

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, June 29, 1927, at 10:30 a.m.

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

The minutes of the meeting of the Federal Reserve Board held on June 28th were read and approved.

The Governor then presented the following telegram dated June 28th from the Federal Reserve Agent at San Francisco, replying to the Board's telegram of the same date regarding apparent criminal violations of Federal law by certain officers and employees of the Pacific Southwest Trust and Savings Bank:

"Answering telegram this date conditions Los Angeles very critical. May I suggest no action at present in regard to any irregularities. Such action can be taken at later date without causing unnecessary trouble for bank at present time or waiving any rights. Believe irregularities should eventually be reported but would only aggravate present serious condition at this time. Reorganization proceedings in process and any action now might interfere and would in all probability make completion impossible Governor Calkins remaining in Los Angeles."

Following a discussion, Mr. Miller moved that a telegram along the following lines be transmitted to the Federal Reserve Agent at San Francisco:

"Board has read your telegram June 28th regarding Los Angeles situation with great anxiety. It is reluctant to do anything that would add to the gravity of the situation and especially anything that might wreck plans for saving and reorganizing the bank in question, because of its desire and duty to see officers and employees guilty of criminal violations of Federal Statutes promptly prosecuted. It will, therefore, await your reports as to further developments, with the intent of reporting apparent criminal violations to the proper authorities at the earliest practicable moment."

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Mr. Miller's motion was put by the Chair and lost, the members voting as follows:

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

Mr. James then moved that in view of the complications surrounding the entire matter the Board request the Federal Reserve Agent at San Francisco and the Counsel of the San Francisco bank to come before the Board at the earliest moment possible with all data available in order that the Board may have all information behind the recommendation submitted to the Board by the Federal Reserve Agent.

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

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

Report of Committee on Examinations on memorandum dated June 28th from the Comptroller of the Currency, recommending approval of an application of The First National Bank of Haskell, Okla., for permission to reduce its capital from \$50,000 to \$25,000 on condition that the amount of the reduction be used in depreciating the carrying value of the banking house; the Committee recommending approval subject to the condition recommended by the Comptroller.

Approved.

Report of Committee on Examinations on letter dated June 21st from the Federal Reserve Agent at San Francisco, transmitting and recommending approval of an application of the Security Trust and Savings Bank of Los Angeles for permission to establish a branch at or near the intersection

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of Highland and Melrose Avenues, Los Angeles; the Committee also recommending approval.

Approved.

Report of Committee on Examinations on letter dated June 21st from the Federal Reserve Agent at San Francisco, transmitting and recommending approval of an application of the Pacific Southwest Trust and Savings Bank of Los Angeles for permission to establish a branch in the vicinity of the corner of Melrose and La Brea Avenues, Los Angeles; the Committee also recommending approval.

Approved, Governor Crissinger voting "no".

Report of Committee on District #6 on memorandum dated June 28th, from the Governor referring to advice received from the Federal Reserve Bank of Atlanta of the imposition of a tax by the Cuban Government on what the Cuban Government alleges to be an excess of exportations of currency by the Havana Agency over the currency importations during the fiscal year ending June 30, 1926, and advising that the matter has been taken up with the State Department which has secured a 30 day delay in the imposition of the tax by the Cuban Government and suggests that the Board immediately undertake the preparation of a statement or brief containing all of the facts in connection with the importation and exportation of currency since the Agency has been established, negotiations between the representatives of the Atlanta bank and the Cuban Government with respect to matters of taxation and a complete statement of the benefits derived by the Government of Cuba and its nationals as a result of the operations of the Federal Reserve System in Havana; the Committee

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recommending approval of the suggestion of the State Department and that the Secretary of the Board be authorized and directed to prepare the brief suggested, with authority to call on the Board's staff and the Atlanta bank for such data as in his judgment may be required.

Upon motion, the recommendation of the Committee was approved.

Mr. James then submitted copy of a memorandum dated June 27th, prepared by the Chief of the Division of Bank Operations, setting forth a detailed report on the subject of member bank reserve requirements.

