

CONFIDENTIAL

Secretary's Minutes

GOVERNORS CONFERENCE

November 8 to 10, 1926.

Washington, D. C.

- c o p y -

FEDERAL RESERVE BANK
OF NEW YORK

November 23, 1926.

Dear Governor Biggs:

On November 19, I forwarded to you a copy of the Secretary's Minutes of the recent Conference of Governors. I am glad now to submit a summary of those actions of the conference which either require some action by or concern the procedure in certain operations of the Federal reserve banks. References are to paragraph numbers in the Secretary's Minutes.

✓
Paragraph 5 - Where it was voted that each Governor be prepared to report to the next Governors Conference the number of borrowing banks in each district, with particular reference to the number of banks which have been borrowing for a year or more, the amount of their capital, surplus and total resources and the average amount of their borrowings from the Federal reserve bank.

Paragraph 12 - Where it was voted that the chairman of the conference should appoint a committee of three operating men from the Federal reserve banks to confer and cooperate with Mr. Wyatt, if desired, in the preparation of regulations and forms, including a draft of circular letter to be issued by the several Federal reserve banks concerning the discount of notes secured by adjusted service certificates.

The chairman subsequently designated the Federal reserve banks of Philadelphia, Richmond and Dallas as the banks which should appoint representatives to this committee.

Paragraph 15 - Where it was voted to be the sense of the conference that Federal reserve banks have no legal authority to receive deposits of securities for safe-keeping from Federal land banks or farm loan registrars.

✓
Paragraph 16 - Where it was voted to be the sense of the conference that representation of Federal reserve banks at conventions within their own district is of the utmost importance, that such attendance at conventions outside of their district is sometimes advisable, and that the determination of such questions is one which must necessarily be left to the judgment of the officers and directors of each Federal reserve bank, since it is impossible to lay down any uniform practice.

FILE ONLY WHEN SIGNED
Directed to Biggs

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Directed to the
BY F. N. HALL

- ✓ Paragraph 22 - Where the conference discussed the desirability of having Federal reserve banks and direct sending member banks (where the volume warrants) list in separate cash letters items which are payable in each state served by Federal reserve bank or branch to which such items are forwarded.
- ✓ Paragraph 23 - Where attention was called to the fact that some reserve banks still have an abnormally low percentage of their reserve in the form of payable gold.
- ✓ Paragraph 24 - Where reference was made to the recent action of the Treasury Department in removing the bar charge on fine gold bars of standard size.
- ✓ Paragraph 26 - Where it was voted to request the Standing Committee on Collections to continue its studies of the collection problem, having in mind particularly whether a Federal reserve bank may not shorten the actual transit time by sending direct to member banks located in other districts, under arrangements with the Federal reserve banks of those districts, and also to study the whole question of the collection of cash items and to report back to the conference what, if any, modifications or improvements might be made either by ruling or an amendment to the law, in order to effect a better and more scientific collection system.
It was understood in taking this action that the Standing Committee on Collections might call upon representatives of any Federal reserve bank, if they care to do so, in order to aid or assist them in their studies or the preparation of their report.
- ✓ Paragraph 28 - Where the report of the conference to the Federal Reserve Board on the subject of non-cash collections is quoted.
- Paragraph 36 - Where it was voted that all Federal reserve banks should affix test words to wires advising credit for direct routed collections just as tests are now provided for wire transfers.
- ✓ Paragraph 41 - Where it was voted that each Governor should come to the next conference prepared to give a new estimate of the expense involved in handling Farm Loan coupons.
- ✓ Paragraph 44 - Where there was a discussion of the present practice of the Federal Reserve Banks in requiring statements of parent and subsidiary corporations to be filed with member banks as required by the regulations of the Federal Reserve Board.

November 23, 1926.

Various other matters considered by the conference and reported in the Secretary's Minutes have been submitted to the Federal Reserve Board for its action or approval and it is assumed that you will be advised directly by the Federal Reserve Board of their disposition of each of those topics. We believe, however, that none of the topics referred to in this letter requires the Board's action before adoption by the Federal reserve banks.

Very truly yours,

George L. Harrison
GEORGE L. HARRISON,
Secretary, Governors Conference.

Mr. D. C. Biggs,
Governor, Federal Reserve Bank of St. Louis,
St. Louis, Mo.

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GOVERNORS CONFERENCE

November 8, 1926

Washington, D. C.

