

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, October 18, 1927 at 10:30 a.m.

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

The minutes of the meetings of the Federal Reserve Board held on the morning and afternoon of October 13th were read and approved.

The minutes of the special meeting of the Federal Reserve Board held on the afternoon of October 13th were read and approved as amended.

The Governor presented letters dated October 13th and 15th from the Deputy Governor of the Federal Reserve Bank of New York, with reference to the action of the directors of the Federal Reserve bank in authorizing the Governor of the Bank to cable the Nederlandsche Bank of Amsterdam, Holland offering to buy guilders up to \$10,000,000, in an effort to assist the latter institution in dealing with a credit situation which had resulted in the Nederlandsche Bank increasing its discount rate from 3 1/2% to 4 1/2%; the Deputy Governor in his last letter stating that a cable has been received from the Nederlandsche Bank advising that for the moment the situation seems to be well in hand, but that entirely apart from the particular situation which prompted the action of the New York directors it would be quite agreeable to the institution generally to have the Federal Reserve bank maintain a portfolio of bills with it. The Deputy Governor also stated that as the guilder rate has advanced to a little above parity since the increase in the discount

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rate of the Nederlandsche Bank, there is not now the same urgency for the purchase of guilders as there might be if the guilder rate again approached the export point from Holland thus threatening the Federal Reserve bank with further purchases of gold.

The above letters having been circulated among the members of the Board were noted.

The Governor then presented letter dated October 14th and telegrams dated October 14th and 15th from the Governor of the Federal Reserve Bank of New York, with respect to the agreement of the Federal Reserve Bank of New York to participate in a credit arrangement granted by various banks of issue to the Bank of Poland, in furtherance of plans for the stabilization of the Polish currency; the last advice stating that official notice has been received from the Bank of Poland that the program of stabilization was legally promulgated on October 13th and official notice from bankers of the Polish government that they have agreed to issue a loan in the amount of \$70,000,000, provided for in the program, on October 18th, on which date will become effective, therefore, the agreement of the Federal Reserve bank to purchase, if desired, up to a total of \$5,250,000 of prime commercial bills from the Bank of Poland.

The above letters having been circulated among the members of the Board were noted.

Letter dated October 13th from the Assistant Federal Reserve Agent at New York, telegram dated October 13th from the Chairman of the Federal Reserve Bank of Kansas City and telegram dated October 14th from the Chairman of the Federal Reserve Bank of Atlanta, advising

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that the boards of directors at meetings on those dates made no change in the banks' existing schedules of rates of discount and purchase.

Noted, with approval.

Bond of Mr. Charles F. Gettemy, Assistant Federal Reserve Agent at the Federal Reserve Bank of Boston, executed under date of October 10, 1927 in the amount of \$50,000.

Approved.

Memorandum dated October 17th from the Director of the Division of Research and Statistics, requesting authority to fill the vacancy created by the resignation of Miss Demma Shumate, by the appointment of Mr. Thomas B. Rhodes as Research Assistant in the Division, at a salary of \$1,800 per annum, effective November 1, 1927.

Approved.

Matter approved on initials yesterday, namely, letter dated October 15th from the Acting Comptroller of the Currency, recommending approval of a salary of \$5,000 per annum for National Bank Examiner Ira J. Fulton, assigned to the Fourth Federal Reserve District.

Formally approved.

Report of Committee on Salaries and Expenditures on letter dated October 11th from the Federal Reserve Agent at Kansas City, requesting approval of the action of the Executive Committee of that bank in authorizing an increase from \$2,500 to \$2,800 per annum, effective October 1st, in the salary of Mr. Forest W. Alexander; the Board's Committee recommending approval.

Approved.

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Report of Committee on Salaries and Expenditures on letter dated October 14th from the Chairman of the Federal Reserve Bank of Richmond, requesting approval of extensions authorized by the board of directors of that bank in leaves of absence with pay, previously granted Mrs. Albert Hankins, Jr., Miss T. Elizabeth Lucius and Mr. W. P. Tuel, employees of the bank and its Baltimore Branch; the Board's Committee recommending approval of the salary payments involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated October 10th from the Governor of the Federal Reserve Bank of San Francisco, requesting approval of the action of the board of directors of that bank in voting to extend for a period of three months from October 1st, with half pay, leave of absence on account of illness previously granted Mr. Hans Flo, an employee of the Salt Lake City Branch; the Board's Committee recommending approval of the salary payment involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated October 11th from the Deputy Governor of the Federal Reserve Bank of New York, submitting for approval recommendations for promotions, effective October 1, 1927, in the grades of Messrs. John Wiley, John Lenz, and John Reynolds, to positions where the grade is in excess of \$2,500 per annum, and advising also of certain positions abolished, certain changes in position and grade where no promotion is involved and of the resignation of an employee whose salary was in excess of \$2,500 per annum; the Board's Committee reporting that the promotions recommended

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are in accordance with the grade classification plan approved by the Board on January 12, 1926 and recommending that they be approved.

