SECRETARY'S MINUTES

GOVERNORS CONFERENCE

April 1 to 4, 1929.

Washington, D. C.

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CONFIDENTIAL

PROGRAM

GOVERNORS CONFERENCE

April 1, 1929.

Washington, D. C.

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

April 1 - 4, 1929.

Washington, D. C.

First Day's Session, Monday, April 1.

Morning

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

PRESENT: Governor Calkins, Chairman, and
Governors Harding, Harrison,
Norris, Fancher, Black,
McDougal, Martin, Geery and
Talley.
Deputy Governor Worthington.
Mr. Strater, Secretary.

Honorable R. A. Young, Governor of the Federal Reserve Board, was also present at the opening of the conference and stated that the Board would meet with the Governors at some convenient time to discuss credit conditions and policies. Thereupon the Chairman notified Governor Young that he would be advised when the conference was ready to meet with the Board. (1)

On motion of Governor McDougal, it was (2)

VOTED that the Secretary prepare and send a suitable telegram to Governor Bailey expressing the regrets of the conference at not seeing him present and their best wishes for a prompt recovery.

TOPIC I. A. Open Market Operations. (3)
1. Report of Open Market Investment Committee.
(See paragraph 47)

At the suggestion of Governor Harrison, this topic was passed for later consideration as the Open Market Investment Committee had not had an opportunity to meet prior to the conference.

TOPIC I. A. Open Market Operations. (4)
2. Open Market Committee.
Recommendation of Joint Conference of Governors and Agents of November, 1928 regarding suggested revision of Open Market procedure.

The discussion of this topic brought out the fact that the Federal Reserve Board has not yet acted upon the recommendation of the joint conference of Governors and Agents of November, 1928, and it was

VOTED to be the sense of the conference that it is still in agreement with the recommendations of the Federal Advisory Council, made at its meeting in September, 1928, relative to the enlargement of the Open Market Committee, and that the object of those recommendations might effectively be accomplished by the adoption of the procedure proposed to the conference of Governors in November, 1928, as amended and approved by that conference and the joint conference of Governors and Federal Reserve Agents.

In discussing this subject, the conference further expressed the opinion that it might be helpful and advisable to review the functions of the Open Market Investment Committee, believing the committee can best serve its purpose by continuing a procedure such as that referred to by the Open Market Committee in its report of January 7, 1929, a procedure which the conference has understood to be the procedure followed in the past.

TOPIC I. B. Discount Rates and Open Market Policies. (5)

1. Desirability of establishing a higher rate of discount on member bank collateral notes secured by Government obligations. (See Board letter dated March 12, 1929.)
2. Furnishing funds for intermediate credit banks.
3. Report of the committee appointed at the November, 1928 conference to study Federal reserve credit operations, including effectiveness of discount rate changes and open market operations in controlling total volume of Federal reserve credit.

At the suggestion of Governor McDougal, these topics were passed for later consideration.

TOPIC I. C. Broadening Bill Market. (6)

1. Experience and progress of each F. R. Bank in distribution of bills in its district.

A general discussion participated in by all of the Governors present brought out the fact that although more or less successful attempts had been made in several of the districts to bring about a broader distribution of bills, in most of the districts the attempts have been discouraging. A broad survey of the experience of the last ten or twelve years shows that there has never been a true bill market in this country but that it has been sustained largely by the Federal Reserve Banks and by the foreign central banks investing through the Federal Reserve System, and that it is probable much of the buying of bills through other sources is also for the account of foreign banks.

There was a general discussion as to the desira- (7)
bility of rediscounting bils offered by member banks and the right of a Federal Reserve Bank to refuse such rediscounts. It appeared that some of the reserve banks, including New York and Boston, had recently rediscounted a small amount of bills for their member banks, the offerings being made, undoubtedly, as a result of the discount rates being lower than the bill rate.

TOPIC I. C. Broadening Bill Market. (8)
2. Ways and means of encouraging further distribution.
(See paragraphs 6,7,9 & 10)

While it was the consensus of opinion of the Governors present that the development of an American bill market is desirable, as brought out in the discussions under preceding topics, it appeared to be the sense of the conference that there is little else that the Federal Reserve Banks can do under existing conditions to facilitate a broader distribution of bills.

