

**RESERVE BANK ORGANIZATION COMMITTEE**

**1913 - 1914**

**Bulletins, Circulars, Regulations, etc.**

ADDRESS REPLY TO  
RESERVE BANK ORGANIZATION COMMITTEE  
TREASURY DEPARTMENT  
WASHINGTON, D. C.

W. G. MCADOO, SECRETARY OF THE TREASURY  
DAVID F. HOUSTON, SECRETARY OF AGRICULTURE  
JOHN SKELTON WILLIAMS, COMPTROLLER OF THE CURRENCY

M. C. ELLIOTT, SECRETARY TO COMMITTEE

## RESERVE BANK ORGANIZATION COMMITTEE

WASHINGTON, D. C.

December 26, 1913.

Sir:

Pursuant to Section 2 of the United States Federal Reserve Act which became a law on December 23, 1913, the Reserve Bank Organization Committee has adopted the following as regulation No. 1:

"That every national bank shall submit to its board of directors alternative resolutions accepting or rejecting the provisions of the Federal Reserve Act, and shall file with this committee, within the sixty days prescribed by said Act, the resolution adopted by said board as the method of signifying the intention of said bank in the premises. All other banks eligible to membership may use substantially similar forms of resolution of acceptance and intention to subscribe to the capital stock of Federal Reserve Banks to be organized."

Respectfully,

ADDRESS REPLY TO  
RESERVE BANK ORGANIZATION COMMITTEE  
TREASURY DEPARTMENT  
WASHINGTON, D. C.

W. G. MCADOO, SECRETARY OF THE TREASURY  
DAVID F. HOUSTON, SECRETARY OF AGRICULTURE  
JOHN SKELTON WILLIAMS, COMPTROLLER OF THE CURRENCY

M. C. ELLIOTT, SECRETARY TO COMMITTEE

## RESERVE BANK ORGANIZATION COMMITTEE

WASHINGTON, D. C.

### REGULATION NO. 2.

The Federal Reserve Act provides for membership of banks operating under State charters as well as membership of national banks. No new charter is contemplated in either case. Eligible banks become members by becoming stockholders in Federal Reserve Banks when their applications have been properly approved and stock has been allotted to them. Such subscription to the capital stock of the Federal Reserve Bank appears to be a matter within the province of the Board of Directors of the subscribing bank. The Organization Committee therefore deems it unnecessary to require as a condition precedent to membership that the stockholders should take any formal action.

Inasmuch, however, as the stockholders of a bank have the legal right, by necessary vote, to force a solvent bank to liquidate, and if dissatisfied with the action of the Board in becoming members might exercise this prerogative, banks desiring to take the precautionary measure of canvassing the sentiment of the stockholders may, by resolution of their boards, submit the question to the stockholders either at the next regular meeting or at a specially called meeting. This course is, however, not insisted upon by the Organization Committee.

Those national banks passing resolutions of nonacceptance on or before February 22, 1914, should, as soon thereafter as convenient, and before the expiration of the twelve months prescribed in the Federal Reserve Act, submit their action to the stockholders for confirmation, since nonacceptance of the provisions of the Federal Reserve Act will ultimately involve the liquidation of such national bank.

**REGULATIONS AND BY-LAWS, RESERVE BANK ORGANIZATION COMMITTEE, prescribing conditions under which State Banks and Trust Companies may subscribe to the stock and become members of Federal Reserve Banks.**

WASHINGTON, D. C., February 20, 1914.

**Regulation No. 3.**

Section 9 of the Federal Reserve Act reads in part, as follows:

"Any bank incorporated by special law of any State, or organized under the general laws of any State of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal Reserve bank organized or to be organized within the Federal Reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal Reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal Reserve Bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal Reserve banks."

Pursuant to the provisions of this section, the Reserve Bank Organization Committee has prescribed the following regulations and by-laws specifying the conditions under which State banks and trust companies may become members of Federal Reserve banks.

*First.*—Any State bank or trust company eligible to membership in a Federal Reserve bank under the Federal Reserve Act and desiring to subscribe to the capital stock of the Federal Reserve bank to be organized in the district which will include the place of business of such State bank or trust company shall submit to its board of directors for consideration a resolution in the following form, to wit:

*Whereas*, Under section 2 of the act of Congress known as the Federal Reserve Act, approved on the 23d day of December, 1913, it is provided that: "Under regulations to be prescribed by the Organization Committee every national banking association in the United States is hereby required and every eligible bank in the United States and every trust company within the District of Columbia is hereby authorized to signify in writing within sixty days after the passage of this act, its acceptance of the terms and provisions thereof;" and

*Whereas*, This bank is believed by the Board of Directors to be eligible to membership and to have the right to subscribe to the capital stock of the Federal Reserve Bank to be organized; and

*Whereas*, It is the intention of this Board to apply under the provisions of the Federal Reserve Act for its proper proportion of stock of the Federal Reserve Bank to be organized within the district in which this bank will be located when the geographical limits to be served by such Federal Reserve Bank have been fixed and announced by the Organization Committee;

*Now, therefore, be it resolved*, That the president of this bank be, and he hereby is authorized, empowered and directed to notify the Reserve Bank Organization Committee that this bank will apply for an allotment of stock of the Federal Reserve Bank aforesaid, and if granted, will become a member of such Federal Reserve Bank subject to the provisions of the Federal Reserve Act.

When such resolution has been passed by the board of directors, the president or executive officer of such State bank or trust company shall transmit a duly certified copy of such resolution to the Reserve Bank Organization Committee at Washington.

*Second.*—When the location of the several Federal Reserve banks provided for in the Federal Reserve Act have been established and the districts to be served by such Federal Reserve banks have been defined, the committee will cause to be forwarded to such State banks or trust companies, at the same time that applications are forwarded to national banks under the provisions of the Federal Reserve Act, a form of application for an amount of capital stock in such Federal Reserve bank equal to 6 per cent of the unimpaired capital stock and surplus of such State bank or trust company. This application must be accompanied by a statement showing the assets and liabilities of such State bank or trust company listed on forms approved by the Committee. These forms will be furnished by the Committee upon request. The Board of Directors or a committee composed of not less than five members of such Board

shall certify that in their opinion the assets listed in the manner prescribed by the Committee represent actual existing values and that in the opinion of said Board none of such assets are carried at an excessive valuation on the books of said bank.

