discount committees, and other committees. Accompanying the memorandum on fees and allowances are two tables compiled from the replies to the Board's letter, X-9614, and accompanying the other memorandum is a table on frequency of meetings, which is based on such information as is available in the Board's files. In tabulating the information on these subjects it was not feasible to indicate fully by footnote or otherwise the practice at each Federal Reserve bank and branch and, accordingly, the information contained in these tables indicates only in general the practice followed at a given bank or branch.

The Board will appreciate it if you will place the subjects dealt with in these memoranda on the program for discussion at the next Presidents' Conference.

Copies of this letter and the memoranda referred to above are being sent to the Presidents of all Federal Reserve banks.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

X-9732-b

Board of Governors

Mr. Smead

Compensation and traveling expenses of Directors of Federal Reserve banks and branches.

Replies to the Board's letter of June 9, 1936, (X-9614), regarding fees and traveling expenses allowed directors for attendance at meetings of the Board of Directors and of committees appointed by the Board have been received from all of the Federal Reserve banks. Replies to the questionnaire sent with the letter have been tabulated and are summarized in the two tables attached.

Fees Paid (Table I). All of the head offices pay \$20 as the fee for attendance at board of directors' meetings. Boston, New York, Philadelphia, Cleveland, and San Francisco pay a like amount for attendance at meetings of executive and other committees, while the remaining seven banks pay \$10 for committee meetings. St. Louis reported that no fee was paid for attendance at committee meetings other than the executive committee. Six of the head offices indicated that the specified fee for meetings is paid even when two or more meetings are held on the same day, although at two of these (Boston and San Francisco) the full fee is not paid for the additional meeting or meetings. The Dallas bank expressed the opinion that only one fee, the highest, should be paid directors attending two or more meetings on the same day.

Fourteen branches pay \$10 and eleven pay \$20 for attendance at meetings of the board of directors. Fees ranging from \$2.50 to \$20 are paid for attendance at committee meetings.

Per Diem Allowance to Directors Residing over 50 miles from Meeting Place (Table I). The Board's letter of December 21, 1914, with respect to fees, compensation and traveling expenses of directors, authorized the payment to directors living more than 50 miles from the Federal Reserve banks of "\$10.00 per day for every day they are away from home on account of attendance, from the time they start until the time they get back". The letter also stated that "this makes a \$10.00 per day compensation in addition to the director's fee".

Table I shows that the per diem allowance at all of the head offices is \$10 except at San Francisco, where it is \$15 and where the allowance is based on a distance of 25 miles rather than 50. However, at San Francisco, and also at Dallas, no other payment is made for subsistence expenses. At three head offices the per diem allowance is paid only for attendance at board of directors' meetings and not for committee meetings. At seven of the head offices the per diem allowance is paid for parts of days other than the meeting day utilized in attending meetings.

Per diem allowances are paid at only eleven of the branches, and at three of these such allowance is not paid for the day of the meeting.

Subsistence. (Table II). Directors are given lunch at the expense of the bank at four of the branches and at all of the head offices except Boston, Philadelphia and San Francisco. Non-resident directors residing within 50 miles of the meeting place receive an allowance or reimbursement for subsistence at two head offices and at eleven branches. At all head offices, except Dallas, and at all branches, non-resident directors residing beyond 50 miles from the meeting place are given an

allowance or are reimbursed for subsistence. The exception at Dallas apparently arises from the position taken in the Board's letter of April 25, 1929, to Chairman Walsh, in which it was stated that the \$10 per diem allowance authorized in the Board's letter of December 21, 1914, as referred to above, is in lieu of reimbursement for actual subsistence expenses.

Of the thirteen head offices and branches that pay an "allowance" to out-of-town directors for subsistence expenses in lieu of reimbursement for such expenses actually incurred, the replies of six banks indicate that such allowances "approximate" actual expenses, in some cases being based on average expenditures incurred by the directors. The remaining banks that pay allowances in lieu of actual expenses report varying amounts paid as follows: New York, approximately \$5; Atlanta, hotel \$5, meals \$2 each (other than luncheon furnished by bank), and incidentals \$3; Kansas City, Denver, Oklahoma City, and Omaha, \$10 per round trip; and Buffalo, \$10 when director is absent over night from place of residence.

Transportation. (Table II). At six of the head offices and at three branches non-resident directors residing within 50 miles of the place of meeting are not paid for their transportation expenses. At all of the head offices and branches non-resident directors residing beyond 50 miles of the meeting place receive an allowance for or a reimbursement of transportation expense.

Comments of Reserve Banks Regarding Compensating Directors. The Board's letter transmitting the questionnaire asked for suggestions with

respect to the method of compensating directors, particularly as to whether the 50 mile radius mentioned in the Board's letter of December 21, 1914, was considered a satisfactory basis for per diem allowances. The New York, Philadelphia, Richmond, Chicago, and St. Louis banks indicated that the 50 mile basis was satisfactory. Atlanta and Minneapolis made no comment in regard thereto. Boston stated that if the purpose of the per diem allowance was to provide more compensation for a director residing at a distance on the theory that it takes more time from his ordinary activities, it might be simpler to base the allowance on time consumed, without regard to distance, and allow such per diem for any substantial part of a business day, such as one-half or more. The Boston letter also expressed the opinion that some measure of discretion should be left to the Reserve bank in applying the per diem basis or determining allowances paid directors. Cleveland suggested that the per diem allowance apply equally to all directors. Kansas City suggested that some flexibility be permitted and that determination of the amount of per diem and expense allowances paid directors who live within a fifty mile radius be left to the Reserve bank since "in occasional instances there are border line cases to which...a fixed limitation of 50 miles should not apply". Dallas favors discontinuing the per diem allowance and substituting reimbursement of "actual traveling and living expenses incurred" by directors from the time of leaving their place of residence for the meeting until their return. San Francisco stated that normally 50 miles would be a satisfactory figure but that the particular situation might justify consideration of a lesser distance. The San Francisco

bank, with the approval of the Board of Governors, pays a per diem allowance to directors situated more than 25 miles from the Reserve bank, which allowance also covers subsistence. Richmond suggested that if any change is made in the matter of per diem allowances consideration might be given to basing the radius on the director's place of business rather than his residence.

Miscellaneous Questions Raised by Reserve Banks. Certain other suggestions or comments were made. Boston referred to the fact that the Chairman was no longer a salaried director and will now be paid for directors' meetings and executive and State bank committee meetings and should be paid also for other meetings, including consultations with the officers. At present the Boston bank pays a fee for attendance at meetings of the board of directors, the executive committee and the Committee on the Admission of State Banks and Trust Companies but not for meetings of other standing committees or special committees. The question was raised whether the Board of Governors would have any objection to the Boston bank's establishing the same fees and allowances for all other committees as for the executive committee. The New York bank requested that the Board of Governors give consideration to the possibility of proposing that the law be amended so as to permit payment of a fee to the members of the Industrial Advisory Committee. Philadelphia suggested that where one or more days intervene between original and adjourned meetings, a director should be entitled to the regular fee for each intervening day when circumstances render it impracticable for him to make the trip to and from his home in the interim.

TABLE I.
FEES PAID FOR ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS AND
COMMITTEES AT FEDERAL RESERVE BANKS AND BRANCHES
(Source: Replies to Board's letter X-9614 of June 9, 1936)

	Meetings of	Exec- utive	Com- mittee	Other	Is fee paid: for more than one meeting if held on same day?	Per diem allowance to direc- tors residing beyond 50 miles from meeting	Paid for day: or days of meeting?	Paid if home part of addi- tional day?
<u>HEAD OFFICES</u>								
Boston	\$20	\$20 <u>a/</u>	\$20 <u>b/</u>		yes	\$10	yes	<u>c/</u>
New York	20	20	20		yes	10	yes	yes
Philadelphia	20	20	20		no <u>d/</u>	10	yes	no
Cleveland	20	20	20		no	10	yes	no
Richmond	20	10	10		no	10 <u>e/</u>	yes <u>e/</u>	?
Atlanta	20	10	10		no	10 <u>e/</u>	yes <u>e/</u>	yes
Chicago	20	10	10		yes	10	yes	<u>f/</u>
St. Louis	20	10	no fee		no	10	yes	yes
Minneapolis	20	10	10		no	10 <u>e/</u>	yes <u>e/</u>	yes
Kansas City	20	10	10		yes	10	yes	yes <u>g/</u>
Dallas	20	10	10		yes	10 <u>h/</u>	yes	yes
San Francisco	20	20	20		yes <u>i/</u>	15 <u>j/</u>	yes	yes
<u>BRANCHES</u>								
Buffalo	20	20	20		yes	none	--	--
Cincinnati	10	--	--		no	none	--	--
Pittsburgh	10	--	--		no	none	--	--
Baltimore	10	5	--		no	10 <u>e/</u>	no	<u>m/</u>
Charlotte	10	5	--		no	10 <u>e/</u>	no	<u>m/</u>
Birmingham	10	--	--		no	none	--	--
Jacksonville	10	--	--		no	none	--	--
Nashville	10	--	--		no	none	--	--
New Orleans	20	10 <u>k/</u>	--		no	none	--	--
Detroit	10	--	10		no	none	--	--
Little Rock	10	10 <u>l/</u>	--		no	none	--	--
Louisville	10	10 <u>l/</u>	--		no	none	--	--
Memphis	10	10 <u>l/</u>	--		no	none	--	--
Helena	20	7.50	--		?	10 <u>e/</u>	no	yes
Denver	20	10 <u>k/</u>	--		yes	10	yes	yes <u>g/</u>
Oklahoma City	20	10 <u>k/</u>	--		yes	10	yes	yes <u>g/</u>
Omaha	20	10 <u>k/</u>	--		yes	10	yes	yes <u>g/</u>
El Paso	10	2.50	2.50		no	none	--	--
Houston	10	2.50	2.50		no	none	--	--
San Antonio	10	2.50	2.50		no	none	--	--
Los Angeles	20	20 <u>k/</u>	20		yes <u>i/</u>	15 <u>j/</u>	yes	yes
Portland	20	20 <u>k/</u>	20		yes <u>i/</u>	15 <u>j/</u>	yes	yes
Salt Lake City	20	20 <u>k/</u>	20		yes <u>i/</u>	15 <u>j/</u>	yes	yes
Seattle	20	20 <u>k/</u>	20		yes <u>i/</u>	15 <u>j/</u>	yes	yes
Spokane	20	20 <u>k/</u>	20		yes <u>i/</u>	15 <u>j/</u>	yes	yes

- a/ One-half amount stated if meeting on same day as meeting of Board of Directors.
- b/ Meeting of Committee on Admission of State Banks and Trust Companies only. One-half amount stated if meeting on same day as meeting of Board of Directors or Executive Committee.
- c/ No present case. Paid in former years.
- d/ Believes payment should be made.
- e/ Board of Directors' meetings only.
- f/ Paid for each full day's absence from home. Fractional part of day is not considered.
- g/ If all or substantially all of working day.
- h/ Includes subsistence.
- i/ Maximum of \$30.
- j/ Place of business 25 miles or more from place of meeting. Includes subsistence.
- k/ Discount committee.
- l/ Credit committee.
- m/ Paid for each additional day absent from home.

X-9732-b

TABLE II.
SUBSISTENCE AND TRANSPORTATION EXPENSES OR ALLOWANCES PAID
DIRECTORS AT FEDERAL RESERVE BANKS AND BRANCHES
(Source: Replies to Board's letter X-9614 of June 9, 1936)

	Subsistence			Transportation	
	Resident Directors	Non-residents residing within 50 miles	Non-residents residing beyond 50 miles	Non-residents residing within 50 miles	Non-residents residing beyond 50 miles
<u>HEAD OFFICES</u>					
Boston	none	allowance	allowance	allowance	allowance
New York	lunch	lunch	allowance	none	allowance
Philadelphia	none	none	allowance	none	allowance
Cleveland	lunch	lunch	allowance	none	allowance
Richmond	lunch	lunch	actual	none	actual
Atlanta	lunch	allowance	allowance	allowance	allowance
Chicago	lunch	lunch	actual	none	actual
St. Louis	lunch	a/	actual	a/	actual
Minneapolis	lunch	lunch	allowance	none	actual
Kansas City	lunch	a/	allowance	a/	allowance
Dallas	lunch	lunch	b/	actual	actual
San Francisco	none	c/	c/	g/	actual
<u>BRANCHES</u>					
Buffalo	lunch	lunch	allowance d/	allowance	allowance
Cincinnati	none	none	allowance	none	allowance
Pittsburgh	none	none	allowance	none	allowance
Baltimore	lunch	e/	actual	actual	actual
Charlotte	none	e/	actual	actual	actual
Birmingham	none	actual	actual	actual	actual
Jacksonville	none	actual	actual	actual	actual
Nashville	none	actual	actual	actual	actual
New Orleans	none	actual	actual	actual	actual
Detroit	none	none	actual	none	actual
Little Rock	none	actual	actual	actual	actual
Louisville	none	actual	actual	actual	actual
Memphis	none	actual	actual	actual	actual
Helena	?	actual	actual	actual	actual
Denver	lunch	a/	allowance	e/	actual
Oklahoma City	none	a/	allowance	e/	actual
Omaha	lunch	a/	allowance	a/	actual
El Paso	none	actual	actual	actual	actual f/
Houston	none	actual	actual	actual	actual
San Antonio	none	actual	actual	actual	actual
Los Angeles	none	c/	c/	g/	actual
Portland	none	c/	c/	g/	actual
Salt Lake City	none	c/	c/	g/	actual
Seattle	none	c/	c/	g/	actual
Spokane	none	c/	c/	g/	actual

a/ No such directors

b/ Per diem allowance includes subsistence

c/ Per diem allowance paid directors whose place of business is beyond 25 miles includes subsistence.

d/ If director is absent from home over night.

e/ Expense reimbursed if warranted by circumstances.

f/ Allowance substituted in some cases when automobile is used.

g/ No instances have arisen. Bank would honor any such request.

X-9732-c

OFFICE CORRESPONDENCE

TO Board of Governors SUBJECT: Frequency of meetings of
FROM Mr. Smead board of directors and
 committees at Federal Re-
 serve banks and branches.

The attached statement shows the frequency of meetings of the boards of directors and the executive committees (discount or credit committee at some of the branches) at the Federal Reserve banks and branches. The statement was compiled from the latest available information in the Board's files and therefore may not, in all cases, be up to date. The by-laws of a number of banks are in process of revision and this, of course, may change the composition of committees and the frequency of meetings thereof.

Board of Directors.

Head Offices. The Federal Reserve banks may be placed in three groups as regards the frequency of regular meetings of the boards of directors. At the Federal Reserve Bank of New York meetings are weekly; at the Federal Reserve Banks of Boston, Philadelphia, St. Louis, Kansas City and San Francisco they are bi-weekly or semi-monthly; and at the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, Minneapolis and Dallas they are held either monthly or every four weeks.

Branches. The board of directors meets monthly at every branch.

Executive Committee.

Head Offices. The directors of the New York bank voted on

September 12, 1935 that meetings of the executive committee be omitted until the necessity therefore arose. The board of directors meets weekly at this bank. At the Federal Reserve Banks of Boston and Richmond meetings of the executive committee are held upon call. Only one meeting of the executive committee at the Boston bank was held between June 29, 1935 and July 22, 1936. At Cleveland and Minneapolis, meetings are held every 14 days, and semi-monthly meetings are held at Dallas. At Philadelphia meetings are held on the 2nd, 4th and 5th Wednesdays of each month. Weekly meetings are held at Chicago and San Francisco, semi-weekly meetings are held at Atlanta, and meetings are held three times a week at St. Louis. Daily meetings are held at Kansas City.

Branches. Ten of the branches, Cincinnati, Pittsburgh, Birmingham, Jacksonville, Nashville, Los Angeles, Portland, Salt Lake City, Seattle and Spokane, have no committees. At 11 of the branches, Baltimore, Charlotte, New Orleans, Detroit, Little Rock, Louisville, Memphis, Helena, El Paso, Houston and San Antonio, the executive committee (or discount or credit committee) meets only on call. It is noted in this connection that no meetings of the executive committee have been called at Charlotte since the opening of the branch. Semi-weekly meetings of the executive committee are held at the Buffalo branch. While daily meetings of the discount committee are held at the Denver, Oklahoma City and Omaha branches, the director on the committee who receives an attendance fee is not called unless there are offerings to be considered.

Discount Committees.

At the present time, the by-laws of 6 banks, Cleveland, Richmond, Atlanta, Chicago, Minneapolis and Dallas provide for a Discount Committee and a letter dated March 4, 1936 from Mr. Case states that the New York bank has a Discount Committee. The Discount Committees at the Federal Reserve Banks of New York, Cleveland, and Dallas are composed entirely of officers.

At the Federal Reserve Bank of Richmond, the Discount Committee is composed of the President, Federal Reserve Agent (or, in his absence, an Assistant Federal Reserve Agent designated by him), and one or more executive officers appointed by the President. A majority of the Committee constitutes a quorum. The Committee meets on call. The Discount Committee at Atlanta, which includes one director who receives an attendance fee, meets daily.

The by-laws of the Federal Reserve Bank of Chicago provide for a Discount Committee composed of 3 members (directors or executive officers), which meets in the interim between Executive Committee meetings.

It is understood that the Discount Committee at the Federal Reserve Bank of Minneapolis, which includes one Class "A" or "B" director, meets daily. According to the by-laws the Discount Committee has power to fix the time and place of holding its meetings and has authority to pass on discounts, to buy and sell securities, and "in general, to conduct business of the bank as allowed by law subject

to the supervision and control of the Board of Directors and the Executive Committee".

Other Committees.

From time to time the boards of directors of various banks appoint special committees such as a "Building Committee", and it is understood that some banks have other committees, such as an "Audit Committee" and a "Committee on the Welfare of the Staff" which meet at infrequent intervals. Complete information regarding such committees is not available at the Board's offices.

MEETINGS OF BOARD OF DIRECTORS OF FEDERAL RESERVE BANKS AND BRANCHES
AND OF THE EXECUTIVE COMMITTEE

(NOTE: This statement was compiled from latest available information contained in by-laws and reports of examination. A number of the by-laws are in process of revision and this may change the composition of committees and the frequency of meetings thereof.)

Banks and Branches	Board of Directors meets -	Executive Committee		
		Meets -	Directors, including Chairman and Federal Reserve Agent, but excluding Managing Director	
			Number	For quorum
Boston	Bi-weekly	On call <u>a/</u>	2 or more	2
New York	Weekly	<u>b/</u>	4 or more	3
Philadelphia	Semi-monthly	2nd, 4th & 5th Wednesdays of each month	4	2
Cleveland	Every 28 days	Every 14 days	5	3
Richmond	Monthly	On call	2	2
Atlanta	Monthly	Semi-weekly	4	3
Chicago	Monthly <u>c/</u>	Weekly	5	3
St. Louis	Semi-monthly	Thrice weekly	4	2
Minneapolis	Monthly	Every 14 days	3	2
Kansas City	Semi-monthly	Daily	2	1
Dallas	Monthly	Semi-monthly	4	2
San Francisco	Bi-weekly	Weekly	5	3
Buffalo	Monthly	Semi-weekly	1	1
Cincinnati	Monthly	No Exec. Com.	--	--
Pittsburgh	Monthly	No Exec. Com.	--	--
Baltimore	Monthly	On call	1	0
Charlotte	Monthly	On call <u>d/</u>	1	0
Birmingham	Monthly	No Exec. Com.	--	--
Jacksonville	Monthly	No Exec. Com.	--	--
Nashville	Monthly	No Exec. Com.	--	--
New Orleans	Monthly	On call <u>e/ f/</u>	4	2
Detroit	Monthly	<u>e/ g/</u>	2 ?	?
Little Rock	Monthly	On call <u>h/</u>	Not over 3	?
Louisville	Monthly	On call <u>h/</u>	Not over 3	?
Memphis	Monthly	On call <u>h/</u>	Not over 3	?
Helena	Monthly	On call ?	2	2
Denver	Monthly	Daily <u>e/ i/</u>	1	0
Oklahoma City	Monthly	Daily <u>e/ i/</u>	1	0
Omaha	Monthly	Daily <u>e/ i/</u>	1	0
El Paso	Monthly	On call <u>j/</u>	2	1
Houston	Monthly	On call <u>j/</u>	2	1
San Antonio	Monthly	On call <u>j/</u>	2	1
Los Angeles	Monthly	No committee	--	--
Portland	Monthly	No committee	--	--
Salt Lake City	Monthly	No committee	--	--
Seattle	Monthly	No committee	--	--
Spokane	Monthly	No committee	--	--

a/ Only one meeting held between 6/29/35 and 7/22/36.

b/ Directors voted 9/12/35 that meetings be omitted until necessity therefore arose

c/ Additional meeting in January.

d/ No meetings since opening of branch.

e/ Discount Committee.

f/ Meets daily provided there are offerings for consideration except those secured by U. S. Government obligations.

g/ Meets at such times as shall be fixed by Detroit Board of Directors from time to time.

h/ Credit Committee.

i/ Director receiving an attendance fee not called unless there are offerings to be considered.

j/ Meetings held when offerings are received except those secured by U. S. Government obligations or renewals of member bank collateral notes secured by bills receivable.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

November 5, 1936

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of October 29, 1936, with which you inclosed a letter dated October 28, 1936, from Messrs. _____, _____ counsellors for the _____ Bank and Trust Company, _____. The letter of Messrs. _____ presents the question whether Regulation U applies to a certain loan to a corporate investment trust on stocks to enable the borrower to retire certain debenture bonds issued by it prior to the enactment of the Securities Exchange Act of 1934. It is understood that the debentures were originally issued to obtain funds for the usual operations of the investment trust which consist very largely of purchasing listed stocks.

As you state in your letter, since the loan is to retire the debentures of the investment trust, it appears not to be for the purpose of purchasing a stock registered on a national securities exchange, and therefore the question is whether the loan is for the purpose of carrying a registered stock.

From the nature of the loan, it would seem to be for the purpose of carrying registered stocks unless some provision of the regulation removes it from that category. In this connection, section 3(b)

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of the regulation provides:

"No loan, however it may be secured, need be treated as a loan for the purpose of 'carrying' a stock registered on a national securities exchange unless the purpose of the loan is to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase such a stock, or, if he be a broker or dealer, to carry such stocks for customers."

It will be seen that section 3(b) was intended to exempt from the regulation loans which might otherwise be considered to be for the purpose of "carrying" registered stocks merely because they happen to be secured by such stocks. This was to afford the banks more certainty in their operations under the regulation and to avoid any interference with ordinary commercial loans.

Careful consideration has been given to the views expressed in your letter and that of Messrs. _____. However, the Board feels that the debentures constitute indebtedness within the meaning of section 3(b) and that the purpose of the loan must be considered to be the retirement of these debentures rather than merely their purchase. It also seems that in connection with questions regarding the carrying of stocks registered on a national securities exchange the present status of the stocks should be considered and that, therefore, the debentures should be considered to be indebtedness originally incurred to purchase registered stocks within the meaning of section 3(b). Furthermore, the reference in the section to brokers and dealers indicates that the section was not intended to exempt loans which are closely connected with trading in registered stocks and emphasizes the fact that the present loan does not come within the general

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purposes of the exemption contained in the section.

