FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 5, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>Dist.</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Admitted to Membership:
None.

Merger of Member and Nonmember:

2 The Farmers Loan & Trust Co., New York, N. Y., member, and the City Bank Farmers Trust Co., New York, N. Y., nonmember, have merged under the charter of the former and title of the latter.

3 The Integrity Trust Co., Philadelphia, Pa., member, and the Columbia Avenue Trust Co., Philadelphia, Pa., nonmember, have merged under a new charter and title of Integrity Trust Co., which company has absorbed the Tenth National Bank of Philadelphia, Pa.


Absorption of National Banks:

8 The Mississippi Valley Trust Co., St. Louis, Mo., member, has changed its title to Mississippi Valley Merchants State Trust Co. and has absorbed the following national banks:
    Merchants-Laclede National Bank, St. Louis, Mo. 7-1-29
    State National Bank, St. Louis, Mo. 7-1-29

Converted to National Bank:

12 Growers Bank, San Jose, Calif. 6-12-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1 Wilton National Bank, Wilton, N. H. 7-5-29
9 First National Bank & Trust Co., Vermilion, S. Dak. 6-27-29
12 Beverly Hills National Bank & Trust Co., Beverly Hills, Calif. 7-2-29
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 12, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dist.</strong></td>
<td><strong>Admitted to Membership:</strong></td>
</tr>
<tr>
<td></td>
<td>None.</td>
</tr>
</tbody>
</table>

**Mergers:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>The Century Bank, New York, N. Y., nonmember, has merged with the Interstate Trust Co., New York, N. Y., member. 7-1-29</td>
</tr>
<tr>
<td>2</td>
<td>The United States Mortgage &amp; Trust Co., New York, N. Y., member, and the Chemical Bank &amp; Trust Co., New York, N. Y., member, have merged under the charter and title of the Chemical Bank &amp; Trust Co. 6-29-29</td>
</tr>
</tbody>
</table>

**Voluntary Withdrawals:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Mercantile Commercial Bank, Evansville, Ind. 7-11-29</td>
</tr>
<tr>
<td>8</td>
<td>Farmers &amp; Merchants Trust Co., St. Louis, Mo. 7-8-29</td>
</tr>
</tbody>
</table>

**Closed:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>First State Bank, Spring Valley, Minn. 7-12-29</td>
</tr>
</tbody>
</table>

**PERMISSION GRANTED TO EXERCISE TRUST POWERS:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Laconia National Bank, Laconia, N. H. (Supplemental) 7-10-29</td>
</tr>
<tr>
<td>2</td>
<td>Kingsboro National Bank of Brooklyn in New York, N. Y. 7-10-29</td>
</tr>
<tr>
<td>3</td>
<td>Ridgway National Bank, Ridgway, Pa. 7-10-29</td>
</tr>
<tr>
<td>4</td>
<td>Salyersville National Bank, Salyersville, Ky. 7-10-29</td>
</tr>
<tr>
<td>9</td>
<td>Northfield National Bank &amp; Trust Co., Northfield, Minn. 7-12-29</td>
</tr>
</tbody>
</table>
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 19, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>Dist.</th>
<th>Date</th>
<th>Bank Name and Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>7-18-29</td>
<td>Macon County Bank, Tuskegee, Ala.</td>
</tr>
<tr>
<td>6</td>
<td>7-16-29</td>
<td>Citizens Bank &amp; Trust Co., Tampa, Fla.</td>
</tr>
</tbody>
</table>

Absorption of National Bank:

8 The Bank of Eastern Arkansas, Forrest City, Ark., member, has absorbed the First National Bank, Forrest City, Ark. 5-6-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank Name and Location</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Lafayette National Bank of Brooklyn in New York, N. Y.</td>
<td>7-16-29</td>
</tr>
<tr>
<td>3</td>
<td>Northwestern National Bank, Philadelphia, Pa.</td>
<td>7-16-29</td>
</tr>
<tr>
<td>5</td>
<td>Peoples National Bank, Greenville, S. C. (Supplemental)</td>
<td>7-16-29</td>
</tr>
<tr>
<td>6</td>
<td>Palmer National Bank &amp; Trust Co., Sarasota, Fla.</td>
<td>7-15-29</td>
</tr>
<tr>
<td>7</td>
<td>Iowa National Bank, Ottumwa, Iowa</td>
<td>7-18-29</td>
</tr>
<tr>
<td>7</td>
<td>Tipton National Bank, Tipton, Iowa (Supplemental)</td>
<td>7-16-29</td>
</tr>
<tr>
<td>10</td>
<td>First National Bank, Anadarko, Okla.</td>
<td>7-16-29</td>
</tr>
<tr>
<td>12</td>
<td>Security National Bank, Pasadena, Calif.</td>
<td>7-18-29</td>
</tr>
</tbody>
</table>
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 26, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

<table>
<thead>
<tr>
<th>No.</th>
<th>Dist.</th>
<th>Capital Surplus</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Ninth Bank &amp; Trust Co., Philadelphia, Pa.</td>
<td>$1,375,000 $2,700,000</td>
<td>7-22-29</td>
</tr>
</tbody>
</table>

Voluntary Withdrawals:

<table>
<thead>
<tr>
<th>No.</th>
<th>Dist.</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Commercial Savings Bank &amp; Trust Co., Toledo, Ohio.</td>
<td>7-23-29</td>
</tr>
<tr>
<td>9</td>
<td>First State Bank, Wolfe Point, Mont.</td>
<td>7-24-29</td>
</tr>
<tr>
<td>12</td>
<td>Monterey County Trust &amp; Savings Bank, Salinas, Calif.</td>
<td>7-22-29</td>
</tr>
</tbody>
</table>

Absorption of Nonmember:

12 The State Bank of Wilbur, Wilbur, Wash., member, has absorbed the Farmers State Bank, Wilbur, Wash., nonmember. 7-13-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.
FEDERAL RESERVE BOARD ANNOUNCEMENT  
WEEK ENDED AUGUST 2, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

**Admitted to Membership:**

<table>
<thead>
<tr>
<th>Dist. No.</th>
<th>Capital</th>
<th>Surplus</th>
<th>Total resources</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Thames Bank, Norwich, Conn. $1,000,000</td>
<td>$700,000</td>
<td>$5,160,710</td>
<td>8-2-29</td>
</tr>
<tr>
<td>3</td>
<td>Integrity Trust Co., Philadelphia, Pa., (succession to Integrity Trust Co., member)</td>
<td>2,077,920 11,500,000</td>
<td>70,015,215</td>
<td>7-29-29</td>
</tr>
<tr>
<td>8</td>
<td>Louisville Trust Co., Louisville, Ky. (succession to Louisville Trust Co., member)</td>
<td>1,750,000 1,100,000</td>
<td>26,310,627</td>
<td>8-2-29</td>
</tr>
</tbody>
</table>

**Change of Title:**

2 The Pacific Coast Trust Co., New York, N.Y., has changed its title to Pacific Trust Company. 7-24-29

**Voluntary Withdrawal:**

7 Citizens Bank, Clinton, Wis. 8-2-29

**Consolidation:**

8 The Louisville Trust Co., Louisville, Ky., a member, and the Louisville Bank & Trust Co., a succession to Louisville National Bank & Trust Co., have consolidated under new charter and title of Louisville Trust Company, which became a member on August 2, 1929. 5-23-29

**Absorption of State Member:**

8 The Broadway Trust Co., St. Louis, Mo., a member, has been absorbed by the United States Bank, St. Louis, Mo., a member, which changed its title to United States Bank & Trust Co. 8-1-29

**PERMISSION GRANTED TO EXERCISE TRUST POWERS:**

5 Colonial American National Bank, Roanoke, Va. (Confirmatory) 7-30-29
8 Red River National Bank & Trust Co., Grand Forks, N. Dak. 7-30-29
12 American National Bank, Klamath Falls, Oreg. 7-30-29
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 9, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

<table>
<thead>
<tr>
<th>Dist. No.</th>
<th>Capital</th>
<th>Surplus</th>
<th>Total resources</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>$400,000</td>
<td>$900,000</td>
<td>$16,381,033</td>
<td>8- 9-29</td>
</tr>
</tbody>
</table>


Consolidated with National Bank:

2 The Guaranty Trust Co., Newark, N. J., member, has consolidated with and under the charter of the New Jersey National Bank & Trust Co., Newark, N. J. 8- 1-29

Succeeded by State Member:

4 The Security Savings & Trust Co., Erie, Pa., member, has been succeeded by the Security-Peoples Trust Co., a member. 8- 9-29

Absorbed by Nonmember:

7 The Lake View State Bank, Lake View, Iowa, member, has been absorbed by the Farmers State Bank, Lake View, Iowa, a nonmember. 6-12-29

Voluntary Withdrawal:

7 State Bank of Coloma, Coloma, Mich. 8- 5-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 16, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>Dist.</th>
<th>Admitted to Membership:</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>None.</td>
<td></td>
</tr>
</tbody>
</table>

Absorption of Nonmembers:

2
The International Union Bank, New York, N. Y., a member, has absorbed the following nonmember banks:

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community State Bank, Brooklyn, N. Y.</td>
<td>6-8-29</td>
</tr>
<tr>
<td>Unity State Bank, Brooklyn, N. Y.</td>
<td>6-8-29</td>
</tr>
</tbody>
</table>

Absorption of National Banks:

2
The Liberty Bank of Buffalo, N. Y., a member, has absorbed The Community National Bank of Buffalo, N. Y.

12
The American Trust Co., San Francisco, Calif., member, has absorbed the College National Bank of Berkeley, Calif.

Closed:

5
Carolina Banking & Trust Co., Elizabeth City, N. C.

8-13-29

Change of Title:

8
The Natural Bridge Bank, St. Louis, Mo., has changed its title to Natural Bridge Bank and Trust Company.

7-24-29

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

2
Commercial National Bank & Trust Co., New York, N. Y.

8-16-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2
Asbury Park National Bank & Trust Co., Asbury Park, N. J.

8-10-29

2
Pelham National Bank, Pelham, N. Y.

8-9-29

5

8-15-29

5
First National Bank, Wytheville, Va.

8-15-29

6
First National Bank, Cartersville, Ga. (confirmatory)

8-15-29

5
Belleville National Bank, Belleville, Ill.

8-15-29

7
First National Bank, Berlin, Wis.

8-6-29

9
First National Bank, Proctor, Minn.

8-6-29

10
Continental National Bank, Lincoln, Nebr.

8-9-29

10
First National Bank & Trust Co., Tulsa, Okla. (confirmatory)

8-9-29
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 23, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Bank Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Admitted to Membership:</td>
<td>None</td>
</tr>
<tr>
<td>2</td>
<td>Absorption of Nonmember:</td>
<td>The International Germanic Trust Co., New York, N. Y., a member, has absorbed the Mutual Trust Co., New York, N. Y., a nonmember.</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>Bank of Toccoa, Toccoa, Ga.</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>Farmers &amp; Merchants Bank, Nashville, Mich.</td>
</tr>
<tr>
<td>7</td>
<td>Merged with Nonmember:</td>
<td>Home Bank &amp; Trust Co., Chicago, Ill., a member, has merged with Hatterman &amp; Glanz State Bank, Chicago, Ill., a nonmember, under new charter and title of Home Bank &amp; Trust Co., a nonmember.</td>
</tr>
<tr>
<td>12</td>
<td></td>
<td>Bank of Norwalk, Norwalk, Calif., a member, has merged with Bank of America, Los Angeles, Calif., a nonmember.</td>
</tr>
</tbody>
</table>

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Bank Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
<td>East Rockaway National Bank, East Rockaway, N. Y.</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>Commercial National Bank &amp; Trust Co., Philadelphia, Pa. (confirmatory)</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>First National Bank, Coon Rapids, Iowa. (supplementary)</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>National Bank of Valley City, Valley City, N. Dak.</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>United States National Bank, Omaha, Nebr. (supplementary)</td>
</tr>
<tr>
<td>12</td>
<td></td>
<td>First National Bank, Raymond, Wash.</td>
</tr>
<tr>
<td>12</td>
<td></td>
<td>First National Trust &amp; Savings Bank, Spokane, Wash. (confirmatory)</td>
</tr>
</tbody>
</table>
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 30, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

No changes.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 6, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

<table>
<thead>
<tr>
<th>Dist.</th>
<th>Bank Name</th>
<th>Capital</th>
<th>Surplus</th>
<th>Total Resources</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bristol American Bank &amp; Trust Co.,</td>
<td>$300,000</td>
<td>$300,000</td>
<td>$6,000,000</td>
<td>8-31-29</td>
</tr>
<tr>
<td></td>
<td>Bristol, Conn.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(A consolidation of the Bristol</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>American Bank &amp; Trust Co., member,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>and the American Trust Co., a</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>nonmember).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Absorption of National Bank:

| 4     | The National City Bank, Akron, O.,|          |          |                 |        |
|       | has merged with the First Trust   |          |          |                 |        |
|       | & Savings Bank, Akron, O., a      |          |          |                 |        |
|       | member, under the title of        |          |          |                 |        |
|       | First-City Trust & Savings Bank.  |          |          |                 | 8-31-29|

Voluntary Withdrawal:

| 7     | Martinsville State Bank,          |          |          |                 | 9-6-29 |
|       | Martinsville, Ill.                |          |          |                 |        |

Absorbed by National Bank:

| 7     | Merchants Trust & Savings Bank,   |          |          |                 | 8-31-29|
|       | Battle Creek, Mich., member,      |          |          |                 |        |
|       | has merged with the Old National  |          |          |                 |        |
|       | Bank & Trust Co., Battle Creek,    |          |          |                 |        |
|       | Mich., under the title of Old-     |          |          |                 |        |
|       | Merchants National Bank & Trust   |          |          |                 |        |
|       | Co.                               |          |          |                 |        |

Merger and Change of Title:

| 11    | The Central Trust Co., San Antonio,|          |          |                 | 8-31-29|
|       | Texas, a member, has changed       |          |          |                 |        |
|       | its title to City Central Bank &   |          |          |                 |        |
|       | Trust Co. and absorbed the         |          |          |                 |        |
|       | following member banks:            |          |          |                 |        |
|       | Guaranty State Bank, San Antonio,  |          |          |                 |        |
|       | Texas.                             |          |          |                 |        |
|       | City National Bank, San Antonio,   |          |          |                 |        |
|       | Texas.                             |          |          |                 |        |

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

| 6     | First National Bank of Franklin  |          |          |                 | 9-4-29 |
|       | County, Decherd, Tenn.            |          |          |                 |        |
| 9     | First National Bank in Arlington, |          |          |                 | 9-4-29 |
|       | Arlington, S. Dak.                |          |          |                 |        |
| 11    | State National Bank, Brownsville, |          |          |                 | 9-4-29 |
|       | Texas.                            |          |          |                 |        |
| 12    | Bishop First National Bank,       |          |          |                 | 9-4-29 |
|       | Honolulu, Hawaii.                 |          |          |                 |        |
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 13, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>DIST</th>
<th>DATE</th>
<th>Admitted to Membership</th>
<th>Change of Title</th>
<th>Voluntary Withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>None.</td>
<td>The Lincoln-Alliance Bank, Rochester, N. Y., has changed its title to Lincoln-Alliance Bank &amp; Trust Co., Rochester, N.Y. 8-31-29</td>
<td>Sioux Center State Bank, Sioux Center, Iowa. 9-11-29</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

<table>
<thead>
<tr>
<th>DIST</th>
<th>DATE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
<td>Harriman National Bank &amp; Trust Co., New York, N. Y. 9-10-29</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>First National Bank, Mobile, Ala. 9-10-29</td>
</tr>
</tbody>
</table>

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.
FEDERAL RESERVE BOARD ANNOUNCEMENT 
WEEK ENDED SEPTEMBER 20, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>Dist.</th>
<th>Date</th>
<th>Change Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>9-16-29</td>
<td>The Seaboard Bank of the City of New York, N. Y., member, has merged with and under the title of the Equitable Trust Co., New York, N. Y., member.</td>
</tr>
<tr>
<td>4</td>
<td>9-14-29</td>
<td>The Peoples Savings and Trust Co., Pittsburgh, Pa., and the Pittsburgh Trust Co., Pittsburgh, Pa., both members, have merged under the title of Peoples-Pittsburgh Trust Co., member.</td>
</tr>
<tr>
<td>7</td>
<td>7-1-29</td>
<td>The Chicago Trust Co., Chicago, Ill., member, has merged with the Woodruff State Bank, Chicago, Ill., nonmember.</td>
</tr>
<tr>
<td>12</td>
<td>9-19-29</td>
<td>The Bank of Stanwood, Stanwood, Wash., member, has converted into the Stanwood National Bank.</td>
</tr>
<tr>
<td>6</td>
<td>9-19-29</td>
<td>First National Bank, Hattiesburg, Miss.</td>
</tr>
</tbody>
</table>
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 27, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

<table>
<thead>
<tr>
<th>Dist.</th>
<th>Bank Name</th>
<th>Capital</th>
<th>Surplus</th>
<th>Total</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Day Trust Co., Boston, Mass.</td>
<td>$2,500,000</td>
<td>$250,000</td>
<td>$3,121,585</td>
<td>9-24-29</td>
</tr>
</tbody>
</table>

Merger of State Members:

2 The Erasmus State Bank, Brooklyn, N. Y., member, has merged with and under the title of the Globe Exchange Bank, Brooklyn, N. Y., a member. 9-21-29

Voluntary Withdrawal:

5 Farmers Bank & Trust Co., Forest City, N. C. 9-23-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

<table>
<thead>
<tr>
<th>Dist.</th>
<th>Bank Name</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Merchants National Bank, St. Johnsbury, Vt.</td>
<td>9-25-29</td>
</tr>
<tr>
<td>2</td>
<td>Third National Bank, Walden, N. Y.</td>
<td>9-25-29</td>
</tr>
<tr>
<td>6</td>
<td>Andalusia National Bank, Andalusia, Ala.</td>
<td>9-25-29</td>
</tr>
</tbody>
</table>
**FEDERAL RESERVE BOARD ANNOUNCEMENT**

**WEEK ENDED OCTOBER 4, 1929.**

**CHANGES IN STATE BANK MEMBERSHIP:**

### Admitted to Membership:

<table>
<thead>
<tr>
<th>District</th>
<th>Bank Name &amp; Location</th>
<th>Capital</th>
<th>Surplus</th>
<th>Total Resources</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Farmers Bank &amp; Savings Co., Pomeroy, Ohio.</td>
<td>$50,000</td>
<td>$28,000</td>
<td>$854,512</td>
<td>9-27-29</td>
</tr>
</tbody>
</table>

### Voluntary Withdrawal:

   Date: 10-3-29

### Change of Title:

7. The Bank of Wisconsin, Madison, Wis., has changed its title to State Bank of Wisconsin.  
   Date: 9-21-29

### PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1. First National Bank, New Milford, Conn.  
   Date: 9-27-29
2. Essex National Bank, Haverhill, Mass. (supplemental)  
   Date: 10-4-29
   Date: 10-4-29
   Date: 10-1-29
   Date: 10-1-29
   Date: 10-1-29
5. Virginia National Bank, Norfolk, Va. (confirmatory)  
   Date: 10-1-29
8. Citizens National Bank, Tell City, Ind. (supplemental)  
   Date: 10-4-29
   Date: 10-1-29
   Date: 10-1-29
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 11, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:
None.

Voluntary Withdrawal:
7 Sibley State Bank, Sibley, Iowa. 10-10-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:
3 Citizens National Bank & Trust Co., Blossburg, Pa. 10-4-29
FEDERAL RESERVE BOARD ANNOUNCEMENT  
WEEK ENDED OCTOBER 18, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>Admitted to Membership:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dist. No.</td>
</tr>
<tr>
<td>2 Caleb Heathcote Trust Co., Scarsdale, N. Y.</td>
</tr>
</tbody>
</table>

Consolidated with National Bank:

<table>
<thead>
<tr>
<th>Consolidated with National Bank:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 The Ridgewood Trust Co., Ridgewood, N. J., member, has consolidated with the First National Bank of Ridgewood under the name of the First National Bank and Trust Company of Ridgewood.</td>
</tr>
</tbody>
</table>

Change of Title:

<table>
<thead>
<tr>
<th>Change of Title:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 The International Union Bank, New York, N. Y., has changed its title to the International Union Bank and Trust Co.</td>
</tr>
</tbody>
</table>

Closed:

<table>
<thead>
<tr>
<th>Closed:</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Farmers Savings Bank, Barnes City, Iowa.</td>
</tr>
</tbody>
</table>

Voluntary Withdrawal:

<table>
<thead>
<tr>
<th>Voluntary Withdrawal:</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 First State Bank, Celina, Texas.</td>
</tr>
</tbody>
</table>

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

<table>
<thead>
<tr>
<th>Permission Granted to Exercise Trust Powers:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Springfield Chapin National Bank &amp; Trust Co., Springfield, Mass. (Confirmatory)</td>
</tr>
<tr>
<td>2 First and Second National Bank &amp; Trust Co., Oswego, N. Y. (Confirmatory)</td>
</tr>
<tr>
<td>8 Plaza National Bank, St. Louis, Mo.</td>
</tr>
<tr>
<td>9 American National Bank &amp; Trust Co., Valley City, N. Dak.</td>
</tr>
</tbody>
</table>
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 25, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

None.

Voluntary Withdrawal:

None.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.
FEDERAL RESERVE BOARD ANNOUNCEMENT  
WEEK ENDED NOVEMBER 1, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>District</th>
<th>Date</th>
<th>Admitted to Membership:</th>
<th>Absorbed by Nonmember:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>None</td>
<td>The Midtown Bank of New York, N. Y., a member, has been absorbed by the Prudential Bank, New York, N. Y., nonmember. 10-21-29</td>
</tr>
<tr>
<td>7</td>
<td>11-1-29</td>
<td>Iowa State Bank, Dexter, Iowa.</td>
<td></td>
</tr>
</tbody>
</table>

Voluntary Withdrawal:

<table>
<thead>
<tr>
<th>District</th>
<th>Date</th>
<th>Voluntary Withdrawal:</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>11-1-29</td>
<td>Iowa State Bank, Dexter, Iowa.</td>
</tr>
</tbody>
</table>

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

<table>
<thead>
<tr>
<th>Number</th>
<th>Bank Name and Location</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Camden National Bank, Camden, Maine.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>2</td>
<td>Canajoharie National Bank, Canajoharie, N. Y.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>2</td>
<td>First National Bank &amp; Trust Co., Elmira, N. Y. (Confirmatory)</td>
<td>10-31-29</td>
</tr>
<tr>
<td>2</td>
<td>Lefcourt National Bank &amp; Trust Co., New York, N. Y. (Confirmatory)</td>
<td>10-31-29</td>
</tr>
<tr>
<td>4</td>
<td>First National Bank, New Bethlehem, Pa.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>7</td>
<td>First National Bank, Primghar, Iowa.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>8</td>
<td>First National Bank, Jonesboro, Ill.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>8</td>
<td>First National Bank, Boonville, Ind.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>9</td>
<td>First National Bank, Mankato, Minn.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>9</td>
<td>James River National Bank, Jamestown, N. Dak. (Supplemental)</td>
<td>10-31-29</td>
</tr>
<tr>
<td>10</td>
<td>National Bank of North Kansas City, North Kansas City, Mo.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>11</td>
<td>Plainview National Bank, Plainview, Texas.</td>
<td>10-31-29</td>
</tr>
<tr>
<td>12</td>
<td>First National Bank, Klamath Falls, Oreg.</td>
<td>10-31-29</td>
</tr>
</tbody>
</table>
CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

None.

Change of Title:

2  The Manufacturers & Traders-Peoples Trust Co., Buffalo, N. Y., has changed its title to M & T Trust Company. 10-24-29

Absorption of Nonmember:

2  The Madison State Bank, New York, N. Y., nonmember, has merged into the International Union Bank and Trust Co., New York, N. Y., a member, under the title of International-Madison Bank and Trust Co. 10-31-29

Consolidation of State Members:

4  The Pearl Street Savings & Trust Co., Cleveland, O., a member, has consolidated with and under the title of the Cleveland Trust Company, Cleveland, O., a member. 10-26-29

Voluntary Withdrawal:

7  Madison County State Bank, Winterset, Iowa. 11-2-29

Consolidation of State Members:

7  The Ullrich Savings Bank, Mt. Clemens, Mich., member, has consolidated with and under the title of the Citizens Savings Bank, Mt. Clemens, Mich., a member. 10-23-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1  Worcester County National Bank, Worcester, Mass. (Confirmatory) 10-21-29

7  First National Bank & Trust Co., Racine, Wis. (Confirmatory) 11-6-29

9  First National Bank & Trust Co., Yankton, S. Dak. (Supplemental) 11-6-29
# Federal Reserve Board Announcement

**Week Ended November 15, 1929**

## Changes in State Bank Membership

<table>
<thead>
<tr>
<th>District</th>
<th>Admitted to Membership</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>None.</td>
<td></td>
</tr>
</tbody>
</table>

**Consolidated with Nonmember:**

3. The Aldine Trust Company, Philadelphia, Pa., a member, has consolidated with Lancaster Avenue Title & Trust Co., Philadelphia, Pa., a nonmember.  
   Date: 11-1-29

**Consolidation of State Members:**

4. The Central Savings & Trust Co., Akron, O., and the Depositors Savings & Trust Co., Akron, O., both members, have consolidated under the title of Central Depositors Bank & Trust Co., a member.  
   Date: 10-31-29

## Permission Granted to Exercise Trust Powers

<table>
<thead>
<tr>
<th>District</th>
<th>Bank and Location</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Naugatuck National Bank, Naugatuck, Conn. (Supplemental)</td>
<td>11-13-29</td>
</tr>
<tr>
<td>3</td>
<td>National Bank of Lansdowne, Lansdowne, Pa.</td>
<td>5-14-29</td>
</tr>
<tr>
<td>7</td>
<td>First National Bank &amp; Trust Co., Racine, Wis. (Confirmatory)</td>
<td>11-6-29</td>
</tr>
<tr>
<td>9</td>
<td>First National Bank &amp; Trust Co., Yankton, S. Dak. (Supplemental)</td>
<td>11-6-29</td>
</tr>
</tbody>
</table>
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 22, 1929

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

<table>
<thead>
<tr>
<th>District</th>
<th>Bank Name</th>
<th>Capital</th>
<th>Surplus</th>
<th>Total resources</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>South Orange Trust Co., South</td>
<td>$225,000</td>
<td>$112,500</td>
<td>$1,810,365</td>
<td>11-20-29</td>
</tr>
<tr>
<td></td>
<td>Orange, N. J.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Colonial Trust Co., Philadelphia, Pa.</td>
<td>3,960,000</td>
<td>7,000,000</td>
<td></td>
<td>11-18-29</td>
</tr>
<tr>
<td>7</td>
<td>Chesaning State Bank, Chesaning, Mich.</td>
<td>75,000</td>
<td>75,000</td>
<td>2,126,658</td>
<td>11-16-29</td>
</tr>
</tbody>
</table>

Change of Title:

2 The Continental Bank, New York, N. Y., has changed its title to The Continental Bank & Trust Co. 11-11-29

Consolidated with National Bank:

4 The United Banking & Trust Co., Cleveland, Ohio, member, has consolidated with the Central National Bank, Cleveland, under title of Central United National Bank of Cleveland. 11-16-29

Voluntary Withdrawal:

9 Farmers State Bank, Fullerton, N. Dak. 11-20-29

Consolidated with Nonmember:

3 The Colonial Trust Co., Philadelphia, Pa., member, and the Belmont Trust Co., Philadelphia, Pa., nonmember, have consolidated under the title of the Colonial Trust Co., a member. 10-22-29

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

2 International Germanic Trust Co., New York, N. Y. 11-21-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2 Lincoln National Bank & Trust Co., Syracuse, N. Y. 11-16-29
7 Hackley Union National Bank, Muskegon, Mich. (Confirmatory) 11-21-29
8 Old National Bank, Union City, Tenn. 11-21-29
9 Aberdeen National Bank & Trust Co., Aberdeen, S. Dak. (Supplemental) 11-21-29
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 29, 1929

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>District</th>
<th>Capital</th>
<th>Surplus</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Baltimore Trust Co., Baltimore, Md.</td>
<td>$6,250,000</td>
<td>$4,250,000</td>
</tr>
<tr>
<td></td>
<td>(Consolidation of the Baltimore Trust Co., member, and the Belmont Trust Co., nonmember, under new charter).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Consolidation:

5 The Baltimore Trust Co., Baltimore, Md., a member, and the Belmont Trust Co., Baltimore, Md., nonmember, have consolidated under new charter and under the title of the Baltimore Trust Company. 11-25-29

Change of Title:

2 The International Acceptance Trust Co., New York, N. Y., has changed its title to Bank of Manhattan Trust Company. 11-27-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cohasset National Bank, Cohasset, Mass.</td>
<td></td>
<td>11-26-29</td>
</tr>
<tr>
<td>2</td>
<td>Baldwin National Bank, Baldwin, N. Y.</td>
<td></td>
<td>11-26-29</td>
</tr>
<tr>
<td>2</td>
<td>Stewart National Bank &amp; Trust Co., Livonia, N. Y.</td>
<td></td>
<td>11-23-29</td>
</tr>
<tr>
<td>5</td>
<td>Union National Bank, Fairmont, W. Va.</td>
<td></td>
<td>11-27-29</td>
</tr>
<tr>
<td>9</td>
<td>Security National Bank &amp; Trust Co., Red Wing, Minn.</td>
<td></td>
<td>11-26-29</td>
</tr>
<tr>
<td>12</td>
<td>First Seattle Dexter Horton National Bank, Seattle, Wash.</td>
<td></td>
<td>11-26-29</td>
</tr>
</tbody>
</table>
CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>District</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Admitted to Membership:**

None.

**Merged with State Member:**

2. The City Bank Trust Co., Syracuse, N. Y., member, has merged with and under the title of the First Trust & Deposit Co., Syracuse, N. Y., a member. 12-5-29

**Absorption of National Bank:**

4. The Union Trust Co., Greensburg, Pa., a member, has absorbed the Merchants & Farmers National Bank, Greensburg, Pa. 11-26-29

**Merged with Nonmember:**

1. The Thames Bank, Norwich, Conn., member, has merged with the Bankers Trust Co., Norwich, Conn., a nonmember. 11-30-29

6. The Jefferson Trust & Savings Bank, Gretna, La., has been absorbed by the Gretna Trust & Savings Bank, nonmember. 12-5-29

**Closed:**

6. Farmers & Merchants Bank, Samson, Ala. 11-30-29
7. Lilley State Bank, Tecumseh, Mich. 11-30-29
9. Swift County Bank, Benson, Minn. 11-30-29

**Absorbed by National Bank:**

11. Farmers & Merchants State Bank, Edgewood, Texas, member, has been absorbed by the First National Bank, Edgewood, Texas. 12-2-29

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

5. The Baltimore Trust Co., Baltimore, Md. 12-2-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

4. City National Bank & Trust Co., Columbus, O. (Confirmatory) 11-30-29
9. Dakota National Bank & Trust Co., Bismarck, N. Dak. 12-4-29
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 13, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:
None.

Change of Title:
2 The Globe Exchange Bank, Brooklyn, New York, N. Y., has changed its title to Globe Bank & Trust Company. 11-30-29

Reopened:
7 Peoples State Savings Bank, Britton, Mich. 12-11-29

Succeeded by Nonmember:
8 The State Exchange Bank, Macon, Mo., member, has been succeeded by the First State Bank & Trust Co., nonmember. 12-9-29

Succeeded by National Bank:
11 The Security State Bank, Rockwall, Texas, member, has been succeeded by the First National Bank in Rockwall. 12-11-29

Voluntary Withdrawal:
12 First Security Bank of Bingham, Bingham Canyon, Utah. 12-7-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:
1 Worcester County National Bank, Worcester, Mass. (Confirmatory) 12-10-29
5 South Branch Valley National Bank, Moorfield, W. Va. 12-10-29
6 First National Bank, Atlanta, Ga. (Confirmatory) 12-12-29
9 First National Bank, Hastings, Minn. 12-10-29
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 20, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

<table>
<thead>
<tr>
<th>Dist.</th>
<th>Bank Name</th>
<th>Location</th>
<th>Capital</th>
<th>Surplus</th>
<th>Total Resources</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Normandy State Bank, Normandy,</td>
<td>Mo.</td>
<td>$30,000</td>
<td>$9,000</td>
<td>$165,632</td>
<td>12-19-29</td>
</tr>
</tbody>
</table>

Voluntary Withdrawals:

| 3     | First Bank & Trust Co., Mechanicsburg, Pa. | 12-19-29 |
| 7     | South Side Trust & Savings Bank, Chicago, Ill. | 12-14-29 |

Absorbed by National Bank:

| 7     | State Bank of Chicago, Chicago, Ill.   | Absorbed by Foreman National Bank, Chicago, Ill. | 12-14-29 |

Closed:

| 7     | Plymouth Exchange Bank, Plymouth, Wis. | 12-14-29 |

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

| 9     | Midland National Bank & Trust Co., Minneapolis, Minn. | 12-17-29 |

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

| 2     | Lafayette National Bank of Brooklyn in New York, N. Y. (Confirmatory) | 12-17-29 |
| 2     | First National Bank & Trust Co., Yonkers, N. Y. (Confirmatory) | 12-17-29 |
| 3     | First National Bank, Lansdale, Pa. (Confirmatory) | 12-14-29 |
| 3     | North Broad National Bank, Philadelphia, Pa. | 12-14-29 |
| 4     | City National Bank & Trust Co., Columbus, O. (Confirmatory) | 11-30-29 |
| 7     | Citizens National Bank, Greensburg, Ind. | 12-17-29 |
FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 27, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

<table>
<thead>
<tr>
<th>District</th>
<th>Date</th>
<th>Admitted to Membership:</th>
<th>Voluntary Withdrawal:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>None.</td>
<td>Gwinn State Savings Bank, Gwinn, Mich. 12-26-29</td>
</tr>
</tbody>
</table>

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.
July 10, 1929.

SUBJECT: Misuse of Salvaged Postage Stamps.

Dear Sir:

There is enclosed herewith copy of a self-explanatory letter addressed to the Governor of the Board by the Postmaster General, with regard to the practice of certain of the Federal reserve banks of salvaging cancelled postage stamps and disposing of them to collectors and others.

The Board is inclined to agree with the Postmaster General that in view of the small amounts received from the sale of the used stamps, which would hardly appear to justify the expenditure in collecting them, and in view of the extensive misuse of such stamps, it would be well for the Federal reserve banks to have the salvaging and sale of cancelled stamps discontinued.

An expression from you regarding the matter would be appreciated.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

TO GOVERNORS OF ALL F. R. BANKS
OFFICE OF THE POSTMASTER GENERAL  
Washington, D. C.  

July 8, 1929.

Hon. Roy A. Young,  
Governor, Federal Reserve Board,  
Washington, D. C.

My dear Mr. Young:

This Department has been making extensive inquiries into the illegal traffic in postage stamps with particular reference to the removal of precanceled stamps from wrappers and the resale of them to stamp brokers and others. These inquiries indicate that the Department is losing an enormous amount annually in postal revenue through the reuse and resale of precanceled postage stamps.

In this connection it has been ascertained that for a number of years, Federal Reserve Banks have been salvaging and selling used postage stamps to stamp collectors and others, on the representations that they were to be used for philatelic purposes. The revenues derived from such sales are credited to the proceeds of the banks. It was found, however, that large quantities of such stamps had been washed, or otherwise treated and sold to various persons and firms for postage purposes.

The records show that Federal Reserve Banks at the following places have been disposing of canceled stamps as indicated:

<table>
<thead>
<tr>
<th>Location of Bank</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York, N. Y.</td>
<td>Elmer Smith, Brooklyn, N. Y.</td>
</tr>
<tr>
<td>Philadelphia, Pa.</td>
<td>William H. Green, Camden, N. J.</td>
</tr>
<tr>
<td>Atlanta, Ga.</td>
<td>Various dealers, including an itinerant stamp collector believed to have been Wm. B. Hale.</td>
</tr>
<tr>
<td>Detroit, Mich.</td>
<td>Elmer Smith, Brooklyn, N. Y.</td>
</tr>
<tr>
<td>Kansas City, Mo.</td>
<td>Elmer Smith, Brooklyn, N. Y.</td>
</tr>
<tr>
<td>Dallas, Tex.</td>
<td>Elmer Smith, Brooklyn, N. Y.</td>
</tr>
<tr>
<td>Saint Louis, Mo.</td>
<td>A. C. Roessler, East Orange, N. J.</td>
</tr>
<tr>
<td></td>
<td>R. R. Yates, Joliet, Ill.</td>
</tr>
<tr>
<td></td>
<td>E. A. Mosely, Saint Louis, Mo.</td>
</tr>
</tbody>
</table>
Location of Bank | Purchaser
---|---
Cleveland, Ohio | L. J. Flerlage, Cincinnati, Ohio.
Cincinnati, Ohio | L. J. Flerlage, Cincinnati, Ohio.

One of the most flagrant cases of the use of these stamps which has come to light is that of William H. Green, who was arrested at Camden, N. J., on June 7, 1929. He had been buying from the Federal Reserve Bank at Philadelphia, Pa., all of their canceled stamps, paying the bank $10.00 per month for the same. He soaked the stamps off the tags and papers to which they were affixed, and sold them to various persons. Among the others was William B. Hale, who was arrested in 1926 for similar offenses and sentenced to prison for one year and one day. Hale was again sentenced on June 6, 1929, to serve twenty months in the penitentiary. The cases against the others are pending. Hale received directly or indirectly, the canceled stamps obtained by stamp collectors from the Federal Reserve Banks at Philadelphia, Pa., Boston, Mass., New York, N. Y., Detroit, Mich., Kansas City, Mo., and Dallas, Tex.; he is believed to be the person who obtained many of the canceled stamps from the Federal Reserve Bank at Atlanta, Ga.

In February of this year it came to the attention of inspectors that postage stamps of high denominations on registered shipments of the Federal Reserve Bank at Cleveland, Ohio, were being lightly canceled and covered with transparent paper so that they could be recovered and returned to the Assistant Cashier of the bank, who, it was stated is an ardent philatelist. Obviously this practice afforded opportunity for the reuse of the stamps, and the temptation to do so would be increased by the fact that the stamps were of high denominations. Instructions were issued for the postal employees at the Contract Station located in the Federal Reserve Bank at Cleveland to take such action as may be necessary to protect the revenues on mailings emanating from the bank. The matter was recently taken up by inspectors with the Chairman of the Board of Directors of the Federal Reserve Bank at Cleveland, who is also a member of the national organization. He indicated that an independent investigation would be made and the results communicated to the inspectors; but so far the Department has not been advised of the results.

The subject was also taken up with the Cashier of the Federal Reserve Bank at Atlanta, Ga., and another officer of that institution, and they have promised to furnish the inspectors with available information as to the names of stamp collectors with whom they have had dealings.
In April of this year a report was received from an inspector covering the disposition of used precanceled stamps by the Federal Reserve Bank at Saint Louis, Mo. The Controller of the bank stated, however, that the small amount derived from the sale of the used stamps barely paid for the labor used in recovering them, and on April 3, 1929, he informed the inspector that instructions had been issued with a view to cooperating with the inspector and to prevent the improper use of such stamps.

From the foregoing it will be observed that the stamps used by Federal Reserve Banks, because of their high denominations, are of particular interest to persons who may use them for improper purposes. The small amounts received from the sale of the used stamps would not appear to justify the expenditure for the labor in collecting them, and in view of the extensive misuse of them in the past, it will be greatly appreciated if you will bring the matter to the attention of all Federal Reserve Banks and branches thereof, with a view to having the sale of salvaged used stamps discontinued and the stamps destroyed.

I shall be pleased to be advised of the action taken.

Very truly yours,

(Signed) Walter F. Brown

192975-C
June 28, 1929.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Walter Wyatt, General Counsel

Dear Mr. Wyatt:


The Federal Reserve Bank of Richmond was originally a party defendant to this action, but judgment in its favor was rendered by the lower court and no appeal was taken. You will see that the case arose out of the same transaction as that involved in Cleve v. Craven Chemical Company, 18 (2nd) 711, The Supreme Court of North Carolina, however, differs with Circuit Court of Appeals and holds that the acceptance of an exchange draft under the North Carolina statute releases the drawer. In other words, the Circuit Court of Appeals held that the drawer had assented to the acceptance of the exchange draft and remained liable if the exchange draft was not paid. The state court holds that the drawer has provided that his check may be paid by an exchange draft if presented by a Federal Reserve bank, but that if the payee or holder elects to make presentation in this way, the payee or holder assumes the risk involved in accepting the exchange draft.

Both courts hold that the Federal Reserve bank is guilty of no negligence in taking the exchange draft.

It occurred to me that you might wish to see a copy of this decision and I am sending you the advance sheets rather than having a typewritten copy made.

Very truly yours,

(S) M. G. Wallace, Counsel.
FEDERAL RESERVE BOARD
WASHINGTON

SUBJECT: Holidays during August, 1929.

Sir:

On Thursday, August 1st, 1929, the Denver Branch of the Federal Reserve Bank of Kansas City will be closed in observance of Colorado Day. Please include transit clearing credits of August 1st for Denver with those of the following day.

On Tuesday, August 13th, the Federal Reserve Bank of Cleveland will close at one o'clock Eastern Standard time on account of State Primary Election, but will participate in both transit and Federal Reserve note clearings.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
FEDERAL RESERVE BOARD
WASHINGTON

X-6346
July 24, 1929.

SUBJECT: Expense, Main Line, Leased Wire System, June, 1929.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6346-a and X-6346-b, covering in detail operations of the main line, Leased Wire System, during the month of June, 1929.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO.
REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE
OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JUNE, 1929.

<table>
<thead>
<tr>
<th>From</th>
<th>Business reported by banks</th>
<th>Words sent by New York charge-able to other F. R. Banks (1)</th>
<th>Net Federal Reserve Bank business</th>
<th>Percent of total bank business(*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>30,619</td>
<td>1,247</td>
<td>31,866</td>
<td>3.33</td>
</tr>
<tr>
<td>New York</td>
<td>161,681</td>
<td></td>
<td>161,681</td>
<td>16.90</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>35,016</td>
<td>1,113</td>
<td>36,129</td>
<td>3.77</td>
</tr>
<tr>
<td>Cleveland</td>
<td>87,316</td>
<td>2,416</td>
<td>89,732</td>
<td>9.38</td>
</tr>
<tr>
<td>Richmond</td>
<td>55,060</td>
<td>2,145</td>
<td>57,205</td>
<td>5.98</td>
</tr>
<tr>
<td>Atlanta</td>
<td>63,303</td>
<td>5,935</td>
<td>69,238</td>
<td>7.24</td>
</tr>
<tr>
<td>Chicago</td>
<td>122,330</td>
<td>1,979</td>
<td>124,309</td>
<td>12.99</td>
</tr>
<tr>
<td>St. Louis</td>
<td>78,128</td>
<td>1,147</td>
<td>79,275</td>
<td>8.28</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>37,611</td>
<td>2,471</td>
<td>40,082</td>
<td>4.19</td>
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<tr>
<td>Kansas City</td>
<td>60,354</td>
<td>936</td>
<td>61,290</td>
<td>8.50</td>
</tr>
<tr>
<td>Dallas</td>
<td>67,827</td>
<td>6,602</td>
<td>74,429</td>
<td>7.78</td>
</tr>
<tr>
<td>San Francisco</td>
<td>107,893</td>
<td>3,663</td>
<td>111,556</td>
<td>11.66</td>
</tr>
<tr>
<td>Total</td>
<td>927,138</td>
<td>29,654</td>
<td>956,792</td>
<td>100.00</td>
</tr>
</tbody>
</table>

F. R. Board business ........................................ 240,535 1,197,327

Treasury Department business - Incoming and Outgoing ........................................ 183,673

Total words transmitted over main lines .................................................. 1,381,000

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2 - 4, 1925.

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6346-b).
REPORT OF EXPENSE MAIN LINE  
FEDERAL RESERVE LEASED WIRE SYSTEM, JUNE, 1929.  

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Operators' Salaries</th>
<th>Operators' Overtime</th>
<th>Wire Rental</th>
<th>Total Expenses</th>
<th>Pro Rata Share of Total Expenses</th>
<th>Payable to Federal Reserve Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>$260.00</td>
<td>$ -</td>
<td>$-</td>
<td>$260.00</td>
<td>$687.23</td>
<td>$260.00 $427.23</td>
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<tr>
<td>New York</td>
<td>$1,170.80</td>
<td>-</td>
<td>-</td>
<td>$1,170.80</td>
<td>3,487.16</td>
<td>$1,170.80 2,316.96</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>225.00</td>
<td>-</td>
<td>-</td>
<td>225.00</td>
<td>778.04</td>
<td>225.00 553.04</td>
</tr>
<tr>
<td>Cleveland</td>
<td>296.66</td>
<td>-</td>
<td>-</td>
<td>296.66</td>
<td>1,935.81</td>
<td>296.66 1,639.15</td>
</tr>
<tr>
<td>Richmond</td>
<td>232.00</td>
<td>-</td>
<td>230.00(#)</td>
<td>462.00</td>
<td>1,234.13</td>
<td>462.00 772.13</td>
</tr>
<tr>
<td>Atlanta</td>
<td>270.00</td>
<td>-</td>
<td>-</td>
<td>270.00</td>
<td>1,494.16</td>
<td>270.00 1,224.16</td>
</tr>
<tr>
<td>Chicago</td>
<td>4,096.06 (#)</td>
<td>-</td>
<td>-</td>
<td>4,096.06</td>
<td>2,680.83</td>
<td>4,096.06 1,415.23 (*)</td>
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<tr>
<td>St. Louis</td>
<td>354.33</td>
<td>2.00</td>
<td>-</td>
<td>356.33</td>
<td>1,708.79</td>
<td>356.33 1,352.46</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>183.66</td>
<td>-</td>
<td>-</td>
<td>183.66</td>
<td>864.72</td>
<td>183.66 681.06</td>
</tr>
<tr>
<td>Kansas City</td>
<td>287.50</td>
<td>-</td>
<td>-</td>
<td>287.50</td>
<td>1,754.20</td>
<td>287.50 1,466.70</td>
</tr>
<tr>
<td>Dallas</td>
<td>251.00</td>
<td>.75</td>
<td>-</td>
<td>251.75</td>
<td>1,605.61</td>
<td>251.75 1,353.86</td>
</tr>
<tr>
<td>San Francisco</td>
<td>380.00</td>
<td>-</td>
<td>-</td>
<td>380.00</td>
<td>2,406.35</td>
<td>380.00 2,026.35</td>
</tr>
<tr>
<td>Federal Reserve Board</td>
<td>-</td>
<td>-</td>
<td>15,563.73</td>
<td>15,563.73</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$8,007.01</td>
<td>$ 2.75</td>
<td>$15,793.73</td>
<td>$23,803.49</td>
<td>$20,637.63</td>
<td>$8,239.76 $13,813.10</td>
</tr>
</tbody>
</table>

(*) Main line rental, Richmond—Washington.  
(#) Includes salaries of Washington operators.  
(*) Credit.  
(a) Received $3,165.86 from Treasury Department covering business for the month of June, 1929.  
(b) Amount reimbursable to Chicago.
FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Saturday, July 27, 1929.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of June and July, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal Reserve banks.

Output of manufactures continued in large volume in June, while mineral production declined. There was a rise in the general level of commodity prices, reflecting chiefly an advance in agricultural commodities.

Production—Activity of manufacturing establishments continued at a high rate in June. Output of automobiles and of iron and steel showed a seasonal decline smaller than is usual from May to June. Silk mill activity increased and there was a growth in the production of cement, leather, and shoes. Production of copper at smelters and refineries decreased sharply and output of cotton and wool textiles was also reduced, although production in all of these industries continued larger than in other recent years. The volume of factory employment and payrolls in June showed a small seasonal decline from May, but, as in earlier months, was substantially larger than in 1928. Output of mines was generally smaller in June than in May, reflecting declines in the production of coal, copper, and other nonferrous metals. Output of petroleum, however, increased to new high levels.

Reports for the first half of July indicate some further reduction in output of cotton textiles, iron and steel, lumber, and coal.

Volume of construction contracts awarded decreased further in June, and for the first half year awards were 12 per cent less than in the same period in 1928, reflecting chiefly a substantial decline in residential building. During the first three weeks of July contracts awarded were larger than in the same period a year ago.
Agriculture—Department of Agriculture estimates, based on July first crop condition report, indicate a wheat crop of 834,000,000 bushels, about 8 per cent smaller than production last year, but larger than average production in the preceding five years. The acreage of cotton in cultivation on July first was estimated at 48,457,000 acres, 3 per cent more than a year ago.

Distribution—During the month of June freight car loadings were slightly smaller than in May, as a result of decreases in loadings of most classes of freight, except grain products and ores. In comparison with other recent years, however, loadings continued to show an increase.

Sales of department stores in June, as in earlier months, were larger than in the same month in 1928.

Prices—Wholesale prices, according to the Bureau of Labor Statistics index, advanced from May to June on the average by approximately as much as they had declined during the preceding month. Farm products, particularly grains, cattle, beef, and hides showed marked advances in price. Prices of mineral products and their manufactures also averaged higher in June than in May, the rise reflecting largely increases in the price of petroleum and gasoline. Prices of leading imports, rubber, sugar, silk and coffee, showed a decline for the month as a whole.

During the first two weeks of July wheat and corn continued to move sharply upward, while hides declined slightly in price. Hog prices increased and prices of rubber and tin, which began to advance in the middle of June, continued to rise.

Bank credit—During the first half of July the volume of credit extended by member banks in leading cities declined somewhat, following a rapid increase in June. On July 17 loans and investments of these banks were about $400,000,000 above the level at the end of May. The increase reflected chiefly rapid growth in loans to brokers and dealers in securities and also some further increase in commercial loans. The banks' holdings of investments continued to decline and were on July 17 about $700,000,000 below the middle of last year.
The total volume of reserve bank credit outstanding showed an increase of about $120,000,000 during the four weeks ending July 17, the increase being in discounts for member banks. Demand for additional reserve bank credit arose chiefly out of a considerable increase in the volume of money in circulation which accompanied the issuance of the new small-size currency. There was also some increase in reserve balances of member banks accompanying the growth in their loans and consequently in their deposits.

Open-market rates on 90-day bankers acceptances declined from 5 1/2 to 5 1/8 per cent between the latter part of June and the middle of July, while rates on prime commercial paper remained unchanged.
July 27, 1929.

Dear Sir:

The committee consisting of Mr. Rounds of the Federal Reserve Bank of New York and Mr. Smead of the Board's staff, which was appointed by the last Governors' conference to confer with Treasury officials and express the opinion of the conference that the Federal reserve agents' redemption fund should be discontinued has submitted a further report, a copy of which is attached hereto, in which it makes certain recommendations with regard to the retirement of Federal reserve notes. Before presenting this report to the Federal Reserve Board or taking it up with the Treasury Department, I would like to have an expression of your views with regard to the advisability of adopting the recommendations contained in the Committee's report. The Governor of the bank is also being asked whether or not he favors the recommendations contained in the report.

Very truly yours,

Edmund Platt,
Vice Governor.

Enclosure.

TO AGENTS OF ALL F. R. BANKS.
To Federal Reserve Board

SUBJECT: Retirement of Federal Reserve Notes

From Mr. Rounds - Mr. Smead

In accordance with a resolution adopted at the last Governors' Conference, the Chairman appointed the undersigned a committee "to confer with Treasury officials and express the opinion of the conference that an effort should be made to do away with the Federal reserve agents' fund (redemption fund for Federal reserve notes) if agreeable to the Treasury." The committee has since conferred with officials of the Treasury, and under date of July 12 submitted a report to the Federal Reserve Board together with a draft of a letter to the Secretary of the Treasury recommending the discontinuance of the fund. The Board approved this letter, and on July 23 the Secretary of the Treasury authorized the discontinuance of the agents' redemption funds.

In considering this subject another matter relating to the redemption of Federal reserve notes came to our attention, with respect to which we desire to report further to the Federal Reserve Board. The procedure for the redemption of Federal reserve notes which has been followed for several years by all Federal reserve banks has been as follows: Federal reserve notes are shipped to the Treasurer of the United States by the Federal reserve banks, the lowers and uppers separately. On the date of shipment the Federal reserve banks charge the notes to the account "Mutilated Federal reserve notes forwarded for redemption". Upon receipt of the notes at the Treasury Department a bundle count is made, after which the Treasurer telegraphs the Federal reserve bank acknowledging receipt of the same, whereupon the Federal reserve bank credits mutilated notes forwarded for redemption and both the bank and the agent reduce the amount of Federal reserve notes outstanding. This procedure makes it necessary for Federal reserve banks to maintain collateral with the Federal reserve agent against notes in transit to Washington for redemption, as well as against notes in actual circulation and notes in the hands of the Federal reserve banks.

Some of the Federal reserve banks, particularly the Federal Reserve Bank of Atlanta, have at times experienced difficulty in maintaining their deposit reserves above the minimum required by law because of the large amount of gold which they had to deposit with the Federal reserve agent as collateral security for outstanding notes, such gold not being permitted to be counted as a part of the reserve required against deposits. The Atlanta bank usually has a relatively large volume of notes outstanding, partly because it has to keep a supply of issued notes at the head office and its four branches and the Savannah Agency, but largely because of the substantial volume of notes it has to maintain at its agency in Havana. This bank would like to be relieved of the necessity of carrying collateral with the Federal reserve agent against notes in transit to Washington, which since the new-size currency was issued have at times been in excess of $5,000,000, and has suggested to the committee that it be permitted to reduce the amount of Federal reserve notes outstanding and consequently the collateral with the Federal reserve agent at the time of shipping Federal reserve notes to Washington for redemption. It is not believed that it would be permissible under the Federal Reserve Act for the Atlanta bank to adopt this procedure unless it turned the Federal reserve notes over to the agent for shipment to Washington.
After giving consideration to this matter we believe that it would be desirable for all Federal reserve banks to retire Federal reserve notes on the date of shipment to Washington rather than on the date of arrival at Washington. This would require that the Federal reserve notes be turned over to the Federal reserve agent and that shipment to Washington be made to the Comptroller of the Currency for the agents' accounts, rather than to the Treasurer of the United States for the account of the banks as at present. As a matter of fact the Federal Reserve Act clearly contemplated that this procedure should be followed, the last sentence of paragraph 4 of Section 16 of the Act reading as follows: "Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction." If this suggestion is adopted it will be sufficient for each Federal reserve agent to designate a man in his department or possibly in the currency department of the bank to package count the Federal reserve notes prepared for shipment to Washington by the Federal reserve bank and for the shipment to be made in the name of the Federal reserve agent. In this case the notes, of course, would be shipped to the Comptroller of the Currency instead of to the Treasurer of the United States. There is a precedent for designating an employee in the banking department to act for the Federal reserve agent, in the arrangement that has been in force for many years whereby collateral pledged against Federal reserve notes is held in the joint custody of the Federal reserve bank and agent, the agent having designated an employee in the discount department to act in his behalf.