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- A. Open Market Operations.
1. Report of Open Market Investment Committee.
2. Policy.
- B. Discount Rates and Policies.
- C. Is it a good policy to allow country banks to participate in call loans, made by their city correspondents, up to 10 per cent of their capital and surplus? Kansas City
- D. Discussion of the report of the Agents Committee on Member Bank Reserves with a view to considering whether now is the appropriate time to seek legislation concerning those features of the report which the governors have heretofore approved in principle. (See paragraphs 3 to 13, inclusive, of the Secretary's Minutes of the November 1925 Governors Conference.) New York
- E. Discussion of further steps which might be taken by Federal reserve banks to prevent member bank failures. Atlanta
- F. Amendment to Regulation A to make eligible for rediscount or purchase by Federal reserve banks a bankers' acceptance drawn by an elevator or warehouse company and secured by terminal warehouse receipts of the elevator or warehouse company that draws the draft. (See Board letter X-4693, dated October 13, 1926.) F. R. Board
- G. Notes of parent corporations representing borrowings to be advanced to subsidiaries. (See Board letter X-4692, dated October 13, 1926.) F. R. Board
- H. Regulations covering rediscount of notes secured by adjusted service certificates under the provisions of Section 502 of the World War Adjusted Compensation Act. (See Board letter X-4688, dated October 12, 1926.) F. R. Board
- I. Ratio of Bank Capital to Deposits.
Review of steps taken by the Federal reserve banks to urge member banks to increase their capital and surplus to at least 10 per cent of their deposit liability as recommended at the November 1925 Governors Conference. (See paragraph 16 of the Secretary's Minutes of that conference.) New York

- J. The development and trend of bank mergers and consolidations in each district.

New York

II. COLLECTIONS AND CLEARINGS

- A. Report of Standing Committee on Collections.
- B. Discussion of recent ruling of the Federal Reserve Board relative to the handling of non-cash collection items payable at street addresses. (See Board letter X-4677, dated September 24, 1926.)

Chicago

- C. Desirability of having Federal reserve banks and direct sending member banks (where the volume warrants) list in separate cash letters items which are payable in each state served by Federal reserve bank or branch to which same are forwarded.

St. Louis

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- B. Revision of Treasury Department Circular No. 92, issued April 17, 1919.
- C. As between Federal reserve banks, should the statute of limitation be set up to escape liability on forged endorsements?
- D. Advisability of the 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. (See Board letter X-4686, dated October 12, 1926.)
- E. Safe-keeping of Securities.
1. Should a Federal reserve bank perform safe-keeping functions?
 2. Should these functions be confined to securities belonging to member banks?
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New York

Philadelphia

Kansas City

F. R. Board

Minneapolis

"

"

4. Should a Federal reserve bank act as custodian for public officials for bonds that are actually owned by member banks but pledged with public officials as collateral for public funds? Minneapolis
5. Should a charge be made for any or all of these functions? "
6. Authority of a Federal reserve bank to receive deposits of securities for safe-keeping from Farm Loan Registrars, Federal Land Banks and Intermediate Credit Banks. (See Board letter X-4690, dated October 12, 1926.) F. R. Board
- F. Question of Federal reserve bank representation at Bankers Conventions - to what extent should Federal reserve banks be represented by officers and employees. (See Board letter X-4691, dated October 12, 1926.) F. R. Board
- G. Advisability of seeking an amendment to the law to restore to Federal Courts jurisdiction over suits by and against Federal reserve banks. (See Board letter X-4694, dated October 13, 1926.) F. R. Board
- 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.

GOVERNORS CONFERENCE

November 8 - 10, 1926

Washington, D. C.

First Day's Session, Monday, November 8

Morning

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

Present:

Governors McDougal, Norris, Fancher, Seay,
Wellborn, Biggs, Young, Bailey,
Talley and Calkins.
Deputy Governors Case and Paddock.
Mr. Harrison, Secretary.

Upon motion of Governor Fancher, it was (1)

VOTED that Governor McDougal preside as Chairman of the Conference.

Topic I. A. 1. Report of Open Market Investment Committee. (2)
(See also paragraph 39.)

The secretary distributed the report of the Open Market Investment Committee (printed on pages 5 - 12 of the stenographic record). After consideration by the conference, upon motion of Governor Young, it was

VOTED to adopt the report and to ask the Open Market Investment Committee to submit it to the Federal Reserve Board with the approval of the conference.

(See pages 5 - 16, stenographic record.)

Topic I. A. 2. Open Market Operations (3)
2. Policy

The question of open market investment policy having been covered in the report of the Open Market Investment Committee, this topic was passed without further action.

(See page 16, stenographic record.)

Topic. I. B. Discount Rates and Policies.

(4)

Each of the Governors reported to the conference concerning business and credit conditions in their respective districts, with special reference to and discussion of the policy of the Federal reserve banks relative to continuous or excessive borrowers.

After a discussion of these matters was concluded, upon motion of Governor McDougal, it was

(5)

VOTED that each Governor be prepared to report to the next Governors Conference the number of borrowing banks in each district, with particular reference to the number of banks which have been borrowing for a year or more, the amount of their capital, surplus and total resources and the average amount of their borrowings from the Federal reserve bank.

