

A meeting of the Federal Reserve Board was held in the office of the Governor on Wednesday, November 14, 1928 at 11:00 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 November 13th were read and approved.

Memorandum dated November 13th from the Director of the Division of Research and Statistics, recommending that the temporary appointment of Mrs. Elsie H. Plitt (nee Hanold), which expires on November 19, 1928, be made permanent at a salary of \$1,440 per annum.

Approved.

Report of Committee on Salaries and Expenditures on letter dated November 8th from the Chairman of the Federal Reserve Bank of San Francisco, transmitting list of employees for whom the directors of that bank approved leaves of absence with pay, on account of illness, during the month of October where the total of such absences since January 1, 1928 has exceeded thirty days; the Board's Committee recommending approval of the salary payments involved.

Approved.

The Governor stated that Mr. Paul Klopstock who is correspondent for the organizers of the proposed "Foreign Discount and Investment Trust" is in Washington this morning and during the course of a brief conversation informed the Governor that the organizers would be agreeable to a change

11/14/28

-2-

in the title of the proposed corporation so as to eliminate the phrase "Investment Trust". He stated that Mr. Klopstock is now conferring with the Board's Counsel with respect to the proposed prospectus submitted in his letter to the Board of October 25th, which at the meeting on November 7th was laid on the table.

The Governor then reported that the Board will meet with the Federal Reserve Agents this afternoon at 2:30 o'clock and that the Joint Conference with the Governors and Federal Reserve Agents will be held at the Washington Hotel on Friday.

He then submitted the following report by the Secretary of the Federal Reserve Agents' Conference on the proceedings of the Conference yesterday, November 13th:

"The following action was taken at today's session of the Federal Reserve Agents' Conference.

A committee, consisting of Messrs. McGarrah, Mitchell, Newton (San Francisco) and Martin, was requested to get in touch with the committee of governors, and prepare a joint memorial to the late Governor Strong.

At the request of Governor Young, his memorandum of November 3, 1928, X-6172, and attached statement of the Board's Counsel, in regard to the granting of fiduciary powers to national banks, were fully discussed. On motion, duly made and seconded, it was voted to concur in the statements therein contained. As the granting of fiduciary powers by the Board at the time of issuance of the charter by the Comptroller places added responsibility on the Board, emphasis was laid on the importance of the following recommendation of this Conference last year: 'The Committee recommends to the Federal Reserve Board that when the time is opportune the Federal Reserve Act should be amended to provide that before any new national bank charters are granted, the applications should be submitted to the Federal Reserve Board for review and determination. This recommendation is made in view of the fact that all national banks, when chartered, automatically become members of the Federal Reserve System.' In considering the memorandum, the examination of trust departments was also discussed. It was the consensus of opinion that the same care should be given to the examination of trust departments as is given to other departments of a bank.

In accordance with the request of Governor Young, there was read and discussed proposed amendment to Section 9 of the Federal Reserve Act permitting the Board to waive, in its discretion, the six months' notice by

11/14/28

-3-

"State member banks voluntarily withdrawing from the System. As the present requirement of six months' notice is to prevent too many banks from withdrawing at one time and to give withdrawing banks time to think over the matter and thereby prevent hasty action, and as it would be unfair to the national banks to permit State banks to withdraw immediately and the sudden withdrawal of a State bank of considerable size might work a hardship on a Federal Reserve Bank, on motion, duly made and seconded, it was voted to be the sense of this conference that no amendment waiving the six months' notice is advisable at this time. Nine members voted against the amendment, two in favor of it and one did not vote.

Topic 1-C, in regard to deduction of foreign balances in computing member bank reserves, after discussion, was referred to a committee consisting of Messrs. McGarrah, McClure and Heath. The committee submitted the following report, which was adopted (Messrs. Austin and Mitchell voting against it):

'Your committee on deduction of foreign balances in computing member bank reserves, begs leave to report as follows: The present regulation with respect to the offsetting of balances due from banks against balances due to banks has been the subject of much controversy in recent years and is unsatisfactory to many banks. The large banks in the financial district having a substantial volume of bank deposits, secure the full benefit of the deduction, whereas most banks carrying few if any bank deposits, secure very small benefits from this regulation. The present regulation is based upon the wording of the Federal Reserve Act and cannot be changed without an amendment to the Act. It results, however, in a discrimination in favor of banks carrying a substantial volume of bank deposits and, therefore, against the smaller banks as a class. The fact that large numbers of banks are unable to offset their items in process of collection results in considerable inconvenience to those banks and not infrequently results in reserve deficiencies which are positively unavoidable. If balances due from foreign banks were also to be considered as deductible, this would represent a still further advantage to the large banks in comparison with the smaller. In view of the wide controversy on this subject and of the feeling on the part of many that if and when the law is changed it should be by way of restricting deductible items rather than extending them, it would seem unwise to liberalize further the regulations with respect to deductions.'