Under the present procedure both halves of all Federal reserve notes are shipped to the Treasurer of the United States, the lowers being given a 100 per cent count in the National Bank Redemption Agency, after which the uppers are turned over to the Federal Reserve Issue and Redemption Division of the Comptroller's office, where they are also given a complete count. There is, therefore, at present a 100 per cent count of these notes in each redemption agency, whereas the procedure followed with respect to all United States currency calls for a 100 per cent count of the lowers and a 10 per cent count of the uppers. The reason for a second complete count of the Federal reserve notes is that Federal reserve notes are sorted according to the bank of issue and any errors in sorting that are not detected result in errors in the circulation figures of the respective banks.

We obtained from the National Bank Redemption Agency a record of the errors discovered in the second count during the month of May 1929, and found that 535 such errors were detected, involving a dollar value of $5,465, this amount being less than one/two-hundredths of one per cent of the $122,000,000 of notes handled in that month. Undoubtedly a considerable number of these errors would offset each other so far as circulation figures are concerned, but even though there were no offset it is our view that the amount involved is not sufficient to justify the added expense of a second 100 per cent count. We have no doubt but that if a third or fourth count were made there would still be additional errors detected.

It is recommended, therefore, that arrangements be made to have Federal reserve notes retired by the banks turning them over to the Federal reserve agents, that shipments of lowers be made to the Comptroller of the Currency in the name of the Federal reserve agent where they will be given a 100 per cent count, and that uppers continue to be shipped to the National Bank Redemption Agency and that that agency give them a 10 per cent or test count only.

L. R. Rounds
E. L. Smead

July 26, 1929
X-6350

July 27, 1929.

Dear Sir:

The committee consisting of Mr. Rounds of the Federal Reserve Bank of New York and Mr. Smead of the Board's staff, which was appointed by the last Governors' conference to confer with Treasury officials and express the opinion of the conference that the Federal reserve agents' redemption fund should be discontinued has submitted a further report, a copy of which is attached hereto, in which it makes certain recommendations with regard to the retirement of Federal reserve notes. Before presenting this report to the Federal Reserve Board or taking it up with the Treasury Department, I would like to have an expression of your views with regard to the advisability of adopting the recommendations contained in the Committee's report. The Federal Reserve Agent is also being asked whether or not he favors the recommendations contained in the report.

Very truly yours,

Edmund Platt,
Vice Governor.

Enclosure.

TO GOVERNORS OF ALL F. R. BANKS.
To Federal Reserve Board

SUBJECT: Retirement of Federal Reserve Notes

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In considering this subject another matter relating to the redemption of Federal reserve notes came to our attention, with respect to which we desire to report further to the Federal Reserve Board. The procedure for the redemption of Federal reserve notes which has been followed for several years by all Federal reserve banks has been as follows: Federal reserve notes are shipped to the Treasurer of the United States by the Federal reserve banks, the lowers and uppers separately. On the date of shipment the Federal reserve banks charge the notes to the account "Mutilated Federal reserve notes forwarded for redemption." Upon receipt of the notes at the Treasury Department a bundle count is made, after which the Treasurer telegraphs the Federal reserve bank acknowledging receipt of the same, whereupon the Federal reserve bank credits mutilated notes forwarded for redemption and both the bank and the agent reduce the amount of Federal reserve notes outstanding. This procedure makes it necessary for Federal reserve banks to maintain collateral with the Federal reserve agent against notes in transit to Washington for redemption, as well as against notes in actual circulation and notes in the hands of the Federal reserve banks.

Some of the Federal reserve banks, particularly the Federal Reserve Bank of Atlanta, have at times experienced difficulty in maintaining their deposit reserves above the minimum required by law because of the large amount of gold which they had to deposit with the Federal reserve agent as collateral security for outstanding notes, such gold not being permitted to be counted as a part of the reserve required against deposits. The Atlanta bank usually has a relatively large volume of notes outstanding, partly because it has to keep a supply of issued notes at the head office and its four branches and the Savannah Agency, but largely because of the substantial volume of notes it has to maintain at its agency in Havana. This bank would like to be relieved of the necessity of carrying collateral with the Federal reserve agent against notes in transit to Washington, which since the new-size currency was issued have at times been in excess of $5,000,000, and has suggested to the committee that it be permitted to reduce the amount of Federal reserve notes outstanding and consequently the collateral with the Federal reserve agent at the time of shipping Federal reserve notes to Washington for redemption. It is not believed that it would be permissible under the Federal Reserve Act for the Atlanta bank to adopt this procedure unless it turned the Federal reserve notes over to the agent for shipment to Washington.
After giving consideration to this matter we believe that it would be desirable for all Federal reserve banks to retire Federal reserve notes on the date of shipment to Washington rather than on the date of arrival at Washington. This would require that the Federal reserve notes be turned over to the Federal reserve agent and that shipment to Washington be made to the Comptroller of the Currency for the agents' accounts, rather than to the Treasurer of the United States for the account of the banks as at present. As a matter of fact the Federal Reserve Act clearly contemplated that this procedure should be followed, the last sentence of paragraph 4 of Section 16 of the Act reading as follows: "Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction". If this suggestion is adopted it will be sufficient for each Federal reserve agent to designate a man in his department or possibly in the currency department of the bank to package count the Federal reserve notes prepared for shipment to Washington by the Federal reserve bank and for the shipment to be made in the name of the Federal reserve agent. In this case the notes, of course, would be shipped to the Comptroller of the Currency instead of to the Treasurer of the United States. There is a precedent for designating an employee in the banking department to act for the Federal reserve agent, in the arrangement that has been in force for many years whereby collateral pledged against Federal reserve notes is held in the joint custody of the Federal reserve bank and agent, the agent having designated an employee in the discount department to act in his behalf.

Under the present procedure both halves of all Federal reserve notes are shipped to the Treasurer of the United States, the lowers being given a 100 per cent count in the National Bank Redemption Agency, after which the uppers are turned over to the Federal Reserve Issue and Redemption Division of the Comptroller's office, where they are also given a complete count. There is, therefore, at present a 100 per cent count of these notes in each redemption agency, whereas the procedure followed with respect to all United States currency calls for a 100 per cent count of the lowers and a 10 per cent count of the uppers. The reason for a second complete count of the Federal reserve notes is that Federal reserve notes are sorted according to the bank of issue and any errors in sorting that are not detected result in errors in the circulation figures of the respective banks.

We obtained from the National Bank Redemption Agency a record of the errors discovered in the second count during the month of May 1929, and found that 535 such errors were detected, involving a dollar value of $5,465, this amount being less than one/two-hundredths of one per cent of the $122,000,000 of notes handled in that month. Undoubtedly a considerable number of these errors would offset each other so far as circulation figures are concerned, but even though there were no offset it is our view that the amount involved is not sufficient to justify the added expense of a second 100 per cent count. We have no doubt but that if a third or fourth count were made there would still be additional errors detected.

It is recommended, therefore, that arrangements be made to have Federal reserve notes retired by the banks turning them over to the Federal reserve agents, that shipments of lowers be made to the Comptroller of the Currency in the name of the Federal reserve agent where they will be given a 100 per cent count, and that uppers continue to be shipped to the National Bank Redemption Agency and that that agency give them a 10 per cent or test count only.

L. R. Rounds
E. L. Smead

July 26, 1929.

Dear Sir:

In order to reduce phraseology in telegrams sent by the National Bank Redemption Agency to Federal reserve banks covering notification of receipt of unfit Federal reserve notes for redemption, the following code word has been designated for use effective August 1st:

**DUSTBRITE**

Unfit notes of your bank forwarded for redemption as indicated below have been received and are held for account of your Federal Reserve Agent pending delivery to the Comptroller of the Currency. Your Agent has been requested to make settlement direct with you for the various amounts.

<table>
<thead>
<tr>
<th>Forwarded by</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
</table>

This word should be inserted in the Federal Reserve Telegraph Code following the word DUSTHAND, on Page 83.

The National Bank Redemption Agency advises that confirmation copies of telegrams covering the above transactions will be mailed to both the Federal Reserve Bank and the Federal Reserve Agent.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
To: Federal Reserve Board

From: Mr. Wyatt - General Counsel.

Subject: History of Commodity Paper.

In accordance with the Board's request, there is given below a review of the history of commodity paper with quotations from the Board's various regulations on this subject.

The rediscount of "commodity paper" at special rates of rediscount was first provided for by Regulation Q, Series of 1915, issued by the Federal Reserve Board under date of September 3, 1915, which read as follows:

"COMMODITY PAPER.

"In this regulation the term 'commodity paper' is defined as a note, draft, or bill of exchange secured by warehouse terminal receipts, or shipping documents covering approved and readily marketable, nonperishable staples properly insured.

"Commodity paper, to be eligible for discount by a Federal Reserve Bank under section 13, at the special rates hereby authorized to be established for commodity paper below the usual commercial rates, must (a) comply with all the requirements of Regulation B, series of 1915, paragraphs I and II, or with the requirements of Regulation C, series of 1915; (b) and be paper on which the rate of interest or discount, including commission charged the maker, does not exceed 6 per cent per annum, and also (c) comply with such regulations as may be issued by Federal Reserve Banks covering requirements as to warehouse or terminal receipts, shipping documents, insurance, etc., adapted to the particular needs of its district as a condition of the special rate herein authorized.

"Federal Reserve Banks are now authorized to submit rates for the discount of commodity paper in accord with this regulation for review by the Board."

This provision next appeared as Section VII of Regulation A, Series of 1916, issued under date of September 15, 1916, which read as follows:

"VII. COMMODITY PAPER.

"(a) Definition. - Commodity paper within the meaning of this regulation is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, nonperishable staples properly insured.

"(b) Eligibility. - To be eligible for rediscount at
"the special rates, authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this regulation applicable to it, must conform to the requirements of the Federal Reserve Bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount - including commission - charged the maker, does not exceed 6 per cent per annum."

The provision for "commodity paper" last appeared in the Board's Regulations as Section VII of Regulation A, Series of 1917, issued under date of June 22, 1917, which read as follows:

"VII. COMMODITY PAPER.

"(a) Definition. - Commodity paper within the meaning of this regulation is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, nonperishable staples properly insured.

"(b) Eligibility. - To be eligible for rediscount at the special rates, authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this regulation applicable to it, must conform to the requirements of the Federal Reserve Bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount - including commission - charged the maker, does not exceed 6 per cent per annum.

"(c) Suspension of commodity rate. - As the special rate on commodity paper is intended to assist actual producers during crop-moving periods and is not designed to benefit speculators, the Board reserves the right to suspend the special rates herein provided whenever it is apparent that the movement of crops, which this rate is intended to facilitate, has been practically completed."

The provision for "commodity paper" was omitted from the next edition of the Board's regulations, which was the Series of 1920, issued under date of October 6, 1920, and has not appeared in any regulation issued by the Board subsequent to that date.

A possible explanation of the omission of the section regarding commodity paper from the Board's Regulations of 1920 appears in a
letter addressed to Senator Owen by Governor Harding under date of March 18, 1918, which reads in part as follows:

"This special rate on commodity paper was, of course, given to facilitate commerce in various commodities. The demands on the banks at the present time are such, however, that it was found to be necessary to merge the discount rates on commodity paper with those for commercial paper of corresponding maturities.

"This action by the banks was approved by the Board on November 28, (1917), so that the special rates on commodity paper are not now in force."

From a circular letter addressed to the Federal reserve banks under date of August 2, 1922, (X-3494), a copy of which is attached hereto, it appears that the Federal Reserve Board at that time considered the subject of reviving special rates on commodity paper; but the Board did not actually revive such rates at that time.

Under date of October 9, 1926, I prepared at the request of Mr. James, two alternative drafts of regulations on commodity paper copies of which are attached hereto. Neither of these regulations, however, was ever promulgated.

There is also attached hereto for the Board's information a copy of a draft of a proposed circular letter providing special rates on "seasonal crop-marketing paper", which I prepared for Dr. Miller under date of August 11, 1928, but which was never sent out.

Respectfully,

Walter Wyatt
General Counsel.

Papers attached.

WW-sad
CIRCULAR LETTER

August 11, 1928.

SUBJECT: Special Rates on Seasonal Crop Marketing Paper.

Dear Sir:

Prior to 1918 there were in effect at some of the Federal Reserve Banks special rates of rediscount on so-called "commodity paper". Lower rates of rediscount for such classes of paper were fixed by the Federal Reserve Banks and approved by the Federal Reserve Board with a view of meeting the seasonal demands for credit facilities in the crop producing districts.

The Federal Reserve Board believes that the revival of this practice will be especially helpful during the forthcoming crop moving period and accordingly has defined a special class of paper growing out of the movement and marketing of crops which, for convenience, will be called "Seasonal Crop Marketing Paper" and as to which the Federal Reserve Board stands ready to approve a rediscount rate of from one-half of one per cent to one per cent below the rate on other classes of paper, with a view of adjusting the present rate structure so as to facilitate seasonal accommodation to commerce and business.

The Board's definition of "Seasonal Crop Marketing Paper" and the conditions of eligibility applicable to such paper are as follows:

"Definition. Seasonal Crop Marketing Paper is defined as a negotiable note, draft, bill of exchange or bankers' acceptance arising out of the marketing of agricultural products produced during the current year or the proceeds of which have been or are to be used to finance the marketing
of such products or the carrying of such products pending orderly marketing.

"Notes, drafts, bills of exchange or bankers' acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to be included within the above definition if -

"(1) The proceeds thereof have been or are to be used by such association in making payments or advances to any members thereof on account of agricultural products produced during the current year and delivered by such members to the association; or

"(2) The proceeds thereof have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparing for market or marketing of any agricultural product produced during the current year and handled by such association for any of its members; or

"(3) Such paper otherwise complies with the above definition.

"Eligibility." To be eligible for rediscount at the special rate authorized to be established for seasonal crop marketing paper, such a note, draft or bill of exchange must also:

"(1) Be secured by shipping documents or a warehouse, terminal, or other similar receipt covering readily marketable, nonperishable, agricultural products produced during the current year and comply with the requirements of the Federal Reserve
Bank as to insurance;

"(2) Comply with the respective sections of Regulation A, Series 1928, applicable to it; and

"(3) Be a note, draft or bill of exchange on which the rate of interest or discount (including commissions) charged the borrower, does not exceed 6% per annum.

"Paper which is issued or drawn or the proceeds of which have been or are to be used for speculative holding of agricultural products as distinguished from the carrying of agricultural products pending the orderly marketing thereof is not eligible for rediscount."

In authorizing special rates of rediscount pursuant to this letter, it should be understood that this is for seasonal crop marketing purposes only and such authority will be withdrawn at the conclusion of the forthcoming crop marketing period.

The Federal Reserve Board is prepared to give prompt approval to special seasonal rates for seasonal crop marketing paper and requests the several Federal Reserve Banks to give immediate consideration to the advisability of establishing such seasonal rates in time to be of assistance during the forthcoming crop marketing period. Prompt advice as to the attitude of the respective Federal Reserve Banks toward such special rates on seasonal crop marketing paper is desired.

By Order/the Federal Reserve Board.

Walter L. Eddy,
Secretary.
BE IT RESOLVED BY THE FEDERAL RESERVE BOARD: That Regulation A, Series of 1924, be amended by inserting therein, immediately after Section VIII, a new section reading as follows:

"SECTION VIII 1/2. COMMODITY PAPER.

(a) DEFINITION. Commodity paper within the meaning of this regulation is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, nonperishable staples properly insured.

(b) ELIGIBILITY. To be eligible for rediscount at the special rates, authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this regulation applicable to it, must conform to the requirements of the Federal Reserve Bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount -- including commission -- charged the maker, does not exceed 6 per cent per annum.

(c) SUSPENSION OF COMMODITY RATE. As the special rate on commodity paper is intended to assist actual producers during crop-moving periods and is not designed to benefit speculators, the Board reserves the right to suspend the special rates herein provided whenever it is apparent that the movement of crops, which this rate is intended to facilitate, has been practically completed."
BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, That Regulation A, Series of 1924, be amended by inserting therein, immediately after Section VIII, a new section reading as follows:

"SECTION VIII - COMMODITY PAPER.

(a) DEFINITION. - Commodity paper, within the meaning of this regulation, is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by warehouse receipts issued by a warehouse regularly licensed and bonded under the United States Warehouse Act or by any other public warehouse approved by the Federal Reserve Bank of the district in which it is located, which shipping documents or warehouse receipts convey or secure title to readily marketable, non-perishable staples properly insured.

(b) COMMODITY RATE. - Federal Reserve Banks are hereby authorized to submit to the Federal Reserve Board for approval special rates of discount for commodity paper as defined in this regulation.

(c) ELIGIBILITY. - To be eligible for rediscount at the special rates authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this regulation applicable to it, must conform to the requirements of the Federal Reserve Bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount (including commission) charged the maker, does not exceed 6 per cent per annum.

(d) SUSPENSION OF COMMODITY RATE. - As the special rate on commodity paper is intended to assist actual producers during crop-moving periods and is not designed to benefit speculators, the Federal Reserve Board reserves the right to suspend the special rates herein provided for, whenever it is apparent that the movement of crops, which this rate is intended to facilitate, has been practically completed."
CONFIDENTIAL

SUBJECT: Special Rates on Commodity Paper.

Dear Sir:

It has been proposed that the Board revive the special rates on commodity paper which were first established during the year 1915. Before taking action, however, the Board is desirous of obtaining the opinion of the officers and executive committees of all Federal Reserve Banks as to the advisability of reestablishing special rates on commodity paper. There is enclosed herewith a tentative draft of a letter which it is proposed to send to all Federal Reserve Banks in case the Board should decide to authorize special rates on commodity paper; and your comments, criticisms and suggestions are invited. You are requested also to advise the Board whether your bank would feel disposed to establish a special rate on this class of paper and, if it should, whether in your opinion your member banks generally would be inclined to avail themselves of it.

Very truly yours,

Governor.

(Enclosure)

TO ALL FEDERAL RESERVE AGENTS
COPIES TO GOVERNORS.
SUBJECT: Revival of Special Rates on Commodity Paper.

Dear Sir:

Prior to 1918 there were in effect at some of the Federal Reserve Banks special rates on so-called commodity paper. Section VII of Regulation A, Series of 1917, and earlier regulations, defined commodity paper and prescribed the conditions under which such paper would be eligible for rediscount by Federal Reserve Banks. All such special rates were suspended during November and December 1917 and the regulations issued since that time have not contained any special provisions regarding commodity paper.

The Board has considered the matter and has decided that it will, at the request of any Federal Reserve Bank, approve the establishment by the applying bank of a special rate of not less than $3\frac{1}{2}$% on commodity paper on which the rate of interest or discount - including commission - charged the borrower does not exceed 6% per annum.

The Board's definition of commodity paper, and the conditions of eligibility applicable to such paper are as follows:

**Definition. -** Commodity paper is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, nonperishable staples properly insured.
Eligibility.-To be eligible for rediscount at the special rates, authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this Regulation A, Series of 1922, applicable to it, must conform to the requirements of the Federal Reserve Bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount — including commission — charged the borrower, does not exceed 6 per cent per annum. Paper which is issued or drawn, or the proceeds of which have been or are to be used, for the speculative holding of commodities, as distinguished from the carrying of commodities pending the orderly marketing thereof, is not eligible for rediscount.

The foregoing definition and conditions of eligibility are substantially the same as those prescribed in the Board's former Regulation A, Series of 1917. In approving any special rate pursuant to this letter it should be understood that the Federal Reserve Board reserves the right, which it always reserved when it approved similar rates in the past, to suspend such rate whenever such a course seems desirable.

Very truly yours,

Governor.
STATEMENT OF BUREAU OF ENGRAVING AND PRINTING.

July 1 to 31, 1929.

Federal Reserve Notes, Series 1928.

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584,000  218,000  68,000  48,000  918,000  $82,161.00

918,000 sheets, . . . . $89.50 M, $82,161.00

Credit appropriations, 1930, as follows:

- Comp. of Emp., B.E.& P. $43,329.60
- Plate Printing, " 18,708.84
- Mtls. & Misc. Exp. " 20,122.56

Bureau of Engraving and Printing:

C. R. Long,
Assistant Director.
SUBJECT: Changes in Inter-district Time Schedule.

Dear Sir:

Upon agreement between the Federal reserve banks involved, the Federal Reserve Board has approved the following changes in the inter-district time schedule:

From Dallas to Los Angeles From 4 days to 3 days
" El Paso " Philadelphia " 4 " " 3 "
" " " Charlotte " 4 " " 3 "
" " " Portland " 4 " " 3 "
" " " Salt Lake City " 4 " " 3 "
" " " Spokane " 5 " " 4 "
" San Antonio to Omaha " 3 " " 2 "
" " " Birmingham " 2 " " 3 "
" " " Nashville " 2 " " 3 "
" " " San Francisco " 4 " " 3 "

Very truly yours,

J. C. Noell,
Assistant Secretary.
SUBJECT: Inquiry re Data on Chain Banking.

Dear Sir:

One of the Federal reserve agents recently advised the Board that he had received a request from the Pan-American Information Service, New York City, that he furnish them with the data sent to the Board regarding chain banking, and it is possible that this was a general request addressed to all Federal Reserve Agents.

For your information, the firm in question, under date of July 30, made an inquiry of the Board regarding the summary on chain banking which appeared in the last Annual Report of the Board, and requested that it be furnished with the names of the different chains. On July 31 the Board replied that the detailed information from which the summary was prepared, was gathered by the Federal reserve agents for the Board's confidential use and that it could not, under the circumstances, furnish the names of the banks included in the various chains.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.
August 13, 1929,

SUBJECT: Change in Federal Reserve Note Design.

Dear Sir:

By direction of the Governor there is enclosed herewith, for your information, copy of a self-explanatory letter addressed to him under date of August 7th by Honorable H. H. Bond, Assistant Secretary of the Treasury.

It is understood that the revision of the design of the new size Federal Reserve note, referred to in the letter, was taken up by the Treasury with most of the Federal reserve banks, and was satisfactory to a majority of those consulted.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.
Dear Governor Young:

Referring to the design of Federal Reserve notes, particularly to placing the distinctive numbers of the several Federal Reserve Banks upon the notes, you are advised that the Secretary has approved a revision of the design providing that instead of placing the distinctive number of the Federal Reserve Bank within the circle bearing the name of the bank, the appropriate letter shall be placed in that position while the distinctive number will appear inconspicuously in each of the four corners of the note. The new design will be used on all plates for printing notes of denominations above $100 while for denomination of $100 or less the new design will be used on new plates hereafter prepared.

As you are aware the Department has received some adverse criticism of the present design because of the prominence with which the distinctive number is displayed. Such criticism has not been widespread and it does not seem advisable to make any public announcement of the change in design but it is suggested that the Federal Reserve Banks may be informed of the change in such manner as you deem advisable.

Sincerely yours,

(S) Henry Horrnick Bond,
Assistant Secretary of the Treasury.

Honorable Roy A. Young,
Governor, Federal Reserve Board.
SUBJECT: Holidays During September, 1929.

Dear Sir:

On Monday, September 2nd, Labor Day, there will be neither Gold Fund nor Federal Reserve Note clearing, and the books of the Board will be closed.

In addition to the Labor Day holiday, the following Banks and Branches will observe holidays during the month of September:

- Monday, September 9, San Francisco, (Admission Los Angeles Day)
- Thursday, 12, Baltimore Defenders' Day

Therefore, on the dates indicated the offices affected will not participate in either of the clearings. Please include your credits for the Banks affected on each of the holidays with your credits for the following business day, and make no shipment of Federal Reserve notes for account of the Federal Reserve Bank of San Francisco on Monday, September 9th.

Please notify Branches.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS,
SUBJECT: Classification of certain items in computing reserves of member banks.

Dear Sir:

The Federal Reserve Board, as you were advised in the Board's letter of June 25, 1929, (X-6337) has been requested to pass upon the question whether in the preparation of reserve reports of member banks cash items for which credit has been given to the depositor and which have been forwarded to out-of-town banks for collection by placing in the mail, but which have not been charged to the account of such out-of-town correspondent banks, may be included in balances "due from" banks. In this connection, attention was called to an apparent discrepancy between the provisions of Section III(b) of the Federal Reserve Board's Regulation D and the instructions accompanying the Board's form of condition report, Form 105(a).

After carefully considering the question presented in the light of the replies to the Board's letter of June 25, received from all of the Federal reserve banks, the Board is of the opinion that there is no valid practical reason for the requirement that cash items which have been forwarded to out-of-town banks for collection should be charged to the account of such banks before being permitted to be classified as "due from" bank balances. You are accordingly advised that the Board will waive the requirement contained in Section III(b) of its Regulation D, that such items be "charged to the account of correspondent banks" and permit items of this kind to be classified as balances "due from" banks, although they have not been charged to the account of correspondent banks. It is understood, of course, that the Board's decision in this matter applies to cash items only.

By order of the Federal Reserve Board,

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6364-a and X-6364-b, covering in detail operations of the main line, Leased Wire System, during the month of July, 1929.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO.
REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JULY, 1929.

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<td>Minneapolis</td>
<td>37,595</td>
<td>993</td>
<td>38,588</td>
<td>3.84</td>
</tr>
<tr>
<td>Kansas City</td>
<td>85,850</td>
<td>408</td>
<td>86,258</td>
<td>8.58</td>
</tr>
<tr>
<td>Dallas</td>
<td>73,770</td>
<td>6,914</td>
<td>80,684</td>
<td>8.03</td>
</tr>
<tr>
<td>San Francisco</td>
<td>112,480</td>
<td>2,277</td>
<td>114,757</td>
<td>11.42</td>
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<td><strong>Total</strong></td>
<td><strong>985,492</strong></td>
<td><strong>19,659</strong></td>
<td><strong>1,005,151</strong></td>
<td><strong>100.00</strong></td>
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F. R. Board business ........................................... 273,654 1,278,805

Treasury Department business - Incoming and Outgoing ........................................... 90,431

Total words transmitted over main lines .......................................................... 1,369,236

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6364-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.
### REPORT OF EXPENSE MAIN LINE

**FEDERAL RESERVE LEASED WIRE SYSTEM, JULY, 1929.**

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Operators' Salaries</th>
<th>Operators' Overtime</th>
<th>Wire Rental</th>
<th>Total Expenses</th>
<th>Pro Rata Share of Total Expenses</th>
<th>Payable to Federal Reserve Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>$ 260.00</td>
<td>$ 1.00</td>
<td></td>
<td>$ 261.00</td>
<td>$ 721.08</td>
<td>$ 261.00</td>
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<tr>
<td>New York</td>
<td>1,111.59</td>
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<td></td>
<td>1,112.59</td>
<td>3,700.82</td>
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<td>-</td>
<td>225.00</td>
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<td>225.00</td>
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<tr>
<td>Cleveland</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>296.66</td>
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<td>Richmond</td>
<td>190.00</td>
<td>-</td>
<td>230.00($)</td>
<td>420.00</td>
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<tr>
<td>Atlanta</td>
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<td>-</td>
<td>270.00</td>
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<td>270.00</td>
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<tr>
<td>Chicago</td>
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<td>-</td>
<td>-</td>
<td>4,240.78</td>
<td>2,866.58</td>
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<tr>
<td>St. Louis</td>
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<td>-</td>
<td>227.11</td>
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<td>227.11</td>
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<td>-</td>
<td>197.54</td>
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<tr>
<td>Kansas City</td>
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<td>287.50</td>
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<tr>
<td>Dallas</td>
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<td>-</td>
<td>-</td>
<td>251.00</td>
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<td>San Francisco</td>
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<td>Federal Reserve Board</td>
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<td>15,586.96</td>
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<td><strong>Total</strong></td>
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<td><strong>$ 2.00</strong></td>
<td><strong>$15,816.96</strong></td>
<td><strong>$23,756.14</strong></td>
<td><strong>$22,187.17</strong></td>
<td><strong>$8,169.18</strong></td>
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</table>

(a) Main line rental, Richmond-Washington.

(#) Includes salaries of Washington operators.

(*) Credit.

(a) Received $1,568.97 from Treasury Department covering business for the month of July, 1929.

(b) Amount reimbursable to Chicago.
The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of July and August, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industrial production decreased slightly during July, but continued at a higher level than in other recent years. Wholesale commodity prices increased further during the month, reflecting chiefly higher prices of agricultural products. Loans for commercial and agricultural purposes by reporting member banks increased during July and the first half of August.

Production—Output of manufactures decreased in July, while mineral production increased. Average daily output of automobiles, copper, tin, zinc, and cotton and wool textiles decreased and there was a small decline in the production of iron and steel. In all of these industries, however, output was larger than in the same month in earlier years. Activity increased during July in silk and shoe factories and in meatpacking plants, and there was also a larger output of bituminous coal and crude petroleum than in June. Reports for the first half of August indicate sustained activity in the iron and steel and automobile industries, and a further increase in the output of coal and petroleum.

Employment in manufacturing industries decreased in July by less than one per cent while a somewhat greater decrease in payrolls was reported. At this level, factory employment and payrolls, as in earlier months, were larger than in any other year since 1926.

Value of construction contracts awarded in July was higher than in the preceding month or in July, 1928, reflecting chiefly a sharp increase in contracts...
for public works and utilities. For the first half of August, however, total contracts declined to a level below the corresponding period a year ago.

The August estimate of the Department of Agriculture indicates a wheat crop of 774,000,000 bushels, slightly below the five-year average, and 128,000,000 bushels below last year's production, and a corn crop approximately equal to the five-year average crop and about 100,000,000 bushels smaller than in 1928. The cotton crop is estimated at 15,543,000 bales, 7 per cent larger than last year.

Distribution—Freight-car loadings increased seasonally during July and the first two weeks of August, reflecting chiefly increased loadings of coal, grain, and ore, while shipments of miscellaneous freight continued in about the same volume as in June.

Sales of department stores declined seasonally from June and on a daily basis were about the same as in July a year ago.

Prices—Wholesale prices in July continued the rise which began in June, according to the index of the Bureau of Labor Statistics, reflecting chiefly higher prices for farm products and their manufactures, particularly livestock and meats, grains, and flour, and potatoes. Prices of hides and leather also increased. Wool, rayon, and textile products declined slightly in price. There was a marked advance in the price of sugar and rubber prices also rose somewhat. Prices of petroleum and gasoline declined and prices of iron and steel were somewhat lower.

During the first three weeks in August there were declines in the prices of oats, of cotton, petroleum, beef, sugar, rubber, and tin, and marked fluctuations in prices of pork and wheat.

Bank credit—Loans for commercial purposes by reporting member banks increased to new high levels during the four weeks ending August 14, while security loans, after increasing further during the latter part of July, declined during
the first two weeks in August.

Member bank borrowing at the reserve banks averaged $45,000,000 less during the week ending August 17 than in the week ending July 20 reflecting increased sales of acceptances to the reserve banks, and further imports of gold.

Open market rates on call and time loans on securities were firmer during the last half of July and the first week of August. During the second week of August rates on call loans declined while rates on commercial paper in the open market advanced from 6 to 6-6\(^\frac{1}{2}\) per cent. On August 8 the discount rate of the Federal Reserve Bank of New York was increased from 5 to 6 per cent, and the buying rate on bankers' acceptances was reduced from 5\(\frac{1}{2}\) to the market rate of 5 1/8 per cent.
August 27, 1929

Dear Sir:

By direction of the Governor, there are enclosed herewith copies of self-explanatory correspondence which the Board has had with Mr. Watson B. Miller, Chairman of the National Rehabilitation Committee of the American Legion, on the subject of Government insurance for veterans of the World War.

Yours very truly,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.
Washington, D. C., August 16, 1929.

To The Personnel Of The Federal Reserve Board.
From Governor Young.

There is attached hereto copy of a self-explanatory letter addressed to the Board by the Chairman of the National Rehabilitation Committee of the American Legion.
Mr. Roy A. Young, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Mr. Young:

I have the honor to invite your attention to Section 310 of the World War Veterans' Act, 1924, as amended May 29, 1928, which permits the U. S. Government to grant, upon application and payment of the initial premium, Government life insurance in any multiple of $600 and not less than $1,000 nor more than $10,000, to any veteran of the World War who has heretofore applied for or been eligible to apply for yearly renewable term (war time) insurance or converted insurance, provided that such person is in good health and furnishes evidence satisfactory to the Director to that effect. If, however, the veteran has surrendered a policy for its cash surrender value, the amount of insurance that may be granted in such cases is reduced by the amount of insurance so surrendered.

The Government is offering seven plans of insurance to meet the needs of the veteran. The policies participate in dividends and the premiums are based on the net rate and do not include any charge to cover the cost of administration or the total permanent disability provision. Further, the insured under a United States Government life (converted) insurance policy, may designate any person, firm, corporation, or legal entity, as the beneficiary under his policy, either individually or as trustee.

I am deeply interested in bringing to the attention of all who are veterans of the World War, the full significance of the above amendment, and it would indeed be a valuable service as well as an extreme courtesy if your Department would lend official recognition to the splendid possibilities and advantages of Government insurance by issuing a circular explaining the liberal provisions of the amendment to the personnel under your control, as many of them may be unaware of the privilege afforded them.

A specimen application for Insurance - Form 739 - and copies of Forms 752 and 865, pamphlets prepared by the U. S. Veterans' Bureau, explaining the provisions of the amendment with regard to the various plans of insurance offered, the premium rates at different ages, etc., are enclosed for your information and assistance in the preparation of the suggested circular. Additional copies of these forms will be furnished by the U. S. Veterans' Bureau, or by any of the Regional Offices of the Bureau, upon request.

Thanking you for your courteous consideration of this matter, I am

Cordially yours,

(S) WATSON B. MILLER, Chairman,
National Rehabilitation Committee.
August 15, 1929.

My dear Mr. Miller:

Receipt is acknowledged of your letter of July 30th, with reference to the possibilities of Government insurance to veterans of the world war under the amendment of May 29, 1928 to Section 310 of the World War Veteran's Act.

The Board is very glad to cooperate with your Committee and is bringing your letter to the attention of its personnel here in Washington.

The employees of the twelve Federal Reserve Banks and their branches are under the supervision of their respective boards of directors. If you think it advisable the Board will be glad to forward a copy of your letter to each Federal Reserve Bank, with advice of the action taken in acquainting the Board's personnel with the subject matter thereof. It is, of course, discretionary with the Federal Reserve Banks as to what, if any, action they take in the premises.

If, in your opinion, it would be helpful for the Board to address the Federal Reserve Banks, it is requested that twelve copies of the necessary enclosures of your letter be furnished.

Very truly yours,

(S) R. A. Young,
Governor.

Mr. Watson B. Miller, Chairman,
National Rehabilitation Committee,
The American Legion,
710 Bond Building,
Washington, D. C.
August 26, 1929.

Mr. R. A. Young, Governor,
Federal Reserve Board,
Washington, D.C.

My dear Mr. Young:

In response to your letter of August 15, 1929, regarding Government Life Insurance which is now available for veterans of the World War, I wish to inform you that I should appreciate it very much if you will forward a copy of my letter to each of the Federal Reserve Banks for any discretionary action which they may feel called upon to take in the premises.

I am sending you under separate cover 12 copies of Forms 739, 752 and 865, in addition to the mimeographed circulars.

I wish to express my appreciation of your courtesy and cooperation in this matter.

Cordially yours,

(signed) W. B. Miller, Chairman,
National Rehabilitation Committee.
SUBJECT: Holidays during October, 1929.

Dear Sir:

On Saturday, October 12th, Columbus Day (Abraham Baldwin Day at Atlanta) there will be neither Gold Settlement Fund nor Federal Reserve note clearing, and the books of the Board's Gold Settlement Division will be closed.

The offices of the Board and the following Federal reserve banks and branches will be open for business as usual:

Richmond
Charlotte
Birmingham
Nashville
Jacksonville
Detroit
St. Louis
Little Rock
Memphis
Minneapolis
Kansas City
Denver
Oklahoma City

In addition to the holidays mentioned above, the following branches of the Federal Reserve Bank of Atlanta will be closed on dates specified:

Tuesday  October 8  Birmingham  Fraternal Day
Thursday  October 10  Havana Agency  Revolution of Yara
Friday   October 11  Jacksonville  Farmers' Day

Please notify branches.

Very truly yours,

J. C. Nooll,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
DEPARTMENT OF JUSTICE
WASHINGTON

August 28, 1929.

Sir:

I have the honor to comply with your request of June 13, 1929, for an expression of my opinion in regard to the following questions submitted by you:

(1) Whether a State member bank of the Federal Reserve System may, since February 25, 1927, establish a branch in a foreign country and continue to hold stock in a Federal Reserve Bank; and

(2) Whether a State member bank of the Federal Reserve System may acquire a branch in a foreign country by consolidating with a State bank which has absorbed or taken over a liquidating national bank having such a foreign branch established since February 25, 1927, in the manner described, and continue to retain stock in the Federal reserve bank.

You state that the Federal Reserve Board is confronted with the question whether a State member bank of the Federal Reserve System, since February 25, 1927, may establish a branch in a foreign country, or may acquire a branch which has been established since that date, and at the same time continue to hold stock in a Federal reserve bank. It is further stated that a certain State member bank of the Federal Reserve System desires to establish or acquire a branch in a foreign country, and that the bank is authorized under the laws of the State of its organization to establish a foreign branch.

The applicable provision of the Federal Reserve Act is
contained in Section 9 thereof, as amended by the Act of February 25, 1927, c. 191, 44 Stat. 1224, 1229, which provides:

Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal reserve system, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal Reserve Bank organized within the District in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto, may permit the applying bank to become a stockholder of such Federal reserve bank.

Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated.

The answers to your questions are found in the construction to be given to the second paragraph of the above-quoted section. If that section has no relation to the establishment of branches in foreign countries by member banks, as contended by attorneys for the applying bank, then the request of the applicant may be granted. However, if the statute means what its language would ordinarily imply, then such State member bank may not now establish a branch, or acquire a branch or branches, established subsequent to February 25, 1927, beyond the limits of the city
or town in which the parent bank is situated, and at the same
time retain its stock in the Federal reserve bank.

Where the language of a statute is clear and un-
ambiguous, it is the duty of a court to expound the statute
as it stands, even if the consequence works a hardship or in-
justice. United States v. Alger, 152 U. S. 384, 397; Hamilton
v. Rathbone, 175 U. S. 414, 421.

In Lake County v. Rollins, 130 U. S. 662, 670, the
Court said:

* * * where a law is expressed in plain and
unambiguous terms, whether those terms are general,
or limited, the legislature should be intended to
mean what they have plainly expressed, and conse-
quently no room is left for construction.

As stated by Mr. Justice Day, speaking for the Court,
in Adams Express Co. v. Kentucky, 238 U. S. 190, 199:

It is elementary that the first resort, with a
view to ascertaining the meaning of a statute, is
to the language used. If that is plain there is
an end to construction and the statute is to be
taken to mean what it says.

The language of the second paragraph of Section 9 of
the Federal Reserve Act, as amended, supra, is plain and un-
ambiguous, and under accepted rules of statutory construction
it must be taken to mean what it says, that is, to restrict
State member banks in the establishment of branches to the limits
of the city, town or village in which the parent bank is situated.

Section 7 of the McFadden Banking Act amending Section
5155 of the Revised Statutes, relating to branches of national
banks, contained the following:
(f) The term "branch" as used in this section shall be hold to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent.

It has been contended that this section shows that in dealing with branch banks Congress had in mind only branches or places within the United States, but the underlying words show that the subdivision only dealt with the word "branch" as used in that section and not as used elsewhere.

It is apparent also from the terms of the Act of February 25, 1927, supra, that Congress did consider the question of the establishment of foreign branches because Section 7(g) of that Act provides:

This section shall not be construed to amend or repeal section 25 of the Federal Reserve Act, as amended, authorizing the establishment by national banking associations of branches in foreign countries, or dependencies, or insular possessions of the United States.

Congress made no such specific exception in respect to State member banks.

Section 9 of Bill H. R. 2 - 69th Congress, 1st Session, known as the McFadden Bill, which subsequently became the Act of February 25, 1927, as it passed the House of Representatives, contained an additional paragraph defining the term "branch or branches" as not including "any branch established in a foreign country or dependency or insular possession of the United States."

This paragraph was stricken from the Bill by the Senate Committee on Banking and Currency and the statute as finally enacted contained
only the above-quoted exception respecting national banks. The rejection by Congress of a specific provision contained in the Act as originally reported suggests that the Act should not be so construed as in effect to include that provision. Pennsylvania R. R. Co. v. International Coal Mining Co., 230 U. S. 184, 198.

In your second question you request to be advised whether a State member bank may acquire a branch established in a foreign country since February 25, 1927, by consolidating with a State bank which has absorbed or taken over a liquidating national bank having such foreign branch. To answer that question in the affirmative would be to hold that a State member bank may do indirectly that which it may not do directly. Section 9 of the Federal Reserve Act prohibits such bank from acquiring or retaining stock in a Federal Reserve Bank if it should establish or acquire a foreign branch which has been established subsequent to the date of said Act. It is immaterial how the foreign branch is acquired. To acquire one by acquiring the assets of a national bank with a foreign branch is as much within the ban of the statute as if any other method of acquisition were used.

It has also been urged that Congress could not have intended to discriminate against State member banks by denying them what is allowed to National banks, and that no reason for such discrimination is apparent.

Section 25 of the Federal Reserve Act places limitations and conditions on the right of national banks to establish foreign
branches, and to have allowed State member banks to establish foreign branches, subject only to the provisions of State laws under which they are organized, might have seemed to Congress objectionable. But, however that may be, the words of the statute are explicit, and if any oversight or mistake occurred in framing it, Congress must be looked to for amendment. We cannot disregard its plain provisions.

I have the honor to advise you, therefore, that both of your questions must be answered in the negative.

Respectfully,

(s) William D. Mitchell,
Attorney General.

The Honorable,
The Secretary of the Treasury.
September 4, 1929.

SUBJECT: Report of Committee on Redemption of Canadian Currency.

Dear Sir:

There is attached hereto report submitted by the committee appointed by the Federal Reserve Board to determine the most efficient and economical means of effecting the redemption of Canadian currency. Before taking action on this report the Board would like to be advised whether or not the program outlined therein will be satisfactory to your bank.

Yours very truly,

E. M. McClelland,
Assistant Secretary.

Enclosure.

TO GOVERNORS OF ALL F. R. BANKS.
REPORT OF COMMITTEE ON
REDEMPTION OF CANADIAN CURRENCY

To the Federal Reserve Board,

Washington, D. C.

Dear Sirs:

The Committee appointed to determine the most efficient and economical means of effecting the redemption of Canadian currency begs to transmit herewith its recommendations:

(a) That all Federal Reserve Banks offer their facilities to member banks for the collection and conversion of Canadian currency into United States currency at the current rates of exchange,

(b) That the Federal Reserve Banks absorb the cost of shipping Canadian currency from the member banks to their respective Federal Reserve Banks but that they deduct an allowance to cover shipping charges, if any, from the Federal Reserve Banks to the points of conversion into United States currency,

(c) That all Federal Reserve Banks send a circular, similar to the attached draft, to their member banks stating the terms upon which Canadian currency will be received,

(d) That the Federal Reserve Board and each Federal Reserve Bank and Branch simultaneously give to the
press copies of the attached circular announcing
terms under which the Federal Reserve Banks and
Branches will receive Canadian currency.

With respect to the procedure under which Federal Reserve
Banks and their Branches will handle the collection and conversion
of Canadian currency, the Committee suggests that the Federal Re-
serve Banks and Branches ship Canadian currency direct to the
Detroit Branch of the Federal Reserve Bank of Chicago for conversion
and credit, or make such other disposition thereof as conditions in
their districts warrant. The Committee believes that it is impor-
tant that each Federal Reserve Bank employ the most economical means
of conversion. The Committee also suggests that Federal Reserve
Banks permit member banks to include Canadian currency in their ship-
ments of United States currency provided both kinds of currency are
properly segregated within the package.

The Committee believes that the Federal Reserve Banks should
not at this time offer their facilities to member banks for the col-
lection and conversion of Canadian coin.

Your Committee has considered the desirability of a pos-
sible arrangement with the Canadian Government or the Canadian banks
which would provide for the exchange of United States and Canadian
currencies at par. While in theory much may be said in favor of
such a plan, it appears to be inadvisable to endeavor to exchange
Canadian and United States currencies at par without making similar
arrangements to maintain exchange at parity between the two countries,
a subject which your Committee does not have under consideration.

Respectfully submitted:

E. L. Smead

Wm. R. Cation

J. E. Crane

(S)
SUBJECT: Canadian Currency.

To Member Bank Addressed:

Enclosed herewith is a statement which the Federal Reserve Board and the Federal Reserve banks and branches have given to the press, relating to the conversion into U. S. funds of Canadian currency spent in this country.

In accordance with this statement, you may include Canadian currency in your shipments of U. S. Currency provided both kinds of currency are properly segregated within the package.

Credit for such currency will be given for its face value and when the cost of conversion into U. S. funds is determined, which should generally average less than one per cent, such cost will be charged to your reserve account.
SUBJECT: Canadian Currency

The Department of Commerce has called the attention of the Federal Reserve Board and the Federal Reserve Banks to the fact that Canadian tourists traveling in the United States have at times been charged excessive rates of discount on Canadian currency, such rates having ranged as high as 10 and even 20 per cent, at places remote from the border.

The Department stated that these excessive charges have resulted in a feeling of resentment on the part of Canadian tourists traveling in this country, especially as United States currency is generally accepted at par by merchants in Canada, and asked the Board whether something could not be done by the System to do away with excessive discount charges on Canadian currency spent in this country.

The Federal Reserve Board has taken the subject up with the Federal Reserve Banks and they have agreed to offer their facilities to member banks for the collection and conversion of Canadian currency into United States currency at the current rates of exchange. Furthermore, the Federal Reserve Banks will absorb the cost of shipping Canadian currency from the member banks to their respective Federal Reserve Banks but will deduct an allowance to cover shipping charges, if any, from the Federal Reserve Banks to the points of conversion into United States currency.

The Board feels that if member banks cooperate in this matter by extending a similar service to their customers, Canadian tourists traveling in this country will find American merchants willing to accept Canadian currency at or near par. During the past three years the cost of conversion of Canadian currency into United States funds, including both the exchange and the shipping charges, has averaged less than 1 per cent.
September 9, 1929.

SUBJECT: Code word to cover new issue of Treasury Certificates of Indebtedness, Series TJ-1930, in telegraphic transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOWHEX" has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TJ-1930, dated September 16, 1929, due June 16, 1930.

This word should be inserted in the Federal Reserve Telegraphic Code book, following the supplemental code word "NOWHEWN" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
FEDERAL RESERVE BOARD  
WASHINGTON

September 13, 1929.

SUBJECT: Election of Class "A" and "B" Directors.

Dear Sir:

You are advised that November 15, 1929, has been designated by the Federal Reserve Board as the date for opening the polls in the forthcoming elections of Class "A" and "B" directors. The group classifications which have governed in these elections for the past several years will be unchanged.

Very truly yours,

E. M. McClelland,  
Assistant Secretary.

TO CHAIRMEN OF ALL F. R. BANKS EXCEPT ATLANTA.
DIGEST OF STATE LAWS
PROHIBITING OR LIMITING THE OWNERSHIP OF STOCK
IN BANKING INSTITUTIONS BY HOLDING CORPORATIONS
OR IMPOSING UPON THE STOCKHOLDERS OF
SUCH HOLDING CORPORATIONS A STOCKHOLDERS'
LIABILITY SIMILAR TO THAT IMPOSED BY
LAW UPON THE STOCKHOLDERS OF BANKING
INSTITUTIONS.
ALABAMA.

There are no laws in this State covering either of the points raised.

ARIZONA.

There are no laws in this State bearing directly upon either of the points raised.

(Note: Section 20, Chapter 31 of the 1922 Session Laws of Arizona provides that a "bank, loan or trust company or association" may purchase and hold stock of "any other bank, loan or trust company or association or other corporation" if such purchase is authorized by the executive committee or approved by the board of directors and if bank stock is purchased the approval of the superintendent of banks must also be obtained.)

ARKANSAS.

There are no statutes in this State covering either of the points raised.

CALIFORNIA.

There are no laws in this State covering either of the points raised.

COLORADO.

There are no laws in this State covering either of the points raised.

CONNECTICUT.

There are no laws in this State covering either of the points raised.
DELAWARE.

There are no laws in this State covering either of the points raised.

DISTRICT OF COLUMBIA.

There are no laws in the District of Columbia covering either of the points raised.

FLORIDA.

There are no laws in this State covering either of the points raised.

GEORGIA.

There are no laws in this State covering either of the points raised.

IDAHO.

There are no laws in this State covering either of the points raised.

ILLINOIS.

There are no laws in this State specifically covering either of the points raised.

However, the Illinois General Corporation Law provides that corporations organized thereunder may "own, purchase or otherwise acquire * * * stocks * * * of any corporation, domestic and foreign", but it is doubtful whether this provision applies to bank stock. (See case of Central Life Securities Company v. Smith, 236 Fed. 170. See also Section 6 of the Illinois Banking Act which, by referring to stockholders of banks by the use of the pronouns "he" or "she" in imposing a liability upon them, creates the implication that it was intended that the stockholders in banks should be natural and not artificial persons.
INDIANA.

There are no laws in this State covering either of the points raised.

IOWA.

There are no laws in this State bearing directly upon either of the points raised.

(Note:– Section 7940 of the 1927 Iowa Code, which authorizes corporations to hold stock in Railway Corporations, and Section 8434 of the 1927 Iowa Code, which recognizes the right of holding corporations to own stock in a public utility, are the only sections of the Iowa Laws relating to the ownership by corporations of stock in other corporations. Section 9 of Article VIII of the Iowa Constitution fixes the liability of stockholders of banks and refers to such stockholders by using the pronouns "he or she", implying that stockholders in banks must be natural and not artificial persons. In view of these provisions it is doubtful whether holding corporations in this State may hold or purchase stock in banking corporations.)

KANSAS.

There are no laws in this State covering either of the points raised.

KENTUCKY.

There is no law in this State limiting the power of corporations to hold bank stock unless it be Section 567 of Carroll's Kentucky statutes, which reads as follows:

"Nor shall any corporation directly or indirectly, engage in or carry on in any way the business of banking, or insurance of any kind, unless it has become organized under the laws relating to banking and insurance * * * ".

-3-
(Kentucky continued.)

A double liability is imposed upon stockholders of banks for all contracts and liabilities of such banks by Section 595 of Carroll's Kentucky Statutes.

LOUISIANA.

There are no laws in this State bearing directly upon either of the points raised but it is doubtful whether holding companies may purchase or own stock in banking institutions.

(Note:—Although subdivision II(e) of Section 12, (P. 417), Act No. 250 of the 1928 Acts of the Louisiana Regular Session, permits corporations "to acquire * * * and to hold, * * * shares * * * of any other corporation, domestic or foreign, * * *" it is doubtful whether this subdivision is an authorization to holding corporations to acquire or hold shares of banking institutions in view of certain other subdivisions of Section 12, namely, I and II, and Sections 1 (P. 409) and 2 (P. 411) of the aforesaid 1928 Acts and Sections 1 (P. 1196) and 5 (P. 1203) of Volume 2 of the 1920 Constitution and Statutes of Louisiana.)

MAINE.

There are no laws in this State bearing upon either of the points raised.

MARYLAND.

There are no statutes in this State covering either of the points raised.

MASSACHUSETTS.

There are no laws in this State covering either of the points raised.

MICHIGAN.

There are no laws in this State covering specifically either of the points raised.
(Note:- The Session Laws of 1925 of Michigan, No. 363, p. 692, authorize corporations organized for pecuniary profit to purchase and hold shares of stock in other corporations organized for purposes similar to those of such corporations and this might be held to affect the right of holding corporations to own stock in banks, depending upon whether or not banks are organized for "similar purposes.")

MINNESOTA.

There are no laws in this State specifically covering either of the points raised.

(Note:- Under Section 3, Article 10 of the Minnesota Constitution each stockholders in any corporation organized under the laws of Minnesota, except those organized for the purpose of carrying on a manufacturing or mechanical business, is liable to the amount of the stock held or owned by him.)

MISSISSIPPI.

There are no laws in this State covering either of the points raised.

MISSOURI.

There are no laws in this State specifically covering either of the points raised.

(Note:- Trust companies may purchase or hold stock in other banks or trust companies. Paragraph 9, Section 11807 of the 1919 Revised Statutes of Missouri.)

MONTANA.

There are no laws in this State covering either of the points raised.
NEBRASKA.

There are no laws in this State covering either of the points raised.

NEVADA.

There are no laws in this State covering either of the points raised.

NEW HAMPSHIRE.

There are no laws in this State covering either of the points raised.

NEW JERSEY.

While there does not appear to be any statute in this State prohibiting absolutely the ownership of bank stock by holding corporations, there is a statute known as Chapter 273, 1928 Laws of New Jersey, Section 3 of which prohibits corporations that own more than ten per cent of the stock of any bank or trust company in the State of New Jersey from purchasing after the date the statute became effective more than ten per cent of the stock of any other bank or trust company doing business in the State of New Jersey. This statute does not require corporations to dispose of any bank stock that they may have owned before the law became effective and certain institutions (enumerated in Section 14 of the laws above referred to) are specifically exempted by Section 3 from its provisions. Section 3 reads as follows:

"3. Any corporation, other than corporations specifically exempted from the provisions of this act, which now or hereafter owns more than ten per centum of the number of shares of the capital stock now or hereafter at any time issued and outstanding of any bank or trust company or national bank, now or hereafter doing business in this State, shall not purchase more than ten per centum of the number of shares of capital stock at any time issued and outstanding of any other bank or trust company or national bank, now or hereafter doing business in this State."
Section 14, which enumerates the specifically exempted institutions referred to in Section 3, reads as follows:

"14. The provisions of this Act and the penalties thereof shall not apply to the following corporations, viz.: Banks and trust companies organized under the laws of this State and national banks doing business in this State, nor to such banks, trust companies and national banks while acting in a fiduciary capacity representing any individual or individuals or the estate of any individual; nor to any other corporation the entire capital stock of which is owned by or held in trust for the shareholders of any bank or trust company organized under the laws of this State or any national bank doing business in this State, in the same relative proportion as the stock held in said bank, trust company or national bank."