Mr. James presented and moved adoption of the following resolutions:

"WHEREAS, the question of Member Bank Reserves is a problem that has been under study and consideration by the Federal Reserve Board, various Committees and others for several years, and

"WHEREAS, there seems to be an almost unanimous opinion in the minds of those making the study (a) that the requirements as to reserves are in need of adjustment, (b) that definition of so-called savings and time deposits is necessary, and (c) that legislative action is necessary to permit of proper and desired adjustments,

"THEREFORE, BE IT RESOLVED, that the Federal Reserve Board approves the principles, policies and suggestions set out in Mr. Smead's report, and

"BE IT FURTHER RESOLVED, that the Law Committee and Counsel for the Board be directed to draw suitable memorandum covering the suggestions offered for submission to the next session of Congress, and

"BE IT FURTHER RESOLVED, that when such memorandum has been prepared, it, together with copies of this resolution and Mr. Smead's report, be submitted to the Agents and Governors Conferences and to the Advisory Council for consideration and report back to the Board not later than November 15, 1927."

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

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Mr. James, "aye"  
Mr. Cunningham, "aye"  
Governor Crissinger, "no"  
Mr. McIntosh, "no"  
Mr. Miller, "not voting"

Memorandum from Counsel dated June 27th on the matter referred to the Law Committee at the meeting on June 8th, namely, letter dated June 2nd from the Deputy Governor of the Federal Reserve Bank of Chicago, inquiring whether certain deposits of the Harris Trust and Savings Bank of Chicago called "special reserve savings accounts" should be considered savings accounts within the meaning of Section 19 of the Federal Reserve Act and accordingly subject to a 3% reserve; Counsel submitting draft of a proposed reply stating (1) That the so-called special reserve savings accounts of the Harris Trust and Savings Bank are subject to check and these deposits therefore can not properly be classified as savings accounts and (2) Some of the deposits known as special reserve savings accounts are bank deposits, and that deposits made by one bank in another are obviously not savings deposits which are of an essentially different character and (3) That the special reserve savings accounts of the Harris Trust and Savings Bank, therefore, should be classed as demand deposits and subjected to a corresponding reserve.

Upon motion, the letter submitted by Counsel was approved and it was further voted that there be prepared for publication a formal ruling along the lines of the letter.

In this connection, the Secretary submitted a letter dated June 4th from the Manager of the Division of Research and Statistics of the Federal Reserve Bank of Chicago, calling attention to certain bank deposits of the Merchants National Bank of Indianapolis, which had been transferred

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by that institution from demand to time classification.

Noted.

Mr. James then submitted and moved adoption of the following resolutions:

"WHEREAS, in a letter from Chairman McGarrah under date of June 21, 1927, it was stated - 'We have learned this morning that the figures for brokers loans were known yesterday afternoon before three o'clock to some one operating in the Stock Exchange and were used to influence the market. \*\*\* As I believe you know, this is not the first time that a leak of this sort has occurred and we have been making a careful confidential investigation to see whether anybody in the employ of this bank could be responsible for the leak. It is our belief as a result of this investigation that it is occurring not here but in Washington', and

"WHEREAS, a similar statement was made to the Board by Governor Strong personally, and

"WHEREAS, these statements reflect upon the integrity of the Board and its staff,

"BE IT RESOLVED, that the Board through its executive officers immediately take steps to have a thorough investigation made and to this end authorize such officers to secure the aid and assistance either of the Secret Service of the Treasury Department or of the Department of Justice in order that the matter may be fully investigated and the source of information determined."

Carried.

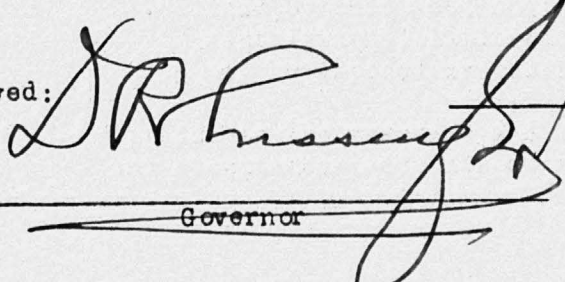
REPORT OF STANDING COMMITTEE:

Dated, June 25th, Recommending approval of the application of Mr. William W. Inglis, for permission to serve at the same time as director of the First National Bank of Scranton, Pa., and as director of the Kingston Bank and Trust Company of Kingston, Pa.

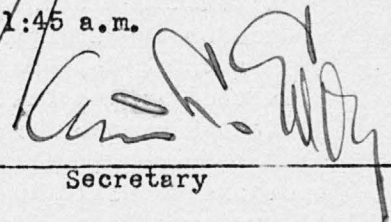
Recommendation approved.

The meeting adjourned at 11:45 a.m.

Approved:



Governor



Secretary