

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, May 23, 1927 at 11:30 a.m.

PRESENT: Governor Crissinger  
Mr. Platt  
Mr. Hamlin  
Mr. Miller  
Mr. James  
Mr. Cunningham  
Mr. Eddy, Secretary  
Mr. McClelland, Asst. Secretary

The reading of the minutes of the meeting of the Federal Reserve Board held on May 18th was dispensed with.

The Governor presented application of the Wilkes-Barre Deposit and Savings Bank, Wilkes-Barre, Pa. for membership in the Federal Reserve System and for 600 shares of stock in the Federal Reserve Bank of Philadelphia; together with recommendations of the Board's sub-committee (1) That the application be approved subject to the regular conditions of membership contained in the Board's Regulation H, and (2) That the bank be advised that the Board is now considering the question of what changes should be made in conditions of membership in the light of the provisions of the McFadden Act, and if any changes in the present conditions are found necessary the bank will be subject to such changes, and acceptance by the bank of the conditions now being imposed will be deemed to be acceptance of any changes in those conditions which the Board finds to be necessary in view of the amendments contained in the McFadden Act.

Upon motion, it was voted to approve the application in accordance with the recommendations of the sub-committee.

Telegram dated May 18th from the Chairman of the Federal Reserve Bank of Boston, advising that the board of directors at their meeting on

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that date made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Letter dated May 19th from the Assistant Secretary of the Federal Reserve Bank of New York, advising that the board of directors at their meeting on that date made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Telegram dated May 18th from the Chairman of the Federal Reserve Bank of Philadelphia, advising that the board of directors at their meeting on that date made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Telegram dated May 18th from the Chairman of the Federal Reserve Bank of St. Louis, advising that the board of directors at their meeting on that date made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Telegram dated May 19th from the Chairman of the Federal Reserve Bank of San Francisco, advising that the board of directors at their meeting on that date made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Memorandum dated May 19th from the Director of the Division of Research

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and Statistics, recommending that Mrs. Dorothy Brown Riefler, an employee of the Division, be granted leave of absence, without pay, for the period May 19th to June 30th inclusive.

Approved.

Memorandum dated May 19th from the Chief of the Division of Bank Operations, transmitting statements of expenditures by the Federal Reserve banks for educational and welfare work, etc. during the month of April, and for the four months' period ending April 30th.

Ordered circulated.

The Secretary then presented an order of the Secretary of the Treasury under date of May 12th, issued in accordance with the provisions of an Executive Order dated May 9th, directing that all branches of the Treasury Department opening at 9:00 a.m. will be closed at 1:00 p.m. on all Saturdays during the period from June 4th to September 24th, inclusive.

Upon motion, it was voted that similar working hours shall govern in the case of employees of the Board during the period mentioned.

Letter dated May 16th from the Assistant Federal Reserve Agent at San Francisco, advising that under the authority granted by the Board on April 27th the Security Trust and Savings Bank of Los Angeles on May 14th opened a branch at 5473 Angeles Mesa Drive.

Noted.

Report of Committee on Salaries and Expenditures on letter dated May 17th from the Secretary of the Federal Reserve Bank of Atlanta, advising of the resignation of Mr. George J. White, Assistant Cashier of the Jacksonville

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Branch, effective June 7, 1927 and the action of the directors of the Federal Reserve Bank of Atlanta in approving a recommendation of the Jacksonville directors that Mr. White be given one month's leave of absence instead of the regular vacation period of three weeks allowed officers of the parent banks and branches; the Committee recommending approval.

Approved.

Letter dated May 18th from the Deputy Governor of the Federal Reserve Bank of New York, advising of the receipt of formal notice from the Bank of England to the effect that there will be no need to ask for a renewal of the credit granted that institution by the Federal Reserve banks which expired on May 14th last.

Noted.

Report of Committee on Examinations on letter dated May 19th from the Federal Reserve Agent at Richmond, commenting on and recommending approval of the recent action of the Putnam County Bank, Hurricane, W. Va. in purchasing the assets and assuming the liabilities of the Hurricane National Bank, which is in liquidation; the Committee also recommending approval.

Approved.

