

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

November 30, 1925 December 1, 1925

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 30, 1925.

The last regular statutory meeting in 1925, of the Federal Advisory Council was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., Monday, November 30, 1925, having been postponed, to meet the convenience of the Federal Reserve Board, from the third Monday in the month, the date prescribed in the By-Laws.

The President, Mr. Warburg, called the meeting to order at 9:30 A.M.

Present:

Mr. P. M. Warburg, President	District No. 2
Mr. E. F. Swinney, Vice President	District No. 10
Mr. C. A. Morss	District No. 1
Mr. L. L. Rue	District No. 3
Mr. G. A. Coulton	District No. 4
Mr. J. M. Miller, Jr.	District No. 5
Mr. Oscar Wells	District No. 6
Mr. F. O. Wetmore	District No. 7
Mr. Breckinridge Jones	District No. 8
Mr. G. H. Prince	District No. 9
Mr. W. M. McGregor	District No. 11
Mr. H. S. McKee	District No. 12
Mr. C. B. Georgen	Secretary

On motion, duly seconded, the minutes of the previous Council meeting on September 21, 1925, copies of which had been sent to the members, were approved.

The President brought before the attention of the Council the decease since the last meeting of Mr. David C. Wills, Federal Reserve Agent and Chairman of the Board of the Federal Reserve Bank of Cleveland. On motion, duly seconded, the following resolution was thereupon unanimously adopted:

FEDERAL ADVISORY COUNCIL

**Resolution unanimously adopted by the Federal Advisory
Council in session at Washington D. C. November 30, 1925.**

WHEREAS, IN THE DEATH OF DAVID C. WILLS, FEDERAL RESERVE AGENT AND CHAIRMAN OF THE BOARD OF THE FEDERAL RESERVE BANK OF CLEVELAND, THE FEDERAL RESERVE SYSTEM HAS LOST A DEVOTED FRIEND, WHOSE ABILITY, USEFULNESS AND LOYALTY WERE UNEXCELLED AND AN INSPIRATION TO ALL ASSOCIATED WITH HIM IN HIS WORK;

BE IT RESOLVED THAT THE FEDERAL ADVISORY COUNCIL MAKE THIS RECORD OF ITS DEEP SORROW AT THE UNTIMELY DEMISE OF THIS FAITHFUL, UNSELFISH AND UNTIRING SERVANT OF THE COUNTRY, WHOSE WISE COUNCIL AND GENIAL COOPERATION AND FRIENDSHIP WILL BE MISSED KEENLY AND GRATEFULLY REMEMBERED BY ALL ASSOCIATED WITH HIM IN THE TASK OF FURTHERING THE WELFARE OF THE FEDERAL RESERVE SYSTEM TO WHICH HE HAD CONSECRATED HIMSELF SINCE ITS VERY INCEPTION IN 1914; AND

BE IT FURTHERMORE RESOLVED THAT A TRANSCRIPT OF THESE MINUTES BE SENT AS A MARK OF SYMPATHY TO MR WILLS' FAMILY AND TO THE BOARD OF DIRECTORS AND OFFICERS OF THE FEDERAL RESERVE BANK OF CLEVELAND.

The President stated that the Federal Reserve Board had invited Prof. O. M. W. Sprague of Harvard University to appear before the Council to elucidate and answer any questions regarding a memorandum of legislative proposals which he had prepared, based upon action taken thus far by the Advisory Committee appointed by the Federal Reserve Board to study banking legislation, in particular modifications proposed to Section 5200 in McFadden Bill H. R. 8887 (See Topic No. 3 attached hereto and made part of these minutes).

The President further mentioned that Vice Governor Platt in a letter to him had suggested to invite Gov. Seay of the Federal Reserve Bank of Richmond, to appear before the Council together with Prof. Sprague, but that there had not been sufficient time to take any action in this regard.

A discussion followed as to the principle involved in the extension of such invitations and the precedent that might be created thereby. It was the sense of the meeting that no one should be permitted as a matter of right to ask for a hearing by the Council but that the Council reserves for itself the right to extend such invitations for a hearing whenever it deems it desirable and that such invitations may also be extended to officers of Federal Reserve Banks.

The Council discussed Topic No. 1 submitted by the Federal Reserve Board, attached hereto and made part of these minutes, regarding the present trend toward lower ratios of capitalization of banking institutions to increased deposits, carried over from the previous meeting. Data submitted by Mr. W. W. Stewart, Director, Division of Research and Statistics of the Federal Reserve Board, were reviewed and after discussion on motion, duly seconded, the Executive Committee was instructed to formulate a recommendation for the approval of the Council, embodying the conclusions agreed upon.