In view of these facts, the Board feels that the present loan is subject to the provisions of the regulation, and it will be appreciated if you will advise Messrs. _____ of the Board's views on the question.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9734

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 10, 1936.

Dear Sir:

There are enclosed herewith
copies of statement rendered by the
Bureau of Engraving and Printing,
covering the cost of preparing Fed-
eral reserve notes for the month of
October, 1936.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO ALL F. R. PRESIDENTS.

X-9734-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
October 1 to 31, 1936.

Federal Reserve Notes, Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston,.....	-	50,000	50,000	100,000	\$9,350.00
New York,.....	-	-	1,000	1,000	93.50
Philadelphia,.....	-	50,000	20,000	70,000	6,545.00
Cleveland,.....	22,000	150,000	32,000	204,000	19,074.00
Richmond,.....	1,000	50,000	20,000	71,000	6,638.50
Atlanta,.....	100,000	50,000	10,000	160,000	14,960.00
Chicago,.....	-	131,000	2,000	133,000	12,435.50
St. Louis,.....	-	75,000	20,000	95,000	8,882.50
Minneapolis,.....	-	20,000	10,000	30,000	2,805.00
Kansas City,.....	-	20,000	15,000	35,000	3,272.50
San Francisco,.....	<u>1,000</u>	<u>20,000</u>	<u>50,000</u>	<u>71,000</u>	<u>6,638.50</u>
Total.....	<u>124,000</u>	<u>616,000</u>	<u>230,000</u>	<u>970,000</u>	<u>\$90,695.00</u>

970,000 sheets @ \$93.50 per M,.....\$90,695.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9735



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 10, 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 October, 1936.

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,

A handwritten signature in cursive script, reading "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 OCTOBER, 1936.

Federal Reserve Bank	Number of words sent	Words sent by U. I. 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	39,222	1,241	40,463	\$ 251.45	\$ --	\$ 251.45	\$ 624.12	\$ 251.45	\$ 372.67
New York	154,708	--	154,708	1,215.15	--	1,215.15	2,336.27	1,215.15	1,171.12
Philadelphia	35,749	1,289	37,038	236.39	--	236.39	571.29	236.39	334.90
Cleveland	53,946	1,240	55,186	373.14	--	373.14	851.21	373.14	478.07
Richmond	62,225	1,224	63,449	263.78	230.00	493.78	973.66	493.78	484.88
Atlanta	71,326	1,210	72,536	275.73	--	275.73	1,118.82	275.73	843.09
Chicago	94,251	1,859	96,110	1,199.77	--	1,199.77	1,432.44	1,199.77	282.67
St. Louis	76,207	1,217	77,424	184.84	--	184.84	1,194.22	184.84	1,009.38
Minneapolis	34,969	1,465	36,434	135.55	--	135.55	561.97	135.55	426.42
Kansas City	74,169	1,304	75,473	259.03	--	259.03	1,164.12	259.03	905.09
Dallas	67,367	1,265	68,632	267.55	--	267.55	1,058.61	267.55	791.06
San Francisco	100,640	1,230	101,930	530.64	--	530.64	1,572.21	530.64	991.57
Board of Governors	633,053	--	633,053	2,571.90	15,283.47	17,855.37	9,764.45	17,855.37	--
Total	1,497,832	14,604	1,512,436	\$7,814.92	\$15,513.47	\$23,328.39	\$23,328.39	\$23,328.39	\$8,090.92

(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 (\$.015424381) for business handled during the month.

X-9736

(Superseding X-9523)

FEDERAL RESERVE SYSTEM

The Federal Reserve System was established pursuant to authority contained in the Act of Congress approved December 23, 1913, known as the Federal Reserve Act, the purposes of which, as stated in the preamble, are "To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

The system comprises the Board of Governors of the Federal Reserve System, which exercises supervisory functions, the Federal Advisory Council, which acts in an advisory capacity to the Board of Governors, the Federal Open Market Committee, the twelve Federal reserve banks situated in different sections of the United States, and the member banks, which include all national banks in the United States and such State banks and trust companies as have voluntarily applied to the Board of Governors for membership and have been admitted to the System.

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

The capital stock of the Federal reserve banks is entirely owned by the member banks and may not be transferred or hypothecated. Every national bank in existence in the United States at the time of the establishment of the Federal Reserve System was required to subscribe to the capital stock of the Federal reserve bank of its district in an amount equal to six per cent of the subscribing bank's paid-up capital and surplus. A like amount of Federal reserve bank stock must be subscribed for by every national bank in the United States organized since that time and by every State bank or trust company (except mutual savings banks) upon becoming a member of the Federal Reserve System; and, when a member bank increases or decreases its capital or surplus, it is required to alter its holdings of Federal reserve bank stock in the same proportion. A mutual savings bank which is admitted to membership in the Federal Reserve System must subscribe for Federal reserve bank stock in an amount equal to six-tenths of one per centum of its total deposit liabilities; and thereafter such subscription must be adjusted semiannually on the same percentage basis. One-half of the subscription of each member bank must be fully paid and the remainder is subject to call by the Board of Governors of the Federal Reserve System; but call for payment of the remainder has not been made.

After all necessary expenses of a Federal reserve bank have been paid or provided for, its stockholding member banks are entitled to receive an annual dividend of six per cent on the paid-in

capital stock, which dividend is cumulative. After these dividend claims have been fully met, the net earnings are paid into the surplus fund of the Federal reserve bank. In case of liquidation or dissolution of a Federal reserve bank, any surplus remaining after payment of all debts, dividends, and the par value of its capital stock becomes the property of the United States Government. Federal reserve banks, including the capital stock and surplus therein and the income derived therefrom, are exempt from Federal, State and local taxation, except taxes upon real estate.

The board of directors of each Federal reserve bank is composed of nine members, equally divided into three classes, designated Class A, Class B and Class C. Directors of Class A are representative of the stockholding member banks. Directors of Class B must be actively engaged in their district in commerce, agriculture or some other industrial pursuit, and may not be officers, directors or employees of any bank. Class C directors may not be officers, directors, employees, or stockholders of any bank. The six Class A and B directors are elected by the stockholding member banks, while the Board of Governors of the Federal Reserve System appoints the three Class C directors. The term of office of each director is three years, so arranged that the term of one director of each class expires each year.

One of the Class C directors appointed by the Board is designated as chairman of the board of directors of the Federal reserve

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

Each Federal reserve bank has as its chief executive officer a president appointed for a term of five years by its board of directors with the approval of the Board of Governors of the Federal Reserve System. There is also a first vice-president appointed in the same manner and for the same term.

Federal reserve banks are authorized, among other things, to discount for their member banks notes, drafts, bills of exchange and bankers' acceptances of short maturities arising out of commercial, industrial or agricultural transactions, and short term paper secured by obligations of the United States; to make advances to their member banks upon their promissory notes for periods not exceeding ninety days upon the security of paper eligible for discount or purchase and for periods not exceeding fifteen days upon the security of obligations of the United States and certain other securities; to make advances upon security satisfactory to the Federal reserve banks to member banks for periods not exceeding four months at a rate of interest at least one-half of one per cent higher than that applicable to discounts and advances of the kinds mentioned above; in certain exceptional circumstances and under certain prescribed conditions, to make advances to groups of member

banks; under certain prescribed conditions, to grant credit accommodations to furnish working capital for established industrial or commercial businesses for periods not exceeding five years, either through the medium of financing institutions or, in exceptional circumstances, directly to such businesses, and to make commitments with respect to the granting of such accommodations; in unusual and exigent circumstances when authority has been granted by at least five members of the Board of Governors, to discount for individuals, partnerships or corporations, under certain prescribed conditions, notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks; to make advances to individuals, partnerships or corporations upon their promissory notes secured by direct obligations of the United States for periods not exceeding ninety days; to purchase and sell in the open market bankers' acceptances and bills of exchange of the kinds and maturities eligible for discount, obligations of the United States and certain other securities; to receive and hold on deposit the reserve balances of member banks; to issue Federal reserve notes and Federal reserve bank notes; to act as clearing houses and as collecting agents for their member banks, and under certain conditions for nonmember banks, in the collection of checks and other instruments; to act as depositories and fiscal agents of the United States; and to exercise other banking functions specified in the Federal Reserve Act.

Federal reserve notes are a first and paramount lien on all the

assets of the Federal reserve banks through which they are issued and are also obligations of the United States. They are issued against the security of gold certificates and of commercial and agricultural paper discounted or purchased by Federal reserve banks, and, until March 3, 1937, when authorized by the Board of Governors may also be secured by direct obligations of the United States. Every Federal reserve bank is required to maintain reserves in gold certificates of not less than forty per cent against its Federal reserve notes in actual circulation and is also required to maintain reserves in gold certificates or lawful money of not less than thirty-five per cent against its deposits.

Federal reserve bank notes are the obligations of the Federal reserve bank procuring them and are redeemable in lawful money of the United States on presentation at the United States Treasury or at the bank of issue. They may be issued against the security of direct obligations of the United States in an amount equal to the face value of such obligations and against the security of notes, drafts, bills of exchange or bankers' acceptances in an amount equal to not more than ninety per cent of the estimated value thereof. Each Federal reserve bank must maintain on deposit in the Treasury of the United States in lawful money a redemption fund equal to five per cent of its liability on Federal reserve bank notes in actual circulation, or such other amount as may be required by the Treasurer of the United States with the approval of the

Secretary of the Treasury, and is required to pay a tax of one-fourth of one per cent each half year upon the average amount of its Federal reserve bank notes in circulation. No such Federal reserve bank notes may be issued after the President shall have declared by proclamation that the emergency recognized by him in his proclamation of March 6, 1933, has terminated.

Broad supervisory powers are vested in the Board of Governors of the Federal Reserve System which has its offices in Washington. The Board of Governors is composed of seven members appointed by the President with the advice and consent of the Senate. In selecting these seven members, 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. No two members may be from the same Federal reserve district.

Among the more important duties of the Board of Governors is the review and determination of discount rates charged by the Federal reserve banks on their discounts and advances. Each member of the Board of Governors is also a member of the Federal Open Market Committee whose membership, in addition, includes five representatives of the Federal reserve banks, each such representative being elected annually by the boards of directors of certain specified Federal reserve banks. Open-market operations of the Federal reserve banks are conducted under regulations adopted by the Committee with a view to accommodating commerce and business and with

regard to their bearing upon the general credit situation of the country; and no Federal reserve bank may engage or decline to engage in open-market operations except in accordance with the direction of and regulations adopted by the Committee.

In connection with its supervision of Federal reserve banks the Board of Governors is also authorized to make examinations of such banks; to require statements and reports from such banks; to require the establishment or discontinuance of branches of such banks; to supervise the issue and retirement of Federal reserve notes; and to exercise special supervision over all relationships and transactions of the Federal reserve banks with foreign banks or bankers.

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

The Board of Governors also passes on the admission of State banks and trust companies to membership in the Federal Reserve System and on the termination of membership of such banks; it has the power to examine member banks and affiliates of member banks; it

receives condition reports from State member banks and their affiliates; it limits by regulation the rate of interest which may be paid by member banks on time and savings deposits; it is authorized, in its discretion, to issue voting permits to holding company affiliates of member banks entitling them to vote the stock of such banks at any or all meetings of shareholders of the member bank; it may issue general regulations permitting interlocking relationships in certain circumstances between member banks and organizations dealing in securities or, under the Clayton Antitrust Act, between member banks and other banks; it has the power to remove officers and directors of a member bank for continued violations of law or unsafe or unsound practices in conducting the business of such bank; it may, in its discretion, suspend member banks from the use of the credit facilities of the Federal Reserve System, for making undue use of bank credit for speculative purposes or for any other purpose inconsistent with the maintenance of sound credit conditions; it may, within certain limitations and in order to prevent injurious credit expansion or contraction, change the requirements as to reserves to be maintained by member banks against deposits; it passes on applications of State member banks to establish out-of-town branches; it passes on applications of national banks for authority to exercise trust powers or to act in fiduciary capacities; it may grant authority to national banks to establish branches in foreign countries or dependencies or insular possessions of the United States,

or to invest in the stock of banks or corporations engaged in international or foreign banking; and it supervises the organization and activities of corporations organized under Federal law to engage in international or foreign banking. Another function of the Board is the operation of a settlement fund, by which balances due to and from the various Federal reserve banks arising out of their own transactions or transactions of their member banks or of the United States Government are settled in Washington through telegraphic transfer of funds without physical shipments of currency.

In exercising its supervisory functions over the Federal reserve banks and member banks, the Board of Governors promulgates regulations, pursuant to authority granted by the law, governing certain of the above-mentioned activities of Federal reserve banks and member banks. To meet its expenses and to pay the salaries of its members and its employees, the Board makes semiannual assessments upon the Federal reserve banks in proportion to their capital stock and surplus. The Board keeps a complete record of all action taken by it and by the Federal Open Market Committee on any question of policy, and in the annual report which it makes to the Speaker of the House of Representatives for the information of Congress as required by law, it includes a full account of all such action and also a copy of the records required to be kept in that connection.

The Federal Advisory Council acts in an advisory capacity, conferring with the Board of Governors on general business conditions

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X-9736

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

November 11, 1936.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9737



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 14, 1936.

Dear Sir:

As you probably know, the Revenue Act of 1936 provides that holding company affiliates shall be allowed a special credit for the purpose of the surtax on undistributed profits and on the income of corporations improperly accumulating surplus. Such credit is provided in section 26(d) of the Act which reads as follows:

"(d) Bank Affiliates.--In the case of a holding company affiliate (as defined in section 2 of the Banking Act of 1933), the amount of the earnings or profits which the Board of Governors of the Federal Reserve System certifies to the Commissioner has been devoted by such affiliate during the taxable year to the acquisition of readily marketable assets other than bank stock in compliance with section 5144 of the Revised Statutes. The aggregate of the credits allowable under this subsection for all taxable years shall not exceed the amount required to be devoted under such section 5144 to such purposes."

Inclosed herewith is a copy of the section of the regulations of the Commissioner of Internal Revenue which relates to such credit. Your attention is called to the fact that, according to the regulations, the credit is allowed only to holding company affiliates which hold general voting permits at the end of the taxable year. In view of this fact, it is possible that certain holding company affiliates which have not heretofore received general voting permits will desire to do so

prior to the end of the calendar year, which is understood to be the taxable year for most, if not all, such organizations. If such is the case, it is essential that steps be taken at once to review the applications of such holding company affiliates and to obtain and analyze supplemental information, in order that the Board will be in a position to determine whether it may properly grant such permits.

Accordingly, it is suggested that you bring the pertinent provisions of the Revenue Act of 1936 and the Commissioner's regulations to the attention of the holding company affiliates in your district which have voting permit applications pending, and ascertain whether they desire to have immediate consideration given to the granting of general voting permits. In any case in which a general voting permit is desired, please advise the Board at once, furnishing to it as promptly as possible such information as is necessary to bring the application up to date, together with your recommendations.

If there are any holding company affiliates in your district which do not have voting permit applications pending and have not received general voting permits or been determined not to be engaged as a business in holding the stock of, or managing or controlling, banks, it is suggested that this matter also be brought to their attention in order that they may file applications for voting permits immediately if they desire to have them considered before the end of the year.

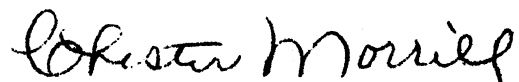
For the information of the holding company affiliates which hold general voting permits, it may be desirable to direct their

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X-9737

attention also to the pertinent provisions of the Revenue Act of 1936 and the Commissioner's regulations.

Very truly yours,

A handwritten signature in cursive script, reading "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

X-9737-a

EXCERPT FROM REGULATIONS 94 OF THE BUREAU OF INTERNAL REVENUE
OF THE DEPARTMENT OF THE TREASURY OF THE UNITED STATES
RELATING TO SPECIAL CREDIT ALLOWED HOLDING
COMPANY AFFILIATES UNDER THE PROVISIONS
OF SECTION 26(d) OF THE REVENUE ACT OF 1936

Art. 26-3. Bank affiliates.-- The credit provided in section 26(d) is allowed --

(1) to a holding company affiliate of a bank, as defined in section 2 of the Banking Act of 1933, which holding company affiliate holds, at the end of the taxable year, a general voting permit granted by the Board of Governors of the Federal Reserve System;

(2) in the amount of the earnings or profits of such holding company affiliate which, in compliance with section 5144 of the Revised Statutes, has been devoted by it during the taxable year to the acquisition of readily marketable assets other than bank stock;

(3) upon certification by the Board of Governors of the Federal Reserve System to the Commissioner that such an amount of the earnings or profits has been so devoted by such affiliate during the taxable year.

No credit is allowable either for the amount of readily marketable assets acquired and on hand at the beginning of the first taxable year subject to the Revenue Act of 1936 or for an amount of readily marketable assets in excess of what is required, by such section 5144, to be acquired by such affiliate.

Every taxpayer claiming and making a deduction for the credit provided for in section 26(d) shall attach to its return a supplementary statement, in duplicate, setting forth all the facts and information upon which the claim is predicated, including such facts and information as the Board of Governors of the Federal Reserve System may prescribe as necessary to enable it, upon the request of the Commissioner subsequent to the filing of the return, to certify to the Commissioner the amount of earnings or profits devoted to the acquisition of such readily marketable assets. A certified copy of such supplementary statement shall be forwarded by the taxpayer to the Board of Governors at the time of the filing of the return. The holding company affiliate shall also furnish the Board of Governors such further information as the Board shall require. For the requirements with respect to the amount of such readily marketable assets which must be acquired and maintained by a holding company affiliate to which a voting permit has been granted, see subsections (b) and (c) of section 5144 of the Revised Statutes (paragraph 56 of the Appendix to these regulations).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9738

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 14, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

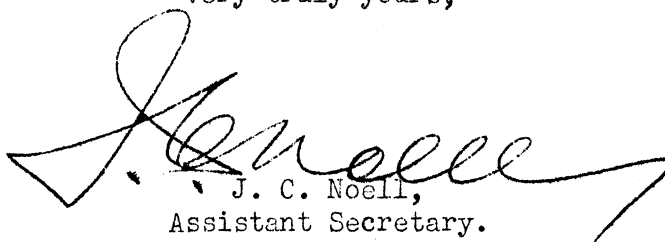
Dear Sir:

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:

"NOYSYB" - Treasury Bills to be dated
November 18, 1936, and to
mature August 18, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYSUR" 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-9739

254



November 17, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: 1937 Budgets for Federal
Reserve banks.

Dear Sir:

It will be appreciated if you will mail to the Board as soon as practicable after January 1 a copy of the budget approved by your bank for its head office and each of its branches, if any, and for the head office and branches combined, for the calendar year 1937.

Heretofore the Board has requested that it be furnished with copies of the budgets in the form prepared by the banks for their own use. In the case of about half of the banks these budgets have been prepared along functional lines while in the case of the other banks they have been prepared on a departmental basis. Since detailed figures of operating costs are compiled along functional lines by all Federal Reserve banks and since a better comparison can be made between expenses and budgets when the budgets are prepared in the same form in which expenses are reported, it will be appreciated if the 1937 budgets furnished to the Board are prepared along functional lines in accordance with the sample form, X-9739-a, attached. The statements should show totals for each function in the functional expense reports, Form E.

As you were advised by the Board when the statistical and analytical and bank examination work was transferred from the Federal Reserve Agent's department to the bank, the budgets for these departments should be submitted for its advance approval. Accordingly, it is requested that budget statements be submitted on Form X-9739-b and X-9739-c showing the itemization of the budgets of these two functions in the same detail as expenses for these functions are shown in Form E.

A supply of forms X-9739-a, X-9739-b, and X-9739-c is inclosed.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

X-9739-a

SUMMARY OF BUDGET ESTIMATES, 1937

Federal Reserve Bank of _____

(Indicate whether head office,
branch or "combined" report)

<u>Function</u>	:	<u>Expenses,</u>	:	<u>Budget,</u>
	:	<u>Year 1936</u>	:	<u>Year 1937</u>
General overhead - Controllable				
General overhead - Noncontrollable				
Provision of space (less income and distribution)				
Provision of personnel				
General service				
Postage				
Insurance				
Failed banks				
Loans, rediscounts, and acceptances				
Securities				
Currency and coin				
Check collection				
Noncash collection				
Accounting				
Legal				
Bank relations				
Chairman and F. R. Agent				
Auditing				
Bank examination				
Federal Reserve note issues				
Statistical and analytical				
Securities exchange				
WPA Project				
Fiscal agency, custodianship, and depository:				
Reimbursable expense				
Expense not reimbursable				
Foreign				
TOTAL (Column 1 must agree with Form E)				

MEMORANDUM

Furniture and equipment

STATISTICAL AND ANALYTICAL BUDGET, 1937

Federal Reserve Bank of _____ (Indicate whether head office, branch or "combined" report)

<u>Expense Unit</u>	:	<u>Expenses,</u>	:	<u>Budget,</u>
	:	<u>Year 1936</u>	:	<u>Year 1937</u>

1. Statistical (other than special reports):

- a. Salaries - Officers
- b. Salaries - Employees
- c. Contributions - Retirement system
- d. Traveling expenses
- e. Printing, stationery, and other supplies
- f. Telephone and telegraph
- g. Postage
- h. All other

TOTAL

2. Statistical (special reports):

- a. Salaries - Officers
- b. Salaries - Employees
- c. Contributions - Retirement system
- d. Traveling expenses
- e. Printing, stationery, and other supplies
- f. Telephone and telegraph
- g. Postage
- h. All other

TOTAL

3. Monthly letter:

- a. Printing and stationery
- b. Postage

TOTAL

4. Library:

- a. Salaries - Officers
- b. Salaries - Employees
- c. Contributions - Retirement system
- d. Traveling expenses
- e. Printing, stationery, and other supplies
- f. Telephone and telegraph
- g. News service - Subscriptions to periodicals, etc.
- h. Books
- i. All other

TOTAL

TOTAL, STATISTICAL AND ANALYTICAL

BANK EXAMINATION BUDGET, 1937

Federal Reserve Bank of _____ (Indicate whether head office,
branch or "combined" report)

<u>Bank Examination Function</u>	:	<u>Expenses,</u>	<u>Budget,</u>
	:	<u>Year 1936</u>	<u>Year 1937</u>
Salaries - Officers			
Salaries - Employees			
Contributions - Retirement system			
Traveling expenses			
Printing, stationery, and other supplies			
Telephone and telegraph			
National bank examiners' reports			
State bank examiners' reports			
All other			
TOTAL			
DEDUCT - EXPENSES CHARGED AGAINST BANKS EXAMINED:			
Salaries			
Contributions - Retirement system			
Traveling expenses			
Other			
NET TOTAL, BANK EXAMINATION			

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9740

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 19, 1936.

SUBJECT: Holidays during December, 1936.

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the Havana Agency of the Federal Reserve Bank of Atlanta will be closed on Monday, December 7, in observance of Cuban Memorial Day.

On Christmas Day the offices of the Board and all Federal Reserve banks and branches will be closed.

Saturday, December 26, having been declared a legal holiday in the District of Columbia, the offices of the Board of Governors will be officially closed, but the transit clearing through the Inter-district Settlement Fund will take place as usual.

Please notify branches.

