# FEDERAL RESERVE BOARD

WASHINGTON

X-4972

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 15, 1927.

SUBJECT: Topic for Governors' Conference-
Proposed Revision of Regulation D.

Dear Sir:

The Federal Reserve Board has voted to place on the program for discussion at the forthcoming Governors' Conference the proposed revision of its Regulation D dealing with reserves of member banks.

In this connection there are enclosed for your information the following documents:

1. A copy of a memorandum addressed to the Board by its General Counsel under date of August 3, 1927 (X-4915) containing his final recommendations regarding the regulations. Regulation D is discussed on pages 2 to 10, inclusive, of this memorandum.

2. Copies of certain letters addressed to the Board by members of the Executive Committee of the Federal Advisory Council expressing their views with regard to the proposed revision of Section IV of Regulation D dealing with the subject of penalties for deficiencies in reserves.

You will remember that, under date of April 23, 1927 (X-4830), the Board sent to the Governor of each Federal reserve bank a copy of the first tentative draft of the revised regulations and, under date of June 21, 1927 the Board sent to the Governor of each Federal reserve bank a revised draft of the regulations in the form in which they had been approved tentatively by the Board on that date, together with an alternative revision of Section IV of Regulation D. Upon receipt of this letter, therefore, you will have in your possession not only the draft of Regulation D which is now under consideration but also copies of all the preceding drafts.

By direction of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

Enclosures.

(COPY)



FEDERAL ADVISORY COUNCIL

OFFICE OF THE SECRETARY

38 South Dearborn Street

Chicago, October 4, 1927.

Dear Mr. Platt:

Mr. Wetmore has received from members of the Executive Committee of the Federal Advisory Council various communications of which he has instructed me to send you copies. I am not sending anything from Mr. Rue since he did not add anything in his communication to us which he did not send to you under date of September 29.

Very truly yours,

(Signed) Walter Lichtenstein

Secretary

Acting Governor Edmund Platt,
Federal Reserve Board,
Washington, D. C.

(COPY)

214
X-4976-b

September 28, 1927.

Dear Mr. Wetmore:

I have received from Mr. Lichtenstein as Secretary of the Federal Advisory Council a draft of the proposed new regulations for figuring reserves; also a copy of his personal letter of the 24th instant to Mr. Edmund Platt, Acting Governor, which quotes your telegram of the 23rd instant to Mr. Platt.

All of these papers have been considered by the Vice President handling our reserve position, who tells me that he can adjust our operations to the new regulations without much difficulty, but that he is not sympathetic with the change, as the weekly average has generally worked well, and thinks some method might be devised for dealing with the few banks whose dealings with respect to reserves are out of harmony with the spirit of the regulations.

If, as I understand, the Federal Reserve Board is all ready to issue these new regulations, I personally think it might be as well that they be given a trial.

Sincerely yours,

(Signed) J. S. Alexander.

(COPY)



September 30, 1927.

Dear Mr. Lichtenstein:

I am in receipt of your letter of the 29th with enclosures as stated -- copies of recommendations made by the Federal Reserve Council. Also acknowledge receipt of your telegram yesterday with reference to the proposed change in regulation D, Section Four by the Federal Reserve Board in connection with figuring reserve requirements. I have sent a telegram today to Mr. Platt, Acting Governor of the Federal Reserve Board in Washington, copy of which is enclosed. I have also had a conference with Gov. Fancher on the subject and I get the impression that some of the banks in the larger cities are the chronic offenders and I have been taking the position that the proposed changes are disturbing and should be handled by regulations and penalties exacted of the chronic offenders only. I am inclined to the belief, however, that the Federal Reserve Board at Washington are determined and the governors are supporting them in the proposed change. I concur in Mr. Wetmore's telegram to Mr. Platt.

Very truly yours,

(Signed) Harris Creech.

(Copy)



X-4972-d

September 30, 1927.

Dear Mr. Lichtenstein:

Referring to your letter of September 24th, in regard to the proposed draft of new regulations for figuring the reserves.

In going over the situation here in St. Louis I am lead to consider the following circumstances.

As far as the member banks in the City of St. Louis are concerned, I believe it would be contrary to their interest to have the proposed regulations requiring a semi-weekly settlement put into effect. Now the banks adjust their balances to meet reserve requirements before two o'clock each day and they may get wire instrudtions for transfers from other cities in very large amounts too late to get credit for them, or to adjust their balances to fit the situation that day.