State banks and trust companies shall also file with their applications for membership copies of their charters, with amendments, and a digest thereof showing the powers (granted by such charters and amendments) classified to indicate:

*a.* Those powers which such banks and trust companies have exercised and desire to continue to exercise.

*b.* Those powers which, while granted, have not been exercised and which such banks and trust companies will not desire nor attempt to exercise as members of the Federal Reserve System.

*Third.*—In lieu of a special examination of the condition of such bank by a national bank examiner or examiner appointed by the Committee or the Federal Reserve Board, the Committee may accept a certificate from a duly accredited State examiner or bank commissioner to the effect that the statement filed by the board of directors as aforesaid represents the true condition of such State bank or trust company and that the capital stock of such bank is in the opinion of such examiner or commissioner unimpaired, the surplus represents actual existing values and the liabilities are as shown by such statement. The Committee, however, will reserve the right in any case to require a special examination by a national bank examiner or an examiner selected by the Committee or by the Federal Reserve Board as a condition precedent to membership in any Federal Reserve bank.

*Fourth.*—Only those banks which have an unimpaired capital sufficient to entitle them to become national banking associations under the provisions of the National Bank Act shall be considered as eligible to membership in a Federal Reserve bank.

In accordance with section 5138, U. S. Revised Statutes, as amended by the act of March 14, 1900, State banks or trust companies in order to be eligible to membership must have unimpaired capital stock, as follows:

In cities or towns of less than 3,000 inhabitants, \$25,000.

In cities or towns of more than 3,000 inhabitants but less than 6,000 inhabitants, \$50,000.

In cities of more than 6,000 inhabitants but less than 50,000 inhabitants, \$100,000.

In cities of more than 50,000 inhabitants, \$200,000.

*Fifth.*—State banks becoming members as such under the provisions of section 9 of the Federal Reserve Act and retaining their State charters shall be subject to the provisions of section 9 and to such other provisions of the Federal Reserve Act as are applicable thereto.

*Sixth.*—State banks desiring to become members under section 8 of the Federal Reserve Act by being first converted into national banks in accordance with the provisions of this section, shall become members as national banks. Where such conversion into national banks is completed before the expiration of 60 days from the passage of the Federal Reserve Act, such banks should file with the Organization Committee the form of resolution prescribed by the Committee to signify their acceptance of the terms and provisions of the Federal Reserve Act before February 23, 1914. Where such conversion is not completed before the expiration of the 60 days aforesaid, the board of directors of such banks shall, in executing the articles of association and organization certificate as required by section 8, at the same time adopt the resolution prescribed by the Organization Committee as aforesaid, and such resolution shall accompany the organization certificate filed with the Comptroller of the Currency.

*Seventh.*—Where such conversion is completed after the organization of the Federal Reserve banks, such organization certificate shall be accompanied by an application to the Federal Reserve Board or to the Organization Committee for an amount of stock equal to 6 per cent of the unimpaired capital and surplus of such bank.

*Eighth.*—Whenever a trust company shall become converted into a national bank under the provisions of section 8 of the Federal Reserve Act and shall desire to continue to act as trustee, executor, administrator or registrar of stocks and bonds, such organization certificate shall, when filed with the Comptroller of the Currency, be accompanied by an application to the Federal Reserve Board for permission to engage in such business, and no certificate for the conversion of such trust company into a national bank shall be approved by the Comptroller of the Currency until the Federal Reserve Board has granted this permission under rules and regulations prescribed by it.

*Ninth.*—Whenever a State bank or trust company with established branches shall make application for conversion into a national bank and shall desire to retain such branches, such State bank or trust company shall comply with section 5155, U. S. Revised Statutes, which reads as follows:

“It shall be lawful for any bank or banking association organized under State laws, and having branches, the capital being joint and assigned to and used by the mother-bank and branches in definite proportions, to become a national banking association in conformity with existing laws, and to retain and keep in operation its branches, or such one or more of them as it may elect to retain; the amount of the circulation redeemable at the mother-bank, and each branch, to be regulated by the amount of capital assigned to and used by each.”

*Tenth.*—State banks or trust companies applying for membership in the Federal Reserve System under section 8 of the Federal Reserve Act by conversion into national banking associations, or applying for membership under section 9 as State banks will, if otherwise found to be eligible, be given a reasonable time within which to adjust the loans and investments of such banks to conform to the requirements of the Federal Reserve Act and other laws of the United States applicable thereto. Any bank applying for membership and having loans to any one person, firm, or corporation in excess of the limit allowed by the Federal Reserve Act or other loans and investments prohibited by such act shall, before being admitted to membership, give satisfactory assurance to the Committee or to the Federal Reserve Board that such loans and investments will be eliminated or made to conform to the provisions of the Federal Reserve Act and other applicable laws not later than January 1, 1915.

The condition of the applying bank or trust company and the general nature of its business will be considered by the Committee in each case in determining whether such banks shall be admitted to membership.

*Eleventh.*—The Committee or the Federal Reserve Board will from time to time adopt and publish such additional regulations and by-laws as may be deemed necessary and advisable.

W. G. McADOO, *Chairman*,  
D. F. HOUSTON,  
J. S. WILLIAMS,  
*Reserve Bank Organization Committee.*

## RESERVE BANK ORGANIZATION COMMITTEE.

### Circular No. 1.

WASHINGTON, D. C., February 14, 1914.

In view of the large number of inquiries received from both national and State banks as to the proper interpretation of various sections of the Federal Reserve Act, it is deemed advisable to explain, as briefly as the circumstances will permit, the operation of this Act in so far as it relates to the duties and powers of the Organization Committee and the method of procedure adopted by the Committee. For convenience, these duties are considered in their chronological order.

