MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL

February 19-21, 1950
May 14-16, 1950
October 1-3, 1950
November 19-21, 1950

and of the
MEETINGS
of the
EXECUTIVE COMMITTEE

August 1, 1950
September 13, 1950

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1950

OFFICERS:

President, Edward E. Brown
Vice President, Robert V. Fleming
Director, N. Baxter Jackson
Director, Frederic A. Potts
Director, Sidney B. Congdon
Secretary, Herbert V. Prochnow

EXECUTIVE COMMITTEE:

Edward E. Brown
Robert V. Fleming
N. Baxter Jackson
Frederic A. Potts
Sidney B. Congdon

MEMBERS:

Walter S. Bucklin	District No. 1
N. Baxter Jackson	District No. 2
Frederic A. Potts	District No. 3
Sidney B. Congdon	District No. 4
Robert V. Fleming	District No. 5
J. T. Brown	District No. 6
Edward E. Brown	District No. 7
W. L. Hemingway	District No. 8
Joseph F. Ringland	District No. 9
David T. Beals	District No. 10
J. E. Woods	District No. 11
James K. Lochead	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

The Officers of this Council shall be a President, Vice President, three Directors and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee.

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

The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President, and the three Directors.

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 the power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council.

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 19, 1950

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1950

The first and organizational meeting of the Federal Advisory Council for the year 1950 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on February 19, 1950, at 2:15 P.M.

Present:

Walter S. Bucklin	District No. 1
N. Baxter Jackson	District No. 2
Frederic A. Potts	District No. 3
Sidney B. Congdon	District No. 4
Robert V. Fleming	District No. 5
J. T. Brown	District No. 6
Edward E. Brown	District No. 7
W. L. Hemingway	District No. 8
Clarence E. Hill (Alternate for Joseph F. Ringland)	District No. 9
David T. Beals	District No. 10
J. E. Woods	District No. 11
James K. Lochead	District No. 12
Herbert V. Prochnow	Secretary

Absent:

Joseph F. Ringland	District No. 9

Mr. J. T. Brown was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary *pro tem.*

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1950.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
N. Baxter Jackson, Director
Frederic A. Potts, Director
Sidney B. Congdon, Director
Herbert V. Prochnow, Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at $2,500, which has been the Secretary's salary in previous years.

On motion, duly made and seconded, the Council amended Articles I, III and IV of the by-laws. The by-laws, as amended, are a part of these minutes.

The Secretary presented his financial report for the year 1949, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the printed minutes for the meetings held on February 13, 14, 15, 1949; May 15, 16, 17, 1949; September 18, 19, 20, 1949; and November 13, 14, 15, 1949, copies of which had been sent previously to the members of the Council, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Secretary to ask each Federal Reserve bank to contribute $350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1950 and to draw upon it for that purpose.

President Brown stated that Chairman McCabe had requested the Council's view on the bank holding company legislation pending in Congress. The opinion of the Council is to be found in the letter from the Council addressed to the Secretary of the Board of Governors of the Federal Reserve System, dated February 20, 1950, and which appears on page 12.

An extended discussion on Reserve Requirements followed, and in particular on the uniform reserve proposal of the Board Staff. All members of the Council were against the inclusion of non-member banks under the Board's authority over reserves.

The meeting adjourned at 5:45 P.M.

HERBERT V. PROCHNOW
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ended December 31, 1949

Balance on hand December 31, 1948	$ 6,733.90	Salaries	$ 2,500.00
		Conference Expenses	1,011.96
		Printing and stationery	415.80
Assessments— 12 Federal Reserve Banks	4,200.00	Postage, telephone and telegraph	134.46
		Balance on hand December 31, 1949	6,871.68
	$10,933.90		$10,933.90

Chicago, Illinois
February 1, 1950

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ended December 31, 1949, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO
(Signed) J. J. Buechner
Assistant Auditor

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 20, 1950

At 10:10 A.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., for a meeting with the members of the Board Staff.

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

Dr. Woodlief Thomas, Dr. Ralph A. Young, and Messrs. Horbett, Collier, Noyes and Anderson.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon, J. T. Brown, W. L. Hemingway; Clarence E. Hill (Alternate for Joseph F. Ringland); David T. Beals, J. E. Woods, James K. Lochead, and Herbert V. Prochnow, Secretary.

Absent: Mr. Joseph F. Ringland.

The members of the Council and the Board Staff informally discussed the Staff's suggestion on reserve requirements. It was stated in the course of the discussion that the nature of interbank deposits of the livestock banks significantly differs from interbank deposits of other banks and, therefore, the proposal would tend to be inequitable. In addition, it was suggested that inasmuch as the proposal would increase the reserves of a number of country banks, politically, it would be difficult to enact legislation.

The meeting adjourned at 12:40 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 20, 1950

At 2:00 P.M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., with the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon, J. T. Brown; Clarence E. Hill (Alternate for Joseph F. Ringland); David T. Beals, J. E. Woods, James K. Lochead, and Herbert V. Prochnow, Secretary.

Absent: Messrs. Robert V. Fleming, W. L. Hemingway, and Joseph F. Ringland.

Dr. Woodlief Thomas, Economic Advisor to the Board, spoke off-the-record on government securities.

The meeting adjourned at 3:40 P.M.

HERBERT V. PROCHNOW
Secretary.

