

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

November 17-18, 1927

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 17, 1927.

The last regular statutory meeting of 1927 of the Federal Advisory Council began informally in the Vice-Presidential Suite of the Mayflower Hotel, Washington, D. C. on Thursday, November 17.

The President, Mr. Wetmore, called the meeting to order at 10:40 A. M.

Present:

Mr. Daniel G. Wing (Alternate for Mr. Arthur M. Heard)	District No. 1
Mr. Paul M. Warburg (Alternate for Mr. J. S. Alexander)	District No. 2
Mr. Harris Creech	District No. 4
Mr. J. F. Bruton	District No. 5
Mr. P. D. Houston	District No. 6
Mr. F. O. Wetmore	District No. 7
Mr. Breckinridge Jones	District No. 8
Mr. Theodore Wold	District No. 9
Mr. P. W. Goebel	District No. 10
Mr. B. A. McKinney	District No. 11
Mr. H. S. McKee	District No. 12
Mr. Walter Lichtenstein	Secretary

On motion duly seconded, the minutes of the Council meeting of September 15-16, copies of which had been previously sent to the members, were approved.

The Secretary read communications from Messrs. Heard and Rue. The former stated that he was unable to be present on account of illness, the latter that he would be unable to be present until the following day.

The President, Mr. Wetmore, stated that there were two topics to be considered:

- (1) Further developments in connection with the Chicago rate question.
- (2) Possible change in system of present periods for reserve requirements.

The President, Mr. Wetmore, read a communication from Mr. Frederic H. Curtiss, Chairman of the Federal Reserve Bank of Boston, stating that he had delivered to Mrs. Charles A. Morss on behalf of the Federal Advisory Council the engrossed copy of the resolutions of the Council passed on the death of her husband, and that Mrs. Morss wished to express her deep gratitude to the members of the Council for their action.

The President, Mr. Wetmore, reviewed the Chicago rate question and presented

correspondence with Senator Glass and other matters pertaining thereto.

The President, Mr. Wetmore, presented a communication from Mr. Cunningham, member of the Federal Reserve Board, asking for a copy of the resolution of the Federal Advisory Council of September 16, 1927, on the Chicago rate question.

Mr. Jones moved, seconded by Mr. Goebel, that a copy of the resolution in question be given to the Federal Reserve Board, and after some discussion the following resolution was adopted:

In view of the request of a member of the Federal Reserve Board for a copy of the resolution adopted by the Federal Advisory Council, September 16, 1927, in reference to the change in the rediscount rate of the Federal Reserve Bank of Chicago, it is voted that said resolution be again spread upon our minutes and a copy furnished to the Federal Reserve Board.

The resolution of September 16, 1927, is as follows:

“The Federal Advisory Council has reviewed the facts before it relative to the reduction in rates of discount at the several Federal Reserve banks during the past few months.

“The Council regrets that the Federal Reserve Board should have initiated or forced a reduction in the rate of one of the Federal Reserve banks in the face of the decision of the directors of that bank to maintain a 4% rate. It does not appear to the Council that an emergency existed such as to justify the Board in departing from the usual practice of fixing rates at the Federal Reserve banks even if technically authorized by law.

“The Council is of the opinion that this regrettable occurrence could have been avoided if a full and frank interchange of views between the Federal Reserve Board and the Board of Directors of the Federal Reserve Bank of Chicago had been had.”

The Federal Advisory Council adjourned for luncheon at 1 P. M.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 17, 1927.

At 2 P. M. the members of the Council reassembled in the Vice-Presidential Suite of the Mayflower Hotel, the President, Mr. Wetmore, in the Chair.

Present: Mr. F. O. Wetmore, President; Mr. J. F. Bruton, Vice-President; Messrs. Paul M. Warburg, Harris Creech, P. D. Houston, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. A. McKinney, H. S. McKee, and Walter Lichtenstein, Secretary.

The Secretary presented a copy of a report dated November 1, 1927, addressed to the Federal Reserve Board under date of October 21, 1927 by the Sub-Committee of the General Acceptance Committee, containing recommendations regarding the revision of the regulation pertaining to acceptances. The new regulation would read as follows:

“That bankers acceptance may properly be considered as growing out of transactions involving the importation or exportation of goods when given for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.”

The report had attached to it various opinions and discussions in support of the revised regulation.

Mr. Warburg made a statement as to the desirability of the above suggested change in the regulations.

The meeting adjourned at 2:30 P. M.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 18, 1927.

At 9:40 A. M. the Federal Advisory Council reconvened in the Federal Reserve Board room, Treasury Building, Washington, D. C., the President, Mr. Wetmore, in the Chair.