First. Section 2 of the Federal Reserve Act provides as follows:

“Under regulations to be prescribed by the Organization Committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof.”

It will be observed that under the provisions of this section *all* national banks are *required*, and all other eligible banks are *permitted*, to signify their acceptance of the provisions of this Act within sixty days from its passage. Banks should not confuse this notice to the Committee with the formal application for stock to be filed later.

To facilitate compliance with this provision of the Act, the Committee has forwarded to all national banks a prescribed form of resolution to be adopted by the Boards of Directors of such banks, and upon request from State banks is forwarding a prescribed form of resolution for use by such banks. When certified copies of such resolutions have been received and filed no other action by applying banks is necessary until the locations of the several Federal Reserve banks have been established by the Committee, and the districts to be served by such banks have been defined.

The Committee is now engaged in holding hearings in various parts of the United States in order to have before it as much information as possible to enable it to properly determine the locations of such banks and the districts to be served.

Section 2 further provides as follows:

“When the Organization Committee shall have designated the cities in which Federal Reserve banks are to be organized and fixed the geographical limits of the Federal Reserve districts, every national banking association within that district shall be required within thirty days after notice from the Organization Committee to subscribe to the capital stock of such Federal Reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the Organization Committee or of the Federal Reserve Board, one-sixth within three months, and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.”

This section should be read in connection with section 4 of the Federal Reserve Act, which reads as follows:

“When the Organization Committee shall have established Federal Reserve districts as provided in section 2 of this Act a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal Reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the Organization Committee which may apply therefor, an application blank in form to be approved by the Organization Committee, which blank shall contain a resolution to be adopted by the Board of Directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal Reserve bank organizing in that district in accordance with the provisions of this Act.”

It will be observed from the foregoing that the Comptroller of the Currency will cause to be forwarded to those banks which have signified their intention to become members of Federal Reserve banks, a form of application to be executed by such banks after the districts have been laid out and the location of the Federal Reserve banks definitely established by the Organization Committee. These forms will be forwarded in due course and in accordance with the further provisions of the Act, when the minimum amount of stock for any Federal Reserve bank has been subscribed the Committee will designate five banks to execute the necessary organization certificate. Subscriptions to stock will therefore not be called by the Committee until after these preliminary steps have been taken.

#### NATIONAL BANKS AS MEMBERS.

Attention is called to the fact that all national banks are required to signify, within sixty days from the passage of the Federal Reserve Act, whether or not they accept the provisions of the Act and intend to subscribe to the stock of the Federal Reserve banks when organized.

That within thirty days after the Organization Committee has announced the designation of cities in which Federal Reserve banks are to be organized, fixed the geographical limits to be served, and notified such national banks, all such national banks are required to subscribe to the capital stock of such Federal Reserve banks. These provisions are clearly set forth in the Federal Reserve Act, and the Committee will expect and require a strict compliance therewith.

A number of banks appear to be under the misapprehension that they are allowed twelve months' time in which to accept the provisions of the Federal Reserve Act. This limitation, which is manifestly intended to cause automatically a forfeiture of the charters of those banks failing to comply with the provisions of the Act, must not be construed as extending the time specifically set out in the Act within which such banks must take the action above outlined.

#### STATE BANKS AS MEMBERS.

The provisions relating to membership by State banks are, under the terms of the Act, entirely optional. State banks are not required to signify within any given time their intention to become members, but are permitted to do so if they desire to become members as soon as Federal Reserve banks are originally organized.

Two methods are prescribed by the Federal Reserve Act by which such banks may become members of the Federal Reserve system. *First*, under section 8, by conversion of State banks into national banks, in which case the laws applicable to national banks become immediately operative as soon as such conversion is completed. *Second*, under section 9 State banks may become members, as State banks, retaining their State charters, in which case such banks are subject, specifically, to the provisions of the Federal Reserve Act contained in section 9, and to such other provisions of the Act as are clearly applicable. Banks becoming members as State banks, therefore, may exercise those powers conferred by their State charters which are not in conflict with the specific provisions of the Federal Reserve Act.

State banks and trust companies signifying their intention to become members of the Federal Reserve System before the organization of the Federal Reserve banks will be permitted to participate in the selection of directors of said Reserve Banks, as prescribed by the Federal Reserve Act.

The Committee has prescribed the regulations under which State banks and trust companies may become members, and a copy of such regulations, with the forms approved for use by such banks, will be furnished upon request of any State bank desiring to apply for membership in a Federal Reserve bank.

**M. C. ELLIOTT,**

*Secretary, Reserve Bank Organization Committee.*

## RESERVE BANK ORGANIZATION COMMITTEE.

*Washington, D. C., May 6, 1914.*

SIR: In answer to a number of inquiries received and in order to expedite the organization of the several Federal reserve banks, your attention is called to the steps still to be taken before such banks can be fully organized, and particularly to the method of election of Class "A" and Class "B" directors by the member banks.

### EXECUTION OF ORGANIZATION CERTIFICATE.

Section 4, paragraph 2, reads as follows:

"When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the Organization Committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state," etc.

In accordance with this provision the Committee will, not later than May 9th, designate five banks in each district to execute the organization certificate provided for. To facilitate the incorporation of such banks the representatives of the banks so designated will be requested to meet promptly in the Federal Reserve City of their respective districts so that the certificate which has been prepared by the Committee may be executed and filed with the Comptroller of the Currency. When this has been done all subscribing banks, under the Committee's interpretation, will be treated as MEMBER banks, and the election of ELECTORS and the nomination of Directors may be immediately proceeded with.

### ELECTION OF DIRECTORS.

A later paragraph of Section 4 of the Federal Reserve Act reads in part as follows:

"The Chairman of the Board of Directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such Chairman, the Organization Committee, shall classify the member banks of the district into three general groups or divisions. EACH GROUP shall contain as nearly as may be ONE-THIRD OF THE AGGREGATE NUMBER of the member banks of the district and shall consist, as nearly as may be, of BANKS OF SIMILAR CAPITALIZATION. The groups shall be designated by NUMBER, by the Chairman."

