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CONFIDENTIAL

Secretary's Minutes

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

May 9 to 12, 1927

Washington, D. C.

INDEX TO SECRETARY'S MINUTES  
GOVERNORS CONFERENCE  
MAY 9 - 12, 1927

	Paragraph in Secretary's Minutes
Advisory Committee of Governors on Legislative Matters - - - - -	38
Agencies of F. R. Banks - - - - -	35
Air Mail Service - - - - -	36
Allotment of Treasury notes and certificates, Possible improvement in method of - - - - -	27
Amendments to F. R. Act Desirability of amending Section 13 relating to discount of de- mand and sight drafts - - - - -	19, 24
Availability, Removal from Par List of nonmember banks because of inability to furnish exchange immediately - - - - -	9
Automobile registration and drivers license checks, Possible re- duction in number handled by F. R. Banks - - - - -	8
"Balances due to banks," Deduction of non-cash items from - - - -	40
Bankers Acceptances, Report of Sub-Committee of General Committee on - - - - -	18
Borrowers, Report of number of continuous - - - - -	21
Branch banking, Effects of McFadden bill on - - - - -	33
Checks and Collections:	
Air mail service for collection items - - - - -	36
Checks handled account of automobile registrations and drivers licenses - - - - -	8
Deduction of non-cash items from "Balances due to banks" - - - -	40
Member bank stamping on cashier's checks "not payable through F. R. Bank" - - - - -	1, 2, 4
Report of Standing Committee on Collections - - - - -	5
Routing checks on nonmember banks in same city where such items are desired by member bank, Should not member banks be given preference in - - - - -	7
Should F. R. Banks send checks to nonmember banks when there is member bank in same place - - - - -	7
Committees:	
Advisory Committee of Governors on Legislative Matters - - - - -	38
Insurance Committee - - - - -	17
Leased Wire Committee - - - - -	16
Open Market Investment Committee - - - - -	31, 45



	Paragraph in Secretary's Minutes
Committees:	
Pension Committee - - - - -	6
Safekeeping Committee - - - - -	37
Standing Committee on Collections - - - - -	5
Treasury Currency Committee - - - - -	15
Continuous borrowers, Report of number of - - - - -	21
Coupons, Should not F. R. Banks be reimbursed for expense involved in paying Federal Farm Loan coupons - - - - -	23
Cuban Agency of F. R. Bank - - - - -	35
Currency program, Future - - - - -	28
Deduction of non-cash items from "Balances due to banks" - - - - -	40
Discount of certain demand and sight drafts, Desirability of amend- ing Section 13 relating to - - - - -	19, 24
Earmarked gold, Recent purchase of gold to be held under earmark abroad - - - - -	32
Eligibility of notes held by member bank bearing endorsement of officers of nonmember banks - - - - -	22
Federal Farm Loan coupons, Should not F. R. Banks be reimbursed for expense involved in paying - - - - -	23
Federal Reserve Act, Desirability of amending Section 13 - - - - -	19, 24
First National Bank of Hartford, Ala. stamping on cashier's checks "Not payable through F. R. Bank of Atlanta" - - - - -	1, 2, 4
Fiscal Agency Operations:	
Improvement in method of allotting Treasury notes and certifi- cates - - - - -	27
Fiscal program of Treasury - - - - -	26
Foreign Relations:	
Gold standard abroad, Progress of - - - - -	44
Purchase of gold abroad - - - - -	32
Report of foreign accounts - - - - -	44
Gold holdings and payments - - - - -	20
Gold purchased under earmark to be held abroad - - - - -	32
Gold standard abroad, Discussion of progress of - - - - -	44
Insurance Committee, Report of - - - - -	17

	Paragraph in Secretary's Minutes
Leased Wire Committee, Report of - - - - -	16
Legislation:	
McFadden Bill (H. R. 2) - - - - -	29, 33, 34, 39
Report of Advisory Committee of Governors on Legislative Matters	38
Strong Stabilization Bill (H. R. 7895) - - - - -	41
McFadden Bill (H. R. 2) - - - - -	29, 33, 34, 39
Member bank stamping on cashier's check "not payable through F. R. Bank" - - - - -	1, 2, 4
National bank currency, Retirement of - - - - -	28
Non-cash collections:	
Deduction of non-cash items from "Balances due to banks" - - - -	40
Resolution of Governors Conference on non-cash collections - - -	10, 12, 42, 43
Ruling of F. R. Board as to optional charges for handling non- cash collections - - - - -	10, 12, 42, 43
Notes held by member bank bearing endorsement of officers of non- member banks, Eligibility of - - - - -	22
Open Market Operations:	
Report of Open Market Investment Committee - - - - -	31, 45
Par Clearance Case of State Bank of Hugo, Minn. - - - - -	11, 25
Par List, Removal of nonmember banks from, because of inability to furnish exchange immediately available - - - - -	9
Penalties, Regulation relative to method of computing member bank reserves for - - - - -	29, 30
Pension Committee, Report of - - - - -	6
Purchase of Gold abroad - - - - -	32
Rediscount of notes held by member bank bearing endorsement of officers of nonmember banks, Eligibility for - - - - -	22
Regulations of F. R. Board, Revision of - - - - -	29, 30, 34, 39
Relations with foreign banks - - - - -	44
Reports:	
Advisory Committee of Governors on Legislative Matters - - - - -	38
Foreign Accounts - - - - -	44
Insurance Committee - - - - -	17
Leased Wire Committee - - - - -	16
Open Market Investment Committee - - - - -	31, 45
Pension Committee - - - - -	6



