

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, October 13, 1927 at 10:30 a.m.

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

The minutes of the meeting of the Federal Reserve Board held on October 12th were read and approved as amended.

Memorandum dated October 10th from the Deputy Comptroller of the Currency, advising that at 9:00 o'clock this morning the Comptroller of the Currency was to call upon all national banks for reports of condition as at the close of business Monday, October 10, 1927. The Secretary announced that the Comptroller's call was made and that simultaneously a call was made for reports of condition from state member banks as of the same date.

Upon motion, the call made by the Secretary was approved.

Report of Committee on Salaries and Expenditures on letter dated October 10th from the Secretary of the Federal Reserve Bank of Cleveland, advising of the action of the Executive Committee of that bank in voting, subject to the approval of the Board, to extend for two months from October 5th, with full pay, leave of absence on account of illness previously granted Mrs. Elizabeth C. Kemp, a clerk in the payroll department of the bank; the Board's Committee recommending approval of the salary payment involved.

Approved.

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Letter dated October 11th from the Chairman of the Federal Reserve Bank of Cleveland, advising of the death on October 6th of Mr. John Stambaugh, Class B Director of the bank, whose term would have expired at the close of the present year; the Chairman stating that nominations are already being received in the regular election for Mr. Stambaugh's successor and inquiring if it will be satisfactory for the bank to complete the current year with the vacancy on its Board.

Noted, without objection.

Memorandum dated October 12th from the Secretary, requesting authority for the employment of an additional messenger, for a temporary period, at a salary of \$900 per annum.

Approved.

Memorandum from Counsel dated October 12th, with reference to the Clayton Act application of Mr. Bruce F. Failey, action on which was deferred by the Board pending a contemplated consolidation of the banks involved therein, namely, The Terre Haute National Bank and the United States Trust Company, both of Terre Haute, Ind.; Counsel stating that advice has been received from the Comptroller of the Currency that the two banks were consolidated on September 7, 1927 and that in view of this fact it appears that Mr. Failey's Clayton Act violation has been eliminated and that no further action in his case is necessary. With his memorandum, Counsel also submitted draft of letter to the Federal Reserve Agent at Chicago referring to the fact that pending the settlement of Mr. Failey's application the Board permitted certain other gentlemen in Terre Haute to defer making

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application to the Board for permission to serve certain banks in that city, with the understanding that if the consolidation between the Terre Haute National Bank and the United States Trust Company took place, these gentlemen would immediately bring their interlocking directorates within the provisions of the Clayton Act; the proposed letter also stating that since the consolidation has now taken place the matter should be called to the attention of the other gentlemen concerned with advice that if they have not already done so they should immediately take steps to comply with the provisions of the Clayton Act.

The termination of Mr. Failey's case was noted by the Board, and upon motion the proposed letter to the Federal Reserve Agent at Chicago was referred to the Governor with power.

Matter ordered circulated at the meeting on September 27th, namely, memorandum from Counsel, dated September 20th, submitting drafts of letters to the First Federal Foreign Investment Trust of New York City and to Kaye, McDavitt and Scholer, Counsel for the trustee under a recent bond issue of the Corporation, with reference to the necessity for an Edge corporation investing in stock of other corporations to obtain the consent of the Federal Reserve Board prior to each and every such investment, and advising that the Board's regulations on this subject are intended to require an application to the Board prior to each such investment. In his memorandum, Counsel stated, however, that such a strict requirement is not essential under the law and the Board may, if it desires, construe its regulation as blanket approval in advance of all investments made by an Edge corporation in the stock of other corporations so long as such in-

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vestments comply with the limitations and restrictions of the law and the Board's regulation.

After discussion, Mr. James moved that the proposed letters be not transmitted for the time being and that the Board's Counsel be requested to suggest a revision of the Board's Regulation K so as to embody in that regulation the interpretation suggested in his memorandum.

Mr. James' motion being put by the Chair was carried.

Memorandum from Counsel dated October 3rd on the matter referred to the Law Committee at the meeting on June 22nd, namely, action of the last Governors' Conference in requesting the Board to reconsider the ruling contained in its letter of March 24, 1927 (X-4816) to the effect that in cases where there is an agreement between the forwarding bank and the correspondent bank by the terms of which credit is given to the forwarding bank immediately upon receipt by the correspondent, items such as coupons, checks drawn on themselves by corporations other than banks, bill of lading drafts, etc. forwarded to a correspondent by a member bank, may be deducted from "due to bank" balances by the forwarding bank in computing its reserves as soon as the items have been placed in the mails and charged to the account of the correspondent bank, regardless of whether or not the forwarding bank has given credit to its own depositor; the Conference having expressed the opinion that the ruling would have the effect, if generally adopted as a practice by member banks, "of reducing very considerably the liability in the items 'due to banks', upon which the reserve calculation is made, which appears to be unjustifiable." With his memorandum Counsel submitted drafts of