Approved.

Report of Committee on Examinations on letter dated October 13th from the Chairman of the Federal Reserve Bank of Richmond, recommending approval of an application of the Independence Trust Company of Charlotte, N. C. for permission to open a branch in the Law Building on East Trade Street, Charlotte; the Board's Committee also recommending approval.

Approved.

The Secretary then advised that Mr. Luke Lea, recently elected Class B Director of the Federal Reserve Bank of Atlanta for the unexpired term of Mr. W. H. Hartford, deceased, ending December 31, 1928, took oath of office on October 14th and he presented a report of the Committee on District #6 dated October 14th, recommending the appointment of Mr. Lea as a director of the Nashville Branch for Mr. Hartford's unexpired term.

Upon motion, Mr. Lea was appointed director of the Nashville Branch for the term ending December 31, 1928.

Letter dated October 13th from the Federal Reserve Agent at Richmond, inquiring whether the expenses of Mr. H. W. Black, the Board's Examiner who participated in the recent examination of the Farmers Bank and Trust Company of Forest City, N. C., should be included in the bill to be rendered against that bank covering expenses of the examination. The Secretary reported that Mr. Black's transportation and subsistence

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expenses in connection with the examination amounted to \$113.83 and that his salary during the period he was engaged in the work amounted to \$208.30.

Upon motion, it was voted that the expense of Mr. Black's salary should be absorbed by the Board but that his transportation and subsistence expenses, as reported by the Secretary, should be charged against the member bank examined.

Memorandum dated October 7th from Counsel on letter dated September 21st from the Governor of the Federal Reserve Bank of Dallas, inquiring as to the legal effect of the standard form of indorsement placed on bankers acceptances by accepting banks to show eligibility for rediscount in accordance with the Board's regulations, in view of the recent decision of the Supreme Court of the State of Texas that similar language contained in the standard form of indorsement heretofore used on trade acceptances renders such trade acceptances nonnegotiable; Counsel stating that the question has been referred by Governor Talley to the Governors' Conference, and recommending that the Conference be requested to consider the following suggestions:

(1) That no change be made in the form of certificate to be used on acceptances covering domestic shipments.

(2) That the form of certificate to be used on acceptances covering import and export transactions be changed to read "The transaction which gives rise to this instrument is the (importation or exportation) of (name of commodity) from (point of shipment) to (place of destination)."

(3) That the certificate be eliminated entirely from the faces of acceptances secured by warehouse, terminal or other similar receipts; and that the following form of certificate be printed on a separate piece of paper to accompany the acceptance:

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"This certifies that a certain bill drawn by (name of drawer) on the undersigned for _____ dollars dated _____ and accepted by the undersigned, was secured at the time of acceptance by independent warehouse, terminal, or other similar receipt conveying security title to (name of readily marketable staple) stored in (country where stored) and that the acceptor will remain secured throughout the life of the bill."

After discussion, it was voted that a copy of Counsel's memorandum be forwarded to the Governors of all Federal Reserve banks for their information in connection with their discussion of the subject thereof at the forthcoming Conference.

The Governor then presented the matter ordered circulated at the meeting of the Executive Committee held on September 20th, namely, memorandum dated September 8th from the Board's Assistant Counsel, with reference to the power of the Board to withhold privileges of membership, including the privilege of discounting eligible paper, from a member bank during the time in which it is violating the provisions of the Federal Reserve Act, the regulations of the Board, or the conditions of membership; Counsel stating that the Board is clearly vested with a discretion as to whether in case of violation of law or regulation by a State member bank, the membership of that bank shall be forfeited, but that so long as a State bank remains a member of the System it is entitled to all rights and privileges of such membership.

The above opinion, which was requested by Mr. Gilbert, through the Board's Committee on Examinations, was noted with approval and ordered filed with Mr. Gilbert for his information and guidance.

The Secretary then presented a memorandum from Counsel dated October 6th, prepared at the request of the Governor, setting forth the past history of the Clayton Act case of Mr. J. E. Fishburn, who is now serving

as director of the Merchants National Trust and Savings Bank of Los Angeles, the California Bank of Los Angeles, and the First National Bank of Long Beach, under a permit granted by the Board in 1919 when Mr. Fishburn was serving the Merchants National Bank of Los Angeles, the Home Savings Bank of Los Angeles, and the First National Bank of Long Beach, the Home Savings Bank having consolidated under California law with the California Bank, and the Merchants National Bank having consolidated with the Hellman Commercial Trust and Savings Bank to form the Merchants National Trust and Savings Bank of Los Angeles.