	Paragraph in Secretary's Minutes
Reports:	
Safeguarding Committee - - - - -	37
Standing Committee on Collections - - - - -	5
Treasury Currency Committee - - - - -	15
Reserves:	
Deduction of non-cash items in transit from "balances due to banks" for purpose of determining reserve requirements - - - - -	40
Regulation relative to method of computing member bank reserves for penalties - - - - -	29, 30
Reserves against Time Deposits - - - - -	29, 34, 39
Revision of Treasury Department Circular No. 92 - - - - -	14, 27
Safeguarding Committee, Report of - - - - -	37
Section 13 of F. R. Act, Desirability of amending - - - - -	19, 24
Standing Committee on Collections, Report of - - - - -	5
State banks converting into national banks in view of terms of McFadden bill, Prospects of - - - - -	33
Strong Stabilization Bill (H. R. 7895) - - - - -	41
Sub-Committee of General Committee on Bankers Acceptances - - - - -	18
Time deposits, Reserves against - - - - -	29, 34, 39
Time Schedules:	
Effect of Air Mail Service on Time Schedule - - - - -	36
Revision of Time Schedule - - - - -	5
Trade Acceptances, Possible effect of decision of Supreme Court of Texas in rendering non-negotiable certain - - - - -	3, 13
Treasury Circular No. 92, Revision of - - - - -	14, 27
Treasury Currency Committee, Report of - - - - -	15
Treasury notes and certificates, Improvement in method of allotting	27
Treasury's fiscal program - - - - -	26

PROGRAM  
GOVERNORS CONFERENCE

May 9, 1927

Washington, D. C.

I. CREDIT TRANSACTIONS AND POLICIES

A. Open Market Operations.

1. Report of Open Market Investment Committee.
2. Policy.
3. Discussion of effect upon money market of the foreign accounts handled for the System.

Minneapolis

B. Discount Rates and Policies.

C. Relations with Foreign Banks.

1. Report
2. Monetary situation abroad, as observed last year and this year in
  - (a) France
  - (b) Italy
  - (c) Poland
3. Discussion of progress towards restoration of gold standard abroad and present development of intermediate stage of gold exchange standard and its relation to the Federal Reserve System and its policy, including report on foreign balances in this country.
4. Taxes on income earned from bills purchased for account of foreign banks.

New York

New York

New York

D. Continuous Borrowers.

Report to be submitted by each Federal reserve bank showing number of borrowing banks in each district with particular reference to 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. (See paragraph 5 of Secretary's Minutes of November 1926 Governors Conference.)

- E. Should notes held by a member bank bearing endorsement of officers of nonmember banks be considered eligible for rediscount at F. R. Banks? (See Board letter X-4813 dated March 22, 1927.)

F. R. Board

- F. Strong Stabilization Bill. (H. R. 7895)

New York

- G. Desirability of amending that part of Section 13 relating to discount of demand and sight drafts secured by shipping documents covering domestic shipment of agricultural products so it will include all staple non-perishable commodities, such for example as flour, bran, cottonseed meal, etc., as well as reimbursement drafts for the proceeds of other bills carrying shipping documents.

Dallas



- H. The possible effect of decision of Supreme Court of Texas in rendering trade acceptances non-negotiable where they contain the clause: "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

This decision was rendered in the case styled Lane Co. vs. Crum et al, in the following opinion: "For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument. No obligation arising from a collateral transaction can be imported into the terms of the instrument without destroying the negotiability of the instrument."

Dallas

## II. COLLECTIONS AND CLEARINGS.

- A. Report of Standing Committee on Collections.

- B. Non-Cash Collections.

1. Discussion of ruling of F. R. Board as to optional charges for handling non-cash collection items, and situation arising from the Minneapolis method of handling non-cash collection items.
2. Resolution of Governors Conference submitted to F. R. Board on the question of non-cash collections. (See paragraph 28 of Secretary's Minutes of November 1926 Governors Conference.)

F. R. Board  
Richmond  
Cleveland  
San Francisco

- C. Discussion of ruling of F. R. Board providing that where nonmember banks desire to receive their own items from F. R. Banks and agree to remit at par in satisfactory exchange, it is incumbent upon F. R. Banks to so route the items.

1. Should not member banks be given preference in routing checks on nonmember banks in the same town or city where such items are desired by member banks?
2. Should F. R. Banks send checks to nonmember banks when there is a member bank in the same place?

Dallas

Boston

- D. If F. R. Banks send checks to nonmember banks, should those banks be required to file copies of examiner's reports or deposit securities in sufficient amount to protect remittances?

Boston

- E. Possible reductions in number of checks handled by F. R. Banks account of automobile registrations and drivers' licenses.

Philadelphia

- F. Removal from Par List of nonmember banks because of inability or unwillingness to furnish exchange immediately available.