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

February 21, 1950

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 Thomas B. McCabe; Governors Marriner S. Eccles, M. S. Szymczak, Ernest G. Draper and James K. Vardaman, Jr.; also Mr. S. R. Carpenter, Secretary of the Board of Governors; Mr. Elliott Thurston, Assistant to the Board; Mr. Chester Morrill, Special Advisor to the Board; Mr. Winfield W. Riefler, Assistant to the Chairman; Mr. Woodlief Thomas, Economic Advisor to the Board; Mr. Ralph A. Young, Director, Division of Research and Statistics; Mr. George B. Vest, General Counsel, Legal Division; Mr. Merritt Sherman, Assistant Secretary; and Mr. J. E. Horbett, Assistant Director, Division of Bank Operations.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon, Robert V. Fleming, J. T. Brown, W. L. Hemingway; Clarence E. Hill (Alternate for Joseph F. Ringland); David T. Beals, J. E. Woods, James K. Lochead, and Herbert V. Prochnow, Secretary.

Absent: Mr. Joseph F. Ringland.

The President of the Council stated that in accordance with the wish expressed by Chairman McCabe, the Council had not prepared a written memorandum of its conclusions regarding the Staff Study on reserves, but that the Council was prepared to explore and discuss the subject with the Board.

President Brown pointed out that under the Staff Study, the central reserve city banks will have lower reserves, the reserves of the reserve city banks will be about the same, while many of the country banks will be required to keep more reserves. Any plan which lowers the reserves for central reserve cities and increases them for country banks will meet opposition in Congress.

An extended discussion followed in which members of the Council reiterated President Brown's statement. In addition, it was stated that since the interbank deposits of the stock yards banks seemingly differ from the inter-bank deposits of other banks, the stock yards banks would be penalized.

Chairman McCabe replied that the formula outlined in the proposal is subject to adjustment. He also expressed his appreciation for the excellent comments made by the members of the Council on the Staff Study.

Mr. Eccles stated that the proposal related to housekeeping and was desirable, but from the standpoint of controlling the money and credit supply of the country it would be ineffective. He added that the only way to provide adequate control was by a special reserve.

Chairman McCabe suggested that the Council appoint a committee to work with the Staff on the reserve proposal.

The meeting adjourned at 1:05 P.M.

HERBERT V. PROCHNOW
Secretary.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 21, 1950

At 2:15 P.M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. Walter S. Bucklin, N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon, J. T. Brown, W. L. Hemingway; Clarence E. Hill (Alternate for Joseph F. Ringland); David T. Beals, J. E. Woods, James K. Lochead, and Herbert V. Prochnow, Secretary.

Absent: Mr. Joseph F. Ringland.

On motion duly made and seconded, President Brown was authorized to appoint a committee to work with the Board and the Board Staff in connection with the matter of reserve requirements.

President Brown then appointed the following committee:

Robert V. Fleming, Chairman
David T. Beals
J. T. Brown
N. Baxter Jackson
Frederic A. Potts

The meeting adjourned at 2:25 P.M.

HERBERT V. PROCHNOW
Secretary.

COPY OF LETTER SENT TO THE SECRETARY OF THE BOARD OF GOVERNORS REGARDING BANK HOLDING COMPANY BILL S. 2318

February 20, 1950

Mr. S. R. Carpenter, Secretary,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Mr. Carpenter:

A few days before the present meeting of the Federal Advisory Council, Mr. McCabe telegraphed Mr. Brown asking the position of the present Council on bank holding company bill, S. 2318.

The Council wishes to inform the Board of Governors that the Council approves bank holding company bill, S. 2318, subject to the inclusion of a satisfactory provision which would exempt wholly-owned or affiliated trust companies not doing a commercial banking business. It is felt by some of the members particularly interested that slight changes in language which would not effect any changes in substance might be desirable.

Yours very sincerely,

HERBERT V. PROCHNOW

Secretary.

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

H.V.P.

The Secretary's notes on the meeting of the Federal Advisory Council on February 19,1950, at 2:15 P. M., in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present, except Mr. Ringland. Mr. Clarence E. Hill, Chairman of the Board of Northwestern National Bank, Minneapolis, Minnesota, served as alternate for Mr. Ringland.

Mr. J. T. Brown was elected Chairman pro tem and Mr. Herbert V. Prochnow was elected Secretary pro tem.

The Secretary pro tem stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their respective representatives on the Council for the year 1950.

BY-LAWS

On motion, duly made and seconded, Articles I, III, and IV of the by-laws were amended to read as follows:

ARTICLE I-OFFICERS

The officers of this Council shall be a President, Vice President, three Directors and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee.

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

The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President, and the three Directors.

The following officers were nominated and unanimously elected:

Edward E. Brown, President
Robert V. Fleming, Vice President
N. Baxter Jackson, Director
Frederic A. Potts, Director
Sidney B. Congdon, Director
Herbert V. Prochnow, Secretary

On motion, duly made and seconded, the salary of the Secretary was fixed at $2,500, as in previous years.

The Secretary presented his financial report for the year 1949 which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago. The report was approved and ordered placed on file. It will be printed and attached to the formal printed minutes.

The printed minutes for the meetings held in 1949, which had been sent previously to the members of the Council, were approved.

A resolution was adopted authorizing the Secretary to draw upon each Federal Reserve bank for $350 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1950.