6

(See pages 16 - 41, stenographic record.)

Note: Owing to the absence of the stenographer, the stenographic report of the conference does not cover the latter part of the discussion of this topic and none of the discussion of topics I. G. and I. J.

Topic I. C. Is it a good policy to allow country banks to participate in call loans, made by their city correspondents, up to 10 per cent of their capital and surplus?

(6)

Governor Bailey reviewed in some detail the practice followed by some member banks in Kansas City of participating in call loans. During the course of the discussion it was pointed out that the practice to which Governor Bailey referred is an old practice in other districts, that it would be difficult to alter, and that it is questionable whether the Federal reserve banks could with propriety object to the practice.

Topic I. J. The development and trend of bank mergers and consolidations in each district.

(7)

Mr. Case submitted to the conference a table of the ten largest banks in New York City, their relation to the number and size of all other banks in New York City and the number and amount of mergers or consolidations in each case. The tendency and reasons for mergers and consolidations in other districts was then discussed, it being the consensus of opinion that the present trend results from a number of causes, including competition for deposits and pressure by many depositors who, in view of the large percentage of failures among the smaller banks, now prefer larger institutions.

Topic I. E. Discussion of further steps which might be taken by Federal reserve banks to prevent member bank failures.

(8)

Governor Wallborn, who proposed this topic for the program, read a memorandum (printed on pages 42 - 47 of the stenographic record) concerning member bank failures and the responsibilities of the reserve bank in preventing bank failures. During the course of the discussion, it was pointed out that emphasis should be laid on preventing member banks from getting into a weakened condition rather than in helping them out of difficulties later on. It was the consensus of views that while a better and closer cooperation between the Federal reserve banks and the State Superintendents of Banks, and a more strict policy in the granting of new charters, might be helpful in preventing failures, nevertheless perhaps the chief factors which have resulted in failures during the past several years have been bad management and the economic conditions which have resulted from the war.

(See pages 42 - 53, stenographic record.)

At 12:50 o'clock p. m. the conference adjourned to reconvene again at 2 o'clock p. m.

First Day's Session, Monday, November 8Afternoon

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

Topic I. D. Discussion of the report of the Agents Committee on Member Bank Reserves with a view to considering whether now is the appropriate time to seek legislation concerning those features of the report which the governors have heretofore approved in principle. (See paragraphs 3 to 13, inclusive, of the Secretary's Minutes of the November 1925 Governors Conference.) (9)

Upon motion of Governor Seay, it was

VOTED to be the sense of the conference that this is not an appropriate time to seek legislation concerning any of the matters referred to in the report of the Agents Committee on Member Bank Reserves.

In response to the suggestion that the conference reconsider those topics in the report of the Agents Committee, concerning which the Governors Conference has differed with the Agents Conference, Governor Seay reported that certain recommendations of the Agents Committee are still subject to study by the Advisory Committee of Governors on Legislative Matters. With this understanding, the topic was passed without further action.

(See pages 54 - 65, stenographic record.)

Topic I. F. Amendment to Regulation A to make eligible for rediscount or purchase by Federal reserve banks a bankers acceptance drawn by an elevator or warehouse company and secured by terminal warehouse receipts of the elevator or warehouse company that draws the draft. (See Board letter X-4693, dated October 13, 1926.) (10)

Governor Young reviewed for the conference the conditions under which registered warehouse receipts are issued by terminal elevator or

warehouse companies operating in Minnesota under the supervision of the Railroad and Warehouse Commission of the State of Minnesota. He called attention to the fact that these warehouse receipts generally have been regarded without question as prime collateral for bank loans in Minnesota since the receipts in question are issued under such safeguards and restrictions as, in practice, make it impossible for the drawer of the draft to have access to the grain even though the warehouse companies may be owned by the drawer. In view of these facts and the opinion of counsel of the Federal Reserve Bank of Minneapolis, that these warehouse receipts do in fact pass security title under the Minnesota law, it was

VOTED to be the sense of the conference that registered terminal elevator or warehouse receipts which are issued under conditions and practices similar to those prevailing in the case of such receipts issued under the supervision of the Railroad and Warehouse Commission of the State of Minnesota, are within the spirit of the Board's regulations requiring that warehouse receipts to be eligible as collateral for acceptances must be issued by a warehouse independent of the customer and that, therefore, the Federal Reserve Board should rule that acceptances secured by such warehouse receipts are eligible provided, of course, that such acceptances comply with all of the relevant requirements of the Federal Reserve Act.

(See pages 65 - 92; 245 - 247, stenographic record.)

Topic I. I. Ratio of Bank Capital to Deposits.

(11)

After discussion of the steps taken by the various Federal reserve banks to urge member banks to establish a better relation between their capital account and their deposit liability, this topic was passed without action.