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a proposed circular letter to the Governors of all Federal Reserve banks and of a reply to a special letter on the subject received from the Governor of the Federal Reserve Bank of Richmond, both stating (1) That the question whether certain items should be considered as amounts "Due from Banks" is separate and distinct from the question whether such items constitute deposit liabilities against which reserves should be maintained; and (2) That in the Board's opinion when there is an agreement by the correspondent bank to give credit to a forwarding bank immediately upon receipt, items such as are referred to, which have been placed in the mail and charged to the account of the correspondent bank in accordance with the existing agreement, should be considered deposit liabilities of the forwarding bank against which reserve should be computed.

After discussion, Mr. Platt moved approval of the letters submitted by Counsel.

Carried.

Mr. James then moved that the ruling contained in the letters just approved by the Board be referred to the Law Committee, with the request that the Committee consider the advisability of incorporating the provisions thereof in the proposed new regulation governing reserves of member banks.

Carried.

Matter on which action was deferred at the meeting on September 27th, namely, memorandum from Counsel dated September 20th, with reference to telegraphic inquiry received from the Federal Reserve Agent at San Francisco as to whether ownership by the Bancitaly Corporation of stock in the United Bank and Trust Company, San Francisco, a consolidation of the old United Bank and Trust Company and the French American Bank of San

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Francisco, constitutes a violation of the agreement entered into by the Bancitaly Corporation with the Board and the Comptroller of the Currency not to acquire the stock of any independent bank in the state of California to an extent exceeding 25% of the capital stock of any such independent bank without permission of both Federal Reserve Board and the Comptroller of the Currency, for five years after the date of approval of the consolidation of the Bank of Italy and the Liberty Bank of America.

After a detailed discussion, upon motion by Mr. James, it was voted that in reply to his telegram the Federal Reserve Agent should be advised that in the opinion of the Board the action of the Bancitaly Corporation in acquiring the stock in question was in violation of its agreement with the Board.

Memorandum dated September 30th from the Director of the Division of Research and Statistics, transmitting galley proof of a book prepared by Mr. W. R. Burgess, Assistant Federal Reserve Agent at New York, on the subject of the Federal Reserve banks and the money market, containing an introduction by the Governor of the Federal Reserve Bank of New York and a preface by Mr. Burgess including the statement that "The author is alone responsible for the selection of material, expressions of opinion, and errors." In his memorandum the Director referred to an informal suggestion made at a meeting of the Executive Committee several days ago that it might be a good plan for the Board to adopt a general statement, in the nature of a disclaimer, which should appear in all books published by members of the staffs of the Board or of the Federal Reserve banks, and he submitted draft of such a statement for consideration by the Board.

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After discussion, Mr. Hamlin moved that the Board interpose no objection to the publication of the book prepared by Mr. Burgess.

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

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

The statement submitted by the Director of the Division of Research and Statistics was discussed, but no action looking toward its adoption was taken.

Letter dated October 10th from the Governor of the Federal Reserve Bank of Minneapolis, with reference to the action of the Iron Exchange Bank of Hurley, Wis., a non-member bank, in advertising that it is a correspondent of the Federal Reserve Bank of Minneapolis; Governor Geery stating that the bank in question maintains a non-member clearing account with the Federal Reserve bank and requesting in the light of this fact an opinion from the Board as to the legality of the advertisement being used by the bank.

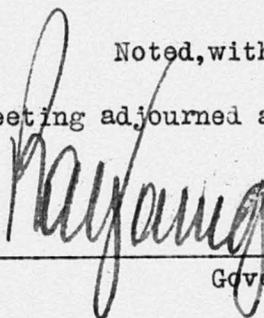
Referred to the Law Committee.

Telegram dated October 13th from the Chairman of the Federal Reserve Bank of Richmond, advising that the board of directors at its meeting today made no change in the bank's existing schedule of rates of discount and purchase.

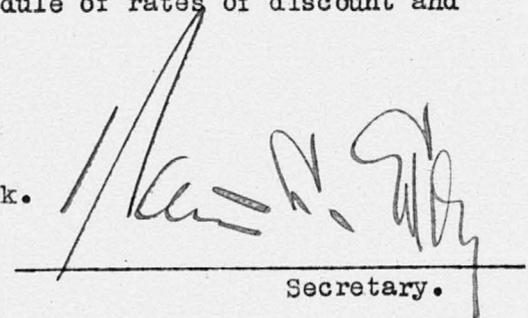
Noted, with approval.

The meeting adjourned at 1:00 o'clock.

Approved:



Governor.



Secretary.