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Final minutes

6/25/23

A meeting of the Advisory Committee of the Federal Reserve Bank Governors was held at the office of the Federal Reserve Board at 11 o'clock a. m. this day.

Present:

Messrs. Harding, Norris, Fancher, Seay
and McDougal, Governors, and Mr. Case, Deputy Governor,
Messrs. Wills and Martin, Federal Reserve Agents.

The following members of the Federal Reserve Board were
present at the morning session:

Governor Crissinger, Honorable H. M. Dawes, Comptroller
of the Currency, and the Honorables Cunningham, Miller,
Hamlin and James.

Mr. Case was appointed chairman and Mr. Martin acted as secretary.

The members of the Federal Reserve Board joined the meeting at this point and the situation presented by the recent decisions of the United States Supreme Court in the North Carolina and Atlanta par collection cases, was discussed at length. Governor Crissinger on behalf of the Federal Reserve Board requested the committee to formulate recommendations suggesting appropriate action to be taken in view of these decisions and to arrange for the sending out of a uniform circular letter by all the twelve Federal reserve banks.

Honorables Crissinger, Dawes, Miller, Hamlin, Cunningham and James left the meeting at this point and shortly thereafter a recess was taken for lunch.

Upon reconvening the committee carefully considered the par collection matter, and on motion duly made and seconded, the following report to the Federal Reserve Board was adopted:

The provisions in the Federal Reserve Act which authorize the establishment of a Federal reserve collection system were designed wholly for the benefit of the banking and commercial interests of the country. The System is now in operation between banks which in number are about 92 per cent. of all banking institutions and which have more than 98 per cent. of the total banking resources of the country. It is the opinion of the Committee that the System has become a necessary instrumentality in effecting domestic exchanges of the country; that its operation, including final payments through the Gold Settlement Fund, has been of inestimable benefit and has resulted

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in enormous saving to those actively engaged in carrying on the commerce of the country; and that there are no other facilities for operating a collection system which could approximate it in economy of operation. It has eliminated a very large portion of the time formerly consumed in the collection of checks and has cut down the cost of making the country's exchanges to the minimum. The Committee therefore believes that the System even though not imposed upon the Federal reserve banks by the Act, as interpreted by the Supreme Court of the United States in its recent decision, has fully justified its operation and is of such value to the banking and commercial interests of the country that its continuance is of vital importance. Certain changes, however, in the basis of the par clearance system appear to the Committee to be advisable in view of the recent decision of the Supreme Court.

The Committee believes that participation in the par clearance system should be based upon the principle of reciprocity and that hereafter the Federal reserve banks should not receive for collection checks on any non-member bank which will not agree to remit in acceptable funds without deduction. The recent opinion of the Supreme Court makes it certain that the Federal reserve banks are not permitted by law to pay exchange. It must be clear that the more inclusive a collection system is, the more efficient it will be, and the greater will be the service it can render alike to the business and banking community. Therefore, since it is the object of the Federal reserve banks to maintain an efficient system of par collection, which must at the same time be a voluntary system as far as non-member banks are concerned, the concessions involved and the resulting benefits should be made and received by all participating banks. It is clear that those non-member banks which are unwilling to remit without deduction for checks drawn on themselves have no right to share in the advantages of the par collection system.

It is therefore recommended by the Committee (1) that the Federal Reserve Board prohibit the collection of checks drawn on non-member banks which will not voluntarily remit in acceptable funds without deduction, and (2) that the Federal Reserve Board, in the exercise of its legal authority, fix a charge that Federal reserve banks shall make for their services in collecting checks which bear the endorsement of or originate with those non-member banks which decline to remit to the Federal reserve banks without deduction, and it is suggested that such charge be made equal to that which said non-member banks make when paying or remitting for checks upon themselves.

In order to give effect to the foregoing recommendation, the Committee submits for the consideration of the Board the following amendment to Regulation J:

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After Condition No. 5 of Regulation J insert two new conditions reading as follows:

- (6) No Federal reserve bank shall receive on deposit or for collection any check drawn on a non-member bank which refuses to remit at par in acceptable funds.
- (7) Whenever a Federal reserve bank receives on deposit or for collection a check drawn by, endorsed by or emanating from any non-member bank which refuses to remit at par, it shall charge for the service of collecting such check a collection charge equal to the exchange charged by such non-member bank for remitting for checks drawn on it.

It was the consensus of opinion that before making the recommendations of the committee effective, the proposed amendment of Regulation J should receive the approval of Honorable John W. Davis, counsel for the System in the par collection litigation, and that the Board should send out a uniform circular letter in the form suggested by the committee in a separate memorandum, likewise after approval by Mr. Davis.

The committee then took under consideration Board letter X-3750, dated June 20, 1923, on the subject of the permission granted to member banks to apply for discounts of eligible paper acquired from non-member banks. On motion duly made and seconded, it was

VOTED to recommend to the Federal Reserve Board that the permission heretofore given to member banks to act as agents or media in rediscounting for non-member banks, be immediately rescinded in toto.] ✓

A letter from Mr. Charles deB. Claibourne, dated June 20, 1923, addressed to Governor Crissinger, requesting a hearing on the par collection matter, was submitted. After consideration it was decided to recommend to the Federal Reserve Board that in the opinion of this committee it is inadvisable to comply with Mr. Claibourne's request.

The meeting adjourned at 6 o'clock p. m. to meet at 10 o'clock a. m. the next day.

J. H. Case,
Chairman.

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Washington, D. C., June 26, 1923.

A meeting of the Advisory Committee of the Federal Reserve Bank Governors was held at the office of the Federal Reserve Board at 10 o'clock a. m. this day.

