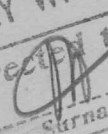


FEDERAL RESERVE BANK
OF ST. LOUIS

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Secretary's Minutes

G O V E R N O R S C O N F E R E N C E

March 22 - 24, 1926

Washington, D. C.

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PROGRAM
GOVERNORS CONFERENCE

March 22, 1926

Washington, D. C.

I. CREDIT TRANSACTIONS AND POLICIES

- A. Open Market Operations.
1. Report of Open Market Investment Committee.
2. Policy.
- B. Discount Rates.
- C. Discount or Loan Policy in respect to:
1. Continuous Borrowers.
2. Large Lines. (discussion) New York
- D. Discussion of the extent of the responsibility of a Federal reserve bank and the steps to be taken to determine insolvency of a member bank in view of recent decision of Circuit Court of Appeals in the case of the Federal Reserve Bank of San Francisco vs. Idaho Grimm Alfalfa Seed Growers Association. Kansas City
- E. Should a Federal reserve bank make advances to member banks on bills payable secured by United States Government securities held in safekeeping without taking steps to ascertain that such securities are the property of the offering member banks. Kansas City
- F. Stock Exchange Loan Account.
Its relation to the New York money market and the credit situation in general. (discussion) New York
- G. Amendment to Section IV(b) of Regulation A.
Discussion of the advisability of amending this regulation so as not to require member banks to specify on applications for rediscount the source from which they acquired the paper offered for rediscount except in the case of paper acquired from nonmember banks. (See Board letter X-4544 dated February 27, 1926.) F. R. Board

II. COLLECTIONS AND CLEARINGS

- A. Report of Standing Committee on Collections.
- B. Withdrawals from the Par List. St. Louis
- C. Desirability of final settlement of controversy regarding non-cash collections. (discussion) New York

III. COIN, CURRENCY AND CIRCULATION

- A. Gold holdings and payments. (discussion) New York
- B. Absorption of shipping charges on silver dollars. (discussion) Kansas City
- C. Currency counting machines. Volume of work performed and estimated savings. (discussion) New York
- D. Treasury Currency Committee. Report of progress made. Treasury

IV. OPERATION AND ADMINISTRATION

- A. Should a Federal reserve bank accept for safekeeping securities which are not the property of the depositing bank? Kansas City
- B. Should not the Federal reserve banks be reimbursed by Federal Land Banks for expense involved in paying Federal Farm Loan coupons? Chicago
- C. Progress in Budget Control of Federal Reserve Bank Expenses. (discussion) New York
- D. Further exchange of views relative to the steps taken at each Federal reserve bank to make sure that the bank and the System are not properly subject to criticism because of the practices of the bank or its personnel. New York
- E. Federal Reserve Bank Buildings.
1. Character of tenants. (discussion) New York
 2. Segregation of building expenditures and receipts from other expense and income accounts. Chicago
 3. Chargeoffs on account of depreciation in machinery. (discussion) New York
- F. Discussion of capitalization and other requirements imposed by State law on State banks and trust companies exercising fiduciary powers, and advisability of Board adopting for all national banks a minimum capital requirement and imposing other requirements in connection with its granting authority to such banks to exercise trust powers. F. R. Board
- G. Report on Foreign Accounts.
- H. Report of Sub-Committee of General Committee on Bankers Acceptances.
- I. Report of Leased Wire Committee.
- J. Report of Insurance Committee.
- K. Report of Pension Committee.

V. SUPPLEMENTARY TOPICS

- A. Permanent employment by the Board at a fixed retainer of special counsel of outstanding ability to assist in litigation, and to act as a clearing house for the legal departments of all Federal reserve banks. (See Board's letter of March 9, 1926, X-4550; also paragraph 26, Minutes of November 1925 Governors Conference.) F.R.Board
- B. Advisability of seeking amendment to the law in order to restore to Federal Courts jurisdiction over suits by and against Federal reserve banks. (See Board's letter of March 11, 1926, X-4558.) F.R.Board
- C. Questions arising out of Board's ruling of December 30, 1925 (X-4484) relating to the eligibility of notes of a corporation representing borrowings of funds to be advanced to subsidiaries. (See Board's letter of March 12, 1926, X-4560.) F.R.Board
- D. Advisability of issuing regulations relative to the re-discount of notes secured by adjusted service certificates under the provisions of Section 502 of the World War Compensation Act. (See Board's letter of March 13, 1926, X-4561.) F.R.Board
- E. Is it not discriminatory and unfair to require member banks to remit for cash letters in funds of immediate availability whereas nonmember par remitting banks are allowed to remit for cash letters in funds not immediately available? Atlanta

GOVERNORS CONFERENCE

March 22 - 24, 1926

Washington, D. C.