Memorandum from the Secretary dated May 20th, approved by the Committee on Examinations, with reference to letter dated May 11th from the Assistant Federal Reserve Agent at San Francisco, advising of the inability of the Superintendent of Banks of Arizona to make simultaneous examinations, as he previously advised he would do, of the head office and branches of the Valley Bank of Phoenix, Arizona, which bank's application for permission to

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establish a branch at Prescott, Ariz. was approved by the Board on April 6, 1926 on the strict understanding that inasmuch as the State Banking Department was not prepared to make simultaneous examinations, the Federal Reserve Bank would undertake to conduct at least one such examination each year, the cost of which must be borne by the Valley Bank; the Secretary suggesting that the Federal Reserve Bank at San Francisco be advised that the Board expects at least one annual simultaneous examination of the Valley Bank and its branches to be made by the Federal Reserve Bank of San Francisco.

Upon motion, the suggestion of the Secretary was approved.

Report of Executive Committee on memorandum dated May 19th from the Acting Comptroller of the Currency, recommending approval of an application of The Citizens National Bank of Ft. Gibson, Okla. for permission to reduce its capital from \$50,000 to \$25,000, on condition that the entire amount of the reduction be applied to removing estimated losses and doubtful assets of \$13,541.52 and \$18,311.62, respectively, and that no part of the reduction be distributed to stockholders or added to the surplus or profits accounts; the Committee also recommending approval.

Upon motion, the application was approved subject to the conditions recommended by the Acting Comptroller.

Letter dated May 17th from the Governor of the Federal Reserve Bank of Atlanta, referring to the Board's letter of May 14th, and enclosing copy of a communication addressed by him to The Farmers National Bank, Geneva, Ala., The First National Bank, Hartford, Ala., and the First National Bank, Samson, Ala. which institutions have recently adopted the practice of stamping

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on their cashiers' checks the words "Not Payable Through Federal Reserve Bank, Atlanta, Ga".

Noted.

Letter dated May 21st from the Federal Reserve Agent at Chicago, advising that under charter and statutory authority the First State Bank of Mount Carroll, Mount Carroll, Ill. has qualified for the exercise of trust powers, a function not employed by the bank at the time of its admission to the Federal Reserve System.

Referred to the Committee on Examinations.

Report of Committee on Salaries and Expenditures on letter dated May 18th from the Chairman of the Federal Reserve Bank of Boston, advising of the action of the directors of that bank in voting, subject to the approval of the Board, to continue for another two weeks leaves of absence with pay, on account of illness, previously granted Mr. Joseph Buckley, Miss Olive Glover and Miss Mary Quealy; the Committee recommending approval.

Approved.

At this point, Mr. McIntosh entered the meeting. He reported a telephone conversation with Mr. Henry B. Wilcox, Director of the Baltimore Branch, during which Mr. Wilcox advised of an offer made to him of appointment as Registrar of the City of Baltimore, which position is comparable to that of City Treasurer. Mr. McIntosh stated that Mr. Wilcox requested advice today as to whether acceptance of this appointment would make him ineligible to continue to serve as a director of the Baltimore Branch.

After discussion, the Secretary was directed to advise Mr. Wilcox by telephone that in the opinion of the Board the position tendered him comes within the provisions of the Board's

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ruling with respect to directors of Federal Reserve banks and branches holding political office and that his resignation as a branch director would be necessary should he accept the appointment.

Memo randum from Counsel dated April 29th on the matter referred to the Law Committee at the meeting on May 26th, namely, proposal of the Federal Reserve Bank of Atlanta to carry a reserve stock of \$10,000,000 of unissued Federal Reserve notes at the agency of the Federal Reserve Bank at Havana, Cuba, in addition to \$20,000,000 of cash now carried, and the plan submitted by the Federal Reserve Agent at Atlanta for the custody and issuance of these unissued notes; Counsel stating that the legality of the proposal is fully covered by two previous opinions, one dated April 25, 1927 holding that the Board may properly permit unissued Federal Reserve notes to be held at the Cuban Agency in the joint custody of the Agency and an Assistant Federal Reserve Agent, and the other dated September 21, 1926, rendered in connection with a proposal made by the Federal Reserve Bank of Kansas City for a custody of unissued notes at the branches of that bank, which is in all essential particulars the same as the plan now proposed by the Federal Reserve Agent at Atlanta. In his memorandum Counsel called attention to the fact that the Kansas City plan was held to be in compliance with the requirements of the Federal Reserve Act, provided there was an agreement between the Federal Reserve Agent and the Federal Reserve bank that the dispatch of a wire giving the control combination to a particular vault chest containing unissued Federal Reserve notes would be considered as a delivery to the Federal Reserve bank of the amount of notes shown by the records of the Agent and of the other custodian to have been placed in the chest at the time the control was established, and that