(See pages 101 - 108, stenographic record.)

Topic I. H. Regulations covering rediscount of notes secured by adjusted service certificates under the provisions of Section 502 of the World War Adjusted Compensation Act. (See Board letter X-4688, dated October 12, 1926.)

(12)

After general discussion of the provisions of Section 502 of the World War Adjusted Compensation Act, it appeared to be the sense of the conference that it is regrettable that the Federal reserve banks should have been given authority to discount notes secured by adjusted service certificates, but that as a practical matter, since the law makes such notes eligible, it is realized that Federal reserve banks will be expected to discount them when offered by member or nonmember banks under suitable regulations and safeguards. It was accordingly

VOTED that the chairman of the conference should appoint a committee of three operating men from the Federal reserve banks to confer and cooperate with Mr. Wyatt, if desired, in the preparation of regulations and forms, including a draft of circular letter to be issued by the several Federal reserve banks concerning the discount of notes secured by adjusted service certificates.

The chairman subsequently designated the Federal reserve banks of Philadelphia, Richmond and Dallas as the banks which should appoint representatives to this committee.

(See pages 108 - 135, stenographic record.)

Cuban Agencies of Federal Reserve Banks.

(13)

Governor Calkins reported to the conference that all the Governors are invited by the Federal Reserve Board to attend the meeting on November 11 concerning the Cuban Agencies of the Federal Reserve Banks. While no formal action was taken, it was the sense

of the conference that all those who could conveniently do so would attend the meeting.

Governor Wellborn reviewed the history of the Havana Agency of the Federal Reserve Bank of Atlanta, and stated that the proposed meeting on November 11 is to consider recommendations which have been made to consolidate the agencies of the Federal Reserve Bank of Boston and the Federal Reserve Bank of Atlanta.

Topic IV. D. Advisability of the 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. (See Board letter X-4686, dated October 12, 1926.) (14)

After discussion of the several aspects of this topic, upon motion of Governor Calkins, it was

VOTED to be the sense of the conference that it is inexpedient for the Federal Reserve Board to place a capital limit on national banks applying for trust powers in view of the provisions of the law and the further fact that the exercise of trust powers by State banks is governed by different laws in different States.

Upon motion of Governor Fancher, it was further

VOTED to be the sense of the conference that some limit should be placed by the Federal Reserve Board upon the time taken by national banks to qualify as trustees under the State law after having received a permit to exercise trust powers from the Federal Reserve Board.

Upon motion of Governor Seay, it was also

VOTED to be the sense of the conference that it would be appropriate for the Federal Reserve Board, in considering applications

for trust powers, to take into consideration the relation of capital and surplus to deposit liability.

(See pages 135 - 146, stenographic record.)

Topic IV. E. 6. Safe-keeping of Securities.

(15)

6. Authority of a Federal reserve bank to receive deposits of securities for safe-keeping from Farm Loan Registrars, Federal Land Banks and Intermediate Credit Banks. (See Board letter X-4690, dated October 12, 1926.)

After consideration of the opinions of the assistant counsel of the Federal Reserve Board and the counsel of individual Federal reserve banks, upon motion of Governor Calkins, it was

VOTED to be the sense of the conference that Federal reserve banks have no legal authority to receive deposits of securities for safe-keeping from Federal Land Banks or Farm Loan Registrars.

(See pages 146 - 156, stenographic record.)

Topic IV. F. Question of Federal reserve bank representation at Bankers Conventions - to what extent should Federal reserve banks be represented by officers and employees. (See Board letter X-4691, dated October 12, 1926.)

(16)

Upon motion of Governor Norris, it was

VOTED to be the sense of the conference that representation of Federal reserve banks at conventions within their own district is of the utmost importance, that such attendance at conventions outside of their district is sometimes advisable, and that the determination of such questions is one which must necessarily be left to the judgment of the officers and directors of each Federal reserve bank, since it is impossible to lay down any uniform practice.

(See pages 156 - 160, stenographic record.)

Topic IV. G. Advisability of seeking an amendment to the law to restore to Federal Courts jurisdiction over suits by and against Federal reserve banks. (See Board letter X-4694, dated October 13, 1926.)

(17)

Upon motion of Governor Calkins, it was
 VOTED to be the sense of the conference that it is advisable
 to seek to procure an amendment to the law to restore to Federal Courts
 jurisdiction over suits by and against Federal reserve banks, in the
 form suggested in paragraph 3 on page 3 of Mr. Wyatt's memorandum X-4551,
 dated March 9, 1926, as follows:

Provided that this section shall not apply to any suit,
 action or proceedings brought by or against a Federal
 Land Bank, Joint Stock Land Bank, Federal reserve
 bank or any corporation incorporated by or under an
 Act of Congress wherein the Government of the United
 States is the owner of more than one-half of its
 capital stock.