The Governor stated that the question which arises is whether Mr. Fishburn's permit should be revoked because of the evidence before the Board that the California Bank and the Merchants National Trust and Savings Bank are in substantial competition, or whether he shall be permitted to continue to serve under the permit granted him in 1919, which remains in effect unless revoked by the Board.

After discussion, Mr. Hamlin moved that the Federal Reserve Agent at San Francisco be requested to advise the Board whether there is anything in Mr. Fishburn's present interlocking directorates which so affects the public interest as to make advisable the revocation of the permit previously granted him by the Board.

Carried.

The Governor then presented the following report dated September 1st from the Board's Committee on Examinations:

"Acting as the Examination Committee of the Board, we have gone over with Mr. Gilbert the proposed standard form of report of examination designed for use by all Federal Reserve Agents in conducting examinations of member banks of the Federal Reserve System and the comparative set-up of the questions, instructions and matters of the proposed form with those of the report form used by the Comptroller of the Currency in the examination of national banks, which the Board has instructed Mr. Gilbert to prepare.

We have paid particular attention to the questions, instructions and matters of the proposed form for which there are no

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"corresponding questions, instructions or matters in the Comptroller's form. We have suggested a number of changes in the phraseology of several questions and instructions which have no complete counterparts in the Comptroller's form which, Mr. Gilbert informs us, have been made.

"From the statements made by Mr. Gilbert, we believe that the proposed form in its present arrangement and scope should receive the tentative approval of the Board with authority to have it printed, upon the understanding that before it shall be finally adopted and the Federal Reserve Agents instructed to use it in their examination work, Messrs. Gilbert and Black be authorized to visit a Federal Reserve District and, using the proposed form, assist the examining force of the Federal Reserve Agent in making a number of examinations. With the experience and data thus obtainable, it should be possible to ascertain whether the additional information called for by the form can be assembled at a cost in time and money commensurate with its value.

"It is suggested that after such a test is made and the making of any modifications that, in the light of the experience gained, shall appear to be desirable, the Assistant Federal Reserve Agents and/or other officers in charge of examinations, and the Chief Examiners of all of the Twelve Federal Reserve banks, be called to Washington for a conference. With the proposed form as a basis, it should be possible at such a meeting to reach an agreement as to a form that will meet the requirements of all districts and at the same time produce a desirable degree of uniformity in the scope and character of information relating to condition of member banks required for the Board's purposes."

After discussion, Mr. James moved that the proposed standard form of report of examination prepared by Mr. Gilbert, be tentatively approved and printed, and further, that Mr. Gilbert, and his assistant, Mr. Black, be authorized to visit the Eighth Federal Reserve District for the purpose of participating in independent examinations conducted by the Federal Reserve Agent at St. Louis, in which examinations the proposed standard form of examination report shall be used.

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

The Secretary then reported as to the present status of the work being conducted under Mr. Gilbert's supervision, and in connection with analyses which are being made of reports of examination currently received, he stated that he has detailed to assist Mr. Gilbert, Mr. George E. Good,

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formerly Chief Clerk of the Board. He stated that he understood the work of current analyses was to continue, and if so, requested that the Board approve of the definite transfer of Mr. Good to the work in which he is now engaged, which transfer would not involve any change in compensation.

Upon motion, Mr. Good's transfer to examination work was approved.

The Governor then presented the matter ordered circulated at the meeting of the Executive Committee on September 20th, namely, memorandum dated September 2nd from the Board's Assistant Counsel, answering certain inquiries raised by Mr. Gilbert, the Board's Supervisor of Examinations, with regard to the interpretation of Sections 5204, 5205 and 5209 of the Revised Statutes of the United States, in connection with State member banks which, through losses or other withdrawals, have suffered impairments in their capital.

The Secretary read to the Board the opinion expressed by Counsel with respect to each question raised by Mr. Gilbert, and upon motion, Counsel's memorandum was noted with approval and ordered filed with Mr. Gilbert for his information and guidance.

The Governor then presented letter dated October 11th from the Chairman of the Federal Reserve Bank of Dallas, referring to certain recommendations made by the Governor of that bank at the meeting of the Board of Directors on October 7th, and the action taken thereon by the directors, relative to a change in the policy of the Dallas bank with respect to the purchase of bankers acceptances originating in the Eleventh Federal Reserve District.