The other topics submitted by the Federal Reserve Board (Topics Nos. 2 and 3, as well as the informal topic regarding Term Settlements on the New York Stock Exchange attached hereto and made part of these minutes) were reserved for further discussion until the joint conference with the Federal Reserve Board.

Mr. Wells introduced the question as to whether or not the present was a favorable time to bring to the attention of Congress the rechartering of Federal Reserve Banks. After discussion, on motion duly seconded, it was resolved that the Executive Committee and Mr. Wells, as President of the American Bankers Association, should see Secretary Mellon during this session and hear his views and offer the services of the Council if required.

At 12:15 P.M. the Council adjourned to convene in joint session with the Federal Reserve Board.

C. B. GEORGEN,
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY
COUNCIL AND THE FEDERAL RESERVE BOARD

November 30, 1925.

At 12:15 P. M., a joint conference of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board room.

Present: Members of the Federal Reserve Board:

Governor D. R. Crissinger, Vice Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller, G. R. James, E. H. Cunningham; also, Mr. C. S. Dewey, Assistant Secretary of the Treasury, Mr. W. W. Stewart, Director, Division of Research & Statistics and Prof. O. M. W. Sprague of Harvard University.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg, President, Mr. E. F. Swinney, Vice President, Messrs. C. A. Morss, L. L. Rue, G. A. Coulton, J. M. Miller, Jr., Oscar Wells, F. O. Wetmore, Breckinridge Jones, G. H. Prince, W. M. McGregor, H. S. McKee and C. B. Georgen, Secretary.

The President of the Council called the meeting to order and invited Prof. Sprague to address the conference as arranged, regarding his memorandum of legislative proposals based upon action taken by the Advisory Committee appointed by the Federal Reserve Board to study banking legislation (Topic No. 3 attached and made part of these minutes). A discussion ensued and suggestions were made to Prof. Sprague involving certain modifications of the proposals.

At 1:40 P. M., the joint conference adjourned to reconvene at 3:30 P. M.

C. B. GEORGEN,

Secretary.

MINUTES OF MEETING OF EXECUTIVE COMMITTEE OF THE
FEDERAL ADVISORY COUNCIL

November 30, 1925.

At 3:00 P. M., the Executive Committee, consisting of Mr. P. M. Warburg, Chairman; Mr. C. A. Morss, Vice Chairman; Messrs. L. L. Rue, J. M. Miller, Jr., F. O. Wetmore and E. F. Swinney, and Mr. Oscar Wells, as President of the American Bankers Association, convened and called upon Hon. A. W. Mellon, Secretary of the Treasury, to discuss with him the question of the recharter of Federal Reserve Banks by Congress.

C. B. GEORGEN,

Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY
COUNCIL AND THE FEDERAL RESERVE BOARD (Continued)

November 30, 1925.

At 3:30 P. M., the joint conference of the Federal Reserve Board and the Federal Advisory Council reconvened.

Present: Members of the Federal Reserve Board:

Governor D. R. Crissinger, Vice Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller, G. R. James; also, Mr. Walter Wyatt, General Counsel and Mr. W. W. Stewart, Director, Division of Research & Statistics.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg, President; Mr. E. F. Swinney, Vice President; Messrs. C. A. Morss, L. L. Rue, G. A. Coulton, J. M. Miller, Jr., Oscar Wells, F. O. Wetmore, Breckinridge Jones, G. H. Prince, W. M. McGregor, H. S. McKee and C. B. Georgen, Secretary.

The President of the Council called the meeting to order and invited the representatives of the various districts in turn to make reports upon general business and credit conditions as well as to express opinions regarding the discount rate in their respective districts.

Mr. Warburg thereupon addressed the conference upon the subject of Term Settlements on the New York Stock Exchange (Informal topic attached and made part of these minutes). A discussion followed in which members of the Board and the Council participated.

At 6:20 P. M., the joint conference adjourned.

Mr. Breckinridge Jones was appointed Chairman of a sub-committee consisting of Messrs. G. A. Coulton, Oscar Wells, G. H. Prince, W. M. McGregor and H. S. McKee, to meet at the New Willard Hotel at 8:00 P. M., to review Prof. Sprague's memorandum on proposed banking legislation and prepare a recommendation for approval of the Council at the session the following morning.

C. B. GEORGEN,
Secretary.

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE
FEDERAL ADVISORY COUNCIL

November 30, 1925.