Topic 1-D, regarding advisability of instituting annual conferences in Washington between the Federal Reserve Board and the boards of directors of each reserve bank, was discussed. Mr. Walsh stated that this topic arose from a resolution adopted at a meeting of the Advisory Committee of the Dallas Reserve Bank's Stockholders Association, and read letter dated September 18, 1928, X-6142a, which he had received from Governor Young in regard to the matter. In view of the fact, as set out in said letter, that it is the stated practice of the Federal Reserve Board to welcome a board of directors or any individual director whenever anything arises of sufficient importance to warrant a conference, on motion, duly made and seconded, it was voted to be the sense of this conference that nothing in the way of stated meetings is desirable.

11/14/28

-4-

"Topic 1-E, in regard to discounting sight or demand drafts bearing the signature or endorsement of nonmember banks, was considered. Inasmuch as such paper is acquired by member banks in due course of business, does not contemplate extended use of reserve bank credit, is self-liquidating and facilitates movement of commodities, it was moved, seconded and carried that the proposed amendments to Sections IX and VII of Regulation A, excepting from the prohibition on the discount of paper bearing the signature or endorsement of nonmember banks the sight or demand bills mentioned, be approved.

Topic 1-F, concerning the classification of member banks by electoral groups, was discussed. On motion, duly made and seconded, it was voted to be the sense of this conference that the classification and grouping of member banks for election purposes must be determined by the needs of each individual district.

At the request of Governor Young, memorandum of October 27, 1928, X-6176, in regard to passing on applications for reductions in reserve requirements, was read and discussed. On motion, duly made and seconded, it was voted that an outlying district should not be determined by distance alone, but that consideration should be given to all of the factors contained in paragraphs a, b, c and d of the memorandum and an additional paragraph 'E', to-wit: (a) Outlying banks located in business districts which depend for their existence to any extent upon commercial business; (b) Banks located in outlying districts but in the center of industrial activity and depending upon manufacturers and others to a large extent for their existence; (c) Outlying banks which solicit and perform a city-wide business by mail, truck, solicitors, or otherwise; (d) Outlying banks which depend largely upon savings accounts and checking accounts of individuals and small shopkeepers, and (e) Any other factors that might affect the reserve.

Topic 1-A, as to whether special effort should be made (1) to impress upon member banks the desirability of maintaining an adequate portfolio of eligible paper and (2) to more fully acquaint them with the kind of paper eligible for rediscount, after discussion, was referred to a committee consisting of Messrs. Mitchell, Newton (Atlanta) and DeCamp. The committee submitted the following report which was adopted: 'It is the consensus of opinion of this conference that it is desirable that every effort should be made by a Federal reserve bank to impress upon its member banks the advisability and necessity for the member bank to become familiar with what portion of its assets is eligible for rediscounting with its Federal reserve bank. It is believed that, in addition to circularizing the member banks and effort on the part of the Public Relations Department, the Examiners of the banks can, by discussing eligibility with the officers and possibly the directors at the time of an examination, accomplish good results.'

Topic 2-A. Report of Executive Committee. Mr. Martin, Chairman, filed program of the Conference as its report.

Topic 2-B. Report of Committee on Reserves. Mr. Curtiss, Chairman, stated that no matters had been referred to the committee since the conference last year, except Topic 3-D, and consequently he had no report to submit other than in connection with the latter. Whereupon, Topic 3-D, in regard to controlling credit by so amending the Act as to give the Board power to raise reserve requirements in reserve and central reserve cities, as suggested in

11/14/28

-5-

279

"an article in the June, 1928, issue of Executive's Magazine, was discussed. It was moved, seconded and carried that this conference does not concur in the provisions of said article. A copy of the article is attached.

Topic 2-C. Report of Bank and Public Relations Committee. Mr. Heath, Chairman of the Committee, read report of the committee, which was adopted with slight changes. The program of bank and public relations work suggested therein is summarized as follows:

'Banks. (1) At least one visit a year to each member bank (except where distance makes this impossible.) (2) Representation at bankers' conventions, or group meetings in the district, whenever possible.

