

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, December 3, 1928 at 10:45 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 27th were read and approved.

Matters approved on initials on November 30th and December 1st, namely, applications of the Lefcourt-Normandie National Bank, New York, N. Y. and the First National Bank in Poultney, Vt., for original stock (1800 and 120 shares) in the Federal Reserve Banks of New York and Boston, respectively, effective if and when the Comptroller of the Currency issues a certificate of authority to commence business.

Formally approved.

Matter approved on initials on November 30th, namely, letter to the Chairman of the Federal Reserve Bank of Philadelphia, referring to arrangements made orally to send Mr. J. F. Dewhurst of that bank to the conference of business statisticians in Geneva, Switzerland; the letter confirming the appointment of Mr. Dewhurst by the Secretary of State as a member of the American delegation to the conference, and advising that the expenses of the trip will be met by the Department of State and that the Board approves leave of absence with pay for Mr. Dewhurst for the duration of the trip.

Formally approved.

Matter approved on initials on November 30th, namely, letter dated

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November 30th from the Comptroller of the Currency, recommending approval of a salary of \$15,000 per annum for Mr. E. Willey Stearns, appointed Chief National Bank Examiner of the United States.

Formally approved.

Telegram dated December 1st from the Chairman of the Federal Reserve Bank of New York, advising of the election of Mr. Charles E. Mitchell as Class A Director and the re-election of Mr. William H. Woodin as Class B Director of the bank, both for terms of three years beginning January 1, 1929.

Noted.

Telegram dated December 1st from the Chairman of the Federal Reserve Bank of Richmond, advising of the re-election of Mr. James C. Braswell as Class A Director and Mr. E. C. Graham as Class B Director of the bank, both for terms of three years beginning January 1, 1929.

Noted.

Telegram dated November 30th from the Chairman of the Federal Reserve Bank of Chicago, advising of the election of Mr. Edward R. Estberg as Class A Director and the re-election of Mr. S. T. Crapo as Class B Director of the bank, both for terms of three years beginning January 1, 1929.

Noted.

Telegram dated December 1st from the Chairman of the Federal Reserve Bank of Minneapolis, advising of the re-election of Mr. Paul J. Leeman as Class A Director and Mr. Paul M. Myers as Class B Director of the bank, both for terms of three years beginning January 1, 1929.

Noted.

Telegram dated November 30th from the Chairman of the Federal Reserve

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Bank of Kansas City, advising of the re-election of Mr. Frank W. Sponable as Class A Director and Mr. J. M. Bernardin as Class B Director of the bank, both for terms of three years beginning January 1, 1929.

Noted.

Telegram dated December 3rd from the Chairman of the Federal Reserve Bank of Dallas, advising of the re-election of Mr. W. H. Patrick as Class A Director and the election of Mr. A. S. Cleveland as Class B Director of the bank, both for terms of three years beginning January 1, 1929.

Noted.

Report of Committee on Salaries and Expenditures on letter dated November 26th from the Secretary of the Federal Reserve Bank of Chicago, transmitting list of employees for whom the directors of that bank authorized leaves of absence with pay, on account of illness, during the period from October 26th to November 22nd, 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.

Letter dated November 27th from Mr. Claude Gilbert tendering his resignation as Supervisor of Examinations of the Federal Reserve Board.

Upon motion, Mr. Gilbert's resignation was accepted effective at close of business November 30, 1928.

Letter dated November 30th from the Federal Reserve Agent at Philadelphia, requesting approval of the designation of Messrs. Howard M. Barnes and Glenn K. Morris, of the Bank Relations Department, as special assistants to Examiners.

Approved.

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Telegram dated November 30th from the Chairman of the Federal Reserve Bank of San Francisco, requesting that the Board suspend for the year 1929 the provision of the by-laws of the several Branches of that Bank that at least one of the directors appointed by the Bank shall reside outside of the city in which the Branch is located. The Secretary stated that the Board waived the requirement in question for the year 1928 in view of the fact that the directorates of the San Francisco Branches consist of but five members.

Upon motion, it was voted to waive the requirement for the year 1929 also.

Letter dated November 27th from the Governor of the Federal Reserve Bank of Dallas, referring to a request received from the New York Evening Post for an expression of his views, for publication, in regard to the business outlook for 1929; the Governor stating that while he shall, of course, decline to do this, in accordance with the well established policy that has been adopted in regard to predictions, it occurred to him that perhaps he could partially meet the wishes of the newspaper by giving them a brief synopsis of present economic conditions in the Eleventh District, copy of which he submitted to the Board for review. The Secretary reported that the proposed statement has been read by the Director of the Board's Division of Research and Statistics who reports that he sees nothing objectionable therein.