First Day's Session, Monday, March 22, 1926.

Morning

The meeting was called to order at 10:00 o'clock a. m.

Present:

Governor Strong Chairman.
Governors Harding, Norris, Fancher, Seay,
Wellborn, McDougal, Biggs, Young, Bailey,
Talley and Calkins.
Mr. Harrison, Secretary.

Topic I. A. 1. Report of Open Market Investment Committee

(1)

The Chairman presented to the conference the report of the Open Market Investment Committee as approved at its meeting on March 20, 1926. Before action was taken upon the report, there was a discussion of general business conditions with particular reference to the statement of the Committee that there have been reports of business hesitation in the past few weeks. The consensus of opinion seemed to be that while production and manufacture are still active, nevertheless there is some evidence of business hesitation which might be reflected soon in accumulating inventories. Upon completion of the discussion, upon motion of Governor Young, it was

VOTED to approve and file the report (printed on pages 25 - 38 of the stenographic record) as submitted.

(See pages 3 - 24 stenographic record)

Topic I. C. Discount or Loan Policy in respect to:

(2)

1. Continuous Borrowers.
2. Large Lines.

Upon request of the Chairman there was a discussion of the policy pursued in each district with regard to continuous or excessive borrowers

among member banks. While it appeared that there are relatively few banks throughout the country which are borrowing from the Federal reserve bank merely for the sake of making a profit, nevertheless there are still a number of continuous borrowers which are unable at the present to reduce or eliminate their lines. It was felt by the conference that there is no general rule applicable to all cases of continuous or excessive borrowers, it being a matter of judgment as to the best course to be pursued by the Federal reserve bank in handling each individual case.

(See pages 38 - 59 stenographic record)

Topic I. E. Should a Federal reserve bank make advances to member banks on bills payable secured by United States Government securities held in safekeeping without taking steps to ascertain that such securities are the property of the offering member banks? (3)

and

Topic IV. A. Should a Federal reserve bank accept for safekeeping securities which are not the property of the depositing bank?

Governor Bailey stated that Topic I. E. was proposed in order to ascertain the views and procedure followed at other Federal reserve banks. With some exceptions, it was felt that in making advances to member banks on bills payable secured by Government securities held in safekeeping it was best to assume that the securities are the property of the borrowing member bank unless the Federal reserve bank is on notice to the contrary. While there was some difference of opinion as to what might constitute such notice in any given case, it was generally agreed that the reserve bank would be charged with notice of facts actually in the possession of any of its various departments. ✓

In discussing Topic IV. A. Governor Bailey stated that he considers this a most valuable service to country member banks, but a (4)

majority of the Governor's felt that Federal reserve banks should not accept for safekeeping securities which belonged to customers of a member bank. Some of the Federal reserve banks take steps affirmatively to ascertain whether securities deposited for safekeeping actually belong to the depositing bank, but others assume that the depositing bank owns the deposited securities unless in possession of knowledge to the contrary. No action was asked for on either of these topics.

(See pages 59 - 79 stenographic record)

H. R. 7895 amending Section 14 of the Federal Reserve Act.

(5)

The Chairman reported that the Governor of the Federal Reserve Board had stated that the House Committee on Banking and Currency is to hold hearings on Congressman Strong's bill H. R. 7895 to amend the Federal Reserve Act so as to provide that "all of the powers of the Federal Reserve System shall be used for promoting stability in the price level." Copies of the bill were distributed and a discussion held concerning the attitude of the System towards the proposals in the bill.

Topic I. F. Stock Exchange Loan Account

(6)

Its relation to the New York money market and the credit situation in general.

(See also paragraph 10)

The Chairman stated that this topic had been placed upon the program primarily to give an opportunity for questions or discussion by other Governors. The Chairman reviewed the history of the publication of the loan account and called attention to possible difficulties in a program which might be understood to place upon the Reserve System direct responsibility for the Stock Exchange Loan Account. (Discussion of this topic continued in paragraph 10.)

(See pages 80 - 85 stenographic record)

At 12:45 o'clock p. m. the conference adjourned to reconvene at 2:15 o'clock p. m.

First Day's Session, Monday, March 22, 1926.Afternoon

The meeting was called to order at 2:30 o'clock p. m.

Topic II. B. Withdrawals from the Par List. (7)

Each Governor reviewed the status of the par list in his district. In those districts where there have been withdrawals during the past year or more it was pointed out that many were not voluntary withdrawals but were withdrawals requested by the Federal reserve bank on account of unsatisfactory remittances. No action was asked for.