Minneapolis

### III. COIN, CURRENCY AND CIRCULATION.

- A. Gold Holdings and Payments. New York
- B. Treasury Currency Committee.  
Report of Progress. Treasury
- C. Future Currency Program.  
Has the time approached to consider in anticipation  
some program as to the two per cent Consols now  
held to secure national bank note circulation? New York

### IV. OPERATION AND ADMINISTRATION.

- A. Proposed Revision of F. R. Board Regulations.  
(See Board letter X-4804 dated March 4, 1927.) F. R. Board
- B. Revision of Treasury Department Circular No. 92,  
issued April 17, 1919. (Report to be submitted  
by Governor Norris.)
- C. Regulation relating to method of computing member  
bank reserves for penalties. New York
- D. McFadden Bill. (H. R. 2)
1. Effects of McFadden bill on branch banking in  
the different districts. (Each district is  
asked to submit a report.) New York
  2. Prospects of State banks converting into  
national banks in view of terms of McFadden  
bill. (Each district is asked to submit a  
report.) Minneapolis
  3. Are there any other questions requiring dis-  
cussion which are raised by enactment of  
McFadden bill? New York
- E. Agencies of Federal Reserve Banks. New York
1. Cuban Agency.
  2. Possibility of establishment of other agencies.
- F. Should not F. R. Banks be reimbursed by Federal Land  
Banks for expense involved in paying Federal Farm  
Loan coupons?  
At the last conference it was voted that each  
Governor submit a new estimate of expense involved  
in handling these coupons. (See paragraph 41 of  
Secretary's Minutes of November 1926 Governors  
Conference.)
- G. Air Mail Service. Boston
1. To what extent is it being used or should be used  
by F. R. Banks?
  2. Its effect on Time Schedules?
- H. Pension Bill. New York
1. Report of Pension Committee.
  2. Discussion of plans for again taking up Pension  
Bill.



I. Report of Leased Wire Committee.

J. Report of Insurance Committee.

K. Report of Committee on Safekeeping.

L. Report of Advisory Committee of Governors on Legislative Matters.

V. FISCAL AGENCY.

A. Possible improvements in method of allotting Treasury Notes or Certificates. (With particular reference to desirability of reasonably firm district quotas.)

Philadelphia.

VI. SUPPLEMENTARY TOPICS

- A. Member bank stamping on cashier's check "not payable through Federal Reserve Bank."
- B. Par Clearance Case of the State Bank of Hugo, Minn.
- C. Report of Sub-Committee of General Committee on Bankers Acceptances.
- D. Purchase of gold abroad.
- E. Deduction of non-cash items from "balances due to banks."
- F. Reserves against time deposits.



GOVERNORS CONFERENCE

May 9 - 12, 1927.

Washington, D. C.

First Day's Session, Monday, May 9.

Morning

The meeting was called to order at 10:20 o'clock a. m.

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

SUPPLEMENTARY Member bank stamping on cashier's check "not  
TOPIC VI. A. payable through Federal reserve bank." (1)  
(See also paragraphs 2 and 4)

At the request of Governor Crissinger, Mr. Newton D. Baker made a statement to the Conference of his views concerning the legality of the action of the First National Bank of Hartford, Ala., in stamping on its cashier's checks the phrase "not payable through the Federal Reserve Bank of Atlanta," and outlined his tentative opinion as to the possible steps to be taken at the present time:

- (1) To amend the regulations of the Federal Reserve Board so as to prohibit the use of such a legend on a member bank's check or a depositor's check;
- (2) To have the Federal Reserve Board request the Comptroller of the Currency to bring to the attention of member bank directors any violation of such regulation and penalties for such violation;
- (3) To have the Federal reserve bank charge to the reserve account of the member bank any such checks, whether cashier's checks or

depositor's checks, if returned unpaid;

(4) Any such checks returned by a member bank to the Federal reserve bank to be held by the Federal Reserve Bank of Atlanta, with notice to the member bank that its account has been charged.

After general discussion of the suggestions of Mr. Baker, the joint conference adjourned at 12 o'clock, and the separate Governors Conference convened.

(See pages 3 - 70 stenographic record)

SUPPLEMENTARY Member bank stamping on cashier's check "not  
TOPIC VI. A. payable through Federal reserve bank." (2)  
 (See also paragraphs 1 and 4)

The Conference discussed the points raised in Mr. Baker's discussion of the legend stamped on certain checks payable at the First National Bank of Hartford, Ala., and without formal action it was generally agreed (1) that Mr. Baker should be requested to consult with the Federal Reserve Bank of Atlanta to see whether it would be feasible to have the matter settled amicably before taking the action proposed by Mr. Baker; (2) that if it should be decided not to attempt to negotiate the difficulties, then the Conference favors the procedure proposed by Mr. Baker and suggests that he should send to each of the Federal reserve banks a written outline of that procedure so that they may be guided accordingly; (3) that each Federal reserve bank should be provided with copies of the suggested amendments to Regulation J and bank circulars in order to give them an opportunity to consider the proposed changes; (4) that each Federal reserve bank should give instructions to its transit department to be on the lookout for such checks; and (5) that consideration should be given to the possible effect of a change in the regulations on other banks not now using this legend.

(See pages 70 - 82 stenographic record)



At 12:30 o'clock the conference adjourned in order to permit the members of the Open Market Investment Committee to hold a meeting.

First Day's Session, Monday, May 9.

Afternoon

The meeting was called to order at 3:15 o'clock.

Topic I. H. The possible effect of decision of Supreme Court of Texas in rendering trade acceptances non-negotiable where they contain the clause "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase." This decision was rendered in the case styled Lane Co. vs. Crum et al, in the following opinion: "For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument. No obligation arising from a collateral transaction can be imported into the terms of the instrument without destroying the negotiability of the instrument."

(3)

(See also paragraph 13)

Various suggestions relative to the amendment of the legend now used on trade acceptances were discussed. (See also paragraph 13)

(See pages 83 - 87 stenographic record)

SUPPLEMENTARY Member bank stamping on cashier's check "not payable through Federal reserve bank."

