

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, June 13, 1927 at 11:30 a.m.

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

The Governor stated that the Secretary of the Treasury had been requested to attend the meeting in order that he might participate with the Board in consideration of the actions taken by the recent Conference of Governors of the Federal Reserve banks with respect to the collection of non-cash items by the Federal Reserve banks, particularly in the light of the procedure of handling non-cash items which has been in effect at the Federal Reserve Bank of Minneapolis since February 1, 1927.

The Secretary then read to the Board the actions of the Governors' Conference, resulting in the following votes:

(a) 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.)

(b) 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.)

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(c) 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.)

(d) 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.)

The Secretary then read to the Board a memorandum outlining in detail previous action by the Board on the subject of non-cash collections resulting in its action of December 30, 1927 in authorizing the Federal Reserve Bank of Minneapolis to collect through its member banks non-cash items payable in Minneapolis and Helena.

A detailed discussion ensued as to the necessity or desirability of uniformity at all Federal Reserve banks in the manner of handling non-cash collection items and as to the effect which the present procedure of the Federal Reserve Bank of Minneapolis is having upon the Federal Reserve Collection System as a whole.

Governor Crissinger moved that, effective July 1, 1927, the Board rescind the authority granted by it on December 30, 1926 to the Federal Reserve Bank of Minneapolis to collect non-cash items in Minneapolis and Helena through its member banks.

After discussion, Governor Crissinger's motion was put by the Chair and carried.

The Secretary of the Treasury then left the meeting and the Governor took the Chair.

Thereupon ensued a discussion as to the form of the advice of the action just taken by the Board which should be sent to the Federal Reserve Bank of Minneapolis.

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After discussion, the Secretary was directed to prepare and submit at a later meeting a letter to the Federal Reserve Bank along the line of suggestions made during the discussion.

The Governor then submitted a letter from the Governor of the Federal Reserve Bank of Richmond, with reference to foundation work on the proposed Baltimore Branch bank building; the letter stating that due to soil conditions it has been deemed advisable to change from the concrete piling provided for in the specifications as drawn to spread concrete footing, and requesting approval by the Board of an additional expenditure amounting to \$8,387 which may be involved in the change.

Upon motion, it was voted to approve both the change in specifications and the additional expense involved.

The Governor then presented a letter dated June 9th from the Governor of the Federal Reserve Bank of New York, with reference to the action of the recent Conference of Governors in voting to approve the report submitted to the Conference by the Pension Committee, including a recommendation for the appropriation of \$10,000 for further actuarial studies.

After discussion, upon motion it was voted to approve the additional expenditure recommended by the Pension Committee, Mr. Cunningham voting "no".

The Governor then presented the matter ordered circulated at the meeting on June 10th, namely, report filed by Mr. A. B. Trowbridge, Consulting Architect, in compliance with the request made of him by the Board on May 24th with reference to the plans, specifications and bidding in connection with the vault to be installed in the building being erected to

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house the Baltimore Branch of the Federal Reserve Bank of Richmond.

After discussion, Mr. James submitted the following resolution:

"Whereas, a controversy has arisen over the kind and quality of material which the Federal Reserve Bank of Richmond proposes to use in the construction of a vault for its Baltimore Branch; and

Whereas, there is a difference of opinion between the vault engineers employed by the Richmond Bank and the Board's Consulting Architect, as set out in the Architect's letter to the Board of May 16, 1927 and his detailed report dated June 6, 1927;

Therefore, Be It Resolved, that the Federal Reserve Board arrange with the United States Bureau of Standards for the conduct of tests of certain proprietary metals used by vault builders for lining bank vaults with a view of determining the powers of resistance of such metals to penetration by acetylene torches, drills, etc."

At 12:55 p.m., the Board recessed, without action on the above resolution.

At 3:00 p.m., the Board reconvened, the following members being present:

Governor Crissinger  
 Mr. Platt  
 Mr. Hamlin  
 Mr. Miller  
 Mr. James  
 Mr. Cunningham

The Governor submitted a telegram addressed to the Chairman of the Federal Reserve Bank of Richmond as follows:

"Your proposal for housing Charlotte Branch involves necessity of erection of a vault. Until certain questions which have arisen with respect to Baltimore vault have been determined Board unwilling to act on matter of Charlotte vault and it is suggested therefore that you take immediate steps to have option on rented property extended for at least 30 days."

Upon motion, the proposed telegram was approved.

