

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
February 12-14, 1939

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1939

OFFICERS:

President, Walter W. Smith
Vice President, Howard A. Loeb
Secretary, Walter Lichtenstein

EXECUTIVE COMMITTEE:

Walter W. Smith
Howard A. Loeb
Thomas M. Steele
Leon Fraser
Robert M. Hanes
Edward E. Brown

MEMBERS:

Thomas M. Steele
Leon Fraser
Howard A. Loeb
T. J. Davis
Robert M. Hanes
Edward Ball
Edward E. Brown
Walter W. Smith
John Crosby
John Evans
R. Ellison Harding
Paul S. Dick

Federal Reserve District No. 1
Federal Reserve District No. 2
Federal Reserve District No. 3
Federal Reserve District No. 4
Federal Reserve District No. 5
Federal Reserve District No. 6
Federal Reserve District No. 7
Federal Reserve District No. 8
Federal Reserve District No. 9
Federal Reserve District No. 10
Federal Reserve District No. 11
Federal Reserve District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice-President, and Secretary.

ARTICLE II. PRESIDENT AND VICE-PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice-President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice-President of the Council shall be *ex officio* members. To fill a vacancy, the President, or in his absence, the Vice-President shall be authorized to designate as a member of the Executive Committee for a given meeting another member of the Council other than one elected to the Executive Committee.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council from time to time, special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September, and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 12, 1939.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 12, 1939

The first and organization meeting of the Federal Advisory Council for 1939 was convened in Room 475 of the Mayflower Hotel, Washington, D. C., on Sunday, February 12, 1939, at 1:15 P. M.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. Leon Fraser	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. T. J. Davis	District No. 4
Mr. Robert M. Hanes	District No. 5
Mr. Edward E. Brown	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. Henry S. Kingman (Alternate for Mr. John Crosby)	District No. 9
Mr. John Evans	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. Edward Ball	District No. 6
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Mr. Howard A. Loeb was elected Chairman *pro tem* and Mr. Walter Lichtenstein Secretary *pro tem*.

The Secretary stated that communications had been received from all of the Federal Reserve banks certifying to the election of their representatives in accordance with the above list.

Upon nominations for the office of President of the Council being called for, Mr. Walter W. Smith was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Smith, who was thereupon declared elected President of the Council for the year 1939.

Upon nominations for the office of Vice-President being called for, Mr. Howard A. Loeb was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Loeb, who was thereupon declared elected Vice-President of the Council for the year 1939.

The President, Mr. Smith, thereupon called for nominations for the four appointive members of the Executive Committee. Messrs. Thomas M. Steele, Leon Fraser, Robert M. Hanes, and Edward E. Brown were nominated. On motion, duly made and seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1939, the President and Vice President being *ex officio* members.

On motion, duly made and seconded, Mr. Walter Lichtenstein was elected Secretary of the Federal Advisory Council for the year 1939 at a salary of \$2,500.00 per annum.

On motion, duly made and seconded, the Council readopted for the year 1939 the existing by-laws which are attached hereto and made a part of these minutes.

On motion, duly made and seconded, the minutes of the Council meeting of November 28-29, 1938, copies of which had been previously sent to members, were approved.

The Secretary presented his financial report for the year 1938, which had been audited by Mr. J. J. Buechner, Assistant Auditor of the First National Bank of Chicago, which on motion, duly made and seconded, was approved and ordered to be printed. The report is attached hereto and made a part of these minutes.

On motion, duly made and seconded, the following resolution, was unanimously adopted:

“Resolved, that the Secretary be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$350 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1939 and to draw on it for that purpose.”

It was decided to discuss the letter of January 3, 1939, sent by Mr. Chester Morrill, Secretary of the Board of Governors of the Federal Reserve System, to the Secretary of the Council, which dealt further with the problem: “How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?”

Mr. Dick read a suggestion to serve as a basis for an answer to the letter of Mr. Morrill.

There was considerable discussion about the various questions propounded in Mr. Morrill's letter, especially in reference to the subject of collection of non-par items. The various items of the letter were taken up in detail and answers to the queries were formulated which the Secretary was instructed to draft in proper form and to submit, when ready, to the Council for further action.

It was decided to enter upon a discussion of the Barkley Bill, S. 477, dealing with corporate trusteeships. Messrs. Brown, Fraser and Loeb were appointed a committee to draft a recommendation.