(See pages 86 - 90 stenographic record)

Topic III. B. Absorption of shipping charges on silver dollars. (8)

In discussing this topic, it was pointed out that at a previous conference (see paragraph 63 Minutes of May 1922 Conference) it was voted that shipping charges on coin and currency should be absorbed by the Federal reserve bank, with the exception of shipping charges on standard silver dollars in which case the Federal reserve bank should have the option to absorb or not absorb the charges. Inasmuch as this covered the point in question, the topic was passed without action.

(See pages 91 - 93 stenographic record)

Topic II. C. Desirability of final settlement of controversy regarding non-cash collections. (9)

The history of the non-cash collection controversy was reviewed at some length, and after discussion, upon motion of Governor Harding, it was

VOTED that the non-cash collection service should be continued as at present, that is, without charge and without limitation as to items payable at street addresses.

Nine Governors voted Yes; Governors Bailey, Young and Wellborn voted No.

Thereupon, upon motion of Governor Harding, it was

VOTED that inasmuch as the question of the non-cash collection service has been thoroughly surveyed and has been before the Federal Reserve Board for nearly two years, the Board be requested to take final action upon it.

Eleven Governors voted Yes; Governor Wellborn voted No.

(See pages 93 - 120 stenographic record)

Topic I. F. Stock Exchange Loan Account. Cont'd. (10)
(See also paragraph 6)

Governor Strong continued his discussion of the Stock Exchange Loan Account and pointed out that the only proper and effective control of loans made by member banks to members of the Stock Exchange is necessarily through the borrowers themselves and not through Federal reserve pressure upon the lenders, the ultimate use of Federal reserve credit not being controllable by the Federal reserve banks.

(See pages 120 - 125 stenographic record)

Topic III. A. Gold Holdings and Payments. (11)

Mr. Harrison referred to the increase in the past two years in the percentage of hand to hand gold held by the various Federal reserve banks, but indicated that in some cases this percentage is still quite low. He then reviewed the gold payment policy of the Federal reserve banks since 1922, pointing out that in that year the New York bank commenced making gold payments in order to offset the amount of imports of gold and that at the end of 1924 when the gold flow changed from an import to an export movement, it was agreed with the Treasury that it would be desirable to maintain the gold certificate circulation at about its then figure - around \$1,000,000,000 - so that future gold movements would be reflected in the gold reserve of the System. The opinion was expressed that this policy seems to be the proper one at this

time and several of the Governors present offered to cooperate in their gold payment policy, if necessary, in order to maintain the certificate circulation at about the proposed amount. It was understood that the Federal Reserve Bank of New York would advise the other Federal reserve banks if or when their cooperation might be necessary to accomplish this.

(See pages 125 - 139 stenographic record)

Topic III. C. Currency counting machines. Volume of work performed and estimated savings. (12)

The effectiveness of the currency counting machines installed at the Federal Reserve Bank of New York was outlined and the other Governors were requested as soon as convenient to advise the Federal Reserve Bank of New York whether they care to purchase any such machines and, if so, how many, it being stated that the delay in placing these orders is handicapping the manufacturing program of the producer and delaying the benefits which it is believed will result from the use of such machines.

(See pages 139 - 149 stenographic record)

Topic IV. B. Should not the Federal reserve banks be reimbursed by Federal Land Banks for expense involved in paying Federal Farm Loan coupons? (13)

Upon motion of Governor Strong, it was

VOTED that this topic be referred to Governor Norris with power.

(See pages 149 - 154 stenographic record)

Topic IV. C. Progress in budget control of Federal reserve bank expenses. (14)

This topic was placed on the program as a follow-up of the discussion at the last Governors Conference (see paragraph 21 Minutes of November 1925 Conference). There was a review of the effectiveness of budget control throughout the Federal reserve banks.

(See pages 154 and 155 stenographic record)

- Topic IV. D. Further exchange of views relative to the steps taken at each Federal reserve bank to make sure that the bank and the System are not properly subject to criticism because of the practices of the bank or its personnel. (15)

This topic was proposed in reference to the discussion of this subject at the last Governors Conference (see paragraph 53 Minutes of November 1925 Conference). The views of several of the Federal reserve banks were expressed relative to the program submitted at the last conference.

(See pages 155 - 158 stenographic record)

- Topic IV. E. 1. Federal Reserve Bank buildings. (16)
1. Character of tenants.

After discussion of the general principles considered in selecting tenants for Federal reserve bank buildings, this topic was passed without action.

(See pages 159 - 162 stenographic record)

- Topic IV. E. 2. Federal Reserve Bank buildings. (17)
2. Segregation of building expenditures and receipts from other expense and income accounts.