The Board then proceeded to consider the various matters upon which

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action was taken at the recent Conference of Governors and which the Conference submitted to the Board for its advice or approval, or upon which the Board has asked for the opinion or recommendation of the Conference, as set out in a letter addressed to the Governor of the Board by the Secretary of the Conference under date of May 31, 1927, as follows:

(1) "Where the conference considered the procedure to be followed in connection with the collection of certain checks stamped "not payable through the Federal Reserve Bank" and where it was decided that pending the action to be taken by Mr. Baker and the Federal Reserve Board on this subject, each Federal reserve bank should give instructions to its transit department to watch out for checks of this character, to handle them in the usual course and to forward them for collection to the Federal reserve bank of the district in which they are payable. It was also agreed that the collecting Federal reserve bank should then forward these checks to the member bank for collection and, if returned unpaid, should charge them to the account of the member bank under advice to the member bank."

The Board having already arranged for the employment of Mr. Baker, and having consulted with him and forwarded instructions to all Federal Reserve banks as to the handling of the checks in question, no further action on the above recommendation was considered necessary.

It was voted, however, to request the Chairman of the Federal Reserve Bank of Atlanta to submit to the Board a report with regard to the present status of the practice adopted by certain banks in the Sixth District of stamping on their checks the legend quoted above.

(2) "Where it was voted that the Report of the Standing Committee on Collections should be received and studied by the various Federal reserve banks, with the understanding that each Federal Reserve bank should submit its views or comments concerning the proposed Time Schedules to the Standing Committee on Collections before the next Conference of Governors."

Upon motion, it was voted to approve the study of the Time Schedules contemplated by the action of the Conference.

(3) "Where it was voted to approve the Report of the Pension

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Committee, with the recommendations in that report, including the appropriation of \$10,000 for further actuarial studies."

The Governor called attention to the fact that this recommendation of the Conference was approved by the Board at its meeting this morning.

(4) "Where the conference discussed the procedure followed in various districts in handling for collection, items which are drawn on nonmember banks, and where it appears 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."

After a discussion of the above recommendation, the Secretary was instructed to submit to the Board a digest as to the past policy and practice of the System in the matter referred to.

(5) "Where the subject of non-cash collections was discussed, and where the following votes are recorded:

(a) 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.)

(b) 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.)

(c) 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.)

(d) 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.)"

Discussion ensued as to what action on the above recommendations is necessary or desirable in view of the action taken by the Board at its meeting this morning in

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voting to rescind, effective July 1, 1927, the authority granted on December 30, 1926, to the Federal Reserve Bank of Minneapolis to collect non-cash items in Minneapolis and Helena through its member banks. Certain members of the Board expressed the opinion that no further action was necessary, while others stated their belief that some affirmative action by the Board was desirable.

Following a detailed discussion, Mr. Hamlin moved that a letter be addressed to all Federal reserve banks, advising that in the opinion of the Federal Reserve Board the collection of non-cash items should be restored to the status that it had at all Federal reserve banks prior to the exception granted by the Board on December 30, 1926, in favor of the Federal Reserve Bank of Minneapolis which has today been revoked, effective July 1, 1927."

Mr. Platt moved as a substitute for Mr. Hamlin's motion, that the Federal reserve banks be advised that without prejudice to future discussion of the question of whether non-cash items payable at street addresses should be collected by the Federal reserve banks free of charge, the Board approves the recommendation of the Governors' Conference "that the collection of all non-cash items, including those payable at street addresses, should be continued at all Federal reserve banks."

Mr. Platt's substitute motion, being put by the Chair, was lost, the members voting as follows:

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

Mr. Hamlin's original motion was then put by the Chair and carried, Mr. James voting "no".

(6) "Where (as already reported to the Board) the conference voted that it is in favor of having appropriate steps taken to employ Mr. Newton D. Baker to act as special counsel in the par clearance case of the State Bank of Hugo, Minn. vs. the Federal Reserve Bank of Minneapolis."

Arrangements having already been made for Mr. Baker to act as special counsel in the case mentioned, no further action was taken by the Board.

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(7) "Where 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."

Mr. Hamlin called attention to the fact that the Board on May 27th directed that a circular letter be sent to all Federal reserve banks and a statement published in the Federal Reserve Bulletin suggesting that in view of the doubts raised by the decision referred to in the case above mentioned, it is advisable to change the wording of the standard clause on trade acceptances to read: "The transaction giving rise to this instrument is a purchase of goods by the acceptor from the drawer."

In view of the Board's previous action, the above recommendation was passed over without further consideration.

(8) "Where it was voted that the Report of the Sub-Committee of General Committee on Bankers Acceptances be received and approved and that a copy should be transmitted to the Federal Reserve Board for its information."

Noted, without action.

(9) "Where 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 banks, 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."

After discussion, it was voted to refer the question covered by the above recommendation to the Federal Advisory Council at its next meeting.

(10) "Where it was voted in connection with the expense involved in paying Federal Farm Loan coupons, 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."



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After discussion, Mr. James moved that the Chairman of the Governors' Conference be advised that the Federal Reserve Board is not in harmony with the view expressed in the above recommendation of the Conference.