(Note:- On March 11, 1929, a bill was introduced in the New Jersey Legislature to repeal Sections 4, 5 and 6 of the laws above referred to. These sections require banks and trust companies whose stock is owned by corporations to obtain statements from such corporations as to their bank stock holdings as a condition precedent to the voting or transfer of and the payment of dividends on, their holdings of bank stock. It is interesting to note that the repeal of these sections was sought by the banks and trust companies themselves because it was felt that the requirements contained therein were cumbersome, interfered with the free sale of their stock and imposed an unnecessary burden upon them, but the bill failed of enactment.)

There does not appear to be any legislation in this State imposing upon the stockholders of holding corporations a stockholders' liability similar to that imposed upon holders of bank stock.

NEW MEXICO.

There are no laws in this State specifically covering either of the points raised but there are certain sections of the laws of New Mexico which might be held to authorize corporations to purchase or hold stock in banking institutions.
(Note:-- Section 1019 of the 1915 Annotated Statutes of New Mexico authorize corporations unrestrictedly to "purchase, hold, * * * the capital stock of, * * * any other corporation or corporations, of this or any other territory or state, * * **" and no limitation is placed upon the amount of such stock that may be so purchased or held.

Section 395 of the Statutes above referred to prohibits banks from purchasing or holding the capital stock of "any other incorporated company" unless the acquisition of such stock is necessary to prevent loss upon a debt previously contracted and stock so acquired must be disposed of within six months if possible.

In view of the fact that the only specific prohibition in the New Mexico laws against the purchasing or holding of stock in other corporations is that as contained in Section 395, which restricts Banks only, and that corporations unrestrictedly are given the broad power, under Section 1019, to purchase and hold stock of "any other corporation or corporations", it might be held that banks are included within the phrase "any other corporation or corporations" and that, therefore, corporations may purchase stock in banking institutions.)

NEW YORK.

There are no laws in this State covering either of the points raised.

NORTH CAROLINA.

There are no laws in this State covering either of the points raised.

NORTH DAKOTA.

There are no laws in this State covering either of the points raised.
OHIO.

There are no laws in this State specifically covering either of the points raised. Stockholders in banking corporations are subjected to double liability for debts of the bank (General Code of Ohio, Section 710-75).

OKLAHOMA.

There are no laws in this State bearing directly upon either of the points raised but it is possible that it might be held that corporations may purchase and hold stock in banking institutions.

(Note:- Section 5301 of the 1921 Compiled Statutes of Oklahoma provides that "All corporations organized for any of the purposes authorized by this section shall have the power to own and hold stock of other corporations, except as prohibited by the Constitution of this State".

Section 41, Article 9 of the Constitution of Oklahoma, forbids corporations to own or hold stock in other competitive corporations engaged in the same kind of business and banks or trust companies to own or hold stock in other banks or trust companies, except in those cases where such corporations or banks or trust companies have acquired such stock to secure or satisfy a bona fide indebtedness, and in such cases the stock must be disposed of within twelve months.

Section 11029 of the 1921 Compiled Statutes makes it unlawful for corporations to combine to place the control of these corporations in the hands of a trustee or a holding corporation if the intent and purpose of such combination is to restrict or restrain trade.

In view of the fact that the provisions of Section 5301 of the 1921 Compiled Statutes granting to corporations the power to hold or own stock in other corporations seem rather broad, and that neither the prohibitions of the Constitution referred to therein and upon which such power is dependent, nor the provisions of Section 11029 of the 1921 Compiled Statutes appear to be specifically applicable, in that Article 9 of the Constitution prohibits only banks or trust companies from owning or holding stock in other banks or trust companies and does not purport to prohibit corporations from owning or holding
Oklahoma continued.)

stock in other corporations if the latter are not engaged in the same kind of business as, and do not compete with, the purchasing corporations, and Section 11029 of the Compiled Statutes only affects combinations in restraint of trade, it is possible that it might be held that corporations may purchase and hold stock in banking institutions.

OREGON.

In this State corporations may purchase and hold stock of banks, corporations or associations but when they do so they are required to comply with certain conditions and restrictions, (Page 671, Chapter 444 of the 1929 General Laws of Oregon). However, no limitation as to the amount of stock which may be owned or held by such holding corporations is imposed nor is any stockholders liability imposed upon the individual stockholders of such holding corporations.

PENNSYLVANIA.

There are no statutes in this State that expressly forbid corporations to purchase or hold stock in banking institutions but in view of the fact that this right is not included in the exhaustive list of purposes for which corporations may be formed (Section 5598 of the Pennsylvania Statutes), none of which are general in terms, it is doubtful whether a corporation may be formed for the purpose of holding stock in banking institutions.

Section 1184 of the Pennsylvania Statutes imposes a double liability upon stockholders of banking institutions.

RHODE ISLAND.

There are no laws in this State covering either of the points raised.

SOUTH CAROLINA.

There are no laws in this State covering either of the points raised.
SOUTH DAKOTA.

There are no laws in this State covering either of the points raised.

TENNESSEE.

There are no laws in this State covering either of the points raised.

TEXAS.

There are no statutes in this State bearing directly upon either of the points raised but it is questionable whether holding companies may purchase and hold stock in banking institutions.

(Note:—Article 513 of the 1925 Revised Statutes forbids banks or trust companies "to own more than ten per cent of the capital stock of any other banking corporation, * * *" unless the ownership of such excess stock "shall be necessary to prevent loss upon a debt previously contracted in good faith; * * *"); and in such cases the stock must not be owned for a longer period than six months.

Article 1302 of the 1925 Revised Statutes permits private corporations to "purchase, * * * hold, own, * * * shares of capital stock, * * * of foreign or domestic corporations not competing with each other in the same line of business; provided the powers and authority * * * conferred shall in no way affect any provision of the anti-trust laws of this State."

Article 7426 of the 1925 Revised Statutes defines a trust to be "a combination of capital, * * * by two or more persons, firms, corporations, * * *: (1) To create, or which may tend to create, or carry out restrictions in trade or commerce * * * or to create or carry out restrictions in the free pursuit of any business authorized or permitted by laws of this State" or "(3) to prevent or lessen competition in aids to commerce, * * *."
Article 7427 of the 1925 Revised Statutes states that a monopoly exists when two or more corporations combine or consolidate to bring the "direction of the affairs" of such corporations "under the same management or control for the purpose of producing, or where such common management or control tends to create a trust", or where "any corporation acquires the shares * * * of stock * * * of any other corporation or corporations, for the purpose of preventing or lessening, or where the effect of such acquisition tends to affect or lessen competition, whether such acquisition is accomplished directly or through the instrumentality of trustees or otherwise."

In view of the foregoing it is questionable whether holding corporations may purchase or hold stock in banking institutions.

UTAH.

There are no laws in this State covering either of the points raised.

VERMONT.

There are no laws in this State expressly prohibiting the ownership by holding companies of the stock of banks but there is a provision prohibiting holding companies from holding or acquiring stock in other corporations. Section 4925 of the 1917 General Laws of Vermont contains this prohibition and reads as follows:

"The corporation shall not be permitted to acquire or hold stock in other corporations to such an extent that its primary business is the holding of such stock. A violation of this provision shall be cause for the dissolution of the corporation under the provisions of Section 4944."

(Note:- The above provision applies to the stock of "corporations" generally but it would seem that it is broad enough in its terms to prohibit also the ownership of bank stock by holding companies).
(Vermont continued.)

There are no laws in this State imposing upon stockholders of holding companies a stockholder's liability similar to that imposed upon holders of bank stock.

VIRGINIA.

There are no laws in this State covering either of the points raised.

WASHINGTON.

There are no laws in this State covering either of the points raised.

(Note:— During the 1929 Regular Session of the Legislature of this State a bill known as "Substitute House Bill No. 72" was introduced to restrict the ownership of bank or trust company stock by corporations, to 20% of the capital stock of such bank or trust company, but this bill did not pass.)

WEST VIRGINIA.

There are no laws in this State expressly limiting the power of corporations to hold stock in banks and such practice might be permissible under Section 2, Chapter 54 of the West Virginia Statutes, which, after enumerating certain purposes for which corporations may be formed, reads as follows:

"For any other purpose or business useful to the public for which a firm or co-partnership may be lawfully formed in this State".

Section 78 A, Chapter 54 of the West Virginia Statutes imposes a double liability upon stockholders of banking institutions.

WISCONSIN.

A statute was recently enacted in Wisconsin providing that no corporation may acquire more than 10% of the capital stock of any
(Wisconsin continued.)

State bank or trust company unless 75% of the capital stock of both corporations shall vote in favor of it. No foreign corporations under the new law, may purchase stock in a State bank or trust company unless it shall have obtained authority to do business in Wisconsin. (This information was obtained from the American Banker for Sept. 10, 1929, p. 1. The text of the Statute is not available.)

Wyoming.

There are no laws in this State covering either of the points raised.
X-6377.

September 21, 1929.

SUBJECT: Expense, Main Line, Leased Wire System, August, 1929.

Dear Sir:

Enclosed herewith you will find two mimeo-graph statements, X-6377-a and X-6377-b, covering in detail operations of the main line, Leased Wire System, during the month of August, 1929.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO.
# Report Showing Classification and Number of Words Transmitted Over Main Line of the Federal Reserve Leased Wire System for the Month of August, 1929

## Business Reported by Banks

<table>
<thead>
<tr>
<th>From</th>
<th>Business reported by banks</th>
<th>Words sent by New York chargeable to other F.R. Banks (1)</th>
<th>Net Federal Reserve Bank</th>
<th>Percent of total bank business(*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>30,838</td>
<td>1,045</td>
<td>31,883</td>
<td>3.21</td>
</tr>
<tr>
<td>New York</td>
<td>161,038</td>
<td>-</td>
<td>161,038</td>
<td>16.22</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>37,164</td>
<td>869</td>
<td>38,033</td>
<td>3.83</td>
</tr>
<tr>
<td>Cleveland</td>
<td>92,556</td>
<td>1,702</td>
<td>94,258</td>
<td>9.50</td>
</tr>
<tr>
<td>Richmond</td>
<td>58,914</td>
<td>1,292</td>
<td>60,206</td>
<td>6.07</td>
</tr>
<tr>
<td>Atlanta</td>
<td>69,317</td>
<td>5,387</td>
<td>74,704</td>
<td>7.53</td>
</tr>
<tr>
<td>Chicago</td>
<td>124,728</td>
<td>1,597</td>
<td>126,325</td>
<td>12.73</td>
</tr>
<tr>
<td>St. Louis</td>
<td>83,209</td>
<td>191</td>
<td>83,390</td>
<td>8.40</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>36,931</td>
<td>1,581</td>
<td>38,512</td>
<td>3.88</td>
</tr>
<tr>
<td>Kansas City</td>
<td>82,833</td>
<td>1,467</td>
<td>90,300</td>
<td>9.10</td>
</tr>
<tr>
<td>Dallas</td>
<td>75,892</td>
<td>6,606</td>
<td>82,498</td>
<td>8.31</td>
</tr>
<tr>
<td>San Francisco</td>
<td>108,584</td>
<td>2,807</td>
<td>111,391</td>
<td>11.22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>968,004</td>
<td>24,544</td>
<td>992,548</td>
<td>100.00</td>
</tr>
</tbody>
</table>

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**F. R. Board business** .................................................. 279,191  
1,271,739

**Treasury Department business - Incoming and Outgoing** .................................................. 61,612

**Total words transmitted over main lines** .................................................. 1,333,351

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6377-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2 - 4, 1925.
### REPORT OF EXPENSE MAIN LINE

**FEDERAL RESERVE LEASED WIRE SYSTEM, AUGUST, 1929.**

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Operators' Salaries</th>
<th>Operators' Overtime</th>
<th>Wire Rental</th>
<th>Total Expenses</th>
<th>Pro Rata Share of Total Expenses</th>
<th>Payable to Federal Reserve Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>$260.00</td>
<td></td>
<td></td>
<td>$260.00</td>
<td>$731.33</td>
<td>$260.00</td>
</tr>
<tr>
<td>New York</td>
<td>1,184.14</td>
<td>-</td>
<td></td>
<td>1,184.14</td>
<td>3,695.38</td>
<td>1,184.14</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>225.00</td>
<td>-</td>
<td></td>
<td>225.00</td>
<td>872.58</td>
<td>225.00</td>
</tr>
<tr>
<td>Cleveland</td>
<td>296.66</td>
<td>-</td>
<td></td>
<td>296.66</td>
<td>2,164.37</td>
<td>296.66</td>
</tr>
<tr>
<td>Richmond</td>
<td>232.00</td>
<td>-</td>
<td>230.00(&amp;)</td>
<td>462.00</td>
<td>1,382.92</td>
<td>462.00</td>
</tr>
<tr>
<td>Atlanta</td>
<td>270.00</td>
<td>-</td>
<td></td>
<td>270.00</td>
<td>1,715.55</td>
<td>270.00</td>
</tr>
<tr>
<td>Chicago</td>
<td>4,337.96 (#)</td>
<td>-</td>
<td></td>
<td>4,337.96</td>
<td>2,900.26</td>
<td>4,337.96</td>
</tr>
<tr>
<td>St. Louis</td>
<td>205.00</td>
<td>1.00</td>
<td></td>
<td>206.00</td>
<td>1,913.76</td>
<td>206.00</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>183.66</td>
<td>-</td>
<td></td>
<td>183.66</td>
<td>883.97</td>
<td>183.66</td>
</tr>
<tr>
<td>Kansas City</td>
<td>287.50</td>
<td>-</td>
<td></td>
<td>287.50</td>
<td>2,073.24</td>
<td>287.50</td>
</tr>
<tr>
<td>Dallas</td>
<td>251.00</td>
<td>-</td>
<td></td>
<td>251.00</td>
<td>1,893.25</td>
<td>251.00</td>
</tr>
<tr>
<td>San Francisco</td>
<td>380.00</td>
<td>-</td>
<td></td>
<td>380.00</td>
<td>2,556.24</td>
<td>380.00</td>
</tr>
<tr>
<td>Federal Reserve Board</td>
<td>-</td>
<td></td>
<td></td>
<td>15,542.70</td>
<td></td>
<td>15,542.70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$8,112.92</td>
<td>$1.00</td>
<td>$15,772.70</td>
<td>$23,886.62</td>
<td>$22,782.85</td>
<td>$8,343.92</td>
</tr>
</tbody>
</table>

(&(a)) Main line rental, Richmond-Washington.

(#) Includes salaries of Washington operators.

(*) Credit.

(a) Received $1,103.77 from Treasury Department covering business for the month of August, 1929.

(b) Amount reimbursable to Chicago.
For release in Morning Papers, Thursday, September 26, 1929.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of August and September, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Production in basic industries increased somewhat in August as compared with July, but the increase was less than is usual at this season, with the consequence that the Board's index of industrial production, which makes allowance for usual seasonal changes, showed a decline. Wholesale prices declined slightly. Credit extended by member banks increased between the middle of August and the middle of September, reflecting chiefly a growth in commercial loans.

Production—During the month of August there was a reduction in the output of iron and steel and copper, and a slight decline in the production of automobiles. Meatpacking establishments were also somewhat less active during the month, while seasonal increases were reported in the production of textiles and shoes, coal and cement, flour and sugar, and petroleum output continued to expand. A slight increase in the number of workers employed in factories was accompanied by a substantial increase in payrolls. This increase was especially notable in industries manufacturing products for the autumn retail trade, such as clothing and furniture.

For the first two weeks of September reports indicate further decline in steel operations; reduction in lumber output resulting in part from the Labor Day holiday; and a continued seasonal rise in coal production.

In the construction industry contracts awarded in August were 25 per cent less than in July, reflecting a sharp decline in the residential group as well as in contracts for public works and utilities which were unusually large in July. As com-
pared with last year contracts were 5 per cent lower in August, but in the first two weeks of September they were in approximately the same volume as in 1928.

The September report of the Department of Agriculture indicates a corn crop of 2,456,000,000 bushels, 13 per cent less than in 1928 and 11 per cent under the five-year average. The estimated wheat crop of 786,000,000 bushels is substantially below last year, but only slightly less than the five-year average. Cotton production, estimated on August 1 at 15,543,000 bales, is now expected to total 14,825,000 bales, slightly above last year.

**Distribution**—Freight-car loadings increased seasonally in August, as a consequence of larger shipments of all classes of freight except grains, which moved in smaller volume than in July, when shipments of wheat were unusually large. In comparison with 1928 total car loadings showed an increase of 5 per cent.

Sales of department stores in leading cities were larger than in July and about 5 per cent above the total of August 1928.

**Prices**—Wholesale prices showed a slight downward movement in August, according to the index of the United States Bureau of Labor Statistics. This reflected chiefly declines in the prices of farm products, especially grains and flour, and livestock and meats. Woolens and worsteds also decreased in price, while silk and rayon materials were higher. There was a decline in prices of iron and steel and automobiles, and a further decrease in prices of petroleum and its products, especially gasoline. Coal prices advanced during the month.

In the middle of September the prices of grains, beef, raw sugar, silk, and coal were higher than at the end of August, while prices of hogs, pork, and cotton were somewhat lower.

**Bank credit**—Between the middle of August and the middle of September there was a further rapid increase in loans for commercial and agricultural purposes at member banks in leading cities. Security loans also increased, while investments continued
During the first half of September the volume of reserve bank credit outstanding was about $120,000,000 larger than in the middle of the year. The increase was for the most part in the reserve banks' acceptance holdings and reflected chiefly growth in the demand for currency, partly seasonal in character. Discounts for member banks, following the increase over the holiday period early in September, declined at the time of the Treasury financial operations around the middle of the month, and on September 18 were at a lower level than at any time since last June.

Open market rates on prime commercial paper increased from a range of 6-6¼ to a prevailing level of 6½ during the first week in September, while acceptance rates remained unchanged.
"WALL STREET AND WASHINGTON"

By

Joseph Stagg Lawrence.

Review - By C. S. Hamlin.

September, 1929.

(Numbers in () refer to pages of the book.)

I feel quite certain that a careful reading of this book will call to the minds of the Members of the Federal Reserve Board and the officers of the Federal Reserve banks, Chapter 36, Verse 35, of the Book of Job:

"My desire is that mine adversary had written a book!"

The suspicion also comes to my mind that the Wall Street bankers, when they read what their doughty champion has to say of and for them, will cry out in unison, in the language of the French courtier to Louis XIV:

"Defend me from my friends! I can defend myself from my enemies!"

The indictment of the Federal Reserve Board and the Federal Reserve banks, as drawn in this book, indicates, - whatever else it may portray, - a most disturbed state of mind, bordering almost on delirium, on the part of the author. Such an heterogeneous mass of epithets, lurid phrases, and charges of high crimes and misdemeanors, have never before been assembled together, at least never since the impeachment of Warren Hastings. If words of vituperation were deeds, the bodies of the Board Members would
long ago have been hanging from gibbets, exposed to the scorn and contempt of an aroused public sentiment.

It is the purpose of this Review to clear away the superimposed strata of verbiage and hyperbole, to examine the residuum, to segregate the underlying charges of the author and to examine closely the remedies he offers.

The author, in glowing words, points out the present marvellous prosperity of the country, but warns the people, - in the voice of Cassandra, - of the dangers confronting them growing out of the ill-advised and destructive policies of the Federal Reserve Board.

He charges that Federal Reserve policy: -

- Has provoked the concern of certain short-sighted alarmists in the East, aroused the bigoted moralists of the South, and stirred the crude provincials of the West. (Preface, Page 8)

- Is a wanton provocation to the business and financial community. (345)

- Is the only disturbing factor in an otherwise prosperous business period. (Preface, page 8)

- Has thrown a monkey wrench into the machinery of prosperity. (345)

- Is the only shadow across the sun of prosperity. (345)

- Consists of unenlightened militant provincialism. (365)

- Its reversal will cause all credit problems to vanish. (364)

The Federal Reserve Board is the "skeleton at the feast!" (345)

Lapsing into truly Shakespearian humor, he rails at the Board: -

Striking out like a blind man stung by a mosquito. (6)
Fussy maternal encroachments. (260)

With "tongues in their cheeks," claiming a scarcity of gold. (263)

The "scolding silhouette" of the Federal Reserve Board is the only shadow on the scene. (345)

Donning the apron strings and playing the part of a fussy maiden aunt. (362)

With renewed passion, recovering from his lapse into humor, he arraigns the Board with:

The use of arbitrary discretion. (281)

Reckless wielding of power. (363)

Usurpation of power inconsonant with mortal wisdom. (363)

Misrepresentation of facts. (15)

Deliberate deception of the public. (119)

Capricious whims. (350)

Subterfuge. (119)

False propaganda. (361)

Machiavellian juggling of accounts. (250)

Cuttle fish tactics. (Preface, page 8)

Falsely charging that member banks are lending aid and comfort to the predatory elements of Wall Street. (250)

He hurls further charges against the Board:

Voting by prejudice. (329)

Dragooning and intimidating member banks. (345, 351)

Being dragooned and intimidated by radical Senators. (13), a rancus and turbulent group, - flannel throated fanatics. (Preface, page 6)

The pawn of radical Senators. (291)

Giving heed to "hinterland fanatics." (352)
Alignment with the pink radicals of the South and West. (357)

A gloomy prophet of calamity. (363)

Travelling along the path of socialism. (280)

Again, he charges the Board with having broken faith with:

Those foreign nations whom Governor Strong induced to establish or restore the gold standard. (264, 265)

Wall Street. (265)

Finally, he arraigns the Board for:

Vindictive vandalism to the small investor. (357)

Declaring war on an innocent community, - Wall Street. (363)

Wanton assault on one of the most useful instruments of Capital society, - the New York Stock Exchange. (357)

In spite of these thunderous charges, however, with truly Pecksniffian humility, he begs his readers to understand that never even for a moment has he questioned the sincerity of the Federal Reserve Board! (361, 363)

Perhaps he would have us understand that, though wearing the mask of the lion, he "roars as gently as a sucking dove!"

The above extracts cover only a few of the author's complimentary references to the Board, but they will serve as a fair sample of what the book contains.

The author does not rest his indictment solely on the misdeeds of the Federal Reserve Board, as the following characterization of certain groups of United States Senators will reveal:

Fanatical passions and provincial ignorance, finding expression in unrestrained virulence. (Preface, page 5)
Blatant bigotry and turbulent provincialism. (Preface, page 5)

Rhetorical saturnalia. (Preface, page 5)

Irresponsible utterances of a small group of flannel throated fanatics. (Preface, page 6)

This raucus and turbulent group. (Preface, page 6)

Saturnine crusaders of purity, virtue, and one hundred per cent patriotism. (Preface, page 6)

The charges, of a certain member of the Senate, of insincerity against the financial community on lower Manhattan, would be as proper as for Judas to give a sermon on loyalty! (303)

The demand of one Senator that the able head of the National City Bank be hung, drawn, and quartered on the morrow. (362)

Having arraigned, as above, the policy and the actions of the Board, the author proceeds to tell us what the true policy of the Board, according to his construction of the Federal Reserve Act, should be, – a policy which the Board, retracing its devious wanderings, should henceforth accept as its guiding star.

The author's conception of Federal Reserve policy is a somewhat startling one, but at least has the merit of clear, unequivocal statement. This policy is based upon the following assertions:

The member banks are the masters of the Federal Reserve banks. (352)

The member banks created the Federal Reserve banks. (352)

The member banks contributed the capital of the Federal Reserve banks. (352)

The business of the member banks provides the profits of the Federal Reserve banks, from which their expenses and the Federal Reserve Board's salaries are paid. (352)

The member banks observe that their servants, the Federal
Reserve banks, are not heeding the masters who pay them, but are giving heed to a group of hinterland fanatics. (352)

The Federal Reserve banks should adopt a passive role. (279, 345)

The Federal Reserve banks should obey the injunction of Laissez-faire. (364)

The member banks have furnished the surplus to which they now seek access by rediscounting. (129)

The tradition against member bank borrowing is utterly without merit. (129)

The nonsense that the resources of the Federal Reserve System should not be used for speculative purposes should be forever scotched. (365)

The statements of the author, quoted above, give us a clear picture of his conception of the Federal Reserve Act: the Federal Reserve banks are, in his mind, like cows tethered in a pasture, to be milked at pleasure by their masters, the member banks, while the sole function of the cows is to chew their cuds and remain passive during the operation!

The above analogy may seem to savor rather of the dairy farm than of the banking system, but that it is, in effect, the author's conception of the Act, would seem to be clearly shown by the above quotations.

Such a startlingly original conception should be protected by the author by taking out a copyright.

He can truly say with Shakespeare:

"She is mine own, and I as rich in having such a jewel, as twenty seas, if all their sands were pearl, their waters nectar, and their rocks pure gold!"

Bold and original as this conception is, however, it is most decidedly not the conception in the mind of Congress when it enacted
the Federal Reserve Act, nor the conception of the many economists, bankers, lawyers, and courts which have studied and construed it. It stands alone in its glory!

Call to Arms.

In the final chapter of the book, the Author issues a clarion call to arms to Wall Street (365) to rise up and array itself against what he is pleased to call the "Provinces", meaning the hinterland in the wilds of the country beyond Wall Street (365, 366), where dwell the "fanatics" (352) and the "Pink radicals of the South and West." (357)

He proclaims that the Wall Street member banks have ample financial strength to be independent, advises the Wall Street bankers to patronize only non-member banks, and, finally, - in a burst of eloquence worthy of Aaron Burr, - he calls on the Wall Street banks to throw down the gauntlet, to take out New York state charters, and to secede from the Federal Reserve System! (365, 366).

Even in this torrent of eloquence, however, the author shows marked restraint, for he distinctly disapproves any violent secession, - no firing on Fort Sumter, - but, on the contrary, urges a quiet, dignified withdrawal without "blare of trumpet or clash of cymbal." (366) The author evidently favors a quiet exodus, a "folding of tents like the Arabs and silently stealing away."

What a subject for a mural painting! The army of Wall Street arrayed against the "hinterland fanatics" and the "pink-eyed radicals", under the leadership of the "financial octopus
of the West" (350).

Who shall be the David to lead the hosts of Wall Street? Who but the author, with book in hand, like David's pebble, ready to sling it against this modern Goliath, - the Federal Reserve Board!

Some misguided persons, however, - like the Scotchman, - may "ha'e their douts" as to the ability of the author to enact the role of David in such a contest. Some even may think that the part of David will fall to the Federal Reserve Board!

Some stolid persons may advance the opinion that, great as are the resources of the Wall Street banks, their secession from the System would make but a slight dent, if any, on the combined resources of the twelve Federal Reserve banks, and that the eleven billions of resources of the Wall Street banks might cut a sorry figure against the thirty-four billions of resources possessed by the member banks of the hinterland!

Then again, it is certainly conceivable, and most likely certain, that the "Radical Senators", - as the author calls them, - might be able to persuade Congress to take a hand in the contest and give to the Federal Reserve Banks the power, - now enjoyed by practically all of the central European banks (196), - to enter into the general banking business in direct competition with the member and non-member banks, to buy in the open market commercial paper as well as acceptances, and even to enter into direct discount and deposit relations with the public.
The author surely could not object to such an additional grant of power, for he points out in his book that such power enables the central European banks to exercise a dominant position both in rate determination and direct action, which, for lack of such powers, he says the Federal Reserve banks can not now exercise. (194)

Even if we assume that the Wall Street banks could secede from the Federal Reserve System, and, incidentally, could secure a change in the New York laws, - which now, unfortunately for the Wall Street banks, require a material portion of bank reserves to be carried in the Federal Reserve bank, - the important problem would still remain, - where could they secure the necessary funds to maintain their future reserve requirements and their vault cash out of which to meet currency demands? It is difficult to see where these funds could be obtained except, directly or indirectly, from the Federal Reserve bank, - perhaps through some faithless member of the hinterland group, - and we should witness the extraordinary spectacle of the army of the hinterland not only having to fight the Wall Street hosts but having to feed them as well!

The disparity of the Wall Street banks under such conditions would seem clear to all, - except of course, - to the author!

Speaking seriously, however, I do not believe for a moment that any Wall Street banker would look on the author's suggestion of secession from the Federal Reserve System with feelings other than of amusement, but, if any such there be who favor such a
secession, I would respectfully call to his attention the Ode of the Latin Poet Horace, to a Suicide, as translated by John Godfrey Saxe:

"Poor Fannius, who greatly feared to die, Embraced the enemy he fain would fly Strange contradiction, weary of the strife, He ceased to live from very love of life With his own hand he stops his vital breath; Madness extreme - to die for fear of death!"

I shall not undertake in this review to analyze in detail all of the statements and reasoning of the author, but shall leave that for another article, contenting myself now merely with a brief reference to some of his apparent inconsistencies.

Argument of Author.

His underlying argument seems to be that the country is at the present time in a state of marvellous prosperity, with no general inflation, ample gold reserves, and an unlimited supply of unused credit for future needs; that the only blot on the escutcheon is the Federal Reserve Board, which has become possessed of a devil in the shape of a strange hallucination that the use of Federal Reserve credit for speculative purposes is a danger to the credit situation to be guarded against and demanding immediate action; that the Board in pursuance of this hallucination, has increased discount and bill rates, sold Government securities and used all its other powers in a wanton attack on an innocent community, Wall Street (363) in an alleged attempt to protect from its machinations the rest of the country, - felicitously referred to by him as the "Hinterland" and the "Provinces." (365, 366).
Discount Rates.

The author claims that the Board should not have increased discount rates nor sold Government securities, during the past year, but on the contrary, that it should have purchased Government securities in order to supply gold for export to the member banks, and that these discount rates should now be lowered, presumably to the 3 1/2% level of 1927.

I am convinced that this recommendation for lowering discount rates and buying Government securities, reveals that he has in mind perhaps unconsciously, not only a paradise in which speculators could wallow in Federal Reserve credit obtained at nominal rates, but, as well, a Valhalla of inflation, bringing us quickly up to, or down to, the inflated levels of European countries before their attempt to establish or restore the gold standard. All attempts to maintain the gold standard could henceforth be abandoned by those countries, for we would be on a parity of inflation with them!

I can almost see Professor John Maynard Keynes kissing the author on both cheeks!

The disinclination of the Board to make the dream of the author a reality, is the reason, I suppose, for his charge that the Board has given heed to "hinterland fanatics" and has "aligned itself with the pink radicals of the South and West!"

Inflation.

The author claims that there is no general inflation and cites the fact that general prices, - a measure of inflation, - have not
risen in the past two years, and are now fairly stable.

If, however, we examine the course of security prices from 1922 to 1929, we shall see evidence of an astounding increase.

The author, however, is evidently of the opinion that the Federal Reserve Act contemplated credit control, by discount rate increase or otherwise, only when there is a general inflation covering commodity as well as security prices.

The Federal Reserve System of massed reserves has often been likened to a fire department, but, in the author's mind, this fire department can never be used to put out a local conflagration, but can move only when the whole country is in flames!

Such, however, was not the conception of the Federal Reserve Act entertained either by its authors or by Congress.

The author, as above shown, denies that there is any general inflation, pointing out that general prices, - accepted by him as a measure of inflation, - have not risen within the past two years. He also, in defending brokers loans, claims that in large part they represent essentially business transactions.

It would soon hardly fair to decide as to whether we are suffering from inflation or not, by taking into account only the past two years.

Nor does it seem fair, - accepting, for the sake of the argument, the author's claim that a large part of the brokers loans are essentially business transactions, - to consider alone the
price advance of commodities in determining the presence or absence of inflation.

Let us go the author one better and assume that all security loans, including brokers loans, are commercial loans, and then compare the indexes of production, loans and prices in August, 1929, with the average of the year 1922, calling the latter year 100.

Such a comparison follows:

- Industrial production ...... 144.7
- Loans ...................... 152.5
- Commodity and security prices, lumped together ........ 191.7

Lumping together commodity and security prices may seem like attempting to add together pears and apples, but it may serve for purposes of illustration.

I cannot resist the conclusion that the above comparisons give rise to some suspicion of inflation!

Gold Shortage.

Much of the author's book is taken up with a discussion of the gold supply and the question of "gold shortage." On this subject the author seems slightly inconsistent. He first indignantly denies that there is any "gold shortage" in the United States. (20, 31, 40, 187). He derisively replies to the fact, pointed out generally by economists as a basis of apprehension, that our ultimate gold reserves have declined from a ratio of 11% in 1900 to about 7% in 1929, - by claiming that this decline proves merely that the United States requires today 36% less gold to support a given amount of credit than it required in 1900!
He then cites figures to prove, on certain assumptions made by him, that our existing stock of gold is ample in any event for thirteen years, and triumphantly exclaims that, at the rate of growth for the past year the gold stock will last until Gabriel sounds his final summons! (42)

Later, however, in his desire to berate the Federal Reserve Board, he cries out that there is a "gold shortage", that the decline in the ultimate gold reserves since 1900, was caused by deliberate Federal Reserve policy, and that the Board has further aggravated this "gold shortage" by the sale of Government securities! (118, 119)

You pay your money and you take your choice!

The above calls to my mind the story of the man who borrowed a kettle from a neighbor and returned it cracked and useless. The neighbor brought suit against him for the damage, and the defendant set up in his plea two defences: (1) That he never borrowed the kettle, and (2) That when he returned the kettle it was not cracked!

It is scarcely necessary to point out that the subject of gold shortage is one on which economists widely differ. The author adds little to our knowledge of the subject by his grotesquely ill-tempered attacks on the Federal Reserve Board.

**Injury to business from High Rates.**

The author vigorously criticises the Board for having increased discount rates in a vain attempt to control speculation, and for its claim that the competition for speculative credit has raised the price of business credit, to its injury. He denies that the higher
rates have deprived business of credit (93). He claims that higher money rates are not a factor in business (67, 282); that they are negligible as a cost factor (282); that doubling existing rates would increase costs only 1.93% (71, 72).

This may be true enough in the case of those huge business corporations which can raise money by an issue of their own securities, and have surplus funds to loan at call on Wall Street, and are consequently little dependent on short term bank credit, but I fear the small business man in the "Provinces," engaged in a life and death struggle with "Big Business", so-called, will be slow to grasp the truth of this concept in its application to his own business.

The author, however, does not rest content with the claim that business is not injured by our high money rates. On the contrary, he claims that these high rates are actually of great benefit to business. His argument is that foreigners, prevented from selling their securities in this country because of our high money rates, are pro tanto prevented from inundating our markets with the products manufactured from the proceeds of such security sales, and that, as a result, our manufacturers can rest secure in their hold on our home market, free from foreign competition! (85)

Perhaps the author is influenced by the classification in international trade balance sheets of such security sales as "invisible" items, carrying the idea of surreptitiousness or of stealth! To guard the country against such furtive attempts of foreigners to capture our markets, the author might well appeal to Congress and demand a high protective duty against all imported products made wholly or in part from the proceeds of such security sales! Or,
better still, why not frankly place such securities on the same plane with lottery tickets and prohibit their entry into our ports!

Burden of High Rates on Banks.

The author next stresses the absurdity of the claim that higher discount rates are a burden on the banks and says that doubling the discount rate would have increased bank costs only 5%; that discount rates as a cost factor are negligible. (204, 205); that an increase of discount rates with the purpose of controlling an expansion movement, would be like trying to regulate the price of food by increasing the price of salt. (205)

Later, however, apparently forgetful of the above statements, he indicts the Board for increasing bank costs by higher discount rates (290, 345); he says that the higher discount rates constitute an increased burden on banks compelled to rediscount to keep up their reserves (351); he refers to the banks from whom a tax is being collected in the form of higher rates on borrowed money (352); he finally states that, in the absence of general expansion, as at the present time, the banks can not meet the higher charges on borrowed money out of increased business, and that those higher charges constitute a special tax upon the member banks. (353)

What must have been the author's feelings on making the discovery, - presumably after his book was in press, - that for months the Federal Reserve Board had been resisting the clamor for higher discount rates because of its effect as a tax, in forcing or enabling the banks to throw this special tax upon their business
customers, thus penalizing them, at least to an appreciable amount of the tax!

Burden of High Money Rates on the Farmer.

The author scornfully repudiates the claim that our high money rates have reduced the purchasing power of foreigners for our agricultural exports, and severely chides the National City Bank of New York for advancing such an absurd idea, stating that no more far-fetched piece of reasoning has ever been expounded in the class room! (86)

He refuses to admit any significant connection between money rates and the price of wheat. (87)

Some of us, however, thought we could see some such connection, following the lowering of discount rates in 1927!

He states that if the ability of the world to purchase our surplus wheat depended on funds borrowed in our market, the whole edifice of foreign trade would be resting upon a foundation of sand. (87)

This doubtless would be true if spread over a long series of years, but we should not forget that for many, many years, when we were a debtor nation, so called, our ability to purchase foreign raw materials and other products needed for our home development and the growth of our export trade depended in a material measure on the sales abroad of our securities.

He further states that the ability of foreigners to buy our wheat depends on the amount of "goods and services" we buy of them. (87)
This is doubtless true, but to the average lay mind, the interest paid by foreigners on our holdings of their securities would seem to fall within the category, if not of "goods," at least of "services", but such "services" the author, as shown before, would have classed as "Mala prohibita."

Finally the author lays down the proposition that the purchasing power of foreigners for the farmer's wheat will depend infinitely more upon the number of American tourists who go to Europe, than upon our call loans or the size of our brokers loans. (87)

This apparently slams the door in the farmer's face, as to help from a lowered cost of money in our market.

Perhaps the author's reference to the exodus of American tourists may have been intended as a suggestive hint to the farmer to join this exodus, to go to Europe on an ocean greyhound, and to buy there the foreign products which the author would debar from sale in this market, - thus increasing foreign purchasing power for the farmer's wheat in this country!

To the mind of the author, apparently, the buying of foreign products, or its equivalent, the purchase of foreign securities, in our market, is sin, but buying the same products abroad, whether by our tourists or by an exodus of farmers, is righteousness!

What a wonder that no one has thought of this before!

Powers of the Federal Reserve Board.

The author, as above set forth, arraigns the Board for ruthless abuse and usurpation of power, with special reference to dis-
count rates and open market operations, and admonishes the Federal Reserve banks to assume a passive role, to follow the injunction of Laissez-faire, and to listen to the voice of their masters, the member banks. (279, 345, 352, 364)

The reader, however, will rub his eyes with amazement when he reads in another part of the book that the author's remedy for this abuse and usurpation of power is not to cut down the power of the Federal Reserve banks and the Board, but actually to increase it!

For example: -

The power of central European banks to participate in the general banking business enables them to exercise a dominant position not only by determining the rate at which other banks may borrow from them but also by direct action. (193, 194)

The higher bank rate serves as a much more effective check in England than it does in this country. (197)

The Federal Reserve banks are in no sense competitors in the general banking situation and can not directly affect the supply and demand for funds. (222)

Federal Reserve banks by open market operations can influence a factor in banking which constitutes, on the average, but 1/20th of the cost of banking, and it is an error to attribute great power to such operations. (222)

The greater freedom of competition between the private banks and the central banks of Europe, due to the widespread participation of the latter in the banking business of the country, adds a significance to their credit policies which is sadly wanting in this country. (220)

"Sadly wanting in this country". What does this mean? It can only mean that the plan of the author for curbing the auto-
cratic exercise of power by the Federal Reserve banks and the Federal Reserve Board, is not to cut down that power but, on the contrary, to increase it, up to the standard of power exercised by central European banks!

The above seems to savor rather of inconsistency!

Continuous Borrowing.

The author maintains that member banks have a right to be continuous borrowers from the Federal Reserve banks. (109, 111, 113, 121, 129, 139, 364).

In taking this stand, however, he forgets that the framers of the Federal Reserve Act and Congress had in mind seasonal and emergency borrowing and not continuous borrowing.

He does not seem to appreciate that when member banks borrow continuously they are in effect using these borrowings as an increase of capital, and that the use of this capital in expanding their loans in competition with other member banks which borrow only for seasonal or emergency purposes, is of the very essence of unfair competition.

The principle, evidently entertained by the author, that borrowed money is to be considered capital, to be held and expanded upon indefinitely, has brought grief to many business concerns and is an unsound principle of action when practised by a bank as by a business corporation or an individual.

There are undoubtedly exceptional cases, recognized by the Board and Federal Reserve banks, where member banks have to borrow and remain in debt to the Federal Reserve banks, for considerable
periods, but these exceptional cases will not serve as a generalization in favor of continuous borrowing.

Federal Reserve Credit and Speculation.

The author finally demands that the contention of the Federal Reserve Board that Federal Reserve credit should not be used for speculative purposes should be forever scotched.

It is somewhat difficult to follow the author's reasoning here. He freely admits that it is the duty of the Federal Reserve authorities to prevent the perversion of the resources for which they are trustees and justifies drastic measures to correct such abuses, specifically referring to member bank borrowings in order to loan on the stock market at higher rates.

The Federal Reserve Act specifically forbids the discount by Federal Reserve banks of paper arising out of speculative transactions (excepting only paper secured by Government bonds, the proceeds of which are used to carry the bonds.)

On the other hand, it will not seriously be controverted that paper arising out of agricultural or business transactions, eligible paper, so called, has been and may be rediscounted in reasonable amounts to restore reserve balances, depleted not because of any specific loan, whether agricultural, business, or speculative, but by an adverse balance the resultant of offsetting debit and credit items in the clearings resulting from all lawful loans, both business and security loans, and corresponding deposit liabilities of the bank.
The author, however, seems to believe that the test of reasonableness of such rediscounts is to be determined by the member bank and not by the Federal Reserve bank. Such, however, is not the fair spirit of the Federal Reserve Act. The Federal Reserve banks are given the right, and the duty is imposed upon them, of passing upon the question of reasonableness from the standpoint of sound banking. Their power to refuse to discount, now practically universally conceded, however rarely it has been or may be exercised, clearly negatives this claim of the author.

Resume of Inconsistencies.

On one page we find stressed the burden placed on the member banks by increased discount rates (290, 345, 351, 352, 353); on another page we read that there is no such burden! (204, 305).

On one page we read that there is no "gold shortage". (20, 31, 40, 42, 187); on another we read that there is a "gold shortage", caused and aggravated by Federal Reserve policy! (118, 119).

On one page we read a passionate denunciation of the Board's use and abuse of the discount rate and open market power (281, 363); on another we read that the remedy for this use and abuse of power is not to cut it down and limit it but, on the contrary, is actually to increase it up to the level of the power of central European banks, - a remedy which "is sadly wanted in this country"! (220).

On one page we find a recommendation for drastic measures
against banks which rediscount to loan at a profit on the
stock exchange (111); on another page we read that "the
nonsense about the resources of the Federal Reserve System
not being used for a speculative purpose should be forever
scotched!" (365)

On one page we read bitter charges of bad faith and
insincerity against the Board: - misrepresentation of facts
(15), deliberate deception (119), subterfuge (119), false
propaganda (361), Machiavellian juggling of accounts (250),
and cuttle fish tactics (Preface page 8); on another page
we read that the author is "unable and disinclined to
question the sincerity of the Board!" (361, 363)

Other instances of inconsistency may doubtless be found
in the book, but the above will serve as fair examples.

They bring to my mind the poem by Hood, beginning: -
"Straight down the crooked lane,
And all around the square."

Conclusion.

A careful study of this book leads me to the irresistible
collection that the author, doubtless unconsciously, must have
in mind some System other than the Federal Reserve System, some
System in which the member banks are masters and the Federal
Reserve banks are their servants, - a System in which there is
no place for a Federal Reserve Board.

The Federal Reserve System, however, is a very different
System; it created a Federal Reserve Board with carefully de-
defined duties and powers which Congress intended should be used
in the interest of sound banking and for the greatest good of
the greatest number of our people.

If, as the author claims, the Federal Reserve Board at times "don the apron strings and plays the part of a fussy maiden aunt", he must accept it with Christian resignation as a part of the mandate of Congress under the Federal Reserve Act.

Epilogue.

I can imagine, in the dim vista of the future, some lover of rare books wandering into an antique book store, and the aged servitor taking down from the topmost shelf and exhibiting as one of his rarest treasures, - a copy of the author's book, "Wall Street and Washington". I fancy I can see the book lover take the book in his hands, brushing off the dust and mold with almost reverential awe.

I can almost hear him exclaim, in the words of Hamlet:

"Alas, poor Yorick!
I knew him, Horatio!
A follow of infinite jest,
Of most excellent fancy!

Where be your jibes now?
Your gambols? your songs?
Your flashes of merriment
That were wont to set the table on a roar?
Not one now, to mock your own grinning?"
TO The Federal Reserve Board
FROM Mr. Wyatt, General Counsel

SUBJECT: Ownership of Bank Stocks by Holding Companies.

There is attached hereto for the Board's information a copy of an Act recently enacted in the State of Wisconsin regulating the ownership of stocks in banks and trust companies by holding companies. The provisions of this statute may be summarized briefly as follows:

(1) No corporation organized under the laws of Wisconsin is permitted to hold more than 10% of the stock of any bank or trust company, unless 75% of the stockholders of both corporations vote in favor thereof at a meeting especially called for that purpose.

(2) No State bank or trust company may vote to authorize a foreign corporation to purchase stock in such State bank or trust company, unless such foreign corporation shall have qualified to do business in Wisconsin.

(3) Whenever the ownership or control of a majority of the stock of any State or National bank doing business in Wisconsin is held by any foreign corporation which has not qualified to do business in the State, such bank shall be disqualified to act as a depositary for any public funds of the State or any subdivision thereof, or as a depositary for reserve funds of State banks until such foreign corporation shall have qualified to do business in the State.

(4) Any domestic corporation or any foreign corporation qualified to do business in Wisconsin which owns or controls a majority of the stock of any bank or trust company, shall be deemed to be engaged in the business of banking and shall be subject to the supervision of the State Banking Department.

(5) Such corporations are required to file reports of condition with the Commissioner of Banking and are subject to examination by him.

(6) Whenever, in the opinion of the Commissioner of Banking, the condition or management of such holding company endangers the safety of such bank or trust company, the Commissioner may order the holding company to remedy such condition within ninety days; and, upon its failure to do so, the Commissioner shall have power to direct the operation of such banks or trust companies until his orders are complied with and may withhold all

October 8, 1929.
dividends from such holding companies in the meantime.

(7) Domestic corporations and foreign corporations authorized to do business in the State which own or control the stock of a State bank or trust company shall be held liable for any assessment made against the stockholders of such bank or trust company to the par value of the stock so owned or controlled; and such holding corporations are required to deposit with the State Treasurer securities equal to fifty per cent of the par value of the stocks of State banks or trust companies owned or controlled by such holding companies, except that the aggregate amount of such securities shall not exceed the largest amount required to be deposited by Wisconsin trust companies.

(8) If the stockholders' liability of any such holding company is not fully paid, the stockholders of such holding company are liable for an assessment sufficient to cover the deficit.

(9) All of these provisions apply not only to corporations, but also to associations, investment trusts, or other organized forms of trusts; but they are not to be construed to prohibit any trust company or State or National bank exercising trust powers from carrying out the provisions of any personal trusts within certain prescribed limitations.

Respectfully,

Walter Wyatt,
General Counsel.

Copy of Act attached.

WW:vdb
CHAPTER 445, LAWS OF 1929.

A N A C T

To amend subsection (9) of section 182.01 and to create subsection (6) of section 14.44 and section 221.56 of the statutes, relating to banks and holding companies.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. Subsection (9) of section 182.01 of the statutes is amended to read: (182.01 (9) Any corporation organized under chapter 180 of the statutes may subscribe for, take or hold stock in any other corporation except as herein provided. The consideration for such purchase may be paid in the stock or bonds, or both, of the purchasing company; but no corporation organized under chapter 180 of the statutes may subscribe for, take or hold more than ten per cent of the capital stock of any state bank or trust company, unless seventy-five per cent of the stock of both corporations shall vote in favor thereof at a meeting especially called for that purpose, but no state bank or trust company may vote to authorize a foreign corporation to purchase stock in such bank or trust company unless such foreign corporation shall have filed its articles of incorporation with the secretary of state and is authorized to do business in Wisconsin as provided in section 226.02 of the statutes.

SECTION 2. A new subsection is added to section 14.44 and a new section is added to the statutes to read: (14.44) (6) Whenever the ownership, control or power to vote a majority interest in the stock of any state or national bank doing business in Wisconsin shall be held or in any manner exercised by any foreign corporation, association or trust which shall not have filed its articles of incorporation and obtained authority to do business in this state as provided in section 226.02, such bank shall not be qualified to act as depository for any public funds of the state of Wisconsin or of any subdivision thereof, nor as a depository for reserve funds of state banks until the provisions of section 226.02 shall be complied with by such foreign corporation, association or trust.

221.56 (1) Any domestic corporation, investment trust, or other
form of trust which shall own, hold or in any manner control a
majority of the stock in a state bank or trust company shall
be deemed to be engaged in the business of banking and shall
be subject to the supervision of the state banking department.
It shall file reports of its financial condition when called
for by the commissioner of banking, and the commissioner may
order an examination of its condition and solvency whenever
in his opinion such examination is required, and the cost of
such examination shall be paid by such corporation or associ-
ation. Whenever in the opinion of the commissioner of bank-
ing the condition of such corporation or association shall
be such as to endanger the safety of the deposits in any bank
or trust company which is owned or in any manner controlled
by such corporation, or the operation of such corporation,
association or trust shall be carried on in such manner as to
endanger the safety of such bank or trust company or its de-
positors, the commissioner may order such corporation or
trust to remedy such condition or policy within ninety days
and if such order be not complied with, the commissioner shall
have power to fully direct the operation of such banks or
trust companies until such order be complied with, and may
withhold all dividends from such corporation or trust during
the period in which the commissioner may exercise such authority.

(2) The provisions of subsection (1) shall apply to any
foreign corporation, association, investment trust, or other
form of trust which shall be authorized to do business in Wis-
consin.

(3) Every domestic corporation and every foreign corpora-
tion authorized to do business in this state which shall purchase,
own or in any manner control the voting of any stock in a state
bank or trust company shall be liable to the creditors of such
bank or trust company for any assessment made against the stock-
holders of such bank or trust company to the par value of the
stock so purchased, owned or controlled in the same manner as is
provided for individual stockholders of such banking corporation
under the provisions of section 221.42. Any such domestic or
foreign corporation shall deposit with the state treasurer se-
curities such as are required to be deposited by trust company
banks by section 223.03 equal in amount to fifty per cent of the
par value of the stocks of state banks or trust companies which
shall be held, owned or controlled by such domestic or foreign
corporation, but not exceeding in the aggregate the largest amount
required to be deposited by a Wisconsin trust company. In case
the double liability of any such corporation against which an as-
sessment may be made as provided herein shall not be fully paid
by such corporation, then the stockholders of such corporation
shall be liable for an assessment sufficient to cover the full
amount of the assessment against such corporation.

(4) All of the foregoing provisions of this section relating
to corporations shall apply equally to associations, investment
trusts, or other forms of organized trusts, whether so specifically stated or not, but nothing contained in this section shall be construed to prohibit any trust company bank, or state or national bank, authorized to administer or execute trusts, to accept and carry out the provisions of any personal trust, or any trust created by will where the owner of bank stock shall create a trust for his own benefit during his lifetime, or shall provide by will a trust in bank stock for the benefit of his heirs, and trusts so created shall not be deemed to come within the provisions of this section.

SECTION 3. It is the intent of the legislature that the provisions of this act are separable and the holding of any provision hereof unconstitutional shall not affect the remainder thereof.

SECTION 4. This act shall take effect upon passage and publication.

Senate: Ayes 28; Noes 1.
Assembly: Ayes 82; Noes 0.

PRESIDENT OF THE SENATE.

SPEAKER OF THE ASSEMBLY.

This act originated in the Senate.

CHIEF CLERK.

Approved________, 1929.

GOVERNOR.
Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

You will recall the case of the University of the South against the Federal Reserve Bank of Atlanta. In that case the Federal Reserve Bank was sued upon the theory that it had wrongfully failed to charge the reserve account of the National Bank of Franklin with the amount of an eight thousand dollar check which the drawee had paid prior to its closing. The actual facts, as disclosed in the answer of the defendant, were that the check itself had been returned by the drawee dishonored.

The complainant has recently filed an amendment to the original bill, a copy of which I hand you herewith. The averments contained in the amendment amount almost to a charge that the Federal Reserve Bank and the President of the Franklin bank conspired together to defraud the complainant. There is, of course, no foundation in fact for these averments, nor do I believe that the Federal Reserve Bank can be held liable under the facts upon any theory.

The amendment to the bill would present nothing of particular interest were it not for the attack upon the constitutionality of the Federal Reserve Act, as set out in Section IV. In the answer filed by the defendant, a copy of which is in your files, it was asserted that the defendant took the check for collection under the terms and conditions of Regulation J, and that, under such Regulation, the Federal Reserve Bank acted only as agent for the bank from which the check was received—hence that there was no privity of contract as between the complainant and the Federal Reserve Bank which would justify a suit brought by the former against the latter. The complainant is seeking to avoid the force and effect of Regulation J by the contention that the Regulation is void because
Mr. Walter Wyatt, -2- 9/30/29.

Beyond the power of the Federal Reserve Board to promulgate it.

The attack on the Act seems to be so wholly untenable as to preclude the possibility of serious consideration by the court. I have, however, thought best to bring the matter to your attention.

With best regards, I am

Very truly yours,

(S) Robt. S. Parker.

RSP/w.

Enc.
UNIVERSITY OF THE SOUTH

VS

NASHVILLE BRANCH, FEDERAL
RESERVE BANK OF ATLANTA

TO THE HONORABLE JAMES B. NEWMAN, CHANCELLOR, HOLDING PART II
OF THE CHANCERY COURT AT NASHVILLE:

The AMENDED AND SUPPLEMENTAL BILL OF COMPLAINT of
the UNIVERSITY OF THE SOUTH, a corporation, duly chartered and
existing under the laws of Tennessee, with its situs at Sewanee,
Franklin County, Tennessee,

AGAINST

NASHVILLE BRANCH FEDERAL RESERVE BANK OF ATLANTA,
a corporation, chartered and existing under the laws of the United
States, having its principal office at Nashville, Davidson County,
Tennessee, and THOMAS B. JOHNSON, a citizen and resident of Wil-
liamson County, Tennessee.