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Noell", with a long, sweeping horizontal stroke extending to the right.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

X-9741

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Friday, November 20, 1936

AMENDMENT OF REGULATION T

The Board of Governors of the Federal Reserve System today submitted to the twelve Federal reserve banks for their consideration and suggestions the attached tentative draft of an amendment to Regulation T. After consulting with persons who would be affected by the amendment, including representatives of securities exchanges, the reserve banks are requested to return their replies to the Board not later than December 7, 1936. The Board will thereupon give consideration to the advisability of adopting such an amendment.

Regulation T at present, as a matter of convenience both for customers and brokers, allows a certain number of days within which the required margin may be furnished after a purchase is made. A practice has developed, however, which was not intended under this provision whereby purchasers of securities on margin sell within a period of three or four days, and by this means avoid having to furnish the required margin. This practice, when repeated by what is commonly known as "in-and-out" trading, permits a continuous avoidance of the furnishing of the amount of margin prescribed by the Board under the law. The development of this practice has emphasized a weakness in the regulation which it is believed should be remedied in the public interest. The proposed amendment would cause the broker to require that any customer who purchases securities on margin shall provide the required margin in advance of the purchase -- or in any event, except in the case of purchases and sales made on the same day, not later than the end of the day on which the purchase is made.

TENTATIVE DRAFT OF PROPOSED AMENDMENT TO REGULATION T

Amendment No. _____ of Regulation T - Effective _____ 1936.

Regulation T, as amended, is hereby further amended in the following respects:

1. Subsections (i) and (j) of section 2 of said regulation are amended to read as follows:

"(i) The term 'unrestricted account' means an account in which the adjusted debit balance equals or is less than the maximum loan value of the securities in the account.

"(j) The term 'restricted account' means an account in which the adjusted debit balance exceeds the maximum loan value of the securities in the account."

2. The last paragraph of subsection (b) of section 3 of said regulation is amended by striking out the words "and together with demands for additional margin in connection therewith".
3. Subsection (f) of section 3 of said regulation is amended by striking out clause (8); by substituting a period for the semicolon and the word "and" at the end of clause (7); and by adding the word "and" at the end of clause (6) after the semicolon.
4. Subsections (c), (d), and (e) of section 4 of said regulation are amended to read as follows:

"(c) Transactions in unrestricted accounts. - A creditor shall not permit any customer to make in an unrestricted account any transaction or combination of transactions which would cause such account to become a restricted account.

"(d) Transactions in restricted accounts. - A creditor shall not permit a customer to make in a restricted account any transaction which, in combination with any other transactions made on the same day, results 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, or results in any net withdrawal of cash and/or securities: Provided, however, That a creditor may permit a customer to make any transaction or combination of transactions which causes the account to become an unrestricted account.

"(e) Combination of transactions. - For the purposes of subsections (c) and (d) of this section all the transactions in a given account on a given day may be considered a single transaction; and any substitution of securities consisting of a sale of securities in the account followed by the purchase of other securities on the next succeeding business day may be considered a substitution occurring entirely on the day on which the purchase occurs."

- 2 -

5. Section 6 of said regulation is amended by changing the period at the end of said section to a colon and adding thereafter the following:

"Provided, That the special cash account provided for in this section may be used, to any extent not forbidden by other provisions of law, to receive and hold for any customer cash or securities, including cash or securities withdrawn from another account without violation of this regulation."

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

November 7, 1956.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Receipt is acknowledged of your letter of October 24, 1956, with reference to obtaining certified copies of the charter and articles of incorporation, with all amendments thereto, of State banks in (name of State) and (name of State) applying for membership in the Federal Reserve System, in compliance with the requirement contained in the Board's Form 83A (Exhibit V).

It is understood from your letter that, in the case of each (name of State) State bank applying for membership, the State Banking Department forwards to you photostat copies of the original documents referred to above, and you inquire whether it would be sufficient, for the purposes of Form 83A, to include with the photostat copies of such documents submitted to the Board a copy of the letter from the State Banking Department transmitting such photostat copies to you and your own certification showing that the photostat copies were received from the permanent files of the State Banking Department.

The purpose of the Board's requirement is to secure complete and authentic copies of the charter and articles of incorporation, with all amendments thereto, of each State bank applying for membership. Accordingly, in cases where the photostat copies of such documents

-2-

which you forward to the Board are obtained by you directly from the State Banking Department, compliance with the Board's requirements will be considered to have been accomplished if, in each case, the copies submitted to the Board are accompanied by a statement from the State Banking Department that they are complete copies of the charter and articles of incorporation of the bank and all amendments thereto.

It is understood also that, in connection with the application of each (name of State) State bank for membership, the Banking Department of that State furnishes you its file of original documents of the kind under discussion and that you have photostat copies thereof made for the Board's use. The requirements of the Board will be considered to have been complied with in such cases if you submit with the photostat copies forwarded to the Board a statement from the State Banking Department to the effect that the file from which you make such photostat copies contains the charter and articles of incorporation of the bank involved and all amendments thereto, together with a statement by you that the photostat copies so forwarded are complete copies of all such documents.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-9743
Reg. H-9

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

November 17, 1936.

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

Dear Mr. _____:

This refers to your letter of October 16, 1936, with inclosures, regarding the merger on July 11, 1936, of the _____ Trust Company and The _____ Trust Company of _____, both of _____.

It is noted that your counsel is of the opinion that the merger was legally effective under the laws of (name of State) and did not affect the legal status of the _____ Trust Company as a member of the Federal Reserve System. It is noted also that you have forwarded a number of copies of underlying documents showing the action taken by the officers, directors and/or stockholders of the two institutions leading up to the merger, in addition to copies of certain other documents which have been furnished to you in this connection.

As you know, in connection with a consolidation or merger under the charter of a State member bank or a transaction in which a State member bank purchases or acquires certain assets and liabilities of another bank, it is the Board's practice to obtain copies of any contracts or agreements entered into by the banks involved, any

-2-

amendments to the charter of the member bank continuing in existence made in connection with the particular transaction, and, if possible, any approval given by the appropriate State supervisory authorities to the merger, consolidation or acquisition of assets and liabilities, including a copy of any specific authorization granted by such authorities for the establishment of any branch resulting from the transaction. It will not be necessary, however, for you to furnish copies of the underlying documents usually executed in such cases, as, for example, documents showing the preliminary action taken by the officers, directors and/or stockholders of the banks leading up to the consummation of the transaction.

While in some cases it may be desirable for the Federal Reserve bank itself to obtain copies of underlying documents of this kind, in order that its counsel may be satisfied as to the legality of the matter, the determination of the question as to what underlying documents, if any, need be obtained in any particular case must be made by the Federal Reserve bank and its counsel in the exercise of a reasonable discretion in the light of all the facts existing in each case. However, it is suggested that, in the absence of special circumstances, the counsel for the Federal Reserve bank could rely in each case upon information received from the State supervisory authorities that appropriate action had been taken by the officers, directors and/or stockholders looking toward the merger, consolidation or acquisition of assets and liabilities.

X-9743
Reg. H-9

--3--

In connection with the above, your attention is invited to the Board's letter of December 26, 1934 (X-9060a), with regard to obtaining and furnishing the Board with copies of amendments to the charters of State member banks.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

X-9744

THE BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
Sunday, November 22, 1936

November 21, 1936

Chairman Eccles issued the following statement:

"The Board of Governors of the Federal Reserve System met during the week with the Federal Advisory Council and later with the Presidents of the Federal Reserve Banks. In addition, there was a meeting of the Federal Open Market Committee.

"In the course of these meetings, the business and credit situation was fully reviewed. Particular attention was given to the fact that since the Board's action last July in raising reserve requirements, there has been a continued and substantial increase of member bank reserves, resulting principally from a further large inflow of gold from abroad, so that member bank reserves are once more far in excess of legal requirements and of present or prospective needs of commerce, industry and agriculture.

"Those charged with responsibility for credit and reserve policy are now giving careful consideration to the various problems raised by the effects of these reserves with a view to taking such action at such time as it appears to be necessary in the public interest."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9745

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 21, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

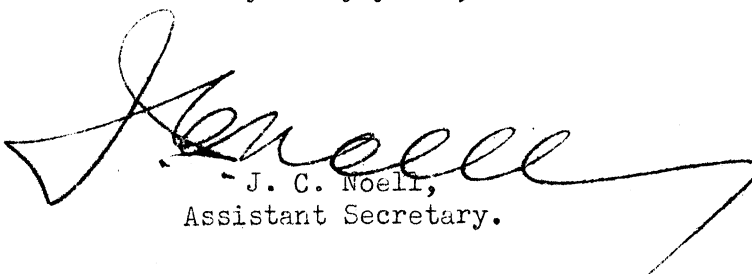
Dear Sir:

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:

"NOYTAP" - Treasury Bills to be dated
November 25, 1936, and to
mature August 25, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYSYB" 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-9746



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1936.

Dear Sir:

It will be recalled that in 1934 the Board suggested a procedure by which informal consideration might be given in advance of January 1 of each year to any important adjustments in salaries at the Federal reserve banks which the directors might have in contemplation and upon which they would expect to take formal action in accordance with the usual procedure in January. While the Board did not carry this suggestion into full effect, it seems to the Board as now constituted that pending further consideration of the matter it is desirable, in the interest of full cooperation between the Board and the directors of the Federal reserve banks, to adopt such a procedure with respect to salaries for 1937.

Therefore it will be appreciated if the board of directors of your bank will advise the Board at the earliest practicable date as to any adjustments that it contemplates making in salaries of officers of the bank for the year 1937. The Board will then consider the information and if it has any question respecting the proposed action it will communicate with you for the purpose of obtaining additional information or arranging an informal conference for the purpose of discussing the matter.

It is suggested that in submitting in January, in accordance with the usual practice, pursuant to formal action by the directors, the lists of officers and their salaries for 1937, the information be furnished in the manner indicated by the inclosed form X-9746-a. In case the bank's counsel is not an officer of the bank, his annual retainer fee and any additional compensation for clerk hire should be shown separately.

In addition, in accordance with the usual practice, there should be submitted as early in January as practicable a statement showing the name of each employee of your bank and its branches, if any, on January 1, 1937, and the salary paid to each employee as of January 1, 1936, and January 1, 1937. The statement should be prepared in accordance with the attached sample form X-9746-b, in order to facilitate checking the information against the approved personnel classification plan for your bank, which is on file with the Board.

It is also requested that a summary statement showing the number of employees as of January 1, 1936, and as of January 1, 1937, and salary changes since 1936 by salary groups be submitted in accordance with the attached sample form X-9746-c. As in the past, the schedules should cover all employees on the bank's payroll, including those whose salaries are reimbursed to the bank in whole or in part.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

SALARIES OF OFFICERS OF THE FEDERAL RESERVE BANK OF _____

AND ITS BRANCHES, IF ANY, FOR THE YEAR 1937 AS PROVIDED BY THE BOARD OF DIRECTORS

SUBJECT TO APPROVAL BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NAME	TITLE	Departments or functions supervised (Form A classification)	Annual Salary	
			Dec. 31, 1936	1937, for approval of Board of Governors

Total, _____ officers _____

X-9746-b

EMPLOYEES OF THE FEDERAL RESERVE BANK OF _____ AND ITS
BRANCHES (IF ANY) ON JANUARY 1, 1937

Name of employee	Classifi- cation symbol	Title of job	Salary range	Salary on Jan. 1	
				1936*	1937

NOTE: Employees should be listed by functions or departments and the positions or jobs arranged in the same order as they appear in the personnel classification plan, Form A, on file with the Board of Governors of the Federal Reserve System. The total number of employees including employees whose salaries are reimbursed to the bank in whole or in part and the total salaries paid should be shown for each function or department. Extra help or temporary employees should be listed with the regular employees of the bank and designated by the letter "T" after the classification symbol. In case of employees on a per diem or hourly basis, the estimated total annual compensation should also be shown.

*If hired during 1936, please show the initial salary.

SALARIES OF EMPLOYEES OF FEDERAL RESERVE BANK OF _____ (INCLUDING BRANCHES)
ON JANUARY 1, 1937, AND SALARY CHANGES SINCE JANUARY 1, 1936.

Salaries under \$1500	Salaries from \$1500 to \$2499	Salaries from \$2500 to \$3999	Salaries of \$4000 and over	Total
-----------------------------	--------------------------------------	--------------------------------------	-----------------------------------	-------

Employees:

1. Number on roll on January 1, 1936
2. Number on roll on January 1, 1937
3. Number in item 1 not on roll on January 1, 1937(a)
4. Number in item 2 not on roll on January 1, 1936

Salaries:

5. Total on January 1, 1936
6. Total on January 1, 1937
7. Average on January 1, 1936
8. Average on January 1, 1937
9. Total on January 1, 1936, of employees in item 3(a)
10. Total on January 1, 1937, of employees in item 4

Salary changes (b):

11. Salaries increased -
 - a. Number of employees(c)
 - b. Aggregate increase(c)
 - c. Salaries on January 1, 1937
12. Salaries reduced -
 - a. Number of employees(c)
 - b. Aggregate reduction(c)
 - c. Salaries on January 1, 1937
13. Salaries unchanged
 - a. Number of employees
 - b. Salaries on January 1, 1937

- (a) Attach statement subdividing these items according to cause of separation as follows: death, resignation, retirement, and "all other".
- (b) Of employees on roll on January 1 of 1936 and 1937. The total of items 11a, 12a, and 13a should equal item 2 less item 4.
- (c) Distributed by salary groups on basis of January 1, 1937, salaries.

NOTE: Employees absent on part salary or without pay should be included in this statement at full annual salary. Employees, if any, regularly receiving nominal salaries should be excluded and their number and aggregate salaries as of January 1, 1936 and January 1, 1937 stated in a footnote.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9747

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 25, 1936

Dear Sir:

The Treasury Department has called to the attention of this office a number of vouchers submitted by Federal reserve banks, covering telegrams sent over branch lines, which have been returned to the Department by the General Accounting Office without approval and with the statement that there was no showing as to the method used in computing the cost per word used in arriving at the amounts shown on the vouchers.

In a discussion of this matter by a representative of the Board and the General Accounting Office the latter advised that it would meet the requirements of the office if vouchers covering branch line telegrams showed the number of words sent over the branch lines, the items making up the total cost of operating the branch lines and the cost per word derived by dividing the cost of operations by the number of words sent.

While the General Accounting Office now understands that the per-word cost of operating the main lines is determined in this office and has advised that no further question will be raised in connection with vouchers showing such cost, it is believed to be desirable that vouchers covering all reimbursable telegrams should be prepared by the

Federal reserve banks on a uniform basis. Accordingly, there is set forth below a sample of a suggested schedule covering telegrams sent over the main lines of the leased wire system, as well as a schedule covering branch line telegrams which the General Accounting Office stated would be satisfactory to it:

Main Lines

For transmission of official telegrams over the Federal Reserve Leased Wire System on account of the appropriation above named during the month of July, 1936, as per messages attached, based on actual cost of service as determined by the Board of Governors:

1,000 words at \$.014386444 \$14.39

Branch Lines

For transmission of official telegrams over the (name of branch) branch line on account of the appropriation above named during the month of July, 1936, as per messages attached; based on an actual per-word cost as set forth below:

1,000 words at \$.012229929 \$12.23

Number of words passing over branch
line during July, 1936 37,629
Total cost of branch line for July,
consisting of personal services,
supplies and cost of wire and
machine rental \$460.20
Resulting in an actual per-word
cost of \$.012229929


When the branch line per-word cost is higher than the per-word cost of the main lines and the latter is used as a basis for billing branch line business, pursuant to the Board's letter of June 27, 1936, B-1160, the following should be inserted in the schedule between the statement of the number of words sent for the appropriation and the

statement showing the manner in which the actual per-word cost was determined:

"Telegrams covered by this item are billed at per-word cost of main lines as determined by the Board of Governors, which is lower than the actual cost as shown below:"

It was pointed out that some of the vouchers returned by the General Accounting Office stated that the expense was incurred during the month following that in which the telegrams were actually sent. It is possible that this resulted from the suggestion contained in the Board's letter of March 26, 1936, X-9534, that since the Federal reserve banks could not be advised by the Board as to the per-word cost of telegrams sent in one month until after the first of the succeeding month, the charges for telegrams sent during the month for the account of various government agencies should be included in the regular monthly voucher requesting reimbursement for expenses incurred during the succeeding month. It was not intended that telegrams should be listed as expenses incurred in any month other than that in which they were actually sent, and while they may be included as an item on a voucher covering other expenses incurred during a succeeding month, the item should show clearly that it covers an expense incurred in the month during which the telegrams were sent.

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

LETTER TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9748

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 25, 1936.

Dear Sir:

For a short time after the establishment of the System the employees of the Federal Reserve Issue and Redemption Division of the Office of the Comptroller of the Currency were carried on the Comptroller's payroll and the Board reimbursed the Comptroller's office for the expenses of the Division. Under date of February 13, 1915, the Comptroller of the Treasury ruled that the Comptroller of the Currency had no authority to carry such employees on his payroll and, in accordance with that opinion, the employees were transferred to the Board's payroll.

Recently this question was reconsidered and the Comptroller has now advised the Board that his office has made arrangements whereby all employees of the Federal Reserve Issue and Redemption Division will be carried on the payroll of the Comptroller of the Currency, effective December 1, 1936, provided the Board deposits with the Treasury of the United States to the credit of the Comptroller of the Currency in advance sufficient funds with which to pay all expenses of the Federal Reserve Issue and Redemption Division.

The Board has approved this arrangement and effective at the close of business November 30, 1936, the employees of the Federal

-2-

X-9748

Reserve Issue and Redemption Division of the Office of the Comptroller of the Currency will be transferred from the payroll of the Board to the payroll of the Comptroller of the Currency and thereafter the expenses of the Federal Reserve Issue and Redemption Division will be met by special assessments on the Federal Reserve banks.

The total cost of operating the Division during a given semi-annual period will be prorated among the Federal Reserve banks on the basis of the number of canceled Federal Reserve notes of each Federal Reserve bank destroyed by the Issue and Redemption Division during the preceding six-month period ending on May 31 or November 30, respectively. The cost of operating the Division during the month of December, 1936, will be prorated on the basis of the number of notes of each bank destroyed during October, 1936, and the first assessment will be for an amount sufficient to cover the cost of operating the Division for the month of December, 1936, only. You will be advised by wire before the end of November of the amount of this assessment.

Part of each assessment to cover the expenses of the Federal Reserve Issue and Redemption Division should be included on Form 96 in the item "Original cost of Federal Reserve currency" and part in the item "Cost of destruction of Federal Reserve currency". The portion of each assessment to be charged to the original cost and the portion to the cost of redemption of Federal Reserve currency will be given in the Board's wire advising you of the assessment.

Prior to January 1 and July 1 of each year you will be advised

-3-

X-9748

of the amount of the assessment to be paid by your bank to cover expenses of the Issue and Redemption Division during the succeeding six-month period and the amount of such assessment should be deposited with the Federal Reserve Bank of Richmond to the credit of the Board of Governors on the first business day of January and July, respectively.

In furnishing your bank advice as to the amount of the assessment to cover expenses of the Issue and Redemption Division for a six-month period the code word CHISMATE will be used. This code word, to be inserted at the top of page 50 of the Federal Reserve Telegraph Code Book, will have the following meaning:

"Please deposit with the Federal Reserve Bank of Richmond on _____ (a) \$ _____ to cover expenses of the Federal Reserve Issue and Redemption Division of the Office of the Comptroller of the Currency for the next semiannual period. Of this amount (b) \$ _____ should be charged to the original cost of Federal Reserve notes and (c) \$ _____ to cost of redemption of Federal Reserve notes."

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9750

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 27, 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:

"NOYTEN" - Treasury Bills to be dated
December 2, 1936, and to
mature September 1, 1937.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Noell", written in a cursive style with a long, sweeping tail.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9751



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 27, 1936.

Dear Sir:

Replies received from all Federal Reserve banks to the Board's letter X-9719 of October 17, 1936, in regard to the suggestion that all shipments of Federal Reserve notes of other Federal Reserve banks be made in thousands of dollars and that the Federal Reserve note clearing be likewise made in thousands of dollars indicate that all Federal Reserve banks are either favorable to the proposal or have no objection to its adoption.

Since all Federal Reserve banks are agreeable to the change, and since its adoption would reduce the number of words transmitted over the main line leased wire system and branch lines and effect some saving in expenses, the Board has approved the change effective Tuesday, December 1, 1936. It is requested, therefore, effective as of that date that all shipments of Federal Reserve notes of other Federal Reserve banks to the bank of issue and to the Treasury be made in thousands of dollars, and effective as of the same date the Federal Reserve note settlement through the Inter-district Settlement Fund will also be made in thousands of dollars.

While a majority of the Federal Reserve banks favor or have no objection to the proposal that the transit clearing through the Inter-district Settlement Fund be made in even thousands of dollars instead of in dollars and cents as at present, reference to which was made in the Board's letter of September 2, 1936 (X-9685), some of the Federal Reserve banks are opposed to the suggested change. A number of banks stated that while the suggested change might effect some economy in the use of the telegraph wires this saving would be more than offset by the increased accounting necessary in carrying over from day to day the unsettled balances with the various Federal Reserve banks and branches. Some of the banks having branches using the timed wire service state that little or no saving of telegraphic expense would be effected as a result of making settlements in even thousands of dollars since the Inter-district Settlement wires are now transmitted in less than the three-minute period on which the timed wire service charge is based.

Since a number of the Federal Reserve banks are opposed to the suggestion that the transit clearing be made in even thousands of dollars it is thought that final decision on this matter should be deferred until after the matter has been considered by the Presidents' Conference.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill". The signature is written in dark ink and is positioned above the typed name.

Chester Morrill,
Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9752

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 27, 1936.

SUBJECT: Code Word Covering New
Issue of Treasury Bills.

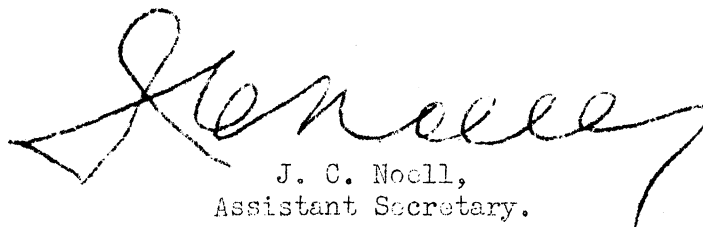
Dear Sir:

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:

"NOYTAST" - Treasury Bills to be dated
December 2, 1936, and to
mature March 16, 1937.

This word should be inserted in the Federal Reserve Telegraph Code book, following the supplemental code word "NOYTAP" 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-9753
Sec. 13 FRA-3

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 30, 1936

SUBJECT: Deposits of uninvested trust
funds in Federal Reserve banks.

Dear Sir:

Referring to the Board's letter of September 30, 1936, (X-9709), with regard to the deposit of uninvested trust funds in Federal Reserve banks by member banks, there is inclosed herewith for your information a copy of a letter received from the Federal Reserve Bank of San Francisco on this subject, together with a copy of the Board's reply thereto.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

COPY

X-9753-a

Sec. 13 FRA-3

FEDERAL RESERVE BANK OF SAN FRANCISCO

October 8, 1936

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

Dear Sirs:

In its letter of September 30th, X-9709, Sec. 13 FRA-2, the Board states that it would offer no objection to the receipt by Federal Reserve Banks, from Trust Departments of member banks, of a temporary separate deposit of uninvested trust funds when in the judgment of the Reserve Bank special circumstances render such service desirable in a particular instance.