Governor Talley read a memorandum prepared by him and submitted to the Board of Directors of the Federal Reserve Bank of Dallas on October 7, 1927. Inasmuch as this memorandum sets forth in a concise way a sound policy with respect to developing a broader bill market, it was ordered made a part of the minutes of this conference. (This memorandum appears as Exhibit A and is made a part of these minutes.) (9)

TOPIC I. C. Broadening Bill Market.
3. System policy with respect to the purchase of bankers bills especially in relation to the further development of an open market.
(See paragraphs 6,7,8 & 9) (10)

This topic was passed without further discussion as it had been covered in the discussion of the two preceding topics.

The Chairman reported that Messrs. H. H. Bond and W. S. Broughton were prepared to discuss with the conference the progress made by the Treasury Department in its program for the distribution of the new size of currency and as there was no objection, an invitation was sent to these gentlemen to come before the conference at 2:30 p. m. (11)

At 12:45 p. m. the conference adjourned to reconvene at 2:30 p. m.

First Day's Session, Monday, April 1.

Afternoon

The meeting was called to order at 2:45 p. m.

Mr. H. H. Bond, Assistant Secretary of the Treasury, and Mr. W. S. Broughton entered the meeting at this point and reviewed the progress that had been made in the Treasury program of printing new size currency. Mr. Bond outlined to the conference the Treasury plan for publicity in advance of the date set for the issuing of the new size currency, as follows: (12)

First, preparation of a moving picture film to be takken by all of the companies and which would include certain features directing the public's attention to some of the characteristics of the new currency in connection with which it was thought desirable that the public be informed prior to its issuance. It is plahned to release this film in June.

Second, provide each bank and trust company in the United States with one set of actual specimens of the new size currency in the one, two, five, and ten dollar denominations. It is planned to supply these actual specimens at approximately the same time the moving picture film is released.

Mr. Bond then stated the Treasury stood ready to make delivery of specimens to all banks and trust companies direct and would not ask the Federal Reserve Banks to bear the burden of the distribution. He had, however, communicated with a number of the reserve banks to find out if they would prefer to make the distribution themselves. Most of the banks communicated with felt that they would prefer to do so. Mr. Bond assured the conference that the Treasury would be delighted to handle the matter in this way if it met with the approval of the Federal Reserve Banks.

In response to a question, Mr. Bond reported that the substitution of the new size National bank currency was planned to begin on October 1 and the new notes would be in process of printing before July 1. A discussion of this question brought out the point that the delay in issuing the new size National bank notes might cause some embarrassment to the Treasury and to the Federal Reserve Banks because during the interval between July 1 and October 1, there would be a tendency for the present size National bank notes to flow into the Federal Reserve Banks and that some plan would have to be worked out to keep them in circulation. (13)

The Chairman suggested that it would be desirable to call a meeting of the currency operating officials of all of the reserve banks to be held with officials of the Treasury Department in the near future to discuss ways and means of meeting the difficulties which are likely to arise and for the purpose of adopting a uniform policy in dealing with the problem. It was thereupon (14)

VOTED that a meeting of currency operating officials of the Federal Reserve Banks be held with Treasury officials in Washington on May 2, this date being satisfactory to the Treasury Department.

TOPIC III. C. Possible Effect of Failure to Provide Small Size National Bank Notes when Other Currency is Changed. (15)
(See paragraph 13)

This topic was passed without further discussion as it had been covered in the discussion with Treasury officials.

TOPIC I. D. Relations with Foreign Banks. (16)
1. Report.
(a) Operations
(b) Progress of monetary stabilization
(c) Foreign exchanges and gold movements

Governor Harrison reviewed the various matters relating to operations with foreign central banks, calling attention to the total volume and changes in the individual accounts. He also reviewed the progress of monetary stabilization abroad during the past few years and the present condition of foreign exchanges, and also explained the trend of gold movements.