Complainant respectfully shows to the Court:

I

That heretofore, to wit on the 19th day of April, 1928,
it filed its original bill herein against the defendant, Nash-
ville Branch Federal Reserve Bank of Atlanta, seeking to hold
said defendant liable, as transmitting agent of a certain Eight
Thousand Dollar ($8,000.00) check owned by complainant, drawn on
the National Bank of Franklin, Tennessee.
As shown in said original bill, said check was sent by the Federal Reserve Bank, as agent of your complainant, the holder, directly to the drawee bank on October 5, 1926, and reached said drawee bank on October 5, 1926, and was listed by said National Bank of Franklin as a cash item at the close of business hours on said day, while said National Bank of Franklin was open and carrying on its business in the usual and customary manner.

It was further shown that the drawer of the check, at the time that same was given, had on deposit and to her credit more than Eight Thousand Dollars ($8,000.00), the amount of said check, and never gave any check on said account thereafter.

It was further shown that no protest of said check was made; nor was any notice of non-payment given on said date (October 6, 1926), although such notice by wire is imperatively required, in case of all items over $500, by the rules of the Federal Reserve Bank.

That the National Bank of Franklin then had to its credit with the defendant Nashville Branch Federal Reserve Bank of Atlanta a large amount of cash — more than $20,000.00, and much more than sufficient to pay said $8,000.00 check.

It was further shown that said National Bank of Franklin opened its doors for business in the usual way on the morning of October 7, 1926, but before the close of business hours suspended payment, and closed its doors — said suspension being
caused by the discovery of thefts and defalcations on the part of E. E. Green, Cashier, and his son, Bates L. Green, Assistant Cashier.

It was further alleged that on October 7, 1926, the day of said suspension, defendant Nashville Branch Federal Reserve Bank of Atlanta sent an employee and agent to Franklin, Tennessee, and although said $8,000 check had regularly gone through as a cash item, in the regular course of business, on October 6, 1926, without protest or wire, as required by the Federal Reserve rules where a check for over $500 is not paid, said defendant, through its said agent and employee, brought the check back to Nashville, and thereafter returned the same to the Hamilton National Bank at Chattanooga (by which it had been sent to Nashville Federal Reserve Bank), which bank returned it to the Bank of Sewanee (the bank of original deposit), claiming that said check was unpaid for lack of sufficient funds.

That on and prior to October 7, 1926, the said National Bank of Franklin (the drawee bank) was indebted to the defendant in large amounts—some of them secured by notes or other collateral; and the purpose of said defendant in causing said $8,000.00 check to be taken from the bank after it had regularly gone through, on the preceding day, in due course of business, was to obtain for itself the benefit of said $8,000 after it learned of the closing and possible insolvency of said Franklin Bank.

It was further charged that under the laws of Tennessee said defendant was the agent of complainant, and as such, acting
in a fiduciary capacity in collecting said check; that as such agent it could not lawfully take any step in furtherance of its own interest, as opposed to the interest of its principal, the holder of the check. That in attempting to recall said $8,000 item, and charge the same back after the check had been put through in the ordinary course of business, on the preceding day, said defendant was endeavoring to conserve for itself and apply to its own indebtedness the cash which it held for the credit of the National Bank of Franklin; and complainant is advised that this constituted a breach of trust on the part of said defendant, and a violation of the duty owed by the agent to its principal, and that said defendant is in equity liable to account to complainant as the holder of said check, in the sum of $8,000 with interest.

The prayer of the original bill sought a decree in accordance with these allegations.

Reference is here made to aid bill for its contents.

II

Thereafter, on the 15th day of May, 1928, the defendant Federal Reserve Bank of Atlanta (Nashville Branch) filed its answer, admitting certain allegations of the original bill, and denying others.

It was contended in said answer that under certain regulations of the Federal Reserve Board, exhibited therewith, it was the right and duty of the Federal Reserve Bank to send said check directly to the drawee bank, notwithstanding the fact that there were other banks in the same town to which it might have been sent for collection.
That under said regulations the defendant Federal Reserve Bank was not the agent of the holder of the check, and not liable to him by reason of anything it might do or fail to do in making said collection.

It was further contended, in said answer, that said defendant Federal Reserve Bank did not send an agent to Franklin on October 7, 1926, as charged in the bill, but on the contrary, that on the morning of October 7, 1926, said National Bank of Franklin sent a messenger to said respondent, with a letter signed by Mr. Thomas B. Johnson, President of the National Bank of Franklin, to which letter were attached the $8,000.00 check, now in controversy, and several other small checks, which the latter stated were returned by the National Bank of Franklin to the Federal Reserve Bank of Atlanta because of insufficient funds standing to the credit of the drawers on the books of the National Bank of Franklin.

III

The alleged letter, above mentioned, was not exhibited with the answer, and complainant cannot say whether such letter exists, and whether any such course was pursued as stated in said answer. Complainant's information was, as stated in the original bill, that said Bank sent a messenger and withdrew said check. If, however, it shall appear that complainant was mistaken in its original allegation, and that the check was returned with the above mentioned notation, indicating that no funds were rightfully standing to the drawer's credit, when said check was presented, complainant charges that such a statement was absolutely
false, and that each and every official of said National Bank of Franklin, including its President, Thomas B. Johnson, well knew that the Misses Claybrooke, for many years residents of Williamson County, and ladies of the highest standing, would not give, and had not given, an \$8,000.00 check without having the funds in bank to pay it. And if any such statement was made, or any such letter written, by the said President, it was a mere subterfuge and pretext for returning said check after the same had been regularly put through on the preceding day, as hereinbefore set out. If therefore, it shall develop on the taking of proof (the facts being in the possession of defendant Federal Reserve Bank of Atlanta), that such were the facts, complainant is advised that such conduct on the part of the said Thomas B. Johnson constituted an unlawful and officious intermeddling, amounting to a conversion, and also was in law a fraud on the rights of complainant, rendering the said Thomas B. Johnson personally liable to your complainant.

IV

Complainant is further advised that the regulations made by the Federal Reserve Board, in substance attempting to declare (1) that the so-called New York rule shall apply in forwarding checks for collection, and (2) that checks may rightfully be sent to the drawee bank for collection, are unconstitutional, unlawful, and void, and cannot change the substantive law which has long prevailed in this State to the contrary.

Complainant is advised and states:
1. That under a proper construction of the Act of Congress, creating the Federal Reserve Board, no such powers are conferred upon said board, and the attempted change of the substantive law in the above particulars is wholly unauthorized and beyond the powers of said board.

2. That if any such powers to change the substantive law are conferred on said board by said Act, such attempted delegation of legislative power is void and in conflict with section 1, of Article I of the Constitution of the United States, which provides that:

"All legislative powers herein granted shall be vested in a Congress of the United States, which shall consist of a senate and house of representatives."

V.

Complainant further charges that the said Federal Reserve Bank of Atlanta (Nashville Branch) was the agent of complainant in forwarding said check for collection, as hereinbefore set out, and that said defendant acted unlawfully and negligently in forwarding said check directly to the drawee bank, the said National Bank of Franklin.

Complainant states that there were two other solvent banks in the town of Franklin, Tennessee, when said check was so forwarded, to wit, the Williamson County Bank & Trust Company, and the Harpeth Bank; that in each of said banks the active official in charge of business was intimately acquainted with the Misses Claybrooke, and knew, as did every one else in Franklin, that they were ladies whose character and standing could not be impeached, and that neither of them would have given a check,
especially a check for this large an amount, without having funds in the bank to meet the same; that no official of the First National Bank of Franklin would have had the hardihood to claim that there were no funds in the drawer’s name to pay said check, and that said check would have been presented for payment during business hours on October 6th, 1926.

That if said check had been so presented through one of the other banks, the said Green, Cashier, and his son, the Assistant Cashier, who were fraudulently manipulating the funds of the bank, as set out in the original bill, would have let the check go through and be paid out of the funds held by the defendant Federal Reserve Bank to the credit of the First National Bank of Franklin, which were amply sufficient to pay this check and the other small items forwarded on October 6th by the defendant Federal Reserve Bank - for a refusal to pay a check of this size, drawn by a lady well and favorably known in Franklin, Tennessee, would have at once precipitated a disclosure of the frauds and thefts then being perpetrated by the said Cashier and his son.

Complainant further states, on information and belief, that the said defendant and its Nashville officials were well advised that the said National Bank of Franklin was in bad condition when said check was forwarded directly to it.

Complainant is advised, and charges, that the said defendant, as agent of complainant, acted negligently in forwarding said check directly to the drawee bank, and that such negligent conduct was a direct cause of complainant’s loss, rendering said
agent liable for the amount of said check with interest.

VI.

Complainant is further advised, and charges:

1. That the defendant Federal Reserve Bank of Atlanta (Nashville Branch) acted negligently in forwarding this check directly to the drawee bank, and that by reason of such negligence a loss was inflicted on complainant, for which the said defendant, as its agent, must respond; and that said defendant is not protected by said regulations of the Federal Reserve Board hereinbefore mentioned.

2. If mistaken in this, complainant insists that said bank is liable, under the theory set forth in the original bill, in that it sent an agent to Franklin, and withdrew said check after it had gone through the books of the Franklin Bank, and did this for its own protection, in violation of the confidential relation existing and of the duty owed by an agent to its principal.

3. That if mistaken in this, and if it shall appear that the said Thomas B. Johnson returned said check, under the circumstances hereinbefore set out, he thereby made himself liable to complainant for the amount of said check and interest.

4. That if it shall appear from the proof that the said defendants acted in concert, to conserve and protect the interests of either or both of them, at the expense of complainant, the holder of the check, then that complainant be given a decree against said defendants jointly.
PREMISES CONSIDERED, COMPLAINANT PRAYS:

1. That those named in the caption as defendants be made such, and that process and counterpart process issue, requiring them to answer said bill, but their answers under oath are expressly waived.

2. That complainant have a decree for the amount of said check and interest against the said defendant Federal Reserve Bank of Atlanta (Nashville Branch), or against the defendant Thomas B. Johnson, one or both as to the Court may seem equitable and proper under the law and under the facts hereinafter set out.

3. For such other, further and general relief as complainant in equity may be entitled to ask.

Solicitors for Complainant.

I am surety for costs under the amended and supplemental bill.

COPY
SUBJECT: Sand and Gravel as Readily Marketable Staples.

Dear Sir:

The Federal Reserve Board has been requested to rule upon the question whether sand and gravel may be classified as readily marketable staples, so that the storage of these materials may be made the basis of bankers' acceptances under the provisions of Section 13 of the Federal Reserve Act. Careful consideration has been given to this question in the light of memoranda prepared by the Federal Reserve Banks of Cleveland and New York, the opinions expressed by members of the General Acceptance Committee, and information received from the Department of Commerce in reply to a request from the Federal Reserve Board.

It appears that in the district of the Federal Reserve Bank of Cleveland sand and gravel are shipped during the months of the open navigation season on the lakes to lower lake ports and there stored for use during the winter months. This situation, according to the information received by the Board, does not exist generally throughout the country. A ruling of the Board on a question of this kind, however, must be general in its nature, applying to all Federal reserve districts alike.

The Department of Commerce advises that deposits of sand and gravel occur throughout the United States, and that even the higher grades have relatively low unit value. The materials themselves have little intrinsic value. Production is governed chiefly by local demand and car supply. With certain exceptions, these materials are usually mined by the consumer or marketed directly from the producer to the consumer. The prices received vary considerably according to grade and type, extent of competition and distance to markets. The Board is also informed that the disposition of sand and gravel at a forced sale could be made only at a considerable reduction from the prices prevailing in the trade.
The Federal Reserve Board has reached the conclusion that sand and gravel are not articles of such usage as to make them "the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time", as required by the definition contained in the Board's Regulation A, and that accordingly they may not properly be classified as readily marketable staples.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
NOTICE TO EMPLOYEES:

This office has been notified by the Postmaster, Washington, D. C., that "private registered, insured and C. O. D. mail received here addressed to individuals of the Government departments cannot be delivered through the mail messengers of those departments, but must be held at the post office and notices sent the addressees to call for the mail. Exception is made only in cases where a written order is received from the addressee authorizing the bearer to accept and receipt for the mail."

To avoid the inconvenience of having to call for this mail, employees should have same addressed to their residences, where delivery can be effected by letter carrier.

C. W. Hanford,
Chief Clerk.
October 16, 1929.

SUBJECT: Uniform Policy on Check Collections and Amendments to Regulation J.

Dear Sir:

Careful consideration has been given to the resolution and report adopted by a majority of the Council of all Federal reserve banks at a conference held in Washington on April 1st and 2nd, 1929, and approved by the Conference of Governors on April 3, 1929, and the Federal Reserve Board has voted to approve the principles set forth in such resolution as follows:

"1. We construe Regulation J of the Federal Reserve Board as intended to provide that the Federal reserve banks shall take for collection checks sent to them for such purpose by other banks, merely as agents of the banks from which the same are received. We regard this policy as being economically sound, legally proper and fair in its operation.

"2. We believe that it would be extremely unwise to take any step or to formulate any policy which would tend to change this relationship and, specifically, that it would be unwise to attempt to superimpose upon a pure agency status any indicia of ownership with respect to the subject matter of the agency.

"3. We believe that it is incompatible with such agency status for Federal reserve banks to set-off amounts due to them, as agents for collection, against indebtedness due by them to insolvent member or nonmember clearing banks; hence, we are of the opinion that after a bank has been closed, the reserve bank of its district being notified of its suspension, should not thereafter attempt to charge unpaid cash items against the reserve account of the closed bank. For the same reason we believe that after notice of suspension a remittance draft, drawn by the closed bank, should not be charged against its reserve account.

"4. When a Federal reserve bank takes from one of its members collateral for the payment of indebtedness due to it by such member, such collateral should be applicable
only to the satisfaction and discharge of the obligations due to the reserve bank in its own right. It would be an unwise policy, in our opinion, to permit such collateral to be utilized in the liquidation or satisfaction of debts payable to the Federal reserve bank as a collection agent.

"5. The status of the capital stock holdings of a member bank in its Federal reserve bank, upon the insolvency or liquidation of such member, is fixed by the Federal Reserve Act and, as we construe the same, the proceeds of such holdings could only be applied in or toward the satisfaction of debts due to the Federal reserve bank in its own right, as contradistinguished from debts which might be payable to the reserve bank as a collection agent.

"6. In our opinion, any deviation from these policies, in furtherance of which Regulation J was promulgated, would entail grave dangers to Federal reserve banks and would result in the preferring of a limited number of creditors of an insolvent bank, contrary to the letter and spirit of the law as it exists in the various States and as administered in the Courts of the United States."

The Federal Reserve Board concurs in the opinion that it is of the utmost importance for all Federal reserve banks to follow a uniform policy in respect to the check-collection system, and requests that all Federal reserve banks adhere strictly to this uniform policy.

With certain changes in phraseology recommended by its General Counsel, the Board has also adopted the amendments to paragraphs (4) and (6) of Section V of Regulation J recommended by the Conference of Counsel and approved by the Conference of Governors.

Paragraph (4) of Section V of Regulation J was amended to read as follows:

"(4) Checks received by a Federal reserve bank on its member or nonmember clearing banks will ordinarily be forwarded or presented direct to such banks and such banks will be required to remit or pay therefor at par in cash, by bank drafts acceptable to the collecting Federal reserve bank, by telegraphic transfers of bank credits acceptable to the collecting Federal reserve bank, or by authorizing the collecting Federal reserve bank to charge their reserve accounts or clearing accounts."
Paragraph (6) of Section V of Regulation J was amended to read as follows:

"(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. In such event, neither the owner or holder of any such check, nor the bank which sent such check to the Federal reserve bank for collection, shall have any right of recourse upon, interest in, or right of payment from, any fund, reserve, collateral, or other property of the drawee bank in the possession of the Federal reserve bank."

These amendments will become effective on January 1, 1930.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS AND CHAIRMEN OF ALL F. R. BANKS.
FEDERAL RESERVE BOARD

WASHINGTON

October 17, 1929.

SUBJECT: Holidays during November, 1929.

Dear Sir:

On Friday, November 1st, New Orleans Branch of the Federal Reserve Bank of Atlanta will be closed in observance of All Saints' Day. Please include credits of November 1st for New Orleans Branch in the Gold Fund clearing of November 2nd.

On Tuesday, November 5th, the following banks and branches will be closed on account of Election Day:

New York
Buffalo

Philadelphia

Cleveland (At 1 p.m. Will participate in clearings)
Cincinnati (At 1 p.m. clearings)
Pittsburgh

Please include Gold Fund clearing credits of November 5th for New York, Philadelphia and Richmond with those of November 6th; and make no shipment of Federal Reserve notes for account of those banks on November 5th.

On Monday, November 11th, in observance of Armistice Day, and Thursday, November 28th, Thanksgiving Day, there will be neither Gold Settlement Fund nor Federal Reserve note clearing; and the books of the Board's Gold Settlement Fund will be closed.

For your information, the offices of the Federal Reserve Board and the following banks and branches will be open for business on Monday, November 11th:

New York, Buffalo, Detroit.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.
October 19, 1929.

SUBJECT: Topics for Governors' Conference.

Dear Sir:

There is enclosed herewith for your information, copy of a letter from the Undersecretary of the Treasury on the subject of the currency program for the immediate future.

The discontinuance of payments of one and two dollar bills of the old series has already been made effective by the following telegram addressed to you under date of October 17:

"Effective immediately, all payments of one and two dollar bills will be made in new series only, and all old series silver certificates of any denomination, and old series two dollar United States notes, now held by you or hereafter received, are to be cancelled and redeemed. Treasury requests no public announcement regarding this matter."

The Undersecretary of the Treasury, in the course of the next few days, will address a letter to you regarding the mechanics of national bank note redemption.

The question of discontinuing payments of old series Federal reserve notes in the denominations of $5 to $100 inclusive, and the problem of handling national bank notes of those denominations after discontinuance of payments of Federal reserve and United States notes in the old series, are hereby made topics for discussion at the forthcoming Governors' Conference.

Yours very truly,

R. A. Young,
Governor.
TREASURY DEPARTMENT
Washington

October 14, 1929.

My dear Governor:

Referring to our conversation this morning regarding the replacement of old series currency with the new series, this will confirm certain conclusions reached, as follows:

1. That every effort hereafter should be made to expedite the replacement but without loss of control.

2. That hereafter all payments of $1 and $2 bills by the Treasurer of the United States and the Federal Reserve Banks shall be made in the new series only and that all old series silver certificates of any denomination and all old series $2 United States notes hereafter received by the Treasurer of the United States or any Federal Reserve Bank shall forthwith be canceled and redeemed.

3. As regards the denominations from $5 to $100 inclusive, the matter is complicated because of National bank notes. It was agreed that the matter would be presented to the Governors at their coming conference and that definite conclusions with respect to further repayments into circulation of old series $5 and upwards would at that time, or thereafter, be determined.

4. As regards increased redemptions of old series National bank notes up to $6,000,000 daily, on and after November 1, it was agreed you would undertake to hold redemptions by Federal Reserve Banks to this figure; and further that you would discuss with the Governors the feasibility of carrying considerable increased balances by the Federal Reserve Banks in order that repayment into circulation of old series National bank notes may, to some extent, be avoided after the repayment of old series United States currency.
and Federal reserve notes in denominations $5 and upwards is discontinued.

Denominations above $100 of the new series currency are not yet available, but these will present no difficulties.

I shall be glad if you will advise the Federal Reserve Banks as to our conclusions regarding $1 silver certificates and $2 United States notes and instruct them hereafter to cancel and redeem all old series silver certificates and $2 United States notes received by them. Of course, no public announcement regarding the matter should be made.

Very truly yours,

(signed)

Ogden L. Mills
Undersecretary of the Treasury.

R. A. Young, Esq.,
Governor, Federal Reserve Board.
STATEMENT OF THE BUREAU OF ENGRAVING AND PRINTING.

August 1 to August 30, 1929.

Federal Reserve Notes, Series 1928.

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814,000 554,000 312,000 18,000 10,000 1,708,000 152,866.00

1,708,000 sheets @ $89.50 per M. . . . . . . . . . $152,866.00

Credit appropriations, 1930, as follows:

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Bureau of Engraving and Printing:

C. R. Long,
Assistant Director.
STATEMENT OF BUREAU OF ENGRAVING AND PRINTING.

September 3 to 30, 1929.

Federal Reserve Notes, Series 1928.

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1,287,000 sheets, $89.50 M, ......... $115,186.50

Credit appropriations, 1930, as follows:

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- Plate Printing B. E. & P. 26,229.06
- Mtls. & Misc. Exp. B. E. & P. 26,211.04

Bureau of Engraving and Printing:

C. R. Long
Assistant Director.
No. 6524

CENTRAL TRUST COMPANY, RECEIVER, ETC.

v.

BANK OF MULLENS, ET ALS.

Wyoming County Reversed and Remanded.

Lively, Judge.

A state bank, not a member of the federal reserve system, sent its two drafts to a federal reserve bank, payable out of funds in a depository bank, in payment of checks of its depositors sent direct to it by the federal bank for collection and immediate remittance, under a special agreement to that effect, and charged the amounts against its funds in the depository bank. There were no mutual accounts between the federal and state bank. These two drafts, aggregating $12,327.81, were presented at the depository bank for payment on April 19, 1927, but were not then paid; on the next day the state bank was closed as insolvent, and payment of the drafts were refused by the depository bank for that reason; although it had sufficient funds on deposit to pay the drafts. Immediately thereafter the depository bank applied said funds in its hands on notes (whether due or not does not appear) executed to it by the insolvent bank, and later released to the receiver collateral securities pledged on said notes.

Held: In the distribution of the assets of the
insolvent, the federal reserve bank should be preferred over
general creditors as an equitable assignee of the fund on
which the drafts (reduced by stipulation to $10,423.68) were
drawn; or that said fund and cash in bank was a trust in the
hands of the receiver for reimbursement of the federal reserve
bank.
Lively, Judge:

The Federal Reserve Bank of Richmond, intervenor in a chancery suit to settle the affairs of the Bank of Mullens, upon being denied priority over the general creditors of the latter bank for its claim, obtained this appeal.

The plaintiff, Federal Reserve Bank of Richmond, had its chief offices in Richmond, Virginia, and the Bank of Mullens was located at Mullens, West Virginia. An agreement was entered into between the two banks whereby the Bank of Mullens was entered on the par list of the plaintiff. Under this agreement, the Bank of Mullens received for collection checks drawn upon itself sent to it by the plaintiff, and if such checks were collectible, it agreed to forthwith remit the amount thereof to the Federal Reserve Bank at Richmond by draft on certain designated banks, one of which was the First National Exchange Bank of Roanoke, Virginia.

In accordance with this arrangement, on April 14, 1927, the plaintiff bank sent to the Bank of Mullens checks drawn on the latter amounting to $9,954.29. On April 16th unpaid checks aggregating $4,134.06 were returned by the defendant bank to the plaintiff and a draft in its favor for $5,820.23 was drawn on the First National Exchange Bank of Roanoke and sent to the plaintiff. On April 16, 1927, the plaintiff sent to the defendant bank checks aggregating $9,950.08, and on April 18, 1927, the Bank of Mullens returned checks aggregating $3,442.50, and in settlement for the re-
tained checks a draft for $6,507.58 was drawn in favor of the plaintiff on the First National Exchange Bank of Roanoke. Accompanying the checks sent to the Bank of Mullens was a letter stating that they were to be collected and remittance made in accordance with the previous arrangement between the parties. The Bank of Mullens collected the checks by charging the same against the accounts of individual depositors. On April 19, 1927, the drafts on the First National Exchange Bank of Roanoke were presented by plaintiff for payment, but payment was refused on April 20th, because the Bank of Mullens was temporarily closed. The Bank of Mullens had, when it issued the drafts, deducted the amounts thereof from its balance in the Roanoke Bank. At the time the drafts in favor of the plaintiff were drawn on and presented to the First National Exchange Bank of Roanoke, there were funds to the credit of the insolvent bank sufficient to pay them, and this condition continued up to April 20th, the date on which the Bank of Mullens was closed by the state banking commissioner. Subsequently, the First National Exchange Bank of Roanoke applied said funds in its hands on notes (whether due or not does not appear) executed to it by the Bank of Mullens, and later released to the receiver collateral securities pledged on said notes. When the receiver took charge, the amount of cash on hand in the Bank of Mullens was $3,908.59. By stipulation, the amount claimed to be due on the plaintiff's drafts was reduced to $10,423.68. The trial chancellor affirmed the report of its commissioner in chancery in which the commis-
sioner found that the relation of debtor and creditor existed between the plaintiff bank and the Bank of Mullens after the collections were made; that there was no augmentation of the assets of the latter bank; and, therefore, the plaintiff was not entitled to a priority in the assets of the Bank of Mullens over its general creditors.

The first question to be determined is: What was the relation between the plaintiff and the Bank of Mullens after the latter collected the checks sent to it by the plaintiff by charging the same against the account of the individual depositors? There seems to be almost a unanimity of opinion among the courts that a bank accepting paper for collection is the agent of the party from whom it is received. Morse on Banks and Banking, Vol. 1, 6th Ed., sec. 214, page 547. The conflict arises as to the relationship existing after the collection has been made. In a large number of jurisdictions it is held that the fact of collection changes the status of the parties to that of debtor and creditor. Although, probably contrary to the weight of authority, we are in accord with the modern trend of decisions which supports the rule that in the absence of a reciprocal accounts arrangement between the sending and collecting bank, where paper is sent under a specific agreement clearly evidencing an intent of immediate collection and remittance, the collecting bank as agent of the sender holds the amount collected in trust for it. State National Bank v. First National Bank,
(Oklahoma.) 472; Bank of Poplar Bluffs v. Millspeaguh, 281 S.W.
(Missouri.) 733, 47 A.L.R. 754; Federal Reserve Bank v. Peters,
123 S.E. (Virginia) 379, 42 A.L.R. 742, and note on page 754;
Hawaiian Pineapple Company v. Browne, 220 Pac. (Montana) 1114;
People ex rel. Russell v. Iuka State Bank, 229 Ill. App. 4:
Sinclair Refining Company v. Tierney, 270 Pac. (New Mexico) 792;
State v. Excello Feed Milling Company, 267 Pac. (Oklahoma) 833;
Griffith v. Burlington State Bank, 277 Pac. (Kansas) 42; Messe-
And this is true even though the collecting bank collects the
paper by charging it against the account of the individual
drawer and draws its draft on another bank in favor of the
sender for the amount thus collected. Bank of Poplar Bluffs
v. Millspeaguh, supra; Spokane & E. Trust Company v. United
States Stool Products Company, 290 Fed. 884; Goodyear Tire &
Rubber Company v. Hanover State Bank, 204 Pac. (Kansas) 992;
Federal Reserve Bank v. Peters, supra; State v. Excello Feed
Milling Company, supra; Hawaiian Pineapple Company v. Browne,
supra. Where, under an agreement to collect and remit, the
sender has evinced an intention to make the collecting bank
its agent for the purpose of collecting and remitting, to
permit the collecting bank at its option to change the in-
tended relationship to that of debtor and creditor by the
manner in which the collection is made and the proceeds re-
mitted would be subversive of sound commercial practice.
As was said in Griffith v. Burlington State Bank, supra: "If a bank were to be permitted to change at will the relation of agent to that of debtor, forwarding banks would be compelled to require shipment of currency in order to protect themselves. The effect upon the transaction of business would be so disastrous that the evil consequences would far outweigh the hardship to depositors resulting from application of the principal and agent doctrine to occasional bank failures."

It is contended by the attorney for the receiver that as the transaction above referred to did not result in any augmentation of the defendant's assets, plaintiff should not be permitted to assert a preference over the general creditors of the insolvent bank. In Bank of Poplar Bluffs v. Millsbaugh, supra, the court said in this connection: "Relief has been denied in some cases on the theory that the transaction in judgment did not result in augmenting the assets that passed to the receiver or official acting as receiver of the failed bank. The argument in support of such theory runs about like this: If Ethel Reichert had not drawn her draft on her deposit in the Bank of Puxico, and said bank had failed as it did, it would have failed owing Ethel Reichert $5,000. But, instead of owing Ethel Reichert $5,000 when it failed, the Bank of Puxico owed plaintiff bank $5,000, evidenced by the draft that it gave plaintiff on the Citizens Trust Company of Gorin. Therefore, there was in effect no difference in the amount of the estate or assets that passed to the commissioner of finance; that the assets that passed to the commissioner of
finance were neither increased nor diminished by the whole transaction. But this argument is not sound. It proceeds upon the theory that the Bank of Puxico simply owed plaintiff $5,000; that only the relation of debtor and creditor existed. Such, however, under the authorities we prefer to follow, was not the true relation between the plaintiff and the Bank of Puxico. The Bank of Puxico owed plaintiff $5,000 because it held $5,000 of plaintiff's money—as much so as if plaintiff had merely left $5,000 with the Bank of Puxico for safe keeping, sealed and labeled, and not intended for deposit. From the time the Reichert draft was presented and accepted, the Bank of Puxico held plaintiff's $5,000, and this $5,000 passed to the commissioner of finance and thereby increased the funds in his hands $5,000 above the actual assets of the Bank of Puxico." In Griffith v. Burlington State Bank, supra, it was said: "When a check on a bank is sent to the bank for collection it acts as agent of the sender to make the collection, and when the collection is made, it gets the proceeds in the same capacity as if the collection were made from another bank across the street. In this instance, the bank made the collection by charging the check to the account of the administrator. The check was authority from the administrator (drawer) to make the charge, and his funds subject to check were reduced by the amount of the check. Having made the collection, the bank's relation to the fund was the same as if the collection had been made from the bank across the
street * * * The funds of Burlington State which came into the hands of the receiver were augmented to the amount of the Griffith check. When the Griffith check was collected, Burlington State held the proceeds precisely as it held the proceeds of the collected draft in the Le Roy Bank case. The proceeds taken from the account of the administrator did not belong to Burlington State or form part of its assets available for distribution among creditors. The receiver, however, got the benefit of them." In accord; Griffith v. Burlington State Bank, supra; Hawaiian Pineapple Company v. Browne, supra; State National Bank v. First National Bank, 187 S.W. (Ark.) 673; Winkler v. Veigel, 223 N.W. (Minn.) 622; First State Bank v. O'Bannon, 266 Pac. (Okla.) 472; Gentry County Drain. Dist. v. Farmers' & Mechanics' Bank, 5 S.W. (2nd) (Mo.) 1110; State v. Excello Feed Milling Company, supra.

It is further contended that even under the trust fund theory the plaintiff was not entitled to a preference because the trust fund cannot be traced into the hands of the receiver. In Hawaiian Pineapple Company v. Browne, 220 Pac. (Mont.) 1114, 1116, it was said: "With respect to tracing the fund, the law is that where a trustee mingles his beneficiary's money with his own and then invades the common store, he will be presumed to have used his own money first, because the law presumes a man does right rather than wrong. The sum remaining in the hands of the trustee will be deemed the money of the beneficiary as far as necessary to make up if possible the full amount

In the instant case it is clear that at the time the amounts represented by the checks were deducted from the accounts of the individual depositors, there was sufficient money in their accounts to pay the respective checks, and second, that from the date the collections were made until the bank became insolvent, there was on hand in the Bank of Mullens and its Roanoke depository sufficient cash to pay the plaintiff's drafts. Therefore, under the trust fund theory, as above described, the plaintiff was entitled to a preference over the general creditors of the Bank of Mullens to the extent of its drafts.

There is another principle which sustains the plaintiff's claim for a preference. Authority and reason support the contention that the drafts drawn in favor of the plaintiff upon the First National Exchange Bank of Roanoke were, under the facts of the instant case sufficient to constitute an equitable assignment pro tanto of that specific fund. In Hulings v. Hulings Lumber Company, 38 W. Va. 351, this Court held that a check operates as an equitable assignment pro tanto from the time it is drawn and delivered, as between the drawer and the payee or holder, and that a general assign-
ment for the benefit of creditors does not defeat the check-
holder, although the check be not presented to the bank for
payment until after such assignment. Has this holding been
changed by section 189, chapter 98-A, Code, adopted since
the Rulings case was decided? Section 189 provides that a
check of itself does not operate as an assignment of any
part of the funds to the credit of the drawer with the bank,
and the bank is not liable to the holder unless and until
it accepts or certifies the check. In Vol. 2, Daniel on
Negotiable Instruments, 6th Ed., section 1643, page 1852,
it is said: "The provision of the Statute that a check of
itself does not operate as an assignment of any part of the
funds to the credit of the drawer with the bank, is a decla-
ration of the rule that as against a drawee bank a check is
not an assignment of the fund. But as against the drawer,
the giving of a check for value on an ordinary bank deposit
should be considered as an assignment of the fund pro tanto."
In Selover on Negotiable Instruments, (2nd Ed.), section 70,
page 116, the author says: "As between the drawer and the
payee or his transferee, it has heretofore been generally
held that a check operates as an equitable assignment, and
the above rule (sec. 189) of the negotiable instruments law
undoubtedly means that, as against the bank, a check does not
operate as an equitable assignment." This section was designed
for the protection of the bank rather than as a provision ef-
flecting the relation between the maker of a check and the payee,
and as against the drawer, the check should be considered as an assignment pro tanto. Elgin v. Gross-Kelly & Co., 150 Pac. (N.M.) 922; First National Bank of Chicago v. O'Byrne, 177 Ill. App. 473, 482; Harrington v. F. E. Fleming Commercial Company, 94 Neb. 108, 142 N. W. 297; McClain & Norvet v. Torkelson, 174 N. W. (Iowa) 442, 5 A. L. R. 1665. In Hove v. Stanhope State Bank, 138 Iowa 39, 115 N. W. 476, in speaking of section 189, the court said: "This section was undoubtedly enacted for the purpose of protecting banks against losses which might be occasioned by the double payment of checks on general deposits, and its only intent and purpose is undoubtedly to protect banks only when they are acting in good faith and without any attempt to assist particular persons in the collection of their debts, to the exclusion of others who are equally entitled to protection." The court then held that in equity the intention to assign makes the check an equitable assignment of the fund and the holder should be protected as against subsequent claimants, notwithstanding the negotiable instruments act. The decision in McClain & Norvet v. Torkelson, supra, was overruled in the later Iowa case of Leach v. Mechanics' Savings Bank, 211 N. W. 506, 50 A. L. R. 388. But in a very strong and persuasive dissent, Albert, J., reaffirmed the principles enunciated in the prior decisions of the Iowa Court, and expressed the opinion that as between the drawer of a check or draft, or those standing in his stead, and the payee or holder thereof, a check or draft may constitute an equitable assignment pro tanto of the fund.
upon which it is drawn. A very helpful comment on Judge Albert's dissenting opinion will be found in a note on pages 411 and 412, 50 A. L. R. In Federal Reserve Bank v. Peters, 123 S. E. (Va.) 379, under a state of facts similar to that existing in the instant case, the court held that while a check drawn by the collecting bank on another bank was not an assignment of the fund against which it was drawn, as between the drawer of the check and the person who gave value for it, it was an equitable assignment of the fund pro tanto. A like holding was made in Federal Reserve Bank v. Millspaugh, 281 S.W. (Mo.) 733. In State Farmers' Mutual Tornado Insurance Company, 6 S.W. (2nd) (Mo. App.) 970, it was held that where a bank collecting assessments from policy holders for an insurance company sent a draft to the insurance company for the amount of such collections but the draft was not paid because of the bank's failure, that the draft amounted to an equitable assignment of the insolvent bank's funds in the drawee bank in favor of the insurance company for the amount of such draft, for which the insurance company was entitled to a preference over the claims of the insolvent bank's general creditors. To a like effect is Gentry County Drain, Dist. v. Farmers' & Mechanics' Bank, 5 S.W. (2nd) (Mo.) 1110. In Merchant's National Bank v. State Bank, 214 N.W. (Minn.) 750, the Minnesota Supreme Court held that in view of the statute above referred to, while a check does not of itself operate as an assignment of a fund to the credit of the drawer with the
bank upon which the check is drawn, if the drawer intends to appropriate a specific portion of the fund to the payment of the check, an equitable assignment of the fund results, as between the drawer and the payee. See also Fourth Street Bank v. Yardley, 165 U.S. 634.

Bearing in mind the relationship of the parties, "the nature of their dealings and the attendant circumstances," it is clear in the instant case that the Bank of Mullens intended a portion of its funds on deposit in the First National Exchange Bank of Roanoke should be appropriated to discharge the trust resulting from the proceeds of collection. Federal Reserve Bank v. Peters, 123 S.E. (Va.) 379, 42 A.L.R. 742; Griffith v. Burlington State Bank, 277 Pac. (Kans.) 42, 43; Federal Reserve Bank v. Millsapah, 281 S.W. (Mo.) 733; German Savings Institute v. Adage, 8 Fed. 106; In Re City Bank of Dowagiac, 186 Fed. 250; Gentry County Drain, Dist. v. Farmers' & Mechanics' Bank, 5 S.W. (2nd) (Mo.) 1110; Merchant's National Bank v. State Bank, 214 N.W. (Minn.) 750. Although such a decision may appear to work a hardship on the general creditors of the insolvent bank, it is in harmony with modern business practices and requirements.

As was said in Vol. 2, Morse on Banks and Banking, 6th Ed., section 504, page 1125; "When a question arises between the holder of a check and the creditors of the drawer under an insolvent assignment subsequent to the check, if the attention is confined to the parties in this one transaction, it may be difficult to see how the holder has a better equity than the
creditors. Each has trusted the drawee, each has given value, and why should not each bear his share of the loss? But if the effect upon commercial life of subjecting checks to this uncertainty be considered, it appears at once that justice to social prosperity requires that the checkholder shall be preferred just as the transferee of a note or bill, or of any other property or representative thereof."

For the reasons assigned above, we are of the opinion to reverse the decree of the trial court and to award the plaintiff, Federal Reserve Bank of Richmond, a preference over the general creditors of the Bank of Mullens to the extent of the amount now stipulated to be due upon its drafts.

The decree of the lower court will be reversed and the cause remanded to be proceeded with in accordance with the principles decided in this opinion.

Reversed and Remanded.
October 22, 1929.

SUBJECT: Expense, Main Line, Leased Wire System, September, 1929.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6397-a and X-6397-b, covering in detail operations of the main line, Leased Wire System, during the month of September, 1929.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO.
REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER, 1929.

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<td>77,027</td>
<td>9,058</td>
<td>86,085</td>
<td>8.95</td>
</tr>
<tr>
<td>San Francisco</td>
<td>107,351</td>
<td>3,390</td>
<td>110,741</td>
<td>11.50</td>
</tr>
<tr>
<td>Total</td>
<td>930,993</td>
<td>32,207</td>
<td>963,200</td>
<td>100.00</td>
</tr>
</tbody>
</table>

F. R. Board business .................................................. 246,606

Treasury Department business - Incoming and Outgoing ................................................. 165,494

Total words transmitted over main lines ................................................................. 1,375,300

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6397-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.
REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, SEPTEMBER, 1929.

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Operators' Salaries</th>
<th>Operators' Overtime</th>
<th>Wire Rental*</th>
<th>Total Expenses</th>
<th>Pro Rata Share of Operators' Salaries</th>
<th>Payable to Federal Reserve Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>$260.00</td>
<td>$-</td>
<td>$-</td>
<td>$260.00</td>
<td>$653.30</td>
<td>$393.30</td>
</tr>
<tr>
<td>New York</td>
<td>1,177.47</td>
<td>-</td>
<td>-</td>
<td>1,177.47</td>
<td>3,567.24</td>
<td>2,389.77</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>225.00</td>
<td>-</td>
<td>-</td>
<td>225.00</td>
<td>750.78</td>
<td>525.78</td>
</tr>
<tr>
<td>Cleveland</td>
<td>306.66</td>
<td>-</td>
<td>-</td>
<td>306.66</td>
<td>1,943.32</td>
<td>1,636.66</td>
</tr>
<tr>
<td>Richmond</td>
<td>190.00</td>
<td>-</td>
<td>230.00(#)</td>
<td>420.00</td>
<td>1,271.35</td>
<td>851.35</td>
</tr>
<tr>
<td>Atlanta</td>
<td>270.00</td>
<td>-</td>
<td>-</td>
<td>270.00</td>
<td>1,491.19</td>
<td>1,221.19</td>
</tr>
<tr>
<td>Chicago</td>
<td>4,028.51(*)</td>
<td>-</td>
<td>-</td>
<td>4,028.81</td>
<td>2,679.58</td>
<td>1,349.23</td>
</tr>
<tr>
<td>St. Louis</td>
<td>205.00</td>
<td>3.00</td>
<td>-</td>
<td>208.00</td>
<td>1,557.11</td>
<td>1,449.11</td>
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<tr>
<td>Minneapolis</td>
<td>133.66</td>
<td>-</td>
<td>-</td>
<td>133.66</td>
<td>707.23</td>
<td>523.57</td>
</tr>
<tr>
<td>Kansas City</td>
<td>287.50</td>
<td>-</td>
<td>-</td>
<td>287.50</td>
<td>1,777.40</td>
<td>1,489.90</td>
</tr>
<tr>
<td>Dallas</td>
<td>251.00</td>
<td>-</td>
<td>-</td>
<td>251.00</td>
<td>1,856.21</td>
<td>1,605.21</td>
</tr>
<tr>
<td>San Francisco</td>
<td>380.00</td>
<td>-</td>
<td>-</td>
<td>380.00</td>
<td>2,385.08</td>
<td>2,005.08</td>
</tr>
<tr>
<td>Federal Reserve Board</td>
<td>-</td>
<td>-</td>
<td>15,578.76</td>
<td>15,578.76</td>
<td>15,578.76</td>
<td>15,578.76</td>
</tr>
</tbody>
</table>

Total $7,765.10        $3.00          $15,808.76          $23,576.86          $20,739.79            $7,998.10       $14,090.92

(a) Received $2,537.07 from Treasury Department covering business for the month of September, 1929.
(b) Amount reimbursable to Chicago.

Main line rental, Richmond-Washington.
Includes salaries of Washington operators.
Credit.

Dear Sir:

Referring to letter addressed to you by the Undersecretary of the Treasury under date of October 17, outlining plans for increased redemptions of national bank notes beginning November 1, 1929, there is given below a code word which will be used in telegrams addressed to you by the National Bank Redemption Agency, requesting charges to reserve accounts of national banks and reimbursement of their five per cent redemption fund accounts:

DUPERS: In accordance with a temporary arrangement advised in letter of the Undersecretary, dated October 17, to effect immediate reimbursement to the five per cent redemption fund accounts of national banks for redemptions of national bank notes, it is requested that the reserve accounts of the following banks be charged with the amounts listed opposite their respective charter numbers and that the Treasurer's general account be credited for the total amount of these transactions:

<table>
<thead>
<tr>
<th>Charter No.</th>
<th>Amount</th>
</tr>
</thead>
</table>

This word should be inserted in the Federal Reserve Telegraphic Code Book following the word "DUPED" on page 83.

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of September and October, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industrial activity increased less in September than is usual at this season. Production during the month continued above the level of a year ago, and for the third quarter of the year it was at a rate approximately 10 percent above 1928. There was a further decline in building contracts awarded. Bank loans increased between the middle of September and the middle of October, reflecting chiefly growth in loans on securities.

Production—Output of iron and steel declined further in September, contrary to the seasonal tendency; there was a sharp decrease in output of automobiles and automobile tires, and a smaller-than-seasonal increase in activity in the textile and shoe industries, which continued to produce at a high rate in comparison with the preceding year. Meatpacking plants were more active than in August. Factories increased the number of their employees during September and payrolls were also slightly larger.

Output of coal showed a substantial increase from August and the average daily production of copper mines was somewhat larger. Iron ore shipments declined seasonally, and petroleum output was reduced for the first time in several months.

For the first half of October reports indicate a further reduction in
steel plant operations, a continued increase in production of bituminous coal, and some increase in petroleum output following a moderate decrease during September.

Building contracts awarded in September declined seasonally from August and were substantially below the corresponding month in any year since 1924. For the third quarter the volume of contracts was 6 per cent less than a year ago. During the first three weeks of October, contracts continued substantially below the level of last year.

October estimates by the Department of Agriculture indicate a cotton crop of 14,915,000 bales, 3 per cent larger than last year; a corn crop of 2,528,000,000 bushels, 11 per cent smaller than the crop of a year ago, and 8 per cent below the five-year average; and a total wheat crop of 792,000,000 bushels, 12 per cent below last year but only slightly under the five-year average.

Distribution—Freight-car loadings increased by slightly less than the usual seasonal amount in September, and continued to be larger than a year ago. In the first two weeks of October car loadings were smaller than in the corresponding weeks of 1928.

Department store sales in leading cities increased seasonally during the month of September and were 2 per cent larger than a year ago. For the third quarter as a whole sales of the reporting stores exceeded those of the third quarter of last year by 3 per cent.

Prices—Wholesale prices showed little change from August to September, according to the index of the Bureau of Labor Statistics. Prices of meats and livestock declined considerably, while prices of grains advanced. The prices of raw silk, cotton and cotton goods were higher in September, and
the price of coal increased, while prices of iron and steel products, tin, gasoline, and cement were lower. During the first three weeks of October prices declined for a considerable number of commodities, including wheat, flour, hides, steel, tin, cotton, silk, and wool.

Bank credit—Between the middle of September and the middle of October, there was a slight increase in the volume of loans and investments of member banks in leading cities. The banks' loans on securities increased rapidly, while all other loans, including loans for commercial and agricultural purposes, declined somewhat after reaching a seasonal peak on October 2. Security holdings of the reporting banks continued the decline which has been almost uninterrupted for more than a year.

At the reserve banks there was little change in the volume of credit outstanding during the four-week period ending October 19. Further increase in the holdings of acceptances by the Federal reserve banks was accompanied by a decline in discounts for member banks, largely at the Federal Reserve Bank of New York.

Open market rates on bankers' acceptances and on prime commercial paper were unchanged during the last half of September and the first three weeks of October. On October 23 rates on bankers' acceptances declined by one-eighth per cent to a 5 per cent level for the principal maturities. Rates on demand and time loans on securities declined during the first half of October.
October 22, 1929.

Dear Mr. Secretary:

I am addressing this letter to you, at your request, with reference to the discussion we had in your office several days ago, in order to set out my understanding of the situation which was explained to me, and the proposals which you made to meet that situation.

Briefly, the situation, as I understand it, is that due to the condition of the appropriations of the Bureau of Engraving and Printing for the current fiscal year, ending June 30, 1930, it has been found necessary to furlough a number of employees of the Bureau, and unless increased orders for Federal reserve notes, to be delivered and paid for during the remainder of the current fiscal year, are received, it will be necessary to materially increase the present periods of furlough, which you regard as wholly undesirable.

This situation, I understand, is due in part to the fact that the estimates upon which the Bureau's appropriations for the current fiscal year were based, were prepared with the thought that the Federal Reserve Board would order for the Federal reserve banks, the printing and delivery of 22,000,000 sheets of Federal reserve notes during the year; whereas, in line with the practice of building up a year's reserve stock of Federal reserve notes of the various denominations, and based upon estimates as to the amount of that reserve stock made by the Federal reserve agents of the various banks, the Board's order for the current fiscal year was but 17,000,000 sheets of completed notes.

As the Department was advised in a letter dated July 2, 1929, the Federal reserve banks began the fiscal year 1930 with new size Federal reserve notes on hand or under order, amounting to something over 22,000,000 sheets, which was their estimate of the maximum amount of the new size notes which they would require to meet demands during the currency turnover, as against a normal year's requirements of approximately 17,000,000 sheets.

The Bureau's estimate of an order of 22,000,000 sheets for the fiscal year 1930, made in 1928, it is understood, was based upon the fact that the order for turnover purposes aggregated this amount and no definite information as to the probable requirements for the year had been furnished by the Board, due to our inability to determine so far in advance, a suitable basis for estimating.

The proposition first suggested by you during the course of our conference was an order for the printing and delivery during the current fiscal year of 5,000,000 sheets of Federal reserve notes, in addition to the order for 17,000,000 sheets already filed. It is understood that such special order, at a total cost of $447,500 to the Federal reserve banks, would provide additions to the appropriations of the Bureau which are necessary to continue operations for the balance of the fiscal year without a furlough increase.
During the discussion, however, it was brought out that it would be highly desirable for the Federal reserve banks to have, say, a three months' supply of Federal reserve notes in process at the Bureau, which would provide the necessary seasoning before delivery to meet orders placed at the beginning of a new fiscal year.

On the basis of a normal year's requirements of 17,000,000 sheets, a three months' reserve in process would amount to 4,250,000 sheets. The Bureau submits that of this amount 2,125,000 sheets should be worked up in the form of backs and 2,125,000 sheets as backs and faces (in trimmed form). This would involve a total investment by Federal reserve banks of $241,738.75, necessitating, in order to increase the appropriations to the amounts needed to prevent further furloughs, the placing of an order for 2,950,000 sheets of completed notes during the fiscal year, in addition to the order for 17,000,000 sheets already filed. The latter item represents a cost to the Federal reserve banks of $264,025.00.

The total expenditure by the Federal reserve banks in the alternative last mentioned would be $505,763.75, against $447,500, involved in an additional order for 5,000,000 sheets of completed work. However, the alternative would seem to be preferable in that it would provide a revolving fund for the Bureau which would be replaced each year as the notes in process were delivered in complete form against current orders. Detailed figures, furnished by the Director of the Bureau of Engraving and Printing, which have been used in this letter, are attached.

It is understood that with the establishment of the revolving fund referred to and an undertaking on the part of the Board to estimate aggregate Federal reserve note printings a year in advance, the Bureau will be able to so adjust its operations that in the future special orders similar to the one under discussion will not be requested.

An estimate of 17,000,000 sheets of Federal reserve notes for the fiscal year ending June 30, 1931, has already been furnished and it is understood that the Bureau, during the fiscal year ending June 30, 1932, and thereafter, will be in a position to adjust itself to whatever advance printing estimates may be made by the Board, based upon minimum requirements as estimated by the Federal reserve banks.

Before submitting this matter to the Federal Reserve Board and the Federal reserve banks, it is requested that you confirm my understanding of the situation which exists and the proposals which have been made.

Yours respectfully,

R. A. Young,
Governor.

Honorable Ogden L. Mills,
Undersecretary of the Treasury,
Washington, D. C.
Data Relative to Federal Reserve Notes

Showing cost (A) of finishing 5,000,000 sheets and (B) of a reserve stock of three months' supply (based on a year's supply being 17,000,000 sheets) or 4,250,000 sheets, 2,125,000 sheets being backs and 2,125,000 sheets faces in trimmed form and of finishing 2,950,000 sheets.

<table>
<thead>
<tr>
<th></th>
<th>Compensation</th>
<th>Printing</th>
<th>Materials, etc.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(A)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of 5,000,000 finished sheets</td>
<td>$236,000.00</td>
<td>$101,900.00</td>
<td>$109,600.00</td>
<td>$447,500.00</td>
</tr>
</tbody>
</table>

|                  |              |          |                 |           |
| **(B)**          |              |          |                 |           |
| Cost for 4,250,000 sheets in process: |          |          |                 |           |
| 2,125,000 backs   | $19,656.25   | $20,187.50 | $36,357.50 | $76,201.25 |
| 2,125,000 backs and faces (in trimmed form) | $76,925.00 | $42,818.75 | $45,793.75 | $165,537.50 |
|                  | $96,581.25   | $63,006.25 | $82,151.25 | $241,738.75 |

|                  |              |          |                 |           |
| Cost for 2,950,000 finished sheets | $139,240.00 | $60,121.00 | $64,664.00 | $264,025.00 |

|                  |              |          |                 |           |
|                  | $235,821.25  | $123,127.25 | $146,815.25 | $505,763.75 |
THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

October 23, 1929.

My dear Governor Young:

I have your letter of October 22d, with reference to the situation of the Bureau of Engraving and Printing as affected by the orders for Federal Reserve notes received and to be received from the Federal Reserve Banks. Your understanding of the situation and of the propositions submitted to you by the Treasury Department is entirely correct.

In so far as requests in the future for special orders are concerned, we are quite willing to undertake to discontinue the practice. I believe, however, that Federal Reserve Banks should submit their orders for the ensuing year in final form prior to the submission of the Bureau of Engraving and Printing estimates to the Bureau of the Budget, and that in return for our undertaking not to request additional orders, the Federal Reserve Banks should endeavor not to change theirs once our estimates have been submitted to Congress.

You will readily appreciate how difficult a situation is created when the estimates for the Bureau of Engraving and Printing have been based on an order for a certain number of notes from the Federal Reserve Banks and subsequently, after the appropriations have actually been made, this order is reduced.

Very sincerely yours,

Hon. Roy A. Young,
Federal Reserve Board,
Washington, D. C.  

(S) Ogden L. Mills,
Undersecretary of the Treasury.
October 26, 1929.

SUBJECT: Topic for Federal Reserve Agents' Conference.

Dear Sir:

There is enclosed herewith copy of a letter received from the Chairman of the Board of Directors of the Federal Reserve Bank of Dallas, submitting a proposed change in the procedure governing the election of Class A and B Directors of Federal reserve banks. In accordance with his suggestion, the matter is hereby made a topic for discussion at the forthcoming Conference.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS, EXCEPT DALLAS.
October 23, 1929.

C. C. Walsh
Chairman of the Board
and Federal Reserve Agent

Federal Reserve Board
Washington, D. C.

Gentlemen:

The officers of this bank have had under consideration for some time the present procedure governing the election of Class A and Class B directors of Federal Reserve banks which, in our opinion, contains a certain weakness to which I wish to direct your attention, and in the event the suggestions appeal to you may desire to place the topic on the program of the next Agents' Conference to be held in Washington, November 13-16, 1929.

Under the present plan of procedure the list of nominees for Class A and Class B directors is not mailed out to the member banks until about the 12th or 13th of November. As it is customary for member banks to hold their monthly Board meetings on the first or second Tuesday of each month, the average member bank does not receive the list of nominees until after its regular November Board meeting has been held, and as the polls close on or about December 1, the bank's ballot, if it casts one, must be turned in before the directors hold their December meeting.