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

(11) "Where 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 (as reported in paragraph 19 of the Minutes) that this topic should also be referred to the Advisory Committee of Governors on Legislative Matters for consideration and recommendation in the event that it is not possible for the Federal Reserve Board to accomplish the desired results by an amendment to its regulations."

Upon motion, the above recommendation was referred to the Board's Law Committee for report.

(12) "Where 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. This action by the conference was reported orally to the Federal Reserve Board, and the Board's action was communicated to me in its letter of May 18."

In view of the procedure for the handling of the revision of the regulations adopted by the Board at the meeting on May 17th, no action on the above recommendation was deemed necessary.

(13) "Where it was understood that the question of amending the regulation relative to the method of computing member bank reserves for penalties, 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. It is assumed that this matter will be handled in accordance with the suggestion contained in the Board's letter of May 18, referred to in the above paragraph."

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Upon motion, the above matter was referred to the Law Committee.

(14) "Where the conference discussed the question of reserves against time deposits, and where 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."

After discussion, upon motion by Mr. Hamlin, it was voted that the above matter be referred to the Law Committee for report.

Mr. Miller then moved that the Governors of all Federal reserve banks, all Federal Reserve Agents, and the Federal Advisory Council, be requested to report to the Board any suggestions which they may have to make as to action which can be taken by the Board, under existing law, to deal with the present trend toward conversion of deposits from demand to time classification.

Carried.

(15) "Where, in discussion of the Report of the Committee on Safekeeping, previously filed with the Board, the view was expressed that the recommendations contained in the report are consistent with the procedure now generally followed by most Federal reserve banks, and where it was accordingly voted that the report be received and approved."

The various recommendations contained in the report referred to were considered by the Board separately, and Recommendations Nos. 1, 2, 3 and 7 were tentatively approved.

Recommendation No. 4 was tentatively approved, with the exception recommended by Governor Young of the Committee, relating to the safekeeping of securities pledged by member banks to secure State or other public deposits, subject, however, to an opinion from the Board's Counsel, to be submitted through the Law Committee, as to the legality of the latter function.

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Recommendations Nos. 5 and 6, relating to charges for safekeeping, were referred to the Law Committee for advice as to the legal points involved.

Following the above tentative action, it was voted that final action be deferred pending receipt of reports from the Law Committee on the matters referred to it.

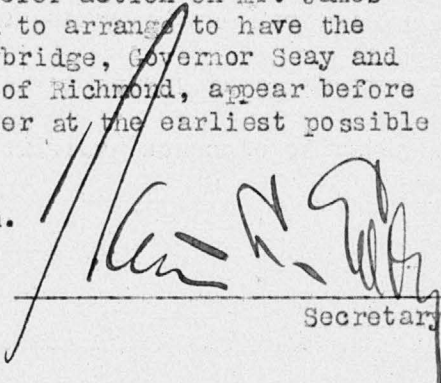
(16) "Where it was voted that the conference respectfully call to the attention of the Federal Reserve Board the fact that the ruling in its letter of March 24, 1927, (X-4816), in reply to letters from the Federal Reserve Bank of New York dated November 8, 1926 and February 18, 1927, will have the effect, if generally adopted as a practice by member banks, or 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."

Referred to the Law Committee.

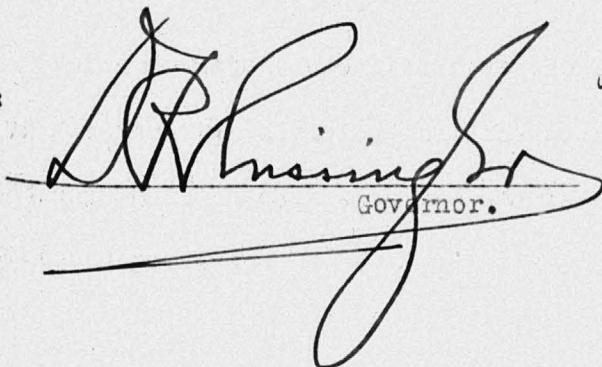
The Secretary then reported that as informally instructed at the meeting this morning, he had communicated with the Bureau of Standards and that the Bureau was prepared to conduct the vault tests contemplated in the motion submitted by Mr. James at the morning session as soon as the materials which the Board desires to have tested are submitted to it.

After discussion as to the procedure to be followed by the Board in the matter, it was voted to defer action on Mr. James' motion, and the Governor was requested to arrange to have the Board's Consulting Architect, Mr. Trowbridge, Governor Seay and directors of the Federal Reserve Bank of Richmond, appear before the Board for a discussion of the matter at the earliest possible date.

The meeting adjourned at 5:00 p.m.

  
Secretary.

Approved:

  
Governor.