(4)

(See also paragraphs 1 and 2)

At this point Mr. Baker returned to the meeting and Governor Strong reported to him the points and suggestions which had been raised informally by the Conference (see paragraph 2). During the course of the discussion, Mr. Baker suggested that he and Mr. Wyatt believed it advisable to request Mr. Parker, Counsel of the Federal Reserve Bank of Atlanta, to come to Washington to talk over the situation with them and to decide whether efforts at conciliation would be worth while. In the meantime, it was understood that each Governor would instruct the

transit department of his bank to watch out for checks bearing the legend in question, to handle them in the usual course, and to forward them to the Federal Reserve Bank of Atlanta for collection as usual, and that the Federal Reserve Bank of Atlanta should then handle these checks as agreed upon, that is, forward them to the member bank for collection, and if returned unpaid, charge them to the account of the member bank under advice to the member bank.

(See pages 87 - 106 stenographic record)

At 4:15 o'clock p. m. the Conference adjourned in order to permit the Open Market Investment Committee to meet with the Federal Reserve Board.

Second Day's Session, Tuesday, May 10.

Morning

The meeting was called to order at 9:30 o'clock a. m.

Topic II, A. Report of Standing Committee on Collections. (5)  
(Printed pages 107 - 114 stenographic record)

Mr. Strater read the report of the Standing Committee on Collections.

Upon motion of Governor Seay, it was

VOTED that the report be received and committed to the study of the various Federal reserve banks with the request that each Federal reserve bank submit its views or comments concerning the proposed Time Schedules to the Standing Committee on Collections before the fall Conference of Governors. Mr. Strater was requested to write to each Federal reserve bank describing the nature or extent of the comments which he would like to receive from the various Federal reserve banks.

(See pages 107 - 131 stenographic record)



Topic IV. H. Report of the Pension Committee.

(6)

(Printed with exhibits pages 132 - 171  
stenographic record)

Mr. Kenzel distributed and then summarized the report of the Pension Committee. After discussion of various aspects of the report, upon motion of Governor Calkins, it was

VOTED to adopt the report together with its recommendations, including the appropriation of \$10,000 for further actuarial studies.

(See pages 131 - 190 stenographic record)

Topic II. C. Discussion of ruling of F. R. Board providing that where nonmember banks desire to receive their own items from F. R. Banks and agree to remit at par in satisfactory exchange, it is incumbent upon F. R. Banks to so route the items.

(7)

1. Should not member banks be given preference in routing checks on nonmember banks in the same town or city where such items are desired by member banks?
2. Should F. R. Banks send checks to nonmember banks when there is a member bank in the same place?

The procedure followed in various districts in handling for collection items drawn upon nonmember banks was briefly discussed. While under the present regulations of the Federal Reserve Board the method of handling items drawn on nonmember banks is not expressly set forth, it appeared to be the opinion of the Conference that such items should be sent direct to the nonmember banks on which drawn if they desire them to be so sent and if they are willing to remit in satisfactory exchange; the decision as to whether or not the exchange is satisfactory being a matter for the determination of the Federal reserve bank.

Upon request of Governors Talley and Harding the topic was passed without action.

(See pages 190 - 205 stenographic record)

Topic II. E. Possible reductions in number of checks handled by F. R. Banks account of automobile registrations and drivers' licenses.

(8)

After discussion this topic was passed without action.

(See pages 205 - 209 stenographic record)

Topic II. F. Removal from Par List of nonmember banks because of inability or unwillingness to furnish exchange immediately available.

(9)

Governor Young referred to the fact that approximately 350 banks in the Minneapolis district do not remit in immediately available exchange and raised the question whether the Federal Reserve Bank of Minneapolis should insist on immediately available exchange, and whether, if such exchange is not provided, such banks should be struck off the Par List. The general opinion seemed to be that satisfactory exchange need not necessarily be immediately available exchange and that insistence on such exchange would result in driving many banks in various districts off the Par List. In the circumstances, Governor Young said that he would let the matter rest at least for the present.

(See pages 209 - 221 stenographic record)

Topic II. B. Non-Cash Collections.

(10)

1. Discussion of ruling of F. R. Board as to optional charges for handling non-cash collection items, and situation arising from the Minneapolis method of handling non-cash collection items.
2. Resolution of Governors Conference submitted to F. R. Board on the question of non-cash collections. (See paragraph 28 of Secretary's Minutes of November 1926 Governors Conference.)

(See also paragraphs 12, 42 and 43)

Governor Fancher reviewed the present status of the non-cash collection system and referred particularly to the development since the Board's ruling of September 1926 which made it optional with each Federal reserve bank as to whether or not they would collect items payable at street addresses. Governor Strong also referred to the many



discussions of this whole subject and called attention to the numerous votes which have been taken by the Governors Conference, usually nine to three, in favor of continuing the non-cash collection service as at present, including all items, even those payable at street addresses, and without any charge. He felt that the Federal Reserve Board should now decide this important question and as requested by the November 1926 Governors Conference apply their ruling to all districts alike in the interest of uniformity.

Governor Young suggested that before any action is taken the collection committee should go to Minneapolis to study their local problems. Certain Governors objected to this procedure unless the present practice in Minneapolis is suspended in the meantime in order to prevent further dissatisfaction and complaint throughout other districts.

(See pages 221 - 257 stenographic record)

At 1:00 o'clock p. m. the conference adjourned to reconvene at 2:30 o'clock p. m.

Second Day's Session, Tuesday, May 10.

Afternoon

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

SUPPLEMENTARY Par Clearance Case of the State Bank of  
TOPIC VI. B. Hugo, Minn.