Moreover, I understand the Federal Reserve Bank will not give member banks here credit for air mail remittances except for certain number of days, for instance, New York - two days. Yet, if it turns out that the remittance on that day gets to New York, and the member bank gets credit next morning, the Federal Reserve Bank in St. Louis will adjust this matter and give the member bank here credit as of the time the money was actually received in New York. That leaves the member bank here in the position where it cannot definitely tell just what its balance for the day is, and if they make two settlements in a week there is just twice as much chance for the member bank here to either have excess without interest or be penalized when they did not intend to have either.

If the member banks here had a voice in the matter I am sure they would oppose the change and at present that is my view.

I am dictating this letter to my confidential secretary, Mr. Davenport, and will not wait for it to be written and will leave him to sign it for me.

Very truly yours,

(Signed) Breckinridge Jones.

Sept. 27, 1927.

Dear Mr. Wetmore:

I have a letter from Dr. Lichtenstein dated the 24th, enclosing proposed draft of regulations covering reserves of member banks, also copy of his letter to Mr. Platt, acting Governor, Federal Reserve Board, bearing same date. I agree with your telegrams to Mr. Platt on this subject.

There is no provision of the Federal Reserve Act so unpopular with the member banks as the question of reserves, and I think it unfortunate for the Board to render it any more unpopular by adopting regulations more drastic than those now in force. There may be a few member banks that are seeking to side step their responsibilities, and they should be dealt with individually by the executive officers of the Federal Reserve Banks rather than subjecting all of the member banks to undue penalties.

With best regards,

Yours truly,

(Signed) J. F. Bruton.

JFB/P

( COPY )



THE PHILADELPHIA-GIRARD NATIONAL BANK.

Office of the
Chairman of the Board

X-4972-f

September 29, 1927.

Mr. Edmund Platt, Acting Governor,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Platt:-

Mr. Lichtenstein's letter of September 24th, enclosing proposed draft of new regulations for figuring the reserves of member banks, together with copy of Mr. Lichtenstein's letter to you of the same date, is received. I have received today Mr. Lichtenstein's wire asking me to send as soon as possible any suggestions or comments.

The proposed regulations reclassify into two divisions,-the banks in central reserve and reserve cities, and provide that member banks in cities having a Federal Reserve Bank or a branch of a Federal Reserve Bank shall compute average reserves upon a semi-weekly basis instead of a weekly basis as at present. The basis of penalty for deficient reserves in all classes of member banks is provided also and there are two additional provisions at the end, which would seem desirable.

It has seemed to me that the present weekly basis of averaging reserves by member banks in the cities having a Federal Reserve Bank or a branch of the Federal Reserve Bank has worked very satisfactorily and I believe the change is quite undesirable. It is possible that there have been abuses in some quarters, but my feeling is that the abuses should be controlled and that all member banks should not be penalized by having greater and inelastic restrictions imposed upon them. The deposits of a bank have certain fluctuations and the rise and fall very generally occur on the same days each week. A bank officer handling a reserve becomes accustomed to these fluctuations and can anticipate them to some extent; not always, of course. If the reserve period is divided into semi-weekly periods, the conditions will become quite inelastic, necessitating more frequent borrowings and payments at Federal Reserve Banks, and thereby multiplying work for all concerned. Deposits of a bank must necessarily fluctuate and reserve balances must provide the payment of the deposits withdrawn. Under the present system, a deficient reserve may be repaired by collection of maturing bills or calling of demand loans. If a bank is on a weekly reserve basis there is greater elasticity in meeting the condition and, as stated previously, a semi-weekly reserve period makes for an inelastic condition.

Mr. Wetmore suggests in lieu of the proposed semi-weekly period a penalty when deficient reserves exceed 10%. His principle is sound I think, but the percentage of deficiency is too low, in my opinion.

I should prefer to have the present weekly reserve basis continued and have abuses controlled.

The proposed increase in the rate to be charged on deficient reserves, the right to the Federal Reserve Board to waive the penalty and the plan of dealing with the chronic offenders, I believe, are sound.

Very truly yours,

(Signed) L. L. Rue.

C.C. to Mr.F. O. Wetmore, Continental & Commercial National Bank, Chicago.

( COPY )

T E L E G R A M

X-4972-g

Cleveland, Ohio.
September 30th, 1927.