(3)

Upon motion of Deputy Governor Case, it was also
 VOTED that the conference deems it desirable to seek the
 enactment of legislation to exempt Federal reserve banks from the pro-
 cess of attachment or garnishment before final judgment in any case, as
 national banks are now exempt under the terms of the United States Re-
 vised Statutes.

(See pages 160 - 163, stenographic record.)

At 5:30 o'clock p. m. the conference adjourned to reconvene
 again at 10:00 o'clock a. m. Tuesday, November 9, 1926.

Second Day's Session, Tuesday, November 9

Morning

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

Topic I, G. Notes of parent corporations representing
borrowings to be advanced to subsidiaries.
(See Board letter X-4692, dated October
13, 1926.)

(18)

Governor Fancher referred to the fact that the present ruling
 of the Federal Reserve Board relative to the eligibility of notes of parent

corporations representing borrowings to be advanced to subsidiaries, makes any such note ineligible in any case where the parent corporation owns less than 75% of the stock of any subsidiary or where it loans funds to any firm or corporation other than a subsidiary. It was the sense of most of the Governors present that this unduly restricts the eligibility of notes of many corporations which have occasion from time to time to make loans of relatively small amounts of their available funds to borrowers other than their subsidiaries in which they own 75% of the stock.

Upon motion of Governor Fancher, it was then (19)

VOTED that where a parent corporation owns at least 51% of the stock of each of a number of subsidiary corporations, the notes of such parent corporation, the proceeds of which have been advanced or loaned to its subsidiary corporations, will not be considered finance paper within the meaning of the Board's regulations; provided that

1. The parent corporation and all its subsidiaries are engaged in a distinctly commercial or industrial business;
2. The advances made by the parent corporation arise out of, and are clearly incidental to, its commercial or industrial business;
3. The subsidiaries borrow no money except from the parent corporation; and
4. The proceeds of such advances have been or are to be used by the subsidiary corporations for an industrial, commercial or agricultural purpose within the meaning of the Federal Reserve Act and the Board's regulations.

Nine Governors voted in the affirmative, and Governors Talley, Calkins and Paddock voted in the negative.

(See pages 92 - 101; 164 - 183; 364 - 366 stenographic record)

After this action was taken, there was some further discussion (20) of the history and purpose of the Board's earlier rulings regarding finance paper and the need for the original ruling providing that the proceeds must have been used for an eligible purpose in the first instance. Further reference was also made to the fact that if this restriction regarding the first use of the proceeds is to be waived in individual cases, it might logically be necessary to admit the eligibility of the notes of the ever-increasing number of finance companies.

Whereupon, upon motion of Governor Norris, it was VOTED to reconsider the action of the conference on Governor Fancher's resolution (see paragraph 19).

(See pages 183 - 207; 237 - 238. stenographic record.)

Thereupon, after further consideration, upon motion of Governor Seay, it was (21)

VOTED that the conference recommend to the Federal Reserve Board that the Board's ruling of December 30, 1925 (X-4484) be abrogated and that in lieu thereof the Board rule substantially as follows:

Where the borrower is a parent corporation having a number of subsidiaries and the parent corporation and its subsidiaries are in practical effect one single organization and may with propriety be considered a single borrower, the paper of such parent corporation, the proceeds of which have been used or are to be used by the parent corporation or by the subsidiary corporations for an industrial, commercial or agricultural purpose, within the meaning of the Federal Reserve Act and the Board's regulations, may be considered eligible for rediscount if it complies in all other respects with the provisions of the law and the regulations of the Federal Reserve Board. (4)

(See pages 238 - 245 stenographic record.)

Topic II. C. Desirability of having Federal reserve banks and direct sending member banks (where the volume warrants) list in separate cash letters items which are payable in each state served by Federal reserve bank or branch to which same are forwarded. (22) 8

In discussing this topic, it was pointed out that most of the Federal reserve banks now list in separate cash letters, items

which are payable in each state served by the Federal reserve bank or branch to which such items are forwarded. While it was suggested informally that all Federal reserve banks should list such items in separate cash letters, where the volume warrants it, nevertheless no formal action was asked for.

(See pages 247 - 250 stenographic record.)

Topic III. A. Gold holdings and payments.

(23)

Mr. Harrison reviewed briefly the amount of gold coin and gold certificates now held by each Federal reserve bank, calling attention to the improvement in the percentage of such gold to Federal reserve bank liabilities during the past few years. It was indicated, however, that while the average for the System as a whole has increased, a few individual Federal reserve banks still have an abnormally low percentage of their reserve in the form of payable gold.