BANK HOLDING COMPANY LEGISLATION

E. E. Brown explains for the new members of the Council the method of procedure the Council has used in recent years. The Council holds a discussion on Sunday afternoon; on Monday morning the Council prepares the written memorandum to be sent to the Board giving the conclusions of the Council and requesting any additional information the Council desires from the Board. The memorandum is sent to the Board of Governors not later than noon on Monday. Monday afternoon the Council ordinarily meets with one of the economists of the Board staff. On Tuesday morning, the Council and the Board hold a joint discussion. Brown explains, however, that for this meeting McCabe had expressed the wish that no written memorandum be prepared but that the Council and the Board consider the principal subject, "reserve requirements," without any written conclusions. Immediately prior to this meeting, McCabe telegraphed Brown and stated that hearings might be held on the bank holding company bill within the next month or two. McCabe would appreciate knowing whether the new Council's viewpoint is the same as that held by the Council in 1949. Brown states that the bank holding company legislation has been under consideration for the last five or six years and that in 1949 the Council expressed its approval of bank holding company legislation subject to the inclusion of a satisfactory provision which would exempt wholly-owned or affiliated trust companies not doing a commercial banking business.

Fleming believes that the Council may wish to be sure of the exact language of the bill, particularly the definitions such as that of commercial banking business.

Bucklin states that he is not certain whether his bank has approved the bill as it now reads.

Lockhead favors the bill.

Hill says J. Cameron Thomson approves the bill.

Jackson sees no reason for opposing the bill.

Congdon is for the bill.

Potts is for it.

Fleming approves the bill.

Hemingway says he is for the bill.

J. T. Brown approves the bill.

Woods approves it.

Beals approves it.

E. E. Brown. The members of the Council approve the bank holding company legislation, subject to the inclusion of a satisfactory provision which would exempt wholly-owned or affiliated trust companies not doing a commercial banking business.

Bucklin advises that he will call his office in the morning to see whether the present bill has been approved.

E. E. Brown indicates he will also mention to McCabe that one or two members feel some slight changes in language, which would not effect any changes in substance, may be desirable.

RESERVE REQUIREMENTS

E. E. Brown asks the members of the Council to comment on the memorandum which the Board Staff prepared regarding reserve requirements.

Fleming believes the Staff suggestion is more moderate than previous proposals on reserve requirements.

Congdon understands the Board was unhappy about the President's inclusion of the reserve question in his Message and that the Board is not too desirous of having legislation passed now.

Fleming comments off-the-record on the part of the President's Message which included statements relative to reserves.

E. E. Brown. The Council has at various times in the past stated its opposition to the inclusion of non-member banks. Any legislation which gave the Board the power to control the reserves of non-member banks would almost certainly result in the defeat of such legislation. There is some feeling that the various proposals on reserves are aimed at giving the Board not only greater control of the banking system, but also of the entire economy.

Fleming also agrees that many bankers believe the Board wishes all banks under its control, and also desires control of the economy. There is a feeling that the Board wishes to do away with the correspondent banking system. Fleming then traces the various proposals in the past relative to reserve requirements.

Hemingway. This whole matter of reserves raises the question of whether reserves should be flexible or fixed.

E. E. Brown thinks the Board will wish to include non-member banks, and he believes the question of flexible and non-flexible reserve requirements will come up for consideration.

Fleming believes one of the first questions the Council may wish to ask the Staff is "What is the formula?"

E. E. Brown. In order to have some order in the Council's discussion of the subject of reserve requirements, perhaps the Council should take up first the question of whether non-member banks should be included under the Board's power to control reserves.

Bucklin understands the view of the Council on this subject has been against the inclusion of non-member banks under the Board's authority. He believes that historically interbank deposits have been more volatile, and that money has been withdrawn heavily by correspondent banks in periods of crises. In normal times interbank deposits are probably more volatile than other deposits, and in periods of crises, they seem to be very volatile.

Jackson is not so sure that interbank deposits in normal times are as volatile as some bankers believe. In fact, in crises, savings have been very volatile. Jackson does not believe that reserves should be the instrument of control, but rather that open market operations and the rediscount rate should be the instruments of control. He recalls that Strong once said credit should always be available at a price.

E. E. Brown points out the difficulties of the American Bankers Association model statute for reserve requirements in such a state as Illinois. In Illinois there are no reserve requirements for state banks, and it would be extremely difficult to change the statutes. Any attempt to change the situation in Illinois might lead into many other proposals for banking legislation. Brown asks if any member of the Council thinks that non-member insured banks should be included under the Board's power to regulate reserves.

Bucklin believes that the members of the Council are all against the inclusion of non-member banks under the Board's power, but the requirements for bank reserves, as given in the laws of the 48 states, are very confusing. There does seem to be some need for voluntary improvement toward greater uniformity. The American Bankers Association is trying to do this through the state legislatures. Bucklin believes the A.B.A. may be able to concentrate on this one feature of uniform reserves for the various states.

Hemingway. The idea is good, but there are real difficulties in such states as Illinois, where a vote of the people is necessary.

E. E. Brown. In Illinois the absence of state reserve requirements has worked well. The Council believes in a dual banking system, whereby banks are not compelled to be under one central control. Once control becomes centralized in a federal agency, that agency will have complete control.

J. T. Brown. So long as the Federal Reserve Board includes non-member banks in their reserve proposals, the Board will not get any legislation.

Jackson states he would not favor the Council making any suggestion to the states about their laws relative to reserves.

Fleming believes E. E. Brown can state that the Council's position remains the same as it has been on the question of the inclusion of non-member banks.

J. T. Brown thinks that Jackson touched upon an important point. The states originally set up reserve requirements on the old idea of what a bank's reserves were meant to be, and the states had no idea of using reserve requirements as a means of credit control.

Bucklin agrees with J. T. Brown. However, if the time ever comes when it is necessary to try to justify the various reserve requirements in the states, perhaps it would be a good idea to have had the American Bankers Association work even more intensively with the states.

J. T. Brown points out that in the Banking Act of 1935 power was given to the Federal Reserve Board to change reserves in order to promote credit and economic expansion.

Fleming moves that the Council express itself as opposed to the inclusion of non-member banks under the Board's authority.