'Schools and Colleges. (1) Someone on the staff of each Reserve Bank who talks the language of the economist and maintains contact with schools, colleges, and professional literature. (2) A plan for visits by college classes to the Reserve Bank - including the distribution of suitable literature.

'The General Public. (1) Someone on the staff of each Reserve Bank who maintains contact with journalists and writers. (2) An organized plan for providing speakers for meetings.'

A copy of the full report as adopted is attached.

Topic 2-E. Report of Committee on Bank Examinations and Reports. Mr. Hoxton, Chairman, read report of the committee, which stated that it met with representatives of the Federal Reserve Board and Comptroller of the Currency on March 22 and 23, 1928, at which time Report of Condition of State Member Banks, Form 105, and Report of Earnings and Expenses of Member State Banks, Form 107, were considered, and modifications recommended. The revised forms were used for call of October 3 and six months ending June 30, respectively. On motion, duly made and seconded, the report was adopted. A copy of the full report of the committee is appended.

Topic 3-A, in regard to the effect on a district of changes in the re-discount rates in other districts. Each Federal Reserve Agent reported as to the effect in his district of the changes in rates since July 29, 1927. While the trends shown by the studies may have been affected by seasonal movement of funds, call rates, and other factors, the studies seemed to indicate that some districts, particularly eastern ones, St. Louis and Chicago, were affected by changes in the discount rates by other districts, while others were not affected."

The various actions set forth in the above report were then discussed.

The Comptroller of the Currency joined the meeting and took part in a discussion of the question of granting trust powers to National banks, including the recommendation of the Federal Reserve Agents' Conference on the Governors' memorandum of November 3rd, which is also being referred to the Conference of Governors. The whole matter was made special order of business for a meeting tomorrow morning.

The question of an amendment to Section IX of the Federal Reserve Act permitting the Board to waive, in its discretion, the six months' notice required of State member banks voluntarily withdrawing from the System, having also been referred to the Conference of Governors, was passed over.

11/14/28

-6-

The question of deducting foreign balances in computing member bank reserves was also passed over, pending receipt of a report thereon by the Governors' Conference.

The question of the advisability of instituting annual conferences between the Board and the directors of Reserve banks is also on the program for the Governors' Conference, and action on the recommendation of the Federal Reserve Agents was deferred.

Action was also postponed on the question of the proposed amendment to the Board's Regulation A, with regard to the discount of sight and demand drafts bearing the signature or endorsement of nonmember banks, as this matter will also be considered by the Governors' Conference.

The action of the Federal Reserve Agents with respect to the classification of member banks by electoral groups was noted without objection, but no formal action was taken.

With regard to the recommendation concerning applications for reductions in reserve requirements, the Governor stated that he had apparently not made clear in his memorandum just what he had in mind on this subject and, there being no objection, he stated that he would revamp certain portions of the memorandum and resubmit it to the Agents' Conference.

The action of the Federal Reserve Agents with respect to member banks' portfolios of eligible paper was passed over as the question will also be reported on by the Governors' Conference.

The various Committee reports referred to were noted without action.

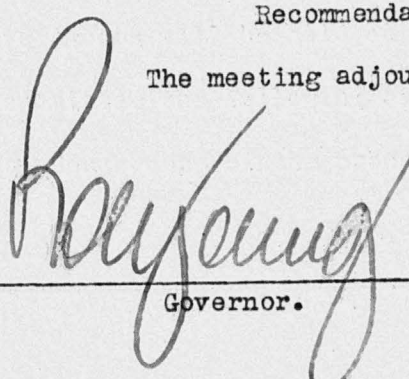
REPORTS OF STANDING COMMITTEES:

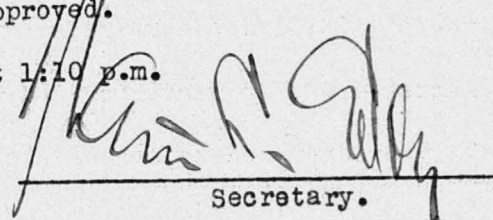
Dated, November 12th, Recommending approval of the application of Mr. J. R. Einstein, for permission to serve at the same time as director of the Armstrong County Trust Company, Kittanning, Pa., and as director of the Merchants National Bank, Kittanning, Pa.

Recommendation approved.

The meeting adjourned at 1:10 p.m.

Approved:


Governor.


Secretary.