MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

May 17-18, 1937

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 17, 1937.

The second statutory meeting of the Federal Advisory Council for 1937 was convened in Room 836 of the Mayflower Hotel, Washington, D. C., on Monday, May 17, 1937, at 10:15 A. M., the President, Mr. Smith, in the Chair.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. A. A. Tilney (Alternate for Mr. W. W. Aldrich)	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. Lewis B. Williams	District No. 4
Mr. Charles M. Gohen	District No. 5
Mr. Edward Ball	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. W. T. Kemper	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. John Crosby	District No. 9

On motion, duly made and seconded, the minutes of the meeting of the Council of February 15-16, 1937, copies of which had been previously sent to the members, were approved.

The Chandler Bill, H. R. 6439, amending certain provisions of the Federal law relating to bankruptcy, was discussed. Mr. Loeb presented a statement by attorney dealing with some of the sections of the bill. It was decided not to consider the bill further since the objections of banks to the original draft of the bill had on the whole been met.

Mr. Brown discussed S. 2344 (Corporate Trusteeships). He called attention to three objectional features of the proposed law:

(a) Banks would hardly dare assume the contingent liabilities provided for corporate trusteeships under this bill.

(b) If banks, in case the bill became law, did not accept corporate trusteeships it would seriously impair the earnings of many of the banks.

(c) The bill provides that the Security Exchange Commission shall have power to examine the confidential reports of National bank, state bank, Federal reserve and F.D.I.C. examiners. It has always been the policy to keep these confidential. If this practice were changed banks might hesitate in the future to give examiners information as freely and as willingly as has been true in the past.

It was pointed out that a committee of the American Bankers Association was seeking to have the bill amended.

At 11:00 A. M. Dr. Goldenweiser, Director, Division of Research and Statistics, appeared before the Council and discussed the general financial and business situation, and also at considerable length the problems raised by the large influx of gold into this country. Dr. Goldenweiser left at 12:30 P. M.

The Secretary of the Council submitted a copy of a letter from Mr. M. H. Roberts, Cashier of the Citizens State Bank of Jamestown, Indiana, addressed to Mr. Chester Morrill, Secretary of the Board of Governors of the Federal Reserve System. Mr. Roberts pointed out the desirability of having the forms employed by various examining bodies identical so as to save banks unnecessary expense. Since the letter was not addressed to the Council but to the Board of Governors, it was decided that no action was needed on the part of the former.

Some discussion took place regarding the Patman Bill (H.R. 5010) which proposes, besides making fundamental changes in monetary affairs, to have the Federal Government purchase from the member banks all the stock of the Federal Reserve banks.

Mr. Brown raised the question of interest on demand deposits stating that in his view there is danger when interest rates rise that corporations will withdraw all excess funds from banks if no interest is paid on such deposits.

The meeting adjourned at 12:45 P. M. for luncheon at which Chairman Marriner S. Eccles was present.

The meeting reconvened in Room 836 at 3:30 P. M.

President Smith appointed Messrs. Brown, Tilney, and Loeb as a committee to draw up a recommendation in connection with S. 2344 (Corporate Trusteeships).

A discussion took place as to whether in the future after the building of the Board of Governors of the Federal Reserve System has been completed the Council should hold its preliminary meetings in the new building. It was decided for the present to continue holding the preliminary meetings in the hotel rather than in the building of the Board.

It was voted to hold the next meeting of the Council on Thursday and Friday, October 7 and 8, and at that meeting to fix the date of the fourth statutory meeting of the Council.

It was decided to postpone all consideration of the question of interest on demand deposits to a subsequent meeting.

The meeting adjourned at 4:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 18, 1937.

At 10:00 A. M. the Federal Advisory Council convened in the Board Room of the Federal Reserve System in the Washington Building, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President;- Messrs. T. M. Steele, A. A. Tilney, L. B. Williams, C. M. Gohen, Edward Ball, E. E. Brown, W. T. Kemper, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

The recommendation dealing with the matter of corporate trusteeships was presented by the committee and unanimously adopted. The recommendation is attached to and made a part of these minutes.

The meeting adjourned at 10:10 A. M.

WALTER LICHTENSTEIN,
Secretary.

