

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
SEPTEMBER 14-15, 1931

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 14, 1931.

The third statutory meeting for 1931 of the Federal Advisory Council was convened in Room 836 of the Mayflower Hotel, Washington, D. C., on Monday, September 14, 1931, at 10:15 A.M., the Vice-President, Mr. Smith, in the Chair.

Present:

Mr. Herbert K. Hallett	District No. 1
Mr. Robert H. Treman	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. J. A. House	District No. 4
Mr. John Poole	District No. 5
Mr. John K. Ottley	District No. 6
Mr. Melvin A. Traylor	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. George H. Prince	District No. 9
Mr. Walter S. McClucas	District No. 10
Mr. H. M. Robinson	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. B. A. McKinney	District No. 11
--------------------	-----------------

The Secretary read a wire from Mr. McKinney, stating that owing to an accident he was unable to be present at the meeting. The Secretary was instructed to send a wire to Mr. McKinney expressing the regrets of the members of the Council at his absence and wishing him a speedy recovery.

On motion, duly made and seconded, it was voted to approve the minutes of the meeting of the Council of May 18, copies of which had been previously sent to members of the Council.

It was decided to discuss in detail the amendments to the Federal Reserve Act and the National Bank Act suggested by the Comptroller of the Currency. A recommendation was adopted which is attached to these minutes. (Topic No. 1.)

A discussion took place regarding depreciation in bond accounts and the instructions of the Comptroller of the Currency addressed to the chief national bank examiners, given under date of August 29, 1931, was read. The Council voted to commend the Comptroller's action. (Topic No. 3.)

It was also voted to make a recommendation to the Federal Reserve Board regarding the possibility of permitting in times of pressure certain securities to be used as collateral by member banks which ordinarily are not acceptable to the Federal Reserve banks. (Topic No. 2.)

Mr. Prince presented a copy of correspondence between Governor Eugene Meyer and Mr. John R. Mitchell, Chairman of the Board of the Federal Reserve Bank of Minne-

apolis, embodying a suggestion of President Hoover's to have the larger banks of the country lend on the good frozen assets of closed banks for the benefit of depositors. The Secretary was instructed to send a copy of President Hoover's letter to Governor Meyer to the members of the Council.

The members adjourned to lunch together, Governor Meyer being at the lunch, but Mr. Ottley being unable to be present. Governor Meyer discussed principally the foreign situation.

At 2:45 P.M. the regular meeting was resumed; Mr. Ottley returned and Dr. Goldenweiser discussed the credit situation.

The members of the Council were notified that President Hoover had requested their presence at dinner at the White House at 8:00 P.M. in order to discuss the business and banking situation of the country.

The meeting adjourned at 4:00 P.M.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 15, 1931.

At 10:00 A.M. the Federal Advisory Council reconvened in the Federal Reserve Board Room, Treasury Building, Washington, D. C., the Vice-President, Mr. Smith, in the Chair.

Present: Mr. W. W. Smith, Vice-President; Messrs. H. K. Hallett, R. H. Treman, H. A. Loeb, J. A. House, John Poole, J. K. Ottley, G. H. Prince, W. S. McLucas, and Walter Lichtenstein, Secretary.

On motion, duly made and seconded, it was unanimously voted to make recommendations Nos. 1, 2, and 3 to the Board in the form attached hereto.

The meeting adjourned at 10:25 A.M.

WALTER LICHTENSTEIN,
Secretary.

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

September 15, 1931.

At 10:30 A.M. a joint conference of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board Room, Treasury Building, Washington, D. C.

Present: Members of the Federal Reserve Board:

Governor Eugene Meyer; Mr. John W. Pole, Comptroller of the Currency; Messrs. C. S. Hamlin, G. R. James, and W. W. Magee; also Messrs. E. M. McClelland and J. C. Noell, Assistant Secretaries of the Board; Walter Wyatt, General Counsel of the Federal Reserve Board; E. A. Goldenweiser, Director, Division of Research and Statistics, Federal Reserve Board, and E. L. Smead, Chief of Division of Bank Operations.

Present: Members of the Federal Advisory Council:

Mr. W. W. Smith, Vice-President; Messrs. H. K. Hallett, R. H. Treman, H. A. Loeb, J. A. House, John Poole, J. K. Ottley, G. H. Prince, W. S. McLucas, H. M. Robinson, and Walter Lichtenstein, Secretary.

The Secretary of the Federal Advisory Council read the three recommendations adopted.

Governor Meyer intimated that the Board would value the opinion of the Council regarding the action taken to assist European central banks in the recent emergency.

A discussion took place regarding business conditions. Each member of the Council present reported regarding the situation in his own district.

The meeting adjourned at 12:45 P.M.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF FEDERAL ADVISORY COUNCIL

September 15, 1931.

At 12:50 P.M. the Federal Advisory Council met in the Federal Reserve Board Room, Treasury Building, Washington, D. C., the Vice-President, Mr. Smith, in the Chair.

Present: Mr. W. W. Smith, Vice-President; Messrs. H. K. Hallett, R. H. Treman, H. A. Loeb, J. A. House, John Poole, J. K. Ottley, G. H. Prince, W. S. McLucas, H. M. Robinson, and Walter Lichtenstein, Secretary.