Woods seconds the motion.

E. E. Brown states, after a show of hands, that all members of the Council are against the inclusion of non-member banks under the Board's authority over reserves. The next matter is the question of whether it is desirable to have flexible or inflexible reserves. Brown believes in flexible reserves, and he says that the Board has favored flexibility.

Hemingway thinks flexibility fails in its purpose. Today flexibility works out to be a question of whether the Federal Reserve banks or the commercial banks own the government bonds.

Fleming states that flexibility has been permitted so long, it will be impossible to insert inflexibility in the law. He believes the reserve proposal in the Staff's memorandum is relatively mild. It may be better to accept it and get the question of reserve requirements settled for some time.

Congdon does not believe you can get flexibility taken out of the law. He thinks the thirty per cent figure for reserve requirements for interbank deposits is too high.

Lochead agrees with Congdon that it would be very difficult to change now from the position of flexible to fixed reserves.

Jackson believes the evidence shows that the controls available to the Federal Reserve System worked well over many years without the System trying to make reserves serve as a means of credit control.

Lochead. The rediscount control did not work too well in 1921.

Bucklin. Assuming it were possible to get a fixed reserve, would the members of the Council favor it?

Fleming. If we insist on the principle of a fixed reserve, we may get a fixed reserve we shall not like.

Congdon states he would prefer a fixed reserve, but, practically, he does not believe it is possible to get it. Our opposition to the principle of a flexible reserve would probably be ineffective, and as a result we might lose things we would otherwise get.

Potts. The Board undoubtedly believes flexibility has worked and is desirable. Potts favors the flexible rate.

Hemingway. The Board proposes now to make a fundamental change in reserve requirements, and it might be desirable at the same time to see if a fixed reserve can be obtained.

J. T. Brown agrees with Congdon and Potts.

Woods would like a fixed reserve, but does not think it is possible to obtain it.

Beals believes with Jackson that the fear psychology is not as great with interbank deposits as with other types of deposits.

E. E. Brown comments that in periods of stress his bank experienced substantial correspondent bank withdrawals.

Fleming remarks that his out-of-town correspondents did not withdraw heavily in times of crises.

Congdon. A reserve does not really protect a bank in a crisis. Congdon says he received a Federal Reserve schedule showing availability sooner than it was possible to collect the funds.

E. E. Brown says that in the Staff study, central reserve city banks may have lower reserves, but another factor to consider is whether the whole plan tends to do away with correspondent banking business.

Potts reports he talked with Karl Bopp yesterday. Potts does not think Bopp is trying to penalize the banks, but that Bopp believes the correspondent banking relationship would be firmly fixed in our banking structure if a reserve proposal, such as his, should be adopted.

Congdon questions whether Bopp is correct in this opinion.

J. T. Brown reports that in his bank the Staff reserve suggestion would work out as follows:

	Percentage Increase or Decrease Over Present Reserve
Introductory Reserve Requirement	+13.66
Maximum Reserve Requirement	+56.27
Minimum Reserve Requirement	-28.87

E. E. Brown. At present ordinary demand deposits and interbank deposits have the same reserve requirements. Brown asks how many members of the Council believe a differentiation is necessary in reserve requirements as between these two types of deposits.

Woods states that resistance to the Staff's reserve suggestion would come from country banks because of the higher reserves required.

E. E. Brown. The proposal reduces reserves in central reserve city banks but it increases reserves in a number of the country banks. Politically the country banks are much more powerful, and the proposal would have trouble in Congress.

Congdon. If the Council should approve the Staff's suggestion, increases in reserves should be across the board by the same number of percentage points. If other demand deposits are raised from ten per cent to twelve per cent, then interbank deposits should go up two points, or from twenty per cent to twenty-two per cent. The Board should not be allowed to raise rates so they penalize interbank deposits only, or more than the other types of deposits.

E. E. Brown. There are now two types of deposits and three classes of cities. Under the new plan there are three types of deposits.

Bucklin. The Board may argue that it is not sound to increase two points across the board, for example, as that gives less of a percentage increase to interbank deposits.

E. E. Brown believes the Board may argue that there are times when the Board wishes to put pressure on the money centers. Therefore, the Board would state it must have the right to change the rates in different proportions on different deposits.

J. T. Brown. Reserve cities and central reserve cities were in existence for fifty years before the Federal Reserve Act. When Eccles rewrote the Federal Reserve Act in 1935 he did not change this part of the Act. The Board has authority to declassify a reserve or central reserve city, or to classify it as such. This new reserve proposal is not necessary. The Board was able to arrange for the declassification of Grand Rapids.

(At this point there was an off-the-record discussion on the matter of loans to small business, and on the present status of the Federal Deposit Insurance Corporation Bill).

The meeting adjourned at 5:45 P.M.

On February 20, 1950 at 10:10 A.M. the Federal Advisory Council convened in the Board Room of the Federal Reserve Building for a meeting with the members of the Board Staff. All members of the Council were present except Mr. Ringland. Mr. Clarence E. Hill served as an alternate for Mr. Ringland. The following members of the Board Staff were present: Dr. Woodlief Thomas, Dr. Ralph A. Young, and Messrs. Horbett, Collier, Noyes and Anderson.

E. E. Brown suggests that the Council and the Staff discuss informally the Staff's suggestions on reserve requirements. Brown asks about the treatment of cash items.

Young reports that the plan has been under discussion for several years. The System had a committee headed by Karl Bopp which studied the question.

Horbett states that cash items would be deducted from demand deposits other than interbank deposits. There has been some discussion of allowing the deduction of cash items from interbank deposits in the case of a bank engaged largely in interbank business.