TOPIC I. F. Development of Investment Companies for the Purchase of Bank Stocks. (17)

Governor Harrison said that this topic had been up before two previous conferences and was put on the program now simply to keep it alive and in the thoughts of the different banks until there was something definite that could be done about it. The question at present was more one of moral influence being exerted by the reserve banks against the practice and of having a uniform method of approach to the problem. A general discussion followed on the dangers inherent in the purchase of bank stocks by investment companies and the growing tendency to establish widespread chains of banks comprising only a few members of the Federal Reserve System upon which the others would depend for accommodation at the Federal Reserve Bank in case of need.

The advisability of making a formal recommendation as to the dangers of the situation was discussed, but it was thought nothing useful could be done at this time. On motion of Governor Norris, it was

VOTED that the conference record that it had discussed this topic and noted with concern the very widespread and rapid development of corporations created for the purpose of acquiring bank stocks.

TOPIC II. Collections and Clearings. (18)

A. Report of Standing Committee on Collections.

B. Policy to be pursued by Federal Reserve Banks in asserting rights on behalf of depositors of unremitted for transit items against receivers of insolvent member banks. (See Board letter X-6263 dated March 14, 1929.) (See paragraphs 36 & 38)

These topics were passed for later consideration.

TOPIC III. Coin, Currency, and Circulation. (19)
A. Currency depots.
(See paragraph 23)

Governor Norris stated that outside of the Atlanta district, the Philadelphia district was the only one which had currency depots, or, as they call them, revolving funds. Governor Norris read a memorandum giving an analysis of the operation of currency depots and copies were distributed to the Governors. Governor Calkins suggested that the analysis be read and studied and that the topic be discussed on the following day.

TOPIC III. Coin, Currency, and Circulation. (20)
B. Federal Reserve Note Clearing.

The Secretary explained the purpose of the Cleveland bank in placing this topic on the program. In view of the conference on May 2 of the operating currency men of all the banks, it was

VOTED that this topic be submitted to the operating conference with the request that they agree upon a procedure and fix a date.

Answering an inquiry from Governor Norris, the Chairman said that the Conference of Counsel had adjourned to reconvene at 5:00 p. m., at which time they were to consider a majority and a minority report dealing with an amendment to Regulation J. At this point, the Secretary was instructed to attend the Conference (21) of Counsel and to notify the Chairman of the conference that the Governors were ready to meet with them, as desired by Governor Young, on the following day at 2:30 p. m. providing it was satisfactory to counsel.

Messrs. W. S. Broughton and H. H. Bond again came into the meeting and reported that the tremendous undertaking of turning over the old size currency into the new smaller size has necessitated the purchase of unusual amounts of material in advance and the employment of extra labor to complete the work by July 1. Under ordinary conditions such advances are taken care of by appropriations for other classes of money temporarily, which appropriations are reimbursed when payments are made for the completedFederal reserve notes. The present turn-over coming as it does at the end of the fiscal year, upsets the usual procedure as currency appropriations are practically exhausted and there is no revolving fund of any kind from which advances for Federal reserve notes may be made. Considerable delay is also experienced in the general accounting office in getting credit passed to the bureau at this particular period and the large amount of the bill involved makes it imperative that the bureau be reimbursed not later than July 1 for the many advances for materials and to provide for the necessary payroll demand. A general discussion brought out the fact that expenditures on the part of the Treasury for the new size Federal reserve notes were approximately $1,600,000 (22) and it was

VOTED that unless an objection was raised by the Federal Reserve Board, the Governors comply with the request of the Treasury and make the following payments to the Treasury to cover expenses incident to the preparation of new Federal reserve notes; viz., $750,000 during the first part of April and $750,000 on the first of May.

At 5:30 the conference adjourned to reconvene at 10:00 a. m. Tuesday morning.

Second Day's Session, Tuesday, April 2.

Morning

The meeting was called to order at 10:10 a. m.

PRESENT: Governor Calkins, Chairman, and
Governors Harding, Harrison,
Norris, Fancher, Seay, Black,
McDougal, Martin, Geery and
Talley.
Deputy Governor Worthington.
Mr. Strater, Secretary.