Present:

Mr. Case, Chairman,
 Messrs. Harding, Norris, Fancher, Seay and McDougal, ^{the} Governors,
 Messrs. Wills and Martin, Federal Reserve Agents,
 The following members of the Federal Reserve Board were present at the afternoon session:
 Governor Crissinger, Honorable H. M. Dawes, Comptroller of the Currency, and the Honorables Cunningham, Miller, Hamlin and Platt.
 Honorable S. P. Gilbert, Jr., Under-Secretary of the Treasury attended the meeting part of the time.
 Mr. M. B. Angell also attended the meeting part of the time.

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The report of the open market investment committee was received and accepted.

Governor McDougal called attention to the fact that all of the Federal reserve banks are practically out of Treasury certificates of indebtedness. ✓

The chairman submitted a suggested letter to be sent to the governors of all Federal reserve banks concerning the distribution of bills purchased by Federal reserve banks. The letter is as follows:

The Open Market Investment Committee for the Federal Reserve System, appointed by the last Governors' Conference, has given careful consideration to the matter of effecting an equitable distribution among all Federal reserve banks of bills purchased in the open market by the Federal Reserve System.

The Committee has adopted the suggestion submitted by Mr. O'Hara of the New York bank that such distribution be made upon the basis of the reserve percentages of the several banks. *

Under this plan it is proposed by means of a simple method to distribute each week the aggregate of bills purchased by the Federal Reserve System among all reserve banks in such manner that the amount retained by and/or allotted to each bank will affect its reserve position to exactly the same extent as those of all other reserve banks.

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As several of the banks may in the ordinary course be purchasing in their local markets an amount of bills greater than their proportion of the aggregate purchases of all banks, it is obvious that in order to make this plan effective these several banks will give off their excess to other banks whose local purchases of bills are less than their proportion of the aggregate purchases of the System.

It therefore seems necessary and desirable that the distribution be arranged through one point and it would appear logical that it should be handled by Mr. Matteson, the secretary of the committee in New York.

Once a week each bank's proportion of the aggregate purchases of the System would be figured on the basis of its reserve percentage at the close of the preceding week and distribution would be effected accordingly. Such banks as may have purchased more than their proportion would be requested to make sales from their portfolios to such other bank or banks as the secretary might indicate, subject, of course, in this respect to the convenience or any special wishes of the particular banks between which such transactions would pass. X

It is recognized that at the present time most of the reserve banks are in a comfortable reserve position. If and when the time arrives that the reserve percentage of any of the banks are substantially reduced and they should consider it desirable that they cease participation for the time being, the same plan can be readily continued with the remaining banks.

The Committee proposes to put this procedure into effect commencing with the business of the week ending July 11 next. X

Whereupon, after consideration and on motion of Governor Fancher, seconded by Governor McDougal, it was

VOTED to adopt for the present the plan as set out in the above stated letter.

The open market rate for purchases of bills was then discussed. Each one present made a report of the conditions in his district and it was the unanimous opinion that there should be no change in present rates for purchases of bills in the open market nor any change in discount rates.

At this point, 1 p. m., the committee adjourned for luncheon.

The committee reconvened at 2:30 o'clock p. m.

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The chairman indicated to the Federal Reserve Board the view of the committee that before making the recommendation of the committee effective in the par clearance matter, the proposed amendment of Regulation J should receive the approval of the Honorable John W. Davis, counsel for the System in the par collection litigation, and that there should be sent out by the Board a uniform circular letter in the form suggested by the committee in a separate memorandum, likewise after approval by Mr. Davis. It was unanimously agreed that the circular should be effective on August 15, 1923.

At this point Mr. M. B. Angell, associated with Mr. John W. Davis, entered the conference and the report of the committee on par clearance was submitted to him. He expressed the view that it was constructive and should be helpful and stated that he could see no objections to it from a legal standpoint but that he would submit it to Mr. Davis tomorrow and advise the Board by telephone if Mr. Davis had any other views.

Governor Crissinger called for a report from those present as to existing credit conditions in their respective districts and as to whether or not it was desirable that any change of rates be made in the open market or otherwise. Each one of the governors responded and stated that in his judgment there should be no change in either open market or discount rates at the present time.

At this point the members of the Board other than Governor Crissinger and Mr. Miller withdrew.

In response to a request for an expression of the views of the Board as to the desirability of continuing the policy of establishing relations with foreign central banks, Governor Crissinger stated that it was the view of the Board that these relations were desirable and in the public interest. Ten of the Federal reserve banks having expressed the view that these arrangements were desirable, the chairman was requested to have the Federal Reserve Bank of New York send each month to all participating banks a complete schedule of investments held for the account.

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of foreign correspondents.

General discussion followed in regard to the desirability of the Federal reserve banks paying out more gold certificates. Mr. Case reported that New York was paying out an amount sufficient to approximate the net gold imports. Governors McDougal, Fancher and Norris stated that their respective banks were paying out but moderate amounts. Governors Harding and Seay and Mr. Martin stated that they felt the principle was wrong. No action was had thereon.

Mr. S. P. Gilbert, Jr., Under-secretary of the Treasury, then appeared before the committee and discussed the question of reimbursement of Federal reserve banks for fiscal agency expenses, stating that the Treasury was in position to deal liberally with the Federal reserve banks on sales operations but that Congress had made no provisions for assuming all fiscal agency expenses. Mr. Gilbert also stated that there were to be some changes in the Government Savings organization and that he would presently communicate with the several reserve banks asking their cooperation in effecting wider distribution of savings certificates.

The meeting adjourned at 6:15 o'clock p. m.

J. H. Case,
Chairman.