At 8:30 P. M., the Executive Committee of the Federal Advisory Council met at the Mayflower Hotel.

Present: Mr. P. M. Warburg, Chairman; Mr. C. A. Morss, Vice Chairman; Messrs. J. M. Miller, Jr., F. O. Wetmore, E. F. Swinney and C. B. Georgen, Secretary.

The Committee prepared for presentation to the Council recommendations on the topics referred to it.

At 10:00 P. M., the meeting adjourned.

C. B. GEORGEN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

December 1, 1925.

At 9:30 A. M., the Federal Advisory Council reconvened in the Federal Reserve Board room.

Present: Mr. P. M. Warburg, President; Mr. E. F. Swinney, Vice President, Messrs. C. A. Morss, G. A. Coulton, J. M. Miller, Jr., Oscar Wells, F. O. Wetmore, Breckinridge Jones, G. H. Prince, W. M. McGregor, H. S. McKee and C. B. Georgen, Secretary.

Mr. Warburg presented to the Council a report embodying the recommendations which had been prepared by the Executive Committee. The recommendations were discussed and modified by the Council and unanimously approved for presentation to the Federal Reserve Board. (Recommendations to Topics Nos. 1-2 and Informal Topic regarding Term Settlements on the New York Stock Exchange, attached hereto and made part of these minutes.)

Mr. Breckinridge Jones, Chairman of the sub-committee appointed the previous day, presented a report which had been prepared by that Committee, which was discussed and modified by the Council and unanimously approved for presentation to the Federal Reserve Board. (Recommendation to Topic No. 3 attached hereto and made part of these minutes.)

At 12 o'clock noon the meeting adjourned.

C. B. GEORGEN,
Secretary.

MINUTES OF JOINT MEETING OF THE FEDERAL ADVISORY COUNCIL AND THE FEDERAL RESERVE BOARD

December 1, 1925.

At 12 o'clock noon a joint meeting of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board room.

Present: Members of the Federal Reserve Board:

Governor D. R. Crissinger, Vice Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller and G. R. James.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg, President, Mr. E. F. Swinney, Vice President, Messrs. C. A. Morss, G. A. Coulton, J. M. Miller, Jr., Oscar Wells, F. O. Wetmore, Breckinridge Jones, G. H. Prince, W. M. McGregor, H. S. McKee and C. B. Georgen, Secretary.

The President of the Council called the meeting to order and submitted the Council's recommendations upon Topics Nos. 1, 2, 3 and Informal Topic regard-

ing Term Settlements on the New York Stock Exchange, attached hereto and made part of these minutes.

Mr. Warburg also brought to the attention of the Board the unfavorable criticism which had been called forth by the delay to which had been subjected the announcement of the last change of the discount rate in the Third Federal Reserve District. He impressed upon the Board the great importance of prompt action by the Board in such cases and of making such announcements in Washington and the district involved with the least possible delay. Governor Crissinger deplored the occurrence and expressed himself as in full accord with the Council's views.

At 12:30 P. M., the joint conference adjourned, concluding the session of the Council.

C. B. GEORGEN,
Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

December 1, 1925.

TOPIC No. 1. The Board would like to have the Council give consideration to the cause and probable effect of the present trend towards lower ratios of capital assets to current liabilities in the banking institutions of the country. In recent years there has been a great increase in bank deposits and it appears to the Board that the capitalization of banking institutions has not kept pace with this growth with the result that the ratios formerly considered proper are no longer maintained.

RECOMMENDATION: From the memorandum and chart furnished by the Federal Reserve Board it is evident that there has been a downward tendency in the proportion of capital funds of national banks to liabilities, and the chart would indicate that the ratio has reached its lowest point since 1865. It would seem, therefore, proper for the Federal Reserve Board to draw attention of the Federal Reserve Banks to this trend, and through them, the attention of the clearing houses and member banks with a view to encouraging a close study of the question on their part.

Dr. Stewart's memorandum furnishes also very interesting data concerning the trend of the different classes of banks in several districts. If such a study were completed it would indicate for every district and for every class what would constitute the approximate normal for it, and it would enable the Federal Reserve Banks and the clearing houses to ascertain which of the banks are found to be in a sub-normal condition of strength and liquidity.

The Council is unanimous in the view that no general rule can be applied and that each case must be studied on its own merit. However a communication of the Board along the lines indicated would give wholesome food for thought to the officers of the Federal Reserve Banks, and through them, to the member banks; it thus may lead to the elimination of an unsound relationship between capital funds and liabilities where such is found to exist in individual banks.