Mr. Harrison also called attention to the recent action of the Treasury Department in removing the bar charge on fine gold bars of standard size, and suggested that in view of this action, some of the Federal reserve banks might care to consider increasing the amount of bullion held in their own vaults.

(24)

(See pages 250 - 258 stenographic record.)

Topic III. B. Treasury Currency Committee Report of progress.

(25)

This topic was passed because of the understanding that the Treasury Department expects shortly to submit to each Federal reserve bank a written report of the progress which has been made by the Treasury Currency Committee now studying various currency problems.

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

Second Day's Session, Tuesday, November 9Afternoon.

The meeting was called to order at 2:20 o'clock p. m.

Topic II. A. Report of Standing Committee on Collections.
(Printed on pages 259 - 270 stenographic record)

(26)

Mr. Strater read to the conference that part of the report of the Standing Committee on Collections which relates to the revision of the Time Schedule, and summarized those sections of the report relating to the revision of the form of Treasury warrants so as to facilitate their handling by Federal reserve banks, and the numbers and symbols on checks so as to indicate the Federal reserve bank or branch territory in which the drawee banks are located.

After careful consideration of the comments of the Standing Committee on Collections concerning revision of the Time Schedule, particularly in its relation to split states and the extensive two-day points now on the schedules of the Federal Reserve Banks of Boston, New York and Philadelphia, upon motion of Governor Seay, it was

VOTED to request the Standing Committee on Collections to continue its studies of the collection problem, having in mind particularly whether a Federal reserve bank may not shorten the actual transit time by sending direct to member banks located in other districts, under arrangements with the Federal reserve banks of these districts, and also to study the whole question of the collection of cash items and to report back to the conference what, if any, modifications or improvements might be made either by ruling or an amendment to the law, in order to effect a better and more scientific collection system.

It was understood in taking this action that the Standing Committee on Collections might call upon representatives of any Federal reserve bank, if they care to do so, in order to aid or assist them in their studies or the preparation of their report.

(See pages 258 - 313 stenographic record.)

Topic II. B. Discussion of recent ruling of the Federal Reserve Board relative to the handling of non-cash collection items payable at street addresses. (See Board letter X-4677, dated September 24, 1926.)

(27)

The conference discussed at some length the recent ruling of the Federal Reserve Board relative to the handling of non-cash collection items payable at street addresses, with particular reference to its effect upon uniformity of procedure in the matter of handling collections.

After voting it to be the sense of the conference that uniformity of policy and procedure in the matter of handling non-cash collection items is essential to the banking and business interests of the country, it was unanimously

VOTED to appoint a committee of three Governors to prepare a resolution conveying to the Federal Reserve Board the views of the conference regarding this question, it being understood that the committee would submit its draft of resolution to the conference for its approval.

Accordingly, the chairman appointed Governors Norris, Calkins and Seay as members of this committee, which later prepared the following report (printed on pages 387 - 392 stenographic record) which was read to the conference:

(28)

"Section 13 of the Federal Reserve Act, as amended in 1917, authorizes Federal reserve banks to receive maturing notes and bills for collection. This authority is permissive and not mandatory. Conceivably, therefore, a Federal reserve bank could technically refuse to

receive such items for collection just as they might conceivably decline to exercise any other permissive power conferred by the law.

But ever since the inauguration of the collection function, it has been the policy of the Federal Reserve System to have the several Federal reserve banks offer their members uniform services and uniform privileges. It has been and still is the belief of the Governors Conference that member banks in one district are entitled to the same fundamental services as are accorded to member banks in other districts. The conference believes that great harm might result to the System as a whole if the banks and the public in one district are denied a service which is afforded to banks and the public in other districts.

Indeed the Federal Reserve Board has by Regulation J provided for the universal and uniform collection of cash items and in its letter of July 25, 1917, (X-298), it directed all Federal reserve banks to establish a service for the collection of non-cash items for their member banks. Since inaugurating each of these collection services, it has been the consistent aim of the Federal reserve banks to maintain as far as possible uniformity of service for all member banks in all sections of the country, even in matters of relatively insignificant detail. The Governors Conference has a standing committee on collections to which various matters of procedure are referred from time to time, chiefly with the purpose of promoting uniformity.

The conference believes, therefore, that uniformity in the character of the services and functions offered member banks is not only right in principle, but essential in practice, if the Federal reserve banks and the Federal Reserve Board are to avoid serious and possibly dangerous criticism. If a small minority of the Federal reserve banks in exercising the option suggested in the Board's letter of September 24, 1926, (X-4677), refuse to handle items payable at street addresses, it means not only that those items will not be received from their own member banks, but also that no other Federal reserve bank can receive from its members any items payable at street addresses in the districts which refuse to handle those items. The resulting discrimination against a certain class of items in a few districts and the difficulty of prescribing different rules for different cities and districts, will, the conference believes, result in such disorder in the collection function that it will likely subject the System to wholly unnecessary but justified attack.