TOPIC III. Coin, Currency, and Circulation. (23)
A. Currency Depots.
(See paragraph 19)

A general discussion in the light of Governor Norris' memorandum distributed at the afternoon session on Monday, disclosed the fact that the principal advantages of currency depots was a saving in shipping charges which accrues to the Federal Reserve Bank maintaining the currency depots, and the convenience to the member banks in the community where a depot is in operation. The elimination of delay in deliveries where the mail service is uncertain is also an important factor. The discussion further developed that there were points in each Federal reserve district where currency depots might be established but thedifficulty which was sure to be encountered if this service were extended, appeared to be where to draw the line. It was the opinion of the conference that if there was an extension of this plan, it would probably become a source of embarrassment to the Federal ReserveBanks as they would be likely to receive numerous requests for the establishment of them, many of which, they might feel, could not be granted. The effect of these depots on bank reserves was also considered. On motion of Governor Black, it was

VOTED that it is the opinion of the conference that additional currency depots should not be established except as an emergency measure.

TOPIC III. Coin, Currency, and Circulation. (24)
D. Redemption fund for F. R. Notes.

It was the consensus of opinion that the present procedure of maintaining two redemption funds was cumbersome and could be very much simplified by the elimination of the Federal Reserve Agents redemption fund. On motion of Governor Harrison, it was

VOTED that the Chairman appoint a committee to confer with Treasury officials andexpress the opinion of the conference that an effort should be made to do away with the Federal Reserve Agents fund if agreeable to the Treasury. Thereupon the Chairman appointed Messrs. Rounds and Smead a committee to take up the matter with Treasury officials.

TOPIC IV. B. Collateral for War Loan Deposits. (25)

The discussioncentered around a recommendation by Governor Seay that the Treasury Department limit collateral for war loan deposits to Government securities and the fact that present Treasury regulations permit new issues of Government securities to be purchased and paid for by credit. On motion of Governor Seay, it was

VOTED that the conference renew its recommendation to the Treasury that collateral for war loan deposits be limited to Government securities or that at least bills receivable be eliminated. Governors Harrison, Black and Norris voted in the negative.

TOPIC IV. C. Reserve against Government Deposits in Member Banks. (26)

After discussion, on motion of Governor Seay, it was

VOTED that this conference renew its endorsement of the conclusion adopted by the report of the Federal Reserve Agents committee on member bank reserves dated May 4, 1925, that "The exigencies of war-time financing having now passed, the committee feels that reserve should again be required against all classes of Government deposits."

TOPIC IV. D. Treasury Circular No. 92. (27)
1. Effect of terms upon prices of Government issues and cost of Government financing.
2. Principles that should be followed in "Designations of depository banks."

Governor Talley stated that this topic had been satisfactorily covered in the discussion under Topic IV. B. and it was thereupon passed without action.

TOPIC IV. E. Investment Policy of Member Banks. (28)

After general discussion, this topic was passed without action.

Upon motion of Governor Seay, the following supplementary topic was added to the program at this point: (29)

SUPPLEMENTARY TOPIC. Computation of Member Bank Reserve Requirements.

After discussion, it was

VOTED that the Federal Reserve Board be requested to consider an amendment to its regulations which will permit member banks to compute their reserve requirements against deposits as of the opening of business on any day instead of theclose of the day, the one being a determined figure and the other usually requiring a guess in advance of the close of business. In making this recommendation, the conference does not wish to imply any suggestion of a change in the present periods of averaging reserve requirements.

TOPIC IV. F. Credit Investigations of Member Banks. (30)

After a general discussion, this topic was passed without action.

TOPIC IV. D. Report of Leased Wire Cominittee. (31)

Without discussion, it was

VOTED that the report be received, approved and filed.

Stenographic Record of the Discussion to be had with the Federal Reserve Board on the Credit Situation. (32)

The Chairman stated that Governor Young had inquired as to whether the conference thought it would be desirable to have a stenographic record of the discussion during the meeting of the conference with the Federal Reserve Board, and as it was the consensus of opinion that such a record would not be necessary, it was

VOTED that no stenographic record of the proceedings be taken.

TOPIC IV. H. Report of Insurance Committee. (33)

Without discussion, it was

VOTED that the report be received and filed.