After considerable discussion, upon motion, the Governor was authorized to address a letter to Governor Talley, as follows:

"I acknowledge receipt of your letter of November 27th with regard to the request of the New York Evening Post for an expression of your views, for publication, on the business outlook for 1929 and I wish to express my appreciation of your courtesy in submitting the matter to the Board.

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"In part you have anticipated the obvious objections to the request when you state that you shall decline to express any views as to the business outlook, in accordance with the well established policy that you have adopted with regard to predictions but we are inclined here to think that in view of the significance which might be given to a statement emanating from a Federal Reserve official under present conditions, it would be best not to issue anything, even in the nature of a review of the past year. If I read your letter correctly this appears to be in harmony with your own view.

However, your article has been examined and in the event you should decide to publish it certain slight textual changes are suggested. In the first sentence it is believed that the phrase 'at high tide' might better be changed to 'at a high level' and at the end of the third paragraph the words 'and stability' should be omitted.

As requested by you the article is returned herewith."

Mr. Hamlin then suggested that a circular letter be addressed to all Federal Reserve banks, advising that without raising any question as to the right of a Federal Reserve bank to issue a statement regarding banking and business conditions in its District, the Board desires to place upon record its feeling that predictions as to the future are ill advised.

After discussion, the Governor was requested to prepare and submit to the Board draft of a letter to all Federal Reserve banks along the lines of Mr. Hamlin's suggestion.

Letter dated December 1st from the Chairman of the Federal Reserve Bank of Philadelphia, advising that representatives of the outlying Philadelphia banks which have applied to the Board for a reduction in their reserve requirements would like to meet with the Board on Thursday, December 13th at 12:00 o'clock, if convenient.

Noted, with approval.

Letter dated November 28th from the Secretary of the Federal Reserve Bank of New York, transmitting copies of communications with the National Bank of Bulgaria outlining the terms and conditions which will govern the relationship between the institutions, authorized by the Board on November 26th.

Noted.

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Letter dated November 28th from the Deputy Governor of the Federal Reserve Bank of New York, advising that sales have now been made from the Open Market Investment Account totalling \$38,800,000, the exact amount of the United States securities taken over on November 19th and 20th from a foreign correspondent.

Noted.

Letter dated November 26th from the Acting Secretary of the Open Market Investment Committee, transmitting copies of minutes of meetings of the Committee held on November 13th and 15th, as well as the meeting of the Committee and the Governors' Conference in joint session with the Board on November 16th.

Ordered circulated.

Memorandum from Counsel dated November 26th with reference to application of the National City Bank of New York, for permission to establish branches in Balboa and Ancon, Canal Zone; Counsel stating that the application is in proper legal form and that he knows of no legal reason why it should not be granted.

Upon motion, the following was ordered spread upon the minutes:

"THE NATIONAL CITY BANK OF NEW YORK, having on or about November 23rd, 1928, filed an Application with this Board for the purpose of obtaining authority to establish Branches in BALBOA and ANCON, CANAL ZONE, and the said Application having been considered; and it appearing that the said Application is properly made under the laws of the United States of America and should be granted, NOW, THEREFORE, IT IS

ORDERED, that the said Application be and it hereby is approved, and that the said Bank be and it hereby is authorized to establish Branches in BALBOA and ANCON, CANAL ZONE."

The Secretary then submitted draft of reply to letter dated November 22nd from Kean, Taylor and Company, New York City, requesting information as to the

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dates when the directors of the various Federal Reserve banks hold their meetings; the proposed reply setting forth the provisions of the by-laws of the Federal Reserve banks relating to meetings of the boards of directors.

After discussion, upon motion, it was voted to reply to the above inquiry that inasmuch as each Federal Reserve bank fixes the dates for its directors' meetings, the Board feels that the request for the information should be addressed to the Federal Reserve banks themselves.

Letter dated November 28th from the Secretary of the Governors' Conference, submitting informal action of the recent Conference in voting that it would be preferable, if agreeable to the Federal Reserve Board, to have each Federal Reserve bank submit changes in the salaries of officers to the Federal Reserve Board for its approval before the middle of December, in order that the Board might have an opportunity to act upon such changes before January 1st; the letter stating the Conference felt that if this procedure is followed it would still be possible and desirable for each Federal Reserve bank to appoint its officers annually, at the first meeting of the board of directors in January and to fix the salaries at that time at the figures recommended and approved during December.

Discussion then ensued of the present procedure which was instituted by the Board in August 1927.

Following the discussion, the Governor was requested to prepare and submit to the Board draft of a letter to the Secretary of the Governors' Conference relative to the above matter.

Memorandum from Counsel dated November 23rd, submitting draft of reply to letter dated November 19th from the Federal Reserve Agent at Boston, inquiring whether the Industrial Trust Company of Providence, R. I. may lawfully establish in Woonsocket, R. I. a branch of its existing Woonsocket Branch and continue its membership in the Federal Reserve System; the proposed reply stating that in the

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opinion of the Board, the Industrial Trust Company may not now establish the proposed additional branch and continue its membership in the System.