The council discussed the suggestion of Governor Meyer to endorse the action taken in aiding Europe in the recent emergency, and it was unanimously voted to adopt recommendation No. 4, attached hereto.

The meeting adjourned at 1:15 P.M.

WALTER LICHTENSTEIN,
Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

September 15, 1931.

TOPIC No. 1: Proposed amendments to National Bank Act and Federal Reserve Act.

RECOMMENDATION: The Federal Advisory Council has received the recommendations of the Comptroller of the Currency made in his Annual Report for 1930, suggesting certain changes in the Federal laws relating to banking. The Federal Advisory Council is in sympathy with the Comptroller's recommendations, but suggests certain changes. In the following the original where changed is placed in brackets and the changes suggested by the Federal Advisory Council are italicized:

I. Group and Chain Banking.

No national bank should be permitted to become a part of a group banking system, except on the condition that all other banks in the group are [national banks; and when a State member bank of the Federal Reserve system is a part of a group, the Federal Government should be given visitorial powers over the entire group.] *members of the Federal Reserve System to the end that the Federal Government have visitorial powers over the entire group.* More specifically:

(a) No corporation should be permitted to own [a majority] *in excess of 20%* of the stock of a national bank if it owns at the same time [a majority] *in excess of 20%* of the stock of a State bank *unless said State bank is a member of the Federal Reserve System.*

(b) The Comptroller of the Currency should be given visitorial power over any corporation owning [a majority] *in excess of 20%* of the stock of a national bank.

(c) No national bank should be permitted to make a loan on the security of the stock of a corporation owning [a majority] *in excess of 20%* of the stock of the lending bank.

II. Branch Banking.

A. The McFadden Act should be amended to permit national banks in important commercial and financial centers to establish branches in the area that is economically and financially tributary to such centers without regard to State boundaries or to State banking laws. The privilege should be limited to banks in cities serving a territory sufficient to provide economic diversification. The [trade] area within which banks located in such cities may extend their branches should be defined by a committee consisting of the Comptroller of the Currency, the Secretary of the Treasury, and the Governor of the Federal Reserve Board. Banks permitted to have branches in [a trade] *an* area should have [a minimum capital of] *capital adequate to their deposit liabilities, the minimum not to be less than \$1,000,000.* The extension of branches should be subject to the approval of the Comptroller of the Currency.

B. The National Bank Consolidation Act should be amended to permit any bank within the [trade] *branch-bank* area to consolidate under national charter with the approval of the comptroller of the Currency.

III. Affiliates.

A. The Comptroller of the Currency should have authority to examine security or investment companies affiliated with national banks.

IV. Fiduciary Powers.

A. The law should be amended to provide that the exercise of fiduciary powers shall be one of the corporate powers of a national banking association, subject to the existing limitations regarding State laws now contained in the Federal Reserve Act.

V. Liquidation of National Banks.

A. The Comptroller of the Currency should be given supervision of national banks going into voluntary liquidation and the liquidating agent should be required to give bond and render reports to the Comptroller of the Currency in the same manner as the receiver of an insolvent bank *up to such time as all liabilities other than to stockholders have been paid in full.*

VI. Circulating False Reports.

A. It should be made a crime to maliciously make or circulate any false report concerning a national bank, or a member of the Federal Reserve system, which imputes insolvency or unsound financial condition.

TOPIC No. 2: Eligibility of securities in times of pressure.

RECOMMENDATION: The Federal Advisory Council suggests that the Federal Reserve Board consider the advisability of permitting Federal Reserve banks in times of pressure to accept from member banks bills payable on securities not now eligible, the Federal Reserve Board to issue regulations defining the conditions under which such action may be taken.

TOPIC No. 3: Depreciation of bond accounts in banks:

RECOMMENDATION: The Federal Advisory Council commends the instructions given by the Comptroller of the Currency to the chief national bank examiners under date of August 29, 1931, reading as follows:

"Subject to the necessities of individual cases, until otherwise instructed, this office (Comptroller of the Currency) will not require the charge off of any depreciation on bonds of the United States Government, or states, or counties, or municipalities thereof, or other bonds which have the following rating:

	<i>By Moody</i>	<i>By Standard Statistics</i>	<i>By Filch</i>	<i>By Bond and Quotation Service</i>
High Class	AAA	A-1 plus	AAA	A-3
High Grade	AA	A-1	AA	A-2
Sound	A	A	A	A
Good	BAA	B-1 plus	BBB	B-3

"The policy of requiring a charge off of depreciation on defaulted issues and 25% of the depreciation on the remaining bonds at the time of each examination will remain in force and effect."

TOPIC No. 4: Assistance to European central banks and domestic credit situation.

RECOMMENDATION: In response to the request of the Federal Reserve Board for an expression of opinion the Federal Advisory Council states that it is in accord with the action of the Federal Reserve banks in lending with the approval of the Federal Reserve Board assistance to European central banks in the recent emergency. #

The Federal Advisory Council suggests to the Federal Reserve Board that it explore the possibility of giving all possible support to the stabilization of the credit situation in the United States in the interest of American business generally including agriculture, industry and commerce. #