

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, October 6, 1927 at 10:30 a.m.

PRESENT: Governor Young
Mr. Platt
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 October 5th were read and approved.

Mr. Miller then referred to the resolution adopted by the Board at its meeting on July 5, 1927 that, with the distinct understanding that apparent irregularities and criminal violations on the part of certain officers of the Pacific Southwest Trust and Savings Bank of Los Angeles shall be reported to the United States District Attorney and the Department of Justice, the time at which such reports are made be left to the discretion of the Federal Reserve Agent and his associates at the Federal Reserve Bank of San Francisco. Mr. Miller stated that while he was in San Francisco the Federal Reserve Agent on several occasions referred to the discretion conferred upon him by the Board and appeared to be somewhat exercised as to whether he might not be considered derelict in his duty by reason of the fact that he has not as yet reported the alleged violations to the local United States District Attorney. Mr. Miller expressed the opinion, based upon his conversations with Mr. Newton, that the report might be made at any time. He also stated that while in Los Angeles he discussed the alleged violations with bankers in that city who seemed to be of the opinion that it would be

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difficult to prove allegations which have been made. He also reported receipt of a telegram from Mr. Henry M. Robinson, Chairman of the board of directors of the Los Angeles - First National Trust and Savings Bank, which is the consolidation of the Pacific Southwest Trust and Savings Bank and the First National Bank of Los Angeles. Mr. Robinson had expected to complete a reorganization of the personnel of the new bank not later than the first of September, according to a report made to the Board by the Federal Reserve Agent from San Francisco on July 5th but has been delayed and his telegram to Mr. Miller stated that he is coming east within the next few days in connection with the reorganization. Mr. Miller suggested that it might be advisable for the Board to have a conference with Mr. Robinson, who will be in Washington on October 11th, and expressed the opinion that the Federal Reserve Agent at San Francisco should be requested to take no action in the meantime to report the alleged criminal violations to the local Federal authorities, under the discretion vested in him by the Board on July 5th. He also stated that in his opinion it would be desirable to have Mr. Newton present in Washington if the Board did arrange a conference with Mr. Robinson.

A detailed discussion then ensued as to the past consideration which has been given by the Board to the question of reporting the alleged irregularities in the Pacific Southwest Trust and Savings Bank, resulting in the Board's action of July 5th above referred to.

Following the discussion, upon motion by Mr. James, the following resolutions were adopted:

"Whereas, Mr. Miller has reported to the Board conversations between himself and the Federal Reserve Agent at San Francisco with respect to the exercise by the Agent of the discretion conferred upon him by the Board on

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"July 5, 1927 in the matter of reporting to the local United States District Attorney certain alleged violations of law on the part of officials of the former Pacific Southwest Trust and Savings Bank of Los Angeles and also conversations with certain bankers in Los Angeles relative to the nature of the allegations; and

Whereas, Mr. Miller has also referred to correspondence between himself and Mr. Henry M. Robinson, Chairman of the Los Angeles - First National Trust and Savings Bank, who was also Chairman of the former Pacific Southwest Trust and Savings Bank, from which it appears that Mr. Robinson has been delayed in his plans for the reorganization of the personnel of the new bank, as communicated to the Board by the Federal Reserve Agent on July 5th and that Mr. Robinson will be in Washington on October 11th,

Therefore, Be It Resolved, That the Federal Reserve Board arrange for an interview with Mr. Robinson as special order of business for October 11th, and

Be It Further Resolved, That in the opinion of the Federal Reserve Board the Federal Reserve Agent at San Francisco should be present at said interview and that the Agent should be so informed and advised that it is the judgment of the Board that no action should be taken by him, pending the conference, in the matter of reporting the alleged violations of law above referred to."

The Secretary left the meeting and upon his return presented draft of telegram advising the Federal Reserve Agent at San Francisco of the action just taken by the Board, which upon motion was approved and ordered transmitted, as follows:

"Board is having conference October 11 on reorganization of Los Angeles bank concerning which you and Agnew were here last July. Board wishes you to be present at conference. While Board has not changed its view as to the necessity for reporting alleged violations by officers old institution it is desirable that pending the conference here October 11th no action be taken by you under the discretion with which you are invested by the terms of the Board's resolution of July 5th communicated to you in its letter of that date."

The Governor then stated that special order of business for this morning's meeting would be consideration of the Board's proposed new regulations, Series of 1927, as tentatively approved by the Board at

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its meeting on June 20th, and Mr. Wyatt, General Counsel, and Mr. Vest, Assistant Counsel, were called into the meeting.

