

A special meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, November 14, 1927, at 11 o'clock a.m.

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

PRESENT ALSO: Mr. Wyatt, General Counsel  
 Mr. Vest, Assistant Counsel

The Governor stated that special order of business for this morning's meeting would be the proposed new regulations of the Board which have not yet been definitely adopted by the Board, and he suggested that the Board first consider the proposed new Regulation H on the subject, "Membership of State Banks and Trust Companies."

The regulation in question was considered section by section. The first three sections thereof were adopted in the following form:

REGULATION H, SERIES OF 1927

(Superseding Regulation H of 1924)

MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES

SECTION I. BANKS ELIGIBLE FOR MEMBERSHIP

1. INCORPORATION.- In order to be eligible for membership in a Federal reserve bank, a State bank or trust company must have been incorporated under a special or general law of the State or district in which it is located.

2. CAPITAL STOCK.- Under the terms of section 9 of the Federal reserve act as amended, no applying bank can be admitted to membership in a Federal reserve bank unless-

(a) It possesses a paid-up, unimpaired capital sufficient to

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entitle it to become a national banking association in the place where it is situated, under the provisions of the national bank act, or

(b) It possesses a paid-up, unimpaired capital of at least 60 per cent of such amount, and, under penalty of loss of membership, complies with the rules and regulations herein prescribed by the Federal Reserve Board fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital required under (a).

In order to become a member of the Federal reserve system, therefore, any State bank or trust company must have a minimum paid-up capital stock at the time it becomes a member, as follows:

If located in a city or town with a population -	Minimum capital if admitted under clause (a)	Minimum capital if admitted under clause (b)
Not exceeding 3,000 inhabitants .....	\$25,000	\$15,000
Exceeding 3,000 but not exceeding 6,000 inhabitants .....	50,000	30,000
Exceeding 6,000 but not exceeding 50,000 inhabitants .....	100,000	60,000
Exceeding 50,000 inhabitants (except as stated below) .....	200,000	120,000
In an outlying district * of a city with a population exceeding 50,000 inhabitants; provided State law permits organization of State banks in such location with a capital of \$100,000 or less .....	100,000	60,000

Any bank admitted to membership under clause (b) must also, as a condition of membership, the violation of which will subject it to expulsion from the Federal reserve system, increase its paid-up and unimpaired capital within five years after the approval of its application by the Federal Reserve Board to the amount required under (a). For the purpose of providing for such increase, every such bank shall set aside each year in a fund exclusively applicable to such capital increase not less than 50 per cent of its net earnings for the preceding year prior to the payment of dividends, and if such net earnings exceed 12 per cent of the paid-up capital of such bank, then all net earnings in excess of 6 per cent of the paid-up capital shall be car-

\* The term "outlying district" is construed to mean that portion of a city which is located outside of, and at a considerable distance from, the recognized business and financial center of such city, and includes all suburban districts within the corporate limits of such city.

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ried to such fund, until such fund is large enough to provide for the necessary increase in capital. Whenever such fund shall be large enough to provide for the necessary increase in capital, or at such other time as the Federal Reserve Board may require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by State law to increase the capital of such bank to the amount required under (a): Provided, however, That such bank may be excused in whole or in part from compliance with the terms of this paragraph if it increases its capital through the sale of additional stock: Provided, further, That nothing herein contained shall be construed as requiring any such bank to violate any provision of State law, and in any case in which the requirements of this paragraph are inconsistent with the requirements of State law the requirements of this paragraph may be waived and the subject covered by a special condition of membership to be prescribed by the Federal Reserve Board.

3. BRANCHES.- In order to be eligible for membership in a Federal reserve bank, a State bank or trust company must relinquish any branch or branches established by it after February 25, 1927, beyond the corporate limits of the city, town or village in which the parent bank is situated.

#### SECTION II. APPLICATION FOR MEMBERSHIP

Any eligible State bank or trust company may make application on F.R.B. Form 83a, made a part of this regulation, to the Federal Reserve Board for an amount of capital stock in the Federal reserve bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such State bank or trust company. This application must be forwarded direct to the Federal reserve agent of the district in which the applying bank or trust company is located and must be accompanied by Exhibits I, II, and III, referred to on page 1 of the application blank.