(11)

(See also paragraph 25)

The Chairman presented to the Conference the resolution passed by the Federal Reserve Board on May 9, recommending the employment of Mr. Newton D. Baker to act as special counsel on behalf of all Federal reserve banks in the par clearance case of the State Bank of Hugo, Minn. vs. the Federal Reserve Bank of Minneapolis.

After consideration by the Conference, it was duly

VOTED that the conference is in favor of having appropriate

steps taken to employ Mr. Baker to act as special counsel in the par clearance case of the State Bank of Hugo vs. the Federal Reserve Bank of Minneapolis.

(See pages 258 - 263 stenographic record)

At 3:00 o'clock p. m. the conference adjourned to go into joint session with the Federal Reserve Board to discuss the subject of Non-Cash Collections (Topic II. B.).

\*\*\*\*\*

At 3:05 o'clock p. m. the conference met in joint session with the Federal Reserve Board.

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

Topic II. B. Non-Cash Collections.

(12)

1. Discussion of ruling of F. R. Board as to optional charges for handling non-cash collection items, and situation arising from the Minneapolis method of handling non-cash collection items.
2. Resolution of Governors Conference submitted to F. R. Board on the question of non-cash collections. (See paragraph 28 of Secretary's Minutes of November 1926 Governors Conference.)

(See also paragraphs 10, 42 and 43)

Upon request of Governor Crissinger, who took the chair, Governor Fancher reviewed the recent correspondence between the Federal Reserve Board and the Federal Reserve Bank of Cleveland on this subject. Governor Strong then summarized the history of the non-cash collection system and presented his objections to the plan of collections now in vogue in the Minneapolis district. There was a general



discussion pro and con and most of the Governors who spoke emphasized the confusion and inconsistency of the present situation and the likely serious effect on the Federal reserve collection system throughout the rest of the country. It seemed to be the sense of the Conference as a whole that the Federal Reserve Board, as previously requested by the Governors Conference, should promptly and finally dispose of the matter by adopting a uniform practice applicable to all districts alike.

(See pages 263 - 337 stenographic record)

At 4:55 o'clock p. m. the joint conference adjourned.

\*\*\*\*\*

The Governors Conference reconvened at 5:00 o'clock p. m., with Governors Strong and Young absent, and with Governor McDougal acting as Chairman.

Topic I. H. The possible effect of decision of Supreme Court of Texas in rendering trade acceptances non-negotiable where they contain the clause: "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

(13)

This decision was rendered in the case styled Lane Co. vs. Crum et al. in the following opinion: "For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument. No obligation arising from a collateral transaction can be imported into the terms of the instrument without destroying the negotiability of the instrument."

(See also paragraph 3)

After discussion, upon motion of Governor Seay, it was VOTED that Mr. Harrison be requested to confer with the counsel of the Federal Reserve Board with a view to determining whether a revision might not be made in the form of clause now stamped

upon trade acceptances so as to avoid the obstacles raised in the decision by the Supreme Court of Texas in the case of Lane Co. vs. Crum et al.

(See pages 337 - 341 stenographic record)

Topic IV. B. Revision of Treasury Department Circular (14)  
No. 92, issued April 17, 1919. (Re-  
port to be submitted by Governor Norris.)  
 (See also paragraph 27).

Governor Norris reported to the Conference the steps which he had taken, as requested by the last Governors Conference, to procure a revision of Treasury Circular No. 92, explaining that the Treasury Department had advised him that they would consider the matter and inform him later of their decision. Mr. Harrison was requested by the Conference to ask Mr. Dewey to discuss this topic with the Governors Conference when he appears to discuss the Treasury's currency program under Topic III. B.

(See page 341 stenographic record)

Topic III. B. Treasury Currency Committee, (15)  
Report of Progress.

Owing to Mr. Dewey's absence from town, this topic was passed without any discussion.

Topic IV. I. Report of Leased Wire Committee, (16)

Governor McDougal referred to the action of the last Governors Conference in asking the Leased Wire Committee to study the question of an additional supply of code books. After communicating with all Federal reserve banks and the Federal Reserve Board, the committee concluded that in view of the available supply of code books now held by the Federal Reserve Board, the question of having an additional supply printed should be deferred for another year. Governor McDougal also reported that there has been no change in the arrangement of the leased wire circuits, that the present facilities



are ample, that the service is satisfactory, and that there are no recommendations to be made by the committee.

Upon motion of Governor Norris, it was

VOTED that the report of the Leased Wire Committee be received and filed.

(See pages 342 - 343 stenographic record)

Topic IV. J. Report of Insurance Committee. (17)

The committee reported that since the last conference there have been no new matters referred to it for consideration. Upon motion of Governor Norris, it was

VOTED that the report be received and filed.

(See pages 343 - 344 stenographic record)

SUPPLEMENTARY Report of Sub-Committee of General Committee (18)  
TOPIC VI. C. on Bankers Acceptances.  
(Printed on pages 344 - 345 of stenographic record)

Upon motion of Governor Fancher, it was

VOTED that the report be received and approved and that a copy be transmitted to the Federal Reserve Board for its information.

(See pages 344 - 345 stenographic record)

Topic I. G. Desirability of amending that part of Section (19)  
13 relating to discount of demand and sight  
drafts secured by shipping documents cover-  
ing domestic shipment of agricultural products  
so it will include all staple non-perishable  
commodities, such for example as flour, bran,  
cottonseed meal, etc., as well as reimburse-  
ment drafts for the proceeds of other bills  
carrying shipping documents.

(See also paragraph 24)

Upon motion of Governor Talley, it was

VOTED that this topic be referred to the Advisory Committee of Governors on Legislative Matters for consideration and recommendation.