A discussion took place regarding interlocking directorates. It was suggested that it would be highly desirable to freeze the present situation. Mr. Hanes was asked to draft a recommendation accordingly.

A discussion took place regarding the Chandler Act, approved June 22, 1938, dealing with bankruptcies. Mr. Loeb read a letter addressed to him by Mr. Francis H. Scheetz, dated February 10, 1939, dealing specifically with Section 60 (a)-(b) of the Chandler Act. Mr. Loeb was asked to draft a recommendation dealing with this subject.

The meeting adjourned at 6:30 P. M.

WALTER LICHTENSTEIN,
Secretary

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1938

Balance on hand December 31, 1937.....	\$2,837.96	Salary.....	\$2,500.00
Assessment—Twelve Federal Reserve Banks.....	4,200.00	Miscellaneous.....	11.10
		Postage, telegrams and telephone.....	97.75
		Printing and stationery.....	296.83
		Conference expenses.....	671.22
		Balance on hand December 31, 1938.....	3,461.06
	<u>\$7,037.96</u>		<u>\$7,037.96</u>

Chicago, Illinois.
January 10, 1939

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1938, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO,

(Signed) J. J. BUECHNER,
Asst. Auditor

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 13, 1939

At 10:15 A. M. the Federal Advisory Council convened in the Board Room of the Federal Reserve 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, Leon Fraser, T. J. Davis, Robert M. Hanes, Edward Ball, Edward E. Brown, Henry S. Kingman, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

Mr. Brown read a draft of the recommendation dealing with the Barkley Bill, S. 477, corporate trusteeships. It was moved and seconded to adopt the suggested recommendation as expressing the views of the Council. The motion was unanimously adopted, but Mr. Hanes was not present, having stepped out of the room at the time the vote was taken. This recommendation appears as Recommendation No. 4 and is attached to and made a part of these minutes.

It was unanimously agreed to adopt the following recommendation:

"Congress may give consideration at this session to the proposal that the amount of coverage now available to depositors in banks, members of the Federal Deposit Insurance Corporation, be increased from \$5,000 to \$10,000 each.

"Therefore, the Federal Advisory Council wishes to go on record as being opposed to an increase in the amount of insurance now available to each depositor in a bank, a member of the Federal Deposit Insurance Corporation, for the reason that such an increase from \$5,000 to \$10,000 would increase the number of depositors fully covered only from 98.4 per cent to 99.3 per cent. In consequence, the change would fail to give sufficient additional benefit to depositors to warrant substantially increasing the liability of the Fund and thereby weakening the insurance on the deposits of smaller depositors for whose benefit the Fund was set up.

"The Federal Advisory Council further believes that the operation of the Federal Deposit Insurance Corporation is still in an experimental stage and the plan has not yet been sufficiently tested in a time of stress to justify either the Corporation or the Congress in giving favorable consideration to proposals for making a substantial change in the insurance coverage.

"The Federal Advisory Council requests the Board of Governors of the Federal Reserve System to file a copy of this recommendation with the Federal Deposit Insurance Corporation."

Mr. Fraser presented a recommendation dealing with the subject of the easy money policy.

At 11:20 A.M. Dr. E. A. Goldenweiser, Director, Division of Research and Statistics, appeared before the Council and discussed the general financial and business situation.

Dr. Goldenweiser left at 12:30 P. M., and the Council adjourned at 12:55 for lunch with Chairman Eccles.

The meeting reconvened at 3:10 P. M.

It was decided, on account of conflict with a number of conventions of bankers during the month of May, to hold the next meeting of the Council on June 5-6, provided the Board of Governors agreed to these dates.

Mr. Loeb presented a recommendation dealing with the Chandler Bill and the recommendation was unanimously adopted and appears as Recommendation No. 5 which is attached to and made a part of these minutes.

The recommendation presented by Mr. Fraser dealing with the easy money policy was unanimously adopted and appears as Recommendation No. 2 which is attached to and made a part of these minutes.

The discussion was continued on the question of interlocking directorates and a recommendation was adopted which appears as Recommendation No. 3 which is attached to and made a part of these minutes. Mr. Steele was recorded as not voting.

It was decided to ask the Board of Governors regarding any action taken on Recommendation No. 2 (Assignment of Claims on the United States) which was adopted at the meeting of the Council on November 28-29, 1938.