The Board then proceeded with consideration of Article A of the proposed Regulation A. The various sections and subsections were considered separately and Mr. Cunningham requested that he be recorded as voting against the adoption of subsection (c) of Section II. After full consideration of the various provisions, the regulation was adopted in the following form:

REGULATION A, SERIES OF 1927

(Superseding Regulation A of 1924)

DISCOUNTS UNDER SECTIONS 13 and 13a

ARTICLE A

NOTES, DRAFTS, AND BILLS OF EXCHANGE

SECTION I. GENERAL STATUTORY PROVISIONS

Any Federal reserve bank may discount for any of its member banks any note, draft, or bill of exchange: Provided -

(a) It has a definite maturity at the time of discount of not more than 90 days, exclusive of days of grace; except that (1) if drawn or issued for an agricultural purpose or based on livestock, it may have a maturity at the time of discount of not more than nine months, exclusive of days of grace, and (2) certain bills of exchange payable at sight or on demand are eligible even though they have no definite maturity (see Section VII, below);

(b) It has been issued or drawn for an agricultural, industrial, or commercial purpose, or the proceeds have been used or are to be used for such a purpose, or it is a note, draft, or bill of exchange of a factor issued as such making advances exclusively to producers of staple agricultural products in their raw state;

(c) It was not issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States;

(d) The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm or corporation, discounted for any one member bank, whether State or National, shall at no time exceed 10 per cent of the unimpaired capital and surplus

of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values;

(e) It is indorsed by a member bank; and

(f) It conforms to all applicable provisions of this regulation.

No Federal Reserve bank may discount for any member State bank or trust company any of the notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association.

Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding 15 days, provided that they are secured by notes, drafts, bills of exchange, or bankers' acceptances which are eligible for discount or for purchase by Federal reserve banks, or by the deposit or pledge of bonds or notes of the United States.

SECTION II. GENERAL CHARACTER OF NOTES, DRAFTS, AND BILLS OF EXCHANGE ELIGIBLE

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for discount at a Federal reserve bank has determined that -

(a) It must be a negotiable note, draft, or bill of exchange which has been issued or drawn, or the proceeds of which have been used or are to be used in the first instance, in producing, purchasing, carrying, or marketing goods¹ in one or more of the steps of the process of production, manufacture, or distribution, or for the purpose of carrying or trading in bonds or notes of the United States, and the name of a party to such transaction must appear upon it as maker, drawer, acceptor, or indorser.

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been or are to be advanced or loaned to some other borrower, except as to paper described below under Sections VI (b) and VIII.

(c) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for any other capital purpose.

(d) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character.

(e) It may be secured by the pledge of goods or collateral of any nature, including paper which is ineligible for discount, provided it (the note, draft, or bill of exchange) is otherwise eligible.

SECTION III. APPLICATIONS FOR DISCOUNT

Every application for the discount of notes, drafts, or bills of exchange must contain a certificate of the member bank, in form to be pre-

¹When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including livestock.

scribed by the Federal reserve bank, that:

(1) To the best of its knowledge and belief, such notes, drafts, or bills of exchange have been issued or drawn, or the proceeds thereof have been or are to be used, for such a purpose as to render them eligible for discount under the terms of this regulation, and

(2) That such notes, drafts or bills of exchange have not been acquired from a nonmember bank, or, if so acquired, that the applying member bank has received permission from the Federal Reserve Board to discount with the Federal Reserve Bank paper acquired from nonmember banks.

In the case of a member State bank or trust company every such application must contain a certificate or guaranty to the effect that the borrower is not liable, and will not be permitted to become liable during the time his paper is held by the Federal reserve bank, to such bank or trust company for borrowed money in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association.

SECTION IV. PROMISSORY NOTES

(a) DEFINITION.- A promissory note, within the meaning of this regulation, is defined as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

(b) EVIDENCE OF ELIGIBILITY AND REQUIREMENT OF STATEMENTS.-A Federal reserve bank must be satisfied by reference to the note or otherwise that it is eligible for discount, and the member bank shall certify in its application whether a financial statement of the borrower is on file with it.

A recent financial statement of the borrower must be on file with the member bank if it has discounted the note for a non-depositor or a non-member bank, and in all other cases unless -

(1) It is secured by a warehouse, terminal, or other similar receipt covering goods in storage, by a valid prior lien on livestock which is being marketed or fattened for market, or by bonds or notes of the United States; or

(2) The aggregate of obligations of the borrower discounted and offered for discount at the Federal reserve bank by the member bank is less than a sum equal to 10 per cent of the paid-in capital of the member bank and is less than \$5,000.

Whenever the borrower has closely affiliated or subsidiary corporations or firms, the borrower's financial statement shall be accompanied by separate financial statements of such affiliated or subsidiary corporations or firms, unless the statement of the borrower clearly indicates that such note is both eligible from a legal standpoint and acceptable from a credit standpoint, or unless financial statements of such affiliated or subsidiary corporations or firms are on file with the Federal reserve bank.