That being so, it becomes important in the opinion of the conference to determine whether all Federal reserve banks should continue as at present to receive non-cash items payable at street addresses, or whether no Federal reserve banks should receive such items for collection.

In the fall of 1923 this whole question was referred by the Federal Reserve Board to the Governors for their review and recommendations. A committee of Governors, known as the Committee on Voluntary Services, was appointed by the Board. That committee prepared and with the approval of the Governors Conference filed a report with the Federal Reserve Board in March, 1924, in which it was recommended in substance as follows:

- (A) That the non-cash collection service be continued, not only for items payable at banks, but for items payable at street addresses as well.
- (B) That no service charge be made for collecting any class of non-cash items.
- (C) That each Reserve Bank and branch endeavor, so far as possible, to effect its local collections in that manner most consistent with established business and banking practices, with a view to eliminating any unnecessary causes of possible friction and discontent on the part of those business houses with whom the Reserve Banks necessarily come in contact in making presentation of items, for payment.
- (D) That each Reserve Bank and branch continue, as in the past, vigorously to promote further economy and efficiency in the operation of its collection service, giving due consideration to the encouragement for more direct sendings by member banks, as well as to other practices designed to eliminate extra or costly handlings.

This report was approved by all of the Federal Reserve Banks, except those of Minneapolis, Kansas City and Atlanta.

At each conference of Governors since that time, the matter has been reviewed and the recommendations of the committee set forth above ratified and the Federal Reserve Board urged finally to pass upon the matter. On each of these occasions, nine Governors voted in favor of continuing the non-cash collection service as at present, including items payable at street addresses, while three Governors voted in opposition to doing so.

All of the various arguments for and against the continuance of this service have therefore been considered at numerous times by the Governors and presented in detail from time to time in written reports to the Federal Reserve Board. There seems no need further to review those arguments at this time.

Unfortunately, however, upon consideration of the Board's letter of September 24, 1926, which suggests that each Federal Reserve Bank exercise its own option to collect items payable at street addresses, three Federal Reserve Banks are in favor of discontinuing the collecting of these particular items, while the remaining nine banks are in favor of continuing handling them for all of the reasons which have been fully set forth in the previous reports to the Federal Reserve Board.

In these circumstances, it is the sense of the Conference that in order to preserve that uniformity which is believed to be so essential to the best interests of the Federal Reserve System, its member banks and the public, the Federal Reserve Board should reconsider its letter of September 24, 1926, and determine whether, from the point of view of the Federal Reserve System as a whole, all Federal Reserve Banks shall or whether all Federal Reserve Banks shall not continue to handle for collection items which are payable at street addresses."

Upon motion of Mr. Case, it was duly

VOTED that this report be adopted as the report of the conference and submitted to the Federal Reserve Board as representing the views of the Governors.

Governors Bailey, Wellborn and Young voted no.

(See pages 313 - 364; 375; 386 - 393 stenographic record.)

Topic IV. A. Relations with Foreign Banks.

(29)

Mr. Harrison submitted to the conference a report of the foreign transactions in which all other Federal reserve banks participate, and in connection with that report a brief review of foreign conditions. Mr. Harrison then referred to the number and detail of the schedules and reports now submitted by the Federal Reserve Bank of New York to all Federal reserve banks participating in foreign transactions and suggested certain eliminations and changes in these statements to which the conference informally agreed.

(See pages 366 - 371 stenographic record.)

Topic IV. A. Relations with Foreign Banks.

(30)

2. Taxes on income earned from bills purchased for the account of foreign banks.

Mr. Harrison reported the status of the present Revenue Act concerning the taxability of discount earned on bankers acceptances purchased by foreign corporations.

After consideration of the inequitable effect of the present law in its relation to foreign corporations making investments in this market, upon motion of Governor Fancher, it was

VOTED to be the sense of the conference that the Federal Reserve Board should be urged to take appropriate steps to procure an amendment to the law so as to exempt from taxation discount earned on bankers acceptances purchased by foreign corporations, just as interest

earned by foreign corporations on deposits in American banks is now exempt.

(See pages 371 - 373 stenographic record.)

At 5:35 o'clock p. m. the conference adjourned to reconvene again at 10:00 o'clock a. m. on Wednesday, November 10, 1926.

Third Day's Session, Wednesday, November 10

Morning

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

Topic IV. B. Revision of Treasury Department Circular No. 92, issued April 17, 1919.

(31)

Upon motion of Mr. Case, it was

VOTED that Governor Norris be appointed a committee of one to discuss with the Treasury Department the propriety of revising and simplifying Treasury Department Circular No. 92, issued April 17, 1919.

(See pages 375 - 379 stenographic record.)