Thomas reports that one of the problems which has confronted the Staff is that of determining the exact deductions to allow.

Congdon. If the Staff requires a higher percentage of reserves against interbank deposits, is it not imperative that deductions be determined fairly against these deposits as well as against other demand deposits?

E. E. Brown. The treatment of items in process of collection, which was not fully covered in this report, is a very important matter.

Beals states that the interbank deposits in his bank are different from the interbank deposits in many other banks. The movement of his country bank deposits is probably different because of the nature of the business of his country correspondents. Live stock is marketed the first of the week so that the proceeds come in the first of the week, and they are paid out the latter part of the week. Beals reports his bank has a weekly cycle, as well as a seasonal swing.

Thomas. There are wide swings of deposits also in the cotton banks in a city such as Memphis.

Potts. What is the underlying philosophy in the proposal which the Staff is making? Why is a change suggested from the geographical basis to a type-of-deposit classification?

Thomas states that Bopp presented the report which dealt with a type-of-deposit classification basis and that Horbett and one or two others of the Staff had developed the idea. The only purpose of the Staff's study is to strengthen the banking system and the banks and not to remake the banking system. The Staff study is, in a sense, a modification of a theory which has long been held in the banking system; it would correct the idea of excluding vault cash. With respect to the correspondent banking system, the plan is neutral. It would neither encourage nor discourage correspondent banking, except that it recognizes the correspondent banking system. In theory, the Staff study works, but in its practical application seeming injustices arise in some cases. If the plan is desirable in itself, perhaps one of the prices necessary will be some increases in the reserves of some banks as against decreases in the reserves of other banks. During the introduction of the plan some banks would gain reserves as against others, but these gains would gradually be eliminated. The central reserve city banks would benefit the most with the reserve city banks next; the country banks would benefit the least. The question is whether the gains are enough to justify the price.

Jackson. In computing their reserves, would the country banks have a credit of 26 per cent to 30 per cent?

Horbett. Yes. Without disturbing the interbank relationship, this plan would result in considering balances due from banks as a part of the reserve.

Jackson. The banks are today more liquid than ever. Is it necessary to set up a new plan which would result in the same volume of reserves we now have?

Thomas. The very fact that banks are more liquid is one reason which may be given for increasing the reserves to immobilize a part of the liquid assets of the banks. With greater liquidity, the banks have more opportunity to expand credit. It cannot be assumed that the banks will take the funds available to them from lower reserves and buy governments.

Jackson states that he appreciates the answer Thomas has given as it indicates that the control of credit is a basic part of the philosophy back of the proposal.

Congdon. Originally there was no flexibility in reserves.

Thomas. That is correct, but when the United States experienced the heavy inflow of gold it became necessary to control reserves.

J. T. Brown asks when the concept of using reserves to control credit originally arose.

Thomas replies that the control of credit through reserves always has been traditional in any discussion of reserves.

Young. Two or three years after the establishment of the System, the Federal Reserve Board made a statement to Congress on the general subject of having deposits and credit expand in order to meet the needs of an expanding economy.

Thomas. Reserves were required against bank notes originally, and this was a way of limiting credit. The level of reserve requirements does control credit. That is a fact regardless of the purpose of the reserve requirements.

J. T. Brown. Forty-seven of the forty-eight states have reserve requirements. J. T. Brown asks whether these states had in mind controlling the money markets through their reserve requirements. He believes the courts have always construed reserves as a means of protecting the banks rather than as an instrument of credit control.

Thomas. Regardless of what Congress, the courts, or the states had in mind, reserves which are not tied up have a potential power to expand credit. The question is, assuming that we have a system of reserve requirements, what is the best system? Under the present plan we determine reserves by a classification of cities.

J. T. Brown asks whether the Staff study is a proposal for taking pressure off the Board.

Young. The study is more than a matter of taking pressure off the Board. However, no federal agency should have such pressure put on it.

E. E. Brown states that the banks would oppose the change if they thought any change would increase the total required reserves over the present maximum.

Young. The maximum percentages in this proposal in the aggregate are not planned to be in excess of the present maximum requirements. Individual banks may find them larger, but for all banks the total is not planned to be larger.

E. E. Brown. One of the difficulties of the plan is that it reduces the reserves of central reserve cities the most, and actually increases the reserves of a number of country banks. Politically, it would be difficult to enact legislation of this character.

Hemingway asks how the Staff arrived at 20 per cent for other demand deposits and 30 per cent for interbank deposits.

Young. In general, in setting up the plan, we tried to tie up the same total reserves as we now have. The percentages are experimental. The Staff has no good basis for the difference between 20 per cent and 30 per cent.

Jackson does not believe the difference in actual practice is as great as the difference between 20 per cent and 30 per cent, or a 50 per cent difference.

E. E. Brown states that volatility depends on whether you are speaking of velocity or increases and decreases in the level of deposits.

Young. Using 26, 15 and 4 as the basis, the net result would increase excess reserves by three billion dollars and that is a great deal.

Thomas. In connection with the question of whether this proposal would encourage or discourage the continuance of the correspondent banking system, it may be said that the country cannot have a unit banking system without a correspondent banking system.

Congdon believes the Staff study probably does not discourage country banks from carrying balances with correspondent banks.

Potts states that Thomas' remarks would seem to indicate a change in the attitude of the Board on correspondent banking.

Thomas replies that he does not know whether the Board has any general attitude on correspondent banking, although individual members of the Board may have opinions. The Staff proposal counts vault cash and includes a larger percentage of correspondent bank balances in reserves.