While it was suggested that building expenditures and receipts be segregated from other expense and income accounts of Federal reserve banks, it was the consensus of opinion that this procedure should not be adopted.

(See pages 162 - 173 stenographic record)

- Topic IV. E. 3. Federal Reserve Bank buildings. (18)
3. Chargeoffs on account of depreciation in machinery.

In discussing the chargeoffs made by the several Federal reserve banks on account of depreciation in the machinery of new bank buildings, it appeared that most of the Federal reserve banks are now charging off

10% per annum. One bank is charging 6 2/3% per annum, one 5%, and two others 5% on part of the machinery and 10% on the balance.

(See pages 173 - 177 stenographic record)

Pension Plan.

(See also paragraph 43)

(19)

Governor Fancher reported that he, Governor McDougal and Mr. Platt had that morning visited the Chairmen of the House and Senate Committees on Banking and Currency and that each had manifested interest in the pension plan and agreed to introduce the bill as drafted by the committee. Some question was raised by the conference as to whether it would be feasible to propose an amendment to the bill in order to provide for the liquidation of the plan upon the liquidation of any or all Federal reserve banks. The committee was requested to study this matter and report back to the conference.

At 6:00 o'clock p. m. the conference adjourned to reconvene at 10:00 o'clock on Tuesday morning, March 23, 1926.

Second Day's Session, Tuesday, March 23, 1926

Morning

The meeting was called to order at 10:25 o'clock a. m.

Topic II. A. Report of Standing Committee on Collections.
(See also paragraphs 25, 26, 27, 28 and 29)

(20)

Mr. Strater, Chairman of the Standing Committee on Collections summarized the report of his committee to the conference (printed on pages 277 - 286 stenographic record).

The substance of each of the recommendations contained in the report and the action taken by the conference is summarized below:

Revision of time schedules with a view to reducing float and avoiding existing inequalities.

(21)

The committee refers to the fact that there are at the present time many discrepancies in the inter-district time schedules and that owing to the amount of work necessary to counter-check these schedules and compare them with train

schedules, it is impossible for the committee to do more than report progress, with the understanding that the work will probably be completed in time to report back to the next conference. Mr. Strater asked that each Federal reserve bank and branch carefully check the time schedules appended to the committee's report and advise the committee of any errors or inaccuracies.

Upon motion of Governor Calkins, it was then

VOTED that a conference of operating officers of the Federal reserve banks should be subject to the call of the Chairman of the Standing Committee on Collections to consider any differences of opinion or discrepancies in the time schedules before the final report of the committee is submitted to the next conference.

(See pages 180 and 181; 184 - 191 stenographic record)

Numbers and Symbols on Checks to indicate Reserve bank or Branch territory.

(22)

After discussion the advisability of having checks bear a number or some sort of a symbol to indicate the Federal reserve bank or Federal reserve bank branch territory in which the drawee bank is located, upon motion of Governor Young, it was

VOTED that this question be referred to the Standing Committee on Collections with authority to take the matter up with the Transit Committee of the American Bankers Association.

(See pages 181 - 184 stenographic record)

Topic I. D. Discussion of the extent of the responsibility of a Federal reserve bank and the steps to be taken to determine insolvency of a member bank in view of recent decision of Circuit Court of Appeals in the case of the Federal Reserve Bank of San Francisco vs. Idaho Grimm Alfalfa Seed Growers Association.

(23)

At the request of the Governors Conference, Mr. Newton D. Baker appeared to discuss with the Governors and the members of the Federal Reserve Board various aspects of the case of the Federal Reserve Bank of

San Francisco vs. Idaho Grimm Alfalfa Seed Growers Association in its relation to the discount policy and procedure of the several Federal reserve banks.

Mr. Baker pointed out that the case of the Idaho Grimm Alfalfa Seed Growers Association does not change any established principles of law relating to negotiable instruments but that the application of these principles of law to the facts in this particular case seemed more severe than in previous decided cases. He reviewed in some detail the different Federal reserve bank operations which might in some way be related to the principles of law applied in the Grimm Alfalfa case, mentioned some of the dangers to be guarded against, and urged upon the Federal reserve banks the need of placing a red ticket against the name of any member bank which, in its opinion, may be in a failing condition, so that an abundance of caution will be exercised not to do anything in discounting paper for such a bank or in any other transactions with such a bank which might make the Federal reserve bank an unwitting party to a fraud within the rules set down in the Grimm Alfalfa case. In conclusion, Mr. Baker stated that the Federal reserve banks in the last analysis must use their best judgment in each individual case, must take some risks and must lose some money rather than be rigidly automatic in dealing with weak banks in an effort to avoid loss in the conduct of necessary Federal reserve bank operations.