Mr. Steele gave expression to his views that it would be highly desirable for the President of the Council to issue at the end of each meeting of the Council a statement to the press. After informal discussion, however, it appeared to be the view of the majority of the members of the Council that the present practice be continued.

The meeting adjourned at 4:40 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1939

At 9:45 A. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve 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, Leon Fraser, T. J. Davis, Robert M. Hanes, Edward Ball, Edward E. Brown, Henry S. Kingman, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary read the final draft of the answer to the letter of the Secretary of the Board of Governors of the Federal Reserve System, dated January 3, 1939, dealing with the question of "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?"

With some slight changes the recommendation was unanimously adopted and as Recommendation No. 1 is attached to and made a part of these minutes.

The meeting adjourned at 10:30 A. M.

WALTER LICHTENSTEIN,
Secretary.

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

February 14, 1939

At 10:40 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 of the Federal Reserve Building, Washington, D. C.

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

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel of the Board of Governors; J. P. Dreibelbis, Assistant General Counsel of the Board of Governors; R. F. Leonard, Assistant Chief, Division of Examinations; E. A. Goldenweiser, Director, Division of Research and Statistics; E. L. Smead, Chief, Division of Bank Operations, and Carl E. Parry, Chief, Division of Security Loans.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, R. M. Hanes, Edward Ball, E. E. Brown, H. S. Kingman, John Evans, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read Recommendation No. 1. There was some discussion whether there should be further correspondence regarding this topic or whether the whole question should be thrashed out at this time. It was decided to hold an afternoon meeting rather than to have further correspondence in reference to this recommendation.

The Secretary of the Council read Recommendation No. 2.

The Secretary of the Council read Recommendation No. 3. There was some discussion about this recommendation. Vice Chairman Ransom suggested legislation which would put all banks on the same basis.

The Secretary of the Council read Recommendation No. 4, and after some discussion the Board of Governors agreed to transmit the recommendation to the sub-committee of the Senate Committee on Banking and Currency.

The Secretary of the Council read Recommendation No. 5. It was stated that the Counsel of the Board of Governors of the Federal Reserve System is at present studying the question of possible amendments to the Chandler Act.

The Secretary of the Council read the recommendation dealing with the proposal to increase the amount of the insured deposits from \$5,000 to \$10,000. The proposed recommendation appears in an earlier part of these minutes. Governor Davis queried the advisability of this recommendation at this time as it would raise the question of small banks vs. large banks.

Chairman Eccles then reverted to Recommendation No. 2 (Easy Money Policy) and a discussion took place in the course of which Messrs. Steele and Fraser also made statements.

The Chairman in the course of the discussion suggested that the Council might make a recommendation on the Silver Purchase Act.

The meeting adjourned at 12:55 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1939

At 1:00 P. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, Edward Ball, E. E. Brown, H. S. Kingman, John Evans, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

On motion of Mr. Dick and seconded by Mr. Fraser, it was unanimously voted to withdraw the recommendation dealing with the proposal to increase the amount of the insured deposits, but at the same time it was decided to place the subject on the agenda, as unfinished business, for the next meeting of the Council.

The meeting adjourned at 1:10 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

February 14, 1939

At 2:10 P. 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 of the Federal Reserve Building, Washington, D. C.

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

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel of the Board of Governors; J. P. Dreibelbis, Assistant General Counsel of the Board of Governors; R. F. Leonard, Assistant Chief, Division of Examinations; E. A. Goldenweiser, Director, Division of Research and Statistics; E. L. Smead, Chief, Division of Bank Operations, and Carl E. Parry, Chief, Division of Security Loans.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, E. E. Brown, John Evans, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

The President of the Council announced that the recommendation in respect to the proposal to increase the amount of insured deposits had been withdrawn.

He stated that Recommendation No. 4 would not be revised and the Chairman of the Board stated that the recommendation would be sent immediately by the Board of Governors to the sub-committee of the Senate Committee on Banking and Currency.

A very detailed discussion of Recommendation No. 1 was then entered upon, each paragraph being reviewed separately.

A letter, dated December 6, 1938, addressed to Mr. L. B. Williams, dealing with the plan for the treatment of the non-par problem was read by the Secretary of the Council. Vice Chairman Ransom felt that the suggestions made were not practicable.