(See page 346 stenographic record)

Topic III. A. Gold Holdings and Payments.

(20)

It was understood that Mr. Harrison would forward to each Governor a statement showing the amount of payments and receipts of gold by the several Federal reserve banks as well as a comparison of the present holdings of payable gold by Federal reserve banks.

(See page 347 stenographic record)

At 5:45 o'clock p. m. the Conference adjourned to reconvene at 9:30 o'clock a. m. on Wednesday, May 11.

Third Day's Session, Wednesday, May 11.Morning

The meeting was called to order at 9:30 o'clock a. m.

Topic I. D. Continuous Borrowers.

(21)

Report to be submitted by each Federal reserve bank showing number of borrowing banks in each district with particular reference to 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. (See paragraph 5 of Secretary's Minutes of November 1926 Governors Conference.)

Each Governor reported to the conference the number of borrowing banks in his district with particular reference to the number of banks which have been borrowing for a year or more as well as the average amount of such borrowings.

(See pages 349 - 356 stenographic record)

At this point Governor McDougal took the chair.

Topic I. E. Should notes held by a member bank bearing endorsement of officers of nonmember banks be considered eligible for rediscount at F. R. Banks? (See Board letter X-4813 dated March 22, 1927.)

(22)

Upon motion of Governor Harding, it was

VOTED that in the opinion of the Conference any note offered for rediscount which is endorsed by an officer of a nonmember bank puts



the Federal reserve bank on notice to investigate the facts and if the facts show that the note is not being offered in effect for rediscount for the benefit of the nonmember bank, there is nothing in the endorsement to impair the eligibility of the paper. It was also the sense of the Conference that there is no need for a ruling by the Federal Reserve Board on this subject.

(See pages 356 - 360 stenographic record)

Topic IV. F. Should not F. R. Banks be reimbursed by Federal Land Banks for expense involved in paying Federal Farm Loan coupons?  
At the last Conference it was voted that each Governor submit a new estimate of expense involved in handling these coupons. (See paragraph 41 of Secretary's Minutes of November 1926 Governors Conference.)

(23)

Each Governor reported to the Conference an estimate of the cost involved in paying Federal Farm Loan coupons. Governor Seay moved it to be the sense of the Conference that Federal reserve banks should be reimbursed for the expense involved in paying Federal Farm Loan coupons but no vote was taken upon this resolution. Governor Talley suggested adding the phrase "if and when such reimbursement might be asked by the Federal reserve bank." Governor Seay accepted this suggested amendment provided a further addition should be made to the resolution, that is, "if the amount involved is sufficient to justify the Federal reserve bank asking for it." Governors Seay and Talley pointed out that this resolution would observe the principle involved but leave to each Federal reserve bank to decide whether reimbursement was worth while or not.

After further discussion and consideration of the suggested resolution, upon motion of Governor Calkins, it was

~~VOTED~~ to be the sense of the Conference that in principle a Federal reserve bank should be reimbursed for services performed

for Government agencies other than the Treasury, when the expense involved is sufficient to justify such bank's asking for reimbursement.

(See pages 360 - 369 stenographic record)

Topic I. G. Desirability of amending that part of Section 13 relating to discount of demand and sight drafts secured by shipping documents covering domestic shipment of agricultural products so it will include all staple non-perishable commodities, such for example as flour, bran, cottonseed meal, etc., as well as reimbursement drafts for the proceeds of other bills carrying shipping documents.

(24)

(See also paragraph 19)

Upon further consideration of the earlier action on this topic (see paragraph 19) the suggestion was made that the matter might properly be handled by a ruling of the Federal Reserve Board and upon motion of Governor Harding, it was

VOTED that the Federal Reserve Board be asked to reconsider its previous ruling to the effect that bran, flour, cottonseed meal, etc., are not non-perishable readily marketable staple agricultural products within the meaning of Section 13, it being pointed out that the particular paragraph in question does not contain the limitation "in the raw state" as in the previous paragraph of the law. It was understood that this action does not revoke the action taken Tuesday, May 10, under Topic I. G.

(See pages 369 - 376 stenographic record)

Governor Strong took the chair.

SUPPLEMENTARY Par Clearance Case of the State Bank of  
TOPIC VI. B. Hugo, Minn.

(25)

(See also paragraph 11)

The Chairman read to the Conference a telegram from Mr. Baker accepting the appointment of special counsel in the Par Clearance Case of the State Bank of Hugo, Minn., vs. Federal Reserve Bank of Minneapolis.

(See page 376 stenographic record)



At 10:50 o'clock a. m. Mr. Mills, Undersecretary of the Treasury, joined the meeting and off the record discussed the Treasury's fiscal program.

(26)

Topic V. A. Possible improvements in method of allotting Treasury Notes or Certificates.  
(With particular reference to desirability of reasonably firm district quotas.)

(27)

The Conference discussed with Mr. Mills possible means of allotting certificates in some manner that would avoid unnecessary padding of subscriptions. Without formal action, it was understood that the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Dallas and New York would each designate a representative to serve on a committee subject to the call of Mr. Mills to go to Washington to discuss this topic as well as the revision of Treasury Department Circular No. 92 (see paragraph 14). It was suggested that Mr. Mills would indicate to the committee what data should be prepared in advance of the meeting.

(See pages 377 - 389 stenographic record)

Topic III. C. Future Currency Program.  
Has the time approached to consider in anticipation some program as to the two per cent Consols now held to secure national bank note circulation?