A Federal reserve bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. Compliance of a note with Section II (c) may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities. A Federal reserve bank may, in any case, require the financial statement of the borrower to be filed with it.

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SECTION V. DRAFTS, BILLS OF EXCHANGE, AND TRADE ACCEPTANCES

(a) DEFINITION.- A draft or bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade acceptance is defined as a draft or bill of exchange, drawn by the seller on the purchaser of goods sold, and accepted by such purchaser.

(b) EVIDENCE OF ELIGIBILITY AND REQUIREMENT OF STATEMENTS. - A Federal reserve bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft, bill, or trade acceptance offered for discount and may require a recent financial statement of one or more parties to the instrument. The draft, bill, or trade acceptance should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor or drawer in a form satisfactory to the Federal reserve bank.

SECTION VI. AGRICULTURAL PAPER

(a) DEFINITION.- Agricultural paper, within the meaning of this regulation, is defined as a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products, the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of livestock, and which has a maturity at the time of discount of not more than nine months, exclusive of days of grace.

(b) PAPER OF COOPERATIVE MARKETING ASSOCIATIONS.- Under the express terms of section 13a, notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural purpose, if the proceeds thereof have been or are to be-

(1) Advanced by such association to any members thereof for an agricultural purpose, or

(2) Used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or

(3) Used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members.

² A consignment of goods or a conditional sale of goods can not be considered "goods sold" within the meaning of this clause. The purchase price of goods plus the cost of labor in affecting their installation may be included in the amount for which the trade acceptance is drawn.

These are not the only classes of paper of such associations which are eligible for discount, however, and any other paper of such associations which complies with the applicable requirements of this regulation may be discounted on the same terms and conditions as the paper of any other person or corporation.

Paper of cooperative marketing associations the proceeds of which have been or are to be used (1) to defray the expenses of organizing such associations, or (2) for the acquisition of warehouses, for the purchase or improvement of real estate, or for any other permanent or fixed investment of any kind, are not eligible for discount, even though such warehouses or other property are to be used exclusively in connection with the ordinary operations of the association.

(c) ELIGIBILITY.- To be eligible for discount, agricultural paper, whether a note, draft, bill of exchange, or trade acceptance, must comply with the respective sections of this regulation which would apply to it if its maturity were 90 days or less.

(d) DISCOUNTS FOR FEDERAL INTERMEDIATE CREDIT BANKS.- Any Federal reserve bank may discount agricultural paper for any Federal intermediate credit bank; but no Federal reserve bank shall discount for any Federal intermediate credit bank any such paper which bears the indorsement of any nonmember State bank or trust company which is eligible for membership in the Federal reserve system under the terms of Section 9 of the Federal reserve act as amended. In discounting such paper each Federal reserve bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks; and no Federal reserve bank shall discount paper for any Federal intermediate credit bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal reserve notes in actual circulation. The aggregate amount of paper discounted by all Federal reserve banks for any one Federal intermediate credit bank shall at no time exceed an amount equal to the paid-up and unimpaired capital and surplus of such Federal intermediate credit bank.

(e) LIMITATIONS. - The Federal Reserve Board prescribes no limitation on the aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by any Federal reserve bank; but the aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of six months, but not exceeding nine months, which may be discounted by any Federal reserve bank shall not exceed 10 per cent of its total assets.

SECTION VII. SIGHT DRAFTS SECURED BY BILLS OF LADING

A Federal reserve bank may discount for any of its member banks bills of exchange payable at sight or on demand which-

(a) Are drawn to finance the domestic shipment of nonperishable, readily marketable, staple agricultural products, and

(b) Are secured by bills of lading or other shipping documents conveying or securing title to such staples.

All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made promptly, unless the drawer

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instructs that they be held until arrival of car, in which event they must be presented for payment within a reasonable time after notice of arrival of such staples at their destination has been received. In no event shall any such bill be held by or for the account of a Federal reserve bank for a period in excess of 90 days.

In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the amount thus deducted after payment of such bills to conform to the actual life thereof.

SECTION VIII. FACTORS' PAPER

Notes, drafts, and bills of exchange of factors issued as such for the purpose of making advances exclusively to producers of staple agricultural products in their raw state are eligible for discount with maturities not in excess of 90 days, exclusive of days of grace, irrespective of the requirements of Sections II (a) and II (b).

SECTION IX. PAPER ACQUIRED FROM NONMEMBER BANKS

(a) Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount any paper acquired by a member bank from a nonmember bank or bearing the signature or endorsement of a nonmember bank; except that Federal reserve banks may discount bankers' acceptances and other eligible paper bearing the signature or endorsement of a nonmember bank, if such paper was bought by the offering bank in good faith on the open market from some party other than the nonmember bank.