Upon conclusion of the discussion, it was agreed that each Federal reserve bank would send to Mr. Baker, through the counsel of the Federal Reserve Board, a report of its present procedure and practice in the matter of making rediscounts for or advances on bills payable of member banks, including a description of the policy of the Federal reserve bank in requiring additional collateral and the steps taken in general in dealing with weak banks, as well as any other pertinent facts that might enable Mr. Baker to

(24)

*Referred to
Mr White*

make a thorough study of the subject with a view to informing all of the Federal reserve banks of the dangers to be guarded against and the procedure to be followed in such of their operations as might be concerned with or related to the principles of law involved in the Grimm Alfalfa case. (See also paragraph 32)

(See pages 192 - 263 stenographic record)

At 1:00 o'clock p. m. the conference adjourned to reconvene at 2:15 o'clock p. m.

Second Day's Session, Tuesday, March 23, 1926.

Afternoon

The meeting was called to order at 2:30 o'clock p. m.

Topic II. A. Report of Standing Committee on Collections, Cont'd.
(See also paragraphs 20, 21 and 22)

Revision of the form of Treasury warrants to facilitate their handling by Federal reserve banks (25)

The committee reports that it has been in communication with the Treasury Department with a view to carrying out the recommendations of the last conference, that the Treasury has already made certain changes along the lines suggested, and that it is hoped that further progress will be made later on.

(See page 264 stenographic record)

Availability of unsorted cash letters (26)

The committee reports that after a thorough consideration of the procedure followed by the several Federal reserve banks, it is of the opinion that no change should be made in the present provision of the majority of circulars on this subject and that the matter of determining availability of unsorted items received from the smaller member banks be left to the discretion of the several Federal reserve banks.

(See page 265 stenographic record)

Cost of telegraphic advice of non-payment of checks of \$500 and over. (27)

Mr. Strater stated that the committee in submitting its report to the last Conference of Governors did not intend to recommend that Federal reserve banks discontinue the practice of absorbing these charges unless that action became imperative in order to reduce the cost of check collections.

After further discussion, upon motion of Governor Young, it was
VOTED that all Federal reserve banks uniformly adopt the following paragraph, effective July 1, 1926, relating to this matter (see page 5 of the committee's report; printed on page 284 of stenographic record):

"All telegraphic costs pertaining to payment or non-payment, or in connection with receiving or transmitting any other information or instructions, will be charged to the account of the depositing bank. All such telegrams to the depositing bank will be sent 'Collect.'"

Governors Calkins and Talley voted in the negative.

(See pages 265 - 274 stenographic record)

After consideration of individual recommendations contained in (28)
 the committee's report, upon motion of Governor Young, it was

VOTED that the report as a whole be approved and filed.

(See pages 274 and 275 stenographic record)

Absorption of postage on direct sent cash letters (29)

Mr. Strater referred to the fact that all banks except the Federal Reserve Banks of Boston and Kansas City are now complying with the vote of the April 1925 conference (see paragraph 34 Minutes of April 1925 Conference) to the effect that no Federal reserve bank should absorb the cost of postage on cash letters sent direct by its member banks to other Federal reserve banks.

(See pages 275 - 277 stenographic record)

Decision in the case of Federal Reserve Bank of San Francisco (30)
vs. Idaho Grimm Alfalfa Seed Growers Association.

Upon motion of Governor Calkins, it was

VOTED that the secretary of the conference be requested to edit one copy of the record of this discussion and after that has been done to have three copies prepared for the Governor of each Federal reserve bank.

(See pages 299 and 300 stenographic record)

*Referred to
 Mr. White*

Foreign Accounts.

(31)

Governor Strong discussed off the record matters relating to foreign affairs in general and particularly in their relation to the various central banks of issue.

Topic I. G. Amendment to Section IV(b) of Regulation A.
Discussion of the advisability of amend-
ing this regulation so as not to require
member banks to specify on applications
for rediscount the source from which they
acquired the paper offered for rediscount
except in the case of paper acquired from
nonmember banks. (See Board letter X-4544
dated February 27, 1926.)
 (See also paragraph 24)

(32)

In considering this topic, reference was made to Mr. Baker's discussion of the Idaho Grimm Alfalfa case, and after consideration, upon motion of Governor Young, it was

VOTED that pending a further consideration of the whole matter by Mr. Baker (as recommended in paragraph 24) Federal reserve banks, as authorized by the Federal Reserve Board in its letter X-4544, should eliminate from their application blanks any letters or other symbols designed to indicate whether discounted paper is depositor's paper or purchased paper, and that the conference recommend to the Federal Reserve Board that these application blanks should not require any reference even to discounted paper obtained by a member bank from a nonmember bank.