### GROUPING OF BANKS.

In accordance with the above provision the Organization Committee will divide the banks of your district into three groups.

Group No. 1 will contain approximately one-third of the aggregate number of banks in your district and will be composed of banks of the largest capitalization.

Group No. 2 will include approximately one-third of the aggregate number of banks in your district and will embrace the banks having the next largest capitalization.

Group No. 3 will include approximately one-third of the aggregate number of banks in your district, being composed of those having the smallest capitalization.

While, under the terms of the statute, banks can not be officially grouped until the Federal Reserve Banks are incorporated, that is to say, until the organization certificate has been filed with the Comptroller of the Currency, an analysis has been made of those banks which have signified their intention

to subscribe and for your information there is attached hereto as "Exhibit A" a tentative analysis which will show, with slight variation, the group to which the banks of each of the several districts will be assigned.

#### DISTRICT RESERVE ELECTORS.

Section 4, continuing, reads as follows:

"AT A REGULARLY CALLED MEETING of the BOARD OF DIRECTORS OF EACH MEMBER BANK in the district, it SHALL ELECT BY BALLOT a district reserve ELECTOR and shall certify his name to the Chairman of the Board of Directors of the Federal Reserve Bank of the district. The Chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups, and shall transmit one list to each elector in each group."

As all banks are required to send in their subscriptions not later than May 8th, it is expected that the organization certificate will be filed with the Comptroller of the Currency by the several Federal Reserve Banks immediately thereafter, and it is, of course, desirable that the Class "A" and Class "B" directors should be regularly elected as soon thereafter as possible, and the Class "C" Directors appointed by the Federal Reserve Board.

Accordingly, if the member banks will arrange to hold meetings of their directors PROMPTLY, after the Federal Reserve Banks are incorporated, for the purpose of electing district reserve ELECTORS, and nominating CANDIDATES for Class "A" and Class "B" Directors, the organization of the Federal Reserve Banks will be greatly facilitated.

The manifest purpose of electing district reserve ELECTORS is to obviate the necessity of convening the Boards of the various member banks in order to vote on the nominees, and as no ELECTOR should represent more than one bank it is suggested that each member bank select one of its own officers or directors to act in this capacity.

#### NOMINATION OF CANDIDATES.

Section 4, continuing further, reads as follows:

"Each member bank shall be permitted to nominate to the CHAIRMAN one candidate for director of Class "A" and one candidate for director of Class "B." The candidates so nominated shall be listed by the Chairman, indicating by whom nominated, and a copy of said list shall, WITHIN FIFTEEN DAYS after its completion, be furnished by the Chairman to each ELECTOR."

Under the Federal Reserve Act the Organization Committee, prior to the selection of Class "C" Directors, performs the duties and has the authority of the Class "C" Director who is Chairman of the Board of each Federal Reserve Bank.

Under the provisions of Section 4, directors of Class "A" shall be chosen by and be representative of the stockholding banks.

Directors of Class "B" shall, at the time of their election, be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The *Elector* does not select the nominees whose names are to be placed on the ballot for Class "A" and Class "B" directorships, but the sole duty of the Elector is to vote on the candidates after they have been nominated.

At the same meeting at which the district reserve ELECTOR is elected, each member bank may, by its BOARD OF DIRECTORS, nominate for its respective group, one candidate for Class "A" and one candidate for Class "B" directors.

Candidates for Class "A" should be residents of the district and should be representative of the banks of the district. They may be officers, directors, or stockholders of any of the member banks located in the district and need NOT NECESSARILY be officers, directors, or stockholders of any bank of the particular group of banks placing them in nomination, or of any other bank.

In like manner, directors of Class "B" must be residents of the district and must be engaged in commerce, agriculture, or some other industrial pursuit. Accordingly, if any attorney, physician, or other professional man, is placed in nomination, it must appear that such nominee is also engaged in one of the pursuits specified by the statute. Class "B" Directors can not be Stockholders, Officers or Directors in any Bank.

Forms will be mailed to each member bank in each district for use in reporting to the ORGANIZATION COMMITTEE (which, until the selection of the chairman of the Board of each Federal Reserve Bank by the Federal Reserve Board, shall act in the place of the said Chairman) the name of the district reserve ELECTOR, and the nominees of Class "A" and Class "B" directors.

When these forms shall have been received by the Organization Committee a list will be prepared of all district reserve ELECTORS, and mailed to each Elector in each district in compliance with the statute.

A form of ballot has also been prepared which will show the candidate for Class "A" and the candidate for Class "B" directors of each group and this ballot will be sent in due course to each district reserve ELECTOR, in order that his vote may be cast in accordance with the provisions of the statute.

Each district reserve Elector will indicate on this ballot his first, second, and third choices for ONE director of Class "A," and his first, second, and third choices for ONE director of Class "B."

The ballot furnished will show all nominees of the group and the name of the bank nominating each candidate.

Each group will elect one Class "A" and one Class "B" director. The Electors will therefore *vote only* on the nominees of *their own group*, and not on all the nominees of their district.

When these ballots have been received by the Organization Committee, a poll will be made and the result of the election announced as early as practicable.

When this announcement has been made and the Federal Reserve Board has named the three Class "C" directors in each district, the Board of Directors of each Federal reserve bank will be immediately convened, and organized, and this Board will then adopt such by-laws and elect such officers as may be deemed necessary.

The Board of Directors of each Federal Reserve Bank will also arrange for proper banking quarters and for the employment of the necessary clerical force in order to place the banks in operation as early as possible.

The organization of the Federal Reserve Banks in those districts whose member banks act promptly will not be held back and delayed to keep pace with the organization of banks in other districts whose member banks are slow in taking action and in making their returns to the Organization Committee.