TOPIC IV. I. Report of Pension Committee. (34)

After discussion, it was

VOTED that the report be received, approved, and the committee's attention called to the fact that it had failed to provide the Governors with a copy of the new bill which it is planned to offer, as requested at the Governors' conference in November, 1928.

Adjourned at 1:00 p. m. to reconvene at 2:30 p. m. with Conference of Counsel.

Second Day's Session, Tuesday, April 2.

Afternoon

The meeting was called to order at 2:40 p. m. with Governor Young and members of the Conference of Counsel for the Federal Reserve Banks also in attendance.

Mr. Wyatt, Chairman of the Conference of Counsel, (35)
made a brief report of the conclusions reached by the conference and stated that while counsel were unanimous in the opinion that uniformity of practice among the Federal Reserve Banks was desirable, differences of opinion as to a recommendation to amend Regulation J of the Federal Reserve Board had led to the preparation of a majority report and a minority report. He then read the majority report adopted by the conference on a vote of eight to four and the minority report signed by representatives of four of the Federal Reserve Banks.

Governor Calkins then called upon representatives supporting the majority view and representatives supporting the minority view and a general discussion followed.

At 5:10 the conference adjourned and counsel were excused. The Governors reconvened immediately and after a general discussion of the two reports, the Chairman suggested that each Governor study the printed copies in anticipation of further discussion and action on Wednesday. (Continued in paragraph 36)

Adjourned at 6:00 p. m. to reconvene at 10:00 a. m. on Wednesday.

Third Day's Session, Wednesday, April 3.

Morning

The meeting was called to order at 10:15 a. m.

TOPIC II. B. Policy to be Pursued by F. R. Banks in asserting rights on behalf of depositors of unremitted for transit items against receivers of insolvent member banks. (36)

A further discussion of counsels' majority and minority reports followed and on motion of Governor Norris, the following resolution was adopted, Governors McDougal, Geery, and Seay voting in the negative:

> "RESOLVED, That we approve in substance the majority report of the Conference of Counsel with the understanding that to assist the General Counsel of the Federal Reserve Board in framing the exact language of any amendment that may be found necessary to make the substance of the report effective, each Federal Reserve Bank shall be at liberty to call his attention to any local arrangement that might be affected by his amendment."

TOPIC IV. J. Report of Sub-committee of General Committee on Bankers Acceptances. (37)

After a brief discussion, it was

VOTED that the report be adopted with the suggestion that a meeting of the committee be held in the near future.

TOPIC II. A. Report of Standing Committee on Collections. (38)
(See paragraph 18)

After a brief discussion of the recommendations of the Standing Committee on Collections, it was

VOTED to receive and approve the report except that part on page four recommending that telegraphic transfers of funds be accepted from and paid to non-member clearing banks, which was disapproved.

Appointment of Chairman and Secretary. (39)

The Chairman called the attention of the conference to the minutes of the Governors' conference of November, 1928, in which it appeared that the Chairman and Secretary were appointed for that conference and the next succeeding conference, and stated that it was his impression that the appointment was intended to cover the year 1929. Upon motion of Governor Talley, it was

VOTED that Governor Calkins be re-appointed Chairman and Mr. Strater appointed Secretary of the Conference of Governors for the calendar year 1929.

In response to an inquiry by the Chairman, Mr. Strater (40)
asked to be relieved of his duties as Chairman of the Standing Committee on Collections and expressed his willingness to continue to serve as a member of the committee. The Chairman expressed the gratitude of the conference for the work which Mr. Strater has done. On motion of Governor Fancher, it was

VOTED that Mr. J. S. Walden, Junior, of the Federal Reserve Bank of Richmond be appointed Chairman of the Standing Committee on Collections in place of Mr. Strater.

TOPIC IV. A. Policy of Federal ReserveBanks acting as custodians of securities, including bankers bills, pledged to secure public deposits. (41)

After a general discussion, on motion of Governor Harrison, it was

VOTED that the Chairman appoint a committee to review this whole question in the light of an earlier report submitted by a committee appointed for that purpose, and in the light of further developments since that time. Thereupon the Chairman appointed Governors Geery, Fancher, and Harrison as a committee to study the question and report to the next conference.