The following members of the Council left the meeting at 3:00 P. M.: Messrs. Fraser, Davis, Evans, and Dick.

In the course of the discussion of Recommendation No. 1 it was agreed by the Council, on the suggestion of Vice Chairman Ransom, to make a slight change in the answer to (f), page 6. The answer as originally given read: "No, but this answer does not relate to customary operations of the open market committee." In the final form everything after the word "No" was stricken out.

President Smith asked whether the Board of Governors had done anything in regard to the matter of the assignment of claims on the United States. Mr. Wyatt, General Counsel of the Board of Governors, reported on the matter stating that nothing had been done and the recommendation had been tabled by the Board of Governors.

The Board concurred in the dates for the next meeting, namely June 5-6, 1939.

The meeting adjourned at 3:50 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

February 14, 1939

TOPIC No. 1. Services to Member Banks.

RECOMMENDATION: The Federal Advisory Council has given careful consideration to the letter of the Secretary of the Board of Governors of the Federal Reserve System, dated January 3, 1939, dealing with the question of "How Can the Federal Reserve System Increase the Value or Scope of its Services to Member Banks in Practicable or Desirable Ways." The Council is ready to express opinions on the questions raised in Mr. Morrill's letter, though in some instances the topic has been covered by the Council's Recommendation of November 29, 1938, and by earlier recommendations.

Following the order of Mr. Morrill's letter, the Council makes the following observations on the queries, as presented:

1. *Collection System.*

(a) All checks payable in United States should be collectible at par through the Federal Reserve System.

Answer: The Federal Advisory Council believes that all checks should be collected at par. The Federal Reserve System, therefore, should continue its efforts to bring this about and the Council believes the cooperation of the Federal Deposit Insurance Corporation is essential to accomplish the purpose desired.

(b) Handle and collect non-par items, charging any exchange deductions to sending banks.

Answer: No.

(c) Permit members to make exchange charges on cash items as long as nonmembers do so.

Answer: No.

(d) Abolish par clearance.

Answer: No.

(e) Furnish complete transit service similar to that offered by correspondents.

Answer: The Council answers yes in so far as par items are concerned and no in respect to non-par items. Member banks should be allowed to deposit with the respective Federal Reserve banks or branches all par checks with merely an adding machine tape showing the amount and total of such checks, provided the Federal Reserve bank of the district is satisfied the sending bank maintains an adequate record of such items.

(f) Speed up check collection service.

Answer: In accordance with its Recommendation of November 29, 1938, the Council answers yes.

(g) Collection of non-cash items should be left to member banks.

Answer: Yes.

2. Examinations.

- (a) All examining authorities should be consolidated.
- (b) All examinations should be made by Federal Reserve banks only.

Answer: The Council replies in the negative to (a) and (b), but it requests the Board of Governors to continue its present efforts to bring about greater uniformity in the examination procedure and in the form of the required reports.

- (c) Centralization of authority in Washington weakens System.

Answer: The Council presumes that the question refers to the centralization of examination authority in Washington. The Council does not believe that such centralization, as heretofore conducted by the Comptroller's office in respect to national banks, weakens the System. As to State member banks the Council recommends that as much discretion and authority be given the examining departments of the twelve regional banks as is given by the Comptroller's office to its chief district examiners.

3. Reserve Requirements.

- (a) Cash in vaults should be counted in reserves.

Answer: The Council believes that this should not be allowed in the case of banks located in communities where there is a Federal Reserve bank, branch or agency. In the case of banks located in communities where there is no Federal Reserve bank or branch, some limited percentage of the required reserves should be allowed to be held in cash.

- (b) Uniform raises in requirements hurt country banks.

Answer: No; not more than other banks.

- (c) Nonmembers have advantage over members.

Answer: Yes and no, depending upon the reserve requirements of the State in which the bank is located, but advantages accruing to member banks, especially in times of distress, more than outweigh the slight disadvantages to which member banks, under certain circumstances, may be subjected.

- (d) Low rate of interest should be allowed on reserve deposits.

Answer: No.

4. Report Requirements.

- (a) Publication expensive.

Answer: Not unduly expensive.

- (b) Lack of uniformity.

Answer: The Council continues to urge uniformity and is glad to note that substantial progress has been made.

(c) Number of reports required increasing.