It will be observed from the foregoing that the cooperation and PROMPT ACTION of the MEMBER banks is important in order to have the Federal Reserve Banks ready for business at the earliest date practicable.

Respectfully,

**M. C. ELLIOTT,**

*Secretary Reserve Bank Organization Committee.*

EXHIBIT A—*Tentative analysis showing probable groups or divisions of member banks by districts.*

Dist. No.	Federal Reserve City.	Group No. 1.		Group No. 2.		Group No. 3.	
		No. of banks.	Aggregate capital and surplus of each member bank.	No. of banks.	Aggregate capital and surplus of each member bank.	No. of banks.	Aggregate capital and surplus of each member bank.
1	Boston .....	148	\$250,000 or more....	148	Less than \$250,000 but more than \$120,000...	148	\$120,000 or less.
2	New York ....	160	190,000 or more....	159	Less than \$190,000 but more than \$70,000...	159	70,000 or less.
3	Philadelphia..	253	190,000 or more....	252	Less than \$190,000 but more than \$75,000...	252	75,000 or less.
4	Cleveland ....	257	150,000 or more....	255	Less than \$150,000 but more than \$60,000...	255	60,000 or less.
5	Richmond ....	160	140,000 or more....	158	Less than \$140,000 but more than \$60,000...	158	60,000 or less.
6	Atlanta .....	126	130,000 or more....	124	Less than \$130,000 but more than \$60,000...	124	60,000 or less.
7	Chicago .....	319	120,000 or more....	319	Less than \$120,000 but more than \$55,000...	319	55,000 or less.
8	St. Louis ....	151	100,000 or more....	151	Less than \$100,000 but more than \$50,000...	151	50,000 or less.
9	Minneapolis ..	230	60,000 or more....	230	Less than \$60,000 but more than \$30,000...	230	30,000 or less.
10	Kansas City ..	279	75,000 or more....	277	Less than \$75,000 but more than \$40,000...	277	40,000 or less.
11	Dallas .....	245	100,000 or more....	244	Less than \$100,000 but more than \$50,000...	244	50,000 or less.
12	San Francisco.	172	120,000 or more....	170	Less than \$120,000 but more than \$55,000...	170	55,000 or less.

ADDRESS REPLY TO  
RESERVE BANK ORGANIZATION COMMITTEE  
TREASURY DEPARTMENT  
WASHINGTON, D. C.

RESERVE BANK ORGANIZATION COMMITTEE

WASHINGTON, D. C.

Sir:

In the circular dated May 6, 1914, in particular reference to the election of Class A and Class B directors of Federal Reserve Banks the following sentence appears at the bottom of page 2:

"Class "B" directors can not be stockholders, officers, or directors in any bank."

This sentence should read as follows:

"No director of Class "B" shall be an officer, director, or employee of any bank."

Respectfully,

A handwritten signature in cursive script, appearing to read "M. E. Emmott", is written over a horizontal line.

Secretary.

**FEDERAL RESERVE BOARD**  
**WASHINGTON**

---

CIRCULAR No. 3.

AUGUST 25, 1914.

SIR:

You are requested to furnish the following information on the accompanying form for the use of the Reserve Bank Organization Committee and the Federal Reserve Board in connection with the organization of the Federal reserve banks.

This information is not intended for publication, but for the use of the Board.

Please supply carefully the information called for on pages 2, 3, and 4, and return this blank promptly in the inclosed addressed envelope which requires no postage. Your immediate attention to this request will facilitate the determination of the questions involved and will, it is hoped, enable the Board to develop plans to accomplish the results desired with the least inconvenience.

Respectfully,

**M. C. ELLIOTT,**

*Secretary Reserve Bank Organization Committee, Secretary pro tem Federal Reserve Board.*

**RESERVE CITY BANKS.**

Statement of condition of .....National Bank  
of .....at the close of business on the 31st day  
(City and State.)  
of August, 1914.

LIABILITIES.

Capital stock, surplus, and undivided profits .....	\$.....
Time deposits (including all deposits not payable for 30 days or more, and all deposits which are subject to 30 days' notice—that is, upon which the bank may require 30 days' notice before withdrawal).....	.....
Demand deposits .....	.....
Bills payable.....	.....
Circulation outstanding:	
Secured by United States bonds .....	.....
Secured otherwise than by United States bonds .....	.....
Bank balances .....	.....
All other liabilities.....	.....
Total.....	.....

RESOURCES.

Loans, discounts, and overdrafts .....	\$.....
Bonds and other securities .....	.....
Banking house, real estate, furniture, and fixtures .....	.....
United States bonds to secure circulation .....	.....
United States bonds to secure deposits .....	.....
Balances with approved reserve agents and counted as reserve (give name of city and amount carried in each city):	
.....	.....
.....	.....
.....	.....
Five per cent redemption fund .....	.....
Cash items.....	.....
Cash .....	.....
Gold or gold certificates .....	.....
National bank notes .....	.....
United States legal tender notes .....	.....
Silver and silver certificates .....	.....
Minor coin .....	.....
All other assets.....	.....
Total.....	.....

Statement of condition of.....National Bank  
of.....as it would appear if first installment of 1 per cent  
of capital and surplus had been paid on subscription to the stock of the Federal Reserve Bank  
of its district on same date as is shown in statement of condition on opposite page, and if new  
reserve requirements had at that time gone into effect, and transfer of proportionate amount of  
reserve had been made to the Federal Reserve Bank of its district.

NOTE.—While capital stock payments and reserve transfers need not be made simultaneously,  
for the purposes of this statement it will be assumed they will be so made.

LIABILITIES.

Capital stock, surplus, and undivided profits.....	\$.....
Time deposits.....	.....
Demand deposits.....	.....
Bills payable.....	.....
Circulation outstanding:	
Secured by United States bonds.....	.....
Secured otherwise than by United States bonds.....	.....
Bank balances.....	.....
All other liabilities.....	.....
Total.....	.....

RESOURCES.