#### SECTION III. APPROVAL OF APPLICATION

In passing upon an application the Federal Reserve Board will consider especially-

- (1) The financial condition of the applying bank or trust company and the general character of its management;
- (2) Whether the corporate powers exercised by the applying bank or trust company are consistent with the purposes of the Federal reserve act; and
- (3) Whether the laws of the State or district in which the applying bank or trust company is located contain provisions likely to prevent proper compliance with the provisions of the Federal reserve act and the regulations of the Federal Reserve Board made in conformity therewith.

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If, in the judgment of the Federal Reserve Board, an applying bank or trust company conforms to all the requirements of the Federal reserve act and these regulations, and is otherwise qualified for membership, the board will approve the application subject to such conditions as it may prescribe pursuant to the provisions of the Federal reserve act. When the conditions imposed by the board have been accepted by the applying bank or trust company and the applying bank or trust company has made a payment to the Federal reserve bank of its district of one-half of the amount of its subscription, i.e., 3 per cent of the amount of its paid-up capital and surplus, the appropriate certificate of stock will be issued by the Federal reserve bank and a certificate of membership will be issued by the Federal Reserve Board. The remaining half of its subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

During the consideration of the proposed Section IV of Regulation H, "Conditions of Membership," it was moved that in lieu of the section tentatively approved by the Board setting forth certain standard conditions to be imposed upon State member banks admitted to membership, the following be substituted:

#### SECTION IV. CONDITIONS OF MEMBERSHIP

"Pursuant to the authority contained in the first paragraph of Section 9 of the Federal reserve act, which provides that the Federal Reserve Board may permit applying banks to become members of the Federal reserve system 'subject to the provisions of this act and to such conditions of membership as it may prescribe pursuant thereto', the Federal Reserve Board will prescribe for each bank or trust company hereafter applying for admission to the Federal reserve system such conditions of membership pursuant to the provisions of the Federal reserve act as the Board may consider necessary or advisable in the particular case, and such bank or trust company will be required to agree to such conditions of membership prior to its admission to the Federal reserve system."

Detailed discussion ensued centering principally upon the desirability of the Board incorporating in the regulation a condition that "such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank nor, without the permission of the Federal Reserve Board, acquire an interest in any other bank." During the dis-

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cussion, attention was called to the fact that the Board contemplates submitting to the Attorney General of the United States the question of its authority in connection with the proposal of a State member bank to purchase the entire capital stock (except directors' qualifying shares) of a new bank to be organized in another city.

A substitute motion was then made that the proposed Section IV be laid on the table until after receipt of the opinion of the Attorney General above referred to.

The substitute motion, being put by the Chair, was carried.

Mr. Platt requested to be recorded as voting "no" thereon.

The Governor then stated that consideration of the succeeding sections of Regulation H would also be deferred.

Regulation J, on the subject, "Check Clearing and Collection" was then considered and adopted in the following form:

REGULATION J, SERIES OF 1927

(Superseding Regulation J of 1924)

CHECK CLEARING AND COLLECTION

SECTION I. STATUTORY PROVISIONS

Section 16 of the Federal reserve act authorizes the Federal Reserve Board to require each Federal reserve bank to exercise the function of a clearing house for its member banks, and section 13 of the Federal reserve act, as amended by the act approved June 21, 1917, authorizes each Federal reserve bank to receive from any nonmember bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such nonmember bank or trust company maintains with its Federal reserve bank a balance sufficient to offset the items in transit held for its account by the Federal reserve bank.

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## SECTION II. GENERAL REQUIREMENTS

In pursuance of the authority vested in it under these provisions of law, the Federal Reserve Board, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal reserve bank exercise the functions of a clearing house and collect checks for such of its member banks as desire to avail themselves of its privileges and for such nonmember State banks and trust companies as may maintain with the Federal reserve bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal reserve banks for purposes of exchange or of collection. Such nonmember State banks and trust companies will hereinafter be referred to as nonmember clearing banks.

Each Federal reserve bank shall exercise the functions of a clearing house and collect checks under the general terms and conditions hereinafter set forth, and each member bank and nonmember clearing bank shall cooperate fully in the system of check clearance and collection for which provision is herein made.

## SECTION III. CHECKS RECEIVED FOR COLLECTION

(1) Each Federal reserve bank will receive at par from its member banks and from nonmember clearing banks in its district, checks<sup>12</sup> drawn on all member and nonmember clearing banks, and checks drawn on all other nonmember banks which are collectable at par in funds acceptable to the Federal reserve bank of the district in which such nonmember banks are located.