(28)

Governor Strong referred to the possible retirement of national bank currency and all the Governors expressed their views as well as possible reactions of national banks in their districts. It appeared to be the consensus of opinion that the larger national banks would have but little objection to the retirement of national bank notes but that certain of the smaller banks, largely for sentimental reasons, might feel reluctant to abandon the circulation privilege.

(See pages 389 - 395 stenographic record)

At 12:30 o'clock p. m. Mr. Mills left the meeting and the Conference adjourned until 2:30 o'clock p. m. in order that the Open Market Investment Committee might meet in the meantime.

Third Day's Session, Wednesday, May 11.

Afternoon

The meeting was called to order at 2:00 o'clock p. m.

Topic IV. A. Proposed Revision of F. R. Board Regulations. (See Board letter X-4804 dated March 4, 1927.)

(29)

(See also paragraphs 30, 34 and 39)

Upon motion of Governor Fancher, it was

VOTED that the Conference recommend to the Federal Reserve Board that, if agreeable to the Board, a committee representing some Federal reserve banks be asked to assist the counsel of the Board in giving consideration to the suggestions made by the various Federal reserve banks relative to the preliminary redraft of the Board's Regulations prepared by the counsel of the Federal Reserve Board, and to assist the counsel in redrafting the new regulations, with the request that each Federal reserve bank be given an opportunity to examine such redraft before final promulgation. It was understood that any proposed suggestions would be mailed direct to Mr. Harrison so that they could be available for use by the Federal Reserve Board's counsel and the committee, if approved by the Board.

(See pages 396 - 397 stenographic record)

Topic IV. C. Regulation relative to method of computing member bank reserves for penalties.

(30)

(See also paragraph 29)

It was understood that this topic would be referred to the Committee which the conference suggested should be appointed to assist the counsel of the Federal Reserve Board in redrafting new regulations in the light of suggestions received from all the Federal reserve banks.

(See pages 397 - 399 stenographic record)



Topic I. A. Open Market Operations.  
(See also paragraph 45)

(31)

The secretary distributed to the Conference the final draft of the report of the Open Market Investment Committee which was to be taken up with the Federal Reserve Board later on in its meeting with the Open Market Investment Committee. Upon motion, it was unanimously

VOTED that the report of the Open Market Investment Committee be approved.

(See pages 399 - 405; 411 stenographic record)

SUPPLEMENTARY Purchase of Gold Abroad.  
TOPIC VI. D.

(32)

Mr. Harrison discussed the recent purchase of gold by the Federal Reserve Bank of New York to be held under earmark abroad and asked whether the other Federal reserve banks cared to participate with the Federal Reserve Bank of New York. All of the Governors agreed to participate although it was understood that their action was subject to ratification by their respective boards of directors.

(See pages 405 - 411 stenographic record)

Topic IV. D. McFadden Bill. (H. R. 2)

(33)

1. Effects of McFadden bill on branch banking in the different districts. (Each district is asked to submit a report.)
2. Prospects of State banks converting into national banks in view of terms of McFadden bill. (Each district is asked to submit a report.)

Each Governor reported concerning the effects of the McFadden bill on branch banking in his district as well as on the subject of conversion of State banks into national banks. The views expressed indicate that there is not yet any substantial evidence of a tendency on the part of State banks to convert into national banks

and little noticeable effect on branch banking in the various districts except in a few localities.

(See pages 411 - 424 stenographic record)

Topic IV. D. McFadden Bill. (H. R. 2)

(34)

3. Are there any other questions requiring discussion which are raised by enactment of McFadden bill?

(See also paragraphs 29 and 39)

Reserves Against Time Deposits. In consideration of Topic IV. D. 3., which was placed on the program merely as an invitation for suggestions or discussion, Governor Norris and others present urged the need for revision of the Regulations of the Federal Reserve Board on the question of reserves against time deposits. It was the sense of the Conference that the increase in the amount of deposits, which are subject only to the three per cent reserve, is a growing evil and needs early attention. Governor Seay proposed that the special committee, which the Conference suggested should be appointed to study the new Regulations of the Federal Reserve Board, might be requested to take up this question with the Board, but Governor Harding expressed the view that the matter could be handled only by an amendment to the law and indicated that he thinks some maximum limit must be placed on the amount that may be carried as a savings deposit for any one account. (Continued under paragraph 39)

(See pages 425 - 432 stenographic record)

Topic IV. E. Agencies of Federal Reserve Banks.

(35)

1. Cuban Agency.
2. Possibility of establishment of other agencies.

This topic was withdrawn at the request of Governor Strong.

Topic IV. G. Air Mail Service.

(36)

1. To what extent is it being used or should be used by F. R. Banks?
2. Its effect on Time Schedules?

There was a general discussion of the use of the air mail service for collection items. It was the consensus of views that the



air mail service has not yet had sufficient experience to justify general use for this purpose and that the Federal reserve banks should await further reports and recommendations by the Standing Committee on Collections, which, as indicated in its report to the April 1925 Conference, will keep this matter under consideration.

(See pages 433 - 440 stenographic record)

Topic IV. K. Report of Committee on Safekeeping.

(37)

(Printed on pages 440 - 461 stenographic record)

After general discussion of the report of the committee filed with the Federal Reserve Board, it appeared that the recommendations contained in the report are consistent with procedure now generally followed by most Federal reserve banks. Upon motion of Governor McDougal, it was

VOTED that the report be received and approved.

Governor Calkins requested to be recorded as not voting because of the fact that he has not had opportunity to study the report.

(See pages 440 - 466 stenographic record)

Topic IV. L. Report of Advisory Committee of Governors on Legislative Matters.