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

May 18, 1937

At 10:15 A. M. a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room, Washington Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman M. S. Eccles; Governors Joseph A. Broderick, Chester C. Davis, and John McKee; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors of the Federal Reserve System; Walter Wyatt, General Counsel for the Board; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics; Carl E. Parry, Chief of Division of Bank Loans; E. L. Smead, Chief of Division of Bank Operations; Leo H. Paulger, Chief of Division of Examinations; and Elliott Thurston, Special Assistant to the Chairman of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President, Messrs. T. M. Steele, A. A. Tilney, L. B. Williams, C. M. Gohen, Edward Ball, E. E. Brown, W. T. Kemper, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the recommendation relating to corporate trusteeships.

Governor McKee suggested the Council elaborate its recommendation and file a brief with the Board of Governors of the Federal Reserve System.

Mr. Brown in reply pointed out that the Council had no staff of any kind and the likelihood was that its brief would be a mere repetition of the statements of the committee of the American Bankers Association. He went on to say that the Council was a unit in opposition to the proposed bill and that the Council represented all parts of the country.

Chairman Eccles stated that the Board of Governors had filed certain objections to the proposed measure with the Security Exchange Commission and he hoped that the members of the Board might be asked to appear before the committees of Congress when these considered the measure.

It was agreed by the members of the Council at the suggestion of President Smith that the committee which drafted the recommendation presented to the Board be asked to draw up and file a brief on S. 2344 (Corporate Trusteeships) with the Secretary of the Council to be transmitted to the Board of Governors of the Federal Reserve System.

Chairman Eccles stated in respect to the Patman Bill (H. R. 5010) that he doubted whether it would be given consideration at this session of Congress. So far the Board has not taken a position in respect to the Patman Bill, but the Chairman stated that his personal opinion was that the System would have to get away from member bank ownership and member bank representation.

A discussion took place regarding interest on demand deposits. There has been considerable pressure to extend the time of the provision permitting payment of interest on demand deposits to public bodies.

The President of the Council informed the Board that the Council had voted to have its next meeting on October 7 and 8 and the Board expressed its agreement.

At the request of Chairman Eccles a discussion took place regarding the bill market. The Chairman pointed out that while New York has about twenty-five per cent of the total bank reserves of the country, nearly eighty per cent of the bills issued by the Federal Government are purchased in New York. It is hoped that banks throughout the country will show more interest in these bills and that also corporations and the public generally will.

The members of the Council reported on business conditions in their respective districts.

The meeting adjourned at 1:05 P. M.

WALTER LICHTENSTEIN,
Secretary.

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 18, 1937

TOPIC: S. 2344 (Corporate Trusteeships)

RECOMMENDATION: The Federal Advisory Council wishes to call the attention of the Board of Governors of the Federal Reserve System to S. 2344 dealing with corporate trusteeships.

The Council feels strongly that the imposition of some of the liabilities as provided in the bill would create a situation where banks of deposit could not with safety to themselves or to the banking system as a whole accept corporate trusteeships.

The Council believes that if banks of deposit declined corporate trusteeships the resulting loss of revenue, particularly at the present time, would weaken the banking system and would not be in the public interest. Broadly speaking, no corporations other than banks of deposit have either the financial responsibility or the experience which qualify them to act as corporate trustees.

COPY OF LETTER SENT TO MEMBERS OF THE FEDERAL ADVISORY COUNCIL

June 17, 1937

Dear Mr. Steele:

As you will recall a special committee was appointed by the Council at its meeting on May 18 to draft a memorandum in support of the recommendation made by the Council in reference to S. 2344 (Corporate Trusteeships) said memorandum to be filed with the Board of Governors of the Federal Reserve System. The committee, consisting of Messrs. Loeb, Brown, and Tilney, drafted such a memorandum. I am enclosing herewith for your information and files a copy of the memorandum, as well as copies of a telegram and correspondence in reference to this matter.

I may say that the reason Mr. Tilney did not sign the telegram of June 12 sent to Mr. Eccles was due to the fact that Mr. Page, of Mr. Tilney's bank, as chairman of a committee of the American Bankers Association had entered into certain agreements with Mr. Douglas of the Securities and Exchange Commission regarding the revised bill and for this reason Mr. Tilney felt that it might not be advisable for him as an officer of the same bank to place himself in what might be apparent opposition to Mr. Page.