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this amount would be accepted by the bank as conclusive for all purposes.

During the discussion which followed, Mr. Wyatt, the Board's General Counsel was called into the meeting and discussed further with the members of the Board the question of the legality of the Atlanta bank's proposal.

Mr. James moved that the Federal Reserve Board approve the proposal of the Federal Reserve Bank of Atlanta to carry at the Havana Agency a supply of \$20,000,000 of cash and a reserve supply of \$10,000,000 of unissued Federal Reserve notes, together with the plan submitted by the Federal Reserve Agent at Atlanta for the custody and issuance of the unissued notes.

During the discussion which followed, Mr. McIntosh stated that he had no objection to the arrangement on the understanding, verbal assurance of which had been given him by the Board's Counsel, that no liability attached to him as Comptroller of the Currency in connection with the custody of unissued Federal Reserve notes at the Agency.

Following the discussion, Mr. James' motion was put by the Chair and carried, the members voting as follows:

Mr. Platt, "aye"  
 Mr. Hamlin, "aye"  
 Mr. James, "aye"  
 Mr. McIntosh, "aye"  
 Governor Crissinger, "no"  
 Mr. Miller, "no"  
 Mr. Cunningham, "no"

The Comptroller stated that he voted "aye" with the distinct understanding that he would receive from the Board's Counsel a written opinion to the effect that no liability attaches to him in connection with the custody of the unissued notes at Havana.

Mr. Miller stated that he voted "no" on the ground that the second provision of the motion, with regard to carrying unissued notes at the Agency, in his opinion, implied an unwarranted and dangerous assumption of authority by the Board in the performance of its function with regard to the issuance of Federal reserve notes.

Mr. Cunningham stated that he voted "no" because of the second provision, under which the Board assumes to permit the carrying of unissued Federal reserve notes outside the limits of the Continental United States.

Mr. McIntosh then left the meeting.



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Report of Committee on Examinations on letter dated May 12th from the Deputy Governor of the Federal Reserve Bank of Richmond, recommending approval of an application of the Seaboard National Bank of Norfolk, Va. for authority under Section 13 of the Federal Reserve Act to accept drafts and bills of exchange drawn upon it up to 100% of its paid-up and unimpaired capital and surplus; the Committee also recommending approval.

Approved.

Letter dated May 17th from the Federal Reserve Agent at Dallas, advising that at the last meeting of the board of directors of that bank it was definitely decided to call a meeting of the stockholders of the bank to be held in Dallas on Wednesday, June 15, 1927 and stating that the officers of the bank are anxious to have some member of the Federal Reserve Board present to participate in the meeting.

Noted.

Memorandum from Counsel, dated May 20th, submitting for the Board's information copy of an opinion rendered by the Supreme Court of the United States on May 16th in the case of Westfall v. United States, wherein the Supreme Court upheld the constitutionality of that provision of Section 9 of the Federal Reserve Act which subjects state banks and their officers, agents and employees to the provisions of and the penalties prescribed by Section 5209 of the Revised Statutes; Counsel stating that the case is of unusual importance to the Federal Reserve System because of the fact that if the Supreme Court had held the provision in question to be unconstitutional, it would necessarily have followed that other provisions of Section 9 relating to the membership of state banks would also be unconstitutional. In his memorandum, Counsel

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recommended that the Supreme Court's decision in the case be published in the next issue of the Federal Reserve Bulletin.

Upon motion, Counsel's recommendation was approved.