Answer: The steady increase in the number of statistical and special reports called for is placing an onerous burden upon the banks. The Council recommends that the Board of Governors reviews the existing categories of reports to it and other governmental agencies to ascertain whether some may be eliminated, and suggests that no further reports be requested without careful consideration of the question whether the resulting information will be of enough practical value to justify the work and expense involved. To the extent that reports are considered necessary, they should not be required at more frequent intervals than is indispensable.

5. *Miscellaneous.*

(a) Extend wire transfer system to include Government bonds.

Answer: No.

(b) Draft rules and regulations in layman's language and in short paragraphs.

Answer: This matter is fully covered in the Recommendation of the Council of November 29, 1938.

(c) Furnish a manual, properly indexed, of all acts, rules and regulations of Federal Reserve Board, Comptroller's Office, Federal Deposit Insurance Corporation, and all other agencies dealing with bank management.

Answer: Yes, but obviously this requires the cooperation of other agencies.

(d) Create in the Federal Reserve Banks an advisory investment service for member banks.

Answer: No.

(e) A study of trust department earnings would be of great value and would point out to many banks sizeable losses that are occurring in certain branches of that business. Such study might also be extended to commercial departments.

Answer: The Council believes a compilation of the earnings and costs of trust departments made up from the reports of national bank examiners and those of the examiners of the Federal Reserve banks would be desirable at this time. Such a compilation of the earnings and costs of commercial departments is already available and is considered adequate.

(f) Since large amounts of Government bonds are held by banks, the Federal Reserve System should provide a satisfactory market both as to amounts and prices, thereby rendering a service to member banks and the Government.

Answer: No.

(g) Committee of operating officers of member banks should be formed in each district to act as a working committee for the Federal Advisory Council, this committee to bring to the attention of the Council from time to time suggestions for the improvement of the operations of the System.

Answer: No, but members of the Federal Advisory Council will continue, as in the past, to obtain the opinions of the member banks of their respective districts.

Selected Comments

Under this heading there are included a number of topics concerning which the Council has either expressed an opinion above or on some previous occasion. Such a question is that referring to the collection of all checks at par; another that of devising a method whereby member banks in future should not be made to suffer by being compelled to pay exchange on items drawn on nonmember banks; again another is whether all member banks should be given permission to make exchange charges on checks or Federal Deposit Insurance Corporation should require nonmember banks to clear checks at par.

In respect to five other matters raised, the Council replies as follows:

1. Discontinue solicitations of membership of country banks with deposits under a reasonably small limit, say \$1,000,000, through offering free of charge routine banking services now rendered by present members of the Federal Reserve System, such as free safekeeping of securities, free shipment of outgoing and incoming currency.

Answer: No.

2. Federal Reserve banks should be given all possible authority in their relations with their local members with the idea of conserving time and also because of a more intimate knowledge of local conditions prevailing.

Answer: Yes.

3. Coordinate issuance of regulations for member banks and for nonmember banks to avoid conflict as, for example, interest regulations.

Answer: There should be coordination especially with the Federal Deposit Insurance Corporation.

4. Membership in Federal Reserve System is purely an expense as there are no benefits offered by Federal that are not also available at correspondent banks.

Answer: The Council does not agree with the above statement.

5. System should be developed and conducted in such manner as to bring all banks into membership and then confine members to acceptance of deposits from sources other than banks.

Answer: Banks should be encouraged to become members of the System, but the Council is unanimously opposed to the elimination of inter-bank deposits.

TOPIC No. 2. Easy Money Policy.

RECOMMENDATION: The Federal Advisory Council, considering that many of the fundamental effects of the continuing cheap money policy have not been fully appreciated, recommends that the Board of Governors of the Federal Reserve System conduct

a study of the long-range consequences of the continuing policy of cheap money upon the accumulation and investment of the savings of the people, and upon the financial structure of the country, with especial reference to its effects upon the maintenance of a sound banking system.

TOPIC No. 3. Interlocking Directorates.

RECOMMENDATION: Section 8 of the Clayton Anti-Trust Act, as amended by Section 329 of the Banking Act of 1935, permits a director, officer or employee of a member bank of the Federal Reserve System, or a branch thereof, who was lawfully serving as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on August 23, 1935, to continue such service to February 1, 1939.

The Board of Governors of the Federal Reserve System by regulation has permitted such service as director, officer, or employee of a member bank and in not more than one other banking institution, to continue to August 1, 1939.