Hemingway comments that if the central reserve city banks have less reserves, then some banks must have more reserves if the total reserves tied up are to remain the same as at present.

Potts thinks more study should be given to the large differential between interbank and other demand deposits.

Thomas. The large differential makes it possible for country banks to carry larger correspondent bank balances.

J. T. Brown. As a purely political question, it would be difficult to obtain approval of the plan as the country banks would oppose it.

Young. As a technical group, the Staff is not concerned with the political aspects of the problem, but rather whether it is desirable for the banking system.

Thomas. This plan would tend to lessen the shifting of interbank deposits in times of stress.

Woods asks whether there has been any demand from reserve city banks or other banks for a change in reserve requirements.

Thomas. From the beginning of the Federal Reserve System the question of reserves has been continuously studied.

Young. The members of the Staff are not here as advocates of a particular plan, but they are here merely to present a plan.

Thomas. Many of the persons from the Federal Reserve System who answered the Douglas questionnaire believe a change in the present reserve requirements is necessary.

E. E. Brown states that a member of the Council is confronted with various considerations in weighing the value of any new reserve proposal. He thinks of the proposal in relation to his own bank, but he also represents all the banks in his Federal Reserve district and these banks range in size from the smallest to the largest. The member of the Council must also think of the best interests of the country.

Beals points out that the stock yards banks are seriously penalized in the Staff study.

Young. There is no intent to harm any group of banks, and the Staff believes more work should be done on the study.

Congdon asks whether any study has been made which would show the volatility of demand deposits in reserves cities as against those in country banks.

Thomas says there is a difference between the movement of demand deposits in different cities.

Horbett comments that the question of reserve city classifications will come up again under the formula. There are now fifty-eight reserve cities. The Board has designated fifteen during the life of the System and five have had their classifications terminated. The Board first discussed the question of a new basis for reserves in its 1917 report. In certain reserve cities, the banks must vote at the end of 1950 regarding a continuance of the city as a reserve city. This matter now comes up every three years.

The meeting adjourned at 12:40 P.M.

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At 2:00 P.M. the Council reconvened in the Board Room, with all members present except Fleming and Hemingway, for an off-the-record discussion on government securities by Dr. Woodlief Thomas.

The meeting adjourned at 3:40 P.M.

On February 21, 1950, at 10:40 A.M., the Federal Advisory Council held a joint meeting with the Board of Governors of the Federal Reserve System in the Board Room of the Federal Reserve Building.

All members of the Council were present except Mr. Ringland. Mr. Clarence E. Hill served as an alternate for Mr. Ringland. The following members of the Board of Governors were present: Chairman McCabe, Messrs. Eccles, Szymczak, Draper and Vardaman. In addition, there were present Mr. Carpenter, Secretary of the Board of Governors; Mr. Thurston, Assistant to the Board; Mr. Morrill, Special Adviser to the Board; Mr. Riefler, Assistant to the Chairman; Mr. Thomas, Economic Adviser to the Board; Mr. Young, Director, Division of Research and Statistics; Mr. Vest, General Counsel of the Legal Division; Mr. Sherman, Assistant Secretary; and Mr. Horbett, Assistant Director, Division of Bank Operations.

E. E. Brown. In accordance with the wish expressed by Chairman McCabe, the Council has not prepared a written memorandum of its conclusions regarding the Staff study on reserves. The Council is prepared to explore and discuss the subject with the Board. Brown points out that under the Staff study the central reserve city banks will have lower reserves, the reserve city banks will be about the same, and many of the country banks will be required to keep more reserves. Politically, any plan which lowers reserve requirements for central reserve cities and increases them for many country banks will meet opposition in Congress. The comments in the President's message regarding reserves were somewhat disturbing to bankers. If the plan in the Staff study were to go into effect, it would probably be necessary to change the proposed plan so it would not so severely penalize country banks.

McCabe comments off-the-record on the portion of the President's message dealing with reserves and installment credit.

E. E. Brown. Each Council member necessarily thinks of any reserve proposal in connection with his bank, the banks of his city, and the banks of the Federal Reserve district he represents. In each Federal Reserve district he will find banks that differ widely in size. A member of the Council also will necessarily consider the effect of any reserve proposal on the country as a whole.

J. T. Brown states that he has no preconceived ideas regarding the Staff study, but he is greatly interested in the welfare of country banks. There is justification for some differentiation between country and city banks. A reasonable man would have to admit that a system of reserves that started in 1864 might need overhauling by 1950. Brown commends the Staff for the careful study it has made of the whole question of reserves. However, he states that the Staff said any new plan would probably be set up on the basis of locking up approximately the same reserves as are now locked up. The Staff indicated that the central reserve cities might have lower reserves under the Staff plan, but that country banks would have to keep more reserves. The stockyards banks would be severely penalized. The details of any plan have not been submitted. If any plan is to be accepted, it should not penalize country banks so seriously. Brown questions the advisability of any plan which would be detrimental to so many banks without accomplishing any real good. Brown then presents the following figures to indicate how the Staff proposal would affect his bank:

Percentage Increase or Decrease Over Present Reserves

Introductory Reserve Requirement +13.66

Maximum Reserve Requirement +56.27 Minimum Reserve Requirement -28.87

Woods states he does not know how all the banks in his district would feel about the Staff Study Schedules. Consequently, he is reluctant to express an opinion. Would like to see further as to how the proposed changes would affect banks of various classes. Would like especially to have the city banks in the district have their statisticians study the proposals and ascertain how they would be affected. Woods states that he is really a country banker but even so, 25% to 30% of his deposits are interbank deposits. He thought that any change that would increase reserve requirements over the requirements fixed by the present law would meet with stubborn resistance. That this would be especially true of country banks which greatly out-number the reserve city and large city banks. He understands that the Introductory Schedule which the Staff Study used was based on the present schedule of reserve requirements; that is, for country banks, 12% of Demand Deposits, and pointed out that 12% on Demand Deposits is already 70% above the present minimum (7%) permitted under the law.