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The Governor stated that each member of the Board had been furnished with a copy of Mr. Walsh's letter and an excerpt from the minutes of the meeting of the Dallas directors, setting forth the recommendations made by Governor Talley and action taken by the directors of the bank in voting that hereafter, or as soon as practicable, it shall be the general policy of the bank to encourage the accepting member banks in the Eleventh District to adopt the practice of selling their bills in the open market, rather than offering them to the Federal Reserve Bank of Dallas either directly or through another member bank in the district; also that it shall be the general policy of the bank, when purchasing bankers acceptances, to give preference, when practicable, to early maturing bills.

Discussion then ensued during which it was the consensus of opinion that approval or disapproval of the change in policy contemplated by the Dallas bank is not necessary as the matter is one for determination by the directors of the bank. The opinion was expressed, however, that it might not be wise for the Dallas bank to make too abrupt a change in its policy, and that it would be desirable before any change is made for the Board to have an opportunity of discussing the subject with the Governor and Chairman of the bank, who will be in Washington at the end of the present month to attend the Fall Conferences of Governors and Federal Reserve Agents.

Attention was called to the fact that the Chairman of the Dallas bank, in his letter, requests an informal expression of the Board's views on the proposal, and the matter of replying to his letter was referred to the Governor with power.

The Governor then submitted a memorandum from Counsel dated October 8th, submitting correspondence with Counsel for the Federal Reserve Bank of Richmond, with respect to the right of a Federal Reserve bank to charge to the account of an insolvent member bank checks received by the Federal Reserve bank for collection and transmitted to such member bank for payment prior to insolvency; Counsel recommending that the subject be placed on the program for the next Governors' Conference in order that discussion may be had as to the advisability of making a test suit on this question and of the practical problems involved in connection with the charging of

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checks to the accounts of drawee banks.

The Governor expressed the view that there are many practical questions involved and recommended approval of Counsel's suggestion that the matter be submitted to the forthcoming Conference of Governors.

Upon motion, Counsel's suggestion was approved.

Letter dated October 13th from the Governor of the Federal Reserve Bank of Richmond, advising of a proposal made to that bank by the Mosler Safe Company, which is installing the vault for the new Baltimore Branch bank building, to equip the two doors of the vault with plates made of "Donsteel", at a special price of \$4,000.

A discussion ensued, during which Mr. James moved that the Board, having definitely approved contracts amounting to \$188,652 for the construction of the Baltimore vault with standard commercial metals called for in the specifications, advise the Governor of the Federal Reserve Bank of Richmond that it sees no reason for re-considering its former action.

Mr. James' motion was put by the Chair and lost.

After further discussion, it was agreed that action on the above matter be deferred in order to permit all members of the Board to give further consideration to the matter.

The Governor then presented a letter dated October 15th from Deputy Governor Kenzel of the Federal Reserve Bank of New York, advising that a meeting of the Sub-Committee of the General Acceptance Committee will be held in New York on Friday, October 21st, and suggesting that as usual Mr. Wyatt, the Board's General Counsel, be authorized to attend the meeting.

Upon motion, attendance by Mr. Wyatt was authorized.

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Letter dated October 14th from Mr. Edgar W. Freeman, Vice President and Trust Officer of the Corn Exchange National Bank of Philadelphia, requesting an opportunity to appear before the Board for a discussion of a proposed amendment to Regulation F which would require National banks depositing uninvested funds in other institutions to receive collateral security from such depositories.

After discussion, it was voted to afford Mr. Freeman a hearing on Thursday, October 20th.

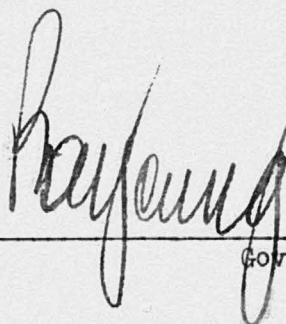
The Governor then announced that at the suggestion of Mr. Hamlin, he expects to go to Boston in order to attend a meeting of the board of directors of that bank next Wednesday, October 26th. He also stated that unless there is objection on the part of the Board he intends to visit several of the other Federal Reserve banks in the near future in order to become more thoroughly acquainted with the officers and directors of those institutions.

REPORTS OF STANDING COMMITTEES:

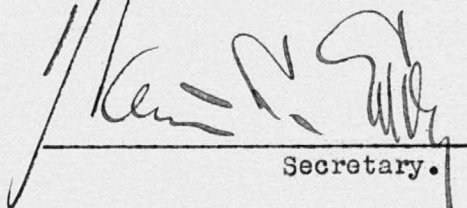
- Dated, October 15th, 18th, Recommending changes in stock at Federal Reserve banks as set forth in the Auxiliary Minute Book of this date. Recommendations approved.
- Dated, October 12th, Recommending action on application for fiduciary powers as set forth in the Auxiliary Minute Book of this date. Recommendation approved.

The meeting adjourned at 12:45 p.m.

Approved:



Governor.



Secretary.