The service of the directors, officers and employees who are now serving under the authority of the aforesaid law and regulations is in many cases extremely valuable to the banking institutions of which they are such directors, officers, or employees, and the discontinuance of such service would not result in a commensurate benefit to the public.

Therefore, the Federal Advisory Council believes that any director, officer or employee of any member bank of the Federal Reserve System or any branch thereof, who is now lawfully serving at the same time as a private banker, or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company or any branch thereof should be permitted to continue such service so long as the stockholders of any such banking institution shall desire to retain such persons in such capacities, and so long as such persons shall accept the election or appointment to such positions. This, of course, means that no permits for new interlocking directorates will be issued.

TOPIC No. 4. S. 477 (Corporate Trusteeships).

RECOMMENDATION: The Federal Advisory Council desires to call the attention of the Board or Governors of the Federal Reserve System to Senate Bill 477 relating to the regulation of trust indentures under which securities are issued.

The Council feels strongly that the imposition of some of the liabilities as provided in the bill would create contingent liabilities for banks of deposit accepting corporate trusteeships which might be dangerous to themselves and the banking system as a whole. 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.

Furthermore, the Council believes that the bill would materially increase the cost of, and make more difficult long term public financing, particularly to smaller corporations, and would thus tend to hinder expansion of plants and businesses at a time when such expansion is particularly desirable in the interest of business recovery.

The Council also believes that the restrictions contained in the bill on the right of security holders to waive defaults, and the requirements that the trustee must act in the event of default if it is to avoid liability, would force into receiverships, or the bankruptcy courts, many businesses that otherwise might survive, particularly in times of depression, with resultant loss to their creditors, including banks, and to their stockholders and to their employees and the communities in which they are located.

The Council requests the Board to submit this expression of its opinion to the Senate Committee on Banking and Currency with the request that it be put in the record of the hearings before its Subcommittee considering the bill.

The Council understands that the record of the Subcommittee of the Senate Committee on Banking and Currency, in the absence of further hearings, will be closed on February 16th, and therefore requests that it be forwarded by that date.

TOPIC No. 5. In Re: Chandler Act.

RECOMMENDATION: The Federal Advisory Council suggests that the Federal Reserve Board give consideration to amendments to the Federal Bankruptcy Act as amended by the Chandler Act, approved June 22, 1938, and particularly to Section 60 (a)—(b), to alter the provisions of that Section.

To an increasing extent member banks of the Federal Reserve System are making loans secured by assignments of receivables and other types of collateral. For the most part, such loans are made to relatively small and inadequately capitalized enterprises and without notification to borrowers' debtors, in a spirit of cooperation with the borrowers to preserve their credit standing.

The Federal Advisory Council is of the opinion that under the provisions of Section 60 (a)—(b) the reliance that banks place upon such collateral, unless title thereto is perfected to comply with the requirements of this Section, is illusory and may result in heavy losses. Attention is also called to the timing of perfection of title with relation to the date of the loan, leading to a possible classification of the loan as an antecedent debt.

In addition to loans secured by accounts receivable, other types of collateral loans may be affected, among which are:

- A—Loans secured by assignment of money payable under a contract or rents under a lease.
- B—Loans secured by assignments of life insurance policies.
- C—Loans secured by assignments of rights and interests in estates and trusts.
- D—Loans on the security of instruments which appear to be but are not in fact negotiable instruments.
- E—Loans upon borrower's promise to deliver collateral, whether or not the collateral is segregated or escrowed.
- F—Loans secured in whole or in part by equities of the borrower in collateral owned by the borrower but pledged to secure other indebtedness.

The language of Section 60 (a)—(b) is presumably intended to prevent secret liens, but its provisions bear so heavily upon business and banking practice that restrictions in making loans will ensue, thus adversely affecting general business, or if such loans are made without complete compliance with the requirements of this Section, heavy losses may be encountered by banks.

Law Offices of
Evans, Bayard & Frick
Philadelphia

February 10, 1939

Dear Mr. Loeb:

As you know, Section 60 (a) of the Bankruptcy Act, as amended, now provides that a preference is a transfer of a debtor's property to or for the benefit of a creditor for or on account of an antecedent debt made or suffered by such debtor while insolvent and within four months of the filing of the petition, and that for this purpose the transfer shall be deemed to have been made at the time when it became so far perfected that no creditor and no bona fide purchaser could thereafter have acquired any rights in the property superior to the rights of the transferee therein. We are informed that this change was inserted to prevent secret liens, but however that may be, the broad language of the section impinges heavily upon business and banking practices in varying ways, depending upon the laws of the state in which the transaction occurs.