Sincerely yours,

(Signed) Walter Lichtenstein
Secretary

Mr. Thomas M. Steele,
Member Federal Advisory Council,
c/o First National Bank & Trust Co.,
New Haven, Conn.

FEDERAL ADVISORY COUNCIL

OFFICE OF THE SECRETARY

38 SOUTH DEARBORN STREET

CHICAGO, June 17, 1937

Copy of letter sent to ten members of the sub-committee of the Senate Committee on Banking and Currency having charge of S. 2344. Senators Robert J. Bulkley, James F. Byrnes, Lynn J. Frazier, Carter Glass, Clyde L. Herring, James H. Hughes, William Gibbs McAdoo, Francis T. Maloney, John G. Townsend, Jr., and Robert F. Wagner.

Dear Senator Bulkley:

In accordance with instructions received from Mr. Walter W. Smith, President of the Federal Advisory Council, I beg to submit for your consideration the following data:

On June 15, 1937, Mr. Walter W. Smith sent a telegram to Mr. Chester Morrill, Secretary of the Board of Governors of the Federal Reserve System, asking him to file with the Senate committee considering Corporate Trusteeship bill:

1. A recommendation filed with the Board by the Federal Advisory Council under date of May 18, 1937, dealing with the "Trust Indenture Act of 1937" (S.2344).

2. A report prepared by Messrs. Loeb, Brown and Tilney, a special committee of the Federal Advisory Council dealing with S. 2344.

3. A copy of a telegram addressed to Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, dated June 12, 1937, and signed by Messrs. Loeb and Brown.

In the absence of Chairman Eccles the matter was discussed with Mr. Ronald Ransom, Vice Chairman of the Board of Governors of the Federal Reserve System, and he indicated that it would be better if the Federal Advisory Council submitted its recommendation and supporting documents directly to the members of the sub-committee of the Senate Committee on Banking and Currency appointed to consider S. 2344. This was in line with a thought expressed on behalf of the Board of Governors of the Federal Reserve System by Mr. Chester Morrill, Secretary of the Board, in a letter dated June 12, 1937, and addressed to Mr. Walter W. Smith. In this letter Mr. Morrill stated that, "If the Federal Advisory Council should desire to do so, the Board would have

no objection to the Council furnishing copies of the statement and supporting memorandum to the committee of Congress which will consider the legislation. . "

Prior to this Chairman Eccles in a letter dated June 5, 1937, and addressed to Mr. Walter W. Smith indicated that the memorandum prepared by the special committee of the Council had been brought to the attention of the other members of the Board of Governors for their information, and Mr. Morrill in the letter of June 12, previously mentioned, stated that copies of the recommendation of the Council and the memorandum had been forwarded by the Board of Governors of the Federal Reserve System to the Securities and Exchange Commission. This fact was confirmed in a telegram from Mr. Chester Morrill dated June 15, 1937, and addressed to Mr. Edward E. Brown, member of the special committee of the Federal Advisory Council.

In accordance with the suggestion of Messrs. Ransom and Morrill, I am herewith enclosing the three documents to which reference is made at the beginning of the letter and I am further instructed to ask the members of the sub-committee of the Committee on Banking and Currency to give such consideration as is possible to the recommendation of the Federal Advisory Council and the documents in support thereof.

Very truly yours,

(Signed) Walter Lichtenstein,
Secretary

This memorandum has been prepared by the undersigned at the request of the Federal Advisory Council to the Board of Governors of the Federal Reserve System, in support of the recommendation of the Advisory Council dated May 18, 1937, Topic: S. 2344 (Corporate Trusteeships).

The recommendation makes two principal points:

I. That under Senate Bill 2344, as introduced, liabilities are imposed upon indenture trustees which banks of deposit could not assume with safety to themselves or to the banking system as a whole, and

II. That refusal of banks of deposit to accept corporate trusteeships would be detrimental to the banking system and not in the public interest.

The Bill purports to have the simple objective of reform of trust indentures and the prevention of conflicts of interest in the corporate trustee. The machinery to accomplish these ends is the enforced qualification of trust indentures with the Securities and Exchange Commission as a condition precedent to the sale of any securities to be issued under the indenture. Actually, however, the Bill has implications far beyond the expressed objective and if enacted would create a major change in corporate finance in this country.