Loans, discounts, and overdrafts.....	\$.....
Bonds and other securities.....	.....
Banking house, real estate, furniture, and fixtures.....	.....
United States bonds to secure circulation.....	.....
United States bonds to secure deposits.....	.....
Reserve balances:	
With Federal Reserve Bank (not less than one-fifth of total reserve required) ..	.....
With approved reserve agents (give names of cities)—	.....
.....	.....
.....	.....
.....	.....
Five per cent redemption fund.....	.....
Cash items.....	.....
Cash:	
Gold or gold certificates.....	.....
National Bank notes.....	.....
United States legal tender notes.....	.....
Silver and silver certificates.....	.....
Minor coin.....	.....
Federal Reserve Bank stock (amount of first installment—that is, 1 per cent of your capital and surplus):.....	.....
All other assets.....	.....
Total.....	.....

STOCK SUBSCRIPTIONS.

Please state from what city or cities you would probably withdraw balances in order to pay the first installment of your subscription to the capital stock of the Federal reserve bank of your district, giving amount, if any, that you would probably withdraw from each city:

..... \$.....  
.....  
.....

Please state what amount of the first installment of your subscription to capital stock you would probably pay in gold or gold certificates out of funds in your own vaults ..

RESERVE BALANCES.

Please state what amount, if any, you would probably withdraw from approved reserve agents in order to make transfer of required reserve to the Federal reserve bank of your district if call were made and new reserve requirements became effective at any time within 30 days from date..... \$.....

Please give names of cities from which such withdrawals would probably be made, showing amount you would probably withdraw from each city ..

.....  
.....  
.....

Please state what amount you would probably transmit from your own vaults in cash to the Federal reserve bank to meet new reserve requirements.....

Please state what amount, if any, you would probably desire to rediscount with the Federal reserve bank of your district in order to pay part of your reserve in eligible paper.....

NOTE.—In answering the foregoing questions it may be assumed that payment of subscription and transfer of reserve are made simultaneously.

I, \_\_\_\_\_, of the above-named bank, do solemnly swear (or affirm) that the foregoing statement is true, and fully and correctly represents the true state of the several matters therein contained, to the best of my knowledge, information, and belief.

(Cashier or President.)

..... } Cashier.  
..... } President.

(Name of Bank.)

(City and State.)

STATE OF.....

COUNTY OF.....

Sworn to and subscribed before me this ..... day of ....., 1914; and I hereby certify that I am not an officer or a director of this bank.

[Seal.]

....., Notary Public.

Form 21.

----- BANK,

-----, *September* ----, 1914.

On motion, it was resolved that the president, vice president, cashier, or treasurer, or any one of them, be, and he hereby is, authorized, in behalf of this bank (company) to subscribe ----- dollars, payable in gold or gold certificates, to a gold fund to be created and administered in accordance with the terms set forth in the report of the committee, dated September 19, 1914, appointed by the delegates to the conference of clearing-house associations of the central reserve and reserve cities held in Washington on September 4, which committee recommended that a gold fund of \$100,000,000 be contributed by the banks (both National and State institutions) located in such cities, said report having been approved by the Federal Reserve Board, as set forth in their letter of September 21, 1914.

I hereby certify that the above is a true extract of the minutes of a meeting of the board of directors or trustees or of a duly authorized committee thereof of the -----, held -----, September ----, 1914.

[SEAL.]

-----,  
*Secretary of the Board.*

## FEDERAL RESERVE BOARD.

The PRESIDENT CLEARING HOUSE ASSOCIATION,

-----

At the invitation of the Secretary of the Treasury and the Federal Reserve Board, a conference of delegates from clearing house associations was held at the Treasury Department in Washington on September 4 for the purpose of considering problems growing out of the extraordinary derangement of our foreign exchange markets following the outbreak of the European war. This conference, after a day's deliberation, appointed a bankers' committee charged with the duty of recommending to the board a plan for dealing with this situation. The committee so named submitted on September 4 its first report, which advised the creation of a gold fund of \$150,000,000. This recommendation, owing to changes in the situation, was modified in a subsequent report, dated September 19, favoring the creation of a gold fund of \$100,000,000 to be contributed by the banks and trust companies located in central reserve and reserve cities.

The board has carefully considered the committee's report, and concurs in its conclusions and recommendations. The board is convinced of the necessity of an adequate plan of national cooperation to meet a situation which is of national dimensions, and it has no hesitation, therefore, in giving its approval to the plan proposed by the committee, and recommends your earnest cooperation.

The board shares the committee's belief that the creation of a large gold fund at this juncture will have a far-reaching effect for good, and will prove an effective factor in restoring confidence, in bringing relief, in protecting and strengthening the country's credit, and in facilitating the exportation of our products.

The board, therefore, recommends that your association appoint a committee to secure from the national banks and State banking institutions of your city subscriptions aggregating \$----- to the proposed gold fund. The board regards this amount as the fair quota to be raised in your city, based upon the holdings of gold and gold certificates by the central reserve and reserve cities as recently ascertained. The allotments provide a fair margin above the total amount named. Any sums pledged in excess of \$100,000,000 will be applied to a pro rata reduction of all subscriptions to the fund.

Forms of subscriptions and certified resolutions to be executed by participating institutions have been prepared by the bankers' committee and are forwarded herewith. This board recommends that the sums specified be pledged as promptly as possible and that you send the pledges and resolutions, duly executed, to the secretary of the Federal Reserve Board at Washington, D. C., in order that they may be available for the committee not later than October 1.

For the terms and conditions upon which the subscriptions to the proposed gold fund are made your attention is particularly called to the report and plan signed by the bankers' committee and handed to you herewith.

Respectfully,

C. S. HAMLIN,  
*Governor Federal Reserve Board.*

I am in accord with the views of the Federal Reserve Board and recommend the adoption by the banks of the proposed plan.