McCabe states that the formula is subject to adjustment.

Hemingway. Does this mean changes without notice?

McCabe. No. I mean a change in the basis. The whole study is in an embryonic stage.

Congdon says his bank is probably typical of those in his general group. It is apparent that you cannot revise the existing reserve requirements without some seeming injustices. Speaking generally, from the viewpoint of his bank, the proposal is not objectionable. He doubts whether the proposal accomplishes much or is worth the effort. Congdon questions whether there should be a differential of ten points between the required reserves on other bank deposits and interbank deposits. There may be some basis for larger reserves in larger cities. Some study is probably necessary on this subject. Congdon believes some formula might be worked out that would correct situations in individual banks under the present requirements. If the Staff study should be adopted, Congdon believes two things should be done: (1) increases or decreases in reserve requirements should be an equal number of points across the board; and (2) the question of float on both interbank and demand deposits should be considered.

E. E. Brown asks Beals to comment on the Staff study. Brown states that eight out of nine of the banks most seriously affected by the reserve proposal are livestock banks.

Beals states that his bank has a definite interest in the proposal, because of the way in which the proposal affects his bank. Of the first nine banks showing the largest increases in required reserves under the plan, eight are stockyards banks. His bank has a weekly cycle and a seasonal cycle. Anything that is done to interfere with the livestock industry and its financing would be serious, as the livestock industry has an important part in the American economy. Beals questions whether interbank deposits are more volatile than other bank deposits. From the experience of his own bank, he does not think so. He understands the reserve city bankers have not found them more volatile, although he realizes there are some members of the Council who hold a different view on this matter. He states the Staff has agreed that the proposal as it affects the livestock banks is so unusual that special study should be given to it.

Jackson reports that his district is one of great extremes, from the large New York city banks to the smallest country banks. Any change that is made should be made only after the most careful study. He commends the Staff on the work which has been done so far on the study. Jackson believes that at present the central reserve cities have what might be called a penalty reserve requirement, which was made to apply to a different banking situation than we have now. He states that reserves were required originally in order to segregate a certain amount of funds for safety. Today reserve requirements are set up on a different basis. The psychology now is that the Board will control the volume of credit through reserve requirements. He doubts whether interbank deposits are more volatile than other bank deposits. He also questions whether demand deposits in large city banks are more volatile than demand deposits in country banks. He feels that credit can be controlled by the rediscount rate and open market operations. Much thought should be given to the question of whether it is desirable to control credit by means of reserve requirements.

Bucklin. The protection which this plan affords in periods of trouble is a factor that appeals to him. He presumes that an additional advantage of the plan is that it simplifies the problem of the Board in handling reserve classifications. If the plan is adopted, it would have to be on a moderate basis and on a better basis than has now been set up for country banks, or the New England country banks would oppose it. The present plan is working well, and we should have to be certain that all possible inconsistencies and difficulties in a new plan were minimized.

McCabe asks if he may interrupt to express appreciation for the excellent comments which have so far been made by the members of the Council who have had an opportunity to comment on the Staff study.

Fleming states that he has tried to approach this study objectively as his district represents a wide range of banks from the smallest country bank to large city banks. He wonders, with Congdon, whether the differential between interbank and other demand deposits is too large. He believes that this proposal on reserves is the best one so far submitted. He understands over 600 country banks would have their reserve requirements increased, and he believes that this would meet with real opposition from country banks. He asks the Staff if he may have a list of the country banks in his district that would be required to maintain higher reserves.

Thomas reports that about 5,800 country banks would have a decrease in their reserve requirements.

Fleming believes more study is necessary, but that the present plan is the best one so far prepared.

Hemingway. If it is agreed that the Staff had to lock up a certain total of reserves, the Staff probably did as well as could be expected. Many bankers feel that the Board desires to eliminate all correspondent banking business, or at least to restrict it. A statement that this is not the Board's objective would be highly desirable. The Staff pointed out yesterday that if the percentage of required reserves on interbank deposits is reduced, it will result in higher reserve requirements for country banks.

Szymczak. If this reserve proposal is accepted, it will be the first official recognition in the Federal Reserve Act of interbank business.

Fleming. The Federal Reserve banks can be of help to banks, but they cannot give as much assistance to correspondents as the large banks.

Hemingway. The members of the Staff indicated they feel that correspondent banking business is here to stay, and if the Board is of a similar mind, it would be helpful if this thinking could be widely disseminated. The reserve city banks would undoubtedly welcome such a statement.

Hill. In some ways the study is like the Hoover Report-everyone is for it except where it steps on his toes. Hill states that almost everything has been said by previous members of the Council so there is very little for him to say about the plan. Perhaps there is too large a differential between the reserves required on interbank deposits compared to other demand deposits. He states that it would be necessary for him to study the effect of the plan on a number of banks in his district in order to determine better the merit of the plan.

Potts. It is an interesting fact that the Council represents a number of banks which are affected by the plan in unusual ways. Among the large banks, his bank has an exceptionally large percentage of its total deposits in the form of interbank deposits. Potts presents a chart showing the trend of deposits in his bank over a number of years. The chart does not indicate that interbank deposits are as volatile as the Staff apparently believes. His interbank deposits have remained fairly steady. He believes the differential between interbank and other demand deposits is too great, although he understands that reducing the percentage of reserves required on interbank deposits would tend to penalize the country banks.