(Note: This memorandum has been confined to the points covered by the recommendation of the Advisory Council dated May 18, 1937. Other aspects of Senate Bill 2344 seem to be of equal importance and to merit consideration by the Federal Reserve Board. Accordingly, reference has been made to such provisions of the Bill in a "General" section at the conclusion of this memorandum.)

POINT ONE

The responsibility of the Trustee. The Bill imposes added responsibilities on the Trustee both before and after default. The serious question is whether any responsible banking institution can afford to jeopardize the moneys of its depositors by assuming the risks of acting as an Indenture Trustee under the conditions specified in the Bill. It is submitted that it imposes substantial and unnecessary risks upon the Trustee with no compensatory benefit to investors.

I. The period before default. The Bill provides that each indenture to be qualified shall contain such provisions as the Securities and Exchange Commission shall deem "consistent with the duties and obligations which a prudent man would assume and perform prior to such a default if he were trustee under such an indenture, including, without limitation, action in respect of the following matters:

(1) The determination that the indenture has been recorded and filed, and from time to time re-recorded and refiled, to the extent necessary to establish and preserve the validity and priority thereof or of any lien created or purported to be created thereby as against any person or persons;

(2) the determination that all indenture securities and the proceeds thereof are applied to the purposes specified in the indenture;

(3) the determination that all conditions precedent to the release or substitution of any property subject to the lien of the indenture, the authentication and delivery of indenture securities, the satisfaction and discharge of the indenture, and any other action by the trustee under the indenture, exist or have been complied with before taking such action or permitting the same to be taken; and

(4) the determination whether the obligors have performed their obligations under the indenture."

The fact that this section of the Bill requires the inclusion, subject to approval by the Securities and Exchange Commission, of provisions requiring the obligor to furnish opinions, certificates, etc., to the trustee does not alter the fact it makes mandatory indenture provisions placing the responsibility for making such determinations on the trustee. Under this language the Courts might well hold a trustee liable for loss, despite the receipt of such opinions, certificates, etc., if it could be shown that the trustee had anywhere in its files information which might have led it to doubt the full accuracy of such opinions and certificates. Such actions, of course, are invariably brought after, and sometimes long after, the event, and are judged in the light of hindsight rather than foresight.

In the case of certain indentures, such as mortgages on individual pieces of real estate, it is possible for the indenture trustee, itself, to determine the existence of the facts involved in making decisions as required by this Section of the Bill and in such cases it is probably proper to require a "determination" by the trustee. Conversely, however, in the case of indentures covering a wide-flung enterprise, it is not possible for the indenture trustee, itself, to make the required "determination".

It is submitted that not only can no responsible indenture trustee safely assume such responsibility, but that the concept involves a fundamental and unwise change in the method of financing industry in this Country, a change which seems counter not only to the theory of mortgage indentures, but also to the existing law, both federal and state, relating to corporate finance.

The aggregate face amount of securities issued under indentures, under which member banks of the Federal Reserve System are acting as trustees, is probably well in excess of $40,000,000,000.00. Banks which do a substantial corporate trust business are trustees for securities having a face value of many times their combined capital and surplus. In any great depression period, it is not unusual for a bank to find itself trustee for security issues in default having an aggregate face value in excess of the capital funds of the bank. When default occurs, there are always a number of people, who, having lost money thereby, feel that their loss was not caused by economic conditions, general or industrial, but was the fault of the management or of the indenture trustee. Suits against indenture trustees to enforce liability because of some alleged mistake of action or non-action unfortunately are not uncommon. If any substantial fraction of these suits met with success, the result would be disastrous for many banks.

It is submitted that before default the only safe position that a responsible indenture trustee can take is that it will do specific acts, which should be set out in detail in the indenture, on receipt of documentary evidence, in the form of opinions, certificates, etc., as specified in the indenture.

Before default, the reliance of the bondholders for the successful conduct of the business must be on the management, and the indenture trustee should not, and cannot properly, be placed in a position of general guardian for the investors, to control the management in this respect.