(2) Each Federal reserve bank will receive at par from other Federal reserve banks, and from all member and nonmember clearing banks in other Federal reserve districts which are authorized to route direct for the credit of their respective Federal reserve banks, checks drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectable at par in funds acceptable to the collecting Federal reserve bank.

(3) No Federal reserve bank shall receive on deposit or for collection any check drawn on any nonmember bank which can not be collected at par in funds acceptable to the Federal reserve bank of the district in which such nonmember bank is located.

## SECTION IV. TIME SCHEDULE AND AVAILABILITY OF CREDITS

(1) Each Federal reserve bank will publish a time schedule show-

<sup>12</sup> A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand.

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ing the time at which any item sent to it will be counted as reserve and become available for withdrawal or other use by the sending bank. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule and as provided below.

(2) For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal reserve bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available for withdrawal or other use by the sending bank.

(3) For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal reserve bank at full face value, but the proceeds will not be counted as reserve nor become available for withdrawal or other use by the sending bank until such time as may be specified in such time schedule, <sup>13</sup> at which time credit will be transferred from the deferred account to the reserve account or clearing account subject to final payment and will then be counted as reserve and become available for withdrawal or other use by the sending bank.

#### SECTION V. TERMS OF COLLECTION

The Federal Reserve Board hereby authorizes the Federal reserve banks to handle such checks subject to the following terms and conditions; and each member and nonmember clearing bank which sends checks to any Federal reserve bank for deposit or collection shall by such action be deemed (a) to authorize the Federal reserve banks to handle such checks subject to the following terms and conditions, (b) to warrant its own authority to give the Federal reserve banks such authority, and (c) to agree to indemnify any Federal reserve bank for any loss resulting from the failure of such sending bank to have such authority.

(1) A Federal reserve bank will act only as agent of the bank from which it receives such checks and will assume no liability except for its own negligence and its guaranty of prior indorsements.

(2) A Federal reserve bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

(3) A Federal reserve bank may in its discretion and at its option, either directly or through an agent, accept either cash or bank drafts in payment of or in remittance for such checks and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash, nor for the failure of the drawee bank or any agent to

<sup>13</sup> For rules for computation of reserves and penalties for deficiencies in reserves, see Regulation D, Sections III and IV, pp. \_\_\_ and \_\_\_.

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remit for such checks, nor for the nonpayment of any bank draft accepted in payment or as a remittance from the drawee bank or any agent.

(4) Checks received by a Federal reserve bank on its member or nonmember clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to remit or pay therefor at par in cash or bank draft acceptable to the collecting Federal reserve bank, or at the option of such Federal reserve bank to authorize such Federal reserve bank to charge their reserve accounts or clearing accounts; provided, however, that any Federal reserve bank may reserve the right in its check collection circular to charge such items to the reserve account or clearing account of any such bank at any time when in any particular case the Federal reserve bank deems it necessary to do so.

(5) Checks received by a Federal reserve bank payable in other districts will be forwarded for collection upon the terms and conditions herein provided to the Federal reserve bank of the district in which such checks are payable.

(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned.

#### SECTION VI. OTHER RULES AND REGULATIONS

Each Federal reserve bank shall also promulgate rules and regulations not inconsistent with the terms of the law or of this regulation, governing the details of its check clearing and collection operations. Such rules and regulations shall be set forth by the Federal reserve banks in their letters of instruction to their member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check to such Federal reserve bank for collection or to any other Federal reserve bank for the account of such Federal reserve bank for collection.

The Board then proceeded with consideration of the proposed Regulation D on the subject of "Reserves of Member Banks". The first three sections thereof were considered separately and were adopted in the following form:

#### REGULATION D, SERIES OF 1927

(Superseding Regulation D of 1924)

#### RESERVES OF MEMBER BANKS

#### SECTION I. STATUTORY PROVISIONS



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Section 19 of the Federal reserve act provides, in part, as follows:

#### BANK RESERVES

Section 19. Demand deposits within the meaning of this act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: Provided, however, That if located in the outlying districts of a reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraph (a) hereof.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: Provided, however, That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof.

\* \* \* \* \*

The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is full restored.

In estimating the balances required by this act, the net difference of amounts due to and from other banks shall be taken as the basis for

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ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

The various Liberty bond acts (act of April 24, 1917, sec. 7; act of September 24, 1917, sec. 8; act of April 4, 1918, sec. 8) provide, in part as follows:

That the provisions \* \* \* with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositories.