The result of this situation is that the officers of a member bank rarely, if ever, have an opportunity to consult their Board of Directors as to the candidate for whom they should vote, and as many of them no doubt feel a hesitancy in acting independently upon such an important matter it can be readily understood that this situation may be one of the factors that causes so many banks to take no part in the election of our Class A and Class B directors, for which reason it occurs to us that it would be quite worth while to give consideration to the desirability of making the following changes in the present procedure:

1 - Close nominations on or about October 28.
2 - Mail out ballots and list of nominees on October 29.
3 - Open polls on November 1.
4 - Close polls on November 15.
This plan would enable the officers of all banks in the two voting groups to place the election of Federal Reserve Bank directors on the calendar for consideration at the regular November meeting of their respective local Boards of Directors, and to register their vote before the closing of the polls.

The dates above suggested would also permit compliance with the statutory requirement that:

"With fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the Chairman his first, second, and third choices for Director of Class A and Class B, respectively."

It occurs to us that all that would be necessary to bring these changes about would be for the Federal Reserve Board to change the voting period from November 15-30 to November 1-15, and in order that the matter may be fully considered it would be desirable to have a thorough discussion of the subject by the Agents' Conference.

An analysis of the elections for Class A and Class B directors held in this institution during the last five years discloses the fact that these directors are elected by a minority vote of the total membership entitled to cast a ballot. The Stockholders' Association of this bank has been giving this subject consideration since its organization, in an effort to induce the member banks to take a more lively interest in the election of Class A and Class B directors, but the results are still far from satisfactory, when the total number of ballots cast are considered at the close of each election.

We would appreciate the Board's reaction to these suggestions.

Yours very truly,

(S) C. C. Walsh, Chairman of the Board.

CCW/MK
For immediate release: October 31, 1929.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 5 per cent on all classes of paper of all maturities, effective November 1, 1929.
October 31, 1929.

SUBJECT: Topic for Governors' Conference:-- Sending Checks Direct to Drawee Banks in Other Districts.

Dear Sir:

The Standing Committee on Collections has for some time had under consideration the question whether the Federal reserve banks should be authorized to send direct to drawee banks in other districts for remittance, checks drawn on such banks which have been received by such Federal reserve banks from their own member or non-member clearing banks. In its report of November 2, 1927, to the Conference of Governors held in November, 1927, the Standing Committee on Collections made the following recommendation:

"that the Federal reserve banks be authorized at their discretion, to conduct an experiment along this line in an attempt to arrange for the collection in this manner of checks drawn on the principal or larger cities in states adjoinning their districts. Such an experiment should not be undertaken without first obtaining an opinion from Counsel for the Federal Reserve Board as to the legality of such an arrangement, and if such opinion is favorable, it would first be necessary to modify Regulation J to permit such a procedure."

The Conference of Governors voted that the report of the Committee be filed and studied and a copy thereof be furnished to the Federal Reserve Board for its information. It does not appear, however, that any further action has been taken on the question whether the proposed plan should be adopted.

The Federal Reserve Board has been advised by its Counsel that there is nothing in the Federal Reserve Act which would prevent a Federal reserve bank from sending direct to drawee banks in other districts for remittance, checks drawn on such banks which have been received by such Federal reserve banks from their own member or non-member clearing banks. Section 13 of the Federal Reserve Act authorizes the Federal reserve banks to receive from their member and non-member clearing
banks, all checks "payable upon presentation" which can be collected at par; and in the opinion of the Board's Counsel this carries with it the incidental power to collect such checks in any reasonable manner which the Federal reserve banks consider advisable. Such practice is now prevented by the requirement of Section V (5) of the Board's Regulation J which provides that checks received by Federal reserve banks payable in other districts will be forwarded for collection to the Federal reserve bank of the district in which such checks are payable. The Board, however, may amend this requirement of its regulation if it is deemed advisable.

A Federal reserve bank, however, may not lawfully receive for collection from other Federal reserve banks checks which are not payable within its own district; because Section 13 authorizes the Federal reserve banks to receive from other Federal reserve banks only such checks as are payable "within its district". The word "district" as here used obviously means "Federal reserve district" and could not properly be construed to mean a collection zone agreed upon by Federal reserve banks even with the approval of the Federal Reserve Board.

The question whether the Federal Reserve Board should amend its Regulation J so as to authorize Federal reserve banks to send direct to drawee banks in other districts for remittance, checks drawn on such banks which have been received by such Federal reserve banks from their own member or non-member clearing banks is hereby made a topic for discussion at the forthcoming Conference of Governors, and the Conference is requested to advise the Board whether in its opinion Regulation J should be so amended.

By order of the Federal Reserve Board.

Yours very truly,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
FEDERAL RESERVE BOARD
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 31, 1929.

SUBJECT: Digest of State Laws Relating to the Ownership of Bank Stocks by Holding Corporations.

Dear Sir:

There is attached hereto for your information, copy of a digest of State laws relating to the ownership of bank stocks by holding corporations which has been prepared by the Board's Counsel with the assistance of Counsel for the various Federal reserve banks.

Very truly yours,

J. H. McClelland,
Assistant Secretary.

TO ALL GOVERNORS AND CHAIRMEN.
STATE LAWS RE OWNERSHIP OF BANK STOCK BY HOLDING CORPORATIONS.

There is published below an analysis of State laws affecting the ownership of the stock of banks and trust companies by holding corporations, which has been prepared by the Office of the Board's General Counsel, with the assistance of Counsel for the various Federal reserve banks.

The States not mentioned in this Digest apparently have no legislation affecting this subject directly or indirectly.

ARIZONA.

Section 20, Chapter 31 of the 1922 Session Laws of Arizona, provides that a "bank, loan or trust company or association" may purchase and hold stock of "any other bank, loan of trust company or association or other corporation" if such purchase is authorized by the executive committee or approved by the board of directors, and if bank stock is purchased the approval of the superintendent of banks must also be obtained.

ILLINOIS.

The General Corporation Law provides that corporations organized thereunder may "own, purchase or otherwise acquire * * * stocks * * * of any corporation, domestic or foreign." The statute contains some restrictions, such as forbidding the holding of stock in a building corporation, but there is no express prohibition in the statute upon the right of a corporation to own stock in a bank, although there may be an implication to that effect. (See case of Central Life Securities Company v. Smith, 236 Fed. 170.) Likewise Section 6 of the Illinois Banking Act, which refers to stockholders of banks, by the use of the pronouns "he" or "she" may create the implication that it was intended that the stockholders in banks should be natural and not artificial persons.

IOWA.

Section 7940 of the 1927 Iowa Code, which authorizes corporations to hold stock in Railway Corporations, and Section 8434 of the 1927 Iowa Code, which recognizes the right of holding corporations to own stock in a public utility, are the only sections of the Iowa Laws relating to the ownership by corporations of stock in other corporations. Section 9 of Article VIII of the Iowa Constitution fixes the liability of stockholders of banks and refers to such stockholders by
using the pronouns "he" or "she", implying that stockholders in banks must be natural and not artificial persons. In view of these provisions it is doubtful whether holding corporations in this State may hold or purchase stock in banking corporations.

KENTUCKY.

There is no law in this State limiting the power of corporations to hold bank stock unless it be Section 567 of Carroll's Kentucky Statutes, which reads as follows:

"Nor shall any corporation directly or indirectly, engage in or carry on in any way the business of banking, or insurance of any kind, unless it has become organized under the laws relating to banking and insurance **".

A double liability is imposed upon stockholders of banks for all contracts and liabilities of such banks by Section 595 of Carroll's Kentucky Statutes.

LOUISIANA.

There are no laws in this State dealing specifically with this subject. Although subdivision II (e) of Section 12, (P. 417), Act. No. 250 of the 1928 Acts of the Louisiana Regular Session, permits corporations "to acquire * * * and to hold, * * * shares * * * of any other corporation, domestic or foreign, * * *" it is doubtful whether this subdivision is an authorization to holding corporations to acquire or hold shares of banking institutions in view of certain other subdivisions of Section 12, namely, I and II, and Sections 1 (P. 409) and 2 (P. 411) of the aforesaid 1928 Acts and Sections 1 (P. 1196) and 5 (P. 1203) of Volume 2 of the 1920 Constitution and Statutes of Louisiana.

MICHIGAN.

There are no laws in this State dealing specifically with this subject. However, the Session Laws of 1925 of Michigan, No. 363, p. 692, authorize corporations organized for pecuniary profit to purchase and hold shares of stock in other corporations organized for purposes similar to those of such corporations and this might be held to affect the right of holding corporations to own stock in banks, depending upon whether or not banks are organized for "similar purposes."

MINNESOTA.

There are no laws in this State dealing specifically
with this subject. Under Section 3, Article 10 of the Minnesota Constitution, each stockholder in any corporation organized under the laws of Minnesota, except those organized for the purpose of carrying on a manufacturing or mechanical business, is liable to the amount of the stock held or owned by him.

MISSOURI.

Trust companies may purchase or hold stock in other banks or trust companies. (Paragraph 9, Section 11807 of the 1919 Revised Statutes of Missouri.)

NEW JERSEY.

While there does not appear to be any statute in this State prohibiting absolutely the ownership of bank stock by holding corporations, there is a statute known as Chapter 273, 1928 Laws of New Jersey, Section 3 of which prohibits corporations that own more than ten per cent of the stock of any bank or trust company in the State of New Jersey from purchasing after the date the statute became effective more than ten per cent of the stock of any other bank or trust company doing business in the State of New Jersey. This statute does not require corporations to dispose of any bank stock that they may have owned before the law became effective and certain institutions (enumerated in Section 14 of the laws above referred to) are specifically exempted by Section 3 from its provisions. Section 3 reads as follows:

"3. Any corporation, other than corporations specifically exempted from the provisions of this act, which now or hereafter owns more than ten per centum of the number of shares of the capital stock now or hereafter at any time issued and outstanding of any bank or trust company or national bank, now or hereafter doing business in this State, shall not purchase more than ten per centum of the number of shares of capital stock at any time issued and outstanding of any other bank or trust company or national bank, now or hereafter doing business in this State."

Section 14, which enumerates the specifically exempted institutions referred to in Section 3, reads as follows:

"14. The provisions of this Act and the penalties thereof shall not apply to the following corporations, viz.: Banks and trust companies organized under the laws of this State and national banks doing business in this State, nor to such banks, trust companies and national banks while acting in a fiduciary capacity representing any individual or
individuals or the estate of any individual; nor to any other corporation the entire capital stock of which is owned by or held in trust for the shareholders of any bank or trust company organized under the laws of this State or any national bank doing business in this State, in the same relative proportion as the stock held in said bank, trust company or national bank."

Under the laws of New Jersey, stockholders of New Jersey banks and trust companies are not subject to a double liability, as are stockholders of national banks and of banks and trust companies in other States. Nor do the laws of New Jersey impose such liability upon stockholders of holding corporations.

NEW MEXICO.

There are no laws in this State dealing specifically with this subject but there are certain sections of the laws of New Mexico which might be held to authorize corporations to purchase or hold stock in banking institutions.

Section 1019 of the 1915 Annotated Statutes of New Mexico authorizes corporations unrestrictedly to "purchase, hold, * * the capital stock of, * * * any other corporation or corporations, of this or any other territory or state, * * *" and no limitation is placed upon the amount of such stock that may be so purchased or held.

Section 395 of the Statutes above referred to prohibits banks from purchasing or holding the capital stock of "any other incorporated company" unless the acquisition of such stock is necessary to prevent loss upon a debt previously contracted and stock so acquired must be disposed of within six months if possible.

In view of the fact that the only specific prohibition in the New Mexico laws against the purchasing or holding of stock in other corporations is that as contained in Section 395, which restricts banks only, and that corporations unrestrictedly are given the broad power, under Section 1019, to purchase and hold stock of "any other corporation or corporations", it might be held that banks are included within the phrase "any other corporation or corporations" and that, therefore, corporations may purchase stock in banking institutions.

OHIO.

There are no laws in this State dealing specifically with this subject. Stockholders in banking corporations are subjected to double liabilities for debts of the bank (General Code of Ohio, Section 710-75).
OKLAHOMA.

There are no laws in this State dealing specifically with this subject, but it is possible that it might be held that corporations may purchase and hold stock in banking institutions.

Section 5301 of the 1921 Compiled Statutes of Oklahoma provides that "All corporations organized for any of the purposes authorized by this section shall have the power to own and hold stock of other corporations, except as prohibited by the Constitution of this State".

Section 41, Article 9 of the Constitution of Oklahoma, forbids corporations to own or hold stock in other competitive corporations engaged in the same kind of business and banks or trust companies to own or hold stock in other banks or trust companies, except in those cases where such corporations or banks or trust companies have acquired such stock to secure or satisfy a bona fide indebtedness, and in such cases the stock must be disposed of within twelve months.

Section 11029 of the 1921 Compiled Statutes makes it unlawful for corporations to combine to place the control of these corporations in the hands of a trustee or a holding corporation if the intent and purpose of such combination is to restrict or restrain trade.

In view of the fact that the provisions of Section 5301 of the 1921 Compiled Statutes granting to corporations the power to hold or own stock in other corporations seem rather broad, and that neither the prohibitions of the Constitution referred to therein and upon which such power is dependent, nor the provisions of Section 11029 of the 1921 Compiled Statutes appear to be specifically applicable, in that Article 9 of the Constitution prohibits only banks or trust companies from owning or holding stock in other banks or trust companies and does not purport to prohibit corporations from owning or holding stock in other corporations if the latter are not engaged in the same kind of business as, and do not compete with, the purchasing corporations, and Section 11029 of the Compiled Statutes only affects combinations in restraint of trade, it is possible that it might be held that corporations may purchase and hold stock in banking institutions.

OREGON.

Under the provisions of an Act of this State approved March 9, 1929 (Chapter 444, General Laws of Oregon, 1929) any corporation "now or hereafter organized in this state, or licensed to do business herein" may own, hold or control the stock of any bank or trust company and while so owning, holding or controlling such stock the corporation is subject to the following restrictions:
(Oregon continued)

(1) It shall not borrow money or otherwise secure credit directly or indirectly, from such bank or trust company, unless the loan or credit is adequately secured by collateral other than stock or evidences of indebtedness of any corporation which it controls.

(2) It shall not sell any stock, securities or other evidences of indebtedness of any other corporation which it controls, to or through the bank or trust company in which it owns or holds stock; nor can it use such bank or trust company as any agent for the purpose of selling or otherwise disposing of such stock, securities or other evidences of indebtedness without first obtaining permission from the Oregon Corporation Commissioner.

(3) It shall not carry as an asset any expenses incident to organization or to the sale of stock after organization.

Penalties are prescribed for violations of this act by corporations or their officers or employees, and all corporations heretofore organized under the laws of Oregon or licensed to do business therein must bring themselves within the provisions of this act within six months after the date it became effective.

There is no provision in this act imposing upon the stockholders of corporations owning or holding stock in banks or trust companies the liability imposed upon the stockholders of such banks or trust companies.

PENNSYLVANIA.

There do not appear to be any provisions in the statutes of this State specifically covering the purchase or ownership of stock in institutions engaged in a banking business. However, under Section 1 of an Act of July 2, 1901, P. L. 603, as amended by an Act of April 18, 1929, and Section XX of paragraph 5598 of West's 1920 Pennsylvania Statute Law, it might be held that corporations are authorized to exercise this power.

Section 1 of an Act of July 2, 1901, P. L. 603, as amended by an Act of April 18, 1929, provides that: "* * * any corporation created by general or special laws, may purchase, hold * * * the shares of the capital stock of * * * any other corporation or corporations of this or any other State, and while the owner of said stock may exercise all the rights, powers and privileges of ownership, * * *."
Section XX of paragraph 5598 of West's 1920 Pennsylvania Statute Law provides that a corporation "pay he formed "For any lawful purpose not specifically designated by law, as the purpose for which a corporation may be formed."

There does not appear to be any statute in this State expressly providing that stockholders of corporations owning stock in banks are subject to a stockholders' liability similar to the liability imposed upon stockholders of banks. Section 1184 of the Pennsylvania Statutes imposes a double liability upon stockholders of banks and it has been held that stockholders of trust companies are not subject to a double liability. See case of De Haven v. Pratt, (1909), 72 Atl. 1068, 223 Penn. 633.

**TEXAS.**

There are no statutes in this State dealing specifically with this subject, but it is questionable whether holding companies may purchase and hold stock in banking institutions.

Article 513 of the 1925 Revised Statutes forbids banks or trust companies "to own more than ten per cent of the capital stock of any other banking corporation, ** * *" unless the ownership of such excess stock "shall be necessary to prevent loss upon a debt previously contracted in good faith; ** * *", and in such cases the stock must not be owned for a longer period than six months.

Article 1302 of the 1925 Revised Statutes permits private corporations to "purchase, ** * * hold, own, ** * * shares of capital stock, ** * * of foreign or domestic corporations not competing with each other in the same line of business; provided the powers and authority ** * * conferred shall in no way affect any provision of the anti-trust laws of this State."

Article 7426 of the 1925 Revised Statutes defines a trust to be "a combination of capital, ** * * by two or more persons, firms, corporations, ** * *: (1) To create, or which may tend to create, or carry out restrictions in trade or commerce ** * or to create or carry out restrictions in the free pursuit of any business authorized or permitted by laws of this State" or "(3) to prevent or lessen competition in aids to commerce, ** * * ** *",

Article 7427 of the 1925 Revised Statutes states that a monopoly exists when two or more corporations combine or consolidate to bring the "direction of the affairs" of such corporations "under the same management or control for the purpose of producing, or where such common management or control tends to create a
trust", or where "any corporation acquires the shares * * * of stock * * * of any other corporation or corporations, for the purpose of preventing or lessening, or where the effect of such acquisition tends to affect or lessen competition, whether such "acquisition is accomplished directly or through the instrumentality of trustees or otherwise."

In view of the foregoing it is questionable whether holding corporations may purchase or hold stock in banking institutions.

VERMONT.

There are no laws in this State expressly prohibiting the ownership by holding companies of the stock of banks but there is a provision prohibiting holding companies from holding or acquiring stock in other corporations. Section 4925 of the 1917 General Laws of Vermont contains this prohibition and reads as follows:

"The corporation shall not be permitted to acquire or hold stock in other corporations to such an extent that its primary business is the holding of such stock. A violation of this provision shall be cause for the dissolution of the corporation under the provisions of Section 4944."

There are no laws in this State imposing upon stockholders of holding companies a stockholder's liability similar to that imposed upon holders of bank stock.

WASHINGTON.

There are no laws in this State dealing specifically with this subject.

During the 1929 Regular Session of the Legislature of this State a bill known as "Substitute House Bill No. 72" was introduced to restrict the ownership of bank or trust company stock by corporations, to 20% of the capital stock of such bank or trust company, but this bill did not pass.

WEST VIRGINIA.

Under date of February 28, 1929, an Act was passed by the Legislature of this State affecting the purchase or ownership of stock in banking institutions by firms, associations or corporations. (Section 9, Chapter 23, Acts of 1929). Section 9 of this Act provides in part as follows:
(West Virginia continued)

"It shall be unlawful for any firm, association or corporation to purchase and hold stock in any banking institution organized or authorized to transact business hereunder for the purpose of selling, negotiating or trading participation in the ownership thereof either for the purpose of perfecting control of one or more such banking institutions or for the purpose of inducing other persons, firms or corporations or the general public to become participating owners therein. Nothing herein shall prevent the ownership of stocks in any such banking institution by any corporation for investment purposes.

With reference to the liability imposed upon stockholders in banks, Section 9 provides as follows:

"Each stockholder of any banking institution organized under the laws of this state, in addition to the liability imposed upon him as stockholder of a corporation under the provisions of the general corporation laws shall be liable to the creditors of the banking institution, on obligations accruing while he is a shareholder, to an amount equal to the par value of the shares of stock held by him."

WISCONSIN.

In this State an Act recently was enacted regulating the ownership of stock in banks and trust companies. (Chapter 445, Wisconsin Laws of 1929 - Published, August 30, 1929) Relevant provisions of this Act are summarized briefly as follows:

No corporation organized under the laws of Wisconsin is permitted to hold more than 10% of the stock of any bank or trust company, unless 75% of the stockholders of both corporations vote in favor thereof at a meeting especially called for that purpose.

No State bank or trust company may vote to authorize a foreign corporation to purchase stock in such State bank or trust company, unless such foreign corporation shall have qualified to do business in Wisconsin.

Whenever the ownership or control of a majority of the stock of any State or national bank doing business in Wisconsin is held by any foreign corporation which has not qualified to do business in the State, such bank shall be disqualified to act as a depository for any public funds of the State or any subdivision thereof, or as a depository for reserve
funds of State banks until such foreign corporation shall have qualified to do business in the State.

Domestic corporations and foreign corporations authorized to do business in the State which own or control the stock of a State bank or trust company shall be held liable for any assessment made against the stockholders of such bank or trust company to the par value of the stock so owned or controlled; and such holding corporations are required to deposit with the State Treasurer securities equal to fifty per cent of the par value of the stocks of State banks or trust companies owned or controlled by such holding companies, except that the aggregate amount of such securities shall not exceed the largest amount required to be deposited by Wisconsin trust companies.

If the stockholders' liability of any such holding company is not fully paid, the stockholders of such holding company are liable for an assessment sufficient to cover the deficit.
SUBJECT: Uniform Policy re Mail Transfers from Non-member Banks.

Dear Sir:

This is to advise you that the Federal Reserve Board has approved the following recommendation of the Standing Committee on Collections which was concurred in by the Conference of Governors at its meeting on April 3, 1929:

"The committee, therefore, recommends that Federal reserve banks decline to accept mail transfers from non-member banks with the one exception, namely: that any Federal reserve bank accept from any non-member bank, whether located in its own district or in another Federal reserve district, such non-member bank's own draft on a clearing house bank in the city of the Federal reserve bank or one of its branches, for the credit of one of its own member or non-member clearing banks, provided such member or non-member clearing bank has authorized the Federal reserve bank to accept such remittance from the non-member bank as agent of the member or non-member clearing bank, subject to the same conditions of collection and credit that would prevail if such remittance had been sent to the Federal reserve bank by the member or non-member clearing bank itself.

"It is further recommended that, if the Governor's Conference approve this recommendation, the Federal Reserve Board be requested to make their action mandatory upon all Federal reserve banks, since it is evident that the practices of the Federal reserve banks should be uniform in this matter."

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

To Governors and Chairmen of all F.R. Banks,
November 6, 1929.


Dear Sir:

As heretofore, the Federal Reserve Board will furnish a complimentary copy of the Federal Reserve Bulletin to each State bank examiner during the year 1930. Please furnish this office, not later than December 15th, with the names and addresses of the State bank examiners in your district to whom a complimentary copy should be sent.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.
WASHINGTON
November 7, 1929.

FEDERAL RESERVE BOARD

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Topic for Governors' Conference:- Interpretation of Uniform Policy re Check Collections.

Dear Sir:

There is enclosed for your information a copy of a letter addressed to the Board by Governor Harding raising the question whether the uniform policy on check collections set forth in the Board's letter of October 16, 1929 (X-6389) should be construed as preventing a Federal reserve bank from making special arrangements to secure the payment of checks in special cases and particularly whether it would be inconsistent with the uniform policy for a Federal reserve bank to take a pledge of collateral for the specific purpose of protecting itself as agent in the collection of checks on a specific bank. There is also enclosed for your information a copy of a letter on this subject which the Board's General Counsel is addressing to counsel for all Federal reserve banks, discussing the question briefly and requesting each of the counsel to advise the Governor of his Federal reserve bank of his views on this question prior to the Governors' Conference.

The Board has voted to place on the program for the forthcoming Governors' Conference the specific question raised by Governor Harding's letter, i.e., whether it would be inconsistent with the uniform policy, which has received the approval of the Federal Reserve Board, for a Federal reserve bank to take a pledge of collateral for the specific purpose of protecting itself as agent in the collection of checks on a specific bank.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.
Dear Sir:

I enclose for your information a copy of a letter addressed to Governor Young by Governor Harding with reference to the Board's letter of October 16, 1929 (X-6389), announcing the Board's approval of the uniform policy to be pursued by Federal reserve banks in asserting rights on behalf of depositors of unremitted for transit items against receivers of insolvent member banks. You will observe that Governor Harding raises the question upon which the eight counsel voting for this uniform policy split by a vote of five to three, i.e., the question whether it would be contrary to the uniform policy for a Federal reserve bank to make special arrangements to secure the payment of checks in special cases, (See page 5 of the Minutes of the Conference of Counsel) and particularly whether it would be inconsistent with the uniform policy for a Federal reserve bank to take a pledge of collateral for the specific purpose of protecting itself as agent in the collection of checks on a specific bank.

The Federal Reserve Board has placed this specific question on the program for the forthcoming Governors' Conference, and I believe it would be advisable for counsel for each of the Federal reserve banks to advise the Governor of his Federal reserve bank of his views on this question. Before doing so I respectfully suggest that counsel for each Federal reserve bank, including those who voted against the majority report, consider this question anew on its merits without being prejudiced by his vote at the Conference of Counsel, with a view of possibly obtaining greater unanimity of thought on this specific question than it was possible to obtain during the hasty consideration of this point during the closing moments of the Conference of Counsel. I make this suggestion in view of the fact that counsel voting against the majority resolution have not recorded their views on this question at all, and it is possible that some of the five counsel voting against the proposed amendment reserving the right of Federal reserve banks to take special steps to protect themselves in specific cases, may have done so not because they were opposed to any such practice on principle but because they believed it was unnecessary and unwise to amend the resolution so as expressly to reserve such right.
When this question arose during the Conference of Counsel, I expressed the off-hand opinion that the resolution adopted by the majority counsel would preclude acceptance of collateral for this purpose. That view was based upon the statement in paragraph 6 of the resolution that "any deviation from this policy" would entail grave dangers to the Federal Reserve System and was influenced by the personal belief that it would be a dangerous practice to accept collateral in some instances and not in others.

After a closer study of the resolution, however, I am now of the opinion that it would not contravene the terms of the resolution for a Federal reserve bank in a specific case to accept a separate deposit of collateral for the specific purpose of protecting itself as agent in collecting checks; because the 4th paragraph of the resolution refers only to collateral taken from a member bank "for the payment of indebtedness due to it by such member." I believe, however, that, whenever a Federal reserve bank takes collateral to protect it in its capacity of a collection agent, (1) such collateral should be taken under a special collateral agreement expressly providing that it is pledged to the Federal reserve bank in its capacity as a collection agent to protect it against losses in such capacity only, and (2) such collateral should at all times be kept separate and distinct from any collateral taken to secure any indebtedness owing to the Federal reserve bank in its own right. I further believe that any arrangement by which the same collateral is taken to secure indebtedness owing to the Federal reserve bank in its own right and at the same time to protect it against losses in its capacity as a collection agent or which otherwise would produce any confusion or conflict between the selfish interests of a Federal reserve bank and its duties as a collection agent would be a clear violation of the uniform policy.

On the question of policy, I am still of the opinion that there is some danger in a Federal reserve bank being held guilty of negligence for failure to take such collateral in a particular case when it can be shown that it has taken such collateral in other cases; but I personally believe that this will result in less danger to the Federal reserve banks than would a rigid rule preventing them from taking any special steps to protect themselves in collecting checks on banks in a precarious financial condition. In other words, I think the practical considerations stated by Governor Harding outweigh the danger of loss resulting from the taking of greater precautions in some cases than in others.

In conclusion, permit me to suggest that in my personal opinion it would be unprofitable at this time to enter upon a further
discussion of the principal points considered at the last Conference of Counsel, as a uniform policy with respect thereto has not only been adopted by the Conference of Governors but has now been approved by the Federal Reserve Board.

With kindest personal regards, I am

Very truly yours,

Walter Wyatt,
General Counsel.

TO COUNSEL OF ALL F. R. BANKS.
October 19, 1929.

Hon. R. A. Young, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Young:

I have before me the Board's letter of October 16, 1929 (X-6389) with reference to a uniform policy on check collections and amendments to Regulation J, and I note that the Board has voted to approve the principles set forth in the resolution and report adopted by a majority of the counsel of all Federal Reserve Banks at the conference held in Washington on April 1 and 2, 1929.

As indicated by our Counsel, Mr. Weed, at the Conference of Counsel, and by me at the joint meeting of the Governors with the counsel of all the Federal Reserve Banks, we are heartily in agreement with the general principles that there should be no attempt to "superimpose upon a pure agency status any indicia of ownership with respect to the subject matter of the agency". We are likewise in agreement with the principle laid down in the amendment of Paragraph 6 of Section V of Regulation J recommended by counsel and set forth in the Board's letter of October 16 to the effect that neither the owner nor the holder of an unpaid check shall have any right of recourse upon, interest in, or right of payment from, any fund, reserve, collateral, or other property of the drawee bank in the possession of the Federal Reserve Bank.

For the sake of the record, however, and in order to make sure that our practice shall be in agreement with the policy and principles set forth in the Board's letter of October 16, it seems to me that I should offer a comment with reference to a part of the resolution of counsel and thus determine whether our interpretation of the policy laid down in that resolution and in the amendments of Regulation J is correct.

At the time the resolution and report was adopted by a majority of the counsel, Mr. Weed, Counsel for this bank, stated that he voted for the report with the understanding that it was not intended to carry with it any implication that a Federal Reserve Bank may not make special arrangements to insure the payment of checks in special cases. His reservation had particular reference to Paragraph 4 of the resolution reading as follows:—
"4. When a Federal reserve bank takes from one of its members collateral for the payment of indebtedness due to it by such member, such collateral should be applicable only to the satisfaction and discharge of the obligations due to the reserve bank in its own right. It would be an unwise policy, in our opinion, to permit such collateral to be utilized in the liquidation or satisfaction of debts payable to the Federal reserve bank as a collection agent."

In other words, in voting for the adoption of the report, our counsel took the position that Paragraph 4 of the resolution had reference to collateral taken by a Federal Reserve Bank for the payment of indebtedness due to the Federal Reserve Bank in its own right and had no reference to any separate or special agreement under which collateral might be pledged with the Federal Reserve Bank in its capacity as agent. Later when the Governors met with the Conference of Counsel, I raised the question whether the policy outlined in the resolution would prohibit our making special arrangements in special cases, and the answer made to me by the spokesman for the majority of counsel was that the resolution would not prohibit special arrangements to insure the payment of checks in special cases.

Naturally therefore we interpret the resolution and the amendments to Regulation J, as set forth in the Board's letter of October 16, in the light of the discussion which took place at the conference, but inasmuch as the point is not covered in the letter it would seem to be in order to verify our understanding as to what we may do under the policy approved by the Board. I sincerely hope that our interpretation may be considered consistent with that policy.

To begin with, each Federal Reserve Bank must receive from its member banks and from other Federal Reserve Banks checks drawn upon any of its member banks. Federal Reserve Banks must therefore attempt to collect checks drawn on any member bank in their districts, either by presenting them direct or through other banks. Legally I suppose there is no reason why presentment could not be made through other banks but obviously if such a course were pursued it might tend in many cases to invite comment and bring about bank suspensions which could otherwise be ultimately avoided. In the case of checks drawn on non-member banks we are, it is true, not under the same legal compulsion to receive them as we are in the case of checks drawn on member banks, but as a practical banker and a student of the operation of the Federal Reserve System, I do not see how we can avoid accepting from our member banks and from other Federal Reserve Banks checks drawn on any par-remitting bank in the district which is open and apparently solvent. If we were to refuse to accept such checks, we might again bring about unnecessary and undesirable results. It seems to me therefore that as a practical matter we must
receive for collection checks drawn on any bank in our district as long as there is a chance to effect collection and that we must avoid so far as possible collection of checks by indirect methods.

If it is a reasonable conclusion that acting as agent for others we must accept checks for collection, then it seems to me we must be permitted to protect ourselves against any liability as agent, and if I construe the Federal Reserve Act correctly, there is nothing in the Act to prevent our safeguarding ourselves against agency liabilities or to prevent our protecting our principals.

This would also seem to be consistent with the general rule which permits a competent agent to perform acts which are ordinarily within the scope of the agent's principal. I believe that banking practice for years before the enactment of the Federal Reserve Act established the right of a bank holding for collection checks drawn on a second bank to require the drawee bank to establish a fund or pledge collateral with the collecting bank to insure the payment of such items. Several collecting banks may unite for such a purpose and either through clearing house associations or otherwise ask for collateral from certain drawee banks to insure the payment of checks. I think therefore that there can be no reasonable question under general principles of law as to the right of a Federal Reserve Bank acting as agent for a group of banks, its member banks and other Federal Reserve Banks, to take collateral from individual drawee banks under special agreements in which such collateral is pledged to the Federal Reserve Bank as agent.

I am offering this comment not because I consider argument necessary but because it seems to me vitally important that there should be no question as to the right of a Federal Reserve Bank to protect itself as agent, and my statement is made principally that the record may be clear. Inasmuch as we construe the policy set forth in the resolution of the majority of counsel and the amendments of Regulation J as having reference to collateral received by a Federal Reserve Bank in its own right only, that is as principal, our conclusion, for the reasons I have given, is that the Board's letter of October 16 was not intended to prevent any Federal Reserve Bank's making special arrangements to protect itself as agent; in other words collateral pledged with the Federal Reserve Bank in its own right is one thing and is within the scope of the Board's letter of October 16, while collateral pledged with the Federal Reserve Bank as agent is another thing and not covered by the Board's ruling or amendments of Regulation J. I do not know whether it is legally necessary for Paragraph 6 of Section V to recognize this distinction but it does seem essential that the distinction shall be recognized in the record.

I should be obliged if you would let me know whether our interpretation is in the opinion of the Board consistent with the policy outlined in the Board's letter of October 16 and the amendments of Regulation J contained in that letter.

Very truly yours,

(S) W. P. G. Harding,
Governor.
COMMODITY FUTURES—CONTRACT SPECIFICATIONS REGARDING DELIVERIES

1. Place of Delivery

The contract always specifies the place (or places) of delivery. This is an essential feature of organized exchanges for dealing in commodity futures.

In most cases but one place of delivery is specified, the place in which the futures exchange is located. There are a few exceptions, however, to this rule. The only exceptions so far as American markets are concerned are (a) all deliveries on Winnipeg contracts (grain) must be at Fort William—Port Arthur; (b) deliveries of copper on New York contracts may be either at New York City or (with a differential) from plant or refinery in five designated states: New York, New Jersey, Indiana, Illinois, Pennsylvania; (c) all deliveries on Chicago cotton contracts must be at Galveston or Houston; and (d) deliveries on New York cotton contracts may be made either at New York City or (with a differential) at designated Southern points—Norfolk, Charleston, Galveston, Houston, New Orleans; a cotton contract must be delivered in its entirety, however, at one of the delivery points and in not more than one warehouse.

Commodities covered with reference to place of delivery:
Grains (wheat, corn, oats, rye, barley), cotton, provisions (ribs, bellies, lard), rubber, coffee, sugar, coca, silk, cottonseed oil, cottonseed, cottonseed meal, copper, tin, burlap.

2. Deliverable Grades

The futures contract always specifies a grade (or description)
or a number of grades which are deliverable on contract; this is an essential feature of organized exchanges for dealing in commodity futures.

The specifications regarding deliverable grades are evidently framed, in general, with a view (a) to requiring that deliveries consist of merchantable stock, and (b) to rendering eligible for delivery at least a substantial part of available supplies. In line with this general principle, however, there is much variation in practice. All of the markets of which the rules have been consulted appear to give the seller considerable latitude in choosing the grade or grades that he will deliver; none of them limits his choice to a single grade. Certain limitations for which information is available, all of which relate to newer and smaller markets than cotton or grain, are as follows:

Silk: On any one contract (10 bales) the seller's delivery "must be made up exclusively of one grade"—but he may choose this grade from about 10 deliverable grades.

Coffee: Two or three contracts; on one of these (Santos) the seller may deliver grades Nos. 2, 3, 4, 5, 6, but the average of his deliveries may not be above No. 3 or below No. 5.

Sugar: The contract is for 50 tons and the contract grade is Cuba centrifugal 96 degrees average polarization. The sellers' option regarding deliveries embraces sugars from about 10 countries and a range of 93 to 98 degrees polarization, but no lot of 50 tons may consist of sugar from more than one country of origin.

Cocoa: The contract is for 30,000 pounds of cocoa beans and the contract grade is "standard." On each contract, however, the delivery may not consist of more than 5 chops (trademarks), except that it may consist of 6 chops in case some small difference in weight needs to be made up. The number of chops from which he may choose is very large.
Burp: The seller may choose from a considerable number of constructions and a considerable number of Calcutta mills, but delivery on any one contract (25 bales—50,000 yards) must consist exclusively of one of the constructions specified and be the out turn of but one mill.

Note on cotton. — A report of the Federal Trade Commission entitled "The Cotton Trade," issued in two parts in 1924 (Senate Document No. 100, 68th Congress, 1st Session) devotes a chapter (Part I, Ch. 7, pp. 160-190) to a consideration of the desirability of revising the grades deliverable on contract. Its conclusions are as follows:

"A careful study of the various proposals which have been made for changes in the grades of cotton deliverable on future contracts leads to the conclusion that the only change relating to grades that promises an improvement in the present system of cotton future trading is the contiguous-grade contract.

Contiguous-grade deliveries constitute more merchantable lots of cotton than do present deliveries. They conform substantially to the manner in which spot cotton is handled by merchants in their sales to mills. The adoption of such a requirement should, by increasing the merchantability of the contract delivery, exercise a favorable influence on the spot-future spread. ......

The contiguous-grade contract should be adopted as part of the southern warehouse delivery system, as an offset to the additional option of the seller as to the place of delivery and in order that the dealer taking delivery will receive a merchantable lot of cotton though at a point which may not be most satisfactory to him."

Commodities covered with reference to deliverable grades:
Grains, cotton, rubber, coffee, sugar, cocoa, silk, cottonseed oil, cottonseed, cottonseed meal, copper, tin, burlap.

The Grain Futures Administration of the U. S. Department of Agriculture has compiled a little book giving detailed information with regard to grades of grain deliverable on contract. A copy of this book is attached.
Mr. Julius B. Baer, 43 Cedar Street, New York City, is said to be a recognized authority with regard to the nature of contracts for the future delivery of commodities in organized markets. He is an attorney-at-law who has interested himself in the organization of most of the exchanges which have been set up in this country during recent years and is the attorney for several of these exchanges, among them the New York Cocoa Exchange.
November 7, 1929.

SUBJECT: Canadian Currency.

Dear Sir:

After reviewing replies received from the Federal reserve banks to the Board's letter X-6370 of September 4, the Board has approved the report of the Committee on Canadian currency with some modification in the press statement.

The Board will issue the statement to the press at 2 o'clock on Friday, November 22, and it is suggested that a corresponding statement be given to the press at your head office and if you think it advisable at each of your branches, if any.

It should be understood in this connection that the Canadian currency received from member banks may be shipped to the Detroit branch of the Federal Reserve Bank of Chicago for conversion into United States currency or it may be disposed of locally in any manner which the Federal reserve bank may deem advisable.

A copy of the statement to be given to the press by the Federal Reserve Board together with a draft of a letter to be sent by each Federal reserve bank to member banks in its district is enclosed here-with. If you feel that the letter to member banks in your district should be amplified somewhat the Board has no objection to your adding to it but would suggest that no changes be made in the statement to be given to the press.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
REPORT OF COMMITTEE ON
REDEMPTION OF CANADIAN CURRENCY

To the Federal Reserve Board,
Washington, D. C.

Dear Sirs:

The Committee appointed to determine the most efficient and economical means of effecting the redemption of Canadian currency begs to transmit herewith its recommendations:

(a) That all Federal Reserve Banks offer their facilities to member banks for the collection and conversion of Canadian currency into United States currency at the current rates of exchange,

(b) That the Federal Reserve Banks absorb the cost of shipping Canadian currency from the member banks to their respective Federal Reserve Banks but that they deduct an allowance to cover shipping charges, if any, from the Federal Reserve Banks to the points of conversion into United States currency,

(c) That all Federal Reserve Banks send a circular, similar to the attached draft, to their member banks stating the terms upon which Canadian currency will be received,

(d) That the Federal Reserve Board and each Federal Reserve Bank and Branch simultaneously give to the
press copies of the attached circular announcing terms under which the Federal Reserve Banks and Branches will receive Canadian currency.

With respect to the procedure under which Federal Reserve Banks and their Branches will handle the collection and conversion of Canadian currency, the Committee suggests that the Federal Reserve Banks and Branches ship Canadian currency direct to the Detroit Branch of the Federal Reserve Bank of Chicago for conversion and credit, or make such other disposition thereof as conditions in their districts warrant. The Committee believes that it is important that each Federal Reserve Bank employ the most economical means of conversion. The Committee also suggests that Federal Reserve Banks permit member banks to include Canadian currency in their shipments of United States currency provided both kinds of currency are properly segregated within the package.

The Committee believes that the Federal Reserve Banks should not at this time offer their facilities to member banks for the collection and conversion of Canadian coin.

Your Committee has considered the desirability of a possible arrangement with the Canadian Government or the Canadian banks which would provide for the exchange of United States and Canadian currencies at par. While in theory much may be said in favor of such a plan, it appears to be inadvisable to endeavor to exchange Canadian and United States currencies at par without making similar arrangements to maintain exchange at parity between the two countries, a subject which your Committee does not have under consideration.

Respectfully submitted:

E. L. Smead

(S)

Wm. R. Stetson

J. E. Crane
X-6413-b

November 22, 1929.

SUBJECT: Canadian Currency.

To Member Bank Addressed:

Enclosed herewith is a statement which the Federal Reserve Board and the Federal reserve banks and branches have given to the press, relating to the conversion into U. S. funds of Canadian paper currency spent in this country.

In accordance with this statement, you may include Canadian paper currency in your shipments of United States currency provided the two kinds of currency are properly segregated within the package.

Credit for such currency will be given for its face value and when the cost of conversion into United States funds is determined, which should generally average less than one per cent, such cost will be charged to your reserve account.
FEDERAL RESERVE BOARD
STATEMENT FOR THE PRESS

For release
Friday, November 22, 1929.

SUBJECT: Canadian Currency.

The Federal Reserve Board announces that a plan has been worked out and will be put in operation for handling Canadian currency deposited with Federal reserve banks, at a minimum of the actual collection charges incurred by them.

The discount on Canadian currency brought into the United States by travelers has frequently ranged as high as 10 and sometimes even as high as 20 per cent, at places remote from the border line. This is regarded as excessive and has given rise to a feeling of resentment in Canada, especially as United States currency is generally accepted at par in Canada.

The Federal Reserve Board has taken the subject up with the Federal reserve banks and they have agreed to offer their facilities to member banks for the collection and conversion of Canadian paper currency into United States currency at the current rates of exchange. The Federal reserve banks will absorb the cost of shipping Canadian paper currency from the member banks to their respective Federal reserve banks but will deduct an allowance to cover the actual exchange charges, and insurance and shipping charges, if any, from the Federal reserve banks to the points of conversion into United States currency. During the past three years the cost of conversion of Canadian currency into United States funds, including both the exchange and the shipping charges, has averaged less than 1 per cent.

The new method which is to be put into effect by Federal reserve banks for handling Canadian currency in the future, will, however, result in such substantial reductions in the cost of collecting this currency as to bring it close to par. The Board feels that if member banks cooperate in this matter by extending a similar service to their customers, Canadian tourists traveling in this country will find American merchants willing to accept Canadian currency at or near par.
For immediate release,
Friday, November 8, 1929,

The Federal Reserve Board has had under consideration the question whether drafts drawn in accordance with the following facts are eligible for acceptance by member banks under the provisions of Section 13 of the Federal Reserve Act:

A firm in New York City purchases certain staples from a seller in a western city who ships the same and draws a sight draft on the purchaser in New York with bill of lading attached. This draft and bill of lading attached are sent in the customary way to a bank in New York, Bank A, designated by the purchaser. The latter then draws a 90 day bill on Bank A, which is accepted by the bank, having at the time in its possession the bill of lading covering the staples in process of shipment. The acceptance is then discounted by the purchaser and the proceeds used to pay the sight draft and to obtain the release of the bill of lading. It does not require 90 days for the completion of the shipment of goods, only a relatively short time being necessary for this purpose. It was recommended to the Federal Reserve Board that the bill drawn by the purchaser be considered eligible for acceptance by Bank A when it has a maturity consistent with the usual and customary credit time prevailing in the particular business.

After a careful consideration of this question the Federal Reserve Board has ruled that a draft drawn by the purchaser of goods in accordance with the facts above stated is eligible for acceptance by a member bank when it has a maturity consistent with the usual and customary credit time prevailing in the particular business, provided that all other relevant requirements of the law and of the Board's regulations are complied with. Under the facts stated the accepting bank has possession of the bill of lading at the time of the acceptance of the draft drawn upon it, and this is believed to be a substantial compliance with the requirement of the law that shipping documents conveying or securing title be attached at the time of acceptance.

The ruling of the Federal Reserve Board set forth above may be in some respects inconsistent with previous rulings of the Board to the effect that bankers' acceptance credits should not be used for the purpose of furnishing working capital (See for example, 1920 Federal Reserve Bulletin, page 1301; 1923 Federal Reserve Bulletin, page 158.) Such previous rulings of the Board with regard to working capital may accordingly be regarded as superseded or qualified by the ruling contained herein to the extent of any such inconsistencies, but no further.
SUBJECT: Ruling of the Federal Reserve Board permitting more liberal use of Domestic Bankers' Acceptances.

Dear Sir:

The General Committee on Bankers' Acceptances at its meeting in March, 1926, adopted a report containing a statement of broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits, and recommending that the Federal Reserve Board make more liberal rulings with reference to the use of domestic acceptances in certain specified respects. This report was considered and approved by the Governors' Conference of March, 1926. The Federal Reserve Board acted upon the matter in June, 1928, and approved the report in so far as it contained a statement of the broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits, but with the understanding that such approval should not be construed as revoking or qualifying any of the Board's existing rulings. The Board stated at that time that if the broadened use of bankers' acceptances was found to be hampered by the existing rulings, it would consider the question of revoking or qualifying such rulings provided a statement of specific facts arising in actual cases was submitted. (See X-6066-a).

At the request of the Governors' Conference, there have now been submitted to the Board six specific examples of transactions which it is claimed may not be financed by bankers' acceptances under the existing rulings of the Board. These are submitted as illustrative of the cases in which it has been recommended that acceptance credits be permitted. Five of these six examples have to do with the period of time which should be permitted in the case of a bankers' acceptance drawn by the purchaser of goods to finance their domestic shipment, while the sixth example has to do with the proposal to permit bankers' acceptances against readily marketable staples placed with an independent converter or processor who gives a proper receipt therefor.

The following facts may be regarded as typical of the facts of the first five specific examples submitted: A firm in New York City purchases certain staples from a seller in a western
city who ships the same and draws a sight draft on the purchaser in New York with bill of lading attached. This draft and bill of lading attached are sent in the customary way to a bank in New York, Bank A, designated by the purchaser. The latter then draws a 90 day bill on Bank A, which is accepted by the bank, having at the time in its possession the bill of lading covering the staples in process of shipment. The acceptance is then discounted by the purchaser and the proceeds used to pay the sight draft and to obtain the release of the bill of lading. It does not require 90 days for the completion of the shipment of goods, only a relatively short time being necessary for this purpose. It is recommended to the Federal Reserve Board that the bill drawn by the purchaser be considered eligible for acceptance by Bank A when it has a maturity consistent with the usual and customary credit time prevailing in the particular business.

The Federal Reserve Board has given careful consideration to this recommendation in the light of the report submitted by the General Committee on Bankers' Acceptances and with regard for its previous rulings on similar questions. In accordance with its ruling of June, 1928, approving the general principles laid down in the report of the General Committee on Bankers' Acceptances, the Board now rules that a draft drawn by the purchaser of goods in accordance with the typical statement of facts assumed above, is eligible for acceptance by a member bank when it has a maturity consistent with the usual and customary credit time prevailing in the particular business, and provided that all other relevant requirements of the law and of the Board's Regulations are complied with. Under the facts stated the accepting bank has possession of the bill of lading at the time of the acceptance of the draft drawn upon it, and this is believed to be a substantial compliance with the requirement of the law that shipping documents conveying or securing title be attached at the time of acceptance. From a practical standpoint it enables the bank to retain a more effective lien upon the release of the goods to the purchaser on a trust receipt.

The ruling of the Federal Reserve Board set forth above may be in some respects inconsistent with previous rulings of the Board to the effect that bankers' acceptance credits should not be used for the purpose of furnishing working capital. (See for example, 1920 Federal Reserve Bulletin, page 1301; 1923 Federal Reserve Bulletin, page 158). Such previous rulings of the Board with regard to working capital may accordingly be regarded as superseded or qualified by the ruling contained herein to the extent of any such inconsistencies, but no further.
The Federal Reserve Board has not taken action on the proposal to permit bankers' acceptances against readily marketable staples placed with an independent converter or processor who gives a proper receipt therefor as illustrated by the facts of the sixth specific example submitted to the Board.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.
STATEMENT OF BUREAU OF ENGRAVING AND PRINTING.
Federal Reserve Notes, Series 1928.
October 1 to 31, 1929.

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750,000 476,000 222,000 20,000 1,468,000 $131,386.00

1,468,000 sheets, $89.50 M, $131,386.00

Credit appropriations, 1930, as follows:

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<tr>
<td>Mtls. &amp; misc. exp., B.E. &amp; P.</td>
<td>32,178.56</td>
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Bureau of Engraving and Printing:

C. R. Long,
Assistant Director.
The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective November 15, 1929.
FOREIGN BRANCHES OF AMERICAN BANKING INSTITUTIONS

Branch: England: London

Bankers Trust Company, New York, N. Y.
Branches: France: Paris
England: London

Chase National Bank, New York, N. Y.
Branches: Cuba: Havana
Panama: Panama City
Canal Zone: Cristobal

Empire Trust Company, New York, N. Y. (Non-Member)
Branch: England London

Equitable Trust Company, New York, N. Y.
Branches: England: London (2 offices)
France: Paris
Mexico: Mexico City (Collection agency)

First National Bank, Boston, Mass.
Branches: Argentina: Buenos Aires (two offices)
Cuba: Havana (two offices)

Guaranty Trust Company, New York, N. Y.
Branches: England: London (three offices)
Liverpool
Belgium: Antwerp
Brussels
France: Paris
Havre

National City Bank of New York, New York, N. Y.
Branches: Argentina: Buenos Aires
Rosario

Belgium: Antwerp
Brussels

Brazil: Pernambuco
Rio de Janeiro
Santos
Sao Paulo

Chile: Santiago
Valparaiso

China: Canton
Dairen
Hankow
Harbin
Hongkong
<table>
<thead>
<tr>
<th>National City Bank of New York, New York, N. Y. (continued)</th>
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<tbody>
<tr>
<td>Branches: China:</td>
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<tr>
<td>Branches: China:</td>
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<td>Mukden, Manchuria</td>
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<td>Peking</td>
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<td>Tientsin</td>
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<td>Colombia:</td>
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<td>Bogota</td>
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<td>Medellin</td>
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<td>Cali</td>
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<td>Cuba:</td>
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<td>Caibarien</td>
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<td>Camaguey</td>
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<td>Cienfuegos</td>
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<td>Florida</td>
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<td>Guantanamo</td>
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<td>Havana - City Branch</td>
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<td>Belascoain</td>
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<tr>
<td>Galiano</td>
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<tr>
<td>Cuatro Caminos</td>
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<tr>
<td>La Lonja</td>
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<tr>
<td>Plaza de la Fraternidad</td>
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<td>Manzanillo</td>
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<td>Matanzas</td>
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<td>Moron</td>
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<td>Nuevitas</td>
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<td>Pinar del Rio</td>
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<tr>
<td>Santiago de Los Caballeros</td>
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<tr>
<td>Santo Domingo City</td>
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<tr>
<td>England: London - City Branch</td>
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<tr>
<td>West End Branch (City Bank Farmers Trust Co., 11 Waterloo Place, Ltd., a British Company handling trust operations only, entire stock owned by National City Bank, New York, is also at this address)</td>
</tr>
<tr>
<td>National City Bank of New York, New York, N. Y. (continued)</td>
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<tr>
<td><strong>Branches:</strong></td>
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<tr>
<td><strong>India:</strong> Bombay, Calcutta, Rangoon (Burma)</td>
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<td><strong>Italy:</strong> Genoa, Milan</td>
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<td><strong>Japan:</strong> Kobe, Tokyo, Yokohama, Osaka</td>
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<td><strong>Mexico:</strong> Mexico City</td>
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<td><strong>Panama:</strong> Colon, Panama</td>
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<td><strong>Peru:</strong> Lima</td>
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<td><strong>Porto Rico:</strong> San Juan, Caguas</td>
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<td><strong>Straits Settlements:</strong> Singapore</td>
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<td><strong>Uruguay:</strong> Montevideo</td>
</tr>
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<td><strong>Venezuela:</strong> Caracas</td>
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**BRANCHES OF FOREIGN BANKING CORPORATIONS OPERATING UNDER AGREEMENT WITH THE FEDERAL RESERVE BOARD**

Bank of Haiti, Inc. (Subsidiary of National City Bank of New York). Holds stock of Banque Nationale de la Republique d'Haiti, operating at the following points in the Republic of Haiti:

- Port au Prince (Head Office)
- Aux Cayes
- Cape Haitian
- Gonaives
- Jacmel
- Jeremie
- Petit Goave
- Port de Paix
- St. Marc
- Aquin (Agency)
- Miragoane (Agency)

Equitable Eastern Banking Corporation (Subsidiary of Equitable Trust Company, New York, N. Y.)

<table>
<thead>
<tr>
<th>Branches:</th>
<th>China:</th>
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<tbody>
<tr>
<td>Shanghai</td>
<td>Hongkong</td>
</tr>
</tbody>
</table>
International Banking Corporation (Subsidiary of National City Bank of New York, N. Y.)

Branches:

China:
- *Hankow
- *Peking
- *Shanghai
- *Tientsin

England:
- London

Spain:
- Barcelona
- Madrid

Philippine Islands:
- Cebu
- Manila

*Non-banking offices. Exercise note issuing function only

International Finance Company (Subsidiary of the National City Bank of New York). Owns entire capital stock of the National City Bank, France, S. A., Paris (two offices)
- Nice

Federal Reserve Board,
November 7, 1929.
November 15, 1929.

Federal Reserve Board,  
Washington, D. C.  

Attention: Mr. Walter Wyatt, General Counsel.  