Upon motion, the proposed letter was approved.

Memorandum from Counsel dated November 23rd, submitting draft of reply to letter dated November 21st from the Federal Reserve Agent at Boston, inquiring whether the Union Trust Company of Providence, R. I. while continuing as a member of the Federal Reserve System may lawfully purchase all the assets of and operate as a branch a national bank located in Woonsocket, R. I.; the proposed reply stating that the question has been referred to the Board's Counsel who agrees with the conclusion reached by Counsel for the Federal Reserve Bank that the Union Trust Company, while a member of the Federal Reserve System, may not lawfully purchase the assets of and maintain as a branch the present main office of a national bank located in Woonsocket.

Upon motion, the proposed letter was approved.

The Governor then presented the matter ordered circulated at the meeting on November 13th, namely, letter dated November 8th from the Deputy Governor of the Federal Reserve Bank of New York with reference to an inquiry made under date of October 17th by the First Federal Foreign Investment Trust, New York City, as to the interpretation of the phrase "market value" contained in Section 11 of the Board's Regulation K, relating to security for debentures of Edge Corporations, as applied to retail installment paper which arises from sales of American merchandise by foreign merchants to their buyers, and against which the First Federal Foreign Investment Trust makes advances to the foreign merchants in amounts equal on the average to 75% of the face value of such paper; the Deputy Governor suggesting that the First Federal Foreign Investment Trust should not

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be permitted to take more than two-thirds of the amount of its investment in such paper as the market value for the purposes of Section 11 and that of the total collateral required for any one issue of the corporation's secured notes not more than 50% should be permitted to consist of foreign retail installment paper.

After discussion, upon motion, the above file was referred to the Law Committee for the preparation of a letter to the First Federal Foreign Investment Trust along the lines of the suggestion of the Deputy Governor of the New York bank.

The Governor then submitted drafts of letters to the Chairmen of the Committees on Banking and Currency of the Senate and House of Representatives, prepared in accordance with the request contained in a letter dated November 30th from General Counsel of the American Bankers Association, requesting that the Committees defer final action on a bill pending to amend Section 5219 of the Revised Statutes in the matter of taxation of National banks by states until such time as they are in possession of copies of a brief regarding the amendment being prepared by the American Bankers' Association; the letter also requesting that the Board not be called before the Committee regarding the amendment until it has had an opportunity of studying the brief in question.

Upon motion, the letters submitted by the Governor were approved.

Letter dated November 27th from the President of the First National Bank of Miami, Fla. with reference to the currency fund being maintained at that bank; the letter also referring to the possible designation of Miami as a reserve city.

Ordered circulated.

The Governor then referred to the matter ordered circulated at the meeting on October 12th, namely, application of member banks in Albany, N. Y. for the

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termination of the designation of Albany as a reserve city.

After discussion, upon motion, it was voted to advise the applicants that the Board is not inclined to approve a reduction in their reserve requirements but will be glad, if the banks desire, to have representatives appear before it on a date to be agreed upon, not earlier than December 15th, to furnish the Board with additional information.

The Governor then presented letter dated November 20th from the Executive Manager of the American Bankers' Association, quoting a resolution adopted at the recent convention of the Association requesting that the Board again permit the weekly adjustment of reserves by member banks in Federal Reserve Bank and Branch cities and suggesting that the percentage of reserves be based upon the banks' condition at the beginning of the day.

The Governor referred to the suggestion contained in the brief recently submitted by the Federal Advisory Council in favor of the weekly computation of reserves and at his suggestion it was voted that a letter along the following lines be addressed to the American Bankers' Association:

"This will acknowledge receipt of your letter of November 20, quoting a resolution adopted by the American Bankers Association at its recent convention in Philadelphia. You are advised that the Federal Reserve Board is now working on a plan which would permit member banks to report reserves weekly and would penalize only those banks which are abusing the reserve privilege, which is in accordance with the first part of the resolution of the American Bankers Association.

The Board does not believe, however, that anything would be accomplished by adopting the suggestion that the percentage of reserves be based upon the bank's condition at the beginning of the day. For instance, if at the beginning of the day a bank could definitely determine that its reserve requirements would be \$500,000, a wire transfer late in the afternoon would leave the bank short in its reserves - exactly the same position it would be in if it estimated the amount of reserves required. In other words, it is not so much a question of estimating the required reserves as it is of having the reserves there.

The Board also thinks it is quite proper to remind the banks that regardless of the regulations that may be adopted for figuring penalties for deficiencies in reserves, the member banks are not relieved of any legal liability their directors may have under the present law."