## SECTION II. DEFINITIONS

(a) DEMAND DEPOSITS. - The term "demand deposits" shall include all deposits which are payable within 30 days except "savings accounts," "time certificates of deposit," and "postal savings deposits," as defined below.

(b) TIME DEPOSITS. - The term "time deposits" shall include all "time deposits, open accounts," all "savings accounts," all "time certificates of deposit," and all "postal savings deposits," as defined below.

(c) TIME DEPOSITS, OPEN ACCOUNTS. - The term "time deposits, open accounts" shall mean deposits not evidenced by certificates of deposit or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, except on a given date, not less than 30 days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than 30 days.

(d) SAVINGS ACCOUNTS. - The term "savings accounts" shall mean those deposits in respect to which -

(1) The pass book, certificate, or other similar form of receipt must be presented to the bank whenever a withdrawal is made,

(2) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made, and

(3) The bank's printed regulations, accepted by the depositor at the time the account is opened, include the above requirements.

(e) TIME CERTIFICATES OF DEPOSIT. - A "time certificate of deposit" is defined as an instrument evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate payable in whole or in part to the depositor or on his order-

(1) On a certain date, specified on the certificate, not less than 30 days after the date of the deposit, or

(2) After the lapse of a certain specified time subsequent to the date of the certificate, in no case less than 30 days, or

(3) Upon written notice, which the bank may at its option require to be given a certain specified number of days, not less

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than 30 days, before the date of repayment, and

(4) In all cases only upon presentation of the certificate at each withdrawal for proper indorsement or surrender.

(f) POSTAL SAVINGS DEPOSITS. - The term "postal savings deposits" shall mean deposits of postal savings funds in banks under the terms of the postal savings act, approved June 25, 1910, as amended.

(g) GOVERNMENT DEPOSITS. - The term "Government deposits" shall mean deposits of public moneys by the United States in designated depositories.

### SECTION III. COMPUTATION OF RESERVES

(a) AMOUNTS OF RESERVES TO BE MAINTAINED. - Every member bank of the Federal reserve system is required by law to maintain on deposit with the Federal reserve bank of its district an actual net balance equal to 3 per cent of its time deposits plus -

Seven per cent of its demand deposits if not in a reserve or central reserve city.

Ten per cent of its demand deposits if in a reserve city, except that if located in an outlying district <sup>8</sup> of a reserve city or in territory added to such city by the extension of the city's corporate limits such bank may, upon the affirmative vote of five members of the Federal Reserve Board, be permitted to maintain 7 per cent reserves against its demand deposits.

Thirteen per cent of its demand deposits if located in a central reserve city, except that if located in an outlying district <sup>8</sup> of a central reserve city or in territory added to such city by the extension of the city's corporate limits, such

<sup>7</sup> Deposits made by United States postmasters of Government funds, other than postal savings deposits received by them in their official capacity, constitute "Government deposits" within the meaning of this regulation and, when made in designated depositories, are exempt from the reserve requirements of section 19. The following classes of deposits, however, are not "Government deposits" within such meaning and are not exempt from reserve requirements:

- (1) Deposits of Philippine funds made by the Philippine Government and carried under the title "Treasurer of the Philippine Islands currency reserve fund account."
- (2) Deposits of Porto Rican funds made by the Porto Rican Government.
- (3) Deposits of Indian funds under the control of the Department of the Interior.
- (4) Deposits of States, counties, or municipalities.
- (5) Deposits of the United States Shipping Board and the Emergency Fleet Corporation.

<sup>8</sup> The term "outlying district" is construed to mean that portion of a city which is located outside of, and at a considerable distance from, the recognized business and financial center of such city, and includes all suburban districts, within the corporate limits of such city.

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bank may, upon the affirmative vote of five members of the Federal Reserve Board, be permitted to maintain 7 per cent or 10 per cent reserves against its demand deposits.

No reserves are required to be maintained against Government deposits as defined above.

A member bank exercising trust powers need not maintain reserves against trust funds which it keeps segregated and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, as permitted to national banks under authority of Section 11 (k) of the Federal reserve act, a deposit liability thereby arises against which reserves must be maintained. In computing reserve requirements, trust funds deposited in a member bank by another bank to the credit of such other bank as trustee or other fiduciary must be classified by the member bank as individual deposits rather than bank deposits.

(b) DEDUCTIONS ALLOWED IN COMPUTING RESERVES. - Member banks in determining the amount against which reserves must be carried may deduct:

(1) From gross demand deposits, all Government deposits as defined above.