(38)

Governor Seay reported that there has been no meeting of the Advisory Committee of Governors on Legislative Matters since the last conference because no new matters have been referred to it for consideration and because the Federal Reserve Board had reported to him that they had no special matters to refer to the committee.

(See pages 466 - 467 stenographic record)

SUPPLEMENTARY Reserves against Time Deposits.  
TOPIC VI. F.

(39)

(See also paragraphs 29 and 34)

Upon further consideration of this topic, which was discussed under paragraph 34, upon motion of Governor Harding, it was

VOTED that the Governors of the Federal reserve banks view

with grave concern the weakening of the reserve position of the banks of the country due to the constantly growing tendency to transfer what are in effect demand deposits into so-called time certificates or savings accounts, and respectfully suggest that if the Board finds that it cannot adequately cope with this tendency by regulation, steps should be taken to impress upon the Congress, at its next session, the importance of amending the reserve provisions of the Federal Reserve Act in such manner as to safeguard the banking position of the country.

(See pages 466 - 468 stenographic record)

SUPPLEMENTARY TOPIC VI. E.      Deduction of Non-Cash Items from "Balances Due to Banks."

(40)

Governor Fancher presented to the Conference for consideration the ruling of the Federal Reserve Board contained in its letter of March 24, 1927, (X-4816), which refers to an earlier ruling dated October 27, 1926, (X-4705), on the question of the deduction of non-cash items in transit from "balances due to banks" for the purpose of determining reserve requirements. Upon motion of Governor Fancher, it was

VOTED that the Conference respectfully call to the attention of the Federal Reserve Board the fact that the ruling in its letter of March 24, 1927, (X-4816), in reply to letters from the Federal Reserve Bank of New York dated November 8, 1926, and February 18, 1927, will have the effect, if generally adopted as a practice by member banks, of reducing very considerably the liability in the item "due to banks" upon which the reserve calculation is made, which appears to be unjustifiable because of the fact that the items so deducted need not have been credited to the depositors' accounts under the terms of the Board's ruling.

(See pages 468 - 469 stenographic record)



Topic I. F. Strong Stabilization Bill. (H. R. 7895)

(41)

Governor Strong discussed the objects of H. R. 7895, known as the Strong Stabilization Bill, and indicated that Congressman Strong is under the impression that there was some concerted effort on the part of the Federal reserve banks to oppose his bill. All of those Governors present, who had written to Congressman Strong, stated that they had done so without any exchange of views with any other Governors, and Governor Strong was authorized to so advise Congressman Strong.

(See pages 469 - 473 stenographic record)

Topic II. B. Non-Cash Collections.

(42)

(See also paragraphs 10, 12 and 43)

Governor Seay made a motion that the Conference should reaffirm the resolution adopted at the last Conference of Governors and urge upon the Federal Reserve Board the need for its early action. Before any action was taken, Governor Harding suggested the consideration of separate resolutions on the advisability of uniformity and the need for a prompt ruling one way or another. Upon request of some of the Governors action was postponed until the Conference reconvenes Thursday, May 12.

(See pages 474 - 479 stenographic record)

At 5:00 o'clock p. m. the Conference adjourned to reconvene Thursday morning, May 12, at 9:30 o'clock a. m.

Fourth Day's Session, Thursday, May 12.Morning

The meeting was called to order at 9:45 o'clock a. m.

Topic II. B. Non-Cash Collections.

(43)

(See also paragraphs 10, 12 and 42)

Upon motion of Governor Harding, it was

VOTED that as definite recommendations on the subject of non-cash collections have been made at successive Conferences of Governors for the past three years to the Federal Reserve Board, after full discussion, and as all members of the Conference as well as members of the Federal Reserve Board are fully informed on the subject, there is no further information necessary in order to enable anyone to vote intelligently on this subject.

Nine Governors voted in the affirmative. Governors Young, Bailey and Wellborn voted in the negative.

Upon motion of Governor Harding, it was then

VOTED that the Conference believes that this question should not be held in abeyance any longer, and requests the Federal Reserve Board to make, at an early date, a definite ruling on the subject one way or the other.

Ten Governors voted in the affirmative. Governors Young and Wellborn voted in the negative.

Upon motion of Governor Harding, it was then

VOTED that in the opinion of the Conference it is desirable that any ruling made by the Federal Reserve Board should be uniform with respect to its application at all Federal reserve banks.

Nine Governors voted in the affirmative. Governors Young, Bailey and Wellborn voted in the negative.

Upon motion of Governor Harding, it was then

VOTED that the collection of all non-cash items, including those payable at street addresses, should be continued at all Federal reserve banks.

Nine Governors voted in the affirmative. Governors Young, Bailey and Wellborn voted in the negative.

(See pages 481 - 486 stenographic record)



Topic I. C. Relations with Foreign Banks.

(44)

Mr. Harrison submitted to the Conference off the record a report of the relations with foreign banks and discussed with the Conference the monetary situation abroad and the progress towards restoration of the gold standard.

(See pages 486 - 487 stenographic record)

At 10:30 o'clock a. m. the Conference adjourned in order that the Open Market Investment Committee might meet with the Federal Reserve Board.

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The Conference reconvened at 12:15 o'clock p. m.

Topic I. A. Open Market Operations.

(45)

(See also paragraph 31)

At the request of Governor Strong, Governor Harding reported to the Conference the substance of the meeting of the Open Market Investment Committee with the Federal Reserve Board.

At 1:00 o'clock p. m. the Conference adjourned until 2:30 when the Conference was to reconvene in joint session with the Federal Reserve Board.

George L. Harrison,  
Secretary.

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