Governor McDougal voted No.

(See pages 300 - 306 stenographic record)

Topic IV. F. Discussion of capitalization and other require-
ments imposed by State law on State banks
and trust companies exercising fiduciary
powers, and advisability of Board adopting
for all national banks a minimum capital re-
quirement and imposing other requirements in
connection with its granting authority to
such banks to exercise trust powers.
 (See also paragraph 55)

(33)

There was some discussion by the Governors as to the scope and purport of the question presented by the Federal Reserve Board, and some doubt expressed as to whether the Board could legally place a minimum limit upon the capital of a national bank to which the Board grants trust powers. In view of this doubt as to the scope of the Board's question, upon motion of Governor Norris, it was

VOTED to postpone discussion of this topic until the joint conference with the Federal Reserve Board.

(See page 306 stenographic record)

Topic III. D. Treasury Currency Committee.
Report of progress made.

(34)

Mr. C. S. Dewey, Assistant Secretary of the Treasury, appeared before the conference and read a report on matters now before the Treasury's Currency Committee. He outlined in some detail the problems before the committee and mentioned certain pending proposals affecting the size and design of all kinds of currency. He requested each Federal reserve bank to write to him its views regarding the matters set forth in his letter of March 11, 1926, sent to each Federal reserve bank concerning the proposed plan to eliminate the rows of silk thread from distinctive paper. It was understood that this procedure would be followed.

Mr. R. G. Hand, Commissioner of Accounts and Deposits, then described the proposal under consideration by the Treasury to make Federal reserve banks legal redemption agents for unfit United States currency, with a view to enabling the Treasury Department to save approximately \$10,000,000 in transit float.

(35)

(See pages 316 - 348 stenographic record)

Non-Cash Collections.

(36)

Governor Strong presented to the conference a letter from Governor Crissinger dated March 23, 1926, in reference to the subject

of non-cash collections and requesting the conference to appoint a committee of five members to confer with and to aid the Federal Reserve Board in reaching a conclusion on this question. Governor Strong thereupon appointed Governors Fancher, Harding, Talley, Bailey and Young.

(See pages 348 - 350; 368 stenographic record)

Topic V. A. Permanent employment by the Board at a fixed retainer of special counsel of outstanding ability to assist in litigation, and to act as a clearing house for the legal departments of all Federal reserve banks. (See Board's letter of March 9, 1926, X-4550; also paragraph 26, Minutes of November 1925 Governors Conference.) (37)

After a discussion of the various aspects of the proposal contained in this topic, and with special emphasis on the need for having System counsel employed to handle litigation in matters which concern all Federal reserve banks, upon motion of Governor Calkins, it was

VOTED to recommend to the Federal Reserve Board that the Federal Reserve System, acting through the Federal Reserve Board, retain as special counsel, Mr. Newton D. Baker, to consider litigable matters only, and that all Federal reserve banks shall refer to the counsel of the Federal Reserve Board as soon as it arises every litigated question, together with all papers relating thereto, and that the counsel of the Federal Reserve Board should refer to such special counsel all such cases as he thinks concern the System as a whole and any other cases which counsel of the forwarding Federal reserve bank requests be referred to the special counsel.

Seven Governors voted Yes; Governors Young, McDougal, Seay, Bailey and Wellborn voted No. Governor Seay explained that he voted in the negative because of the fact that nothing has happened to change his opinion since it was voted at the last Governors Conference not to employ

special counsel and also because he thinks that the procedure outlined will cause unnecessary delays.

(See pages 307 - 316; 350 - 368; 396 stenographic record)

At 5:50 o'clock p. m. the conference adjourned to reconvene at 10:00 o'clock a. m. on Wednesday morning, March 24, 1926.)

Third Day's Session, Wednesday, March 24, 1926

Morning

The meeting was called to order at 10:00 o'clock a. m.

Topic IV. G. Report on Foreign Accounts. (38)

Upon motion of Governor Young, it was

VOTED to approve and file the report.

(See page 369 stenographic record)

Topic IV. H. Report of Subcommittee of General Committee on Bankers Acceptances. (39)

Upon motion of Governor Calkins, it was

VOTED that the report (printed on pages 370 - 378 of stenographic record) be approved and that the Federal Reserve Board be requested to adopt the recommendations contained therein.