We appreciate the decision of the Board because it will enable us to avoid extraordinarily large payments of currency for no other purpose than to facilitate bond-refunding transactions.

Pending the settlement of the subject, we have certified a few checks, but did not wish to continue doing so as a general practice without the Board's knowledge and approval.

As pointed out in earlier correspondence, a trustee has only three methods of holding funds deposited in anticipation of a bond-refunding operation. Such funds might be deposited in the Commercial Department of the same bank, thus necessitating the pledge of eligible securities which the Commercial Department may not have available. They might be deposited with some other bank. Inasmuch, however, as the depository can not lawfully pledge its assets to secure the funds, the trustee can not afford to assume the risk when large amounts are involved. There remains the withdrawal of currency from the Reserve Bank, to be held in the vaults of the trustee.

Our interest became aroused when the possibility of currency withdrawals amounting to \$30,000,000 or \$40,000,000 were in the offing.

Counsel for the Board has pointed to the possible dangers which might arise through an alleged co-mingling of assets if funds are transferred from the Trust Department account directly to the reserve account of the same member bank. In view of such a possibility, we shall continue the practice of certifying the member bank's checks drawn against its reserve account, payable to itself. In such circumstances, the certified checks endorsed in blank are handed by the member bank to its Trust Department. The checks will reappear at the Reserve Bank in the form of deposits made by the member bank

-2-

X-9753-a
Sec. 13 FPA-3

for credit of its reserve account. Under this procedure, we do not see how it would be possible to charge the Federal Reserve Bank with knowledge of any trust relationship, inasmuch as such transactions are conducted in the normal course of business.

Yours very truly,

(Signed) Ira Clerk

First Vice President.

X-9753-b
Sec. 13 FRA-3

COPY

November 25, 1936.

Mr. Ira Clerk, First Vice-President,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Clerk:

This refers to your letter of October 8, 1936, with regard to the Board's letter of September 30, 1936, (X-9709), in which the Board stated that, while it felt that it was not desirable that Federal Reserve banks engage as a general practice in receiving uninvested trust funds on deposit from member banks, for the present it will offer no objection to the receipt of such deposits in a special account when in the judgment of the Federal Reserve bank special circumstances render such service to a particular member bank desirable for a temporary period.

You advise that, in lieu of accepting trust funds from a member bank on deposit in a special account, it is your practice to certify checks of a member bank drawn against its reserve account payable to itself. It is understood that such certified checks are indorsed in blank and delivered by the member bank to its trust department in exchange for funds of an equal amount, and that when the trust department subsequently desires to obtain the funds it returns the checks to the commercial department in exchange therefor and the checks are then re-deposited in the reserve account of the member bank with the Federal Reserve bank.

X-9753-b
Sec. 13 FRA-3

-2-

The Board of Governors offers no objection to the practice above described in lieu of the receipt of deposits of uninvested trust funds of a member bank in a special account, when in the judgment of your bank special circumstances render such service to a particular member bank desirable for a temporary period. As in the case of receipt of deposits of uninvested trust funds, however, it is believed that in any case in which the facts are known to you this service should be discontinued as soon as the special circumstances justifying it are eliminated.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9754
Reg. H-10



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1936

SUBJECT: Aggregate capital required for the establishment
and retention of branches by State member banks.

Dear Sir:

As you know, paragraph (d) of section 5155 of the Revised Statutes of the United States provides, in the case of the establishment of branches by national banks, that:

"(d) The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated."

Under the provisions of section 9 of the Federal Reserve Act the Board is authorized to approve the establishment and operation by a State member bank of branches located outside of the city in which the State member bank is situated on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks. Section 9 also provides that the approval of the Board must be obtained before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated.

-2-

With regard to the computation of the aggregate capital required for the establishment of branches by national banks, the Comptroller of the Currency has heretofore taken the position that only one unit of capital for the head office and all branches located in the same city as the head office is required under the provision of law quoted above, and in acting on applications of State member banks for the establishment of branches or the retention of branches established after February 25, 1927, the Board has taken the position that the aggregate capital required may be computed in a like manner.

The Board has recently been advised that the Comptroller of the Currency, in acting on applications of national banks for permission to establish branches, requires only one unit of capital for each place in which a branch of the applicant bank is located other than the city of the head office, even though more than one branch is located in such other place. A copy of a letter containing advice of the Comptroller's position in this connection is attached hereto.

In view of the provisions of section 9 of the Federal Reserve Act above referred to and, since it is the obvious intent of the law that State member banks and national banks shall be on a basis of substantial equality with regard to the establishment of branches, you are advised that in determining the aggregate amount of capital required for the establishment of out-of-town branches

-3-

by State member banks or the retention by such banks of out-of-town branches established after February 25, 1927, the Board will apply the construction of the law which has been adopted by the Comptroller of the Currency and which is described in the attached letter.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", with a long horizontal flourish extending to the right.

L. P. Bethea,
Assistant Secretary.

Inclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

COPYTREASURY DEPARTMENT

COMPTROLLER OF THE CURRENCY

WASHINGTON

October 1, 1936

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

Dear Sirs:

Reference is had to your letter of September 30, relative to the capitalization requirements of Paragraph (d) of Section 5155 of the Revised Statutes, relative to the establishment of branches of National Banks.

You state that under date of January 2, 1934, this office advised you that while this office does not believe it is required that National Banks have a unit of capital for each branch in the city, town or village in which the main office is located, it was our opinion that such units of capital were required for all branches established outside the limits of the location of the main office.

You state that you have been informed that since the date of the above letter this office has reached the conclusion that the requirements of this law are fulfilled if the National Bank has one unit of capital for each city, town or village in which the bank and its branches are located; i. e.: if two or more branches are located in a given city, which city is outside the location of the bank's main office, only one additional unit of capital is required for such branches. You ask that we confirm your understanding in this respect, and furnish you with copy of opinion of Counsel if one has been prepared.

Under date of November 19, 1935, opinion of Counsel was prepared and approved on this subject matter, copy of which opinion is enclosed herewith.* In this opinion you will note that it is determined that this office may reasonably interpret the Statute as not requiring an increase in capital for additional branches located at a place outside the place of the parent bank's location where the parent bank has already located a branch in such place and has made the necessary capital adjustments to satisfy the Statute for the

-2-

location and establishment of one branch in that place. In other words, the capital requirements having been met for the establishment of one branch in that community, it is concluded that the Statute does not require additional capital adjustments to be made for the establishment of other branches in the same community.

Very truly yours,

(Signed) Gibbs Lyons

GIBBS LYONS
Deputy Comptroller.

*Opinion not inclosed with this copy of Comptroller's letter.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

December 2, 1936

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of November 7, 1936, with which you forwarded the agreement of (Name of Bank), dated November 5, 1936 on F.R.B. Form T-2, and accompanying documents.

The second paragraph of section 11(c) of Regulation T reads as follows:

"Duplicate originals of F.R.B. Form T-2, when properly executed, shall be delivered to the Federal Reserve agent at the Federal Reserve Bank of New York or the Federal Reserve agent at the Federal Reserve Bank of San Francisco and delivery to either such Federal Reserve agent shall constitute filing with the Board of Governors of the Federal Reserve System. The Federal Reserve agent to whom such delivery is made shall thereupon send a certificate evidencing such filing to the qualifying bank and to each branch or agency of the qualifying bank which is listed in F.R.B. Form T-2 and shall at the same time send appropriate notice of such filing to the Federal Reserve agent at the Federal bank in each Federal Reserve district in which is situated one or more of such branches or agencies."

In connection with these provisions your letter states:

"In view of the provisions of this paragraph it would seem that, notwithstanding the transfer to this bank effective October 30, 1936 of the nonstatutory duties of the Federal Reserve Agent at this bank, the duplicate originals of agreements on F.R.B. Form T-2 should be delivered to the Federal Reserve Agent (or Assistant Federal Reserve Agent when, as is now the case at this bank, the office of the Federal Reserve Agent is vacant) rather than delivered

-2-

to the bank itself; and that the Federal Reserve Agent (or Assistant Federal Reserve Agent when the office of the Federal Reserve Agent is vacant) is the proper person to execute and send the certificates and notices of the filing of such agreements, in compliance with the terms of the above quoted paragraph. Mr. _____, Assistant Federal Reserve Agent at this bank, has accordingly executed a certificate on F.R.B. Form T-3, (revised by substitution of 'Board of Governors of the Federal Reserve System' for 'Federal Reserve Board') evidencing the filing with the Board of the agreement of (Name of Bank), dated November 5, 1936, on F.R.B. Form T-2, and has today sent duplicate originals of such certificate to the principal place of business of (Name of Bank) in _____, _____, and to its agency in _____.

"We trust that the procedure followed as outlined above meets with the Board's approval."

The Board agrees with your view that, notwithstanding the transfer of the nonstatutory duties of the Federal Reserve Agent to the Federal Reserve Bank, the present provisions of section 11(c) of Regulation T contemplate that the Federal Reserve Agent (or Assistant Federal Reserve Agent if the office of Federal Reserve Agent is vacant) will continue to execute and send the certificates and notices of the filing of F.R.B. Form T-2 agreements; and, therefore, pending any change in these provisions, it approves this procedure as followed in connection with the agreement of (Name of Bank).

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9756

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 5, 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:

"NOYTIK" - Treasury Bills to be dated
December 9, 1936, and to
mature March 16, 1937.

"NOYTOT" - Treasury Bills to be dated
December 9, 1936, and to
mature September 8, 1937.

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

Very truly yours,

A large, stylized handwritten signature in dark ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9757



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 7, 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:

"NOWLAP" - 1 1/4% Treasury Notes, Series
C-1941, to be dated and to bear
interest from December 15, 1936,
and to mature December 15, 1941.

"NOWCOT" - 2 1/2% Treasury Bonds of 1949-53,
to be dated and to bear interest
from December 15, 1936, and to
mature December 15, 1953.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "J. C. Noell", with a long, sweeping horizontal stroke extending to the right.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9758

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 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 November, 1936.

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,
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 NOVEMBER, 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	37,592	1,338	38,930	\$ 251.45	\$ --	\$ 251.45	\$ 675.75	\$ 251.45	\$ 424.30
New York	140,660	--	140,660	1,221.15	--	1,221.15	2,441.58	1,221.15	1,220.43
Philadelphia	32,922	1,342	34,264	236.39	--	236.39	594.76	236.39	358.37
Cleveland	47,957	1,342	49,299	373.89	--	373.89	855.73	373.89	481.84
Richmond	54,355	1,329	55,684	263.78	230.00	493.78	966.57	493.78	472.79
Atlanta	58,085	1,313	59,398	275.73	--	275.73	1,031.03	275.73	755.30
Chicago	84,817	1,826	86,643	1,156.80	--	1,156.80	1,503.95	1,156.80	347.15
St. Louis	68,220	1,329	69,549	184.84	--	184.84	1,207.23	184.84	1,022.39
Minneapolis	28,203	1,377	29,585	135.55	--	135.55	513.54	135.55	377.99
Kansas City	65,130	1,328	66,458	259.03	--	259.03	1,153.58	259.03	894.55
Dallas	55,123	1,370	56,493	267.55	--	267.55	980.61	267.55	713.06
San Francisco	91,051	1,392	92,443	567.15	--	567.15	1,604.63	567.15	1,037.48
Board of Governors	557,893	--	557,893	2,571.90	15,217.68	17,789.58	9,683.93	17,789.58	--
Total	1,322,013	15,286	1,337,299	\$7,765.21	\$15,447.68	\$23,212.89	\$23,212.89	\$23,212.89	\$8,105.65

(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 (\$.017358040) for business handled during the month.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9759

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 10, 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 November, 1936.

Very truly yours,

O. E. Foulk
O. E. Foulk,
Fiscal Agent.

Enclosure.

To all F. R. Presidents.

X-9759-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
November 1 to 30, 1936.

Federal Reserve Notes, Series 1934

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	-	50,000	50,000	-	-	100,000	\$ 9,350.00
New York . . .	-	-	149,000	44,000	57,000	250,000	23,375.00
Philadelphia	-	50,000	-	-	-	50,000	4,675.00
Cleveland . .	28,000	150,000	68,000	-	-	246,000	23,001.00
Richmond . . .	75,000	-	-	-	-	75,000	7,012.50
Atlanta . . .	124,000	50,000	-	-	-	174,000	16,269.00
Chicago . . .	-	89,000	198,000	-	-	287,000	26,834.50
St. Louis . .	-	25,000	40,000	-	-	65,000	6,077.50
Minneapolis .	-	20,000	19,000	-	-	39,000	3,646.50
Kansas City .	-	40,000	-	-	-	40,000	3,740.00
San Francisco.	<u>49,000</u>	<u>95,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>144,000</u>	<u>13,464.00</u>
Total . .	<u>276,000</u>	<u>569,000</u>	<u>524,000</u>	<u>44,000</u>	<u>57,000</u>	<u>1,470,000</u>	<u>\$137,445.00</u>

1,470,000 sheets, @ \$93.50 per M, \$137,445.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9760



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 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:

"NOYTUF" - Treasury Bills to be dated
December 16, 1936, and to
mature March 17, 1937.

"NOYVAN" - Treasury Bills to be dated
December 16, 1936, and to
mature September 15, 1937.

These words should be inserted in the Federal
Reserve Telegraph Code book, following the supple-
mental code word "NOYTOT" on page 172.

Very truly yours,

A large, stylized handwritten signature in dark ink, appearing to read "J. C. Noel".

J. C. Noel,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9761

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 12, 1936.

Dear Sir:

Reference is made to the letter addressed to you under date of July 31, 1936, with which there were forwarded to you copies of the correspondence with the Treasury Department with respect to the absorption by the Board and the banks of the cost of sending over the main lines of the Leased Wire System telegrams chargeable to the Treasury appropriation for miscellaneous and contingent expenses.

The Treasury is being advised by letter today that, in accordance with the understanding set forth in the correspondence, vouchers will be submitted by the Board and the Federal reserve banks covering the cost of all telegrams sent by them over the Leased Wire System after January 1, 1937, which are chargeable to this appropriation. A copy of the letter to the Treasury Department is inclosed for your information.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS

COPY

X-9761-a

December 12, 1936

Mr. Wm. H. McReynolds,
Administrative Assistant
to the Secretary,
Treasury Department,
Washington, D. C.

Dear Mr. McReynolds:

On July 31, 1936, following an exchange of correspondence between you and Chairman Eccles with respect to the absorption by the Board of Governors and the Federal reserve banks of the cost of telegrams sent over the main lines of the Federal Reserve Leased Wire System which were properly chargeable to the Treasury appropriation for miscellaneous and contingent expenses, the Board addressed a letter to you in which it was stated that, in view of the assurances contained in your letter of July 29, 1936, the Board and the Federal reserve banks would continue to absorb this expense until the end of December, 1936, with the definite understanding, as stated in your letter, that the Treasury will make reimbursement for such costs beginning January 1, 1937.

In accordance with this understanding, the Board will submit monthly vouchers covering the cost of telegrams sent by its Washington telegraph office after January 1, 1937, for the account of this appropriation and each Federal reserve bank will submit similar vouchers covering the cost of such telegrams sent by it.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9762



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1936.

SUBJECT: Confirmation of telegrams.

Dear Sir:

Referring to the Board's letter of October 9, 1936, X-9714, with respect to the sending of mail confirmations of telegrams to the Federal reserve banks and branches, the Board is of the opinion that ordinarily it is not essential that the telegrams sent to it by the Federal reserve banks and branches be confirmed by mail. Accordingly you are authorized to discontinue the sending of such confirmations except in special cases where an exception to the customary procedure is thought desirable.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

TO ALL PRESIDENTS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9763
Reg. Q-27

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1936.

Dear Sir:

This refers to the Board's telegrams of December 28, 1935 (Trans. No. 2348) and January 27, 1936 (Trans. No. 2366) requesting the Federal Reserve Agent to advise all member banks in your district that the definition of interest contained in subsection (f) of section 1 of the revised Regulation Q would not be made effective until such date as should be fixed by further action of the Board. As the result of a careful study of this question during the current year, the Board of Governors has now fixed February 1, 1937, as the date on which such subsection shall become effective.

There is inclosed herewith a statement advising member banks of the action of the Board of Governors regarding this definition, and it is requested that you include this statement in a circular of your bank to be mailed to all member banks in your district on, but not before, December 21, 1936.

There is also inclosed herewith a copy of a statement regarding the effective date of the definition of interest in subsection (f) of section 1 of Regulation Q which the Board of Governors

-2-

will release to the press for publication on December 21, 1936. If you so desire, you may release the same statement to the press in your city for publication on such date. However, you are requested not to divulge to member banks or to others until December 21, 1936, the fact that the Board has taken action regarding the definition of interest.

Very truly yours,



Chester Morrill,
Secretary.

Papers attached.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

X-9763-a
Reg. Q-27

December 21, 1936.

Effective Date of Definition of Interest in
Subsection (f) of Section 1 of Regulation Q

To all Member Banks in the
_____ Federal Reserve District.

During the latter part of 1935, the Board of Governors of the Federal Reserve System revised its Regulation Q relating to the payment of interest on deposits, and the regulation in its revised form was made effective January 1, 1936. However, as you know, the definition of interest in subsection (f) of section 1 of such revision of Regulation Q was not made effective on January 1, 1936, but the date on which such subsection should become effective was deferred until further action of the Board of Governors.

During the current year the Board of Governors has given exhaustive consideration to this subject, and, as a result of such consideration, has taken action fixing February 1, 1937, as the date on which subsection (f) of section 1 of Regulation Q shall become effective.

This subsection which contains the definition of interest and which is quoted below will become effective on February 1, 1937, in the same form as that contained in the revision of Regulation Q sent to you in 1935, all of the other provisions of which became effective on January 1, 1936. The subsection reads as follows:

"The term 'interest' means a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i.e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance.

"The term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

"Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed."

If you should have any questions regarding the definition of interest, please address your inquiries directly to this bank rather than to the Board of Governors of the Federal Reserve System.

Very truly yours,

President.

COPY

X-9763-b
Reg. Q-27

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in afternoon newspapers
Monday, December 21, 1936

December 21, 1936.

During the latter part of 1935, the Board of Governors of the Federal Reserve System revised its Regulation Q relating to the payment by member banks of interest on deposits, and the regulation in its revised form was made effective January 1, 1936. However, the definition of interest in subsection (f) of section 1 of such revision of Regulation Q was not made effective on January 1, 1936, but the date on which such subsection should become effective was deferred until further action of the Board of Governors.

During the current year the Board of Governors has given exhaustive consideration to this subject, and, as a result of such consideration, has taken action fixing February 1, 1937, as the date on which subsection (f) of section 1 of Regulation Q shall become effective. This subsection which contains the definition of interest and which is quoted below will become effective on February 1, 1937, in the same form as that contained in subsection (f) of section 1 of the revision of Regulation Q sent to the member banks in 1935, all of the other provisions of which became effective on January 1, 1936.

The subsection reads as follows:

"The term 'interest' means a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i.e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance.

"The term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

"Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9764



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 17, 1936.

SUBJECT: Complimentary Copies of Federal Reserve Bulletin for State Bank Examiners.

Dear Sir:

The Board of Governors of the Federal Reserve System will furnish a complimentary copy of the Federal Reserve Bulletin during the year 1937 to each State bank examiner who may desire it. Please send to this office, not later than December 30, 1936 a list showing the name and address of each State bank examiner in your district who desires to receive a complimentary copy of each issue.

Very truly yours,

A large, stylized handwritten signature in dark ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO ALL PRESIDENTS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9765



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 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:

"NOYVEJ" - Treasury Bills to be dated
December 23, 1936, and to
mature March 17, 1937.

"NOYVIM" - Treasury Bills to be dated
December 23, 1936, and to
mature September 22, 1937.

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

Very truly yours,

A large, stylized handwritten signature in dark ink, which appears to read "J. C. Noell". The signature is fluid and extends across the width of the page.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

X-9766

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in afternoon newspapers
Monday, December 21, 1936

December 21, 1936.

During the latter part of 1935, the Board of Governors of the Federal Reserve System revised its Regulation Q relating to the payment by member banks of interest on deposits, and the regulation in its revised form was made effective January 1, 1936. However, the definition of interest in subsection (f) of section 1 of such revision of Regulation Q was not made effective on January 1, 1936, but the date on which such subsection should become effective was deferred until further action of the Board of Governors.

During the current year the Board of Governors has given exhaustive consideration to this subject, and, as a result of such consideration, has taken action fixing February 1, 1937, as the date on which subsection (f) of section 1 of Regulation Q shall become effective. This subsection which contains the definition of interest and which is quoted below will become effective on February 1, 1937, in the same form as that contained in subsection (f) of section 1 of the revision of Regulation Q sent to the member banks in 1935, all of the other provisions of which became effective on January 1, 1936.

The subsection reads as follows:

"The term 'interest' means a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i.e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance.

"The term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

"Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed."



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9767

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1936.

SUBJECT: Holidays during January, 1937.

Dear Sir:

On New Year's Day the offices of the Board of Governors of the Federal Reserve System and all Federal reserve banks and branches will be closed.

By Executive Order of the President, the various executive departments and independent establishments in the District of Columbia will be closed on Saturday, January 2. Inaugural Day, January 20, is a legal holiday in the District of Columbia. Transit clearings and other operations through the Inter-district Settlement Fund, however, will take place as usual on those days.

The Board is advised that the following holidays also will be observed by Federal reserve banks and branches during January:

Friday, January 8	New Orleans	Anniversary of the Battle of New Orleans
Tuesday, January 19	Richmond	Little Rock
	Charlotte	Louisville
		Memphis
	Atlanta	Anniversary of the birthday of General Robert E. Lee
	Birmingham	Dallas
	Jacksonville	El Paso
	Nashville	Houston
		San Antonio

-2-

X-9767

Thursday, January 28

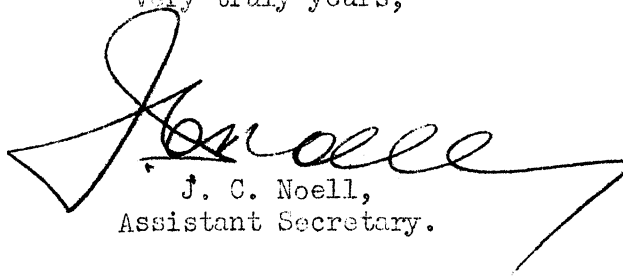
Havana Agency

Anniversary of
the birth of
Jose Marti

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 Federal reserve notes for account of the head offices named should be included in your note clearing of January 19.

Please notify branches.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9768



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 25, 1936.

Dear Sir:

The following code words have been designated for use in telegrams between the Federal Reserve Bank of New York and other Federal Reserve banks in connection with the participation by the various Federal Reserve banks in United States Government securities held in the System Open Market Account:

JUMRATE - We credit you today in the Interdistrict Settlement Fund with the proceeds of your pro rata share in sale of Government securities in System Open Market Account as follows: (A) \$_____ par value Treasury Bills, (B) \$_____ par value Treasury Notes, (C) \$_____ par value Treasury Bonds, (D) \$_____ premium, (E) \$_____ accrued interest. Credit us today (F) \$_____ discount on your pro rata share of Treasury Bills sold.