Matter ordered circulated at the meeting on May 17th, namely, memorandum from the Assistant Counsel dated May 11th, recommending the revision of the Board's form of application of state banks for membership in the System so as to require a statement by the Cashier of the bank applying for membership setting out what branches, if any, are operated by the bank, the location of such branches and the date upon which each branch was established; Counsel stating that this information is necessary in view of the amendment to Section 9 of the Federal Reserve Act contained in the McFadden Act and further suggesting that pending the adoption of the amended form of application and the printing thereof all Federal Reserve Agents be requested, by circular letter, to advise the Board when they forward an application for membership whether the bank making application has any branches outside of the city, town or village in which such bank is situated that were established subsequent to February 25, 1927, the date of the passage of the McFadden Act.

Upon motion, it was voted to approve the amended form of application submitted by Counsel, as well as a proposed circular letter to all Federal Reserve Agents requesting the furnishing of information regarding branches pending the printing of the amended form of application.

Memorandum from Counsel dated May 6th, submitting draft of reply to letter dated March 29th from the Federal Reserve Agent at Cleveland, inquiring whether a national bank formed by the consolidation under the provisions of the McFadden Act of a state bank having trust business and a national bank

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without trust powers may proceed to exercise trust powers without applying for and receiving the permission of the Federal Reserve Board to exercise such powers under Section 11 (k) of the Federal Reserve Act; the proposed letter stating that a consolidated national bank, regardless of whether or not it had a fiduciary permit under Section 11 (k) of the Federal Reserve Act, succeeds to the specific trusteeships, executorships and other fiduciary appointments under which the state institution was acting prior to the consolidation or in which it had been appointed or designated to act under wills or other instruments which had not become effective at the time of consolidation through the death of the testator or probate of a will, or otherwise, but that the McFadden Act does not confer upon the consolidated national bank the right to act generally in fiduciary capacities or to undertake any new trust business, and further, that before undertaking to act generally in fiduciary capacities or before accepting any new trust business the consolidated national bank should have a permit from the Board under Section 11 (k) of the Federal Reserve Act. The proposed letter also stated that while it is not legally necessary in the Board's view for a consolidated national bank to have a permit under Section 11 (k) in order to execute the fiduciary business already on the books of the constituent state institution, it would seem advisable for the consolidated institution to secure such a permit in order that its right to execute such trusts may not be questioned.

After discussion, upon motion, the proposed letter to the Federal Reserve Agent at Cleveland was approved.

The Governor then presented memorandum from Counsel, approved by two members of the Law committee, commenting on and submitting draft of reply to

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letter dated April 9th from the Federal Reserve Agent at Cleveland, with reference to the desire of the Provident Savings Bank and Trust Company of Cincinnati, Ohio to establish a branch in Norwood, Ohio, which is a town a part of the corporate limits of which coincide with a part of the corporate limits of Cincinnati, and inquiring whether or not under the provisions of the McFadden Act a state bank may lawfully retain or acquire stock in a Federal Reserve bank while operating a branch established after February 25, 1927 in territory not within the corporate limits of the city, town or village in which the parent bank is situated, but within territory contiguous thereto; the proposed reply discussing the question in detail and stating that in the opinion of the Board the term "limits of the city, town or village in which the parent bank is situated", as used in the McFadden Act, refers to the corporate limits of such city, town or village and that inasmuch as the town of Norwood is not within the corporate limits of Cincinnati, it is clear that a branch established in Norwood by the Provident Savings Bank and Trust Company of Cincinnati would be beyond the corporate limits of the city in which the parent bank is situated, and the Board is, therefore, of the opinion that the Provident Savings Bank and Trust Company may not lawfully establish a branch at Norwood while remaining a member of the System.

In this connection, Mr. Platt read to the Board a memorandum prepared by him taking a contrary position to that expressed in the memorandum from Counsel.

After a detailed discussion, Mr. Miller moved that the words "limits of the city, town or village in which the parent bank is situated" be interpreted by the Board to mean the "corporate limits" of any incorporated city, town or village and that the Federal Reserve Agent at Cleveland be advised that in accordance with such ruling a branch at Norwood can not be established by the Provident Savings Bank and Trust Company of Cincinnati while remaining a member of the System.

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Mr. Miller's motion being put by the Chair was carried, Mr. Platt voting "no".