(2) From the amount of balances due to other banks, the amount of balances due from other banks (except Federal reserve banks and foreign banks), including in the amount due to other banks certified, cashiers', and treasurers' checks outstanding, and including in the amount due from other banks out of town items placed in the mail and charged to the account of correspondent banks, items with a Federal reserve bank in process of collection, checks drawn on banks located in the same city, and exchanges for clearing houses.

(c) AVAILABILITY OF CHECKS AS RESERVE. - Checks forwarded to a Federal reserve bank for collection or credit can not be counted as part of the minimum reserve balance to be carried by a member bank with its Federal reserve bank until such time as may be specified in the appropriate time schedule referred to in Section IV of Regulation J. If a member bank draw against checks before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balance will be subject to all the penalties provided by the act and by this Regulation.

At 1:10 p.m. the Board recessed.

At 3:15 p.m. the meeting reconvened, the same members being present as attended the morning session except Mr. McIntosh.

Consideration was given to the proposed Section IV of Regulation D

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on the subject of "Penalties for Deficiencies in Reserves" which, after amendment, was adopted in the following form:

#### SECTION IV. PENALTIES FOR DEFICIENCIES IN RESERVES

Inasmuch as it is essential that the law with respect to the maintenance by member banks of the required minimum reserve balances be strictly complied with, the Federal Reserve Board, under authority vested in it by Section 19 of the Federal Reserve Act, hereby prescribes the following rules governing penalties for deficiencies in reserves.

##### (a) Basic penalty.

1. Deficiencies in reserve balances of member banks in cities where Federal reserve banks or branches thereof are located will be computed on the basis of average daily net deposit balances covering semi-weekly periods. Deficiencies in reserve balances of member banks in reserve cities where there are no Federal reserve banks or branches thereof will be computed on the basis of average daily net deposit balances covering weekly periods. Deficiencies in reserve balances of other member banks will be computed on the basis of average daily net deposit balances covering semi-monthly periods.

2. Such computations shall be made as at the close of business on days to be fixed by the Federal reserve banks with the approval of the Federal Reserve Board.

3. Penalties for such deficiencies will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding calendar month.

4. Such penalties shall be assessed at a basic rate of 2 per cent per annum above the Federal reserve bank discount rate on ninety day commercial paper, in effect on the first day of the calendar month in which the deficiencies occurred.

(b) Notice to Directors of Banks Deficient in Reserves. Whenever it shall appear that a bank is not paying due regard to the maintenance of its reserves, the Federal Reserve Agent will address a letter to each director of such bank calling attention to the situation and advising him of the requirements of the law and of this regulation regarding the maintenance of reserves and the personal liability of the directors permitting violations of the law.

(c) Progressive penalty. The Federal Reserve Board will also prescribe for any Federal reserve district, upon the application of the Federal reserve bank of that district, an additional progressive penalty for continued deficiencies in reserves, in accordance with the following rules:

1. When a member bank in a city where a Federal reserve bank or branch thereof is located has an average deficiency in reserves for twelve consecutive semi-weekly periods, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on semi-weekly

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deficiencies occurring thereafter, until such member bank has maintained the required average reserve for eight consecutive semi-weekly periods.

2. When a member bank in a reserve city where there is no Federal reserve bank or branch thereof has an average deficiency in reserves for six consecutive weekly periods, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on weekly deficiencies occurring thereafter, until such member bank has maintained the required average reserve for four consecutive weekly periods.

3. When any other member bank has an average deficiency in reserves for three consecutive semi-monthly periods, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on semi-monthly deficiencies occurring thereafter, until such member bank has maintained the required average reserve for two consecutive semi-monthly periods.

4. Such progressive penalty shall be at the rate of 1 per cent per annum for the first calendar month in which same is effective and shall increase at the rate of 1 per cent per annum for each consecutive calendar month thereafter in which the bank's reserve deficiencies are subject to the progressive penalty; provided that the maximum penalty charged shall not exceed 10 per cent per annum.

(d) Continued Deficiencies. Whenever any member bank has an average deficiency in reserves for each reserve computation period during six consecutive months, the Federal Reserve Agent shall promptly report the fact to the Federal Reserve Board with a recommendation as to whether or not the Board should:

1. In the case of a National bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such National bank pursuant to Section 2 of the Federal Reserve Act; or

2. In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership pursuant to Section 9 of the Federal Reserve Act; or

3. In either case, take such other action as the Federal Reserve Agent may recommend or the Federal Reserve Board may consider advisable.