JUMROLE - Credit us today in the Interdistrict Settlement Fund with the cost of your pro rata share in purchase of Government securities in System Open Market Account as follows: (A) \$_____ par value Treasury Bills, (B) \$_____ par value Treasury Notes, (C) \$_____ par value Treasury Bonds, (D) \$_____ premium, (E) \$_____ accrued interest. We credit you today (F) \$_____ discount on your pro rata share of Treasury Bills purchased.

JUMSALE - Purchase and/or sale transactions in Government securities in System Open Market Account today have not affected the amount of your total holdings. The classification of your pro rata share in total holdings at the close of business today is (A) \$_____ par value Treasury Bills, (B) \$_____ par value Treasury Notes, (C) \$_____ par value Treasury Bonds. To adjust the amount of premium, accrued interest and discount on your pro rata share of

total holdings in the System Account as a result of today's transactions we credit you today in the Interdistrict Settlement Fund (D) \$_____ premium, (E) \$_____ accrued interest, (F) \$_____ discount. Credit us today (G) \$_____ premium, (H) \$_____ accrued interest, (I) \$_____ discount.

JUMSET - To provide for the difference between the market basis of 360 days per annum and our accrual basis of actual number of days in calendar year for the interest accrued on Treasury Bonds purchased and/or sold in System Open Market Account _____ (Date)_____ make the following entries on your books today: Credit interest accrued (A) \$_____, debit interest earned (B) \$_____, debit interest accrued (C) \$_____, credit interest earned (D) \$_____.

JUMSILT - Accrue earnings on your holdings of Government securities in the System Open Market Account for _____ (Date)_____ as follows: Accrual of interest (A) \$_____, accrual of discount (B) \$_____, amortization of premium (C) \$_____, interest earned (D) \$_____.

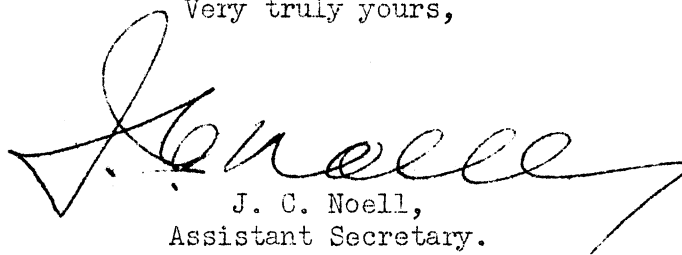
JUMSTED - We credit you today in the Interdistrict Settlement Fund \$_____, representing your pro rata share of interest coupons due and paid today on Government securities in System Open Market Account.

JUMTILE - We credit you today in the Interdistrict Settlement Fund \$_____, representing your pro rata share of profit realized today on sale of Government securities in System Open Market Account.

JUMTOLD - Credit us today in the Interdistrict Settlement Fund \$_____, representing your pro rata share of loss sustained today on sale of Government securities in System Open Market Account.

These words should be inserted on page 134 of the Federal Reserve Telegraph Code, following the word JUMPWORT.

Very truly yours,



J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

X-9770
Reg. D-4

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

December 22, 1936.

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

Dear Mr. _____:

This refers to Mr. _____ letter of October 13, 1936, in answer to the Board's letter to you dated September 16, 1936, regarding the question whether advance payments on United States Government bonds are deposits against which member banks and Federal Reserve banks are required to carry reserves. In his letter of October 13, 1936, Mr. _____ suggested that this subject be considered at a joint conference between representatives of the Treasury, the Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of _____. However, it is understood that Mr. _____ no longer desires a consideration of this subject at such a joint conference.

It is understood that these advance payments on Government bonds are made by subscribers pursuant to instructions issued by the Secretary of the Treasury to the Federal Reserve Bank of _____ under date of May 27, 1936, which are designed to provide for an equitable allotment and distribution of these bonds by requiring the subscribers to make a substantial initial payment at the time their subscriptions are entered. In cases where a bank enters subscriptions on

-2-

X-9770

Reg. D-4

behalf of its customers, the bank is required to certify that there has been paid to it by each such customer, "not subject to withdrawal until after allotment and payment in full for securities allotted, the full amount required to accompany his application." The question presented is whether these advance payments to banks by subscribers constitute deposits against which reserves are required to be carried.

The Board has heretofore taken the position that all funds received by a bank in the course of its commercial or fiduciary business must be considered as deposits against which reserves are required to be carried, unless such funds are trust funds and are actually segregated from the other assets of the bank. This position was stated in a ruling published at page 572 of the Federal Reserve Bulletin for 1922.

Since it appears that these advance payments on Government bonds do not constitute trust funds and are not actually segregated from the bank's other assets, it is the view of the Board of Governors that such advance payments constitute deposits against which member banks and Federal Reserve banks are required to carry reserves.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

December 22, 1936

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

Dear Sir:

This refers to your letter of December 2, 1936, regarding the payment by member banks of interest accruing after August 23, 1937, on certain demand deposits of public funds, and the payment by member banks of interest on demand deposits of Indian funds, Postal Savings funds, and other United States Government funds.

The twelfth paragraph of section 19 of the Federal Reserve Act provides that no member bank shall pay interest on any deposit which is payable on demand and also provides that until the expiration of two years after the date of enactment of the Banking Act of 1935 the above prohibition shall not apply to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, if the payment of interest with respect to such deposit of public funds is required by State law.

The Banking Act of 1935 was enacted on August 23, 1935, and, therefore, the two year period during which member banks may pay interest on demand deposits of public funds of States and subdivisions thereof expires on August 23, 1937. No member bank may pay any interest accruing after August 23, 1937, on any demand deposit of public

funds regardless of whether or not the payment of interest on such funds is required by State law.

You ask to be advised whether member banks may pay interest on demand deposits of Indian funds, Postal Savings funds, and other United States Government funds. Apparently your question has reference to whether interest may be paid on such funds after August 23, 1937. However, under the provisions of the twelfth paragraph of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, interest may not now be paid by member banks on demand deposits of funds deposited by the United States or by any public instrumentality, agency, or officer thereof. Accordingly, interest may not now be paid by member banks on demand deposits of Indian funds, Postal Savings funds, or other Government funds when any of such funds are deposited by the United States or by a public instrumentality, agency, or officer thereof, nor may interest be paid by member banks on demand deposits of such funds after August 23, 1937.

As you are no doubt aware, interest may now be paid on funds of the kinds described above if they are placed in time deposits in member banks. The maximum rates of interest which may be paid on such time deposits are set forth in the Supplement to Regulation Q, a copy of which is inclosed herewith. In this connection, it is understood that Postal Savings funds are not placed in demand deposits in banks,

-3-

but are placed in time deposits, pursuant to the regulations of the Board of Trustees of the Postal Savings System on this subject. Under the existing Supplement to Regulation Q, the maximum rate of interest payable by member banks on Postal Savings funds deposited in time deposits is 2-1/2 per cent per annum. Interest may be paid on time deposits of Postal Savings funds at the rate prescribed in the Supplement to Regulation Q after August 23, 1937, as well as prior to that date.

It is hoped that the above information will answer the questions which you have in mind. However, if you should have any further inquiries regarding this matter or any similar matter, it is suggested that you communicate with the Federal Reserve Bank of _____, which will be glad to give consideration to your inquiries.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9773

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 28, 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:

"NOYVOW" - Treasury Bills to be dated
December 30, 1936, and to
mature March 18, 1937.

"NOYVUA" - Treasury Bills to be dated
December 30, 1936, and to
mature September 29, 1937.

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

Very truly yours,

A large, stylized handwritten signature in dark ink, which appears to read "J. C. Noell". The signature is written in a cursive style with a long, sweeping tail that extends to the right.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL F. R. BANKS

CONFIDENTIALProcedure with Respect to Foreign
Relationships of Federal Reserve Banks.

The Board of Governors has a wide range of responsibility for monetary developments in this country in addition to its duty to exercise special supervision over foreign relationships of Federal reserve banks. To meet its responsibilities it must of necessity, among other things, have complete and current information as early as available with respect to all foreign relationships of Federal reserve banks which may eventuate in some action. Such action may take the form of establishing an account at a Reserve bank or the appointment of a correspondent or the establishment of an agency in a foreign country by a Federal reserve bank; of handling a fund for a foreign correspondent; of a loan on gold, or of an agreement to purchase bills in foreign countries; or of other transactions that need not be enumerated.

Thus, the Board's duties involve broader questions than mere technical compliance with particular provisions of law. Supervision by the Board of the foreign relationships of the Federal reserve banks involves close cooperation by the banks with the Board with constant recognition of the responsibilities of the Board. The question in each case should not be decided upon narrow grounds such as, for example, whether a certain act does or does not amount to a negotiation and consequently requires prior permission of the Board, but rather whether knowledge of all the facts and circumstances with respect to the particular act or correspondence would be helpful to the Board in the discharge of its responsibilities. Full understanding and cooperation between the Board and the banks upon the basis of this broad principle is essential in the public interest.

Fiscal agency operations.

The Board's relation to the operations of the Federal reserve banks as fiscal agents of the United States can best be worked out between the Board and the Treasury on the basis of friendly cooperation, and, therefore, procedure as to such operations is not dealt with in this memorandum.

Specific situations.

With the broad principle stated in the introduction to this memorandum as a guide, careful consideration has been given to the question of working out a proper and satisfactory procedure in

connection with the establishment and maintenance of foreign relationships by Federal reserve banks with a view to enabling the Board to meet its responsibilities fully and at the same time interfere as little as possible with the normal operations of Federal reserve banks. Accordingly, the following course of procedure has been adopted.

1. Foreign visitors

The difficulty in attempting always to anticipate the nature of a forthcoming discussion or conference with a visitor from a foreign country is understood. It is recognized that a discussion or conference which had been expected to be wholly general in its nature may turn into one contemplating eventual action of some sort, and that awkwardness may result if officers of Federal reserve banks in the midst of a discussion find that they must obtain permission of the Board before proceeding further. This difficulty should be avoided if foreign banks and bankers have a clear understanding of the relationships between, and the responsibilities of, the Federal reserve banks and the Board of Governors.

Before arranging a conference which may involve an agreement, understanding or negotiations with a person who may represent a foreign bank, banker or Government permission should be obtained from the Board; and as soon as a Federal reserve bank learns that such a person is planning to visit the bank it should notify the Board and give it as much information as it can obtain as to the occasion and purposes of the visit. Unless it is known that the visitor has been informed as to the relations of the Federal reserve banks and the Board the Federal reserve bank should advise him as soon as practicable after learning of his proposed visit.

If a visit from such a person may involve discussions leading to an agreement or commitment with respect to a particular transaction on the part of a Federal reserve bank, or if in its progress it so develops, permission of the Board should be obtained before proceeding further to conduct such negotiations, unless such negotiations are covered by permission previously granted.

As soon as possible such Federal reserve bank should file a full report in writing, in accordance with the general principle outlined above.

2. Negotiations and transactions for which Board grants blanket permission.

The Board grants blanket permission to Federal reserve banks

(subject to all the conditions set out in this memorandum) as follows:

a. To establish and open "one way" accounts for foreign central banks (that is to say, accounts involving deposits with a Federal reserve bank but not involving the establishment or maintenance of any deposits for a Federal reserve bank), but not to extend any credit or enter into any other transaction for which specific permission would be necessary, without first obtaining such permission, provided:

(1) That such account is subject to termination at the request of the Board;

(2) That the agreement be in accordance with a standardized form, such as some particular agreement approved by the Board;

(3) That, if there be any question as to whether the foreign bank is in fact a foreign central bank, the Federal reserve bank in question will confer with the Board upon such subject before proceeding further;

(4) That copies of all correspondence contemplating or relating to the establishment and maintenance of such accounts be currently and promptly forwarded to the Board, it being understood, however, that correspondence relating to routine transactions in an account after it has been established need not be sent to the Board.

b. Subject to the applicable conditions set forth in paragraph "a", to purchase or sell gold directly from or to a foreign bank or banker.

c. Subject to the applicable conditions set forth in paragraph "a", to earmark gold or silver, title to which is already held by a foreign bank or banker, for the account of such bank or banker.

3. Negotiations and transactions for which Federal reserve banks are required to obtain prior specific permission from the Board.

With respect to the following classes of transactions, except as otherwise authorized, no commitment, direct or contingent, should

be made to any foreign bank or banker and no steps should be taken which may be expected to lead to a commitment, without first submitting full information regarding the proposed transaction to the Board for its consideration and obtaining its permission, regardless of whether other relationships have previously been established with the permission or approval of the Board. In this connection, a Federal reserve bank should, as quickly as possible after the receipt of any communication relating to such transactions, furnish copies thereof to the Board for its information and obtain permission from the Board to proceed with the negotiations or to enter into the agreement, as the case may be.

a. The extension of credit in any form by a Federal reserve bank;

b. The creation of any deposit by a Federal reserve bank in a foreign country and the disposition of such deposits;

c. The purchase or sale by a Federal reserve bank of bills from or to a foreign bank or banker, or in a foreign country;

d. The purchase by a Federal reserve bank of bills or securities in this country for the account of a foreign bank or banker with an agreement by the reserve bank to repurchase or with a guarantee, indorsement or other liability of such Federal reserve bank;

e. The earmarking of gold in a foreign country for a Federal reserve bank.

4. Other situations.

With respect to any matter not covered in the grant of blanket authority or if there be any doubt as to whether such matter is covered in such grant of blanket authority, the procedure applicable to transactions referred to in paragraph 3 should be followed.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9775

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 30, 1936.

Dear Sir:

For your information and assistance in answering inquiries which you may receive from holding company affiliates in your district, there is inclosed herewith a copy of a telegram recently received from the Federal Reserve Bank of San Francisco, together with a copy of the Board's reply thereto, relating to the tax credit allowed holding company affiliates under the provisions of section 26(d) of the Revenue Act of 1936.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

COPY

X-9775-a

TELEGRAM

San Francisco Dec. 15, 1936.

1006A

Board

Washington

Relet X-9737-a. Have received inquiry as to Board's policy regarding certification to Commissioner of Internal Revenue in connection with special credit allowed holding company affiliates, particularly as to data required to enable Board to make such certification and whether certification may reasonably be expected upon submission of such data, information is desired by holding company affiliate for guidance in formulating its dividend policy.

Sargent

1220 P

COPY

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

X-9775-b

Washington

December 30, 1936.

SARGENT
SAN FRANCISCO

Retel December 15 concerning X-9737-a. It is suggested that attention of holding company affiliate be directed to requirement that if it claims credit it must attach to its tax return a supplementary statement setting forth all facts and information upon which its claim for credit is predicated, and that it be advised that, in view of the material differences in the situations of the various holding company affiliates and the difficulties of attempting to anticipate definitely the particular questions that may arise in each case, the Board believes that it is not practicable for it to prescribe in advance the requirements as to particular facts and information which will be needed in order to enable it to make the required certification. If credit is claimed by holding company affiliate in its tax return, Board will make required certification, upon request of Commissioner of Internal Revenue, if, in addition to facts and information set forth in aforesaid supplemental statement, holding company affiliate furnishes such further facts and information, if any, as the Board may deem necessary. Such certification will be made as soon as possible after the Board has had an opportunity to consider all of the pertinent facts and information submitted by the holding company affiliate or obtained by the

-2-

X-9775-b

Board by means of such investigation as it may deem necessary. It will, of course, be Board's policy to cooperate with holding company affiliates in this matter to fullest extent practicable in all the circumstances.

(Signed) Chester Morrill

MORRILL

OFFICE CORRESPONDENCE

To All Divisions of the Board's Staff

August 18, 1936.

From Mr. Morrill

The attached letter outlines an arrangement under which in the future a distinguishing number will be given to rulings and interpretations issued by the Board. The procedure to be followed in the Board's offices in connection with this new arrangement is set forth below.

Whenever a communication is prepared in any Division which contains a ruling or interpretation to be issued by the Board, it shall be routed through Counsel's office, where a notation will be made on the file copy stating that the communication is to be assigned a distinctive number and showing the subject of the series in which the communication is to be included, such as "Reg. Q" or "Sec. 4FRA". No communication will be given a distinctive number unless such a notation is placed thereon by Counsel's office.

The communication will then be sent to the Secretary's office for submission to the Board. When the communication is approved by the Board, there will be assigned to it the next number of the particular series to which it belongs and there will be maintained in the Secretary's office for this purpose a record of the different series of numbers. Where the communication is merely a copy of a letter or telegram to an individual Federal Reserve bank (as distinguished from a circular letter to be sent to all Federal Reserve banks),

Memorandum to All Divisions - 2 -
of the Board's Staff

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a procedure similar to that inaugurated following the approval of the Banking Act of 1933 of mimeographing interpretations with a notation at the top thereof, "Interpretation of the Banking Act of 1933", will be followed, except that the new heading will be "Interpretation of Law or Regulation". Where the interpretation is in the form of a Trans. wire sent to all Federal Reserve banks, the same procedure will be followed, i.e., the telegram will be mimeographed with an X number and distinctive number and with the heading "Interpretation of Law or Regulation". As in the past, one copy of each interpretation will be sent to the President and one to the Federal Reserve Agent and the usual number of extra copies will be sent to each Federal Reserve bank.

It will be noted that the attached letter states that hereafter, in order that the Federal Reserve banks may be able to check the completeness of their files of X-letters, X numbers will be assigned only to the communications sent to all Federal Reserve banks so that the numbers on such communications will run consecutively in all cases. In order to accomplish this a new series has been adopted for inter-office statements, memoranda, etc., not sent to the Federal Reserve banks. This series will be designated as a "Z" series and the letter "Z" will accompany each number of the series in the same manner as the letter "X" has been used in the past.

Chester M. Norris
Secretary.

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THE FEDERAL RESERVE SYSTEM AND THE BANKING ACT OF 1935

ADDRESS BY

M. S. SZYMCAK, MEMBER

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DELIVERED AT

THE FORUM DINNER OF THE

TRENTON CHAPTER OF THE AMERICAN INSTITUTE OF BANKING

NOVEMBER 18, 1936

TRENTON, NEW JERSEY

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Mr. Chairman and fellow members of the American Institute of Banking:

It gives me the greatest pleasure to visit chapters of the American Institute of Banking and see the effort and interest devoted to improvement of the technique of banking. The activity of the institute's chapters is evidence of an initiative that makes for progress. Bankers as never before are studying the technique of their business and developing their knowledge of the conditions affecting it. Supervision of banking in the public interest is no deterrent to initiative, for the desire of the supervisory authorities is not to interfere with the banker's initiative but to cooperate with him in every possible way for the improvement of American banking. A real spirit of cooperation is characterized in the relations of your Institute, the American Bankers Association, and the Federal Reserve authorities. Out of the day to day contact of bankers with their customers in banking offices throughout the country, there arise certain broad questions of policy and practice, which, in the public interest need to be followed by especially constituted authorities. These are questions that can only be seen in the large and when one detaches himself sufficiently from the day to day routine. It is from this point of view that I wish to speak to you about the Federal Reserve Banks and the Board of Governors and the duties they exercise with respect to the interest of the public as a whole in the banking business.

The Federal Reserve System is not a commercial banking system, nor a savings bank system, nor an investment banking system. It deals with reserves. It is a system which does not work for individual banks, but for the banking system as a whole. It is not a system operated for profit;

it deals with reserves which must be held back at certain times and utilized at others in order to correct extreme tendencies one way or other in credit conditions. It is operated in the public interest - as created by Congress - crossing all state lines and covering the nation as a whole.

Its organization is such that responsibility is partly centralized and partly decentralized. Certain general responsibilities are entrusted to the Board of Governors in Washington and to the Federal Open Market Committee; regional responsibilities are entrusted to the twelve Federal Reserve Banks.

The cooperation between the central Board of Governors and the twelve regional Banks is illustrated by the fact that five of the members of the Federal Open Market Committee are elected from the Reserve Banks and by the fact that discount rates originate in the districts, even though they are subject to review and determination by the Board in Washington. The System is represented in the Federal Advisory Council which now consists of twelve bankers elected by the Boards of Directors of twelve Federal Reserve Banks. It is represented also in the conferences of presidents of the twelve Federal Reserve Banks which are held periodically in Washington. There are many other System conferences in the law department, examination department, economic department, operating department and in other fields.

The System consists of 6,400 member banks. These include 5,368 national banks and 1,032 member state banks. As you know all national banks are required to be members of the System. State banks may voluntarily make application for membership, and if they qualify, are accepted

into the System. Although the number of member banks is less than half the banks in the country, they do about two-thirds of the banking business of the country.

As you also know the member banks hold stock in the Federal Reserve Bank of their district. Each subscribes to six percent of its capital and surplus - three percent of which is paid in at once and the other three percent may be called at any time.

There are twelve Federal Reserve Banks located in different sections of the country. There are also twenty-five branches of these twelve Federal Reserve Banks, and two agencies.

At each Federal Reserve Bank is a Board of Directors, consisting of nine men. Six of these men are elected by the member banks and three are appointed by the Board of Governors of the Federal Reserve System in Washington. One of these three men appointed by the Board of Governors in Washington, is designated as Chairman of the Board and Federal Reserve Agent.

The Federal Reserve Banks have the power of selecting their presidents and vice-presidents. The Board has no power to force an unacceptable candidate on the Federal Reserve Banks, but those selected by the Federal Reserve Banks must have approval of the Board of Governors in Washington. This results in a more harmonious operation of the System, which naturally requires a meeting of minds between the directors of the bank and the Board in Washington in the selection of key officials.

The officers of the Federal Reserve Banks keep in close touch with

their member banks in order to insure that the service of the Federal Reserve Banks is satisfactory and that their facilities are fully known. The officers of the Federal Reserve Banks as well as the members of the Board welcome criticism and constructive suggestions, for it is their desire to do everything within their authorized powers to make the services of the Federal Reserve Banks useful and valuable to their member banks. Visits are also made to nonmember banks, in order that no bank interested in becoming a member of the Federal Reserve System need feel doubtful as to what the conditions and advantages of membership are.

Prior to the establishment of the System it was felt that an outstanding weakness of our banking was the lack of a satisfactory system of reserves. As I said before the fundamental purpose of the Federal Reserve Banks is to hold reserves of member banks.

Just prior to the panic of 1907 - which played a large part in bringing about the establishment of the Federal Reserve Banks - each country national bank was required to keep reserves of 15 percent, six percent of which was to be kept as cash on hand. The rest was on deposit in correspondent banks in reserve cities or central reserve cities. National banks in reserve cities were required to keep reserves of 25 percent, at least 12 1/2 percent in cash and 12 1/2 percent on deposit with correspondent banks in central reserve cities. New York, Chicago, and St. Louis constituted the three central reserve cities, and 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 10 1/2 percent for country banks, 15 percent for

reserve city banks, and 19 1/2 percent for central reserve city banks. All banks must keep 4 1/2 percent on time deposits.

The great difference, however, is that whereas at the time the banks partly kept their legal reserves in their own vaults and partly kept them with one another, they 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.

It was the purpose of the original Federal Reserve Act to encourage banks to make commercial loans. It definitely discriminated in favor of such loans by limiting the class of paper eligible for discount (in the words of the Act) to "notes, drafts, and bills of exchange issued or drawn for agricultural, industrial or commercial purposes." This paper, however, had to mature in three months or less from the time of discount, with the exception of agricultural paper, which might mature in six months.