2. The period after default. The Bill requires that the indenture to be qualified "shall contain provisions requiring the indenture trustee to exercise in case of default (as such term is defined in the indenture) such of the rights and powers vested in it by the indenture, and to use the same degree of care and skill in their exercise as a prudent man would exercise under the circumstances if he were a fiduciary and had the degree of skill which the indenture trustee has, or which the indenture trustee expressly or impliedly represents itself as having, whichever is the higher: * * * * * * * *." Many trust institutions now believe that under the present law they assume upon default an active trustee responsibility. They are, however, in the exercise of this responsibility protected by exculpatory clauses usual in present indentures.

It does not seem unreasonable to require that indenture trustees, in case of default, be held to a prudent man standard provided they are protected from liability for discretionary action taken in good faith, which is the primary purpose of such exculpatory clauses.

In this connection the Securities and Exchange Commission, on page 189, Part VI of its Report (Trustees under Indentures) quotes with approval the exculpatory provisions of a standard form of trust declaration developed under the guidance of the Courts of New York State. This particular provision, as quoted in the foot note on page 189 of the Commission's Report, is as follows: "The Trustee(s) shall not be liable for any error of judgment or for any loss arising out of any act or omission in the execution of this trust so long as they act (he acts) in good faith and without negligence."

It would be most dangerous for indenture trustees to act under the dual and indefinite standard provided in Sub-paragraph (h) quoted above. It would seem that the Securities and Exchange Commission would attain its proper desire to further protect bondholders after default without unduly endangering the financial institutions which are best qualified to act as indenture trustees if it eliminated the second standard now imposed by the Bill and expressly authorized the inclusion of such a clause relieving the trustee from responsibility on discretionary acts taken in good faith without negligence.

It must always be borne in mind that, differing from personal trusts where the acts of the trustee can be judged as a result of frequent accounting proceedings before it is known whether the acts of the trustee resulted in financial benefit or in loss, in the case of indenture trustees the question seldom arises until the securities are in default. Consequently, the court and jury are asked to judge the propriety of the trustee's acts after the event and when it is known that unfortunate results came about, allegedly caused by the trustee's acts. Therefore, it is essential that the test of liability be not so strict that the trustee is forced into the position of an insurer of the correctness and wisdom of its acts.

POINT TWO

This point should be discussed in two parts:

I. As to the public interest; and

II. As to loss of revenue by the banking system.

I. As to the public interest. The investing public is vitally interested in the continuance of experienced mortgage trustees of unquestioned financial responsibility. The Corporate Trust Departments of large financial institutions of this country have been built up through a period of over 75 years. While Part VI, Trustees under Indentures, of the Report of the Securities and Exchange Commission, conveys the impression that the existing system is vitally deficient in adequate protection for the investor

it is submitted that most of the instances of alleged abuses which it cites are confined to one phase of real estate financing in which the use of independent and financially responsible trustees was not the rule, and that outside of this field the Report presents little to substantiate the charge that the system built over years of development has failed to justify the confidence of the financial community. In this connection it is of interest to note that since the publication of the Report there appears to have developed no desire on the part of informed investors, such as charitable institutions, universities, insurance companies, savings banks, etc., to remove these trusteeships from the large financial institutions, or to alter radically this important portion of the financial mechanism.

Since the publication of the Commission's Report a substantial amount of corporate issues has been offered to investors. Many of these issues were made under new indentures; other under indentures providing for bonds in series with differing terms and provisions. A substantial number of the issues were sold at private sale directly to insurance companies and savings banks (surely among the most informed of investors) with full opportunity to dictate the provisions of the indentures. Is it not significant of the attitude of responsible and informed investors that, sofar as is known, in no case were any of the fundamental changes recommended by the Securities and Exchange Commission's Report Part VI incorporated in any of these indentures?

2. As to loss of revenue. It is recognized that the earnings of member banks since the depression have been meager in relation to their capital funds. Corporate Trust Departments of member institutions doing a substantial corporate trust business are profitable. This fact can easily be substantiated by the Examiners of the Federal Reserve Board and the Comptroller of the Currency. In addition to the loss of profit, the elimination of Corporate Trusts would bring about the loss of substantial amounts of deposits.

GENERAL

1. Senate Bill 2344 is but one part of a legislative program sponsored by the Securities and Exchange Commission as evidenced by the various parts of its Report as submitted to the Congress and by House Bills 6968 and 6439 now introduced in the Congress, the ultimate result of which will be to place under the control of the Securities and Exchange Commission practically all phases of the financing of industry in this Country. Control carries with it a definite measure of responsibility.