(See page 370 stenographic record)

Amendment to Regulation A relative to acceptances drawn against grain stored in warehouse licensed and inspected by State or Federal authorities. (40)

Upon motion of Governor Young, it was

VOTED that the Federal Reserve Board be requested to amend subdivision 3 of section 10 of Article D of Regulation A to read as follows:

"The storage of readily marketable staples, provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer or issued by a terminal grain elevator company duly bonded and licensed and regularly inspected by State or Federal

authorities with whom all receipts for grain and all transfers thereof must be registered and without whose consent no grain can be withdrawn; and provided further, that the acceptor remains secured throughout the life of the acceptance.****"

(See pages 378 - 389 stenographic record)

Topic IV. I. Report of Leased Wire Committee.

(41)

Upon motion of Governor Talley, it was

VOTED that the report (printed on pages 390 and 391 of stenographic record) be approved and filed.

(See pages 389 and 390 stenographic record)

Topic IV. J. Report of Insurance Committee.

(42)

Upon motion of Governor Young, it was

VOTED that the report (printed on pages 392 and 393 of stenographic record) be approved and filed.

(See page 391 stenographic record)

Topic IV. K. Report of Pension Committee.
(See also paragraph 19)

(43)

Governor Fancher referred to the interim report which he had presented to the conference on March 22, 1926, and stated that since that time the members of the committee had seen Secretary Mellon and that he had stated that he is in accord with the procedure which was followed in regard to the introduction of the bill to authorize a pension plan. Governor Fancher also referred to the fact that the committee had considered the proposal to add an amendment to the bill to provide for the liquidation of the plan in the event of the liquidation of any or all of the Federal reserve banks. He reported that the committee had previously studied this matter and had discussed it with members of the Federal Reserve Board and that all had agreed that there is no occasion or need

to place a restriction of this character in the enabling act. Upon motion of Governor Seay, it was

VOTED to approve Governor Fancher's report in behalf of the committee.

(See pages 393 - 396 stenographic record)

Topic V. B. Advisability of seeking amendment to the law in order to restore to Federal Courts jurisdiction over suits by and against Federal reserve banks. (See Board's letter of March 11, 1926, X-4558.)

(44)

Upon motion of Governor Seay, it was

VOTED that the counsel of the several Federal reserve banks be asked to prepare an opinion on the advisability of seeking an amendment to the law in order to restore to Federal Courts jurisdiction over suits by and against Federal reserve banks, and that all of these opinions when prepared should be forwarded to the Governor of the Federal Reserve Board.

(See pages 397 and 398 stenographic record)

Topic V. C. Questions arising out of Board's ruling of December 30, 1925 (X-4484) relating to the eligibility of notes of a corporation representing borrowings of funds to be advanced to subsidiaries. (See Board's letter of March 12, 1926, X-4560.)

(45)

Upon motion of Governor Talley, it was

VOTED to refer this topic back to the Federal Reserve Board with the request that it be submitted for consideration at the next Conference of Governors, it being pointed out that the topic had not been received by the Federal reserve banks in time to permit of adequate consideration in advance of the conference.

(See page 398 stenographic record)

Topic V. D. Advisability of issuing regulations relative to the rediscount of notes secured by adjusted service certificates under the provisions of Section 502 of the World War Compensation Act. (See Board's letter of March 13, 1926, X-4561.)

(46)

Upon motion of Governor Calkins, it was

VOTED to refer this topic back to the Federal Reserve Board with the request that it be submitted for consideration at the next Conference of Governors, it being pointed out that the topic had not been received by the Federal reserve banks in time to permit of adequate consideration in advance of the conference.

(See page 398 stenographic record)

Topic V. E. Is it not discriminatory and unfair to require member banks to remit for cash letters in funds of immediate availability whereas non-member par remitting banks are allowed to remit for cash letters in funds not immediately available?

(47)

In discussing this topic, it was stated by some of the Governors that inasmuch as all collections are primarily for the benefit of member banks, Federal reserve banks should be left free to handle items on non-member banks in the best way feasible and that if, in order to effect collections of checks drawn on nonmember banks, it is necessary to accept remittances in funds not immediately available, then that course should be pursued without any fear of discrimination against member banks. It was suggested that it is all a matter of judgment in each individual case as to what is the best procedure in the circumstances for the benefit of member banks depositing items for collection.

(See pages 399 - 403 stenographic record)

Topic I. B. Discount Rates.

(48)

While it was agreed that this topic should be postponed until the joint meeting with the Federal Reserve Board (see page 38 stenographic record) nevertheless there was an informal preliminary discussion before the joint meeting convened.

(See pages 403 - 407 stenographic record)

At 11:00 o'clock a.m. the conference adjourned to meet in joint conference with the Federal Reserve Board.