The Governor then presented the recommendations of the Federal Advisory Council made to the Federal Reserve Board at the meeting of the Council on May 20th as follows:

"TOPIC NO. 1. Cuba - The question of the Cuban Agency.

RECOMMENDATION: The Federal Advisory Council recognizes that it is not advisable to discontinue the Cuban Agency at this time. The Council, however, wishes to reiterate the view to which it has given expression on several occasions in the past, to wit: that it does not believe it to be good policy for the Federal Reserve Banks to establish agencies of the character of the Cuban Agency outside of the Continental United States. The Council, therefore, suggests to the Federal Reserve Board that it study the whole problem to the end that, if possible, some plan be devised which may be an effective substitute for the present arrangement.

TOPIC NO. 2. Open Market Operations.

RECOMMENDATION: The Federal Advisory Council approves of the present policy of the Federal Reserve Board and the Open Market Investment Committee in aiming to acquire from time to time, as occasion requires, an amount of securities sufficient to enable the System to exercise some control over the market whenever this seems advisable. The Council further approves the present method of conducting operations through a committee of the Board of Governors."

Mr. Hamlin reported an inquiry received by the Committee on District #6 from Vice President Durrell of the National City Bank of New York, for prompt advice as to the action of the Federal Advisory Council with reference to the Cuban Agency and stated that following the meeting of the Council he had advised Mr. Durrell of the action taken. He then suggested that all member banks having branches in Cuba be advised of the Council's recommendation.

Following a discussion, Mr. Cunningham moved that the report of the Federal Advisory Council be received and noted and that the Secretary be directed to notify all Federal Reserve banks and all member banks having branches in Cuba of the recommendation of the Council regarding the Cuban

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Agency.

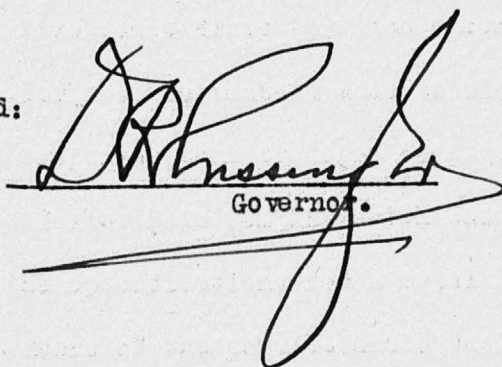
Mr. Cunningham's motion being put by the  
Chair was carried.

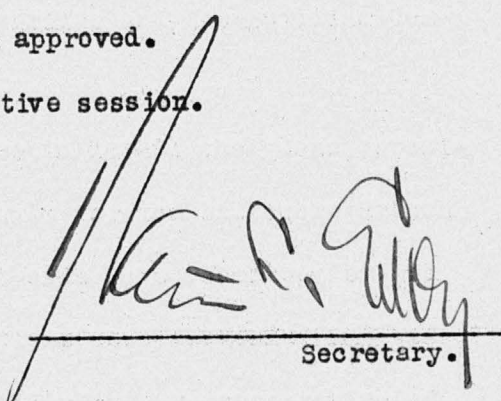
REPORTS OF STANDING COMMITTEES:

- Dated, May 20th, Recommending changes in stock at Federal Reserve Banks,  
as set forth in the Auxiliary Minute Book of this date.  
Recommendations approved.
- Dated, May 23rd, Recommending action on applications for fiduciary powers  
as set forth in the Auxiliary Minute Book of this date.  
Recommendations approved.
- Dated, May 18th, Recommending approval of the application of Mr. Peter C.  
Reilly for permission to serve at the same time as director  
of the Indiana National Bank, Indianapolis, Ind. and as  
director of the Union Trust Company, Indianapolis, Ind.  
Recommendation approved.
- Dated, May 18th, Recommending approval of the application of Mr. A. W.  
Robertson for permission to serve at the same time as  
director of the Farmers Deposit National Bank, Pittsburgh,  
Pa. and as director of the Potter Title & Trust Company,  
Pittsburgh, Pa.  
Recommendation approved.

At 12:45 p.m. the Board went into executive session.

Approved:

  
Governor.

  
Secretary.