Edmund Platt, Acting Governor,
Federal Reserve Board,
Washington, D.C.

Have been giving some thought to proposed regulation D Section Four with reference to change in figuring reserve requirements. Stop. Proposed change will have an unstable effect on money, requiring banks to call loans oftener, require banks in large centers to do additional work and adjust their balances oftener than those in smaller cities. Stop Believe chronic offenders can be handled by regulation exacting penalties that do not disturb the methods of the entire membership on account of actions of a small minority.

Harris Creech.

( COPY )

X-4972-h

THE CLEVELAND TRUST CO.
Cleveland, Ohio.

HARRIS CREECH
President.

September 30th, 1927.

Dear Mr. Platt:-

As stated in the enclosed copy of telegram, I have been giving a little thought to the proposed change in figuring reserves and unless there is a large number of banks that are chronic offenders, it seems to me that regulation by the Federal Reserve Board would be preferable in exacting penalties of the chronic offenders than to change the method of figuring reserves for the entire system. The changes which are proposed make it more difficult for those banks that endeavor to live up to the rules of the Federal Reserve Board, and I would not favor the changes unless in your opinion, you feel it is absolutely necessary to maintain required reserves.

Very truly yours,

(Signed) Harris Creech

Edmund Platt, Acting Governor,
Federal Reserve Board,
Washington, D.C.

( COPY )

Walter Lichtenstein
Executive Secretary.



THE FIRST NATIONAL BANK

OF CHICAGO

September 24, 1927.

Dear Mr. Platt:

In Mr. Wetmore's absence, I beg to confirm the following wire sent to you by Mr. Wetmore before leaving the office last night.

"Referring proposed regulation D section four in my opinion any shortening of present period will lead to sharp expansions and contractions of loanable and reserve funds as any two periods into which week might be divided are quite unlikely to run uniformly Stop As this is apparently a regulatory measure covering practices which are the exception and not the rule additional penalties could be imposed upon offenders in some other way Stop Suggest leaving periods for figuring reserves as they now exist but issue regulation to the effect that any member bank short on any day over ten per cent of its balance in Federal Reserve Bank for that day be assessed a penalty for that particular excess shortage the amount of penalty to be fixed by the Board in its discretion Stop This would not interfere with the weekly averaging of the reserves which should continue as before to be intact for the period with now existing penalties for deficiencies Stop I submit this for your consideration."

My understanding is that Mr. Wetmore feels that any shortening of the present period for figuring reserves will make it more difficult for the banks to estimate how much they will require of funds at the end of any given period. In order, therefore, to be on the safe side banks will be compelled at times unnecessarily to call in their loans. This will lead to more violent fluctuations than at present. Mr. Wetmore, of course, realizes that as always some banks have abused their privilege by having large shortages at the end of every day except at the close of the period. Nevertheless, it does not seem fair to penalize unnecessarily large numbers of banks which have tried their best to live up to the letter and spirit of the regulations of the Federal Reserve Board. It is with this situation in mind that Mr. Wetmore has made the suggestion contained in his wire.

As I have indicated, Mr. Wetmore is not in the office today and, therefore, this explanation of his views is to be regarded as an entirely unofficial expression from me.

Sincerely yours,

(Signed) Walter Lichtenstein

Mr. Edmund Platt, Acting Governor,
Federal Reserve Board,
Washington, D.C.

( COPY )

X-4972-j

T E L E G R A M

113 W W 167 NL
Chicago, Illinois Sept. 23, 1927.

Edmund Platt,
Acting Governor, Federal Reserve Board,
Washington, D.C.

Referring proposed regulation D section four in my opinion any shortening of present period will lead to sharp expansions and contractions of loanable and reserve funds as any two periods into which week might be divided are quite unlikely to run uniformly Stop As this is apparently a regulatory measure covering practices which are the exception and not the rule additional penalties could be imposed upon offenders in some other way Stop Suggest leaving periods for figuring reserves as they now exist but issue regulation to the effect that any member bank short on any day over ten percent of its balance in Federal Reserve Bank for that day be assessed a penalty for that particular excess shortage the amount of penalty to be fixed by the Board in its discretion Stop This would not interfere with the weekly averaging of the reserves which should continue as before to be intact for the period with now existing penalties for deficiencies Stop I submit this for your consideration.

F. O. Wetmore