JOINT CONFERENCE OF GOVERNORS AND FEDERAL RESERVE BOARD

The meeting of the joint conference of Governors with the Federal Reserve Board was called to order at 11:30 o'clock a. m. on Wednesday, March 24, 1926.

Present: Governor Crissinger presiding
Messrs. Platt, Hamlin, Miller,
James and Cunningham.
Governors Harding, Strong, Norris,
Fancher, Seay, Wellborn, McDougal,
Biggs, Young, Bailey, Talley and Calkins.

Governor Strong reported to the Federal Reserve Board that the (49)
Governors Conference had approved the report of the Open Market Investment Committee submitted to the conference on Monday, March 22, 1926, the report which had previously been considered by the Federal Reserve Board at its meeting with the Open Market Investment Committee on Saturday, March 20, 1926.

Before the Board expressed its views on the recommendations contained in the report of the Open Market Investment Committee, each Governor was requested to describe current business conditions in their respective districts.

Shortly after this review was commenced the conference adjourned at 12:50 o'clock p. m. to reconvene at 2:00 o'clock p. m.

The afternoon meeting of the joint conference of Governors with the Federal Reserve Board was called to order at 2:20 o'clock p. m.

After the review of business conditions begun at the morning meeting (see paragraph 49) was concluded, Governor Crissinger advised the conference that the Federal Reserve Board had, at its meeting on March 22, 1926, approved the report of the Open Market Investment Committee, although it was explained that the Board's approval related expressly to the re-purchase of March 15 maturities. Governor Strong then referred to the advisability of giving the committee authority to buy additional securities if and as soon as it may be apparent that conditions justify it. He stated that in his opinion the latter part of the report of the Open Market Investment Committee, which was drafted almost a week before, and which suggested the likelihood of the need for additional purchases, indicated that if the discounts of New York City member banks did not decrease after the quarter day movements in the money market had been reduced to normal, it would be advisable for the committee to make further investments. (50)

The Federal Reserve Board thereupon withdrew from the conference in order to consider this question.

During the absence of the Federal Reserve Board, the conference discussed the matter further and expressed the opinion that the Open Market Investment Committee should have authority to purchase up to \$90,000,000 above the \$210,000,000 now authorized if and when conditions might justify such purchases prior to April 15, 1926. (51)

At 4:30 o'clock p. m. the Federal Reserve Board returned to the meeting.

Mr. Eddy, Secretary of the Board, read to the conference that part of the minutes of the meeting of the Federal Reserve Board relating to the report of the Open Market Committee stating that the Board approved (52)

of the repurchase of the March 15 maturities and the restoration of the Open Market Investment Account to \$210,000,000. It was pointed out, however, that the Board had taken no vote on the latter part of the report concerning the prompt purchase of further securities since the Board felt that the committee's report made no specific recommendation on this question. Governor Strong emphasized the fact that the Open Market Investment Committee's report had been drafted six days before, that the readjustments of the quarter day period were now over, that New York City banks are still heavily in debt to the Federal reserve bank, that the conditions suggested in the last part of the report as a guide for further purchases appeared now to exist, and that the committee's report should therefore be considered as a recommendation that it should be authorized to make the additional purchases.

Governor Strong then informed the Board that during its absence (53) from the meeting the conference made the specific suggestion that the committee be authorized to buy up to \$90,000,000 more if developments in the money market indicate the need for doing so before April 15, 1926.

The Federal Reserve Board thereupon withdrew from the meeting at 4:50 o'clock p. m. to act upon this specific recommendation.

At 5:15 o'clock p. m., Governor Crissinger and Mr. James (54) returned to the conference and Governor Crissinger reported that the recommendations of the conference to give the committee authority to purchase an additional \$90,000,000 if conditions justify, had been lost in the Federal Reserve Board by a vote of three to three, that Mr. Mellon was away, and that the Board would act again on the following day.

Topic IV. F. Discussion of capitalization and other requirements imposed by State law on State banks and trust companies exercising fiduciary powers, and advisability of Board adopting for all national banks a minimum capital requirement and imposing other requirements in connection with its granting authority to such banks to exercise trust powers. (Continued)
 (See also paragraph 33)

(55)

Governor Strong reported to Governor Crissinger the action of the conference relative to this topic as recorded in paragraph 33 of the minutes. Governor Crissinger said that as long as most of the members of the Board were absent from the conference, and as long as there was no pressing need to decide this question now, it would be put over until the next Governors Conference.

(See pages 528 and 529 stenographic record)

At 5:30 o'clock p. m. the conference adjourned sine die.

George L. Harrison,
 Secretary.