For your convenience in presenting the matter I list below some of the more important practices which are, or may be, affected:

- (a) The making of loans secured by accounts receivable on a non-notification basis.
- (b) The making of loans secured by assignment of money payable under a contract or rents under a lease.
- (c) The making of loans secured by assignments of life insurance policies.
- (d) The making of loans secured by assignments of rights and interests in estates and trusts.

(e) The making of loans on the security of instruments which appear to be but are not in fact negotiable instruments. While it is improbable that the section would apply to negotiable instruments generally or to instruments which are intended to pass current as negotiable instruments, there are some disturbing questions in this respect. There are situations where creditors of a pledgor of stock can secure superior rights in the stock or dividends if the issuing corporation is not notified of the pledge by registration or otherwise. The greatest risk probably is where the issuing corporation is a creditor of the pledgor. In this connection, your attention is called to Section 3 of the Act of May 5, 1915, Pennsylvania Laws 126, which allows a corporation to recognize the exclusive right of the registered stockholder to receive dividends and to hold the registered stockholder for calls and assessments. Most stock transfer acts provide that no attachment or levy upon shares of stock shall be valid until the certificate be actually seized, or transfer by the holder be enjoined, and that there shall be no lien in favor of a corporation upon the shares or no restriction upon the transfer by virtue of any by-law or otherwise unless the right of the corporation to such lien or restriction is stated upon the certificate. While, therefore, the lender is afforded a larger measure of protection in states having such statutes, the need for care is indicated. Another disturbing phase of this question is that many bonds are not actually negotiable instruments, and are subject to the law of assignment in many particulars. There are numerous cases in New York holding certain bond issues non-negotiable - often by reason of provisions incorporated therein through reference to the indenture under which they are issued. While I have difficulty in believing that any court would apply Section 60 (a) to such instruments physically held by a pledgee, the cloud remains.

(f) The making of loans upon borrower's promise to deliver collateral

whether or not the collateral is segregated or escrowed.

(g) The making of loans secured in whole or in part by equities of the borrower in collateral owned by the borrower but pledged to secure other indebtedness.

(h) The making of loans to borrowers such as finance companies which have important assets consisting of collateral, title to which has not been perfected within the meaning of the section. This is a credit problem.

The foregoing practices now present further administrative risks to lenders. Section 60(a) demands timely and perfect execution by transferees, and seems to deny transferees equitable relief heretofore thought indispensable to fair results. A lender now has the problem of determining accurately the exact nature of the collateral received, and perfecting title to that collateral strictly in accordance with the law of the state applicable to the transaction.

The first question to arise is whether the lender can afford to advance money on a loan before title to the collateral is perfected - otherwise there will survive the question of fact whether title was perfected with reasonable promptness, and the risk that the transaction may be deemed a transfer for or on account of an antecedent debt.

The second question is whether the nature of the property or interest transferred requires merely notice of assignment or recording. Such questions may arise on assignments of interest in estates or trusts or leases.

More than ever will care have to be exercised in phrasing notice of assignments. Receivers and trustees in bankruptcy may well be inspired by Section 60(a) to question the sufficiency of the notice with respect to particular items which ordinarily would not be contested.

The making of loans secured in part by an assignment of the borrower's equity in other collateral presents complications. For example, junior lienholders have the same problem regarding notice of assign-

ment of accounts receivable and the junior lienholder has the further problem of bringing home notice of the assignment to the senior lienholder.

The foregoing by no means exhaust the possible far reaching effects of Section 60(a). We are dealing with phraseology which takes in far more territory than its authors probably comprehended, and the uncertainties inherent in this broad language will only be resolved by the experience of litigation.

Very truly yours,

(Signed) Francis H. Scheetz

Mr. Howard A. Leeb,
Tradesmens National Bank & Trust Company,
320 Chestnut Street,
Philadelphia, Pa.