Topic IV. C. As between Federal reserve banks, should the statute of limitation be set up to escape liability on forged endorsements?

(32)

After discussing the time limit fixed under the statute of limitation in various states for outlawing claims resulting from forged endorsements, this topic was passed without action.

(See pages 379 - 385 stenographic record.)

Topic IV. E. Safe-keeping of Securities.

(33)

1. Should a Federal reserve bank perform safe-keeping functions?
2. Should these functions be confined to securities belonging to member banks?
3. Should the function permit member banks to leave for safe-keeping with a Federal reserve bank, securities that belong to their customers?

4. Should a Federal reserve bank act as custodian for public officials for bonds that are actually owned by member banks but pledged with public officials as collateral for public funds?
5. Should a charge be made for any or all of these functions?

The various questions raised under this topic were discussed in detail off the record and without any formal action.

(See page 385 stenographic record.)

Topic IV. H. Report of Sub-Committee of General Committee on Bankers Acceptances. (34)

The secretary read to the conference the report of the Sub-Committee of General Committee on Bankers Acceptances and after consideration, upon motion of Governor Young, it was

VOTED to renew to the Federal Reserve Board the recommendations of the March 1926 Governors Conference to the effect that the report submitted at that conference be approved and that the Federal Reserve Board be requested to adopt the recommendations contained therein.

(See pages 393 - 394 stenographic record.)

Topic IV. I. Report of Leased Wire Committee (35)

Governor McDougal stated that there had been no changes in the leased wire arrangements which would require any report to the conference.

In connection with the consideration of the matter of leased wires, upon motion of Governor Calkins, it was (36)

VOTED that all Federal reserve banks should affix test words to wires advising credit for direct routed collections just as tests are now provided for wire transfers. (5)

(See pages 395 - 396 stenographic record.)

Topic IV. J. Report of Insurance Committee.

(37)

The report was accepted and ordered filed.

(See pages 396 - 397 stenographic record.)

Topic IV. K. Report of Pension Committee.

(38)

Upon motion of Governor Seay, it was

VOTED to approve the report of the committee with the understanding that the action recommended therein should be taken in so far as it is practicable.

(See pages 397 - 401 stenographic record)

Open Market Investment Committee.

(39)

(See also paragraph 2.)

Governor McDougal read to the conference the Federal Reserve Board's letter dated November 10, 1926, addressed to Mr. Case, approving the report of the committee and suggesting that the committee will confer further with the Federal Reserve Board if and when it becomes desirable to make any such increase in the account, as the report stated may become desirable.

(See pages 401 - 402 stenographic record.)

Code Books.

(40)

Upon motion of Governor Young, it was

VOTED that the question whether or not new code books should be printed and, if so, where, was referred to the Leased Wire Committee with power.

(See pages 402 - 403 stenographic record.)

Should not Federal reserve banks be reimbursed by Federal Land Banks for expense involved in paying Federal Farm Loan coupons?

(41)

Governor Norris, to whom this matter had been referred by the March 1926 conference, made a report of his interviews with representatives of the Farm Loan Board concerning this subject. In view

of the difficulties involved, the topic was passed without action, although it was the feeling of some of the Governors that, in principle, the Federal reserve banks should be paid for the services rendered in handling these coupons.

Upon motion of Governor Fancher, it was

VOTED that each Governor should come to the next conference prepared to give a new estimate of the expense involved in handling Farm Loan coupons.

(See pages 403 - 413 stenographic record.)

Mail Robberies.

(42)

At the request of the Federal Reserve Board, the secretary read to the conference the correspondence between Postmaster General New and the Federal Reserve Board (printed on pages 414 - 421 stenographic record) on the subject of mail robberies.

(See pages 414 - 422 stenographic record.)

Eligibility of directors of Mutual Savings Banks to serve as Class B and Class C directors of Federal Reserve Banks.

(43)

Upon motion of Governor Norris, it was

VOTED that the Governors Conference request the Federal Reserve Board to use its influence at the first available opportunity to procure an amendment to Section IV of the Federal Reserve Act defining the qualifications of directors of Class B and Class C, by adding to each clause the words "other than a purely mutual savings bank."

(See pages 423 - 426 stenographic record.)

Recommendation of the Federal Advisory Council at its meeting on September 17, 1926, concerning uniform practice of Federal reserve banks in requiring statements of parent and subsidiary corporations.

(44)

There was a discussion of the present practice of the several

Federal reserve banks in requiring these statements to be filed with member banks as required by the regulations of the Federal Reserve Board. No action was taken.

(See pages 426 - 434: stenographic record.)

At 1:15 o'clock p. m. the conference adjourned to reconvene at 2:30 o'clock p. m. in Joint Conference with the Federal Reserve Board and Federal Reserve Agents.

George L. Harrison,
Secretary.