This limitation did not in fact result in an abundance of such paper in the portfolios of banks - on the contrary such paper, for many years, showed a tendency to occupy a relatively smaller place among the bank assets. In 1929 it amounted to about 12 percent of loans and investments of member banks. In 1934 it was 8 percent. This shows that the American banks, instead of specializing in any one type of credit, have dealt in all kinds of credit - long term as well as short - according to the requirements of their communities. The effect of this was to limit the power which it was originally intended that the Reserve Banks should have

of discounting for member banks which wished to replenish their reserves.

The Banking Act of 1935 sought to correct this condition by amendment, which would 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 enlarged the lending powers of the Reserve Banks, but this change made it possible for a member bank to discount any sound asset at the Reserve Bank regardless of type.

Now you might ask - how can reserves be augmented or, in other words, built up - how can the banking system increase the amount of reserves available to it at the Federal Reserve Bank? First, it can do so by depositing currency, but this is not a practicable means, because the amount of currency required by the public is a definite amount at a given time and the banks cannot very well change that amount. Second - it can do so by depositing gold. However, the availability of gold is not dependent on the action of the banks, but on the international flow of funds and the output of domestic mines. Substantially, therefore, increase of reserves can be brought about only by member banks borrowing at the Federal Reserve Banks, or by the Federal Reserve Banks buying securities or acceptances. When the amount of Federal Reserve credit increases, member bank reserves increase, and when member bank reserves increase, there is ordinarily a corresponding increase of several times that amount in the volume of member

bank deposits as the result of loans or purchases of investments by the member banks. On the other hand, when the volume of reserve bank credit diminishes either through the repayment of discounts by a member bank or through a sale of securities by the Federal Reserve Bank, there is a loss of reserves which in the absence of currency or gold movements can be made up only through a decrease in the banks' loans and investments of several times the amount of the decrease in reserves. This is the leverage through which the Federal Reserve System can influence the volume and cost of money.

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 silver dollars, minor coin and some paper money and, until July of last year, the National banks continued to have the privilege of issuing National bank notes. 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 than 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, as you know, 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.

Next I wish to mention a function of the Federal Reserve Banks whose existence and importance is frequently overlooked. I refer to what they do as fiscal agencies. As you know, the Federal Reserve Act provides that the Federal Reserve Banks "when required by the Secretary

of the Treasury shall act as fiscal agents of the United States." The duties which the Federal Reserve Banks perform under this provision always have been extremely important to the government, and in recent years they have come to absorb a larger and larger part of the attention and time of the Federal Reserve Bank personnel. In addition to servicing the public debt, providing currency, and acting as depository of the United States Treasury, the Federal Reserve Banks perform a large amount of work for various government agencies, such as the Reconstruction Finance Corporation, the Federal Home Loan Banks, the Federal Home Owners' Loan Corporation, the Farm Credit Administration, the Public Works Administration, the War Department, Veterans Administration and an additional number of government agencies and bureaus. In the year 1935 the Federal Reserve Banks handled almost 69,000,000 Treasury checks and over 16,000,000 checks issued to work relief employees. This was an average of about 20,000 checks a day at each of the twelve Federal Reserve banks.

The transactions involved in servicing government securities are of great importance; they comprise receiving applications for new issues, delivery of securities to subscribers, exchanging securities of different denominations, meeting maturities, and paying interest. During the year 1935 the Federal Reserve Banks delivered to subscribers almost 1,600,000 bonds, notes, certificates, and bills sold by the Treasury, and redeemed over 4,000,000 different government obligations.

They exchanged over a million obligations for the convenience of their holders and paid over 14,000,000 interest coupons. In the same year they prepared and mailed over 24,000,000 bonus bonds to veterans.

Were it not for the Federal Reserve Banks, the government would have to provide other agencies for the purpose of handling these operations at a substantially increased cost.

In addition to holding the reserves of the United States banking system, making loans to member banks, furnishing an elastic currency which automatically increases or decreases according to the public demand, simplifying the procedure whereby banks collect checks drawn on other banks, acting as fiscal agents of the Government in connection with the issue and retirement of Government securities, etc., the Federal Reserve System has a certain national credit control through discounts, open market operations, direct action, reserve requirements, and 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. The Banking Act of 1935 added the requirement that such rates shall be established "every fourteen days, or oftener if deemed necessary by the Board." This does not require that such rates must be changed every time, but they must be regularly and frequently reviewed.

The presumption behind discount rates is that member banks will

borrow at the Federal Reserve Bank, and when they are borrowing, of course, discount rates have some force. The lower the rate, naturally the easier it is to borrow, and the more funds are supplied to the public, through the member banks, and through the nonmember banks. The higher the rate, the more difficult it is to borrow, and, therefore, the less funds are made available through the banks to the public.

Originally at the time of the passage of the Federal Reserve Act, it was thought that the banks would borrow, as a regular thing, at the Federal Reserve Bank, and, therefore, the discount rates had more meaning. The rate was the thing that everybody watched for. Today the rate has significance of the cost of money, and little more.

As a matter of fact, banks do not borrow at the Federal Reserve Bank unless they have to. When they have an excess reserve, they naturally will not borrow at a Federal Reserve Bank. When their reserves are just above, they will not borrow, but when they get down to the point where they are below the required percent, they begin to watch the discount rate.

OPEN MARKET OPERATIONS:

The Banking Act of 1933 gave specific authorization for the Federal Open Market Committee and adopted the following statement for the purposes of open market operations:

"The time, character, and volume of all purchases and sales of paper described in the section 14 of this Act as eligible for 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 Act further provided that the seven members of the Board of Governors of the Federal Reserve System should be members of the Committee and that there should also be five members representative of the 12 Federal Reserve Banks.

The Federal Open Market Committee meets in Washington at least four times a year. Of course, it also meets upon call when conditions exist that must be met.

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. On the other hand, by purchasing securities the Reserve Banks place funds into the market and more credit becomes available.

When the Reserve Banks sell securities the reserves of member banks become diminished in the process of paying for the securities that are sold, whereas when they purchase securities, the funds which are released in payment flow directly or indirectly into the reserve accounts of the member banks and enlarge them.

The Banking Act of 1935 gave statutory recognition to the Federal Open Market Committee. It also prohibited any Reserve Bank to engage in open market operations except in accordance with regulations of the Board.

The purpose of the open market operations is not to make profit for

the Federal Reserve Banks.

DIRECT ACTION:

Another means of credit control is by direct action. By this I mean efforts to discourage credit policies of given member banks in given circumstances. This is a policy of warning banks not to conduct certain operations or engage in certain credit practices, and of directing them to limit the amount of money that they lend for certain purposes, particularly speculative purposes.

If a bank continues to engage in practices about which it has been warned, there is power given to the Board to stop further extension of credit to the bank concerned. And if the bank continues with the practice criticized, there is power granted to effect the removal of the officers responsible.

Direct action is aimed at the correction of specific conditions in particular banks; also for the purpose of enforcing general credit policy.

RESERVE REQUIREMENTS:

The Banking Act of 1935 gives the Board of Governors power to increase, when necessary, the reserve requirements, and thereby to check at any time an excessive use of credit, but the Board is not permitted to lower them below the original requirements of thirteen, ten, seven percent on demand deposits, and three percent on time deposits, nor increase them to more than twice that amount.

Naturally the result of raising the rates would be to decrease the lending power of member banks and the amount of available credit, whereas

the lowering of rates enlarges the lending power and the amount of available credit.

This power formerly could be exercised only in emergencies and with the approval of the President of the United States. It is now one simply of the Board's discretion.

MARGIN REQUIREMENTS:

There is still another means of credit control - it has to do with the lending of money on registered securities, by brokers, dealers, and by member and non-member banks. Authority for the Board to issue regulations governing this form of credit control was granted by the Securities Exchange Act of 1934.

Under this authority the Board has issued Regulations "T" and "U".

Regulation "T" governs the extension and maintenance of credit by brokers and dealers in securities for the purpose of purchasing or carrying securities. Regulation "U" governs loans made by banks for the purpose of purchasing or carrying stocks registered on exchanges.

The power given the Board to impose and relax restraints upon the demand for credit for speculative purposes is aimed at a particular use of credit and at the specific channels through which demand for it becomes effective.

It extends the powers of the Board outside the Federal Reserve System to reach directly brokers and nonmember banks. It differs from the powers of discount, because while these powers may be exercised to discriminate against paper directly involved in speculative uses, they cannot

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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 margin accounts, however, the regulation is directed at an unmistakable objective and cannot miss affecting the speculative use of credit.

Although the means I have discussed by which credit control may be exercised might appear comprehensive and powerful, I do not wish to convey the thought that a perfect control of credit is effected through them. Their application cannot be mechanical nor governed by unvarying rules. Credit and economic relationships are extremely intricate and 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.

Credit control is a very technical matter. It is essential, however, and if the important objectives of credit control are to be achieved, their general purpose must be understood.

While I have discussed the more important changes effected by the Banking Act of 1935, there are a few others that might be mentioned for the sake of completeness.

- 1) The chief executive officer of each Federal Reserve Bank is designated president instead of governor, and the deputy governors are designated vice-presidents.

- 2) The Board has authority to waive in whole or in part the statutory

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requirements relating to the admission of State banks to membership in 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. At the same time an important change in the composition of the Board was brought about. The Secretary of the Treasury and Comptroller of the Currency are no longer members of the Board. The number of members is now seven, whose terms are for fourteen years. No member having served a complete term of fourteen years can be reappointed. The Act provides that such members shall be appointed by the President with the advice and consent of the Senate, and the President in making the selection shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The title of the chief executive officer of the Board is now Chairman, instead of Governor. Each of the seven Board members is a Governor.

4) The Board is required to keep a complete record of the action taken by it and by the Open Market Committee upon all questions of policy, and of the reasons underlying such action, and shall include a copy of the records in its annual report to Congress.

5) Provision is made for the purchase and sale by the Federal Reserve Banks of direct obligations of the United States and obligations which are fully guaranteed by the United States without regard to

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maturities, only in the open market. This prevents purchases of issues of government securities from the Treasury.

6) 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.

As you know, the Board in Washington is constantly in touch, through our Federal Reserve Banks, with the general credit conditions of the country. We have data supplied us by the Federal Reserve Banks' statistical departments, and we have our own research and statistical department in Washington, which presents facts and figures constantly, so that we know what is going on. We compile and publish information bearing on banking and credit conditions, here and abroad, and include data on production, employment, trade, and prices.

We also publish the Federal Reserve Bulletin, a monthly publication, and the Annual Report of the Board, in which is presented information on 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.

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This information is of vital importance, especially to bankers.

I wish to emphasize particularly the importance of it as related to the operations of the Federal Reserve System. In that connection I am glad to know that many chapters of the American Institute of Banking are giving courses on the Federal Reserve System; and at the Institute graduate school of banking at Rutgers a course on the System will be given beginning next summer by Dr. Burgess of the Federal Reserve Bank of New York.

It has been a genuine privilege to be with you this evening. I hope my visit is evidence of the sincere desire of the Board of Governors and of the Federal Reserve Banks to cooperate with you as individual bankers, as members of the American Institute of Banking, and as members of the American Bankers Association in the development of an ever improving technique of banking in the interest of the public.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 25, 1936.

To the Employees of the Federal Reserve Issue
and Redemption Division:

After careful consideration by the Board of Governors and the Comptroller of the Currency of the applicable provisions of law and the practical problems involved in the operation of the Federal Reserve Issue and Redemption Division, it has been decided that the employees of such division should be carried on the payroll of the Comptroller and, accordingly, all employees of the division will be transferred from the Board's payroll to the payroll of the Comptroller of the Currency effective at the close of business on November 30, 1936. Pursuant to the above arrangement, you will no longer be an employee of the Board of Governors of the Federal Reserve System after the close of business on November 30, 1936.

This transfer will, of course, terminate your participation in the Retirement System of the Federal Reserve Banks. Under the Rules and Regulations of the Retirement System, you will be entitled to receive, within 30 days after the filing with the Retirement Committee of an application therefor, a lump sum equal to the full amount of your contributions, with interest thereon, or, if you have completed ten years of service, you may, before November 30, 1936, choose to have your contributions used to provide a deferred annuity instead of withdrawing your contributions in cash.

It is suggested that all employees of the division consult Mr. J. R. Van Fossen, 324 Shoreham Building, Washington, D. C., who is a member of the Retirement Committee, without delay for information concerning any benefits for which they may apply under the Rules and Regulations of the Retirement System of the Federal Reserve Banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

ADDRESS BEFORE THE
SEVENTH NEW ENGLAND
BANK MANAGEMENT CONFERENCE
OF THE
NEW ENGLAND COUNCIL
IN BOSTON, NOVEMBER 13, 1936

BY

MARRINER S. ECCLES
CHAIRMAN OF THE BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

(Stenographic transcript)

ADDRESS by Hon. Marriner S. Eccles, Chairman of the Board of Governors
of the Federal Reserve System, Washington, D. C.

Mr. Chairman, fellow bankers and friends of New England, it is very gracious of you to permit me to come before you today. I assure you that it is a privilege for me. Had I come to New England prior to November 3rd, during the period of a heated campaign, whatever I might have said might have been misconstrued. Anyone in public office would have found it very difficult to make a public address without being accused of making a political speech.

I am not a partisan. To me political questions resolve themselves, when you look through them, into economic and social questions, and if we could forget party labels and consider political problems from the economic or social aspect and in an unemotional manner, it seems to me that we would have a much clearer conception of our problems and be better able to arrive at practical solutions.

New England is looked upon, of course, as a conservative section of this country. I am a conservative, a believer in development of private initiative, private banking and business opportunity, but when I analyze just what it is that I want to conserve I come to the conclusion that it is, after all, property rights, the opportunity for expression of individualism. And then when I look a little further, I realize that the great majority of people in this country own very little property, and that what they want to conserve is the right to work, and the security of a reasonable standard of living for themselves, and their families, now and in the future. I realize that human rights must be

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preserved if property rights are to be preserved, and property rights must be preserved if human rights are to be preserved.

The interests are not conflicting. They are a part of the same thing. As the owners of property and as leaders under a system of capitalism it seems to me that we cannot expect to conserve that which we are so desirous of conserving without attempting or being willing to conserve and assure that which the great majority of our people want to be assured of.

As I look back and consider what we have gone through from the time of the boom period of the '20's up to the present, I am impressed with this fact: That to have safety in banking we must have stability in our economy, that it isn't possible to have such great fluctuations in the national income as we have had, and at the same time devise any formula for sound credit and investment policy for banks.

Loans and investments which are perfectly good when the national income is \$80,000,000,000 become worthless or nearly so when the national income, through the process of deflation, is permitted to be cut in two. The same debt structure cannot be supported on a national income of \$40,000,000,000 that is supported on a national income of \$80,000,000,000.

It is just as important to bankers that deflation be prevented as it is that inflation be prevented. Why bankers recognize the necessity or desirability for government or for public bodies which are instruments of government preventing inflation on the one hand and object to the intervention by government to stop the processes of deflation on the

other hand is difficult for me to understand.

Deflation, if anything, is more destructive to bankers than inflation. They are twin evils and both should be prevented, if possible. The volume of money--that is, the means of payment including bank credit, as represented by deposits and currency--and the velocity or turnover of funds are a measure of our national income. We know in a money economy that the way we effect an exchange of all goods and services is through the mechanism of money. It stands to reason that when the total volume of money, which includes bank deposits, and the turnover of that money diminish, the volume of business has also diminished. If we expect to maintain stability or reasonable stability of business, we must find ways and means of maintaining a more uniform availability of money and of encouraging a more uniform flow or velocity than we have had in the past.

In looking at the record of the past, it seems to me that it should serve somewhat as a guide and that we should profit by its teaching. There is great disagreement as to what all of the causes of deflation were, just as there may be some disagreement as to the causes of reflation, but I would like to read here what seems to me to be a very brief and reasonable explanation of some of the primary causes of deflation.

The Brookings Institute, which is an endowed, non-partisan body, recently made a study, and in their report of income and economic progress, on page 37 they have this to say:

"The consumptive requirements or wants of the people were far from satisfied during the period of our

highest economic achievement. The value of the total national production of goods and services in 1929, if divided equally among the entire population, would have given to each person approximately \$665. There were nearly 6 million families with incomes less than \$1,000; 12 million with incomes under \$1,500; over 16 million with incomes under \$2,000; and over 19 million, or 71 per cent of the total, with incomes less than \$2,500. A family income of \$2,500, at 1929 prices, was a very moderate one, permitting few of the luxuries of life. Hence it was clear that the consumptive requirements, and especially the wants, of the masses of the people were far from satisfied."

Speaking of what appears to be at least one of the reasons for some of our difficulties, the same report (page 156) goes on to say:

"As to income distribution and its results, we found * * * * the proceeds of the nation's productive effort going in disproportionate and increasing measure to a small percentage of the population--in 1929 as much as 23 per cent of the national income to 1 per cent of the people. We found the unsatisfied wants--needs according to any good social standard--of the 92 per cent of all families who are now below the level of \$5,000 annual income sufficient to absorb the product of all our unused capacity under present conditions

of productivity and still demand much more from such unexplored potentialities as might hereafter be opened up.

"We found the incomes of the rich going in large proportion to savings and these savings strongly augmented by others impounded at the source by corporations through the practice of accumulating corporate surplus. These savings, after providing for such increase of capital goods as could be profitably employed, we found spilling over into less fruitful or positively harmful uses, ranging from foreign loans (bad as well as good) to the artificial bidding up of prices of domestic properties, notably corporate securities.

"Thus, we begin to discern the answer to our question whether the basic defect in our economic system, not discovered in the technical processes of production, is to be found in the way in which we conduct the distribution of income. The answer is affirmative: this is the place at which we do find basic maladjustment."

Now whether you agree with that statement or not, the fact remains that the system of production did not break down. The fact remains that the surplus income which corporations failed to pay out in dividends, in wages, or in reduced prices, together with the surplus income of individuals, that is, the income that they saved beyond what

they spent and which they either invested directly or through savings banks or insurance companies, made up the great volume of what we may term savings funds, and a very substantial part of those funds went into foreign loans and into stock market or brokers' loans.

Bank credit did not expand to a point which in itself would have caused the speculative inflation that we had in 1929. Between \$5,000,000,000 and \$6,000,000,000 went into the stock market through loans by others to brokers. The speculative inflation was outside of the control of the bankers.

Had a greater portion of these funds that went abroad and that went into the market gone to consumers through lower prices, or higher wages, or a wider distribution of dividends, or a combination of the three, thus maintaining a greater consumer buying power and an increased standard of living on current income, we would have had a very different situation. We would have had a far better opportunity to maintain stability. The people as a whole must receive sufficient buying power to enable them to buy what the productive facilities which we have created produce or otherwise the value of our investments and our savings, as we found out, shrinks or disappears entirely in many cases.

There was a maldistribution of the national income which resulted in getting consumer buying power out of relation to our productive capacity, and you couldn't maintain that consumer buying power forever on credit. I don't mean bank credit, because there was a great deal of other credit, in fact, most of the credit was outside of the banks.

And when this point of saturation was reached, when the people

as a whole could no longer buy out of current income what was being produced, when they could no longer get credit to keep on buying on the basis of credit what was being produced, and we were unwilling to take our surplus savings and continue to loan them abroad and thus give the foreigner buying power to buy what we produced, we found that the market for what we produced began to disappear. With its disappearance we saw prices tumble, and with the tumbling of prices and the disappearance or the reduction of the market for the sale of our goods, we saw unemployment increasing.

And we saw, therefore, a contraction of credit. This supply of money which is created by the banks began to disappear. Every time a bank loan is paid off that much money disappears. And the disappearance of that money created a downward spiral which was self-accelerating. Many bankers and business men had what I conceived to be the false philosophy of believing that there was a natural bottom where this thing would stop--that Government should not interfere with the operation of "natural law," and that deflation should be permitted to take its course. They felt that to have the Government unbalance its budget would destroy confidence, and that to fail to maintain the gold convertibility of our money would further destroy confidence. Therefore we continued to adhere to the fetish that the Government was like an individual, that it should contract its expenditures in times of deflation when everybody else was contracting expenditures--that we should adhere to the gold standard at all hazards, and that by so doing somehow in some way business people,

those with money and those with credit, would undertake to go out and to build new plants and to produce more goods and thus put people back to work. It was not reasonable, to my mind, to expect that individual investors or business concerns would make new investments at a time when everything they had was becoming less valuable and less profitable every day. The individual or corporation is not going to invest money and put people to work unless there is a reasonable expectation of profit.

And so we found what we call "confidence," what we depended upon to turn the tide of deflation, failed to turn it, and we kept on to a point where we had destroyed or extinguished one-third of our money supply through bank credit contraction and bank closings, and had reduced the turnover of money compared to what it was in the late twenties by more than 60 per cent.

The reduction in the supply of money times the reduction in its turnover was reflected in a reduction of the national income from \$83,000,000,000 to approximately \$40,000,000,000 from 1929 to 1932, and a complete collapse of the credit structure. No other country in the world even approached the degree of credit contraction and deflation that this country went through. In Britain the contraction during the depression was, as I recall it, about ten per cent. In Canada the contraction of the volume of bank money was less than half of what it was in this country. And even in France during the long period of time that they have attempted to adhere to the gold standard, while deflation

continued, their contraction does not approach what we had in this country.

The Government can do for all of us what we individually cannot do for ourselves. The Government can and should spend money for social purposes. It is not animated by the profit motive, as business concerns and business men must be. It can and did stop the process of deflation through providing funds first to shore up the credit structure; to stop foreclosures on homes and farms by taking over and refunding the defaulted securities, and then by a program of public works and relief. The size of that job was far greater than it should have been permitted to be. The cost of turning the tide of deflation would have been much less if the Government had intervened earlier on a sufficient scale to stop the destruction before it reached such vast proportions. When the Government finally interceded, it supplied the deficiency of the means of payment by borrowing money when no one else would, because no one else could borrow money and invest it profitably. It borrowed money from the banks and from those depositors of banks whose funds were idle in the banks, whose funds were not circulating, and put that money into circulation. The Government gave its bonds for the money, and used the money to give buying power to people who didn't have it. That money created a demand for goods which otherwise would not have been marketed or produced; it created business that otherwise would not have existed, and eventually the money came back into the banks in the form of deposits. In addition to putting existing but idle funds to work, the Government, by borrowing directly from the banks, created new money which it likewise

put into circulation. Thus, an increase both in the volume and in the velocity of the supply of money was created.

In other words, to the extent that they bought Government bonds--on a large scale during the period of 1933 and 1934, less in 1935, and very few in 1936--the banks created money, just as they would have created it had they loaned the money instead to individuals or corporations. They credited the Treasury's account on the one side and they put in their investment portfolio Government bonds or bills or notes on the other side, and as the Treasury checked those funds out and put them into circulation, that money created business and finally came back into the banks in deposits to the account of various individuals and corporations. The funds went through the mill of production and distribution, produced goods and services, came back into the banks, and are there today.

Now that process increased employment. It made it profitable for business to employ people in order to fill orders for goods. You know what it did to many of the loans that you had which you charged off or which were considered slow or doubtful. You know what happened to your security portfolio. You know that some Government bonds which you owned in 1931, and in 1932, when the Government debt was far less than it is now, were selling at 83, 20 points less than their selling point today.