December 6, 1938

Mr. L. B. Williams,
Chairman of the Board,
The National City Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Williams:

It does not appear possible to solve the non-par problem at the present time by legislation or direct action of the par banks. Some progress toward the solution of this problem might be made by indirect action, if the cooperation of a substantial majority of par banks could be secured. One suggestion for concerted action by the par banks would be to have every such bank include the legend "Par Bank" in the imprinting of all of its checks. No additional expense for imprinting checks would be incurred. Certain advantages might result from the universal adoption of this legend:

- (1) The public would be made conscious of the difference between par and non-par payment;
- (2) The demand might be created for universal payment of checks at par. This pressure on the non-par banks would come from customers (the most effective source) and not from par banks or Federal Reserve System;
- (3) If legislation is enacted making it mandatory to pass back exchange charges to customers, depositors will be able to make separate deposits of non-par items, simplifying the handling of the charges by their banks and enabling them to more easily reconcile exchange charges made against them.

In order to have any effect, all par paying banks should adopt a uniform legend which should be widely publicized. The importance and significance of the legend should be continually emphasized so that the public becomes par conscious and forms the habit of examining checks to see if the legend is imprinted thereon. An effective way of publicizing the phrase would be to include a stuffer in every commercial account statement.

The above lengthy suggestion is prompted by the interest in this subject evidenced by the Federal Reserve Board and the Federal Advisory Council at their recent meeting in Washington.

Very truly yours,

(Signed) E. N. Dekker)
Vice President

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

March 31 1939

Mr. Walter Lichtenstein, Secretary,
Federal Advisory Council,
38 S. Dearborn Street,
Chicago, Illinois.

Dear Mr. Lichtenstein:

The Board of Governors has given further consideration to the recommendations submitted by the Federal Advisory Council at the meeting with the Board on February 14, 1939.

As stated during the meeting, the answers to the questions listed under Topic 1 relating to the question "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?" are so brief that the position of the Council might easily be misunderstood in the absence of a further statement giving more clearly the reasons underlying the position taken, and it was suggested at the meeting that the Council might wish to give further consideration to the matter and determine whether it would be desirable for it to expand the answers to some of the questions to meet this situation. While the Board appreciates the fact that the brevity of the comments was influenced by the desire of the Council to prevent the recommendation from being so long that it would be burdensome, it is hoped that the Council will expand the recommendation so that a full statement of reasons will be given for the position taken on each question.

It will be recalled that it was brought out at the meeting on February 14 in connection with the recommendation on Topic 2, that the Board make a study of the long range effects of the easy money policy, that the Board and various members of its staff are continuously engaged in studying the relationship between the cost of money and the operation of different parts of our economic mechanism. The Board does not see how this problem with its many ramifications can be made the subject of a special study by the Board which would be independent of those that are being made currently by the Board and by other agencies of Government.

Topic 3 suggests an amendment to section 8 of the Clayton Act relating to interlocking bank directorates to permit an officer, director, or employee of a member bank who is now lawfully

Mr. Walter Lichtenstein

- 2 -

servng as a private banker or a director, officer, or employee of any other bank to continue such service and to prohibit the creation of any new interlocking directorates. At the meeting of the Council with the Board Mr. Hanes inquired whether the Board would oppose an amendment to the Clayton Act which would permit the continuation of the existing interlocking directorates, but would prohibit new interlocking relationships, involving insured banks. The Board sees no objection to this solution of the matter.

Recently representatives of the American Bankers Association submitted to the Board informally a draft of an amendment to section 8 of the Clayton Act which would permit an officer, director or employee of an insured bank to serve as an officer, director or employee of not more than one other bank and the representatives were advised informally that the Board would not favor such an amendment but would not oppose the amendment referred to by Mr. Hanes.

As the Council has been advised, copies of its statement on Topic 4 relating to the trust indenture bill now pending before Congress have been sent to the Chairmen of the Senate Committee on Banking and Currency and the House Committee on Interstate and Foreign Commerce.

As the Council was advised at the meeting with the Board, in connection with the discussion of Topic 5, Counsel for the Federal Reserve banks and the Board have been studying the effects on the industrial loan activities of the Federal Reserve banks of amendments to the Federal Bankruptcy Act made by the Chandler Act approved June 22, 1938. This study has not yet been completed and the Board has not had an opportunity to determine what, if any, action it should take on the matter.

Very truly yours,

(Signed) L. P. Bethea

Assistant Secretary