The proposed Section V of Regulation D regarding loans and dividends while reserves are deficient was amended and adopted in the following form:

#### SECTION V. LOANS AND DIVIDENDS WHILE RESERVES ARE DEFICIENT

It is unlawful for any member bank the reserves of which are at any time deficient to make any new loans or pay any dividends unless and until the total reserves required by law are fully restored, and the payment of penalties for deficiencies in reserves does not exempt member banks from this prohibition of law.

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Discussion then ensued of the proposed new Regulation on the subject of "Collection of Maturing Notes and Bills" which it had been suggested be designated as Regulation K, Series of 1927. The Governor reported the action of the recent Governors' Conference in recommending to the Board that no Regulation governing non-cash collections be adopted at this time.

After discussion, upon motion, the recommendation of the Governors' Conference was approved and it was voted that the proposed Regulation be not adopted.

Counsel then referred to the fact that with the suggestion for the designation as Regulation K of the proposed non-cash regulation it was also suggested that the existing Regulation K on the subject of "Banking Corporations Authorized to do Foreign Banking Business Under the Terms of Section 25 (a) of the Federal Reserve Act" be designated as Regulation G, Series of 1927, to succeed the existing Regulation G on the subject "Loans on Farm Land and Other Real Estate" which was rescinded by the Board at its meeting on October 7th.

He now suggested in view of the Board's action in voting not to adopt the proposed regulation on non-cash collections that the existing Regulation K be continued under that designation and that the existing Regulation M on the subject "Redeem of Notes Secured by Adjusted Service Certificates" be designated as Regulation G, Series of 1927.

Upon motion, Counsel's recommendation was approved.

Consideration was then given to a memorandum from Counsel dated November 1st, with reference to the report addressed to the Board under date of October 21, 1927, by the Sub-committee of the General

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Acceptance Committee.

Upon motion, it was voted to refer the report of the Sub-committee, together with Counsel's memorandum, to the forthcoming meeting of the Federal Advisory Council.

The Board then proceeded with consideration of the proposed Regulation F on the subject, "Trust Powers of National Banks". The proposed regulation was considered section by section and the first four sections thereof were adopted without amendment as follows:

REGULATION F, SERIES OF 1927

(Superseding Regulation F of 1924)

TRUST POWERS OF NATIONAL BANKS

SECTION I. STATUTORY PROVISIONS

The Federal reserve act as amended by the act of September 26, 1918, provides in part:

SEC. 11. The Federal Reserve Board shall be authorized and empowered:

(k) to grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this act.

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State



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law which exercise fiduciary powers, but nothing in this act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.

No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

National banks in such cases shall not be required to execute the bond usually required of individuals, if State corporations under similar circumstances are exempt from this requirement.

National banks shall have power to execute such bond when so required by the laws of the State.

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: Provided, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and

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surplus required by State law of State banks, trust companies, and corporations exercising such powers.

## SECTION II. APPLICATIONS

A national bank desiring to exercise any or all of the powers authorized by section 11 (k) of the Federal reserve act, as amended by the act of September 26, 1918, shall make application to the Federal Reserve Board, on a form approved by said board, for a special permit authorizing it to exercise such powers. In the case of an original application - that is, where the applying bank has never been granted the right to exercise any of the powers authorized by section 11 (k) - the application should be made on F.R.B. Form 61. In the case of a supplemental application - that is, where the applying bank has already been granted the right to exercise one or more of the powers authorized by section 11 (k) - the application should be made on F.R.B. Form 61-b. Both forms are made a part of this regulation and may be obtained from the Federal Reserve Board or any Federal reserve bank.

In the case of the organization of a new national bank, the conversion of a State bank or trust company into a national bank, the consolidation of two national banks, or the consolidation of a State bank or trust company with a national bank under the charter of the latter, application for such a permit may be made in advance on behalf of the new, converted, or consolidated national bank, and the permit may be issued simultaneously with the consummation of such organization, conversion or consolidation. In the case of the organization of a new national bank, the application may be made on behalf of the new national bank by the organizers thereof. In the case of the conversion of a State bank or trust company into a national bank, the application may be made by the State bank or trust company on behalf of the national bank into which it is to be converted. In the case of the consolidation of two or more national banks or the consolidation of a State bank or trust company with a national bank under the charter of the latter, the application may be made by the national bank the charter of which is to be retained.