Present: Mr. F. O. Wetmore, President; Mr. J. F. Bruton, Vice-President; Messrs. Daniel G. Wing, Paul M. Warburg, Harris Creech, P. D. Houston, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. A. McKinney, H. S. McKee, and Walter Lichtenstein, Secretary.

Mr. Warburg, in view of recent recommendations of the Secretary of the Treasury to the Congress, advised that the Council reiterate a recommendation made on September 17, 1926.

Therefore, on motion duly made and seconded, the following topic was presented and the following recommendation adopted:

“Topic: At present a tax of $13\frac{1}{2}$ per cent is imposed upon the discount received by any foreign corporation from American bankers acceptances.

“Recommendation: On September 17, 1926, the Council made the following recommendation: ‘The tax of $13\frac{1}{2}$ per cent imposed upon the discount received by any foreign corporation from American bankers acceptances restricts the market for American bankers acceptances. The Federal Advisory Council requests the Federal Reserve Board to use its good offices to have the law and/or regulations of the present income tax law amended so that the income derived from American bankers acceptances by foreign holders may not be subjected to an income tax.’

“In view of the recommendation by the Secretary of the Treasury to the Congress that the discount received from American bankers acceptances by foreign banks of issue be exempted from taxation by our Government the Federal Advisory Council wishes to reiterate the recommendation cited above.”

A discussion took place in reference to topic No. 2, being a new ruling in reference to acceptances, and the following recommendation was adopted:

“The Federal Advisory Council approves the proposed new rulings in reference to acceptances submitted by the Federal Reserve Board but suggests that the Federal

Reserve Board either amend the ruling or advise the Acceptance Committee so to administer the ruling that due care be taken that no duplication of financing occur and that a second acceptance be in effect merely an extension of an already existing credit."

The meeting adjourned at 10:30 A. M.

WALTER LICHTENSTEIN,

Secretary.

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

November 18, 1927.

At 10:45 A. 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 Roy A. Young; Vice-Governor Edmund Platt; Messrs. C. S. Hamlin, A. C. Miller, G. R. James, E. H. Cunningham; also Messrs. W. L. Eddy, Secretary, and E. M. McClelland, Assistant Secretary to the Federal Reserve Board, Walter Wyatt, General Counsel for the Federal Reserve Board, and E. A. Goldenweiser, Director of the Division of Research and Statistics, Federal Reserve Board.

Present: Members of the Federal Advisory Council:

Mr. F. O. Wetmore, President; Mr. J. F. Bruton, Vice-President; Messrs. Daniel G. Wing, Paul M. Warburg, L. L. Rue, Harris Creech, P. D. Houston, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. A. McKinney, H. S. McKee, and Walter Lichtenstein, Secretary.

In accordance with the action taken on the previous day, the President of the Federal Advisory Council, Mr. Wetmore, handed to Governor Young a copy of the resolution of the Council of September 16, 1927 on the Chicago rediscount rate.

Governor Young discussed at length the policy of the Federal Reserve System in respect to recent open market operations.

Governor Young presented proposed regulation D, Section 4, referring to the period of figuring reserve requirements. After some discussion, Governor Young stated that further consideration would be given this matter.

Governor Young stated that the Governors of the various Federal Reserve banks had agreed on the form and character of statements to be required by Federal Reserve banks from corporations with subsidiary companies.

The President of the Council presented to the Board the recommendations of the Council which had been adopted (recommendations Nos. 1 and 2 attached hereto and made part of the minutes).

At 1:15 P. M. the joint conference adjourned, concluding the statutory sessions of the Council for the year 1927.

WALTER LICHTENSTEIN,

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

November 18, 1927.

TOPIC No. 1. At present a tax of $13\frac{1}{2}$ per cent is imposed upon the discount received by any foreign corporation from American bankers acceptances.

RECOMMENDATION: On September 17, 1926, the Council made the following recommendation: "The tax of $13\frac{1}{2}$ per cent imposed upon the discount received by any foreign corporation from American bankers acceptances restricts the market for American bankers acceptances. The Federal Advisory Council requests the Federal Reserve Board to use its good offices to have the law and/or regulations of the present income tax law amended so that the income derived from American bankers acceptances by foreign holders may not be subjected to an income tax."

In view of the recommendation by the Secretary of the Treasury to the Congress that the discount received from American bankers acceptances by foreign banks of issue be exempted from taxation by our Government the Federal Advisory Council wishes to reiterate the recommendation cited above.

TOPIC No. 2. New ruling in reference to acceptances.

RECOMMENDATION: The Federal Advisory Council approves the proposed new rulings in reference to acceptances submitted by the Federal Reserve Board but suggests that the Federal Reserve Board either amend the ruling or advise the Acceptance Committee so to administer the ruling that due care be taken that no duplication of financing occur and that a second acceptance be in effect merely an extension of an already existing credit.