The followingsupplementary topic was submitted by the Federal Reserve Board: (42)

SUPPLEMENTARY TOPIC. Should self-insurance reserves be carried by F. R. Banks and if so, how and for what purposes should they be used and what effect, if any, should they have on the cost of fidelity or other insurance carried by the banks?

After a brief discussion, it was

VOTED that it is desirable that all FederalReserve Banks should set up self-insurance reserves for the purpose of meeting any losses of whatever nature not covered otherwise. It was the sense of the conference that this action would facilitate a reduction in the cost of all types of insurance.

The Chairman placed before the conference the following communication: (43)

"Governor Calkins:

Attached is a resolution which has been introduced but not passed by the Board and the Board would like to get the reaction of the conference at its convenience.

(Signed) R. A. Young.

"RESOLVED, That the designation of 'reserve city' be applied to any city where the ratio of 'due to' banks of all member banks in the city exceeds ten percent of their total deposits, and that the designation of 'reserve city' be terminated when the ratio of 'due to' banks total deposits is or becomes less than ten percent."

After a general discussion in which it was brought out that this question would require a great deal of study before a competent answer could be given, on motion of Governor Harding, it was

VOTED that the conference is unable to give any advice at this time and would like to have further time forconsideration. The conference desires, however, to call the attention of the Federal Reserve Board to the fact that in many cases one or two banks in the city might have bank deposits while other banks did not, and suggests that the Federal Reserve Board consider the advisability if they desire to carry out this plan of having this provision applied to specific banks rather than to all bank in the city.

TOPIC I. B. Discount Rates and Open Market Policies. (44)
3. Report of committee appointed at the November, 1928 conference to study Federal reserve credit operations, including effectiveness of discount rate changes and open market operations in controlling total volume of Federal reserve credit. (See paragraph 5)

Governor Harding, Chairman of the committee, stated that the committee had met in New York at the close of December and had discussed the matters which had been given to it for study. While the committee had intended to prepare a formal written report, nevertheless owing to the complexity of rapidly changing conditions, this had not been done in time to submit to this conference. Governor Harding presented an oral report in which he stated it was his own personal views and dealt largely with conditions as they exist in the Boston district although he believed that these conditions were close to and reflected conditions in other districts. After a general discussion, Governors Harrison, Norris, and Seay concurred in the opinion expressed by Governor Harding.

Governor Harrison suggested that if the committee could be permitted to continue in existence, he thought later on they could submit a full report which might be helpful. Thereupon it was

VOTED that the committee appointed at the November, 1928 conference to study Federal reserve credit operations including effectiveness of discount rate changes and open market operations in controlling the total volume of Federal reserve credit, be continued with Governor Harrison substituted for Mr. McGarrah but still under the Chairmanship of Governor Harding.

There was a lengthy discussion of the whole subject of discount rates during the course of which each Governor present expressed his views relative to the effectiveness and desirability of rate control of credit expansion.

Adjourned 1:10 p. m. to reconvene at 2:30 p. m.

Third Day's Session, Wednesday, April 3.

Afternoon

TOPIC I. B. Discount Rates and Open Market Policies. (45)
1. Desirability of establishing a higher rate of discount on member bank collateral notes secured by Government obligations.
(See paragraph 5)

There was a general discussion of this topic during which Governor Harding pointed out that the original Federal Reserve Act contained no provision for the discounting of fifteen-day notes with Government collateral. It further developed that approximately sixty percent of member bank borrowing was made on collateral notes and forty percent on rediscounts.

On motion of Governor Harding, it was

VOTED that in the opinion of the conference, it is not feasible at the present time to establish any differential between these two classes of paper, and that if such a change should be made, consideration of it should be postponed until after the Federal Reserve Banks areready to reduce rates.

TOPIC I. B. Discount Rates and Open Market Policies. (46)
2. Furnishing funds for intermediate credit banks.
(See paragraph 5)

Therewas a general discussion of the policy of several of the reserve banks in regard to purchasing debentures from intermediate credit banks andthe topic was passed without action.