Why did this great change in conditions come about? Because the Government intervened to increase the supply of money by borrowing when nobody else was in a position to do it. The Government thereby

increased the velocity or the circulation of money; that in turn increased employment, and increased the volume of production until it is higher now than it was in the 1923-25 period. It has increased the national income until at the current time it is running more than \$20,000,000,000 above what it was three years ago, and that has increased the Federal income so that the Federal budget will be balanced in the near future.

I have said for three years that you cannot balance a Federal budget until you correct the causes for its being out of balance. A Federal budget can only be balanced out of national income, and the national income can only be increased by the increase in the volume and the flow of money, and private interests will not increase the volume or the flow of money except as it is profitable to do so, but a Government, acting collectively for all of us, can do for us under such circumstances what we cannot do for ourselves, acting individually.

That has been done, and the Federal budget will be balanced out of an increased national income. It is my belief that there will be very little more borrowing by the Federal Government. With the large Treasury balances, with the assets which are being liquidated bringing funds into the Treasury, together with tax revenue, it is my belief that the market will not be given an opportunity to take substantial additional issues of Government securities, even though the budget is not technically balanced.

I believe thoroughly that a technically balanced budget will be reached by 1939, and that a balanced budget, so far as having to go to the market for additional funds is concerned, will be reached by 1938.

Now we have experienced the influence of deflation on the banking system. We have seen an example of the influence of reflation on the banking system and on our economy as a whole. If we can determine the forces that make for deflation and deal with them, and again can determine the forces that make for inflation and deal with them, we have some chance of approaching successfully the problem of maintaining a greater degree of stability than we have been able to achieve in the past. I think it is much more necessary to deal with that problem now than ever before because of the complexity of our economy, because of the interdependency of its many parts, because of the fact that we are a creditor nation and because we no longer have the great frontiers that we once had in the West and South. Yet I firmly believe that with far-sighted leadership on the part of the bankers and the business men, it is possible to devise ways and means for a better, more orderly functioning of our economic system, with a minimum of government encroachment upon the field of private enterprise and initiative.

The Government's field, it seems to me, is broadly this: As deflation starts, as evidenced by unemployment, it is in the interests of all of us that the unemployment problem be met; when private business cannot profitably employ people, and therefore lays them off, it seems to me that we must be willing to have them employed on socially beneficial public work by a public body, and thus stop the process of deflation in its inception. The cost is relatively small. In fact, it is negligible if action is taken before the national income is permitted to diminish greatly.

In times of full business activity, Federal revenue, which is one of the greatest factors in stopping inflation, should greatly exceed Federal expenses. At such times, Federal revenue should be diverted to the reduction of the Federal debt. This in turn has the effect of offsetting private credit expansion by the banking system as recovery proceeds and thus of keeping the supply of money more or less constant.

If for any reason we get out of balance again and unemployment starts to develop, surplus Federal revenue should be promptly diverted into the spending stream and away from the stream of the reduction of Federal debt. If that isn't sufficient to meet the unemployment situation and stop credit contraction in its inception, we should be ready to incur a budgetary deficit. In other words, the Government must be looked upon as a compensatory agency in this economy to do just the opposite to what private business and individuals do. The latter are necessarily motivated by the desire for profit. The former must be motivated by social obligation.

I want to say just a word about what I suppose is uppermost in your minds. You are not worrying today, of course, about deflation. You are pretty well satisfied with recovery up to date. You have been worried about the Government debt and unbalanced budget, and you have had fear that it would create an inflation and destroy the value of your money, the value of your investments.

Now I have answered one of your questions, and that is the one with reference to a balanced budget. Inflation comes not only from a continued budgetary deficit, financed by the banks, but inflation can

come through an expansion of private credit. I believe that that can be met. It can be met first, as I stated a moment ago, by diverting surplus Federal revenue to retiring Federal debt as private debt expands. It can be met by the powers which have been given to the Federal Reserve Board, by extinguishing excess reserves, and even going so far, if need be, to force the banks to borrow. That, of course, would stop the process of private credit expansion.

There is a distinction between a speculative inflation and what we may term a general inflation of the entire price structure. There is little immediate danger of the latter. Prices have been maintained on the average for the past two years on one of the most stable bases that this country has had in years. However, we have less power to control a speculative inflation unless it is built upon bank credit. When stocks are bought out of funds already created, it is much more difficult for the Reserve authorities to stop that process. But, that is a far less dangerous speculative inflation than one which is built upon bank or broker credit. In 1929, you will recall, the credit extended to the market by banks to brokers, and by others to brokers, was around 9 billions, whereas today it is less than 1 billion.

The Board now has the power that it didn't have at that time to fix margin requirements on brokers' loans and bank collateral loans for the same purpose. The law also prohibits member banks from acting for others in making loans on securities as collateral to securities brokers or dealers.

I think that with the powers that are in the Federal Reserve Board, coupled with the right fiscal policy by the Government, first by balancing the budget, and then by using surplus income in times of prosperity to reduce the Federal debt, we can stop inflation. Foreign funds coming to this country are an undesirable development, and create a problem that I think can be met, but which must be carefully and closely watched. The excess reserves of our banks today are due almost entirely to foreign funds coming into this country. If it were not for the foreign capital that has been transferred into this market, because foreign investors had more confidence in America's future than in their own, we would have no excess reserves whatsoever. We would really have a deficiency, taking into account present reserve requirements which the Board prescribed recently. Those funds came in here in the form of gold, and that gold was perfectly worthless to us so far as our need for it is concerned. It only costs us money to store it. We gave to the foreigners dollar credit, which they invested in our stocks, bonds, and properties. And we are paying them interest and dividends and rents on those funds while they are so invested. And we will likely pay them a substantial profit if they choose to convert those funds into their own currencies and take them somewhere else.

With the \$2,000,000,000 stabilization fund, which is neither in the money market nor reflected in our excess reserves, and with the present excess reserves of more than \$2,000,000,000, together with the power of the Board to reduce reserve requirements back to where they were, which would restore a billion and a half of reserves, we have a

total of \$5,500,000,000 available that we could lose, theoretically in gold, without causing member banks to borrow from the Reserve System. I merely mention that to give you an idea of the resources available to meet any great out-movement of gold. And that, mind you, would be without decreasing further the gold value of the dollar, or increasing further the price of gold.

That gives to the Federal authorities broad powers, if intelligently used, affecting domestic stability as well as an international stability. What other countries might do that could upset the national equilibrium, of course, we cannot control. The Federal debt is about \$13,000,000,000 more than it was at the bottom of the depression, and if the entire amount of Treasury balances today, the entire amount of liquidation of assets were used for further government expenditures, the debt would not increase above \$13,000,000,000, which added to the \$21,000,000,000 debt at the time of the bank holiday would make the total debt \$34,000,000,000. Now, the cost of servicing that debt is not a serious problem. It is about one per cent of an 80 billion dollar national income. The cost of servicing the British debt is about 3 per cent of their present income which is the highest income they have ever enjoyed.

A \$13,000,000,000 increase in the debt for a nation with our wealth is a small cost to pay for recovery. A \$13,000,000,000 debt is less than two months of our pre-depression national income. It is equal to the Federal deficit during but one year of the World War. However, we have something to show for the \$13,000,000,000 now. Moreover, \$4,000,000,000 of it hasn't yet been spent, and we paid a bonus which

was a liability to be paid at some future date--at least, we put it in the form of a Government bond, and put it on the books--it was a liability before that wasn't on the books.

In other words, the \$13,000,000,000 hasn't left the country. It hasn't gone overseas. It is on deposit in the banks, and it is that increase in the means of payment and the increased velocity of that fund which has made it possible to bring about the increase in national income, which is yielding the revenue to balance the budget; to bring about the increased well-being of the people, and the increased safety and increased security of the banks.

Now, let me recapitulate for a moment. As I have indicated, our problem today is not the national debt, which is large but not oppressively burdensome for a nation of our wealth and resources. And we are rapidly reaching the point of a balanced budget when it will not be necessary to create new deposits by the sale of government securities to the banks. These causes for anxiety no longer exist.

As for the problem of excess reserves, which, as I have said, are almost entirely the result of the inflow of foreign funds, we are in a position to deal with the present volume of reserves, and to meet very heavy withdrawals of funds if there should be a reversal of the inward movement. Therefore, the present volume of reserves does not present an unmanageable problem.

However, we have reached the stage in recovery at which it is no longer desirable to have additions either to our banking reserves or substantially to the volume of deposits. We have adequate means at our

disposal to cope with the present volume of reserves and of deposits, but we have no way of preventing a further, continuous inflow of foreign capital which would superimpose another huge and possibly unmanageable volume both of deposits and of reserves upon our banking system. This is our most immediate problem from the standpoint of the Federal Reserve System as well as from the viewpoint of the Treasury. The President has called attention to this problem and has requested the Treasury, the Reserve System and the Securities Exchange Commission to study it thoroughly with a view to recommending such ways and means as may be appropriate for dealing with it.

It is manifestly unfair for our own people, for American investors, to be required to pay a capital gains tax and to pay income taxes, which range as high as 75 per cent in the highest income brackets, while foreigners are able to purchase our securities and to profit by our recovery without being subject to any taxation other than the nominal 10 per cent assessed against dividends under the so-called withholding tax. Foreigners are free to withdraw their funds and their profits at any time and to take them out of the United States without paying a fair share or a comparable share of taxes such as are imposed upon our own people. Now this is not an equitable situation.

But, beyond that, the speculative movement of foreign funds into and out of the principal money markets of the world has long been a seriously disturbing factor. It upsets the domestic economy of the country losing the capital and in our own case, as I have pointed out, it is the sole source of our present excess of reserves. Such action as the Reserve

System has taken and is now contemplating once more in order to prevent these foreign funds from becoming the base for an unhealthy, speculative expansion at home, is, after all, action dealing with effects and not with the fundamental cause. Furthermore, such action does not prevent inflowing foreign funds from swelling the bank deposits of the country.

That is not all. These speculative movements of foreign capital put a strain not only upon the domestic economies of the countries directly affected, but they impose a heavy load upon the stabilization funds set up to maintain an equilibrium among the principal currencies of the world and to facilitate normal trade and commerce. Why should the foreign speculator be permitted to throw monkey wrenches into this vitally necessary economic machinery? Why should the foreign speculator at the same time escape a fair share of taxation?

Neither government nor Federal Reserve policy in the interest of promoting and preserving full recovery can be effectively exercised when such conditions exist and threaten to get beyond the boundaries of control. Monetary management, under existing powers of the Reserve System; operations of the stabilization fund; Treasury financing policy in relation to the creation and maintenance of a necessary but not excessive level of bank deposits, and the problem of interest rates and the maintenance of easy but not excessively easy money conditions are all exposed to upset under the impact of large scale, speculative shuttling of funds among the principal capital markets of the world. Stability of currencies and of external trade conditions as well as internal stability are

jeopardized by such speculative movements.

I have outlined broadly an immediate problem which deserves to have the best thought of the banking world brought to bear upon it--which calls for understanding and intelligent action. It challenges particularly the attention of the banking community if the bankers are to have a full sense of responsibility for guidance and leadership when the country is confronted by difficult but by no means insoluble problems such as this. And as bankers, you and I must be willing to accept our proper share of public responsibility and to offer a leadership that is prepared to meet such problems.

Looking to our responsibility in the future, I was impressed by reading this statement in a newspaper:

"The election calls for a renewed sense of responsibility, not only in the President, but in all of us, for it is no longer a question for any of us whether or how far we are prepared to collaborate with the President, but whether and how far we are prepared to collaborate with the national will. It ought to mean that business and industry will face the challenge of formulating programs of collaboration with government for the good of the nation, to satisfy the desire of the nation for more security and more stability, for better homes and steadier wages, and greater assurance of continuous employment."

Let us as bankers, and I speak with feeling because I am a member of the fraternity of bankers--I have been in the banking business all of

my life--let us get the touch of reality. Let us forget our homesickness for a past that, desirable as it may have been, we cannot bring back, and let our record in the future be one of leadership in helping to direct the course of social and economic well being.

Let us change the record of the past, which has been one of opposition to every progressive move by the Government. The national banking act in 1860 was violently assailed as an infringement upon the rights of the people, or upon states' rights. The income tax of 1895, both before and after it was declared unconstitutional by a 5 to 4 court decision, had the organized and united opposition of business and bankers, and it took eighteen years to get a constitutional amendment. The Federal Reserve Act was bitterly opposed by business men and bankers through their organizations. Workmen's compensation acts have been opposed by organized business. The eight-hour day was opposed by organized business. Child labor laws have been opposed in many states by organized business. Social security legislation and old-age pensions are widely opposed by organized business and bankers. The Securities Exchange Act of 1934 was opposed by business and bankers. The Banking Act of 1933 was opposed by bankers and business. The Banking Act of 1935 was opposed by them.

Now, that is a bad record, and we don't need to blame anybody but ourselves because we find ourselves in the rear of the procession, and find ourselves discredited today with the mass of the American people. We might just as well admit it. We have failed to meet the challenge of our responsibility of leadership.

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Now, I say to you as bankers, have the courage to think clearly, and to regain the touch of reality, and to take your place as the leaders in this great capitalistic economy which we want to preserve.

I thank you.

Chairman BYRNE. I think I speak for each person in this room when I say we have been highly privileged to listen to this searching and authoritative analysis by Governor Eccles of things, things which are past and things which are facing us and things which are in the future. We are very grateful to the Governor for coming here today, and I want to assure him that he is very welcome.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 2, 1936.
B-1161.

Dear Sir:

There have been forwarded to you today copies of revised Form B-13, a copy of which is attached, for use in submitting semi-monthly reports of member bank deposits, reserves, and borrowings from Federal Reserve bank, in lieu of the corresponding monthly reports submitted heretofore. It will be noted that a new item, "Gross demand deposits", has been added. This addition has been made principally because, since the change in the method of calculating demand deposits subject to reserve following the enactment of the Banking Act of 1935, the item net demand deposits subject to reserve is a distinctly less satisfactory measure than formerly of changes in the volume of demand deposits at country banks.

It will be appreciated if you will arrange, if practicable, to have the current semi-monthly reports on Form B-13, as well as the corresponding weekly reports on Form B-6, mailed or wired in time to reach the Board's offices within two weeks from the end of the report periods. In case reports of deposits of a few member banks are unduly delayed, please substitute deposit figures of the previous report period for the missing banks.

- 2 -

Please furnish the Board in addition with figures of gross demand deposits by months, in the first column of revised Form B-13, from January, 1936, to and including the last month for which report was submitted on the Form B-13 now in use.

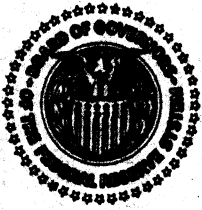
Very truly yours,

A handwritten signature in cursive script that reads "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

July 8, 1936
B-1162.

Dear Sir:

For your information there is quoted below a telegram sent to one Federal Reserve bank in response to an inquiry as to how issues of United States Savings bonds and of Adjusted Service bonds should be reported in the volume of work figures in the semi-annual functional expense reports, Form E:

"Referring your yesterday's telegram, United States Savings bonds should be included in fiscal agency measurement volume work new issues item one. It is suggested that Adjusted Service bonds be shown separately under new issues."

Very truly yours,

A handwritten signature in dark ink, appearing to read "E. L. Smead", is written over a circular embossed seal.

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL PRESIDENTS EXCEPT AT KANSAS CITY



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1936

B-1163

Dear Sir:

For your information and guidance, one of the Federal Reserve banks has been advised that there is no objection to omitting the number of reporting banks (code item "Ides") in each reporting center from its weekly telegraphic report of debits to individual accounts, with the understanding that the total number of banks in the district reporting debits to individual accounts be shown in the report and that, whenever there is a change in the total number of reporting banks, the Board be advised of the name and location of the banks added or dropped.

This arrangement was made following a suggestion by the Federal Reserve bank for reducing the telegraphic cost of the weekly bank debits reports.

Very truly yours,

A handwritten signature in dark ink, appearing to read "E. L. Smead", is written over the typed name.

E. L. Smead, Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 13, 1936
B-1164.

Dear Sir:

In order to keep the Board advised of the stocks of United States currency on hand in the one and two dollar denomination, the Federal Reserve banks have for several years, at the Board's request, been wiring the amount of new, fit and unassorted ones and twos held at the close of business each Friday night. Such information was particularly helpful when the supply of ones available at the Treasury was inadequate at times to meet the demands of the various Federal Reserve banks.

The Treasury is now, as you know, in a position to supply sufficient one and two dollar bills to meet all normal demands of the Federal Reserve banks and it is thought that weekly mail reports in lieu of the present telegraphic reports will now suffice for our purposes. A supply of a form (B-31) for use in submitting the report is inclosed. It will be noted that the form calls for a report on holdings of notes of the five dollar denomination as well as of ones and twos.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 23, 1936
B-1165

Dear Sir:

Referring to your reply to our letter B-1153 of May 8, 1936, with respect to the amount of annual and sick leave granted to officers and employees, it will be appreciated if you will keep the Board advised currently of any changes made by your bank with respect to annual and sick leave granted to officers and employees.

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

July 30, 1936.
B-1166.

Dear Sir:

Since it is not possible to make carbon copies of incoming telegrams on the tape teletype machine, one of which it is proposed to install in the Board's telegraph office in the near future, the question has arisen as to the necessity of this office's continuing to furnish the Federal Reserve banks copies of their incoming Interdistrict Settlement and Note Settlement Fund wires.

It will be appreciated, therefore, if you will advise us if you see any reason why we should not discontinue, as of August 15, sending you copies of these wires.

Very truly yours,

A handwritten signature in dark ink, appearing to read "E. L. Smead". The signature is fluid and cursive, with a large initial "E" and "S".

E. L. Smead, Chief,
Division of Bank Operations.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 1, 1936.
B-1167.

SUBJECT: Audit of Incomplete Federal Reserve notes.

Dear Sir:

For your information there are inclosed recapitulations of an audit submitted to the Secretary of the Treasury by Mr. M. R. Loafman, Chief of the Division of Public Debt Accounts and Audit, showing the stock of incomplete Federal Reserve notes, Series of 1928 and Series of 1934, combined and Series of 1934 separately, and of uniform backs allocated to Federal Reserve notes, on hand at the Bureau of Engraving and Printing at Washington, as at the close of business June 30, 1936.

In his letter transmitting the report to the Secretary of the Treasury, Mr. Loafman stated that: "The audit extended from July 1 to 3, 1936, inclusive, and consisted of a piece count of the entire stock of faces and a package count of the uniform backs allocated to Federal Reserve notes. In view of the fact that a recent piece count has been made by this office of the entire stock of each denomination of uniform backs on hand in the Bureau, a package count and inspection of the uniform backs allocated to Federal Reserve notes was deemed sufficient at this time. The total sheets of Federal Reserve notes, faces and backs, were found to be in excess of the required reserve of 4,250,000 sheets, as authorized in the letter of


B-1167.

- 2 -

the Governor of the Federal Reserve Board to the Under Secretary of the Treasury dated December 2, 1929."

It will be noted that of the total of 3,255,487 sheets of faces covered by the audit, 2,572,936 sheets are of the Series of 1934.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'E. L. Smead'. The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

E. L. Smead, Chief,
Division of Bank Operations.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS

RECAPITULATION
FEDERAL RESERVE NOTES, SERIES OF 1928 AND SERIES OF 1934, AND UNIFORM
BACKS ALLOCATED TO FEDERAL RESERVE NOTES, SHEETS OF 12 SUBJECTS EACH
AS AT THE CLOSE OF BUSINESS JUNE 30, 1936

B-1167a

Federal Reserve Bank	\$5	\$10	\$20	\$50	\$100	\$500	\$1,000	\$5,000	\$10,000	TOTAL
Faces:										
Boston	82,602	101,795-2/3	27,400	22,435	27,086-1/3	1,576	743	40	44	263,722
New York	146,166-2/3	153,456-2/3	232,228-2/3	58,800	58,400	3,797	4,545	52	30	657,476
Philadelphia	77,733-1/3	85,357-1/3	99,466-2/3	45,772-2/3	11,107-1/3	479	680	—	—	320,596-1/3
Cleveland	123,278	106,266-2/3	133,415-2/3	40,106	27,861	308	582	75	50	431,942-1/3
Richmond	41,405-1/3	33,200	41,470-2/3	31,188-2/3	20,382	570	544	122	128	169,010-2/3
Atlanta	23,908-1/3	55,033-1/3	52,933-1/3	8,600	15,189-1/3	600	402	124	80	156,870-1/3
Chicago	128,867-2/3	63,036	160,125	38,197-2/3	47,327	1,098	3,202	169	122	442,144-1/3
St. Louis	58,442-2/3	40,806-2/3	21,866-2/3	7,562-1/3	5,627-2/3	874	570	90	49	135,889
Minneapolis	26,133-1/3	42,300	25,833-1/3	5,321	11,728-1/3	445	168	—	—	111,929
Kansas City	36,507-1/3	33,066-2/3	25,966-2/3	5,569	19,386-1/3	552	802	110	61	122,021
Dallas	56,101	52,737-2/3	28,533	3,780-2/3	3,727	460	450	99	52	145,940-1/3
San Francisco	37,833-1/3	85,433-1/3	149,064-2/3	9,843	13,761-1/3	600	1,176	140	94	297,945-2/3
Total Faces	838,979	852,490	998,304-1/3	277,176	261,583-2/3	11,359	13,864	1,021	710	3,255,487
Backs:										
Uniform Backs allocated to the various denomina- tions of Federal Reserve Notes	568,500	656,500	630,500	149,000	120,500	—	—	—	—	2,125,000
Total Faces and Backs	1,407,479	1,508,990	1,628,804-1/3	426,176	382,083-2/3	11,359	13,864	1,021	710	5,380,487

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS

RECAPITULATION
FACE PRINTED FEDERAL RESERVE NOTES, SERIES OF 1934
SHEETS OF 12 SUBJECTS EACH

B-1167b

AS AT THE CLOSE OF BUSINESS JUNE 30, 1936

Federal Reserve Bank	\$5	\$10	\$20	\$50	\$100	\$500	\$1,000	\$5,000	\$10,000	TOTAL
Boston	13,941-1/3	101,794-2/3	27,400	15,771-1/3	15,743	41	450	25	20	175,186-1/3
New York	146,166-2/3	153,456-2/3	232,228-2/3	58,800	58,400	3,496	4,200	51	29	656,828
Philadelphia	77,733-1/3	85,357-1/3	99,466-2/3	15,667-1/3	1,133-1/3	80	580	--	--	280,018
Cleveland	46,566-2/3	106,266-2/3	133,414-2/3	16,080	15,555	278	330	25	25	318,541
Richmond	6,766-2/3	33,200	41,470-2/3	15,740	12,258	400	320	98	51	110,304-1/3
Atlanta	23,908-1/3	55,033-1/3	44,933-1/3	4,857	9,338	400	402	90	46	139,008
Chicago	128,866-2/3	63,036	98,266-2/3	1,856	16,667	400	2,800	90	90	312,072-1/3
St. Louis	58,442-2/3	40,806-2/3	21,866-2/3	2,139-1/3	1,645-1/3	400	270	90	49	125,709-2/3
Minneapolis	26,133-1/3	42,300	25,833-1/3	775	6,704	200	100	--	--	102,045-2/3
Kansas City	8,466-2/3	33,066-2/3	25,966-2/3	1,104	11,804	400	700	99	48	81,655
Dallas	56,101	24,866-2/3	4,820-2/3	791	726	400	200	90	45	88,040-1/3
San Francisco	37,833-1/3	85,433-1/3	56,333-1/3	921	1,510-1/3	400	950	100	46	183,527-1/3
Total	630,926-2/3	824,618	812,001-1/3	134,502	151,484	6,895	11,302	758	449	2,572,936

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1936.
B-1168.