Dear Mr. Wyatt:  

I am enclosing you herewith a memorandum opinion delivered by the District Court of the United States for the Eastern District of Virginia in an action brought by the Receiver of the First National Bank of St. George against the Federal Reserve Bank of Richmond to recover the amount of certain checks which it is alleged were paid to the Federal Reserve Bank of Richmond in contemplation of insolvency. The case may be of some interest, because, as you know, Federal Reserve Banks are frequently compelled to attempt to collect checks drawn upon banks which are in a weakened condition. If we refuse to accept payment of checks under such conditions we run the risk of being liable for damages because we have announced that the member bank is insolvent, and under this decision if we accept payment we run the risk of being compelled to refund it.  

I contemplate taking an appeal but have not as yet determined upon my course.  

Very truly yours,  

(S) M. G. Wallace,  
Counsel.
IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE EASTERN DISTRICT OF VIRGINIA

---

John R. Vann, as Receiver of
the First National Bank of St. George,
Complainant,

vs.

Federal Reserve Bank of Richmond,
Defendant.

---

Memo of the Court's findings of fact and
court's findings of fact and
law for the use of Counsel in preparing judgment.

A part of the facts is stipulated. In addition some oral evidence
was taken which is not disputed. The case is as follows: On March 29,
1928, the Reserve Bank had received from its correspondent banks and had
on hand for collection checks drawn on the First National Bank of St. George
amounting to $8,985.16, which on that day it mailed to that bank for payment.
On March 30, it had on hand $11,059.19 of checks on the St. George Bank which
likewise it mailed to that bank for payment. On the same day, viz. March 30,
it directed the manager of its Bank Relations Department, Mr. Garrett, who was
then in Charleston, South Carolina, to leave there and go immediately to
St. George, and demand of the St. George Bank either payment or return of the
checks contained in the two letters of the 29th and 30th. On arrival at
St. George about 10:30 A.M. of March 31, Mr. Garrett was informed by the
president of the St. George Bank that the Bank was not able to pay the checks
and the same were surrendered to Mr. Garrett and the checks themselves noted
for protest, but notice of protest was not mailed to the parties to said checks. The agent of the Reserve Bank was then informed that the St. George bank was making an effort to obtain money at Charleston, South Carolina, and that the continued operation of the bank would depend upon the success of that effort. These negotiations having proved abortive, the cashier of the St. George bank notified Garrett to that effect at 4 o'clock A.M. on the morning of April 2 (Monday), and asked his advice. He advised that the National Bank Examiner be called, and this the cashier of the St. George bank did from Garrett's hotel room, informing the Examiner that the Board of Directors of the St. George bank would meet at 8:30 Monday morning (April 2), and requesting him to come to the bank at once, stating that they were about ready to deliver the bank to him. The Bank Examiner was some distance away and could not arrive in time for the directors' meeting or until a little before midday. In the meantime Garrett, who was unwell and unable to return to St. George, called upon another agent of the Reserve Bank in the neighborhood to report at once to him, and upon his reporting around 9 o'clock, gave him the information he had with relation to the condition of the St. George bank, delivered to him the checks contained in the two letters from the Reserve Bank of the 29th and 30th, and requested him to do all needful things in connection therewith. This representative of the Reserve Bank went to the St. George bank, and found the bank open and the officers waiting for the Bank Examiner to arrive. The representative of the Reserve Bank presented the checks on the St. George bank and requested payment. The cashier of the St. George bank thereupon paid (by order on the funds of the St. George bank with the Reserve Bank) $8,027.02 of checks contained in the letter of March 29, received the checks for this amount, but at the same time informed him that he
was unable to pay any of the checks contained in the letter of March 30.

At 10:30 that morning the St. George bank closed its doors and was taken charge of by the National Bank Examiner.

This is a notice of motion brought on behalf of the receiver of the St. George bank against the Reserve Bank to recover the amount of the payment just hereinabove mentioned on the ground that the same was a preference and was therefore void under the provisions of Section 52 of the National Bank Act (12 U.S.C.A. 91). The section is as follows:

"All transfers of the notes, bonds, bills of exchange, or other evidences of debt owing to any national banking association, or of deposits to its credit; all assignments of mortgages, sureties on real estate, or of judgments or decrees in its favor; all deposits of money, bullion, or other valuable thing for its use, or for the use of any of its shareholders or creditors; and all payments of money to either, made after the commission of an act of insolvency, or in contemplation thereof, made with a view to prevent the application of its assets in the manner prescribed by this chapter, or with a view to the preference of one creditor to another, except in payment of its circulating notes, shall be utterly null and void; * * *

In my opinion the transaction out of which the claim here arises was directly in the teeth of this statute. There can be no doubt that the St. George bank was insolvent not only at the time it closed its doors on April 2 but also at the time the cash letters of March 29th and 30th were mailed. On the 31st, the cashier of the bank admitted its inability to pay in the ordinary course of business checks drawn on it by its depositors, but held out the possibility — utterly without reasonable justification — that it might be able to borrow money from another bank in Charleston as a reason why it should continue another twenty-four hours of life, and on this slim chance the Reserve Bank refrained from sending out notice of protest of the dishonored checks to the parties in interest until the following Monday. By Sunday night the faint hope of the preceding Saturday was
extinguished, and the cashier of the St. George bank went directly to the representative of the Reserve Bank and informed him of the fact, and in his presence notified the Bank Examiner to come to the bank as soon as he could and take possession. It was therefore not only the case of an insolvent bank, but full and complete knowledge of its insolvency on the part of all concerned. And the effect of what was then done with knowledge of this condition was to prefer one creditor of the failing bank to another, that is to say, to enable its depositors whose checks aggregated above eight thousand dollars to be taken up and paid and to that extent to receive their money in full, while the depositors whose checks were forwarded in the letter of the 30th as well as all other depositors and creditors of the bank were to the extent of the payment then made prejudiced in the application of the assets of the bank to the just and equal payment of its debts.

The Reserve Bank, however, insists that notwithstanding all that is said above, the payment of the checks in question was not a preference because it was a payment in the ordinary course of business, and was in all respects analogous to the payment of checks of depositors made in the ordinary course but after the insolvency of a bank and with knowledge of the same on the part of its officers. Whatever rights a receiver of an insolvent bank may have against a depositor of the bank, who without knowledge of its insolvency withdraws his money a day or two before failure, it is not necessary here to decide, but there can be no doubt, I think, that if there be added to the facts stated in the foregoing proposition knowledge on the part of the depositor of insolvency, the transaction, even though apparently in the ordinary course of business, would be subject to be set aside and annulled as in conflict with the statute, for if, as sometimes happens, knowledge of
the impending closing of a bank is given a favored depositor as a result of which he is enabled to withdraw his deposit, the effect of such a withdrawal would be to create a preference in his behalf, voidable and recoverable under the express terms of the statute.

It is, however, further insisted by the Reserve Bank that if all the foregoing be conceded, it is still not liable in this action because it was a mere agent; that its agency was understood by all parties and was a matter of agreement — in fact — the result of a lawful regulation, that is to say, a legal requirement that it should act as the agency for the collection of the checks for account of which the payment was made, and that having collected the money and remitted it to the owners of the checks without notice of any claim by the receiver of the St. George bank until after payment, the actual beneficiaries of the preference rather than itself should be required to indemnify the Receiver. The point is not without difficulty, and I have not been furnished with any authority on the subject, nor have I been able to put my hands on any directly in point. My conclusion, however, is that the Reserve Bank may not escape on this ground. I agree there can be no doubt that in the transaction the Reserve Bank acted wholly as an agent of the owners of the checks, that is to say, the member banks which had sent them to the Reserve Bank for collection. Carson v. Reserve Bank, 235 N.Y.S. 197. Federal Reserve Bank of Richmond v. Early, 30 F(2d) 198. I further agree it is equally true that under the rules established for the regulation of the Reserve Bank, it was required to accept checks upon solvent member banks and to present the same for collection, and by agreement was not liable to the depositing bank, except under circumstances not necessary to detail here, unless collection was made.

The Reserve Bank in this case would have assumed no liability,
therefore, if on Saturday, the 31st of March, it had caused the checks on which payment had been refused to be dishonored and had returned them to the depositors, and while doubtless it had a right to extend the period of notice of dishonor until the following Monday in the hope and expectation that the bank might then be in funds to pay the checks in the regular course, it had no right, in my opinion, after the most explicit proof of insolvency on the part of the St. George Bank, and of its inability to continue in business, either to make a further presentation of the checks or to accept the money which the cashier, with knowledge of the fact that the payment then demanded would not only deplete the bank's funds, but create a preference to the depositors whose checks were thus paid — without itself assuming liability for its participation in a tortuous act. The payment then made was a breach of trust. It was likewise a breach of the statute. Knowledge of this was peculiarly in possession of the representative of the Reserve Bank. It was obviously also in the possession of the cashier of the local bank for at the very moment that he authorized the transfer of his bank's funds to the Reserve Bank he was awaiting the Bank Examiner to deliver the bank to him for liquidation, and within half an hour this was done and the doors of the bank were closed. It is, I think, idle to say that the bank was at the moment open and doing business for the fact is it was not doing business. It had received deposits, it is true, but no deposits so received had been put through its books but had been put aside because to have done otherwise would have created criminal liability.

The applicable rule of liability on the part of an agent is that if money has been voluntarily and by mistake paid to him and before he receives notice of the mistake he has paid it over to his principal, he will not be personally liable therefor. Mechem on Agency, Section 561 and cases cited.
But where the element of duress or forced payment or of knowingly participating in an unlawful act exists, the rule is different. In such cases the relationship of principal and agent does not exist — certainly not to the extent of relieving the agent whose personal participating made possible the wrong committed. In such cases both the principal and agent are wrongdoers and may be sued jointly or severally. If the collection of the money by the bank was a violation of the statute, and I have reached the conclusion that it was, and if the Reserve Bank knew that the effect of the payment would be to violate the statute and create a preference, though it did not itself profit thereby, the act was obviously wrong, and the party participating in such a wrong may not exonerate himself by showing that he was acting for another. Upon this general subject, see the case of Elliott vs. Swartwout, 10 Peters 137, in which there is a very satisfactory discussion of the question of the personal liability of agents in the receipt of money and the payment thereof to the principal. See also Shearman & Redfield on Negligence, Section 112, and Wharton on Negligence, Section 535.

Judgment will go for plaintiff with interest and costs but without prejudice to the right of the Reserve Bank in appropriate proceedings to demand of its depositing member banks reimbursement to the extent of its loss.
November 19, 1929.

SUBJECT: Holidays during December, 1929.

Dear Sir:

The Havana Agency of the Federal Reserve Bank of Atlanta will be closed on Saturday, December 7th, Cuban Memorial Day.

On Christmas Day the offices of the Federal Reserve Board and all Federal reserve banks and branches will be closed.

Please advise branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.
For release at 3:00 P. M. November 20, 1929.

The Federal Reserve Board announces that the Federal Reserve Bank of Boston has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective November 21, 1929.
For immediate release. November 22, 1929.

The Federal Reserve Board announces that the Federal Reserve Bank of Chicago has established a rediscount rate of 4 1/2% on all classes of paper of all maturities, effective November 23, 1929.
FEDERAL RESERVE BOARD
WASHINGTON

X-6426

November 23, 1929.

SUBJECT: Expense, Main Line, Leased Wire System, October, 1929.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6426-a and X-6426-b, covering in detail operations of the main line, Leased Wire System, during the month of October, 1929.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO.
REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER, 1929.

<table>
<thead>
<tr>
<th>From</th>
<th>Business reported by banks</th>
<th>Words sent by New York chargeable to other F. R. Banks (1)</th>
<th>Net Federal Reserve Bank business</th>
<th>Percent of total bank business(*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>33,125</td>
<td>1,603</td>
<td>34,728</td>
<td>3.21</td>
</tr>
<tr>
<td>New York</td>
<td>193,022</td>
<td>-</td>
<td>193,022</td>
<td>17.51</td>
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<tr>
<td>Philadelphia</td>
<td>38,529</td>
<td>1,328</td>
<td>39,857</td>
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<tr>
<td>Cleveland</td>
<td>100,426</td>
<td>2,658</td>
<td>103,084</td>
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<tr>
<td>Richmond</td>
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<td>1,806</td>
<td>63,033</td>
<td>5.82</td>
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<tr>
<td>Atlanta</td>
<td>70,500</td>
<td>6,871</td>
<td>77,371</td>
<td>7.14</td>
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<tr>
<td>Chicago</td>
<td>121,744</td>
<td>2,932</td>
<td>124,676</td>
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<tr>
<td>St. Louis</td>
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<td>1,219</td>
<td>89,061</td>
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<tr>
<td>Minneapolis</td>
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<td>945</td>
<td>40,793</td>
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<tr>
<td>Kansas City</td>
<td>90,672</td>
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<td>93,342</td>
<td>8.61</td>
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<tr>
<td>Dallas</td>
<td>91,514</td>
<td>16,322</td>
<td>107,836</td>
<td>9.95</td>
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<tr>
<td>San Francisco</td>
<td>113,464</td>
<td>3,379</td>
<td>116,843</td>
<td>10.78</td>
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<tr>
<td>Total</td>
<td>1,041,913</td>
<td>41,733</td>
<td>1,083,646</td>
<td>100.00</td>
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F. R. Board business .................................................. 280,517 1,364,163

Treasury Department business - Incoming and Outgoing ............................................. 21,729

Total words transmitted over main lines ................................................................. 1,435,892

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6426-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2-4, 1925.
<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Operators' Salaries</th>
<th>Operators' Overtime</th>
<th>Wire Rental</th>
<th>Total Expenses</th>
<th>Pro Rata Share of Total Expenses</th>
<th>Credits to Federal Reserve Board</th>
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<tr>
<td>Boston</td>
<td>$ 260.00</td>
<td>-</td>
<td>-</td>
<td>$ 260.00</td>
<td>$ 711.69</td>
<td>$ 260.00</td>
</tr>
<tr>
<td>New York</td>
<td>1,077.47</td>
<td>-</td>
<td>-</td>
<td>1,077.47</td>
<td>3,948.64</td>
<td>1,077.47</td>
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<tr>
<td>Philadelphia</td>
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<td>-</td>
<td>-</td>
<td>225.00</td>
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<td>-</td>
<td>306.66</td>
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<td>306.66</td>
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<td>-</td>
<td>230.00(#)</td>
<td>420.00</td>
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<tr>
<td>Atlanta</td>
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<td>-</td>
<td>-</td>
<td>270.00</td>
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<td>270.00</td>
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<tr>
<td>Chicago</td>
<td>3,900.56(#)</td>
<td>1.00</td>
<td>-</td>
<td>3,901.56</td>
<td>2,551.87</td>
<td>3,901.56</td>
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<td>St. Louis</td>
<td>205.00</td>
<td>-</td>
<td>-</td>
<td>205.00</td>
<td>1,822.45</td>
<td>205.00</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>187.42</td>
<td>-</td>
<td>-</td>
<td>187.42</td>
<td>833.63</td>
<td>187.42</td>
</tr>
<tr>
<td>Kansas City</td>
<td>287.50</td>
<td>-</td>
<td>-</td>
<td>287.50</td>
<td>1,908.91</td>
<td>287.50</td>
</tr>
<tr>
<td>Dallas</td>
<td>251.00</td>
<td>-</td>
<td>-</td>
<td>251.00</td>
<td>2,260.01</td>
<td>251.00</td>
</tr>
<tr>
<td>San Francisco</td>
<td>380.00</td>
<td>-</td>
<td>-</td>
<td>380.00</td>
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<tr>
<td>Federal Reserve Board</td>
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<td>-</td>
<td>15,565.06</td>
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<td><strong>Total</strong></td>
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<td>$1.00</td>
<td>$15,795.06</td>
<td>$23,336.67</td>
<td>$22,170.91</td>
<td>$7,771.61</td>
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(*) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,165.76 from Treasury Department covering business for the month of October, 1929.
(b) Amount reimbursable to Chicago.
For release in Morning Papers, Wednesday, November 27, 1929.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of October and November, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal Reserve banks.

Industrial production declined further in October, and there was also a decrease in factory employment. As compared with a year ago, industrial activity continued to be at a higher level, and distribution of commodities to the consumer was sustained. Bank credit outstanding increased rapidly in the latter part of October, when security prices declined abruptly and there was a large liquidation of brokers' loans by nonbanking lenders. In the first three weeks of November further liquidation of brokers' loans was reflected in a reduction of security loans of member banks. Money rates declined throughout the period.

Production—Production in basic industries, which had declined for several months from the high level reached in midsummer, showed a further reduction in October. The Board's index of industrial production decreased from 121 in September to 117 in October, a level to be compared with 114 in October of last year.

The decline in production reflected chiefly further decreases in output of steel and automobiles. Daily average output of shoes, leather, and flour also declined, while production of cotton and wool textiles increased. Preliminary
reports for the first half of November indicate further reduction in output of steel and automobiles, and a decrease in cotton textiles.

Total output of minerals showed little change. Production of coal increased, and copper was somewhat larger, while daily output of crude petroleum declined slightly for the month of October and was further curtailed in November.

Volume of construction, as measured by building contracts awarded, changed little between September and October and declined in the early part of November.

Distribution—Shipments of freight by rail decreased slightly in October and the first two weeks in November, on an average daily basis. Department store sales continued as in other recent months to be approximately 3 per cent larger than a year ago.

Wholesale prices—The general level of wholesale prices showed little change during the first three weeks of October, but in the last week of the month declined considerably. The decline reflected chiefly price reductions of commodities with organized exchanges, which were influenced by the course of security prices. During the first three weeks of November prices for most of these commodities recovered from their lowest levels. Certain prices, particularly those of petroleum, iron and steel, and coal, showed little change during the period.

Bank credit—Following the growth of $1,200,000,000 in security loans by New York City banks during the week ending October 30, when loans to brokers by out-of-town banks and nonbanking lenders were withdrawn in even larger volume, there was a liquidation of these loans, accompanying the decline in brokers' loans during the first three weeks of November. All other loans increased and there was also a growth in the banks' investments.
Reserve bank credit, after increasing by $310,000,000 in the last week of October, declined by about $120,000,000 in the following three weeks. On November 20 discounts for member banks were about $100,000,000 larger than four weeks earlier, and holdings of United States securities were $190,000,000 larger, while the banks' portfolio of acceptances declined by $100,000,000.

Money rates in New York declined rapidly during October and the first three weeks in November. Open-market rates on prime commercial paper declined from 6 1/4 per cent on October 22 to 5 1/2 - 5 2/4 per cent on November 20; during the same period rates on 90-day bankers' acceptances declined from 5 1/8 per cent to 3 7/8 per cent; rates on call loans were 6 per cent during most of this period, but declined to 5 per cent in the third week of November. Rates on time loans also declined.

The discount rate of the Federal Reserve Bank of New York was lowered from 6 to 5 per cent, effective November 1, and to 4 1/2 per cent, effective November 15, and the discount rates of the Federal Reserve Banks of Boston and Chicago were lowered from 5 to 4 1/2 per cent effective November 21 and November 23.
Mr. E. R. Black, Governor,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Black:

Mr. Wyatt has sent me a copy of the letter of October 19, 1929, written to Governor Young by Governor Harding, with reference to the propriety of the taking by a Federal Reserve Bank of deposits of collateral for the protection of itself against any liability, as agent, arising from the handling for collection of checks drawn on the bank depositing such collateral. Mr. Wyatt, in transmitting the copy of the aforesaid letter, suggests that I write you with reference to the questions raised thereby.

Inasmuch as you also have a copy of Governor Harding's letter, I shall not summarize the same here. I am, however, sending you a copy of Mr. Wyatt's letter, thinking it possible that no other copy of the same has been furnished you.

I am of the opinion that the taking of collateral in isolated cases, for the purposes and under the conditions stated in Governor Harding's letter, would be consistent with the uniform policy heretofore adopted by the Conference of Governors and now approved by the Federal Reserve Board. There is nothing stated in the Board's letter of October 16, 1929 (X-6389) which would prohibit a Federal Reserve Bank, which is unwilling to handle checks drawn upon a bank of doubtful solvency unless it be indemnified against any loss in the premises, from asking and taking such collateral. It seems to me, furthermore, that unless the practice of asking collateral for such purpose is made general (as distinguished from the asking of security in particular cases), the question of policy is one for determination by the different Federal Reserve Banks. I know that Governor Harding has in mind only the asking of collateral in cases where it appears that the interests of the Federal Reserve Bank of Boston require the taking of such security. As I recollect the statement made by Mr. Weed, counsel to the Boston Bank, before the Conference of Counsel, but one instance had arisen in the past where collateral had been asked by that bank. I see no reason, therefore, why Governor Harding's interpretation of the Board's statement of the uniform policy on check collections should not be accepted as correct.

Undoubtedly a question of system wide importance would be raised were any Federal Reserve Bank to either (a) adopt a general policy of requiring collateral from banks for the indemnification of the Federal Reserve Bank against liability as a collection agent, or (b) provide by contract that collateral in its hands should stand as security for any indebtedness due to the Federal Reserve Bank by the pledgor, including amounts due to the Reserve Bank as a collection agent. As stated above, however, no such question is raised in Governor Harding's letter as I read it.
Personally, I am inclined to the opinion that the interests of the Federal Reserve Bank of Atlanta would be best served by a policy under which collateral would not be asked, even in cases where items are to be sent to banks known to be in a doubtful condition. The taking of collateral in one case, without requiring it in another, would furnish the basis for at least an inference of negligence in the latter case. In this Reserve District, furthermore, the number of non-member par remitting banks is relatively small. Demands for collateral to protect items sent forward for payment and remittance would tend to curtail the number of par remitting banks. Member banks in a failing condition are usually largely indebted to the Federal Reserve Bank and they could rarely furnish acceptable collateral for the purpose of protecting remittances for cash letters without utilizing security which the Reserve Bank would wish to obtain for its own benefit.

The experience of the Atlanta bank in its collection functions has been fortunate. I recall no claim for negligence in the handling of items which has been successfully asserted. The public generally is beginning to recognize the fact that Federal Reserve Banks, as collection agents, have stipulated for their own protection within proper limits. I believe it to be the better policy to continue in the future as in the past, and to regard the duties of a mere collection agent as not including any obligation, either legal or moral, to obtain security for the protection of its principals. I understand, of course, that the taking of such collateral would be for the protection of the Reserve Bank, as agent, but inevitably the owners of the items would feel that it was in reality taken for their benefit and the tendency of the practice would doubtless be to foster the conception of a duty on the part of the agent to secure collateral protection for its principal.

Very truly yours,

(S) Robt. S. Parker.

RSP/w.

Copy to:

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.
Mr. George J. Seay, Governor.  

M. G. Wallace, Counsel.  

Interpretation of Uniform Policy re Check Collections.  

November 15, 1929.

Dear Mr. Seay:

I have read the attached letter dated November 7th from Mr. E. H. McClelland, Assistant Secretary of the Federal Reserve Board, to yourself and also the letters which are referred to by Mr. McClelland. It is not quite clear to me whether or not the Federal Reserve Bank of Boston desires to take collateral merely to protect itself from liability in case it should be held that the Federal Reserve Bank was responsible to the depositors of checks because such checks had been sent to the drawee bank when the latter was known to be in a weakened condition, or whether the Federal Reserve Bank of Boston desires to take collateral to protect the depositors of checks from losses which might otherwise fall upon its depositors.

If the object of the arrangement be as first stated, I am of the opinion that the arrangement would be in no way inconsistent with the recent amendments to Regulation J, because the collateral taken would in no way benefit the banks which deposited the checks or the holders of the checks but would be held merely for the protection of the Federal Reserve Bank in the event that it should appear that the Federal Reserve Bank had been guilty of negligence.

There would be certain practical objections, I believe, to such a practice. In the first place the very fact that the Federal Reserve Bank had taken collateral to protect it against a possible claim for negligence would be tantamount to a confession that the Federal Reserve Bank realized that its actions were likely to be considered negligent; also, it would be impossible to determine when the lien of the Federal Reserve Bank upon such collateral terminated because the Federal Reserve Bank would have no right to resort to the collateral until it had been adjudged negligent, and this could not be determined until a suit had been brought and decided or until all possible claims were barred by statute of limitation.

If the Federal Reserve Bank contemplates taking this collateral to be held as a trust for the benefit of member banks which deposit checks or for the benefit of the holders of such checks, it appears to me that the arrangement would be inconsistent with the limitations prescribed in the amendments to Regulation J.

Regulation J as amended reads in part as follows:

"Neither the owner or holder of any such check, nor the bank which sent such check to the Federal Reserve Bank for collection shall have any right of recourse upon, interest in, or right of payment from, any fund, reserve, collateral, or other property of the drawee bank in the possession of the Federal Reserve Bank."
Mr. George J. Seay, Governor.

M. G. Wallace, Counsel.

November 15, 1929

Interpretation of Uniform Policy re Check Collections.

This language is very broad and appears to prohibit any or all agreements under which a forwarding bank or holder of a check can have any interest in or claim upon any collateral or property of the drawee bank in the possession of the Federal Reserve Bank.

If we should attempt to construe the positive provisions of the Regulation as meaning only that the forwarding bank or holder of a check should not have any claim upon any collateral unless such collateral were pledged under an agreement expressly providing for such claim, the provision of the Regulation would become ineffective for all purposes. In the so-called Lake City case it was assumed without discussion that the forwarding banks could have an interest in the reserve balance only in so far as such interest was created by the express terms of the circular. The Circuit Court of Appeals adopted this view and emphasized it by holding that the forwarding banks could have no interest in the surrender value of stock held by the drawee bank in the Federal Reserve Bank because the application of this surrender value was prescribed by law and could not be regulated by the provisions of a contract.

I do not see that there can be any distinction between the reservation of a lien upon certain designated collateral which is pledged to secure payment for checks and for no other purpose and the reservation of a lien upon collateral which is pledged to secure the payment of checks and likewise for other purposes, for it seems impossible to distinguish between the right to reserve two distinct liens upon two distinct funds and the right to reserve two liens, both of which shall attach to a single fund.

It therefore seems to me to be clear that if a Federal Reserve Bank may take collateral to secure the payment of cash letters in any case, the Federal Reserve Bank may take such collateral in every case, and if they may take collateral to secure the payment of cash letters and for no other purpose, they may take collateral which may be held for the payment of cash letters as well as for other purposes; and consequently it seems to me that the Regulation must be construed as prohibiting the taking of collateral to secure forwarding banks or the holders of checks in any case, or else it must be construed as having no substantial effect at all.

I recall, of course, that at the joint conference Governor Harding asked whether or not the action of his bank in taking collateral in a few special cases would be regarded as a violation of the general understanding that the policies of all Federal Reserve Banks should be uniform. I believe that I, as well as counsel for other banks present, stated that we certainly would not consider the action of the Federal Reserve Bank of Boston as being any violation of our private understanding, but for the reasons stated above I am forced to the conclusion that the proposal involves a technical violation of the Regulations.

Very truly yours,

M. G. Wallace,
Counsel.
SUBJECT: Suggested Change in Recent Amendment to Regulation J.

Dear Sir:

There is attached hereto a letter dated October 22, 1929, from the Deputy Governor of the Federal Reserve Bank of Chicago, calling attention to the fact that the amendment adopted by the Board, effective January 1, 1930, to paragraph 6, Section V of Regulation J, of which you were advised in the Board's letter of October 16, (X-6389), does not protect the Federal reserve banks against claims arising out of the failure of a bank other than the drawee bank to which checks have been forwarded by the Federal reserve banks for collection.

This protection could be afforded by further amendment to paragraph 6, Section V of Regulation J so as to make it read as follows:

"The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. In such event, neither the owner or holder of any such check, nor the bank which sent such check to the Federal reserve bank for collection, shall have any right or recourse upon, interest in, or payment from, any fund, reserve, collateral, or other property of the drawee bank or of any bank to which such checks had been sent for collection in the possession of the Federal reserve bank."

Before taking action, the Board would like to have the benefit of your views as to the desirability and the advisability of such an amendment. In this connection, there is also enclosed a memorandum addressed to the Board by its General Counsel under date of November 13, 1929.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.
Mr. E. M. McClelland, Assistant Secretary,  
Federal Reserve Board,  
Washington, D. C.  

Dear Mr. McClelland:-

Referring to letter X-6389, dated October 16, 1929, we are advised that the Board has amended Paragraph 6 of Section V in Regulation J to read as follows:

(6) "The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. IN SUCH EVENT, NEITHER THE OWNER OR HOLDER OF ANY SUCH CHECK, NOR THE BANK WHICH SENT SUCH CHECK TO THE FEDERAL RESERVE BANK FOR COLLECTION, SHALL HAVE ANY RIGHT OR RECOUSE UPON, INTEREST IN, OR RIGHT OF PAYMENT FROM, ANY FUND, RESERVE, COLLATERAL, OR OTHER PROPERTY OF THE DRAWEE BANK IN THE POSSESSION OF THE FEDERAL RESERVE BANK."

The words in small type indicate Paragraph 6 before amendment and the words in large type indicate new matter inserted by the amendment. I wish to call particular attention to the words underscored "of the drawee bank".

As you are aware, Federal Reserve Banks collect a very large number of items through both member and non-member banks which are not the drawee banks. These checks are drawn on banks located in the same cities as the collecting banks or located in adjacent territory, and which do not carry accounts, reserve or otherwise, with the Federal Reserve Bank.

It would seem that by oversight in the amendment to Section 6 Federal Reserve Banks would not have protection against claims being made upon them by banks from which they have received items for collection, in which the drawee bank is not the same as the collecting bank.

Will you please look over Section 6 as amended and see if this is not an oversight.

I am sending copy of this letter to Mr. Wyatt.

Very truly yours,

(S) J. H. Blair,  
Deputy Governor.
To The Federal Reserve Board.

From Mr. Wyatt - General Counsel.

In the attached letter, Mr. J. H. Blair, Deputy Governor of the Federal Reserve Bank of Chicago, calls attention to the fact that the provision added to paragraph 6 of Section V of Regulation J by the recent amendment applies only to "any fund, reserve, collateral, or other property of the drawee bank in the possession of the Federal Reserve bank" and suggests that this is an oversight, since it does not afford the Federal Reserve banks any protection against claims arising out of the failure of a bank other than the drawee bank to which checks have been forwarded by the Federal Reserve bank for collection.

It is true that this amendment does not cover the case where a loss occurs as a result of the failure of a collecting bank to which the Federal Reserve bank has sent for collection checks drawn on other banks; but it is not an oversight. The Federal Reserve Board has never attempted to include in Regulation J provisions specifically protecting the Federal Reserve bank against liability in every contingency which may arise; and, when it adopted the recent amendments to Regulation J, it was dealing with the situation where a loss results from the failure of the drawee bank.

It is not believed that the Federal Reserve banks need the same protection against losses resulting from the failure of collecting banks as against losses resulting from the failure of the drawee banks. They are required by law to collect checks on member banks and frequently find it impracticable to collect them by any method except that of sending them direct to the drawee banks. They are not required to send to any bank for collection checks drawn on other banks, however, and have a greater latitude in the selection of collecting agents. Where a loss results from the failure of a collecting agent selected by the Federal Reserve bank, therefore, the Federal Reserve bank does not deserve the same protection against liability, because it may have been guilty of actual negligence in the selection of such collecting bank.

If the Board desires to afford to the Federal Reserve banks the same protection against liability arising out of the failure of a collecting bank as the amended regulation affords in the case of the failure of a drawee bank, it can easily do so.
by further amending paragraph 6 of Section V of Regulation J in either one of two ways: (1) By striking out the words "of the drawee bank", or (2) by inserting after the words "of the drawee bank" the words "or any other bank to which such checks have been sent for collection."

I do not recommend such further amendment, however, because I do not believe that the Federal reserve banks need, or ought to have, the additional protection which it would afford. I believe that where they choose to collect checks through other banks as collections agents their proper protection is the exercise of due care in the selection of such collection agents.

Respectfully,

(S) Walter Wyatt,
General Counsel.

Letter attached

FW OMC
FEDERAL RESERVE BOARD
WASHINGTON

X-6431
December 2, 1929.

SUBJECT: Special Order for Federal Reserve Notes.

Dear Sir:

Referring to Governor Young's letter of October 25, there is enclosed herewith for your information, copy of a letter, together with enclosures, which is being addressed to the Undersecretary of the Treasury today.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.
December 2, 1929.

Dear Mr. Secretary:

Referring to my letter to you of October 22 and your reply of the following day, you are advised that upon taking the matter up with the Federal reserve banks, the Board ascertained that all were willing to participate in the filing of a special order for Federal reserve notes during the current fiscal year, ending June 30, 1930, in order that undesirable developments in the labor situation at the Bureau, due to insufficiency of its appropriations for the year, may be avoided.

In accordance with the preference expressed by the majority of the banks, and subject to the understandings set out in our letters above referred to, the Federal Reserve Board has accordingly approved the placing of an order for the delivery, during the current fiscal year, of 2,950,000 additional sheets of completed notes, and an arrangement for the establishment of a reserve stock of 4,250,000 sheets, approximately a three-months' supply, of notes in process, 2,125,000 sheets to be worked up in the form of backs and 2,125,000 sheets as backs and faces (in trimmed form).

The order for 2,950,000 sheets of completed notes has been placed with the Comptroller of the Currency in the usual way, and a copy of our letter to the Comptroller is attached for your information. This order involves an expenditure by the Federal reserve banks of $264,025.00 ($89.50 per thousand sheets).

There is also attached a schedule, by banks and denominations, covering the proposed reserve stock, which, it is understood from figures furnished by the Director of the Bureau of Engraving and Printing, will involve an expenditure by the Federal reserve banks of $241,738.75. It is understood that as expenditures are made by the Bureau in connection with the establishment of this reserve stock, assessments will be levied against the Federal reserve banks for their proportionate shares, and that once established, the reserve stock will be currently replenished as work is completed against regular orders placed by the Federal reserve banks. It is also understood that the reserve stock will be subject to audit on behalf of the Federal reserve banks at their pleasure or that of the Board.

Yours very truly,

R. A. Young,
Governor.

Honorable Ogden L. Mills,
Undersecretary of the Treasury,
Washington, D. C.
RESERVE STOCK OF INCOMPLETE NOTES

2,125,000 sheets to be worked up in form of backs.
2,125,000 sheets to be worked up in form of backs and faces (in trimmed form).

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<th>Fifties</th>
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December 2, 1929.

Sir:

It is respectfully requested that you place with the Bureau of Engraving and Printing, orders for printing Federal reserve notes in the amounts and denominations stated for the following Federal Reserve Banks:

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Respectfully,

The Honorable,  
The Comptroller of the Currency.  Governor.
ABSTRACT OF
ADDRESS AT WHARTON SCHOOL OF FINANCE
Tuesday, December 3, 1929,
by Edmund Platt

Speaking informally before the banking classes of the Wharton School of Finance, under the auspices of Professor Harr, Tuesday afternoon, December 3rd, on the subject "Banking Legislation Past and Prospective," with some reference to the causes of bank failures 1920 to '29 inclusive, Mr. Edmund Platt, Vice Governor of the Federal Reserve Board, said that the banking legislation of this country, state and national, might be treated by a satirist or humorist in such a way as to show that we as a nation have manifested rather less financial common sense than the people of other great commercial nations. Our largest state once had firmly imbedded in its constitution, where it was doubtless regarded as sacredly fixed for all time, a prohibitory amendment forbidding the organization of banks. In those days the good people of the State of Texas regarded banks as rather worse than saloons, and it must be admitted that some of the banks of the old days of wildcat state banking were pretty bad. We made a good early start under the able leadership of Alexander Hamilton towards a national central banking system, and it is interesting to note that the First Bank of the United States had to be wound up and liquidated in 1811 largely because of opposition from the city which is today the financial center of the United States and perhaps of the world. The recharter bill failed in the United States Senate in 1811 because of the opposition and vote of George Clinton of New York, and Clinton
was backed by some of the leading bankers and financiers of New York City, including John Jacob Astor. During the years that followed we had a second Bank of the United States 1816 - 1836, but until the Civil War brought the National Banking Act business most of the time was under the tremendous handicap of a fluctuating local state bank note currency, with the notes issued in one state or even in one city almost always at a discount if presented elsewhere. In New England, New York and Pennsylvania, the state banks were generally pretty strong and reliable and were organized under reasonably sound general acts, while in the older southern states banks continued to be specially chartered by the legislatures and were, therefore, usually large, strong institutions. In the newly formed western states the "free banking" idea, which started in New York, ran wild and resulted in every sort of banking experiment, most of them disastrous. In Indiana for some years there was both the best banking system and the worst almost side by side at the same time.

A good deal of our banking legislation has been restrictive rather than constructive, and the great constructive measures that have been passed by the Congress of the United States, such as the National Banking Act and the Federal Reserve Act, were passed for the purpose of correcting the most glaring defects of an individual, local, unit banking system without recognition of the fact that much of the trouble was due to the local unit system itself. What we need now is to remove some of the restrictions in the present laws so as to allow some development towards a better system. The
McFadden Act of February 1927 went a little way toward removing unnecessary restrictions but the changes were of benefit mostly to city banks. The McFadden Act prevents country banks even if located in adjoining towns from pooling their resources. Of the 4513 bank failures reported to the Federal Reserve Board from 1921 to 1927 inclusive, 63 per cent were banks with a capital of $25,000 or less and 61 per cent were of banks located in towns of less than 1,000 inhabitants, which may be taken, said Mr. Platt, "as conclusive evidence that the American effort to provide banking facilities in very small places by means of very small unit banks is a failure and cannot be made to succeed except when all surrounding economic conditions are favorable. Too often economic conditions have been unfavorable—crop failures, local industrial failures or merely the failure of the neighborhood itself to grow." Mr. Platt quoted with approval from the address of Mr. Clyde Hendrix of the Tennessee Valley Bank of Decatur, Alabama, at the meeting of the American Bankers' Association in San Francisco, the following:

"Every banker is acquainted with the appalling mortality record of the small unit banks located in purely agricultural territory. No doubt, the lack of proper management and dishonesty account for a small percentage of such failures, but in the main the wholesale, colossal number of small bank failures can properly be charged to the system itself."

This, said Mr. Platt, is substantially the belief of the present Comptroller of the Currency, "who is recommending as a cure not more severe restrictions, or more elaborate supervision, but a relaxation of some of the present restrictions upon banking so
that a gradual change of the system itself can take place — a change by which some of the small unit banks may be merged with banks in other places so as to provide larger banks, with funds sufficient to provide good management, and covering a territory wide enough to insure a diversification of loans and investments." "Just what form the Comptroller's recommendations to Congress may take, just what limits he may propose — for he is not in favor of unlimited or nation-wide branch banking — will not be made known until his annual report goes to the Speaker of the House of Representatives about the middle of the present month. He has arrived at his conclusions not only as the result of long experience as a bank examiner and as the head of the supervisory forces of the United States Government, but as the result of careful study. In my opinion he is on the right track and deserves full support not only from economists and students of banking, but from business men and bankers."

Mr. Platt made no reference during the course of his address to the recent stock market panic except to remark that while the year 1929 up to the close of October has recorded 521 bank suspensions as compared with only 375 during the same period of 1928, no suspensions or failures have been attributed to the recent stock market panic up to date. Practically all suspensions have been in the West and South, and the banks are mostly so small as to have little or no effect upon the general financial condition of the country.

He digressed from his main subject long enough to refer to
the development of the bill market, or market for bankers' acceptances during the present year. "For the first time since the Federal Reserve System was established," he said, "the bill market has during this year been standing on its own feet without any nursing by the Federal reserve banks. Early in the year the rate at which Federal reserve banks purchased bills from member banks or from dealers was placed above the Federal reserve rediscount rate, with the result that investors, including banks, institutions and individuals began to purchase bills because of the attractiveness of the rate. More recently, investors have been outbidding the Federal reserve banks and have been taking the new bills in spite of very low rates. This may be due to the fact that some of the corporations and individuals who had been loaning money on call in the stock market are now buying bills."
## Statement of Bureau of Engraving and Printing

**Federal Reserve Notes, Series 1928**  
Month of November, 1929.

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1,189,902 sheets, $89.50 per M, $106,496.23

Credit appropriations, 1930, as follows:

- Comp. of Emp. B.E. & P. $56,165.36
- Plate Printing, B.E. & P. 24,250.20
- Mtls. & Misc. Exp. B.E. & P. 26,062.65

Bureau of Engraving and Printing,  
C. R. LONG  
Assistant Director
SUBJECT: Use of lead seals on registered mail shipments.

Dear Sir:

There are enclosed herewith copies of self-explanatory letters exchanged with the Acting General Superintendent of the Division of Railway Mail Service of the Post Office Department, regarding injury to postal clerks by reason of the careless use of Porter lead seals on registered mail shipments received from the Federal reserve banks.

It is respectfully requested that this matter be brought to the attention of your Money Department and that the employees thereof be cautioned, in order to avoid further injuries and the possibility of having the use of the seals ruled against by the Department.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.
December 3, 1929.

Dear Mr. Satterwhite:

I acknowledge receipt of your letter of December 2nd (AFS-CFS) reporting several instances recently where clerks in the Railway Mail Service have received injuries from pins inserted in lead seals which are used on certain classes of registered mail packages received from the Federal reserve banks. This type of lead seal has been in use by the Treasury Department at Washington and the Federal reserve banks for several years and the first specific complaint against them was recently brought to our attention by the Third Assistant Postmaster General. We advised the Third Assistant Postmaster General that the pins used in the seals come in different sizes and possibly, in the case complained of, a large size pin was used, through inadvertence, to seal a small shipment. Our supposition was later confirmed by the Federal reserve bank concerned.

Since you state that there have been other cases of injury to Railway Mail clerks, we will, of course, bring your letter to the attention of all Federal reserve banks with the request that greater care be exercised in the use of the seals.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Mr. E. W. Satterwhite,
Acting General Superintendent,
Division of Railway Mail Service,
Post Office Department,
Washington, D. C.
POST OFFICE DEPARTMENT

Second Assistant Postmaster General

Washington

December 2, 1929.

The Secretary,
Federal Reserve Board,
Washington, D. C.

My dear Sir:

It has been brought to the attention of this office that Federal Reserve Banks throughout the United States are using lead seals with pins inserted in the lead and the points protruding making a parcel with this attachment dangerous to handle by postal employees.

There have been several cases recently where clerks in this service have been painfully injured when their hands came in contact with the exposed point of the pin in the seal.

The Postal Laws and Regulations provide that an article that is liable to hurt, harm, or injure another, or damage, deface, or otherwise injure the mails shall be declared nonmailable. Postmasters have been instructed to refuse to accept parcels where the pin in the lead seal is exposed.

This information is brought to your attention in order that the Federal Reserve Banks may be advised in this matter and their shipments may not be delayed by postmasters refusing to accept same.

Very truly yours,

(S) E. W. Satterwhite,
Acting General Superintendent.
RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO
THE FEDERAL RESERVE BOARD

November 19, 1929.

TOPIC No. 1. Discount rates, bill rates and open market operations.

NO RECOMMENDATION.

TOPIC No. 2. Developments in branch, chain and group banking with
particular reference to the effects of bank stock ownership by investment
trusts and holding corporations.

RECOMMENDATION: The Federal Advisory Council recommends that the
Federal Reserve Board appoint a committee to study the merits of the branch
banking system as practiced in this and other countries, (conditions in
Canada being apparently more comparable with our own), the group or chain
banking system as developed in this country and elsewhere, and the unit
banking system of this and other countries; and further, the effect of
ownership of bank stocks by investment trusts and holding corporations,
in order that the Federal Reserve Board may be in possession of accurate
and authoritative information on this important subject.

TOPIC No. 3. Desirability of liberalizing the requirements of the
Federal Reserve Act as to paper eligible for rediscount by Federal reserve
banks.

RECOMMENDATION: It is the feeling of the Federal Advisory Council
that consideration could well be given to liberalizing the provisions of
Section 13 of the Federal Reserve Act, pertaining to eligibility of paper,
in a manner not inconsistent with the proper functioning of the Federal
Reserve System.

FOR 8 - AGAINST 3 - ALTERNATE FOR, NOT VOTING.

TOPIC No. 4. Desirability of changing distribution of earnings of
Federal reserve banks as proposed in S.5723, introduced by Senator Glass.

RECOMMENDATION: The Federal Advisory Council approves of the
provisions of Senate Bill 5723, relating to the distribution of earnings
of Federal reserve banks, with an amendment providing that the earnings of
all twelve Federal reserve banks accruing thereunder to member banks, shall
be pooled and divided among all member banks in proportion to their respec-
tive capital contributions and their average annual reserve requirements.

FOR 6 - AGAINST 5 - ALTERNATE FOR, NOT VOTING.
FEDERAL RESERVE BOARD

DATA RELEASED TO THE PRESS

DAILY

Noon Buying Rates for Cable Transfers in New York City (for previous day)

WEEKLY

Day
Monday - - - - Condition of Reporting Member Banks in Leading Cities.

Thursday - - - - Condition of Federal Reserve Banks.

Thursday - - - - Brokers' Loans

Friday - - - - Changes in State Bank Membership

Saturday - - - - Bank Debits.

MONTHLY

Federal Reserve Bulletin
Summary of Business Conditions.
Business Indexes.
Wholesale Trade Statement
Retail Trade Statement
Cotton Finishers' Report
Crop Report
Foreign Exchange Rates
Index of Retail Trade

YEARLY

Annual Report (covers calendar year).

December 4, 1929.
December 2, 1929.

Mr. Walter Wyatt,
General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

I am enclosing copy of my suggestions to Governor Martin on the inquiry contained in Governor Harding's letter.

(1) - I cannot find any legal obstacles which would preclude the taking of such collateral in special cases.

(2) - I cannot find anything in the wording of the amendments which would prohibit the taking of such collateral;

(3) - In the face of the vote on the Weed resolution, it cannot be said that it was the intent that our recommendation should include such a prohibition;

(4) - Each bank was left free to take or not take such collateral and not violate the intent of the policy recommended.

In our discussions, I think all of us had in mind member banks only, since the EARLY case arose out of a member bank case, and, the decision in the STORING case we were considering general collateral of a member bank with the Reserve bank. However, Regulation 'J' applies alike to member and non-member par banks, and, in my discussion in the report to Governor Martin, I have considered both classes as included.

I think I can see clearly why Mr. Weed’s suggestion could be followed in his and other similarly situated districts but could not be safely adopted in other districts like ours; and, whilst the adoption of such a policy in one district - when not followed in another - might cause the latter some embarrassment in a particular case in explaining why when it had the same right it had not taken the same precaution. Nevertheless, I do not believe one district should be prohibited from taking the collateral because some other district did not feel justified in so doing.

In addition to the foregoing reasons for not taking the collateral in the 8th District, we have MISSOURI and ARKANSAS by Judicial decisions, KENTUCKY by practice, and, INDIANA by Statute, allowing preference on transit items in the case of State banks, so that the loss to the owners of transit items in this District has been a negligible quantity. Therefore, I would not like to recommend that we adopt a policy in this District of taking such collateral.

Very truly yours,

(S) Jas. G. McConkey,
Counsel.
Mr. Wm. Mc C. Martin, Governor,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Martin:

RE:- Interpretation of Conference Policy re Check Collection
Topic for Governors' Conference.

Attached is copy of a letter X-6409-b from Governor Harding of the Federal Reserve Bank of Boston to Governor Young of the Federal Reserve Board relative to the Board's letter X-6389 attached hereto, and, copy of a letter X-5409-a from the Board's Counsel to Counsel of the Federal reserve banks. Governor Harding inquires whether the policy outlined in the Board's letter would prohibit banks making special arrangements in special cases to take collateral to insure the payment of transit items, particular reference being made to paragraph 4 of Section V of Regulation 'J' as amended, and, which is as follows:

"(4) Checks received by a Federal reserve bank on its member or non-member clearing banks will ordinarily be forwarded or presented direct to such banks and such banks will be required to remit or pay therefor at par in cash, by bank drafts acceptable to the collecting Federal reserve bank, by telegraphic transfers of bank credits acceptable to the collecting Federal reserve banks, or by authorizing the collecting Federal reserve bank to charge their reserve accounts or clearing accounts."

At the Conference of Counsel, we had before us the EARLY case involving the right to charge at any time the member banks' account with the unremitted for cash letters, and, STORING vs. FIRST NATIONAL BANK of MINNEAPOLIS case involving the right to use the general collateral furnished by the closed member to pay unremitted for cash letters.

After a general discussion, it was found that Counsel for four of the Reserve banks favored the following of the rule as laid down in these cases - this plan was (for convenience) designated Policy A. Counsel for the other eight Reserve banks objected to this plan, and, offered another plan designated Policy B. With this division before us, the following Resolution was offered:

"RESOLVED, That it be the sense of this conference that uniformity among all the Federal reserve banks in the treatment of reserve balances, collateral accounts and the cash surrender value of capital stock in relation to outstanding cash items, is desirable and that whether the policy outlined by Messrs. Ueland and Wallace on the one hand or the policy outlined by Mr. Stroud on the other hand be adopted,
the action of all of the Federal reserve banks in relation to
the matter under discussion should be of one accord."

Mr. Logan moved, as an amendment to the Resolution, that all
of the Resolution after the word "desirable" be eliminated. The amend-
ment was unanimously carried. (Page 2 of the Minutes.) Policy B.
favored by Counsel for eight of the Federal reserve banks was then pre-
sent, and, after a general discussion resulting in some changes in its
verbage, Mr. Agnew moved its adoption.

Mr. Weed, of Boston, moved as a substitute that a reservation
be included therein giving the right to any Federal reserve bank in
special or exceptional cases to charge unremitted for cash letters to
collateral taken for that specific purpose. Mr. Weed's motion was lost
by a three to five vote of the eight Counsel favoring Policy B.

Mr. Agnew's original motion then carried by a vote of eight to
four - Messrs. Weed, Logan and Stroud explaining that they voted for
Policy B plan with the understanding that the report of the Committee
was not intended to carry with it any implication that a Federal reserve
bank might not in special cases make arrangements to insure the payment
of transit items. Counsel for Philadelphia, Richmond, Chicago and
Minneapolis not voting - presumably for the reason that they were not
in accord with Policy B with or without the reservation.

The real question before the Conference until Mr. Weed's
substitute motion was confined to the advisability of using any of the
member banks' reserve, capital stock or general collateral for the pay-
ment of transit items. Mr. Weed's substitute motion raised the question
of the right of the Reserve banks to take special collateral in partic-
ular cases to insure the payment of transit items, and, while Mr. Weed's
substitute motion lost by a vote of 3 to 5, nevertheless, Policy B plan,
as recommended, was adopted as expressing the views of the majority, with
the explanation of the three favoring the Weed substitute that they voted
for the report with the understanding that the report of the Committee is
not intended to carry any implication that a Federal reserve bank may not
make special arrangements to insure the payment of transit items in
special cases. It would, therefore, follow that no implication against
taking collateral in a special case was intended when Policy B was adopted
as representing the views of those voting in favor of the policy. Further,
it is reasonable to assume that if the four Counsel who favored policy A
had voted they would have joined the three on the reservation clause, mak-
ing a total of seven of the twelve Counsel favoring such a reservation, and,
the motion to adopt Policy B without the reservation would have lost by a
vote of five to seven. Therefore, Policy B as recommended by the Con-
ference of Counsel approved by the Conference of Governors and adopted by
the Board was not intended to prohibit a Reserve bank in a special case to
take collateral to insure the payment of transit items.
FEDERAL RESERVE BANK OF ST. LOUIS

ADVISABILITY OF TAKING SUCH COLLATERAL.

Now as to the advisability of taking special collateral to insure the payment of transit items, this raises a more difficult question than the interpretation of the meaning intended in Paragraph 4 of the Regulation.

I can find no legal obstacle to a Federal reserve bank in its agency relation taking such collateral to insure the payment of transit items, and, whilst a uniformity in all Reserve banks is desirable, nevertheless, when we attempt to formulate a plan to govern all districts alike, and, wherein the controlling factors in the several districts are so unlike in many respects, a uniform ruling to be followed seems impracticable.

For example, in the Boston and New York or other thickly populated districts where the member and the non-member clearing banks and the non-member par banks to which items must be sent through the mails, the banks are larger and stronger than in the sparcely settled agricultural districts and the instances are fewer where they would have to take such protection to secure the payment of transit items. Whereas, in the agricultural districts, we have a much larger number of small member, non-member clearing banks, and par banks, all in about the same but none too liquid condition, and, if we required collateral from one, to be consistent, we would have to call for the collateral from a much greater percentage of such banks than would Reserve banks in the more thickly populated districts, and, doubtless, these requirements would lessen the number of our par non-member banks.

Further, in the Boston and New York and other thickly settled districts, practically all the banks are located in towns on main mail routes and within a short time schedule from the Reserve banks. Consequently, it would seldom occur that there would be more than one cash letter sent out before the returns from the previous cash letters had been received. Therefore, the amount of collateral to be required would be less than it would be in a sparcely settled agricultural district where a large number of the banks are located in the country, or in small towns off the main mail routes and where we have 3 to 5 day points, and, frequently, 3 or 4 cash letters will have been sent out before the receipt of the remittance for the previous cash letters could be received; consequently, the amount of collateral necessary would be out of proportion to the banks' ability to furnish it, and, if demanded, might place a small, liquid, solvent bank in a very embarrassing position.
Further, it has been our observation that when a member bank reaches a condition where it is getting into the danger zone, and we would feel justified in asking for collateral to protect the cash letters, it already has under rediscount with us practically all its eligible paper, and, if its rediscounts with us is as much as its capital and surplus it has deposited with us as extra collateral to secure its discount obligations and with its correspondent banks on advances made, practically all its liquid and most of its slow paper so that the only collateral these small banks could supply would be of very doubtful value, and, if we were to require the banks to put up with us liquid collateral sufficient to protect the average outstanding cash letters, we would, in a great many cases, be taking from the bank the only class of paper on which it could secure advances sufficient to carry it over a distress period, and, might thereby, be a party in some cases to forcing an otherwise solvent bank into liquidation.

Taking the foregoing reasons into consideration, I do not believe it would be desirable to follow such a procedure in the Eighth District however desirable it might be in some of the other districts.