## SECTION III. CONSOLIDATION OF TWO OR MORE NATIONAL BANKS

Where two or more national banks consolidate under the provisions of the Act of November 7, 1918, and any one of such banks has, prior to such consolidation, received a permit from the Federal Reserve Board to act in fiduciary capacities, the rights existing under such permit pass by operation of law to the consolidated bank and the consolidated bank may exercise such fiduciary powers in the same manner and to the same extent as the bank to which such permit was originally issued. In order that the consolidated bank's records may be complete,

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and its right to exercise such fiduciary powers may not be questioned, however, it is advisable for the consolidated bank to obtain from the Federal Reserve Board a permit to exercise fiduciary powers in its own name. Such a permit may be applied for in advance of the consolidation and may be issued in the name of the consolidated bank effective when the consolidation is consummated.

#### SECTION IV. CONSOLIDATION OF STATE BANK WITH NATIONAL BANK

Section 3 of the Act of November 7, 1918, as amended by Section 1 of the Act of February 25, 1927, which authorizes any bank, trust company, savings bank, or other banking institution incorporated under the laws of any State or of the District of Columbia to be consolidated directly with a national bank located in the same county, city, town or village under the charter of such national bank, provides in part that when such consolidation is effected:

"\* \* \* all the rights, franchises, and interests of such State or District bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests, including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District bank so consolidated with such national banking association."

\*\*\*\*\*

"The words 'State bank', 'State banks', 'bank', or 'banks', as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws."

The purpose of this provision is to make clear the right of such a consolidated national bank to succeed to the specific trusteeships, executorships, and other fiduciary appointments under which the State institution was acting prior to the consolidation or in which it had been appointed or designated to act under wills or other instruments which had not become effective at the time of consolidation through the death of a testator, the probate of a will or otherwise; but it does not confer upon such national banks the right to act generally in fiduciary capacities or to undertake any new trust business. It is necessary for the consolidated national bank to have a permit from the Federal Reserve Board to act in fiduciary capacities, therefore, before undertaking to act generally in fiduciary capacities

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or to accept any new trust business. If the national bank does not desire to act generally in fiduciary capacities or to accept any new trust business, but desires merely to continue to execute the specific trusteeships, executorships and other fiduciary affairs which were actually being executed by the State institution at the time of the consolidation or which the State institution had been designated to execute under wills or other instruments which had not yet become effective through the death of the testator, the probate of the will or otherwise, it is not technically necessary for the national bank to have a permit from the Federal Reserve Board in order to execute such specific trusts; but it is advisable for the national bank to have such a permit, in order that its right to continue to execute these trusts may not be questioned. In all cases involving the consolidation of a State institution having a trust business with a national bank under the provisions of the above mentioned act, therefore, the national bank should obtain from the Federal Reserve Board a permit to act in fiduciary capacities before the consolidation becomes effective, unless such national bank already has such a permit.

Section V of Regulation F was amended and adopted in the following form, Mr. Platt requesting that he be recorded as voting "no" on the amendment adopted removing a proposed limit of six months within which separate trust departments must be established:

#### SECTION V. SEPARATE TRUST DEPARTMENTS

Every national bank which obtains from the Federal Reserve Board a permit to act in fiduciary capacities shall establish a separate trust department. Such department shall be established before such bank undertakes to act in any fiduciary capacity and shall be placed under the management of an officer or officers whose duties shall be prescribed by the Board of Directors of the bank, either by an amendment to the by-laws of the bank or by a resolution duly entered in the minutes of the Board of Directors.

Section VI of Regulation F was then amended and adopted in the following form, Mr. Platt requesting that he be recorded as voting "no" on the amendment adopted removing a proposed limit of six months for the deposit of securities by banks authorized to exercise trust

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powers:

## SECTION VI. DEPOSIT OF SECURITIES WITH STATE AUTHORITIES

Whenever the laws of a State require corporations acting in a fiduciary capacity to deposit securities with the State authorities for the protection of private or court trusts, every national bank in such State which obtains a permit from the Federal Reserve Board to act in fiduciary capacities shall, before undertaking to act in such capacities, make a similar deposit of securities. Such securities shall be deposited with the State authorities, unless the State authorities refuse to accept them. If the State authorities refuse to accept such securities, they shall be deposited with the Federal Reserve Agent of the District in which such national bank is located. Securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

Section VII of Regulation F was then adopted in the following form:

## SECTION VII. CUSTODY OF TRUST SECURITIES AND INVESTMENTS

The securities and investments held in each trust shall be kept separate and distinct from the securities owned by the bank and separate and distinct one from another. Trust securities and investments shall be placed in the joint custody of two or more officers or other employees designated by the board of directors of the bank and all such officers and employees shall be bonded.