TOPIC No. 2. Discount rates.

RECOMMENDATION: The Council recommends that no changes in discount rates be made at this time.

TOPIC No. 3. Memorandum of legislative proposals dated November 21, 1925, prepared by Prof. O. M. W. Sprague, and based upon action taken thus far by the Advisory Committee appointed by the Federal Reserve Board to study banking legislation.

RECOMMENDATION: At the request of the Federal Reserve Board the Federal Advisory Council has reviewed, so far as practicable at this time, Prof. Sprague's memorandum and has arrived at the following conclusions:

Referring to Section 5200, Revised Statutes as set forth in McFadden Bill, H. R. 8887, the suggested changes in brackets on Pages 1-6, inclusive, of the memorandum, are approved as to principle. The Advisory Council, however, makes the following additional recommendations:

On Pages 4 and 5 with reference to loans on non-perishable staples, "when such property is fully covered by insurance," proper provision should be made so

as to permit the inclusion as such, non-perishable staples, viz., pig iron, lead, zinc, etc., for which there is no necessity for insurance and which is usually not insured.

On Page 5 under (c) referring to the words, "when such livestock are being *prepared for market* during the period of the loan and provided no part of the total accommodation granted the borrower is unsecured," we believe that the words "prepared for market" are very indefinite and should be more specifically expressed; and that the words "six months" in the last line of this section (c) should be changed to "nine months." The Council realizes that the words "six months" are not in brackets and are not among the changes suggested in the report of the Advisory Committee, yet it is the opinion of this Council that the period of six months is not long enough to adequately meet the demands of the class of business under consideration.

It is our understanding that the principal need in connection with Section 5200 is a classification and simplification of the language and the conditions imposed therein and in this connection we recommend that Prof. Sprague's suggestion be compared with the confidential committee print prepared by the Comptroller's office dated February 11, 1924, to see whether this has been accomplished and if not, to adopt the language and arrangement of the confidential committee print or such other changes as may be recommended by the Comptroller's office to do this.

The other proposed amendments to the National Banking Law designed to furnish more adequate data regarding the conditions of the banks through examinations as set forth in Sections I and II on Pages 7-8 are approved as to principle with the following words stricken out in the 13th, 14th and 15th lines of Section II on Page 7: "and upon failure so to do the officer or director may be disqualified by the Comptroller of the Currency from further acting in such capacity."

The Council entered into a discussion of the purposes of the proposed amendment to Section 5146 set forth under Section III on Page 8 and found itself in sympathy with its aims but realized the difficulty of adequately drafting legislation which will provide a remedy in this direction and at the same time make it applicable to the practices now employed in the administration of well managed banks.

The Council recognizes the importance of this question but in the short time left at its disposal was not able to formulate suggestions as to the manner in which such legislation might be drawn. It will however hold itself ready to further consider the questions involved in this section.

The Council approves as to principle the proposed amendment to Section 5205 on Pages 8-9.

The Council recommends the following additional amendment to the proposed amendment to Section 5146 on Page 9:

That the words "or who becomes in any other manner disqualified, shall be declared by the Comptroller of the Currency to have vacated his place" be stricken out and the complete amendment read: "(or who pledges or hypothecates the same thereby shall become disqualified)."

INFORMAL TOPIC NOT TO BE PRINTED IN ANNUAL REPORT OF THE
FEDERAL RESERVE BOARD:

TERM SETTLEMENTS ON THE NEW YORK STOCK EXCHANGE

RECOMMENDATION: When the Federal Reserve System was organized it was stated that one of its main objects was to emancipate the country from the control by the New York stock exchange call loan market as the regulating reservoir of the surplus funds of the country. It is evident that these expectations have not been realized and the conditions in which the money market finds itself today are furnishing ample proof of the continued hold which the stock exchange exercises over the surplus funds of the country, absorbing them at high rates and thereby increasing the cost to the commercial borrower. It is also obvious that the accumulation of several billions of out of town money on the stock exchange of New York constitutes an unhealthy situation. It has repeatedly been stated that the adoption of a system of term settlement dealings on the stock exchange instead of daily settlements might offer a substantial remedy and at the same time might prove an effectual means in further developing the open bill market, without which it is believed the Federal Reserve System will not attain the full measure of usefulness for which it was designed. The Federal Advisory Council believes that in these circumstances it is highly desirable that the Board itself, or through the appointment of a committee, study the situation in order to ascertain whether a remedy can be found along the lines indicated.