Very truly yours,

(S) Jas. G. McConkey,
Counsel.
Governor W. B. Geery:

Our comments on Governor Harding's letter of October 19th to Governor Young, and Mr. Wyatt's letter of November 7th, both dealing with the recent amendment to Regulation J follow:

1. Governor Harding states that a Federal reserve bank in collecting checks as agent may be, as a practical matter, under compulsion to forward checks to drawee banks in dubious circumstances. He urges that in such cases the Federal reserve bank is at liberty to protect itself as agent and its principals (the owners of the checks) by taking collateral. This argument from practical necessity was advanced at the joint meeting of governors and counsel in support of the view (which has now been put on the shelf) that the Federal reserve clearing houses should furnish as much security as practicable to the owners of checks.

2. The first question is, can the right asserted by Governor Harding be reconciled with the recent amendment of paragraph 6 of Section V of Regulation J? It is argued that Regulation J in its present form does not prohibit a Federal reserve bank from taking collateral in such cases. This argument may be paraphrased thus:

A Federal reserve bank collects checks as agent. The reserve account, the Federal reserve stock, and the collateral held by the Federal reserve bank in its own right cannot be held as security for the liability of drawee banks to remit for or return checks to the Federal reserve bank.
That much is settled by the amendment to Regulation J. But notwithstanding that amendment a Federal reserve bank may in a specific case require and take collateral to secure liabilities running to the Federal reserve bank as a collection agent for the owners of the checks.

3. In order to test the validity of this argument we will suppose such "a specific case". A drawee bank suspends payment without remitting for or returning checks forwarded to it by a Federal reserve bank. But the Federal reserve bank has taken a pledge of Liberty Bonds to secure such a remittance. Paragraph 5 of Section V of Regulation J as amended reads in part:

"neither the owner or holder of any such checks *** shall have any right of recourse upon, interest in, or payment from, any fund, reserve, collateral, or other property of the drawee in the possession of the Federal reserve bank."

Now in the face of this very plain English can the owners of the checks assert successfully that they are secured by the Liberty Bonds? In our opinion, they cannot.

4. It is obviously the language of the Regulation and not the language employed in the majority resolution of counsel which will control the action of the courts. Hence a Federal reserve bank would hardly be justified in proceeding contrary to the meaning of the Regulation in reliance upon language used or reservations made at the conference of counsel. But if it were, how could it have been intended by the majority of counsel that the rights of security which the Federal Reserve Bank of Minneapolis had been asserting for years on behalf of its principals were illegal preferences (see paragraph 6 of the majority report), whereas the security which the Federal Reserve
Bank of Boston now proposes to take is not only proper but its taking commendable? The right asserted by Governor Harding is not, in our opinion, consistent with the majority resolution adopted at the conference of counsel.

5. If Governor Harding's views are concurred in by the Board the language of Paragraph 5 of Section V of Regulation J could be revised, before it takes effect on January 1, 1930, so as to give the Federal reserve banks the desired latitude. To our minds the only question is whether this revision is advisable. In this connection we quote from our letter written to Mr. Wyatt under date of May 1, 1929:

"If Regulation J is to be amended so as to make liabilities for unremitted for transit items unsecured liabilities, but with the option to the Federal reserve banks to take securities in special cases, then we hope that the exceptional cases in which securities may be taken will be defined with as great accuracy as possible. In the light of its own experience the Minneapolis bank would probably want to go as far in this direction as an honest interpretation of Regulation J would permit."

If in special instances a Federal reserve bank can exact security from a drawee bank, there is no legal reason which we are aware of why that security may not consist of any of the drawee bank's assets. The security may be in the form of a pledge of bonds or customer's notes. But it may equally be in the form of a secondary lien on collateral which the Federal reserve bank already holds in its own right, or, if you please, a secondary lien on the reserve balance at the time of suspension. We do not see why Governor Harding's bank could not exact one kind of security just as properly as it could
another. Indeed it would be less of a burden on the drawee bank if it were permitted to hypothecate assets already in the hands of its Federal reserve bank, than to require it to deposit two separate and distinct funds to be held as collateral by the reserve bank, one fund as security for obligations to the reserve bank in its own right, the other as security for the principals of the reserve bank. In the latter case the drawee bank would have to part with a greater amount of securities.

We understand Mr. Wyatt to suggest that any arrangement by which the same collateral is taken to secure indebtedness owing to the Federal reserve bank in its own right and at the same time to protect it against losses in its capacity as a collection agent would produce confusion or conflict between the selfish interests of a Federal reserve bank and its duties as a collection agent. We doubt whether this is so, but if it were, the same objection may be made to the proposal to permit a Federal reserve bank to create two distinct collateral funds. The question could always arise, why was so much collateral placed in the "bills payable" envelope and so little in the "collection agent" envelope, etc. etc.

6. Accordingly if Regulation J were amended so as to permit a Federal reserve bank to take security "in special cases", Federal reserve banks would find themselves limited only by the embarrassing question of what is "a special case". What is a special case? A conservative officer of a Federal reserve bank would probably consider that every bank which was not in an impregnable financial posi-
tion was a special case.

7. With the right open to a Federal reserve bank to take security for their principals under special circumstances, we think a court might fasten on this as a basis for liability on the part of a reserve bank is a case where security might have been, but was not, taken. If the effect of Regulation J should be that security may be taken in exceptional cases, then an obligation to act in the exceptional case might well arise out of the fiduciary relationship which everyone concedes the Federal reserve banks occupy to their depositors. Hence an exception or reservation in Regulation J would create doubt and uncertainty, instead of clarifying the extent of the duty owed by the Federal reserve banks to their depositors, which everyone at the conference seemed to agree was the principal objective to be attained. A Federal reserve bank cannot foresee in advance how much checks received by it for collection on a given bank will aggregate at any one time. Taking collateral would be tantamount to a declaration by the reserve bank that it considered the drawee bank unsafe. This would prove embarrassing if the checks received on that bank exceeded the amount or value of the collateral. Likewise taking collateral in special instances would, we anticipate, give rise to charges of favoritism and discrimination on the part of the reserve bank, all of which would be unpleasant even though untrue.

As a uniform policy has now been adopted by the conference of Governors and approved by the Federal Reserve Board, our conclusions are as follows:
(1) It is our opinion that that policy as now expressed in Paragraph 6 of section V of Regulation J does not permit a Federal reserve bank acting as a collection agent to take collateral in special cases.

(2) It is our opinion that as long as this uniform policy is maintained it would create confusion and uncertainty as to the legal rights, duties, and liabilities of the Federal reserve to make exceptions or reservations which would permit taking collateral in special cases.

(Signed) A. Ueland
Counsel.

(Signed) Sigurd Ueland
Assistant Counsel.
The Federal Reserve Board announces that the Federal Reserve Bank of San Francisco has established a rediscount rate of 43\% on all classes of paper of all maturities, effective December 6, 1929.
Hon. George W. Norris, Governor
Federal Reserve Bank of Philadelphia
925 Chestnut Streets
Philadelphia

Dear Governor Norris:

We write at your request to give you our views concerning the question raised by Governor Harding in his letter to Governor Young dated October 19, 1929 and discussed by Mr. Wyatt in his letter to Counsel for the several Federal Reserve Banks dated the 11th instant, copies of which you have. The question is concerned with the propriety of Federal Reserve Banks making special arrangements with certain member and non-member banks for the deposit of collateral: (1) To protect Reserve Banks from liabilities incurred by reason of following a practice in collecting checks which the parties concerned may find convenient but which might as a matter of law be held to constitute negligences in the performance of the duties of a collection agent; or (2) to insure the collection of checks where such a practice has been followed.

It has been our view that agreements of the first class would be in harmony with the uniform policy formulated as a result of the joint conference of the Governors and Counsel of the Federal Reserve Banks in April of this year and subsequently approved by the Federal Reserve Board in its circular letter X-8389 dated October 16, 1929. We have considered that agreements of the second class would be contrary to such uniform policy. However, the two forms of agreement in use by your Bank would fall within the first class and therefore would be in accordance with such policy. We enclose herewith for your purpose a copy of our letter of October 26, 1929 addressed to Mr. McIlhenny concerning the form of such agreements. You will also recall that under date of May 2, 1929 we wrote Mr. Wyatt outlining the practice in this respect followed by your Bank, and sent you a copy of that letter. We requested Mr. Wyatt to inform us if he considered such agreements to be contrary to the uniform policy and the proposed amendments of Regulation J. Inasmuch as we have received no reply from him, we assume that he does not consider such agreements to be contrary to such policy.

We are inclined to believe that the taking of collateral for the purpose of insuring collection of checks, so that the holder or owner
Hon. George W. Norris

of a check would under certain circumstances have recourse to such collateral in case the check is not paid or the draft given in exchange therefor is dishonored, should be considered as being contrary to the uniform policy. Such a practice would result, in the case of the insolvency of a drawee bank, in the preferring of a limited number of creditors, to avoid which was one of the chief reasons given in support of the adoption of the uniform policy. In this connection we call your attention to Paragraph 6 of the principles set forth in the resolution adopted by the majority of Counsel, reading as follows:

"6. In our opinion, any deviation from these policies, in furtherance of which Regulation J. was promulgated, would entail grave dangers to Federal reserve banks and would result in the preferring of a limited number of creditors of an insolvent bank, contrary to the letter and spirit of the law as it exists in the various States and as administered in the Courts of the United States."

If such collateral is taken primarily for the purpose of insuring collection of checks, then it might well be said that the holders of owners of such items, through their agent, would have recourse to collateral in the possession of the Federal Reserve Bank, contrary to the language contained in Paragraph 6 of Section V of Regulation J as recently amended. If, however, the collateral is taken for the purpose solely of protecting a collection agent against loss resulting to it by reason of following a practice which might be said to constitute negligence, then no holder or owner of a check sent for collection could be said to have a right of recourse to collateral.

If as a matter of policy it is determined that the Reserve Bank should have the right to take collateral for the purpose of protecting not only itself but the holders and owners of checks under certain circumstances, then it would be advisable to consider modifying the language of Paragraph 6 so as to recognize the possibility of such a course of action and to clearly define its limitations.

We shall be very glad to give further consideration to any particular phase of this question should you desire.

Very truly yours,

MLS
FEDERAL RESERVE BOARD
WASHINGTON

X-6441

December 7, 1929.

SUBJECT: Code word to cover telegraphic transactions in new issue of Treasury Certificates of Indebtedness, Series TS-1930.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOWHEXED" has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TS-1930, dated December 15, 1929, due September 15, 1930.

This word should be inserted in the Federal Reserve Telegraphic Code book, following the supplemental code word "NOWHEX" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
December 2, 1929.

Walter Wyatt, Esq.,
General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

Yours of November 27 referring to your letter of November 7 (X-6409a), just to hand.

Pursuant to your request, I hand you herewith a copy of my memorandum to Governor Calkins relative to Governor Harding's suggestions with relation to special collateral on check collections.

I trust that it will not be considered inappropriate for me to comment upon the letter prepared by Robert S. Parker, Esq., of Counsel for the Federal Reserve Bank of Atlanta, dated November 11, 1929 and transmitted with yours of November 27 (X-6428).

It seems to me that Mr. Parker's position is somewhat inconsistent. In the third paragraph of his letter he summarizes his previous observations by saying that he sees no reason why Governor Harding's interpretation of the Board's statement on Uniform Check Collections should not be interpreted so as to permit the taking of collateral in isolated cases as conditions seem to warrant. The remainder of Mr. Parker's letter is devoted to observations with regard to the adoption of Governor Harding's suggestions by the Federal Reserve Bank of Atlanta and contains some very cogent reasons why the taking of special collateral would not be advisable.

The very reasons assigned by Mr. Parker why special collateral should not be taken by the Federal Reserve Bank of Atlanta apply with equal force to every other Federal reserve bank. The same confusion between the strict agency status of the Federal reserve bank and ownership would be created in the minds of endorsers and any litigation arising in one Federal reserve district as a result of such confusion of mind would doubtless lead to other litigation in other districts. As Mr. Parker says, "the tendency of the practice would doubtless be to foster the conception of a duty on the part of the agent to secure collateral protection for its principal." This is a
consideration of prime importance to the entire System and not one for the guidance of any one bank.

On the other hand, I agree entirely with the conclusion reached by Mr. Wallace, Counsel of the Federal Reserve Bank of Richmond that the proposal involves a technical violation of Regulation J as amended. My objection to the adoption of an equivocal position arises, however, not so much by reason of the fact that to do so would involve a violation of Regulation J as amended, as from the belief that the adoption of such equivocal position by any one Federal reserve bank will lead to litigation resulting in untold embarrassment to all other such banks.

Very truly yours,

(S) Albert C. Agnew,
Counsel.

Encl.
November 25, 1929.

Memorandum to: Mr. Calkins.

From: Mr. Agnew.

Subject: Topic for Governors' Conference. Interpretation of Uniform Policy re: Check Collections.

Reference is made to letter X-6409 dated November 7, 1929, and letter X-6389 dated October 16, 1929, relating to the uniform policy on check collections and amendments to Regulation J.

Governor Harding in his letter dated October 19, 1929, addressed to the Federal Reserve Board, raises the question whether or not the amendment to Regulation J ordered by the Board's letter of October 16, 1929, is to be interpreted as a prohibition against a Federal reserve bank taking collateral to protect itself in its capacity as agent in the collection of checks in special instances. Governor Harding states that he considers it vitally important that there should be no question as to the right of a Federal reserve bank to protect itself in this way when particular circumstances seem to require special treatment. Mr. Wyatt, counsel to the Federal Reserve Board, in his letter attached to X-6409 expresses the opinion that less danger and embarrassment will result through the adoption of a flexible rule, allowing Federal reserve banks to protect themselves as agent by special collateral in special cases, than by the adoption of a hard and fast rule that under no circumstances shall collateral be taken. He suggests that counsel to the several Federal reserve banks review the subject and advise the governors of the respective banks of their opinion at this time.

At the time of the conference of counsel held in Washington during February, 1929, I was one of those who voted against the proposed amendment reserving the right of Federal reserve banks to take special steps to protect themselves in special cases. I took this position at the time in question because I felt that any deviation, however slight, from the absolute position of agency always assumed by this bank in the matter of check collections was dangerous. I have reviewed the entire situation in the light of Governor Harding's letter and Mr. Wyatt's recent recommendation, and I am of the same opinion still.

Under orders from the Federal Reserve Board, paragraph 6 of Section V of Regulation J has been amended, effective January 1, 1930, to read as follows:
"(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. In such event, neither the owner or holder of any such check, nor the bank which sent such check to the Federal reserve bank for collection, shall have any right of recourse upon, interest in, or right of payment from, any fund, reserve, collateral, or other property of the drawee bank in the possession of the Federal reserve bank."

It seems to me that the last sentence in the revised paragraph is an express prohibition against the adoption of any exceptions from the general rule. It states in substance that neither the owner nor holder of a check which has been charged back or which is not paid in finally collected funds, shall have any right of recourse upon, interest in, or right of payment from any fund, collateral, or other property of the drawee bank in the possession of the Federal reserve bank.

If in a given case which might seem to be an exception a Federal reserve bank insisted upon the creation of a special collateral account for the payment of cash items sent to a drawee and if upon the insolvency of the drawee such special collateral fund were resorted to for the payment of checks, certainly such action would constitute an exception to paragraph 6 of Section V of Regulation J not warranted under the proposed amendment.

Moreover, there is in my opinion considerable danger that if a Federal reserve bank takes special collateral in one instance where it may seem necessary, and fails to insist upon such collateral in another instance, that such bank will be subjected to a charge of negligence for having failed to demand collateral in the second instance. As you know, in many cases the necessity for special precautions does not appear until the last moment, when to arrange for special collateral would be impossible. A precedent of the kind proposed, once established, would require similar action in every case in which there was the slightest room for doubt.

Under the provisions of the Federal Reserve Act, Federal reserve banks undertake to act as clearing houses for their member banks. In my opinion the duties thus undertaken are strictly those of agency and I do not consider it either expedient or proper for a Federal reserve bank to resort to any methods to insure collection which would not be adopted in ordinary practice by a clearing house. While I have considered and attached considerable weight to the practical suggestions stated by Governor Harding, I believe that the danger involved through the adoption of unusual practices in special cases outweighs the benefit to be derived from such special treatment. I therefore believe that the Board's letter of October 16, 1929 (X-6389) should be construed as preventing a Federal reserve bank from making a special arrangement to secure the payment of checks in extraordinary cases.

Albert C. Agnew, Counsel
FEDERAL RESERVE BOARD
WASHINGTON

X-6443.

December , 1929.

SUBJECT: Liability Incurred by Member Bank in Purchasing Federal Reserve Exchange.

Dear Sir:

In a ruling published in the Federal Reserve Bulletin for September, 1928, at page 656, the Federal Reserve Board held that the liability incurred by a member bank through the issuance of its cashier's check for Federal reserve exchange purchased, should be treated as a liability for money borrowed rather than as a deposit liability. The facts of the transaction which were under consideration by the Board at that time were described as follows:

A member bank which is temporarily short in its reserves arranges with another member bank having a temporary excess in reserves for the use of a stipulated amount of Federal reserve credit, for one day or more, as may be agreed upon. The bank purchasing the credit either gives its cashier's check to the selling bank, to be held for one day or more, as the case may be, or, dispensing with the formality of issuing a cashier's check, authorizes the selling bank to clear a ticket for the amount through the clearing house settlement on the day agreed upon, and the selling bank either gives its draft on the Federal reserve bank to the buying bank or arranges with the Federal reserve bank to transfer on the Federal reserve bank's books the stipulated amount from the account of the selling bank to the account of the buying bank.

It now appears that, while Federal reserve exchange is frequently purchased and sold in accordance with the method above described, this practice is not universally followed and it often happens that a member bank purchases Federal reserve funds from another member bank through the method of book entries, wire transfers or otherwise. The question has been presented to the Board as to how such transactions should be regarded in cases where the purchase and sale of Federal reserve exchange is accomplished by some method other than that described in its 1928 ruling.
After considering this question the Board is of the opinion that all such transactions should be classified in accordance with the purpose to be effected and the principles involved rather than in accordance with the mechanics of their accomplishment. Transactions of this kind are manifestly temporary loans negotiated for the purpose of avoiding the necessity of rediscounting with the Federal reserve bank or showing a deficiency in reserves. The Board rules, therefore, that in every such transaction whether effected by check, book entries, wire transfers or otherwise, and regardless of the method of repayment, the purchasing member bank should show its resulting liability to the selling member bank as money borrowed and the selling member bank should treat the transaction as a loan made. In using the Board's Form 105 for report of condition, the purchasing member bank should show the liability incurred in any such transaction under "bills payable and rediscounts" and the selling member bank should enter the amount of the transaction under "loans and discounts".

Very truly yours,

R. A. Young,
Governor.

PROPOSED CIRCULAR LETTER TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.
To Governor Young

From Mr. Wyatt-General Counsel.

Subject: Proposed Bill to Amend Law re Examinations of Member Banks.

The changes which would be made in the law by the attached bill, which I prepared at your request, may be summarized briefly as follows:

1. The Comptroller of the Currency would be required to examine all member banks, including State member banks, at least twice each year, to make special examinations of State member banks when requested by the Federal Reserve Board, and to furnish copies of the reports of all such examinations to the Federal reserve banks and the Federal Reserve Board when requested by the Federal Reserve Board.

2. The expenses of all such examinations would be paid by the Federal Reserve Board out of the proceeds of assessments levied upon the Federal reserve banks, instead of being paid by the banks examined.

3. All authority for the acceptance of State examinations in lieu of Federal examinations would be repealed.

4. The general authority in Section 9 for the examination of State member banks by the Federal Reserve Board and the Federal reserve banks would be repealed, but the general authority in Section 11 for the Board to examine all member banks would be retained.

5. Federal reserve banks would be permitted to make special examinations of member banks only with the permission of the Federal Reserve Board, and the cost of making such examinations would be paid by the Federal reserve bank making the examination.

6. The provision of the present law requiring Federal reserve banks to furnish the Federal Reserve Board with information concerning the condition of member banks would be eliminated. (This, together with the amendment relieving the Federal reserve banks of any responsibility with reference to examinations of member banks, would be calculated to relieve the Federal reserve banks to some extent of the presumption that they either have, or ought to have, full knowledge of the financial condition of their member banks and would lessen the danger of litigation along the lines of the Grimm Alfalfa Case and the Neoga Case.)

7. Federal Reserve Board examiners would specifically be given the same powers with respect to the examinations of Federal reserve banks as national bank examiners now have with respect to examinations of national banks.

Respectfully,

Walter Wyatt,
General Counsel.

Bill attached.
An act to establish a more effective supervision of banking in the United States, to amend the Federal Reserve Act and Section 5240 of the United States Revised Statutes, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 9 of the Federal Reserve Act, (Title 12, Sections 321 to 332, inclusive, United States Code) as amended, is further amended by striking out the sixth and seventh paragraphs thereof (Title 12, Section 325 and 326, United States Code) and by changing the first sentence of the eleventh paragraph thereof (the first sentence of Section 330, Title 12, United States Code) to read as follows:

"Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this act which relate specifically to member banks, and shall be subject to examination under the provisions of subsection (a) of Section 11 of this Act and section fifty-two hundred and forty of the Revised Statutes as amended."

Section 2. That Section fifty-two hundred and forty, United States Revised Statutes (Title 12, Section 481 to 485, inclusive, United States Code), as amended, is amended and reenacted to read as follows:

"Sec. 5240. The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and
oftener if considered necessary: Provided, however, That the Federal Reserve Board may at any time direct the holding of special examinations of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have "power to make a thorough examination of all the affairs of the bank, and in doing so he shall have power to administer oaths and to examine any of the officers, agents and employees thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency. The Comptroller of the Currency shall, upon request of the Federal Reserve Board, furnish a full copy of the report of each such examination to the Federal Reserve Board and to the Federal reserve bank of which the bank examined is a stockholder.

"The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The salaries of such examiners and all expense of the examinations above provided for shall be paid by the Federal Reserve Board out of the proceeds of assessments levied upon the Federal reserve banks pursuant to the provisions of Section 10 of the Federal Reserve Act.

"In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal Reserve Board, provide for special examination of member banks within its district. The expense of
such examinations shall be borne by the Federal reserve bank making the examination. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them and a copy of the report of each such examination shall be furnished to the Federal Reserve Board, whenever requested by said Board.

"No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

"The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank. The examiners making such examinations shall have power to make thorough examinations of all the affairs of the Federal reserve banks, and in doing so shall have power to administer oaths and to examine any of the officers, agents and employees thereof under oath and shall make full and detailed reports of the condition of such Federal reserve banks to the Federal Reserve Board."
Uniform Policy re Check Collections.—Should Federal Reserve Banks take collateral from remitting banks in special cases? (F.R. Board letter X-6409, Nov. 7, 1929.)

Governor Harding's letter of October 19, 1929 to the Federal Reserve Board (X-6409-b) raises the question whether a Federal Reserve Bank in taking collateral to insure the payment of checks in special cases will be acting in contravention of the uniform policy recommended by a majority of the counsel of Federal Reserve Banks and approved by the last Conference of Governors and by the Federal Reserve Board.

At the Conference of Counsel in April 1929 eight of the counsel of Federal Reserve Banks voted in favor of the majority policy, i.e., that reserve balances of member banks and collateral held to secure indebtedness of member banks to Federal Reserve Banks should not in the event of the member banks’ insolvency be applied in payment of checks drawn on the member banks and in process of collection through Federal Reserve Banks. The report of the majority of counsel recommended two specific amendments to Regulation J. Three of these eight counsel (Mr. Weed of Boston, Mr. Stroud of Dallas, and myself) asked to be recorded as voting for the majority report with the understanding that the report was not intended to carry with it any implication that a Federal Reserve Bank may not make special arrangements to insure the payment of checks in special cases.

The Conference of Governors on April 3, 1929 adopted the following resolution:
December 3, 1929.

"RESOLVED, That we approve in substance the majority report of the Conference of Counsel with the understanding that to assist the General Counsel of the Federal Reserve Board in framing the exact language of any amendment that may be found necessary to make the substance of the report effective; each Federal Reserve Bank shall be at liberty to call his attention to any local arrangement that might be affected by his amendment."

(Governors McDougal, Geery, and Seay voted in the negative on the above resolution.)

With certain changes in phraseology recommended by Mr. Wyatt, the Federal Reserve Board adopted, effective January 1, 1930, the amendments to Regulation J recommended by the Conference of Counsel. One of these was to make paragraph 6 of Section V of Regulation J read as follows:

(New matter underlined)

"(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. In such event, neither the owner or holder of any such check, nor the bank which sent such check to the Federal Reserve Bank for collection, shall have any right of recourse upon, interest in, or right of payment from, any fund, reserve, collateral, or other property of the drawee bank in the possession of the Federal Reserve Bank."

I think it is fair to say that the basic reason for the so-called majority policy is the belief that there may be a conflict of interest between a Federal Reserve Bank in its individual capacity on the one hand and the principals for whom the Federal Reserve Bank acts in the collection of checks on the other hand, if the same property is available for the payment both of obligations due to the Federal Reserve Bank individually and
of obligations owned by such principals. I am confident that it was the intention of most of the counsel that the approval of the majority policy should not preclude Federal Reserve Banks from taking collateral to insure the payment of checks in special cases under agreements which would not make the collateral available for the payment of obligations due to the Federal Reserve Bank in its individual capacity. This intention is not, however, indicated in the specific language of amended paragraph 6; and I believe that a fair interpretation of that paragraph prohibits a Federal Reserve Bank from taking collateral to insure payment of checks under any circumstances. It may be argued that collateral is not technically "in the possession of the Federal Reserve Bank" if held by the bank in its capacity as agent and as security for the payment only of obligations owned by its principal. In my opinion, however, a court would hold that the broad language of the paragraph indicates an intent to include in "collateral, or other property of the drawee bank in the possession of the Federal Reserve Bank" collateral held by the Federal Reserve Bank as collecting agent as well as collateral held by it to secure its own obligations. In this connection I may say that in a suit by or against the receiver of an insolvent drawee bank I do not think a court would permit the record of the proceedings of the Conference of Counsel to be introduced as evidence of the intended scope of this paragraph of the regulation.
In my judgment Federal Reserve Banks should be permitted to take collateral to insure payment of checks in special cases where this seems to them necessary in order to protect themselves against possible liability as collecting agents, and I therefore believe that either (1) the language of paragraph 6 of Section V of Regulation J as amended to become effective January 1, 1930, should be further revised so as specifically to provide for this, or (2) this paragraph of Regulation J as now effective should be left unchanged. As you know, I personally favor the latter alternative, as I believe that no amendment to this paragraph of the regulation is necessary or advisable to make effective the policy adopted by the majority of counsel and approved by the Conference of Governors. Paragraph 6 of Section V of Regulation J as now effective reads as follows:

"(6) The amount of any check for which payment is actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned."

I attach for your convenience an extract from my letter of May 6, 1929 to Mr. Wyatt explaining my reasons for believing it unnecessary and inadvisable to amend this paragraph of Regulation J.

WSL:GSR
Encl.
"I think that paragraph (6) of Section V of the existing regulation should be left unchanged because no amendment is necessary in order to carry out the general policy approved by the majority committee.

My understanding of the argument for an amendment is that as the regulation now stands, when a member bank fails without having remitted for cash letters it is unsafe for the Federal Reserve Bank to do what it should do in order to carry out the general policy recommended by the majority committee (i.e., turn over to the Receiver of the failed member bank, in so far as not needed to pay indebtedness due to the Federal Reserve Bank in its own right, any balance in the member bank's reserve account and any collateral security which has been pledged by the member bank to the Federal Reserve Bank); and that this is due to the uncertainty as a matter of law whether such reserve balance and such collateral security should be turned over to the Receiver or should be applied in payment of unremitted-for items drawn on the failed bank, this uncertainty being due mainly to the recent decisions in the cases of Midland National Bank & Trust Company v. The First State Bank of Sioux Falls 222 N.W. 274 (Supreme Court of Minnesota), and Early v. Federal Reserve Bank of Richmond 30 Fed. (2nd) 198 (Circuit Court of Appeals, Fourth Circuit).

It seems to me, however, that this attributes to these two decisions a broader scope and effect than they really have.

The Midland Bank case involved the interpretation of a specific contract under which securities were pledged as collateral, and the Federal Reserve Banks can avoid its effect by using a different form of contract of pledge containing express language showing an intent to exclude from the liabilities secured thereby any liabilities upon checks received by the Federal Reserve Banks as collecting agents or upon instruments given in payment of such checks.

An analysis of the opinion of the Circuit Court of Appeals in the Early case shows clearly, I think, that the court based its decision upon the fact that the failed member bank had, by agreeing to the terms of the Federal Reserve Bank of Richmond's then effective check collection circular, authorized the Reserve Bank to charge cash letters against the member bank's reserve account at the expiration of the designated transit time or at any other time the Reserve Bank deemed it necessary to do so. In other words, the decision is based on the fact that the Federal Reserve Bank of Richmond was using the so-called "charge" system in collecting the checks involved. Since the time of the events involved in the Early case the Federal Reserve Bank of Richmond has adopted the "remittance" system and all Federal Reserve Banks are now collecting checks on that system. It seems to me that as to any cases likely to arise in the future the decision in the Early case will not only not be considered a precedent for the application of reserve balances to the payment of unremitted-for items, but will be a strong authority against such application.
I am aware that the following cases might be used to support an argument that a Federal Reserve Bank has the right, if it so desires, to apply the reserve balance of a failed member bank in payment of unremitted-for items drawn on such member bank: Storing v. First National Bank of Minneapolis 28 Fed. (2d) 587 (C.C.A., 8th Circuit); Keyes, Receiver, v. Federal Reserve Bank of Minneapolis (unreported decision U. S. D. C., for the District of Minnesota, 1927); Federal Reserve Bank of Minneapolis v. First National Bank of Eureka, S. D., 277 Fed. 300 (U.S.D.C., for the District of South Dakota, Northern District, 1921). For various reasons, however, I do not believe that these cases would be entitled to much weight in an attempt to establish that Federal Reserve Banks must apply failed member banks' reserve balances in payment of unremitted-for items; and consequently I believe that these decisions need cause no real embarrassment to Federal Reserve Banks in carrying out the general policy recommended by the majority committee of counsel. For example, one of the reasons I have in mind is that the three cases just mentioned involved for the most part checks drawn on other banks, which checks had been sent to and collected by the failed banks thereby increasing the failed banks' assets; whereas the unremitted-for checks involved in our problem are those drawn on the failed bank itself, so that the collection thereof would be accomplished merely by a transfer of the failed bank's liability from its depositors to the check owners without any increase in the bank's assets.

As I have already indicated, I am satisfied that no amendment to paragraph (6) of Section V of Regulation J is necessary to enable the Federal Reserve Banks effectively and safely to carry out the general policy approved by the majority committee of counsel. Moreover, I think there is great advantage to all concerned in trying to work out the solution of this intricate problem as far as possible by the application of accepted principles of law rather than by resorting to regulations that may be considered arbitrary, particularly as the purpose of this particular provision of the regulations would be to determine rights as between third parties as well as to protect the Federal Reserve Banks. In fact to the outsider the protection afforded Federal Reserve Banks would appear to be incidental. It is possible, of course, that further study and future developments may indicate that an amendment is advisable, but in determining just what form such amendment should take we will then have the benefit of additional knowledge and information, including, I hope, a decision by the United States Supreme Court in the Early case.

If any Federal Reserve Bank really feels it now needs additional protection in carrying out the general policy approved by the majority committee, I think that rather than have the Federal Reserve Board amend Regulation J it would be better for the particular Federal Reserve Bank to incorporate such protective provision as it deems necessary in its check collection circular.
The specific amendment to paragraph (6) of Section V of Regulation J as proposed by the majority committee of counsel is open to the objection that it goes beyond the scope of the general policy approved by the committee and might affect, even as between third parties, rights and property not intended to be affected and having no relation to the general policy. The object of the proposed amendment is, as I understand it, to make clear that the owners of unremitting-for-items have no right to receive or require payment of such items out of (a) reserve and clearing balances, (b) Federal Reserve Bank capital stock refunds, and (c) collateral pledged to secure indebtedness to the Federal Reserve Bank. It is not intended, of course, to affect such rights as the owners of the checks might have by agreement with other parties with respect to other property, such for example as securities held by Federal Reserve Banks in safekeeping for member banks. I assume it would be possible to redraft the amendment to this paragraph so as to limit its effect to the precise purposes intended, but the result would be a long and cumbersome paragraph; and as I have previously indicated I think it unnecessary and inadvisable to make any amendment."
UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE SECOND CIRCUIT

FRANK G. RAICHLE,
   Appellant,

against

FEDERAL RESERVE BANK OF NEW YORK,
   Appellee.

Appeal from the United States District Court for the Southern District of New York.

Bill in equity by Frank G. Raichle to restrain the Federal Reserve Bank of New York from doing various acts in derogation of plaintiff's alleged rights. Upon motion by the defendant, in the nature of a demurrer, the bill was dismissed by the District Court, and plaintiff appeals.

This is an appeal from a decree dismissing a bill in equity upon the merits. The defendant moved to dismiss the bill on the ground:

1. That it appears on the face of the complaint by plaintiff's own showing that he is not entitled to the relief prayed for by this complaint against the
defendant, nor to any relief arising from the facts alleged in said complaint.

2. That it appears on the face of said bill of complaint that this court has no jurisdiction to hear and determine this suit.

3. That it appears on the face of said bill of complaint that said complaint is wholly without equity.

The bill alleges the incorporation of the defendant, which we shall hereinafter call the Bank, under the Act of Congress called the Federal Reserve Act. It alleges that this act was passed to "furnish an elastic currency, to afford means of discounting commercial paper and to establish a more effective supervision of banking in the United States"; that the Bank "is a unit in the Federal Reserve System, and as such has certain powers conferred upon it by the Federal Reserve Act and performs certain functions under the control of its Board of Directors and the Federal Reserve Board"; that the "Federal Reserve Board is by law vested with limited control over Federal Reserve re-discount facilities and the defendant Federal Reserve Bank of New York is vested with limited control over its own rediscount facilities."

After setting forth that the United States have for six years experienced great prosperity, that business conditions are good and getting better, that employment and wages are satisfactory, that the signs usually consulted indicate a continued improvement and that accordingly large numbers of
people have invested in stocks and bonds of various industrial and railroad corporations, the bill goes on to say that the plaintiff owns various securities outright and has borrowed money to purchase others.

It further alleges that there is an abundance of credit readily available for the needs of industry and agriculture, as well as investment, but that the bank reports that brokers' loans have increased in volume and commercial loans have decreased. Such a condition is said to be due to the tendency of banks to charge high rates of interest and to make loans callable on demand and, by reason of these circumstances, it is said to have been found desirable to borrow money from the public through security offerings in order to eliminate banks as middlemen.

The bill then goes on to say that the credit available in the United States is in excess of fifty billion dollars and that the total of brokers' loans approximates only six and one-half per cent of this amount, so that the claim that too much of available credit is involved in collateral or brokers' loans is not justified.

The bill then sets up the wrongful acts on which the plaintiff founds his cause of action. It says that the Bank during the year 1928 illegally engaged in a course of conduct, which it is still continuing, that had for its object an arbitrary reduction of brokers' loans and a general reduction of security prices. The course of conduct
consisted of the following acts:

(1) "This defendant and the Federal Reserve System generally, ... wrongfully ... spread propaganda concerning an alleged money shortage and expressed alarm over the increasing volume of collateral loans, whereas no shortage exists other than one of their own making which is technical in its nature and artificial in its essence."

Many persons induced by this propaganda have sold securities thereby contributing to a decline in market prices and to plaintiff's damage.

(2) "The defendant, ... and the Federal Reserve System generally, have ... wrongfully ... set about to restrict the supply of credit available for investment purposes and cause a general liquidation of security loans with a resultant reduction in quoted security prices. In this connection the defendant, ... and Federal Reserve System generally, have engaged in an open market operation, as the term is generally used by those concerned in this practice, but not for the purpose contemplated by the use of the term in the Federal Reserve Act. The defendant and other Federal Reserve banks have sold quantities of securities aggregating many millions of dollars ... for the sole purpose of taking money and its attendant credit out of the market and removing the same from use, thus curtailing credit and causing an artificial money shortage to the plaintiff's damage and injury. This conduct ... is not justified by any economic circumstances, and if continued and unabated will lead to serious consequences, and to the damage of this plaintiff."

(3) The defendant has on three different occasions "arbitrarily and unreasonably raised" the re-discount rate which it charges to its member banks.

"for the purpose and with the effect of raising interest rates generally and call money rates on the New York Stock Exchange in particular."

Through this action interest rates have become unreasonable and plaintiff has been damaged by being obliged to pay such
rates for borrowed money and by having the value of
his securities depreciated through the sale of se-
curities by persons unwilling or unable to pay these
rates.

(4) "the defendant has wrongfully controlled
and seeks to further control the action of mem-
ber banks in dealing with their own resources
by coercing them to call collateral loans made
to their customers by said banks on account of
their own resources and not re-discounted with
defendant or any other Federal Reserve Bank.
On various occasions the said Federal Reserve
Bank, ... has denied re-discount facilities
to certain member banks pending a liquidation
of certain other collateral loans and thus
occasioned liquidation of securities and re-
duction of prices due to inability on the part
of borrowers to re-negotiate their loans."

The bill finally alleges that by the defendant's
acts plaintiff's securities have depreciated and he has
been damaged in more than the sum of $3,000.; that the
defendant seeks further to control its member banks in
the matter of collateral loans and threatens further to
raise the re-discount rate.

Frank G. Raichle, Solicitor for Appellant
in person; Frank G. Raichle, Robert L.
Owen, Carlos C. Alden and Ethan W. Judd,
Counsel.

Newton D. Baker and Walter S. Logan, Solici-
tors and Counsel for Appellee.

AUGUSTUS N. HAND, Circuit Judge:

The wrongs charged against
the bank are (a) spreading propaganda concerning an alleged
money shortage and increasing volume of collateral loans,
(b) setting about to restrict the supply of credit available for investment purposes by engaging in open market transactions through the sale of its securities, (c) raising the rediscount rate for its member banks in order to reduce the volume of security loans (d) coercing member banks to call collateral loans by declining to rediscount eligible commercial paper for such member banks.

Three principal questions must be considered:

(1) Are the foregoing acts, irrespective of the alleged purpose to reduce the volume of brokers' loans, within the power of the Federal Reserve Bank?

(2) If the acts are generally speaking lawful, are they rendered unlawful because the purpose was to reduce the volume of brokers' loans?

(3) Is the Federal Reserve Board a necessary party to the action?

The Federal Reserve Act marked the end of a long struggle and was thought to afford the solution of many difficulties. When the Independent Treasury Bill was passed in 1846, the effect was completely to divorce the government from all connection with the money market by making it its own banker and by keeping government funds in the vaults of independent treasury office banks. The public then had to depend on state banks for currency and credit, with a result that in times of financial stress is well known.

To meet the necessities of the Civil War, National Banks were established. They became the official depositaries
of the government and furnished an enlarged currency because of their ability to issue circulating notes against government bonds deposited with the Treasurer of the United States. They were required to maintain reserves in certain cities based upon a percentage of their deposits. As the government debts of the Civil War became liquidated, the means for issuing currency lessened, though the business requirements of the country were expanding. In such a situation business prosperity inevitably promoted monetary stringency. Moreover, as the reserves were deposited in relatively few banks in the metropolitan centers, when financial stringencies arose, pressure always came on the banks, their deposits would be withdrawn, the rates for call loans would advance and a liquidation of collateral and depreciation of values would ensue.

While the National Banking System was a great improvement over what went before, it provided no central regulating force and furnished no adequate means for controlling interest rates or preventing or lessening financial stringencies and panics. The usual method of furnishing funds needed for business was for the Treasury to deposit moneys from its vaults in the National Banks and to withdraw these deposits if they were used too much in speculation. This was a rather ineffectual way of dealing with complicated and difficult situations. It was dependent too much upon the determination of a single official
and lacked the information and guidance that a scientific federal banking system would afford.

To remedy the difficulties we have mentioned, the Federal Reserve Act was passed. The Federal Reserve Banks have national charters and their stockholders are member banks. Each Federal Reserve Bank has nine directors, three chosen from the member banks, three selected as representatives from industry and three designated by the Federal Reserve Board - a central body consisting of the Secretary of the Treasury - the Controller of the Currency and six other members appointed by the President with the consent of the Senate. This Board is given, by law, the power to exercise general supervision over Federal Reserve Banks. It is in terms empowered to examine the affairs of each Federal Reserve Bank and to publish weekly a statement showing the condition of each bank as well as a consolidated statement of all the banks in the system. It is also specifically empowered to permit or, in certain cases, to require Federal Reserve Banks to re-discount the discounted paper of other reserve banks and to suspend, for a limited time, reserve requirements, and it is empowered to review and determine rates of discount to be charged by Federal Reserve Banks "which shall be fixed with a view of accommodating commerce and business."

Furthermore, a Federal Advisory Council is created by the Act with a delegate member from each Federal Reserve Bank. This Council is authorized to confer with the Federal Reserve Board on general business conditions, to make oral
or written representations concerning matters within the
jurisdiction of the Board and to call for information
and to make recommendations in regard to discount rates,
re-discount business, note issues, reserve conditions
in the various districts, the purchase and sale of gold
and securities by reserve banks, open market operations
by these banks and the general affairs of the Reserve
Banking System.

The foregoing outline shows the broad purposes
of the Act and the wide powers of supervision and control
given to the Federal Reserve Board over the whole Reserve
System. The Congressional Report of Senator Glass stated
the objects of the Act as follows:

"1. Establishment of a more nearly uniform
rate of discount throughout the United States,
and thereby the furnishing of a certain kind of
preventive against overexpansion of credit which
should be similar in all parts of the country.

"2. General economy of reserves in order that
such reserves might be held ready for use in pro-
tecting the banks of any section of the country
and for enabling them to go on meeting their ob-
ligations instead of suspending payments, as so
often in the past.

"3. Furnishing of an elastic currency by the
abolition of the existing bond-secured note issue
in whole or in part, and the substitution of a
freely issued and adequately protected system of
bank notes which should be available to all insti-
tutions which had the proper class of paper for
presentation.

"4. Management and commercial use of the
funds of the Government which are now isolated in
the Treasury and subtreasuries in large amounts.

"5. General supervision of the banking busi-
ness and furnishing of stringent and careful over-
sight.

"6. Creation of market for commercial paper."

To carry out the purposes of the Act, Federal
Reserve Banks, subject to the supervision of the Federal
Reserve Board, are authorized to act as government de-
positaries and fiscal agents; to receive and maintain
the legal reserves of member banks; upon endorsement of
member banks to discount notes, drafts and bills of ex-
change arising out of actual commercial transactions but
not "notes, drafts or bills covering merely investments or
issued for the purposes of carrying or trading in stocks,
bonds or other investment securities, except bonds and
notes of the government of the United States"; to make
advances to member banks on their promissory notes for
not more than fifteen days at rates to be established by
the Federal Reserve Banks subject to the review and de-
termination of the Federal Reserve Board provided such
promissory notes are secured by eligible paper, or by
bonds, or notes of the United States, to receive Federal
Reserve notes upon deposit of eligible paper, or gold, or
gold certificates, provided a gold reserve of not less
than forty per cent of such notes is maintained. (U.S.C.A.
Title 12, Ch. 3, Secs. 341-361.)

Federal Reserve Banks may also, under rules and
regulations prescribed by the Federal Reserve Board, en-
gage in "Open Market Operations," that is to say, purchase
and sell in the open market at home or abroad cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities eligible for rediscoun. They may deal in gold coin and bullion at home and abroad; buy and sell, at home and abroad, bonds and notes of the United States and bills, notes, revenue bonds and warrants with a maturity from date of purchase of not exceeding six months, issued by any State, County, district, political subdivision or municipality in the United States, such purchases to be made in accordance with regulations prescribed by the Federal Reserve Board. They may purchase from member banks and sell, bills of exchange arising out of commercial transactions and may "establish from time to time, subject to review and determination by the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank for each class of paper, which shall be fixed with a view of accommodating commerce and business."

They may establish accounts with other Federal Reserve Banks with the consent and upon the order and direction of the Federal Reserve Board and, under regulations to be prescribed by said Board, may open accounts and establish agencies in foreign countries for the purpose of purchasing, selling and collecting bills of exchange. They may purchase and sell in the open market either from or to domestic banks, firms, corporations or individuals, acceptances of Federal Intermediate Credit Banks and of National Agricultural Credit Corporations whenever the Federal Reserve Board shall declare
that the public interest so requires. (U. S. C. A., Title 12, Ch. 3, Secs. 353-357.)

The foregoing provisions enable the Federal Reserve Banks without waiting for applications from their member banks for loans or re-discounts to adjust the general credit situation by purchasing and selling in the open market the class of securities that they are permitted to deal in. The power "to establish from time to time, subject to review and determination by the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank" appears in the Act with the open market powers. The two powers are correlative and enable the Federal Reserve Banks to make their rediscount rates effective. The sale of securities does not lessen the total amount of credit available but, by necessitating payment to the Federal Reserve Banks, increases available credit in their hands "with a view of accommodating commerce and business" as provided by the Act. (U.S.C.A. Title 12, Ch. 3, Sec. 357.)

Such being an outline of the powers of the Federal Reserve Board, the Federal Advisory Council and the Federal Reserve Bank, it is necessary to consider whether any of the acts which the bill says were performed by the Federal Reserve Bank of New York were in themselves, irrespective of a purpose to reduce the volume of brokers' loans, unlawful.

Certainly it was lawful to engage in open market
transactions by the sale of securities, to fix the rediscount rate and to decline to re-discount eligible paper. Purchases and sales in the open market are specifically authorized by the Act. (U. S. C. A. Title 12, Ch. 3, Secs. 353-356.) Likewise the Act in terms empowers "every Federal Reserve Bank ... to establish from time to time subject to review and determination of the Federal Reserve Board rates of discount to be charged by the Federal Reserve Bank for each class of paper, which shall be fixed with a view of accommodating commerce and business." While it is alleged in the bill that the re-discount rate "has been arbitrarily and unreasonably raised," it was for the defendant, subject to the supervision of the Federal Reserve Board, to determine what would be a reasonable re-discount. It is not contended that the provision for fixing rates of discount is unconstitutional, nor would it seem even reasonable to argue that it is after such decisions as First National Bank v. Union Trust Co., 244 U. S. 416 and Westfall v. United States, 274 U. S. 256, as well as The Legal Tender Case, 110 U. S. 421; Farmers' & Mechanics National Bank v. Deering, 91 U. S. 29, and McCulloch v. Maryland, 4 Wheat, 316.

The Act being constitutional, we are asked to hold that the bank may not sell its own securities and fix the rates at which it will discount or re-discount paper when it is given the power by the specific terms of the Federal Reserve Act to do all of these things. It is
important to note that it is not under any compulsion to re-discount eligible paper for the words of the Act in respect to re-discounting are wholly permissive. The Act provides that:

"Any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Federal Reserve Board discount notes, drafts and bills of exchanges ..." (U.S.C.A. Title 12, Ch. 3, Sec. 348.)

But it is alleged that the bank and the Federal Reserve System generally have wrongfully "spread propaganda concerning an alleged money shortage and expressed alarm over the increasing volume of collateral loans, whereas no shortage exists other than one of their own making which is technical in its nature and artificial in its essence."

As we have already said, the Act requires the Federal Reserve Board to examine the books and affairs of each Federal Reserve Bank, to require such statements as it may deem necessary and to publish each week a statement showing the condition of each bank and a consolidated statement for all the banks. These statements shall show in detail the assets and liabilities and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments held. The Federal Advisory Council shall also have power to confer with the Federal Reserve Board on general business conditions, make oral or written representations concerning matters within the
jurisdiction of the Board and call for information and make recommendations as to discount rates, re-discount business, reserve conditions, the purchase and sale of gold or securities by reserve banks, open market operations and the general affairs of the Reserve Banking System.

In view of such provisions for detailed reports on the condition of the banks and for intercommunication between the Board and the Council regarding the general affairs of the Reserve Banking System, we think it most unlikely that statements as to the condition of affairs cannot be made public by the Board, the Council and the banks. The provisions for reports, representations and recommendations seem to imply public information and when the situation warrants it, public warning. What particular conditions may warrant is necessarily left to those clothed with responsibility for acting. Warning before taking action would seem to be a safer practice than sudden and perhaps drastic action without warning. Plaintiff's assertion that the banks have spread false propaganda regarding a money shortage is inaccurate. It apparently is based on the allegation of the bill that "no shortage exists other than one of their own making which is technical in its nature and artificial in its essence." This is an argumentative and obscure allegation of no value in a pleading. If it means that the Federal Reserve Banks exercised
their right to sell in the open market and refused to re-
discount eligible paper, it should have said so; but if
such were the fact the banks would still have been within
their rights and the plaintiff would have gained nothing
by the allegation. We, therefore, deem the charge of
spreading propaganda without legal significance.

But the plaintiff chiefly relies on his charge
that the defendant has engaged in "a course of conduct
... which has had for its object and purpose an arbitrary
reduction in the volume of collateral or brokers' loans."
It is nowhere said that the Bank has acted in bad faith
or has aimed to injure the defendant. But it seems to be
thought that it may be said that the acts of the Bank
were likely to cause damage to the plaintiff, in fact
caused such damage, and therefore gave rise to a cause
of action unless some legal justification can be shown.

This general theory of liability was suggested
by Justice Holmes in an article entitled "Privilege Malice
Review, as long ago as 1894. At the time, it was re-
garded as a somewhat startling generalization by a pro-
fession which had viewed all liabilities in tort under the
categories of forms of action. But while courts have
differed as to when justification exists, the above gen-
eralization of Justice Holmes reiterated in XVIII Harvard
Law Review by Professor Ames has been more and more used
as a convenient means of approaching problems in torts.
Aiken v. Wisconsin, 195 U. S. at p. 204. In many cases such as libel and slander and malicious prosecution, a malevolent motive destroys the privilege, while in cases affecting the use of land, the privilege has frequently been held absolute. No hard and fast rule can be laid down as to when the privilege exists. Indeed it was said in Aikens v. Wisconsin, supra, that what will be considered a justification depends upon "principles of policy." See also Green v. Victor Talking Mach. Co., 24 Fed. (2d) 378. The plaintiff has seized upon the opinion of Justice Holmes in American Bank & Trust Co. v. Federal Bank, 256 U. S. 350, to support his contention that a purpose to reduce the volume of brokers' loans destroys the defendant's ordinary right to sell its own securities, fix the rates for extending credit and warn the public against inflation. But there a Federal Reserve Bank was charged with accumulating checks of country banks and presenting them in large quantities in order to compel these banks to become members of the Reserve Bank, or, at least, to open a non-member clearing account with it. In such circumstances Justice Holmes said that the "United States did not intend by ... statute to sanction this sort of warfare." In the case at bar the "principles of policy" point the other way. It would be an unthinkable burden upon any banking system if its open market sales and discount rates were to be subject to judicial review. Indeed, the correction of discount
rates by judicial decree seems almost grotesque when we remember that conditions in the money market often change from hour to hour and the disease would ordinarily be over long before a judicial diagnosis could be made.

Nor is the plaintiff aided by his charge that the defendant has wrongfully controlled member banks by coercing them to call collateral loans made to their customers, for the only method of coercion suggested is the refusal to re-discount eligible commercial paper. Such a refusal was not a wrong because no provision of the Act requires the Bank to discount unless so ordered by the Board.

We can see no basis for the contention that it is a tort for a Federal Reserve Bank to sell its securities in the open market, to fix discount rates which are unreasonably high, or to refuse to discount eligible paper, even though its policy may be mistaken and its judgment bad. The remedy sought would make the courts, rather than the Federal Reserve Board, the supervisors of the Federal Reserve System and would involve a cure worse than the malady. The Bank, under the supervision of the Board, must determine whether there is danger of financial stringency and whether the credit available for "commerce and business" is sufficient or insufficient. If it proceeds in good faith through open market operations and control of discount rates to bring about a reduction of brokers' loans, it commits no legal wrong. A reduction of brokers'}
loans may best accommodate "commerce and business."
(U. S. C. A. Title 12, Ch. 3, Sec. 357.)

Defendant's counsel have made a persuasive argument that upon the facts alleged the questions raised are political and not justiciable. We have not discussed it because without it the defendant's position seems to be unassailable.

It is contended that the bill must in any event be dismissed because of the failure to join the members of the Federal Reserve Board as parties. The "defendant and the Federal Reserve System generally" are charged with spreading propaganda. The Federal Reserve System must include the Board. The Board by the Act is given power to exercise general supervision over Federal Reserve Banks. (U. S. C. A., Title 12, Ch. 3, Sec. 248 (j).)

It is specifically empowered to regulate open market transactions, to review and determine rates of discount and to make reports as to conditions in the Federal Reserve System. In such circumstances, the Bank is, as to the matters complained of here, a governmental agency under the direction of the Federal Reserve Board. If the plaintiff prevailed in his contention the Bank would be enjoined from fixing a discount rate which the Board had presumptively directed. Such a situation under familiar principles renders the Federal Reserve Board an indispensable party to the suit. Alcohol Warehouse Corp. v. Canfield, 11 Fed. (2d) 214.
But the plaintiff contends that such cases as Gnerich v. Rutter, 265 U. S. 388, and Webster v. Fall, 266 U. S. 507, differ from the present because the Federal Reserve Banks are independent units and in that respect differ from agents like the Prohibition Director who is created under a regulation of the Department of Internal Revenue and is subject to the orders of the Commissioner. Moreover, the plaintiff calls attention to the fact that in American Bank & Trust Company v. Federal Reserve Bank, 256 U. S. 350, the Supreme Court maintained jurisdiction without suggesting that the Federal Reserve Board was a necessary party although the bill there alleged that the wrongs done by the Bank were done in pursuance of a policy "accepted by the Federal Reserve Board." But in American Bank & Trust Company v. Federal Reserve Bank, supra, the point that the Federal Reserve Board was an indispensable party was not raised, so that we must regard Gnerich v. Rutter and Webster v. Fall, supra, as controlling. In the last case the argument was made that in other suits brought against subordinate officials without joining the superior, the court had proceeded to determine the merits but Justice Sutherland said that:

"Questions which merely lurk in the record, neither brought to the attention of the court nor ruled upon, are not to be considered as having been so decided as to constitute precedents."

We have discussed the merits in case our decision
should be reviewed and our opinion that the Federal Reserve Board is a necessary party should be thought erroneous.