Lochead states that in view of the comments which the other members of the Council have already made, there is little he can add. He expresses appreciation for the work of the Staff.

E. E. Brown. The central reserve city banks have felt that their reserve requirements have been too high, and they would welcome relief. The large banks would probably like the Staff proposal. The country banks might feel that sooner or later they would get higher requirements. He is inclined to believe that the differential between interbank and other demand deposits is justified. The country bank deposits in his bank have not increased like other demand deposits and time deposits. Brown believes the livestock banks will need special consideration. It will be difficult also to get a formula that will be acceptable politically if the country banks are penalized.

Eccles. If the Federal Reserve System is designed for any purpose, it is designed to control the supply of money and credit--both the expansion and the contraction. The powers provided for controlling the supply of money and credit are discount rates, open market operations, and reserve requirements. In discussing this proposal we are talking simply about better housekeeping. We are talking about an elephant and a fly, but our emphasis is on the fly in this proposal. The proposal is a housekeeping proposal, and it is desirable. But from the standpoint of controlling the money and credit supply of the country it is ineffective. Unless bank reserves can be controlled, credit cannot be controlled. Larger reserves tend to restrict credit. The way to provide adequate control is by special reserves, particularly in a period when we operate with a deficit in the Federal budget. Special reserves would sterilize the reserves created by a deficit. The issues of handling a Federal deficit and controlling the credit structure have not been met by this proposal. The System confronts a dilemma. The dilemma is how to finance the Treasury with its huge deficits. If you are going to have deficits in a period of prosperity, there may be no satisfactory way out of the dilemma. As far as the correspondent banking business is concerned, the interest of the Federal Reserve System is to get all banks into the System.

Fleming. The System has not lost members.

Eccles. We should be increasing the number of member banks. If this proposal is accepted, we must be prepared to release three billion to four billion dollars in reserves. Otherwise the proposal could not be sold politically. In other words, the banks would be given more earning assets, but the assets should be frozen in short-term government securities in special reserves.

Draper states he is very sympathetic to the problems of the country banker as expressed by J. T. Brown and Woods.

Szymczak says the discussion has been excellent.

Vardaman. This is a study and not a proposal or a plan. He agrees with Szymczak that this study officially recognizes interbank business for the first time in the Federal Reserve Act. However, the classification of central reserve cities and reserve cities was implied recognition of interbank business. We wish to maintain the correspondent banking relationship.

Eccles. Banks do not give up their correspondent banking relationships when they become members of the Federal Reserve System. It is an illusion and not a fact that I or the Board wish to destroy the correspondent banking business.

Young believes the major points of trouble have been brought out in discussions with the Council. He would appreciate contacts with the operating men in the particular banks the members of the Council represent.

J. T. Brown asks whether the premise for the plan was to lock up about the same reserves as are locked up under the present plan.

Young. We took the present volume of reserves as a basis.

J. T. Brown. If you take the maximum amount of reserves now permissible and apply this amount to the new proposal, a number of banks will be penalized. Perhaps you could follow Eccles' idea and release more reserves.

Eccles. It is obvious at once that three billion to four billion dollars of reserves would have to be released to obtain acceptability of the proposal.

McCabe. The introductory basis is one that reduces reserves about three billion dollars.

Young. We are not through experimenting with different bases.

McCabe states he would like also to hear from the operating men and wishes the Council would appoint a committee to work with the Staff.

E. E. Brown. One difficulty in appointing a committee is that the Council represents so many different situations.

Szymczak. Perhaps a committee could be appointed to represent the country banks, the livestock banks, the central reserve city banks and other major groups.

McCabe. It may be possible for a member of the Council to head an operating committee.

E. E. Brown asks the Staff what differentiation is made between certain types of time and savings deposits. Some time deposits may be like demand deposits.

Thomas. The Staff accepts in general the definitions in the regulations. There are different types of time deposits, but from the operating standpoint, it has seemed desirable to include them all as time deposits.

Horbett. Ninety per cent of time deposits are savings deposits.

Thomas believes there has been some overemphasis on the way the plan would penalize the country banks. Actually, only ten per cent of the country banks would be penalized.

The meeting adjourned at 1:05 P.M.

At 2:15 P.M. February 21, 1950, the Council reconvened in the Board Room of the Federal Reserve Building. All members of the Council were present.

It was moved by Hemingway and seconded by Congdon that President Brown be authorized to appoint a committee to work with the Board and the Board Staff in connection with the matter of reserve requirements.

President Brown then appointed the following committee:

Robert V. Fleming, Chairman
David T. Beals
J. T. Brown
N. Baxter Jackson
Frederic A. Potts

The meeting adjourned at 2:25 P.M.

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The dates for the next two regular meetings of the Council follow:

May 14, 15 and 16, 1950

October 1, 2 and 3, 1950

Copy of letter sent to the Secretary of the Board of Governors regarding bank holding company bill S. 2318.

February 20, 1950.

Mr. S. R. Carpenter, Secretary,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Mr. Carpenter:

A few days before the present meeting of the Federal Advisory Council, Mr. McCabe telegraphed Mr. Brown asking the position of the present Council on bank holding company bill, S. 2318.

The Council wishes to inform the Board of Governors that the Council approves bank holding company bill, S. 2318, subject to the inclusion of a satisfactory provision which would exempt wholly-owned or affiliated trust companies not doing a commercial banking business. It is felt by some of the members particularly interested that slight changes in language which would not effect any changes in substance might be desirable.

Yours very sincerely,

Herbert V. Prochnow

Secretary.