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At 1:00 o'clock p.m. the meeting recessed and reconvened at 2:45 p.m., the same members being present as attended the morning session.

In accordance with the suggestion made at the morning meeting, the Governor submitted draft of a letter to the Secretary of the Governors' Conference with reference to the informal action taken by the recent Conference in the matter of the approval of salaries of officers of the Federal Reserve banks; the proposed letter expressing the conclusion of the Board that it can not give final approval to compensation either of officers or employees until finally fixed by the directors of the Reserve banks, but stating that if recommendations are made by a board of directors for salaries of officers and employees for the following year, the Board will express an opinion thereon, reserving final action until after the compensation has been fixed by the incoming board of directors.

Upon motion, the proposed letter was laid upon the table until the meeting tomorrow.

Letter dated November 27th from the Federal Reserve Agent at San Francisco, transmitting and recommending approval of an application of the Monterey County Bank, Salinas, Cal. for permission to exercise fiduciary powers under authority granted by the Superintendent of Banks of California.

Approved.

The Governor then referred to the suggested revision of the Open Market Investment procedure of the Federal Reserve System and reviewed the past consideration given to the subject. He submitted the suggestion of the Governors' Conference, as amended and adopted by the Joint Conference of Governors and Federal Reserve Agents on November 16th, as follows:

"(1) That the Open Market Investment Committee, which is now composed of five Governors, be enlarged so as to include the other seven Governors, making a Committee of twelve, provided

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"that in case of the inability of any Governor to attend, an alternate shall be appointed by the Directors of his bank.

(2) That the Committee of twelve shall select from its membership an Executive Committee to consist of five members, which shall carry into effect the policies from time to time determined by the full Committee and approved by the Federal Reserve Board.

(3) That it shall be the function of the Open Market Investment Committee to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System or participating Federal reserve banks.

(4) That the time, manner, character and volume of such purchases and sales shall be governed primarily with the view of accommodating commerce and business and with regard to their bearing upon the general credit situation.

(5) That the meetings of the Open Market Investment Committee, which shall be called either by the Board or by the Executive Committee of the Open Market Investment Committee shall be held in Washington or at such other place as may be arranged by the Chairman of the Executive Committee of the Open Market Investment Committee and the Executive Officer of the Federal Reserve Board.

(6) That the procedure at meetings of the Open Market Investment Committee shall be in the future as in the past, to wit: That the Committee shall consider and act upon the recommendations of the Executive Committee and shall then meet with the Federal Reserve Board to discuss these recommendations with members of the Board for such action as the Board may deem proper."

A detailed discussion ensued at the conclusion of which it was the consensus of opinion that it might be advisable for the Board at the present time merely to amend the resolutions adopted on March 22, 1923, establishing the Open Market Investment Committee, so as to provide that the Committee should "consist of twelve representatives from the Reserve banks" instead of five as at present, but formal action was deferred.

REPORTS OF STANDING COMMITTEES:

- Dated, December 1st, Recommending changes in stock at Federal Reserve banks
3rd, as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.
- Dated, November 24th, Recommending action on applications for fiduciary powers
27th, as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

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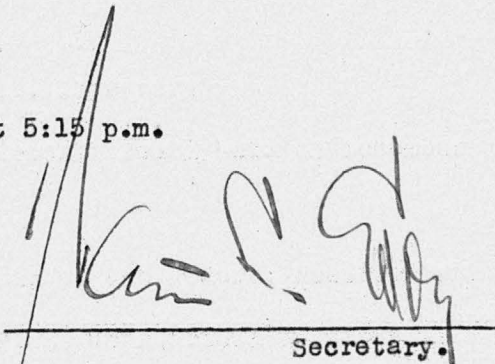
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REPORTS OF STANDING COMMITTEES: (Cont'd)

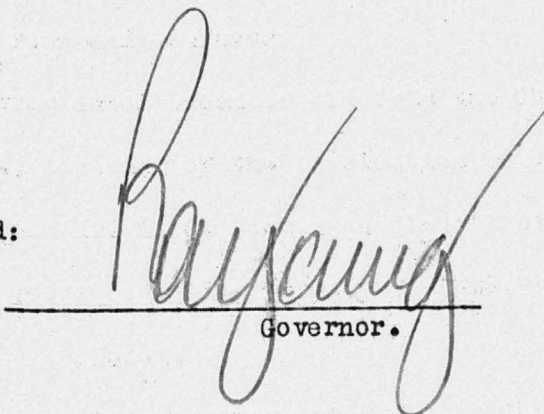
Dated, November 27th, Recommending approval of the application of Mr. Albert Leuly for permission to serve at the same time as Director of the Hudson Trust Company, Union City, N. J. and as Director of the First National Bank, Secaucus, N. J.

Recommendation approved.

The meeting adjourned at 5:15 p.m.


Secretary.

Approved:


Governor.