The decree is modified so as to dismiss the bill because of failure to join the members of the Federal Reserve Board who are indispensable parties and as so modified, is affirmed.
The Federal Reserve Board announces that the Federal Reserve Bank of Atlanta has established a rediscount rate of \(4\frac{3}{4}\%\) on all classes of paper of all maturities, effective December 10, 1929.
FEDERAL RESERVE BOARD

WASHINGTON

December 16, 1929.

SUBJECT: Holidays during January, 1930.

Dear Sir:

On New Year's Day, there will be neither Gold Settlement Fund nor Federal reserve note clearing, and the offices of the Federal Reserve Board will be closed.

In addition to the New Year's holiday, the following Federal reserve banks and branches will observe holidays during the month of January:

Wednesday January 8 New Orleans Battle of New Orleans
Monday January 20 Richmond Birthday of General Robert E. Lee
Charlotte
Atlanta
Birmingham
Nashville
Jacksonville
Louisville
Memphis

Tuesday January 28 Havana Agency Birthday of Jose Marti.

Therefore, on the dates indicated, the banks affected will not participate in either the Gold Fund clearing or the Federal reserve note clearing. Please include your credits for the banks affected on each of the holidays with your credits for the following business day in your Gold Fund clearing telegrams, and make no shipment of Federal reserve notes, fit or unfit, for account of the Federal Reserve Banks of Richmond or Atlanta on January 20th. Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
SUBJECT: Expense, Main Line, Leased Wire System, November, 1929.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6450-a and X-6450-b, covering in detail operations of the main line, Leased Wire System, during the month of November, 1929.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT CHICAGO.
REPORT SHOWING CLASSIFICATION AND NUMBER OF "WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER, 1929."

<table>
<thead>
<tr>
<th>From</th>
<th>Business reported by banks</th>
<th>Words sent by New York chargeable to other F. R. Banks (1)</th>
<th>Net Federal Reserve Bank business</th>
<th>Percent of total bank business(*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>32,029</td>
<td>1,003</td>
<td>33,032</td>
<td>3.42</td>
</tr>
<tr>
<td>New York</td>
<td>162,700</td>
<td>1,165</td>
<td>162,700</td>
<td>16.83</td>
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<tr>
<td>Philadelphia</td>
<td>35,421</td>
<td>1,246</td>
<td>94,135</td>
<td>9.74</td>
</tr>
<tr>
<td>Cleveland</td>
<td>92,887</td>
<td>1,258</td>
<td>60,013</td>
<td>6.21</td>
</tr>
<tr>
<td>Richmond</td>
<td>56,755</td>
<td>3,827</td>
<td>66,658</td>
<td>6.89</td>
</tr>
<tr>
<td>Atlanta</td>
<td>62,831</td>
<td>1,274</td>
<td>116,268</td>
<td>12.03</td>
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<tr>
<td>Chicago</td>
<td>114,994</td>
<td>1,147</td>
<td>78,959</td>
<td>8.17</td>
</tr>
<tr>
<td>St. Louis</td>
<td>77,822</td>
<td>1,103</td>
<td>85,487</td>
<td>8.84</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>34,922</td>
<td>1,040</td>
<td>85,791</td>
<td>8.87</td>
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<tr>
<td>Kansas City</td>
<td>84,384</td>
<td>1,071</td>
<td>109,874</td>
<td>11.36</td>
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<tr>
<td>San Francisco</td>
<td>107,723</td>
<td>2,451</td>
<td>109,874</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>940,919</strong></td>
<td><strong>25,860</strong></td>
<td><strong>966,779</strong></td>
<td><strong>100.00</strong></td>
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</table>

F. R. Board business .......................................................... 258,780

Treasury Department business - Incoming and outgoing ........................................... 214,657

Total words transmitted over main lines ......................................................... 1,440,216

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6450-b)

(1) Number of words sent by New York to other F. R. Banks for their sole benefit charged to banks indicated in accordance with action taken at Governors' Conference November 2 - 4, 1925.
### REPORT OF EXPENSE MAIN LINE
**FEDERAL RESERVE LEASED WIRE SYSTEM, NOVEMBER, 1929.**

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Operators' Salaries</th>
<th>Operators' Overtime</th>
<th>Wire Rental</th>
<th>Total Expenses</th>
<th>Pro Rata Share of Operators' Expenses</th>
<th>Payable to Federal Reserve Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>$260.00</td>
<td>-</td>
<td>-</td>
<td>$260.00</td>
<td>$681.88</td>
<td>$260.00</td>
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<tr>
<td>New York</td>
<td>1,004.14</td>
<td>-</td>
<td>-</td>
<td>1,004.14</td>
<td>3,355.55</td>
<td>1,004.14</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>225.00</td>
<td>-</td>
<td>-</td>
<td>225.00</td>
<td>775.58</td>
<td>225.00</td>
</tr>
<tr>
<td>Cleveland</td>
<td>306.66</td>
<td>-</td>
<td>-</td>
<td>306.66</td>
<td>1,941.95</td>
<td>306.66</td>
</tr>
<tr>
<td>Richmond</td>
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<td>230.00 (a)</td>
<td>-</td>
<td>420.00</td>
<td>1,238.14</td>
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<tr>
<td>Atlanta</td>
<td>270.00</td>
<td>-</td>
<td>-</td>
<td>270.00</td>
<td>1,373.72</td>
<td>270.00</td>
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<tr>
<td>Chicago</td>
<td>4,053.59 (#)</td>
<td>1.00</td>
<td>-</td>
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<td>2,398.53</td>
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<tr>
<td>St. Louis</td>
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<td>-</td>
<td>-</td>
<td>205.00</td>
<td>1,528.92</td>
<td>205.00</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>183.66</td>
<td>-</td>
<td>-</td>
<td>183.66</td>
<td>747.67</td>
<td>183.66</td>
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<tr>
<td>Kansas City</td>
<td>287.50</td>
<td>-</td>
<td>-</td>
<td>287.50</td>
<td>1,762.51</td>
<td>287.50</td>
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<tr>
<td>Dallas</td>
<td>251.00</td>
<td>-</td>
<td>-</td>
<td>251.00</td>
<td>1,768.49</td>
<td>251.00</td>
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<tr>
<td>San Francisco</td>
<td>380.00</td>
<td>-</td>
<td>-</td>
<td>380.00</td>
<td>2,264.94</td>
<td>380.00</td>
</tr>
<tr>
<td>Federal Reserve Board</td>
<td>-</td>
<td>15,582.45</td>
<td>15,582.45</td>
<td></td>
<td>13,746.39</td>
<td></td>
</tr>
</tbody>
</table>

**Total**

- Operators' Salaries: $7,616.55
- Operators' Overtime: $1.00
- Wire Rental: $15,812.45
- Total Expenses: $23,430.00
- Pro Rata Share of Operators' Expenses: $19,937.88
- Payable to Federal Reserve Board: $7,847.55
- Credits Board: $13,746.39

(a) Received $3,492.12 from Treasury Department covering business for the month of November, 1929.
(b) Amount reimbursable to Chicago.

(1) Main line rental, Richmond-Washington.
(2) Includes salaries of Washington operators.
(3) Credit.
SUBJECT: Changes in Inter-district Time Schedule.

Dear Sir:

Upon agreement between the Federal reserve banks involved, the Federal Reserve Board has approved the following changes in the inter-district time schedule, effective January 2, 1930:

From Omaha to San Francisco from 4 days to 3 days; 
" " " Baltimore " 3 " " 2 " 
" " Kansas City to Jacksonville " 3 " " 2 " 
" " Oklahoma City to Atlanta " 3 " " 2 " 
" " Omaha to Atlanta " 3 " " 2 " 
" " " Birmingham " 3 " " 2 " 
" " Kansas City to Dallas " 2 " " 1 " 
" " Omaha to Philadelphia " 3 " " 2 "

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
MEMORANDUM

December 7th,
1929

Mr. C. A. Worthington,
Deputy Governor:

I have carefully considered the letter of Governor Harding with reference to the interpretation which he has requested the Federal Reserve Board to make as to the right of a Federal reserve bank in isolated cases to require the pledge of securities from a non-member bank as a condition to forwarding cash letters direct to such non-member bank. In connection therewith I have also read and considered the letter of Mr. Wyatt of November 7th, and letters of Counsel for the Federal Reserve Bank of Atlanta, and the Federal Reserve Bank of Richmond.

I concur in the view that the interpretation that Governor Harding desires made as to this matter is not inconsistent with the uniform policy adopted at the last conference of Governors, and accordingly, I see no objection to agreeing to the practice as outlined by him.

I do not feel at all certain, however, that the recent amendment to Regulation J would permit of the interpretation which Governor Harding desires. This amendment, as I read it, in terms as definite and positive as words can make them denies the right to the owner of any check or the bank forwarding the same to a Federal reserve bank to participate in any fund, collateral or other property in the possession of the Federal reserve bank. It seems to me that it could be contended with some force that no Federal reserve bank by agreement could create or give to the owner or forwarder of a check the very rights which the Regulation expressly provides shall not exist. As to whether an interpretation of the Regulation by the Federal Reserve Board, as Governor Harding desires, would affect the question I express no opinion, but if the practice of making special arrangements is to be recognized it seems to me that to remove any question of doubt about the matter, it would be well to consider a further amendment to Regulation J, which would clarify the matter. This might be done by the addition of the following, or other apt words, at the end of Paragraph 6 of Section 5 of the Regulation: "in the absence of a written agreement with the Federal reserve bank".

H. G. Leedy

HGL:CR
MEMORANDUM

December 7th, 1929

Mr. C. A. Worthington,
Deputy Governor:

The suggestion made by Mr. J. H. Blair, Deputy Governor of the Federal Reserve Bank of Chicago that a further amendment be made to Paragraph 6 of Regulation J, so as to refer not only to funds, collateral and other property of drawee banks, but also of all other banks to which a Federal reserve bank may send items for collection, has, in my opinion, considerable merit.

If Regulation J, taken as a whole, is susceptible of interpretation that the owner or holder of a check forwarded to a Federal reserve bank for collection has any right or interest in any fund, collateral or property in the possession of the Federal reserve bank, no reason occurs to me why the right should be prohibited in instances where items are forwarded to drawee banks, and not prohibited where items are forwarded to banks other than drawee banks. As I construe Regulation J, as now amended, no right in funds, collateral or other property in the possession of a Federal reserve bank exists on the part of the owner or forwarder of any item whatever, whether the same be forwarded to the drawee or some other bank, but inasmuch as the Regulation specifically provides that no right shall exist in funds, collateral or property of a drawee bank, it might be contended that on account of the prohibition as to funds, collateral and property of drawee banks it is implied that the right does exist as to funds, collateral and property of banks other than drawee banks. If such contention should be successfully made, the owner or forwarding bank would of course be entitled to the benefit of the fund, collateral or other property in possession of the Federal reserve bank, and this without reference to any negligence on the part of the Federal reserve bank.

I can see no possible harm in the proposed additional amendment, and, as indicated, some substantial benefit might come from it.

H. G. Leedy

HGL:CR
The Federal Reserve Board announces that the Federal Reserve Bank of Kansas City has established a rediscount rate of 4\frac{3}{4}\% on all classes of paper of all maturities, effective December 20, 1929.
December 20, 1929.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD
JANUARY 1 TO JUNE 30, 1930.

Dear Sir:

Confirming telegraphic advice, there is enclosed herewith copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the several Federal reserve banks of an amount equal to eighty-nine thousandths of one per cent (0.00089) of the total paid-in capital stock and surplus of such banks at close of business December 31, 1929, to defray the estimated general expenses of the Board from January 1 to June 30, 1930.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books January 1, 1930, and one-half March 1, 1930, in each instance issuing a C/D for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", assessment for general expenses, and sending duplicate C/D to the Federal Reserve Board. Also please furnish a statement of your capital and surplus used as a basis for the assessment.

Very truly yours,

W. M. IMLAY
Fiscal Agent.

Enclosure.

Sent to Federal Reserve Agents, All Districts.
RESOLUTION LEVYING ASSESSMENT

WHEREAS, under Section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal reserve banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts and employees for the half-year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half-year; and

WHEREAS, it appears from estimates submitted and considered that it is necessary that a fund equal to eighty-nine thousandths of one per cent of the total paid-in capital stock and surplus of the Federal reserve banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes; Now, therefore,

BE IT RESOLVED, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal reserve banks of an amount equal to eighty-nine thousandths of one per cent (.00089) of the total paid-in capital and surplus of such banks as of December 31, 1929, and the Fiscal Agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of the Board, receipts for payments made. Such assessments will be collected in two installments of one-half each; the first installment to be paid on January 1, 1930, and the second half on March 1, 1930.
December 21, 1929.

SUBJECT: Currency Policy effective January 2, 1930.

Dear Sir:

For your information and guidance there are enclosed herewith copies of correspondence with the Undersecretary of the Treasury in which the Undersecretary expresses the accord of the Treasury with the action taken by the Governors at their recent conference in voting to discontinue, as of January 2, 1930, the payment of old series Federal reserve notes in the denominations of $5 to $100, inclusive, and authorizes the same procedure with respect to old series United States currency in those denominations.

With regard to the recommendation of the Governors' Conference that the Treasury continue to maintain at the highest possible level its facilities for the redemption of old series National bank notes, and the request of the Undersecretary that steps be taken to insure the receipt for redemption of $6,000,000 old series notes daily, on an average, on and after January 2, you are requested to forward for redemption, from your district, not to exceed $ weekly, old series National bank notes, regardless of their condition of fitness. In other words, in order to maintain the above schedule of shipments which is based, at the suggestion of the Treasurer of the United States, upon your proportion of total redemptions during the fiscal year 1928, you are authorized to make any adjustment necessary in the standard of fitness in effect in your district. If, for any reason, you should not be able either now or later to maintain this schedule of shipments you are requested to immediately advise the Board in order that adjustments may be made in the shipping schedules of other districts. On the contrary, should you feel that you could maintain a larger schedule, please advise this office. Needless to say, should your bank be able to maintain its schedule of redemptions with shipments of worn notes they should be forwarded in preference to new notes or notes in good condition. It is understood that all shipments from the parent offices will continue to receive one charter number assortment.
In order to avoid difficulty in maintaining the 5 Per Cent Redemption Fund, the Treasurer would appreciate it if the Federal reserve banks, particularly those with large weekly quotas, would spread their shipments over several days of the week.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.
TREASURY DEPARTMENT
Washington

December 18, 1929.

My dear Governor:

I have your letter of the 13th instant in which you convey the action of the Governors' conference on December 12, 1929, in voting that the payment of Old Series Federal reserve notes in the denominations of $5 to $100, inclusive, be discontinued on January 2, 1930, and recommending that the Treasury continue to maintain at the highest possible level its facilities for the redemption of Old Series National bank notes. In your letter you ask advice regarding Old Series United States notes and gold certificates of corresponding denominations.

The Treasury is in hearty accord with the action taken by the Governors with respect to Old Series Federal reserve notes, and hereby authorizes the same procedure with respect to Old Series United States currency in the denominations $5 to $100, inclusive. Accordingly, will you please instruct the Federal Reserve Banks on and after January 2, 1930, to discontinue further payments of Old Series United States currency in denominations up to $100, inclusive, to cancel and redeem any such Old Series United States currency thereafter received, and thereafter to restrict payments of United States currency in such denominations to the New Series only.

As regards Old Series National bank notes outstanding, it is requested that the Board inaugurate such measures, with the cooperation of the Treasurer of the United States, as will insure the receipt for
redemption of $6,000,000 Old Series daily, on an average, on and after January 2.

The Treasurer of the United States is being given similar advice. A copy of my letter addressed to him under this date is enclosed for your information.

Very truly yours,

(signed) Ogden L. Mills,
Under Secretary of the Treasury.

Hon. R. A. Young,
Governor, Federal Reserve Board.

Enclosure:
December 18, 1929.

The Treasurer of the United States:

Sir:

With this please find copy of a communication, addressed under this date, to the Governor of the Federal Reserve Board, with respect to discontinuing payments of Old Series United States currency in denominations up to $100, inclusive, on January 2, next, and with respect to insuring redemptions of Old Series National bank notes up to the established average of $6,000,000 daily.

On and after January 2, next, will you please confine your payments of all kinds of paper currency in denominations up to $100, inclusive, to the New Series only, and thereafter cancel and redeem all Old Series currency of these denominations which may be received.

Respectfully,

(Signed) Ogden L. Hills,
Undersecretary of the Treasury.

Enclosure:
December 13, 1929.

Dear Mr. Secretary:

Under date of October 14, 1929, you addressed a letter to me with regard to the policy which should be pursued in the matter of continuing payments of United States and Federal Reserve notes of the old size. This subject was made a topic for consideration at the Conference of Governors which was held in Washington this week and I am enclosing copy of a report made by the secretary of the conference from which you will note that it was voted to discontinue payment of old series Federal Reserve notes, in the denominations of $5.00 to $100.00 inclusive, on January 2, 1930. Will you please advise whether the Treasury desires to authorize Federal reserve banks to discontinue payments of old size United States notes and gold certificates at the same time.

I understand that the Treasury program for the redemption of national bank notes contemplates that after the first of the year the Federal reserve banks will be authorized to redeem old series notes regardless of condition. If this is true, could not advice to the Federal reserve banks regarding all of these issues be incorporated in one communication, which it is suggested should be dispatched at the earliest possible date.

Very truly yours,

R. A. Young,
Governor.

Honorable Ogden L. Mills,
Undersecretary of the Treasury,
Washington, D. C.
December 12, 1929.

Dear Sir:

The Board's letter X-6393 of October 19, 1929, submitting as topics to the Governors' Conference the question of discontinuing payments of old series Federal reserve notes in the denominations of five dollars to one hundred dollars inclusive and the problem of handling national bank notes of those denominations after discontinuance of payments of Federal reserve and United States notes in the old series, was discussed at the Governors' Conference today and it was voted that the payment of old series Federal reserve notes in the denominations mentioned be discontinued on January 2nd and that the Conference recommend that the Treasury continue to maintain at the highest possible level their facilities for the redemption of national bank notes.

Very truly yours,

(S) H. F. Strater,
Secretary,
Governors' Conference.

Hon. Roy A. Young, Governor,
Federal Reserve Board,
Washington, D. C.
Amount Redeemable Weekly on Basis of $6,000,000 per day.

By Districts.

<table>
<thead>
<tr>
<th>City</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>$2,520,000</td>
</tr>
<tr>
<td>New York</td>
<td>$7,560,000</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>$3,170,000</td>
</tr>
<tr>
<td>Cleveland</td>
<td>$3,815,000</td>
</tr>
<tr>
<td>Richmond</td>
<td>$2,520,000</td>
</tr>
<tr>
<td>Atlanta</td>
<td>$2,485,000</td>
</tr>
<tr>
<td>Chicago</td>
<td>$4,750,000</td>
</tr>
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<td>St. Louis</td>
<td>$1,905,000</td>
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<tr>
<td>Minneapolis</td>
<td>$755,000</td>
</tr>
<tr>
<td>Kansas City</td>
<td>$1,440,000</td>
</tr>
<tr>
<td>Dallas</td>
<td>$1,730,000</td>
</tr>
<tr>
<td>San Francisco</td>
<td>$3,135,000</td>
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<tr>
<td>Other Sources</td>
<td>$215,000</td>
</tr>
<tr>
<td>Total</td>
<td>$36,000,000</td>
</tr>
</tbody>
</table>
December 20, 1929.

Gentlemen:

In accordance with the provisions of Section 21 of the Federal Reserve Act, the Federal Reserve Board has directed its Division of Examination to make an examination of each Federal reserve bank at least once during the calendar year. Accordingly, the Board's Division of Examination will make at least one examination of the Federal Reserve Bank of during the year 1930, beginning such examinations on dates to be selected later.

In this connection, you are advised that the resignation of Mr. James F. Herson, Chief Examiner, was regretfully accepted by the Board as of November 30, 1929. Pending the appointment of a successor to Mr. Herson, Mr. Frank J. Drinnen will be examiner in charge and you are requested to give him and his force all proper assistance in making the examinations directed by the Board.

Very truly yours,

R. A. Young,
Governor.

TO ALL FEDERAL RESERVE BANKS.
For release in Morning Papers, 
Monday, December 23, 1929.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of November and December, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industrial production declined in November for the fifth consecutive month and was below the level of last year. Retail sales at department stores continued in larger volume than a year ago. Wholesale commodity prices moved downward in November and the first half of December.

Production and employment — Production in basic industries decreased by 9 per cent in November, according to the Board’s index, and was 5 per cent lower than a year ago. The decline in production, which began in midsummer, was restricted prior to November largely to industries in which the expansion during the earlier part of the year had been exceptionally rapid, particularly iron and steel, automobiles, and related industries. The same industries showed the largest reductions in November, but there were declines also in the copper, cotton and wool textiles, and shoe industries, and, in smaller degree, in silk textiles and coal. Production of crude petroleum was also curtailed. Volume of building contracts awarded during the month continued to be considerably smaller than in the corresponding period.
of 1928.

Employment in factories was also reduced during November to a level slightly below a year ago, and there was a somewhat larger decrease in factory payrolls. The decline in employment since mid-summer, however, has been relatively smaller than that in the physical volume of production. Employment was in smaller volume than in November a year ago in the automobile, iron and steel, lumber, and rubber products industries, and larger in the machinery, textiles, paper and printing, leather, and chemicals industries.

Distribution — Distribution of commodities, as measured by freight-car loadings, was in smaller volume in November than in October, reflecting larger-than-seasonal decreases in most classes of freight. Miscellaneous freight in less-than-carload lots, however, which includes chiefly commodities for retail trade, showed the usual seasonal change.

Department store sales in leading cities during the month were about one per cent larger than last year. Increased sales were reported in four agricultural districts — Richmond, Kansas City, Dallas, and San Francisco. In certain of the large industrial districts — Boston, New York, Chicago, and Cleveland — sales were approximately the same as in November 1928.

Wholesale prices — Wholesale prices were at a lower level in November than in October and continued to decline during the first half of December. The downward movement, which had previously involved principally commodities with organized exchanges, became general during the latter part of the period.
Bank credit -- Liquidation of bank credit, which had begun early in November, continued throughout that month and the first two weeks of December, and on December 11 total loans and investments of reporting member banks were at about the same level as on October 23, prior to the increase caused by the withdrawal of funds by non-banking lenders. At member banks in New York City loans were somewhat larger and investments considerably larger on December 11 than on October 23, while at reporting banks outside New York loans on securities, all other loans, and investments were smaller than on that date.

Reserve bank credit outstanding was also reduced during November and the first two weeks of December, largely in consequence of reduction in balances of member banks at the reserve banks, which accompanied the liquidation of member bank credit. The decrease in reserve balances released reserve funds in more than sufficient volume to meet the export demand for gold amounting to $65,000,000 during the period, as well as the seasonal currency requirements. Between November 6 and December 18, United States security holdings of the reserve banks increased considerably, while their holdings of acceptances declined somewhat, and there was a reduction of $250,000,000 in the indebtedness of member banks.

Money rates in the open market continued to decline and the discount rate, which had previously been reduced at five reserve banks, was lowered at the Kansas City Bank from 5 to 43/4 per cent.
July 12, 1929
St. 6262

SUBJECT: Bank Suspensions

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of June, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before July 23, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO ALL FEDERAL RESERVE AGENTS*
August 22, 1929,
St. 6280.

SUBJECT: Functional Expenses
First Half, 1929.

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense Exhibit for the half year ending June 30, 1929. A copy of the exhibit is also being mailed to the Governor of the bank.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.
August 13, 1929,
St. 6286.

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of July, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before August 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

J. R. Van Fossen, Asst. Chief,
Division of Bank Operations.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS*
August 19, 1929
St. 6292

SUBJECT: Condition of Member Banks as of June 29, 1929

Dear Sir:

For your information there is enclosed herewith a preliminary statement showing the condition of member banks, by districts, on June 29, 1929. The Board's Member Bank Call Report (No. 44) giving detailed figures by states, cities, and classes of banks will be ready for distribution in the near future.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS
SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on June 29, 1929. If no call was issued as of June 29, will you kindly advise the date of call nearest thereto and furnish the Board with a copy of your abstract as of that date, if not already done.

In submitting the above-mentioned data it is requested that the number of banks (exclusive of branch banks) be stated, and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state.

A franked and addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.
August 28, 1929,
St. 6302a.

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on June 29, 1929. If no call was issued as of June 29, will you kindly advise the date of the call nearest thereto and furnish the Board with a copy of your abstract as of that date, if not already done.

In submitting the above-mentioned data it is requested that the number of banks (exclusive of branch banks) be stated, and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state, also that the figures be segregated by Federal reserve districts.

A franked and addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.
September 10, 1929,
St. 6314.

SUBJECT: Member Bank Call Report for June 29, 1929.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 44, showing the condition of member banks on June 29, 1929. Please forward a copy to each member bank in your district that has expressed a desire to receive copies of call reports as issued.

You will note that the arrangement of the call report has been considerably changed, the principal changes being the elimination of detailed figures for state bank members and the inclusion for the first time of a classification of loans and investments. The forthcoming September issue of the Federal Reserve Bulletin will contain an announcement of the additional data now made available in the call report.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*
September 12, 1929,
St. 6318.

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of August, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before September 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO ALL FEDERAL RESERVE AGENTS*
September 28, 1929
St. 6333

SUBJECT: Condition Reports of State
Bank Members, Form 105.

Dear Sir:

There are being forwarded to you today under
separate cover copies of form 105. Kindly hold the
blank forms at your bank until receipt of telegraphic
notice from the Board, whereupon three copies should be
mailed to each state bank and trust company member with
the request that the forms be held pending receipt of a
call for condition reports. It is suggested that in your
letter transmitting the blanks you call the banks'
attention to the instructions previously furnished govern-
ing the preparation of the condition reports, so that if
any bank has mislaid its copy of the instructions another
copy may be promptly furnished for its use. Upon receipt
of notice from the Board of the call for condition re-
ports, kindly notify the banks thereof by mail and request
them to fill out the reports and mail them to you promptly
- in no case later than 10 days after receipt of the call.

The reports should as usual be examined and
checked before being forwarded to the Board, in accordance
with the procedure previously outlined.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL F. R. AGENTS*
FEDERAL RESERVE BOARD
WASHINGTON

October 7, 1929,
St. 6335.

SUBJECT: Branches of Member and Nonmember banks.

Dear Sir:

There is enclosed herewith a copy of a memorandum and accompanying statistical data, prepared for the Board's information, on the subject of branches of member and nonmember banks at the end of June 1929, in comparison with selected earlier dates.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*
October 2, 1929
St. 6340

SUBJECT: Allocation of Certain Expenses
In Functional Expense Reports.

Dear Sir:

On the basis of replies to the Board's letter of June 7, 1929, St. 6218, regarding the allocation of certain expenses in functional expense reports the expenses in question should be handled as follows:

1. Should the cost of advertising for a particular article and telegraph and telephone charges in connection with the delivery of supplies purchased be charged to General Service - Purchasing and Stock Room Expense Unit or should they be charged to the expense unit for which the particular supplies are purchased.

The cost of advertising for a particular article and telegraph and telephone charges in connection with the delivery of supplies purchased should be charged to General Service - Purchasing and Stock Room expense unit.

2. Inasmuch as it is contemplated that all cafeteria expenses be shown as one item on form 96, should not help advertisements for the cafeteria and the cost of physical examinations for cafeteria employees be charged to Provision of Personnel - Cafeteria expense unit, rather than to the Hiring Employees and Employee's Records expense unit and the Welfare and Medical expense unit, respectively, as provided for by the Manual of Instructions.

The cost of help advertisements for the cafeteria and the cost of physical examinations for cafeteria employees should be charged to the Hiring Employees and Employee's Records expense unit and the Welfare and Medical expense unit, respectively.
3. Should U. S. securities received for transfer to and delivery by other Federal reserve banks, and securities delivered in accordance with instructions from other Federal reserve banks be included in operations of the Fiscal Agency Function, and if so how should the number of and amount of such securities handled be reported.

United States securities received for transfer to and delivery by other Federal reserve banks, and securities delivered in accordance with instructions from other Federal reserve banks should be included in Fiscal Agency transactions. The number and amount of such transactions should be shown separately in the "Exchanges" section on page 18 of form E.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL GOVERNORS*
FEDERAL RESERVE BOARD
WASHINGTON 

October 8, 1929,
St. 6344.

SUBJECT: Forms for use during 1930.

Dear Sir:

It will be appreciated if you will kindly advise the Board at your early convenience the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1930.

<table>
<thead>
<tr>
<th>Form Number</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>Daily balance sheet. Please state the number required for the head office and each branch separately and also give any special punching that may be desired.</td>
</tr>
<tr>
<td>E</td>
<td>Semi-annual functional expense report.</td>
</tr>
<tr>
<td>38</td>
<td>Classification of discounted and purchased bills held at the end of the month.</td>
</tr>
<tr>
<td>95</td>
<td>Monthly report of earnings.</td>
</tr>
<tr>
<td>96</td>
<td>Monthly report of current expenses.</td>
</tr>
<tr>
<td>97</td>
<td>Monthly report of income and expense - Other real estate.</td>
</tr>
</tbody>
</table>

Please show separately the number of copies of each form, except form 34, required if it is revised and the number if not revised.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS*
FEDERAL RESERVE BOARD
WASHINGTON

October 12, 1929,
St. 5353.


Dear Sir:

Under separate cover we are mailing you a stock of Form FRA-5 for use during the remainder of the current year and in 1930. It will be noted that provision has been made on this form for reporting the new series and the old series Federal reserve notes, both separately and combined.

The memorandum item at the bottom of the form, regarding the amount of Federal reserve notes in transit to Washington for redemption, was inserted for use in case the plan providing for shipment of unfit Federal reserve notes to the Comptroller of the Currency by the Federal reserve agents, as suggested in the Board's letter X-6349 of July 27, 1929, is adopted.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS.*

http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis
SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of September, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before October 26, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO ALL FEDERAL RESERVE AGENTS*
October 24, 1929,
St. 6364.

SUBJECT: Branches of Member and Nonmember banks.

Dear Sir:

A preliminary summary of the laws relating to branch banking which has come to hand since the preparation of the statement on branch banking as of June 30, 1929, indicates that on that date branch banking was prohibited by law in Kansas and West Virginia, in addition to the other states so listed in the statement. It is, therefore, suggested that tables 2 and 3 of the memorandum forwarded to you with our letter St. 6335 of October 7 be corrected accordingly.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.
FEDERAL RESERVE BOARD
WASHINGTON

November 5, 1929,
St. 6371.

SUBJECT: Closing of Books on December 31, 1929.

Dear Sir:

In accordance with the usual custom it will be appreciated if the resolution of your Board of Directors for the payment of the semi-annual dividend and requests for authority to charge earnings with depreciation allowances, reserves for probable losses, etc., are received at the Board's offices not later than December 10, 1929, and are accompanied with the following information:

1. Estimated gross earnings, current expenses, additions to and proposed deductions from current net earnings, and net earnings available for surplus and franchise tax for the calendar year 1929.

2. Indebtedness to the Federal reserve bank of (a) suspended banks and (b) banks considered to be in a seriously overextended condition, giving the names of the banks, indebtedness of each on November 30, and probable loss in the case of each bank.

The general procedure followed in the past with reference to charge-offs, depreciation and other reserves, transfers to surplus account and payment of franchise tax, which is covered by the attached memorandum, will be followed at the end of this year.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

LETTER TO ALL CHAIRMEN*
1. **Bank Premises.** (a) **Land.** No charges against current net earnings will be authorized by the Board to cover depreciation on land where the estimated market value of the land is equal to or in excess of its net book value.

(b) **Buildings.** The Board will in general authorize the banks to charge current net earnings each year with a depreciation reserve on bank buildings, including vaults but excluding fixed machinery and equipment, of not exceeding 2 per cent of their estimated replacement cost, such replacement cost to be determined in a manner approved by the Board. Where the book value of a building is in excess of replacement cost, the Board will consider a request for permission to charge off an amount sufficient to reduce the bookvalue to estimated replacement cost.

(c) **Fixed machinery and equipment.** The Board will authorize the banks to charge current net earnings each year with a depreciation reserve of not to exceed 10 per cent of the cost of fixed machinery and equipment, such as boilers, engines, dynamos, motors, power pumps, elevators, heating, plumbing, lighting, and ventilating systems, pneumatic tubes, refrigeration plant, automatic fire sprinkler equipment, and vacuum cleaners.

2. **Reserves for losses on paper of suspended banks and banks in an overextended condition.** Authorizations to set aside reserves to cover losses on paper of suspended banks or banks in an overextended condition will be limited to such actual losses, in excess of reserves already carried, as the bank may reasonably be expected to sustain on such paper.

3. **Furniture and equipment.** It will be the general practice of the Board to authorize the banks to charge off at the end of the year all furniture and equipment purchased during the current year.

4. **Other charges to current net earnings.** Where a bank desires to set up any reserve other than those mentioned above or to make any other unusual charge against current earnings at the end of the year, full and complete information should be furnished the Board regarding the necessity for such charge.

5. **Surplus and franchise taxes.** After all current expenses, dividends, depreciation and other reserves, and charge-offs authorized by the Board have been provided for, any remaining net earnings shall be distributed as follows:

   (a) Transfer to surplus account all net earnings unless such transfer will result in the bank's surplus account being in excess of its subscribed capital, in which case only such amount should be transferred as is necessary to increase the surplus account to an amount equal to the subscribed capital.

   (b) Distribute all available net earnings after the bank's surplus account is equal to its subscribed capital as follows:

      (1) Transfer 10 per cent to surplus account.

      (2) Pay 90 per cent to United States Government as a franchise tax.

   (St. 5577a)
November 18, 1929
St. 6372.

SUBJECT: 1930 Budget for Statistical and Analytical Work.

Dear Sir:

It will be appreciated if you will kindly prepare and submit to the Board for approval a budget of expenditures covering work in the Statistical and Analytical Function of your bank (including branches, if any), to be carried on during the year 1930. The budget which should reach the Board as soon as practicable after January 1, should be submitted in accordance with the attached form which corresponds with the functional expense report, form E, and which provides for showing in parallel columns the budget approved for and amounts actually expended during 1929 and the proposed budget for the calendar year 1930.

Very truly yours,

E. K. McClelland,
Assistant Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS
FEDERAL RESERVE BOARD
WASHINGTON

Subject: Changes in Membership, First Half of 1929.

Dear Sir:

There are enclosed herewith lists of state and national bank members in your district, whose status was reported to have changed between December 31, 1928 and March 27, 1929, or between March 27 and June 29 of this year. These changes purport to account for the increase or decrease in the number of member banks in your district, as indicated by the number of banks whose reports of condition were included in the call reports for the three dates.

It will be appreciated if you will kindly verify these lists as to the banks which are included, the classifications under which they are shown, and the dates on which the changes in status actually became effective.

The lists may be retained in your files.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

LETTER TO ALL FEDERAL RESERVE AGENTS*
November 14, 1929,
St. 6364.

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of October, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before November 29, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS*
November 16, 1929
St. 6386

SUBJECT: Reports of Changes in Status of Member and Nonmember banks

Dear Sir:

In view of the recent growth in group banking and the large number of mergers which have taken place, the Board wishes to keep a current record of these and other changes affecting both member and nonmember banks, and accordingly five forms have been prepared, sample copies of which are attached, on which the Board would like to have you submit reports once each month. A supply of the forms is being sent to you under separate cover.

The first reports on these forms should cover the period from July 1 to October 31, 1929. The Board would like to have reports submitted as promptly after the first of each month as practicable, and will appreciate advice, when you submit your first reports, of the date in each month that your reports may be expected to reach Washington. The forms enclosed herewith are subject to change in case they do not prove entirely satisfactory for reporting the information desired. If, therefore, your bank has any modifications to suggest, please bring them to the Board's attention at as early a date as convenient, as the forms probably will be printed early next year.

Very truly yours,

R. A. Young,
Governor.

Enclosure

TO ALL FEDERAL RESERVE AGENTS*
MEMORANDUM REGARDING PREPARATION OF REPORTS OF CHANGES IN STATUS OF MEMBER AND NONMEMBER BANKS

November 18, 1929
St. 6386

Five forms have been prepared for reporting all changes in the status of member and nonmember banks, as follows:

Form St. 6386a. Bank consolidations
Form St. 6386b. Bank suspensions
Form St. 6386c. Organizations, liquidations, conversions and other changes in status of member and nonmember banks.
Form St. 6386d. Chain or group bank changes
Form St. 6386e. Branches established or discontinued.

The reports should relate only to active banks, that is to say, they should not cover banks or branches in process of organization, banks chartered but not yet opened for business, rumored consolidations, etc. In case of developments of special importance, however, a preliminary report should be made to the Board.

The effective date of a change for the purpose of these reports should be that on which a bank or branch begins actual banking operations in its new corporate identity — not the date authorized by the Comptroller of the Currency or State banking department, except where no other date is available, in which case the report should clearly indicate what the date represents. In the case of state banks admitted to membership the date should be that on which the subscription to Federal reserve stock is paid in; and in the case of state banks withdrawn from membership, the date should be that on which the Federal reserve stock is cancelled. If, however, there is a delay in the cancellation of Federal reserve stock for some technical reason, a preliminary report should be submitted when the bank, for practical purposes, ceases to operate as a state bank member, to be followed by a final report when the Federal reserve stock has been cancelled.

In the preparation of these reports the term consolidation should be construed to include cases where two or more banks in actual operation are consolidated, merged or otherwise brought together to form a single institution which operates under a new charter or under the charter of one of the banks brought together in the consolidation; the term conversion should be construed to include cases where a national bank changes into a state bank or a state bank changes into a national bank, regardless of whether this result is accomplished by a technical conversion or by terminating the existence of the old bank and creating a new one; and the term succession should be construed to include all cases where the business of a national bank is taken over by a new national bank organized for that purpose, or where the business of a state bank is taken over by a new state bank organized for that purpose.

The term bank suspension should, as in the past, be taken to mean a bank closed to the public either temporarily or permanently by supervisory authorities or by the bank's board of directors on account of
financial difficulties, regardless of whether or not the bank is ultimately classed as a failure by the supervisory authorities. Do not include banks consolidated with or succeeded by other banks, if they were not at any time closed to depositors, even though the reason for the consolidation or succession may have been financial difficulties encountered by the bank.

In the preparation of reports of chain or group banking on Form St. 6386d, it is requested that in general only those systems be included in which any person, group of persons, partnership, association or corporation has actual or potential control over the operations or policies of three or more banking units, each working on its own capital and under its own personnel. Under "Remarks" on Form St. 6386d, the type of chain or group should be described and classified under one of the following heads:

1. Ownership by a bank of stock in a number of other banks.
2. Ownership by a bank or group of banks, through a subsidiary or affiliated investment or holding company, of stock in a number of other banks.
3. Ownership by an individual of stock in a number of banks.
4. Ownership by a group of individuals of stock in a number of banks.
5. Ownership of stock of banks by an investment or holding company that is not a subsidiary of or affiliated with any particular bank or group of banks.

On Form St. 6386c, the character of the change in the status of a bank should be described by one of the following designations:

1. New bank opened for business (excluding new banks succeeding other banks)
2. Voluntary liquidation - terminal*
3. Resumption following suspension
4. National bank succeeded by national bank
5. National bank converted to state member
6. National bank converted to nonmember
7. State member succeeded by State member**
8. State member succeeded by nonmember
9. State member converted to national
10. Nonmember succeeded by nonmember
11. Nonmember succeeded by State member**
12. Nonmember converted to national
13. State bank admitted to membership
14. Voluntary withdrawal of State bank from membership (under six months notice)
15. Compulsory withdrawal of State bank from membership

The above definitions and instructions are not to be considered as rulings of the Board on questions of law but merely as establishing a uniform basis for the preparation of these reports for statistical purposes.
The figures of capital, surplus and undivided profits (excluding reserves), loans and investments, and deposits in the case of suspended banks, should be for the latest date available, which date should be indicated in the report.

The reports on the new forms do not take the place of any telegraphic or mail reports that may be sent to the Federal Reserve Board at the present time, except the mail reports on Form X-4401 covering bank suspensions and the mail reports on Form X-4402 covering termination of suspensions which may be discontinued. No reports need be submitted on Form St. 6385b covering such bank suspensions as have already been reported to the Board on Form X-4401.

Some of the changes in the status of banks may have to be reported on more than one of the forms. For example, in the case of a consolidation of two banks that are operating branches, the consolidation should be reported on Form St. 6386a and the changes in branches on Form St. 6386b. In reporting on Form St. 6386a, however, it will not be necessary to list all of the branches in operation by two banks entering into a consolidation, but merely to give the number operated by each bank before the consolidation, the number operated by the consolidated institution after consolidation, and the list of branches discontinued, merged with other branches or moved to another location.

*Do not include liquidations preliminary to further changes, e.g., liquidation preliminary to absorption by another bank.

**Do not report the newly organized bank under "State bank admitted to membership."
F. R. Board
Form St. 6386a
Nov. 1929

BANK CONSOLIDATIONS
(Include absorptions, mergers, etc.)

Effective date of consolidation _________ Federal Reserve District _________

<table>
<thead>
<tr>
<th>Name and location of banks</th>
<th>Member or nonmember</th>
<th>Capital</th>
<th>Surplus and profits</th>
<th>Loans and investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Banks entering into consolidation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) New or consolidated bank:

Is the consolidated institution a newly chartered bank? If not, give the name of bank (before consolidation) under whose charter the consolidated institution is to operate:

Give names of banks, if any, that were in financial difficulties at time of consolidation:

Disposition made of the head office of each bank entering into the consolidation:

Did any of the banks entering the consolidation have branches?
Were any of the banks affiliated with banking groups or chains? (Report details on Forms St. 6386d and St. 6386e)

Terms of consolidation, if known, etc.
**BANK SUSPENSIONS**

<table>
<thead>
<tr>
<th>Date of suspension</th>
<th>Federal Reserve District</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Name and location**

<table>
<thead>
<tr>
<th>of bank</th>
<th>Member or nonmember</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Loans and investments**

<table>
<thead>
<tr>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>Investments</td>
<td>Gross deposits</td>
</tr>
</tbody>
</table>

**Borrowings from Federal Reserve Bank**

<table>
<thead>
<tr>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings from Federal Reserve Bank</td>
<td>From other banks</td>
</tr>
</tbody>
</table>

**Condition figures are as of**

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing</td>
</tr>
<tr>
<td>directed by</td>
</tr>
</tbody>
</table>

**Causes of suspension:** Check in the appropriate column those of the following which apply, either as primary or contributing causes, amplifying the indicated causes with such supplementary data as may be available.

<table>
<thead>
<tr>
<th>Primary cause</th>
<th>Contributing cause</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Slow, doubtful or worthless paper</td>
<td></td>
</tr>
<tr>
<td>2. Failure of banking correspondent (Name of failed correspondent)</td>
<td></td>
</tr>
<tr>
<td>3. Failure of other large debtor (Name of failed debtor and connection with bank, if any)</td>
<td></td>
</tr>
<tr>
<td>4. Defalcation</td>
<td></td>
</tr>
<tr>
<td>5. Heavy withdrawals</td>
<td></td>
</tr>
<tr>
<td>6. Other causes (specify)</td>
<td></td>
</tr>
</tbody>
</table>

**REMARKS:**
**ORGANIZATIONS, LIQUIDATIONS, CONVERSIONS, AND OTHER CHANGES IN STATUS OF MEMBER AND NONMEMBER BANKS**

(Except bank suspensions, consolidations, mergers or absorptions; affiliations with banking chains or groups; and establishment or discontinuance of branches)

<table>
<thead>
<tr>
<th>Effective date of change</th>
<th>Federal Reserve District</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Name and location of bank before change</th>
<th>Member or nonmember</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Name and location of bank after change</th>
<th>Member or nonmember</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Capital $</th>
<th>Surplus and profits $</th>
<th>Loans and investments $</th>
</tr>
</thead>
</table>

Condition figures are as of ____________________________

Is the above change in status final or merely preliminary to a further change, and if preliminary, what further change is contemplated? ____________________________

In the case of conversions and successions, were financial difficulties responsible to any extent for the change in status? ____________________________

Remarks:
(In the case of suspended banks reopened for business, give the change in capital account, the assessment paid by stockholders, etc.)
F. R. Board
Form St. 636d
Nov. 1929

CHANGES IN GROUP OR CHAIN BANKING

Federal Reserve District ____________

Name and address of management or controlling interest in banking chain or group ________________

<table>
<thead>
<tr>
<th>Date effective</th>
<th>Name and location of banks added to or withdrawn from chain or group*</th>
<th>Member or non-member</th>
<th>Capital Surplus and profits</th>
<th>Loans and investments</th>
</tr>
</thead>
</table>

Remarks: (Character and degree of control, type of organization of group, etc.)

*List additions under the heading "Added to Group," and withdrawals under "Withdrawn from Group."
<table>
<thead>
<tr>
<th>Date</th>
<th>Established or discontinued</th>
<th>Local, contiguous, or non-contiguous</th>
<th>Name and location of branches and method of establishment or discontinuance**</th>
</tr>
</thead>
</table>

*Indicate whether a "local" branch (in the same town or city as the parent bank), in a "contiguous" town, or in a "non-contiguous" town.

**Indicate whether established "de novo" or by "conversion of independent bank," and in the latter case give the name of bank that was absorbed and converted into a branch. If discontinued, state whether closed, moved to another location, or succeeded by another bank.
November 19, 1929
St. 6392.

SUBJECT: Federal Reserve Bank Salaries.

Dear Sir:

While the Board has devoted some time to a study of the personnel classification plans called for in its letter X-6293 of April 16, 1929, the last one of which was received yesterday, it does not expect to be able to formally pass upon all of them before the early part of next year. It will be appreciated, therefore, if you will submit for the Board's approval as early in December as practicable a list of employees of your bank, together with the salaries paid to them as of December 1, and the salaries provided by your board of directors to be paid beginning with January 1, 1930, in the same form as was followed last year. In submitting the list of employees and recommendations for salaries, please show opposite the name of each employee the symbol letter or number provided for employees of his or her grade in the classification plan, and call particular attention to any salary recommendation which does not conform to the classification plan already forwarded to the Board.

In accordance with the usual practice, please submit for the Board's approval as early in January as practicable the salaries to be paid to officers of your bank during 1930, which are approved by the board of directors at its first meeting in January. These salaries should be submitted in accordance with the form attached to the Board's letter of November 20, 1928, a copy of which is attached hereto. As was the case last year a detailed budget for your head office and for each branch should be forwarded to the Board as early after January 1, 1930 as practicable.

Very truly yours,

E. M. McClelland,
Assistant Secretary.
SALARIES OF OFFICERS, DECEMBER 31, 1928, AND AS PROPOSED FOR 1929.

Federal Reserve Bank - Branch

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Functions supervised</th>
<th>Annual Salary Proposed Dec. 31, 1928 for 1929</th>
</tr>
</thead>
</table>

Total, ___ officers
FEDERAL RESERVE BOARD
WASHINGTON

November 18, 1929
St. 6394

SUBJECT: Condition of Member Banks as of October 4, 1929

Dear Sir:

For your information there is enclosed herewith a copy of a preliminary statement issued to the press on the above subject, which was accompanied with tables showing resources and liabilities of member banks in each district on October 4, 1929. There is also enclosed a statement showing a classification of loans, investments, demand and time deposits and borrowings of member banks in each district on the same date, which has not been given to the press but which will appear in the forthcoming Call Report.

The Board's Member Bank Call Report (No. 45) giving detailed figures by states, cities, and classes of banks will be ready for distribution in the near future.

Very truly yours,

E. L. Smoad, Chief,
Division of Bank Operations,

Enclosure

TO ALL FEDERAL RESERVE AGENTS
November 29, 1929
St. 6403

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on October 4, 1929. If no call was issued as of October 4, will you kindly advise the date of call nearest thereto and furnish the Board with a copy of your abstract as of that date, if not already done.

In submitting the above-mentioned data it is requested that the number of banks (exclusive of branch banks) be stated, and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state.

A franked and addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

To State Banking Departments*
November 29, 1929
St. 6403a

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on October 4, 1929. If no call was issued as of October 4, will you kindly advise the date of the call nearest thereto and furnish the Board with a copy of your abstract as of that date, if not already done.

In submitting the above-mentioned data it is requested that the number of banks (exclusive of branch banks) be stated, and that separate figures be furnished for mutual savings banks providing there are any such banks operating in your state, also that the figures be segregated by Federal Reserve districts.

A franked and addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

To State Banking Departments*
December 5, 1929,
St. 6411.

SUBJECT: Forms for use during 1930.

Dear Sir:

There are being forwarded to you today under separate cover a supply of the following forms for use during 1930:

Form 38, copies
Form 95, copies
Form 96, copies
Form 97, copies

It is hoped that we shall be able to forward form 34 about the middle of the month and Form E early in 1930.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNOR OF EACH FEDERAL RESERVE BANK*
December 5, 1929
St. 6412

SUBJECT: Earnings, Expenses and Dividends
Reports of State Bank Members.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 107 for the use of State bank members in submitting their reports of earnings, expenses and dividend payments for the six months ending December 31, 1929.

Very truly yours,

E. M. McClelland,
Assistant Secretary.
December 12, 1929.
St. 6421.

SUBJECT: Member Bank Call Report for October 4, 1929.

Dear Sir:

We are forwarding to you today under separate cover copies of the Board's Member Bank Call Report No. 45 showing the condition of member banks on October 4, 1929.

It is assumed that the number of copies of the call report furnished you in the past has served the requirements both of your bank and of member banks in your district. In order, however, that we may know definitely whether or not this is the case, it will be appreciated if you will kindly advise us of the number of copies of the report that should be forwarded to you hereafter.

Very truly yours,

E. L. Smead, Chief, Division of Bank Operations.
December 13, 1929.
St. 6422.

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of November, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before December 27, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS*
FEDERAL RESERVE BOARD
WASHINGTON

December 13, 1929.
St. 6423.

SUBJECT: Condition Reports of State
Bank Members, Form 105.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 105. Kindly hold the blank forms at your bank until receipt of telegraphic notice from the Board, whereupon three copies should be mailed to each state bank and trust company member with the request that the forms be held pending receipt of a call for condition reports. It is suggested that in your letter transmitting the blanks you call the banks' attention to the instructions previously furnished governing the preparation of the condition reports, so that if any bank has mislaid its copy of the instructions another copy may be promptly furnished for its use. Upon receipt of notice from the Board of the call for condition reports, kindly notify the banks thereof by mail and request them to fill out the reports and mail them to you promptly - in no case later than 10 days after receipt of the call.

The reports should as usual be examined and checked before being forwarded to the Board, in accordance with the procedure previously outlined.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL F. R. AGENTS*
December 16, 1929.
St. 6424.

SUBJECT: Data for 1929 Annual Report of the Federal Reserve Board.

Dear Sir:

Will you kindly furnish us with the following data for use in the Board's forthcoming annual report:

1. Classification of U. S. securities held by your bank (1) under repurchase agreement and (2) in investment account, as at close of business December 31, 1929, giving the kind of securities, interest rate, maturity date, and par value. The total only need be shown for securities bought through the Open Market Investment Committee and held in Special Investment Account.

2. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during the calendar year 1929.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

E. L. Smead, Chief,
Division of Bank Operations.
FEDERAL RESERVE BOARD
WASHINGTON

December 19, 1929.
St. 6429.

SUBJECT: Reports of Earnings, Expenses, Dividends, and Franchise Tax Payments for 1929.

Dear Sir:

In order that the Board may have information regarding the financial results of operations of Federal reserve banks during the present calendar year as soon as practicable after January 1, it is requested that a statement be telegraphed or mailed in time to reach the Board's offices on Thursday morning, January 2, 1930, showing the following information:

(Code)

EARL - Earnings from discounted bills .. $
EDGE - Earnings from purchased bills ...
ESPY - Earnings from U. S. securities ...
ETOH - Other earnings (items 4-7 on form 95)
EACH - Gross earnings ..............
EASY - Cost of Federal Reserve Currency ..
EDIT - Other current expenses ........
EVER - Total current expenses .........
EARN - Current net earnings ........... $
ELBA - Additions to Current net earnings
ENID - Deductions from Current net earnings
Net additions to or deductions from current net earnings
EAST - Net earnings available for dividends, franchise tax, and surplus ...........
EYRE - Dividends paid ..................
EMET - Paid to Government as franchise tax ........
EVEN - Transferred to surplus account ...........................................
Total (to agree with item EAST) ...................................................
CAPP - Subscribed capital January 1, 1930 ..................................
CEDE - Surplus January 1, 1930 ...........................................
It is also requested that the regular monthly reports of earnings and expenses on forms 95, 96 and 97 be accompanied with an itemized statement showing in detail all additions to and deductions from current net earnings (Profit and Loss account) during the year with separate figures for each branch, if any, and that in addition to the regular balance sheet form 34 for the last day of the year representing the condition of the bank after final closing of the books, a form 34 be submitted showing the condition of the bank at close of business but prior to the making of any adjusting, closing or other entries not regularly made at the end of each month.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS*

*Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis
SUBJECT: Schedule of Federal Reserve Bank Personnel.

Dear Sir:

It will be appreciated if you will kindly furnish the Board with a statement relating to the personnel of your bank (including branches, if any) as at close of business on December 31, 1929, and as of January 1, 1930, made out in accordance with the form attached hereto. The figures for December 1929, which should not take account of changes in either the number or salaries of officers or employees that are put into effect as of January 1, will be published in the Board's 1929 annual report and should be comparable with corresponding figures for your bank derived from the statement submitted last year and published on page of the Board's 1928 annual report. The figures for January 1, 1930, should represent annual salaries of employees after all changes effective as of January 1 have been made and annual salaries of officers as submitted to the Board for its approval.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

LETTER TO ALL CHAIRMEN*
FEDERAL RESERVE BANK OF

( Including branches)

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Annual Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan. 1</td>
<td>Dec. 31</td>
</tr>
<tr>
<td></td>
<td>1930</td>
<td>1929</td>
</tr>
<tr>
<td>Officers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chairman and Federal Reserve Agent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governor</td>
<td></td>
<td></td>
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<tr>
<td>Other officers</td>
<td></td>
<td></td>
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<tr>
<td>Employees by departments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking department</td>
<td></td>
<td></td>
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<tr>
<td>Federal Reserve Agent's department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditing Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal Agency Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees whose salaries are reimbursed to bank:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal Agency department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other employees*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary employees (not to be included above)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Subdivide by functions and units on separate sheet.