TOPIC I. A. Open Market Operations. (47)
1. Report of Open Market Investment Committee.
(See paragraph 3)

Governor Harrison distributed copies of the report of the Secretary of the Open Market Investment Committee to the Governors' conference reviewing the transactions in the Open Market Investment Account since the last Conference of Govenors. He also read to the conference a memorandum outlining various factors in the credit situation which had been considered by the Open Market Investment Committee at its meeting on April 1. Governor Harrison reported that in view of the fact that there was no apparent need just now for the purchase of Government securities and in view of the fact that the committee now has authority to sell Government securities, there was no occasion for any further recommendation at this time. After discussion, it was

VOTED that the oral report of the Chairman of the Open Market Investment Committee be adopted and approved by the conference.

A general discussion as to credit conditions and Federal reserve credit policies followed and the meeting adjourned at 6:00 p. m. to reconvene at 10:00 a. m. on Thursday with the Federal Reserve Board. (48)

Fourth Day's Session, Thursday, April 4.

Morning

The meeting was called to order at 10:10 a. m. (49)

Governor Young presided.

PRESENT: Messrs Platt, Hamlin, Cunningham, James, and Miller, and
Governors Harding, Harrison, Norris, Fancher, Seay, Black, McDougal, Martin, Geery, Talley, and Calkins.
Deputy Governor Worthington.
Also Messrs. Goldenweiser, Smead, and McClelland of the Federal Reserve Board staff.
Mr. Strater, Secretary.

At the request of Governor Young, Governor Calkins reported the action taken by the Governors' conference on those topics submitted to it by the Federal Reserve Board.

Governor Young requested each Governor to express his views as to the general credit situation and after hearing from Governors Harding and Harrison, the meeting adjourned at 1:50 p. m. to reconvene at 2:45 p. m. (Continued in paragraph 51) (50)

Fourth Day's Session, Thursday, April 4.

Afternoon

The same attendance as atthe morning session with the exception of Mr. Miller, who was absent.

Governor Young called upon the remaining Governors for an expression of their views and the meeting adjourned at 8:20 p. m. (51)

(Exhibit A)

(Extract from minutes of meeting of Board of Directors of Federal Reserve Bank of Dallas, October 7, 1927)

During the past two or three years and particularly during the past twelve months, there has been a growing demand, especially on the part of the small and medium-sized member banks in this district, for liquid, short-time investments which could safely be carried as a secondary reserve. In response to that demand, this bank purchased for the account of member banks during the twelve month period ended September 30, 1927, bankers acceptances amounting to approximately $14,000,000, which is in addition to the amount banks and other investors in this district purchased directly from bill dealers and through correspondents. Since a fairly good market for bills has been created in this district, a few of our larger and better member banks have become more interested in using their acceptance privilege and as a result have begun to finance through bankers acceptance credits certain transactions which lend themselves to that kind of financing.

Until recently some of the accepting banks have not fully appreciated the advantage, both actual and incidental, of selling their bills into the open market and have been disposed to offer them to us to be purchased outright or carried under a sales contract or repurchase agreement, as soon as they were created.

In some cases two member banks will accept bills, then exchange them with the thought that each will place its endorsement on the bills accepted by the other in order to meet our technical requirements, and then immediately offer them to us to be purchased. Such bills are generally known as "swapped" bills.

In other cases a member bank will accept under an arrangement with its customers and immediately offer the bills to us for purchase through a subsidiary or controlled institution, which endorses them.

In other cases bills bearing the endorsement of subsidiary institutions are offered to us under a repurchase agreement with the intention of renewing such agreement every fifteen days until or about the maturity of the bills.

Such bills as I have mentioned, while they are properly drawn, meet our technical requirements and are acceptable to us from a credit standpoint, are , in our opinion, not being disposed of in accordance with well established principles when they are handled as I have indicated. In order to encourage some member banks to use their acceptance privilege more freely in financing the seasonal movement of certain commodities, we have felt that we were warranted in buying outright, or carrying under a repurchase agreement "swapped" bills as well as bills bearing the endorsement of an institution which is virtually a subsidiary of the accepting bank.