SUBJECT: Charge for printing Federal
Reserve notes.

Dear Sir:

Under date of August 13 the Bureau of Engraving and Printing advised the Board of Governors of the Federal Reserve System that effective July 1, 1936 the charge for printing Federal Reserve notes was increased from \$86 to \$93.50 for 1,000 sheets of 12 notes each.

This increase in printing costs, it is stated, is due to an increase from 15 to 26 days in annual leave and to the extension of the 40-hour week and of sick leave at the rate of 1-1/4 days a month to all employees of the Bureau of Engraving and Printing.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 26, 1936.
B-1169.

SUBJECT: Rates of interest paid on deposits and
charged on loans.

Dear Sir:

In order that the Board of Governors of the Federal Reserve System may have current information as to rates of interest being paid by member banks on savings and time deposits and rates of interest or discount being charged by member banks on various classes of loans, please request each member bank in your district to send you a report as of October 1, 1936, on Form F. R. 249, a copy of which is attached and additional copies of which have been sent to you under separate cover. For this purpose, please send two copies of the form of report to each member bank with an appropriate letter requesting that the report be submitted promptly after October 1.

It is also requested that tabulations be made of the rates reported by member banks, in accordance with the forms of the two summary tables also attached hereto, for each of the following groups of banks (if any) in your district:

1. Central Reserve city member banks.
2. Reserve city banks in each Reserve city.

- 2 -

3. Banks in each non-Reserve city having a population of 100,000 or more (according to the 1930 census).
4. Other country member banks in each State, or part of State, in the district.

The summary tabulations should be forwarded promptly to the Board.

The reports received from member banks may be retained, at least for the present, in the files of the Federal Reserve bank.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

TO ALL PRESIDENTS

SUMMARY OF RATES OF INTEREST PAYABLE ON DEPOSITS, OCTOBER 1, 1936.

_____ (Class of member banks)	_____ (City and/or State)	_____ (F. R. district number)						
Number of banks in group _____								
_____ Class of deposit and Size of account**	Number of banks reporting following rates* <table border="1" style="width:100%; border-collapse: collapse; height: 40px;"> <tr> <td style="width:16.6%;"></td> <td style="width:16.6%;"></td> <td style="width:16.6%;"></td> <td style="width:16.6%;"></td> <td style="width:16.6%;"></td> <td style="width:16.6%;"></td> </tr> </table>							

* Show each rate which is reported by one or more banks.

** The various sizes of accounts to which the different rates apply, as reported by one or more banks in the group, should be listed under each class of deposits.

(B-1169a)

Class of member banks)

(City and/or State)

(F.R. District number)

Number of banks in group _____

Class of loan	Number of banks reporting following rates*					

Commercial and industrial loans

High

Low

Charged greatest number of borrowers

Charged on largest volume of loans

Agricultural loans

High

Low

Charged greatest number of borrowers

Charged on largest volume of loans

Real Estate Loans:

Farm real estate

High

Low

Charged greatest number of borrowers

Charged on largest volume of loans

Urban residential properties

High

Low

Charged greatest number of borrowers

Charged on largest volume of loans

Urban commercial properties

High

Low

Charged greatest number of borrowers

Charged on largest volume of loans

Other Loans:

Payable in monthly installments

High

Low

Charged greatest number of borrowers

Charged on largest volume of loans

All other

High

Low

Charged greatest number of borrowers

Charged on largest volume of loans

*The number of banks in the group reporting the various rates as "high", "low", "charged greatest number of borrowers", and "charged on largest volume of loans", should be shown under each class of loans.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 28, 1936.
B-1170.

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 only change made in any of the forms is the deletion of the two memorandum items appearing at the bottom of page 4 of Form 105, as used

- 2 -

on the June 30 call.

As you doubtless know, the Comptroller of the Currency has inaugurated a new policy with respect to the furnishing of blank forms to national banks for use in making condition reports, pursuant to which two sets of forms were sent to each national bank on June 20, one for use on the June 30 call for reports and the other for use on the next call. The Comptroller advised national banks that, in order to facilitate the handling of subsequent calls, an effort will be made to forward blank forms to banks as soon as possible after each call made in the future, so that banks may have a complete set of forms available for use whenever a call is announced. It will be the Board's policy to furnish blank forms to Federal Reserve banks, for the use of State bank members in submitting condition reports, well in advance of the call for such reports insofar as practicable. In line with this policy, it is requested that, upon receipt of this letter, you mail to each State bank member 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.

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

- 3 -

the proof copy of the published statement before its actual publication in the newspaper.

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 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.

Please have compiled from the next call reports and mailed (by air mail, if necessary, with an extra copy by ordinary mail) 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.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 1, 1936.
B-1171.

Dear Sir:

Referring to the Board's letter B-1147 of April 4, 1936, following is a statement of additions during August 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:

Munfordville - Hart County Deposit Bank

Very truly yours,

A handwritten signature in cursive script, reading "E. L. Smead", is written in dark ink.

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

October 1, 1936.
B-1172.

Dear Sir:

Referring to the Board's letter B-1147 of April 4, 1936, following is a statement of additions during September 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:

Indiana:

English - English State Bank

Very truly yours,

A handwritten signature in cursive script, reading "E. L. Smead", is positioned above the typed name.

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL PRESIDENTS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

401

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1936
B-1173.

SUBJECT: Forms for use during 1937.

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required at your bank (including branches, if any) during the calendar year 1937:

<u>Form</u>	<u>Title</u>
F.R.A. 5	Federal Reserve notes - Daily statement of Federal Reserve Agent.
44	Monthly report of Federal Reserve notes showing the number of each denomination and aggregate amount received, issued to bank, and returned to the Comptroller of the Currency.
194	Monthly report of Federal Reserve notes received and issued; also stock on hand at beginning and end of month.

Please show separately the number of copies of each form required if revised and the number if not revised.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1936.
B-1174.

SUBJECT: Forms for use during 1937.

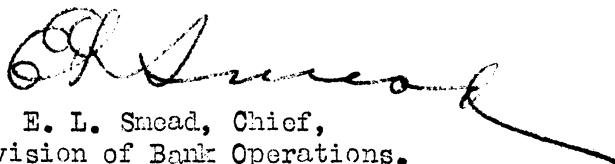
Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1937:

<u>Form</u>	<u>Title</u>
34	Daily balance sheet. (Please state the number required for the head office and each branch separately, and indicate any special punching that may be desired).
38	Classification of discounted and purchased bills held at the end of the month.
95	Monthly report of earnings.
96	Monthly report of current expenses.
160	Monthly report of receipts and payments of paper currency.
E	Semiannual functional expense report.

Please show separately the number of copies of each form, except form 34, required if revised and the number if not revised.

Very truly yours,


 E. L. Smead, Chief,
 Division of Bank Operations.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1936.
B-1175.

SUBJECT: Data for 1936 Annual Report of the Board
of Governors of the Federal Reserve System.

Dear Sir:

It will be appreciated if you will kindly furnish us, not later than January 20, 1937, with the following data for use in the Board's forthcoming annual report:

1. Statement showing the number of member banks in each State
(or part of State in the district) accommodated through
the discount of paper during each month of the calendar
year 1936 and during the year as a whole.
2. Statement showing the following information as of December 31, 1936:

Number of member banks in operation

National banks

State bank members

Number of nonmember banks on the par list

Nonmember State banks (exclusive of mutual savings banks)

Private banks

Number of nonmember banks not on the par list

Nonmember State banks (exclusive of mutual savings banks)

Private banks

This statement should show separate figures for each State or part of State in the territory assigned to the head office and to each branch, if any. The figures of banks on the par list and not on the par list should

include all banks on which checks are drawn. They should be reconciled

B-1175

- 2 -

with the latest State banking department abstracts and the Board advised of the names and locations of the banks which account for any differences between the number of banks shown in your statement and in the State banking department abstracts of condition reports. A copy of the reconciliation should accompany the statement showing the number of nonmember banks on par list and not on par list, unless the furnishing of the statement would thereby be delayed, in which case the reconciliation should be furnished as soon as practicable thereafter.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

TO ALL PRESIDENTS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

405

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1936.
B-1176.

Dear Sir:

Referring to the Board's letter B-1147 of April 4, 1936, following is a statement of additions during October 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:

Hawesville - Hawesville Deposit Bank

Very truly yours,

A handwritten signature in cursive script, reading "E. L. Smead", is positioned above the typed name.

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL PRESIDENTS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

406

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 10, 1936
B-1177.

Dear Sir:

There is inclosed a copy of a letter, dated October 28, 1936, received from one of the Federal Reserve banks relative to a plan for the organization of a mobile staff to care for peak loads occurring in the various operating departments at certain intervals, without making any additions to the present personnel. It will be noted from the letter that the plan involves the temporary transfer of employees from one unit to another and that a problem has arisen in connection with the allocation of salaries in the functional expense report, Form E.

In the illustration given on page 2 of the letter an employee in the Accounting Department who receives an annual salary of \$2,400 is temporarily transferred to the Check Collection Department where the average annual salary is \$1,400. The question is raised as to whether it would be possible to charge the Check Collection Department on the basis of an annual salary of \$1,400 and to charge the remainder of the employee's salary to some unit such as the former "Float Force" unit or to the "Sick Relief and Extended Leave" unit. This question is particularly important in the case of employees of the bank assigned to work on fiscal agency operations and in the case of employees of one fiscal agency unit assigned to another fiscal agency unit.

It will be appreciated if you will advise us whether in your opinion the Manual of Instructions should be revised so that in the case of an employee temporarily transferred from one unit to another the amount of salary chargeable to the unit to which he is transferred will be commensurate with the salaries paid in that unit. If in your opinion such a change is desirable, it will also be appreciated if you will let us have your views as to how the amount of salary chargeable to the unit to which the employee is transferred should be determined and as to how the remainder of the salary should be handled in functional expense reports.

Very truly yours,

Inclosure

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL PRESIDENTS

October 28, 1936

Mr. E. L. Smead,
Chief, Division of Bank Operations,
Board of Governors of the Federal Reserve System,
Washington, D. C.

Dear Mr. Smead:

As you undoubtedly know, this bank has been developing a plan for the organization of a mobile staff to care for peak loads occurring in the various operating departments at certain intervals, this work to be accomplished without making any additions to the present personnel. It involves the temporary transfer of personnel from one unit to another, to level off the peaks without incurring additional expense. It is hoped to obviate the necessity of certain departments maintaining a staff adequate to care for these peaks.

For experimental purposes, during the past sixty days this plan has been put into effect, and we are pleased to report that it has been very effective in caring for the peak loads, particularly in the Check and Non-Cash Collection Departments.

The problem which now arises is on what basis charges and credits should be allowed on Form "E" to properly reflect the services rendered in this connection. It has been our practice, in most instances, to transfer people whose salaries were in excess of the average paid for that particular class of work to which they were temporarily assigned. Naturally, each department is vitally interested in maintaining a low operating cost. Obviously, when help is loaned whose salaries are in excess of the average salary paid in that unit, the question arises as to the reasonableness of the charge, regardless of the fact that, in the final analysis, it may mean a direct saving in the total expense of the bank.

Several plans have been under discussion and for the sake of simplification and uniformity these plans are all considered on an average basis. The first is: A charge to be made based on the average annual salary of bank employees, excluding official personnel; second: A charge based on the average annual salary of the employees in operating departments most likely to furnish this type of help; and third: To charge on the basis of the average annual salary of the department provided with help. It is felt that none of these plans is entirely equitable from the standpoint of the department borrowing the help and, on the other hand, from that of the department loaning the help.

- 2 -

Mr. E. L. Smead,

10-28-36

Since the float force unit has been eliminated from Form "E", which for all practical purposes would be the ideal unit to which such charges could be made, we have been considering the possibility of using the "Sick Relief and Extended Sick Leave" unit in this connection. We desire an expression of opinion from you as to whether we could use this unit to solve our problem.

As a matter of illustration: The Accounting Department temporarily transfers an employee with an annual salary of \$2,400 to the Check Collection Department, where the average annual salary is \$1,400. Would it be possible to charge the Check Collection Department on the basis of \$1,400, and the balance of his salary on a \$2,400 basis to the "Sick Relief and Extended Sick Leave" unit? In this way we would overcome the objection of the Accounting Department to absorbing a portion of the salary and not having available in their department the services of the individual who was temporarily transferred to the Check Collection Department, where a salary of \$2,400 is not warranted for the type of work performed; and at the same time would eliminate the argument from the Check Collection Department that they are paying in excess of the average salary paid for that type of work. It would also aid considerably in the preparation of Form "E" by reflecting a proper charge to the Check Collection Function.

We are greatly interested in learning from you any possible solution to this problem, and whether the latter proposed suggestion is feasible. Your usual prompt consideration of this matter will be appreciated.

Very truly yours,

Cashier.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 13, 1936.
B-1178.

SUBJECT: Revision of Form B-23.

Dear Sir:

You will shortly receive from the Board's Division of Bank Operations a copy of the balance sheet, Form 34, used by the Federal Reserve banks during 1936, on which have been indicated changes it is proposed to make in the form to be used during 1937. The first two items in the miscellaneous assets block on the proposed revised form read as follows: "Misc. assets acquired acct. industrial advances" and "Industrial advances past due 3 months".

The amount of industrial advances outstanding on the last day of the month, as reported on Form 33, should be in agreement with the amount of industrial advances reported on the balance sheet against item "Industrial advances(sec. 13b)", code TURK, on the last day of the month.

While the memoranda items at the bottom of Form B-23, copies of which are forwarded to the Treasury Department monthly by the Board, have heretofore been adequate to determine the proportion of net earnings on industrial advances and commitments derived from the use of funds received from the Secretary of the Treasury, losses which are now being sustained on industrial advances make it impossible to determine such proportion properly from the present memoranda items. Form B-23 has therefore been revised in accordance with the form attached hereto, and a supply has been sent to your bank under separate cover. You will note from the revised form that the two memoranda items "Average daily amount of Industrial Advances outstanding" and "Average daily amount of Commitments to make Industrial Advances outstanding" have been eliminated, and in lieu thereof the following new item has been inserted: "Average daily amount of Federal Reserve bank funds advanced and under commitment". The amount to be reported against this caption should be calculated on the basis of daily averages as follows:

Industrial advances outstanding . . . . .	.....
Commitments to make industrial advances out-		
standing . . . . .	.....
Misc. assets acquired acct. industrial		
advances . . . . .	.....
Industrial advances past due 3 months . . .	.....
	<u>.....</u>	
Total*	.....
Less: Surplus, Section 13b . . . . .	.....
Reserves for losses on		
industrial advances	<u>.....</u>	<u>.....</u>
Federal Reserve bank funds advanced		
and under commitment	.....

* If write-offs of losses on industrial advances at any time exceed the amount of reserves set aside for the purpose, such excess, as reported on Form B-23 against the caption "Losses charged off (other than those charged to reserves)", should be added to this total.

As you have heretofore been advised, the caption "Industrial advances past due 3 months" relates only to advances which are past due three months or more as to both principal and interest.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1936.
B-1179.

SUBJECT: 1937 Edition of Form 34.

Dear Sir:

There is inclosed for your information a copy of the balance sheet, Form 34, used by the Federal Reserve banks during 1936 on which have been indicated changes it is proposed to make in the form to be used during 1937.

Very truly yours,

A handwritten signature in cursive script, reading "E. L. Smead". The signature is written in dark ink and is positioned above the typed name and title.

E. L. Smead, Chief,
Division of Bank Operations.

Inclosure.

TO ALL PRESIDENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1936.
B-1180.

SUBJECT: Summary Statement of Federal Reserve
Bank Personnel.

Dear Sir:

In accordance with the usual practice, please furnish the Board with a summary statement showing the number and salaries of officers and employees of your bank (including branches, if any) as of December 31, 1936, made out in accordance with the attached form. The figures, which should not include any changes in either the number or salaries of officers or employees that become effective on January 1, 1937, will be published in the Board's 1936 annual report.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF THE
FEDERAL RESERVE BANK OF _____ (INCLUDING BRANCHES)

December 31, 1936

Total officers and employees, including those whose salaries are reimbursed to the bank in whole or in part	Officers and employees (in- cluded in column 1) whose salaries are reimbursed to the bank in whole or in part(a)
--	--

Annual salary of -

Chairman and Federal Reserve
Agent

\$ *

\$ --

President

\$

\$ --

Other officers:

Number

Annual salaries

\$

\$

Employees, both permanent and
temporary:

Number (b)

Annual salaries

\$

\$

(a) Should represent aggregate of fractional amounts in the case of employees whose salaries are only partly reimbursed to the bank. For example, if 25% of the salary of an employee receiving \$1,200 a year is reimbursed to the bank, .25 should be included in the computation to determine the "number" of employees and the amount of salary reimbursed, \$300, should be included in the computation to determine the annual salaries.

(b) In the case of part-time employees, i.e., employees who are regularly engaged for less than a full day, the "number" reported should represent the portion of the full day worked. For example, if an employee is regularly engaged for one-half of the usual working day, .50 should be included in the computation to determine the "number" of employees.

* Chairman and Federal Reserve Agent receives compensation on following basis:

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 25, 1936
B-1181

Dear Sir:

In order that an analysis may be made of the reserve position of individual member banks on the basis of the latest available data, it will be appreciated if you will kindly furnish the Board with statements in accordance with the attached form showing daily average figures of required reserves, reserve balances, and balances due from banks separately for (1) Country banks for the period November 1 to November 15, inclusive, (2) Central Reserve city banks for the period October 31 to November 13, inclusive, and (3) Reserve city banks for the period October 31 to November 13, inclusive. As indicated in the statement form, 10 copies of which are inclosed, the figures of reserve balances should be taken from your bank's books and the other figures from the semi-monthly, weekly, and semi-weekly reports of deposits submitted for reserve computation purposes.

It is suggested that the desired statements be forwarded by air mail if it appears that this will expedite their receipt by the Board.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Inclosures

TO ALL PRESIDENTS

ANALYSIS OF RESERVE POSITION OF MEMBER BANKS WHOSE AVERAGE RESERVE BALANCES
DURING FIRST HALF OF NOVEMBER 1936* WERE LESS THAN ONE AND ONE-THIRD
TIMES THEIR AVERAGE REQUIRED RESERVES

415

(The figures of reserve balances should be obtained from the Federal Reserve bank's books. All other figures should be based on the semi-monthly, weekly and semi-weekly reports of deposits submitted for reserve computation purposes)

Federal Reserve District _____

Class of banks _____

	Number of banks	Aggregate average required reserves	Aggregate average reserve balances	Aggregate av- erage balances due from other domestic banks
Thousands of dollars				
1. Banks whose average reserve bal- ances amounted to less than 1-1/6 times their average required reserves				(**)
2. Banks whose average reserve bal- ances amounted to at least 1-1/6 but less than 1-1/3 times their average required reserves				(**)
3. Banks whose average reserve bal- ances plus 50 percent of average balances due from other domestic banks amounted to less than 1-1/6 times their average required reserves				
4. Banks whose average reserve bal- ances plus 50 percent of average balances due from other domestic banks amounted to at least 1-1/6 but less than 1-1/3 times their average required reserves				
5. Banks whose average reserve bal- ances plus total average bal- ances due from other domestic banks amounted to less than 1-1/6 times their average required reserves				
6. Banks whose average reserve bal- ances plus total average bal- ances due from other domestic banks amounted to at least 1-1/6 but less than 1-1/3 times their average required reserves				

*For Central Reserve city and Reserve city banks the statement should cover the two-week period October 31 to November 13, inclusive.

**No figures need be shown against Items 1 and 2 in the last column.

B-1181a



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON

December 2, 1936

B-1182

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

Referring to the Board's letter B-1147 of April 4, 1936, following is a statement of changes in the list of nonmember banks that filed agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Additions

District of Columbia

Washington

National Savings and Trust Company

Tennessee

Covington

Tipton County Farmers Union Bank

Italy

Milan

Banca Commerciale Italiana
(including agency at New York City)

Other changes

Delete the "Cortland Trust Co.", Cortland, New York, and add "The Marine Midland Trust Company of Cortland", Cortland, New York, with the following note:

"(Name changed as of October 2, 1936 from 'Cortland Trust Co.', in which name the agreement was executed.)"

Delete the "Orange County Trust Company", Middletown, New York, from page 3 of the list and add it to page 5 under the heading relating to banks no longer in operation as nonmember banks with the following note:

"(Admitted to membership in the Federal Reserve System on November 23, 1936.)"

Very truly yours,

A handwritten signature in dark ink, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL F. R. AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 14, 1936.
B-1184.

Dear Sir:

Under date of August 28, there was forwarded to you, as stated in the Board's letter B-1170 of that date, a supply of blank forms for the use of State bank members and their affiliates in submitting reports as of the next call date. Inasmuch as the usual Fall call for reports has not been made, the blank forms now in the possession of State bank members should be used in submitting the reports usually called for at the end of the year. In addition, however, it is desired that the banks report the amounts of their agricultural loans and farm real estate owned by them as of the next call date. For this purpose please send three copies of Form 105-f, copies of which have been sent to you under separate cover, to each State bank member at the time it is formally notified of the next call for condition reports, with the request that a report thereon be submitted in duplicate at the same time that the condition report on Form 105 is submitted.

The information called for by Form 105-f is the same as was called for by the two memorandum items which appeared at the bottom of page 4 of Form 105 on the June 30, 1936 call for condition reports. It is expected that this information will be called for regularly hereafter as of the mid-year and end-of-year calls, but it is proposed to include the items in Form 105 rather than in a separate schedule as is being done in the present instance. It is suggested that the figures reported on Form 105-f be compared with the corresponding figures reported in the two memorandum items at the bottom of page 4 of the reports rendered as of June 30, 1936, in order to make sure that the figures reported for the two call dates appear to be comparable. One copy of the report on Form 105-f should be sent to the Board and the other copy retained by your bank.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL PRESIDENTS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

418

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1936

B-1185

SUBJECT: Earnings and Dividends Reports of
State Bank Members, Form 107.

Dear Sir:

There have been forwarded to you today under separate cover copies
of Form 107 to be used by State bank members in submitting their reports of
earnings and dividends for the six months ending December 31, 1936.

The form has been revised to include the following new items:

Item 10(c) - Withdrawals from reserve for dividends payable
 in common stock

Item 12(c) - Transfers to reserve for dividends payable in
 common stock

Item 18 - Reserve for dividends payable in common stock

In the examination of the reports on Form 107, it is suggested that
particular attention be paid to the reconciliation of the capital accounts
as shown against Items 14 to 18 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.
Any differences that are not adjusted by appropriate corrections should be
explained by a footnote or in a memorandum or letter attached to the report.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO ALL PRESIDENTS.