W. G. McADOO,  
*Secretary of the Treasury.*

WASHINGTON, D. C., *September 21, 1914.*

WASHINGTON, D. C., *September 4, 1914.*

To the honorable the SECRETARY OF THE TREASURY and the FEDERAL RESERVE BOARD.

SIRS: The committee appointed by the conference of bankers appreciates the desirability of relieving the present international exchange situation and particularly of regulating the outflow of gold. The committee at the same time realizes the necessity of promptly meeting the obligations of banks, corporations, and individuals to Europe, thereby maintaining the high credit of this country and demonstrating its ability to meet its obligations.

For this purpose and with this object in view, this committee recommends to the Federal Reserve Board the following plan:

That the banks of this country, especially those located in reserve and central reserve cities, be requested to contribute to a gold fund of \$150,000,000, of which \$25,000,000 to be immediately paid into the depository of the Bank of England in Canada, for which a participation deposit receipt will be furnished to each contributing bank. The remainder of the contributed amounts to be subject to call by the New York committee through the local committees of the respective cities and to be paid for in New York exchange.

Said New York committee to be appointed by the New York Clearing House Association and said local committees to be appointed by the clearing-house associations of the respective contributing cities. The committee appointed by the New York Clearing House Association to be charged with the duty of handling the said fund, of fixing the price at which foreign exchange is to be bought and sold, and is to make requisition from time to time upon the respective contributing cities through the local committees thereof. Said local committees shall have supervision in the respective cities of the shipments and general withdrawals of gold.

This committee recommends that the Federal Reserve Board take steps to ascertain the amount of gold that will be contributed by the banks in the respective cities, and that it use its influence to have the said banks contribute their proper pro rata.

Respectfully,

JAMES B. FORGAN.  
S. WEXLER.  
BENJ. STRONG, JR.  
THOMAS P. BEAL.  
L. L. RUE.



WASHINGTON, *September 19, 1914.*

To the honorable the SECRETARY OF THE TREASURY and the FEDERAL RESERVE BOARD.

GENTLEMEN: Referring to the recommendations contained in our communication of September 4:

We have, in compliance with your suggestion, given further consideration to the present international exchange situation, taking into account the changed conditions arising from the completion of plans for meeting the obligations of the city of New York payable in Europe.

This committee is of the opinion that the continuance of the high credit of this country abroad will be demonstrated, and that normal conditions of the foreign exchange market will best be reestablished by the prompt creation of a large gold fund for export if necessary, as suggested in our former report. We therefore recommend that the central reserve and reserve city banks of the United States (both National and State institutions) be requested to contribute to a gold fund of \$100,000,000 instead of \$150,000,000, as originally proposed. Of this amount, \$25,000,000 should be made immediately available. The administration of the fund should be conducted by a resident committee in the city of New York, where the principal foreign exchange transactions of the country take place, and we suggest that the recommendation of the Clearing House Association of the City of New York for the appointment of the following gentlemen as such committee be approved, namely:

Albert H. Wiggin, chairman.

William Woodward.

J. S. Alexander.

Francis L. Hine.

Benjamin Strong, jr.

F. A. Vanderlip.

We propose to arrange the details of the plan of administration with the New York committee so that the requirements of all parts of the United States for foreign exchange will be fairly and impartially dealt with, and we suggest, in the event of any complaint on the part of any contributor to the fund in connection with the distribution or use thereof, your board shall appoint a committee of bankers to pass upon any such question, whose decision, under such rules and regulations as you may prescribe, shall be final.

We further recommend that the National and State banking institutions in the central reserve and reserve cities of the United States be requested by you to contribute to this fund, due regard being given to their present holdings of gold as recently ascertained by your direction.

As recommended in our report of September 4, we believe that a committee representing the clearing-house association of each central reserve and reserve city should apportion in its district the amounts and supervise the payments of gold or gold certificates for the creation of this fund, and we therefore suggest that you address a letter to the chairman of the clearing-house com-

mittee in each of those cities recommending the appointment of such a committee, urging prompt cooperation in this plan and stating the amount of gold which you may consider to be the proper quota to be furnished by that city.

In order to facilitate the transfer of gold or gold certificates to New York by the contributing banks, it is recommended that they be permitted to deposit their contributions with the nearest subtreasury of the United States, and that all expenses incident to transfers, whether made through subtreasuries or otherwise, shall be an expense of the fund and shall not be borne by the respective contributors.

The committee representing the New York Clearing House Association should have authority to call upon the contributors for gold or gold certificates from time to time in instalments as required (provided, that the contributors shall not be called upon to pay any portion of an instalment which may make their investment in the fund at any one time exceed 25 per cent of their original contribution), to arrange for shipments of gold to other countries, to sell exchange and cable transfers against such shipments at such prices as they may fix, to determine to whom and under what conditions foreign exchange may be sold, to distribute the proceeds of such sales among the contributing banks in New York funds, and to fix a date for the termination and final settlement of the fund. We, therefore, recommend that the gold or gold certificates be deposited in trust for the contributors in the vaults of the Clearing House Association of the City of New York, subject to the control of the New York committee, and that such committee issue to each contributing bank a certificate evidencing its contribution. The proceeds of sales of exchange may then be distributed by the committee among the contributing banks in New York funds and the amount of such repayment indorsed upon each certificate.

We have recommended that contributors to the fund be confined to the banks and trust companies in the central reserve and reserve cities, so that banks which are members of the Federal reserve system may make their payments at the time of the organization of the Federal reserve banks out of their own cash.

We attach forms for pledges to be signed by contributing institutions and certified resolutions to be passed by their boards of directors or trustees. In case the plan should meet with your approval, we respectfully suggest that you inclose copies of these forms in your letter to be addressed to the <sup>chairmen</sup> presidents of the clearing-house associations.

Respectfully submitted.

(Signed)

JAS. B. FORGAN, *Chicago,*  
 LEVI L. RUE, *Philadelphia,*  
 BENJAMIN STRONG, Jr., *New York,*  
 THOMAS P. BEAL, *Boston,*  
 SOL WEXLER, *New Orleans,*  
*Committee.*

Form 25.