2. Senate Bill 2344 as now proposed places upon the Securities and Exchange Commission through its practically unlimited control over indenture provisions, the indirect power to control

practically all phases of the contract between the borrower and the lender. Again it should be noted that control carries a real measure of responsibility. It is interesting to conjecture whether, if this Bill passes, the public after the next depression will lay the blame upon the bankers, or upon the Government of the United States.

3. Section I of the Bill inferentially depicts a general state of fraud in the current administration of corporate trusteeships which not only reflects upon the banking institutions and their Supervisory Authorities, but is certain to be given consideration by Courts and juries in future actions against such institutions.

4. Section 10 (b) of the Bill, coupled with Section 5 (a) thereof, may result in the publication of "such reports, records or other information" as Federal or State Supervisory Authorities may have available as to banking institutions accepting trusteeships under indentures qualified under the Bill. Such a possibility is a matter of grave concern to all banking institutions and to those charged with their supervision. The question is worthy of careful study.

5. The provisions of the Bill dealing with the question of conflict arising through a creditor position of a banking institution as indenture trustee raised the question not only of whether the large financial institutions can afford to accept appointments as indenture trustee from important corporations, thus practically closing during the life of the issue the opportunity of doing a banking business with such corporations, but also the equally interesting question of whether responsible officers of such corporations will feel justified in selecting important banking institutions as indenture trustees, thus to all interests and purposes closing during the life of the issue an important source of potential credit. The question of the ultimate effect of the Bill on the credit structure of the Country seems deserving of thorough study.

6. The provisions of the Bill dealing with the question of conflict through the ownership of securities is also of interest. Insofar as these provisions relate to beneficial ownership, the percentages may seem unduly low, but it would not seem that any serious general consequences should follow.

However, the application of the same restrictions to representative ownership, particularly ownership through personal trusts (even with the exception now contained in the Bill as to testamentary trusts and estates) will produce a far different result. While there can be no quarrel with the theoretical proposition that material conflicts should not be permitted, there would seem to be little doubt of the advisability of careful study of what in fact constitutes a material conflict under these provisions

of the Bill, and what is the most practical method of restraining material conflicts of this type and at the same time maintaining the advantages of the present corporate fiduciary system which has been developed by practical experience and operation over a long period of years.

7. That there are advantages to the banking system of having able representatives of business upon bank directorates can hardly be gainsaid. That there already are many restrictions upon the eligibility of bank directors must be admitted. Is it necessary or wise in this Bill to substantially add to those restrictions and thus to add further to the problem of providing competent directors for the banks?

8. Is there anything approaching an emergency in the situation sought to be covered by this Bill which would indicate the necessity of action at this session of the Congress? In such a Bill, meticulous draughtmanship is a matter of prime importance. The Bill impinges upon the entire financial structure of the Country. Do not all phases of the question clearly indicate the advisability of a most careful analysis of the purposes and probable effect of the Bill before action is asked by the Congress?

Respectfully submitted:

(Signed) Howard A. Loeb

Edward E. Brown

A. A. Tilney

(COPY)

STRAIGHT TELEGRAM

PREPAID

Chicago, June 12, 1937

MARRINER S. ECCLES
CHAIRMAN
FEDERAL RESERVE BOARD
WASHINGTON D. C.

THE UNDERSIGNED MEMBERS OF SUB COMMITTEE OF FEDERAL ADVISORY COUNCIL WHICH SUBMITTED THE MEMORANDUM ON SENATE BILL TWO THREE FOUR FOUR DEALING WITH CORPORATE TRUSTEESHIPS HAVE REVIEWED AMENDED BILL AND FEEL THAT THE OBJECTIONS WHICH WERE MADE IN IT FROM THE POINT OF VIEW OF THE BANKING SYSTEM APPLY WITH SUBSTANTIALLY EQUAL FORCE TO THE AMENDED BILL STOP WE WILL BE GLAD TO GO TO WASHINGTON TO CONFER WITH YOU IF YOU SO DESIRE STOP MISTER A A TILNEY THE THIRD MEMBER OF SUB COMMITTEE DOES NOT JOIN IN THIS TELEGRAM

(Signed) HOWARD A LOEB
EDWARD E BROWN