(b) Applications for permission to rediscount paper acquired from non-member banks shall be made in writing by the member banks which desire to offer such paper for rediscount and shall state fully the facts which gave rise to each application and the reasons why the applying member banks feel justified in seeking such permission. Such applications shall be addressed to the Federal Reserve Board, but shall be filed with the Federal Reserve Agent, who shall forward them promptly to the Federal Reserve Board with his recommendations.

(c) The Federal Reserve Board hereby grants its permission for Federal reserve banks to discount for member banks paper bearing the signature or endorsement of Federal intermediate credit banks, if such paper is otherwise eligible under the law and this regulation.

The Governor then presented telegram dated October 5th from Mr. Edward A. Duerr, accepting appointment as director of the Buffalo Branch of the Federal Reserve Bank of New York, tendered to him in accordance with the action taken by the Board at yesterday's meeting.

Noted.

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The Governor also presented a letter dated October 5th from the Governor of the Federal Reserve Bank of New York, advising of the liquidation of that bank's special accounts with the Bank of England, and transmitting copy of a letter addressed to the Governors of all other Federal Reserve banks giving the details of the transactions involved.

Ordered circulated.

Telegrams dated October 5th from the Chairmen of the Federal Reserve Banks of Boston, Philadelphia and St. Louis, advising that their boards of directors at meetings on that date made no change in the banks' existing schedules of rates of discount and purchase.

Noted, with approval.

Letter dated September 27th from the Chairman of the Federal Reserve Bank of Chicago, advising of amendments to the By-laws of that bank, adopted by the board of directors at a meeting held on September 23rd; one changing the hour of regular meetings of the Board and the other providing for the annual election of officers, in accordance with the request contained in the Board's letter of August 16, 1927, (X-4928).

Noted, with approval.

Memorandum from Assistant Counsel dated October 4th, with reference to the Clayton Act application of Mr. Isaac Ferris, involving the First Camden National Bank and Trust Company and the Security Trust Company, both of Camden, N. J., which application was temporarily refused at a meeting of the Board held on August 11th with the usual opportunity to the applicant to furnish additional information in support of his application; Counsel stating that the question whether the two banks are

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in substantial competition is a close one, but that on the basis of the additional information submitted by the applicant, which tends to show that any competition which may exist is incidental rather than substantial, he is of the opinion that the two banks involved in the application are not in substantial competition and that the Board may, if it so desires, approve the application.

After discussion, it was unanimously voted to reconsider the Board's action of August 11th and to approve Mr. Ferris' application for permission to serve at the same time as Vice President and director of the First Camden National Bank and Trust Company and as director of the Security Trust Company, both of Camden, N. J.

Telegram dated September 29th from Mr. F. L. Law, Chairman of the Administrative Committee of the Associated Banks of Houston in charge of arrangements for the annual convention of the American Bankers' Association, expressing appreciation of the Board's action in postponing the forthcoming Conferences of Governors and Federal Reserve Agents which were originally scheduled for the week of the convention.

Noted.

Draft of letter prepared by Counsel and approved by the Law Committee, addressed to the Vice President of the First Federal Foreign Investment Trust of New York City, advising of the Board's action of September 27th in voting to accept from the Corporation, in connection with its report on a recent note issue, financial statements as of July 31 and August 31, 1927, in lieu of a balance sheet of August 23rd, the date immediately following delivery to the Corporation by the trustee of the first of the notes in question; the proposed letter also advising that as only a portion of

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the notes signed by the Corporation and delivered to the trustee have been returned to the Corporation and sold, it will be necessary for the Corporation to file a report with the Board every thirty days showing the additional amount of notes which have been delivered by the trustee and sold, together with the net price received therefor.

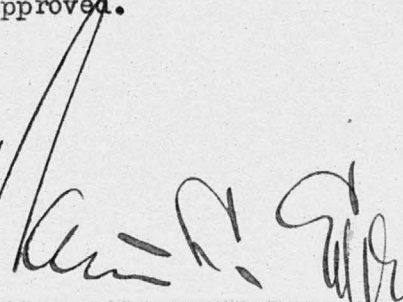
Approved.

REPORTS OF STANDING COMMITTEES:

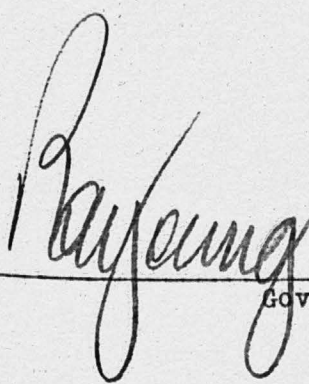
Dated, October 6th, Recommending a change in stock at Federal Reserve Bank as set forth in the Auxiliary Minute Book of this date.

Recommendation approved.

The meeting adjourned at 1:15 p.m.


Secretary.

Approved:


Governor.