It is our feeling that we should now take a somewhat different position in dealing with transactions of the character outlined, with the thought that accepting banks, as well as borrowers using acceptance credits, may fall into the practice of disposing of their bills in the open market instead of to us, so the names of acceptors may become well known to investors in this and other districts and the bills may be readily sold at prime rates. It is our feeling also that in cases where accepting banks are in position to carry their own bills that instead of doing so they should be encouraged to sell them in the open market and purchase out of the market a like amount of prime bills accepted by other banks.

It is the general policy of all Federal reserve banks to purchase acceptances having only a short time to run, very rarely more than sixty to ninety days, first because the reserve banks prefer early maturing bills and, second, because dealers and others who carry a portfolio of bills, in adjusting their position from time to time usually sell the earliest maturing bills in order to get the benefit of lower rates. It is my recommendation that it should be the general policy of this bank not to buy bills as soon as they are created (commonly called "fresh" bills) but to buy early maturing bills as far as possible. It may be necessary at times to buy bills having more than ninety days to run, and each case will have to be handled on its own merits, but I think we should gradually get to a point where only short dated bills are purchased.

It is my opinion that this bank should discourage in every way it properly can, the swapping of bills between accepting member banks, but I do not think that a rigid policy in that respect should be adopted immediately, but rather gradually. In the event "swapped" fresh bills are offered to us by member banks it is my recommendation that they should be rediscounted at the current rediscount rate applicable to paper of like maturity.

It is my recommendation that bills accepted by a member bank and offered to us by and with the endorsement of a subsidiary institution, should not be purchased outright under any circumstances. However, it is my opinion that in some cases this bank might buy such bills under a sales contract running for not more than fifteen days at a rate equal to the current rediscount rate for fifteen day paper. This would permit or encourage the sale of such bills in the open market within a reasonable time, but it is my thought that the purchase of such bills, even under a sales contract, should be gradually discontinued. It is my understanding that other Federal reserve banks do not look with favor upon "swapped" bills which are offered to them and that they consistently decline to purchase bills bearing no other endorsement than that of a subsidiary of the accepting bank.

It is my further recommendation that this bank should continue to buy prime bills when offered to it by member banks or dealers, provided they have been acquired in a bona fide open market transaction, with the understanding that preference will be given to short-time bills as indicated formerly.

It is my recommendation also that prime bills should be carried for bona fide dealers under sales contract pending reasonably prompt distribution or sale inthe open market.

In the event it is evident that a dealer is making no particular effort to distribute bills carried with us under repurchase agreement, or is apparently attempting to carry bills merely for the purpose of making the difference between the bill rate and the sales contract rate, it is my recommendation that the sales contract should be terminated at its next maturity.

In cases where bills being carried for a dealer under a sales contract, cannot be readily disposed of in the market for one reason or another, it is my recommendation that this bank should take steps to inform itself concerning the standing and financial responsibility of the drawer, acceptor and endorser of each bill, and that after satisfying itself as to the ultimate solvency of such bills that it buy them outright at a rate which under the circumstances appears applicable to such bills. It would naturally follow that if this bank cannot satisfy itself as to the solvency of such bills that it will neither purchase them outright nor carry them for a dealer under a sales contract.

In addition to the policies suggested with reference to particular acceptance transactions, it is my recommendation that it should be the general policy of this bank to encourage the use of acceptance credits by banks which we think are competent to properly handle acceptance transactions and whose bills could be disposed of without difficulty, and also help develop a broad discount market within the district with the view of assisting in the seasonable movement of commodities and at the same time satisfying the increasing demand of member banks for liquid, short-time investments.

I do not believe that we are yet ready to suggest to member banks, particularly the smaller ones, that they should endorse bills offered to us which do not already bear a satisfactory endorsement, as it is our feeling that to do so would probably arrest the development of the discount market in this district at the point it has now reached, and it would undoubtedly make it more difficult to interest banks in the purchase of prime bills which were not accustomed to making investments of that character. I do think, however, we should take a step in that direction when the acceptance business in this district has reached a little more advanced stage, just as I am now suggesting that we take other steps at this time in view of the progress that has been made to date.