At this point, Mr. McIntosh entered the meeting and detailed discussion ensued as to the proposed Section VIII of Regulation F, relating to funds awaiting investment or distribution. Following the discussion, Mr. Cunningham moved adoption of the section in the following form:

## SECTION VIII. FUNDS AWAITING INVESTMENT OR DISTRIBUTION

- (a) In General. Funds received or held in the trust department of a national bank awaiting investment or distribution shall be invested or distributed as soon as practicable and shall not be held uninvested by the bank any longer than is reasonably necessary.
- (b) Deposits in Commercial or Savings Department of Trustee Bank. Funds received or held in the trust department of a national bank await-

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ing investment or distribution may be deposited in the commercial department or savings department of the bank to the credit of the trust department; provided that the bank first delivers to the trust department, as collateral security:

- (1) Bonds, notes, or certificates of indebtedness of the United States; or
- (2) Other readily marketable securities of the classes in which State trust companies or State banks exercising trust powers are authorized or permitted to invest trust funds under the laws of the State in which such bank is located; or
- (3) Other readily marketable securities of the classes defined as "investment securities" pursuant to Section 5136 of the Revised Statutes of the United States as amended by the Act of February 25, 1927.

The United States bonds or other securities so deposited as collateral shall be owned by the bank and shall at all times be at least equal in market value to the amount of trust funds so deposited in the commercial department.\*

(c) Deposits in other Banks. If funds received or held in the trust department of a national bank awaiting investment or distribution are deposited in another bank, they shall be deposited to the credit of the said national bank as trustee or other fiduciary and the said national bank shall first require the bank in which such funds are deposited to deliver to the said national bank, as collateral security, United States bonds or other readily marketable securities of the kinds specified in Subsection (b) above, which securities shall be owned by the depositary bank, and shall at all times be equal in market value to the amount of funds so deposited. Such collateral security shall be held in the trust department of the said national bank in the manner provided in Section VII of this regulation for the security of the owners of the funds so deposited.

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\*The act requires that the bank shall set aside in the trust department "United States bonds or other securities approved by the Federal Reserve Board." This provision of the regulations is intended as a general approval by the Federal Reserve Board of all securities which comply with the requirements thereof and specific approval by the Federal Reserve Board is unnecessary as to such securities. The Board will not approve any securities which do not comply with these requirements.

A roll call vote being taken, Mr. Cunningham's motion was lost, the members voting as follows:

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

Mr. Hamlin then moved omission of the proposed Subsection (c) of Section VIII of Regulation F.

A roll call vote being taken, Mr. Hamlin's motion was carried, the members voting as follows:

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

Mr. Hamlin then moved adoption of Section VIII of Regulation F in the following form:

SECTION VIII. FUNDS AWAITING INVESTMENT OR DISTRIBUTION

(a) In General. Funds received or held in the trust department of a national bank awaiting investment or distribution shall be invested or distributed as soon as practicable and shall not be held uninvested by the bank any longer than is reasonably necessary.

(b) Deposits in Commercial or Savings Department of Trustee Bank. Funds received or held in the trust department of a national bank awaiting investment or distribution may be deposited in the commercial department or savings department of the bank to the credit of the trust department; provided that the bank first delivers to the trust department, as collateral security:

- (1) Bonds, notes, or certificates of indebtedness of the United States; or
- (2) Other readily marketable securities of the classes in which State trust companies or State banks exercising trust powers are authorized or permitted to invest trust funds under the laws of the State in which such bank is located; or
- (3) Other readily marketable securities of the classes defined as "investment securities" pursuant to Section 5136 of the Revised Statutes of the United States as amended by the Act of February 25, 1927.

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The United States bonds or other securities so deposited as collateral shall be owned by the bank and shall at all times be at least equal in market value to the amount of trust funds so deposited in the commercial department.\*

\*The act requires that the bank shall set aside in the trust department "United States bonds or other securities approved by the Federal Reserve Board." This provision of the regulations is intended as a general approval by the Federal Reserve Board of all securities which comply with the requirements thereof and specific approval by the Federal Reserve Board is unnecessary as to such securities. The Board will not approve any securities which do not comply with these requirements.

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

The meeting adjourned at 5:30 p.m.

Approved:

*Raymond*

Governor

*W. R. G. [unclear]*  
Secretary