-----, September -----, 1914.

The undersigned banks and trust companies hereby subscribe to a fund of \$100,000,000, to be payable in gold or gold certificates, and to be held and administered in accordance with the terms of a report dated September 19, 1914, made by a committee representing central reserve and reserve city banks of the United States, a copy of which report is attached hereto. The amount pledged for contribution by each of the undersigned institutions is set opposite the signature of a duly authorized officer thereof affixed hereto, and such pledge is made by authority of a resolution of the board of directors or board of trustees (or a duly authorized committee thereof) of each of the undersigned.

Name of bank or trust company.	Amount of pledge.
.....	.....
.....	.....
.....	.....
.....	.....
.....	.....
.....	.....
.....	.....
.....	.....

**FEDERAL RESERVE BOARD.**

WASHINGTON, D. C., *October 5, 1914.*

In order to promote a desirable uniformity in the organization of the Federal reserve banks, the Federal Reserve Board presents for consideration by the boards of directors a draft of tentative by-laws and a chart giving the outline of a tentative organization for the banks. Neither the by-laws nor the chart have been finally approved by the Federal Reserve Board. They represent the work of certain experts who were appointed by the organization committee to examine into the details of organization. They are, therefore, offered simply as a basis for further suggestions to be made by the boards of directors of the Federal reserve banks.

When full consideration has been given to them, and such suggestions or modifications as may be recommended have been transmitted to the Federal Reserve Board, the board will appoint a subcommittee to formulate standard by-laws to be recommended to the several boards of directors, subject to their approval. In like manner the board will, after full consideration of all suggestions that may come to it from the several boards, present a standard form of organization to be followed, so far as practicable, by each bank.

The organization chart, already mentioned, is inclosed.

The tentative draft of by-laws referred to above, follows:

**BY-LAWS**  
OF  
**THE FEDERAL RESERVE BANK**  
OF

---

**PREAMBLE.**

As provided in its Certificate of Organization, dated ..... the name of this bank shall be The Federal Reserve Bank of ....., and it shall do business in the City of ....., State of ....., and serve the territory known as Federal Reserve District ....., It was duly authorized to commence business by the Comptroller of the Currency, under date of .....

**ARTICLE I.**

**DIRECTORS.**

**SECTION 1. *Number and Quorum.***—The number of directors shall be nine. A majority of the directors shall constitute a quorum.

**SEC. 2. *Classes.***—The board of directors, as provided by law shall be divided into three classes—A, B, and C. At its initial meeting each class shall designate one member of its class whose term of office shall expire one year after the first day of January nearest the date of such initial meeting; in like manner, one whose term shall expire in two years, and one in three years. Thereafter, the term of office of each director shall be three years.

**SEC. 3. *Vacancies.***—Vacancies shall be filled and successors elected in the manner provided by law.

**SEC. 4. *Meetings.***—There shall be a stated meeting of the board every ..... at ..... o'clock a. m., or, if that day be a holiday, on the first preceding day not a holiday.

The chairman of the board shall be empowered to call a special meeting at any time, or upon the written request of any three directors, or whenever requested so to do by the president.

SEC. 5. *Powers.*—The board of directors shall, subject to the approval of the Federal Reserve Board, fix the compensation and define the duties (other than those herein provided for) of officers, clerks, and employees of the bank. It shall duly provide for the expenses of the Department of Federal Reserve Agent and for the pro rata amount of expenses of the Federal Reserve Board and the Federal Advisory Council.

SEC. 6. *Order of Business.*—The following shall be the order of business at each regular meeting of the board:

1. Reading or inspection of minutes of the last regular meeting.
2. Report of the governor, including information concerning banking and business conditions in the district.
3. Report of the secretary-treasurer, or cashier, including detailed summary of all business transacted since last regular meeting and statement of present condition, the latter to include:
  - (a) All official correspondence received from Federal Reserve Board;
  - (b) Statement of all loans, rediscounts, investments, and purchases;
  - (c) Weekly statement of condition to Federal Reserve Board;
  - (d) Summary of condition of member banks;
  - (e) Minutes of meetings of boards of directors of branches, if any.
4. Committee reports.
5. Unfinished business.
6. Discount policy and formulation of report to Federal Reserve Board on reasons for same.
7. New business.

## ARTICLE II.

### EXECUTIVE COMMITTEE.

SECTION 1. *How Constituted.*—There shall be an executive committee consisting of the governor, the Federal reserve agent, and one director of class A or B. Such director shall be elected by the board to serve for a period not to exceed . . . . .<sup>1</sup> months, and his successors shall be chosen in rotation until each member of classes A and B shall have served or shall have been given an opportunity to serve. The board shall elect each month an alternate for service on the executive committee, who shall be authorized to act in the absence or disability of the member first chosen.

SEC. 2. *Powers.*—The executive committee shall hold meetings upon call of the Chairman and shall cause to be kept minutes of all such meetings held by it, which shall be read and approved by members of the board at the next succeeding meeting of the board.

SEC. 3. *Powers.*—Subject to the regulations of the board of directors and of the Federal Reserve Board, the executive committee shall have the following powers:

1. To pass upon all commercial paper submitted for discount.
2. To initiate open market transactions.
3. To recommend to the board of directors, from time to time, changes in the discount rates.
4. To buy and sell securities.
5. To apply for and provide for the security of such Federal reserve notes as may be necessary for the general requirements of the bank.
6. To employ clerks and other subordinates, to define their duties, and to fix their compensation.

## ARTICLE III.

### OFFICERS.

SECTION 1. The officers to be chosen by the board of directors shall be a governor, a first and a second vice governor,<sup>2</sup> a secretary-treasurer,<sup>3</sup> and such other officers as the board may from time to time determine. They shall hold office during the pleasure of the board.

<sup>1</sup> The board may fix an appropriate term.

<sup>2</sup> The number of vice governors will depend upon the size of the bank and the character of its work.

<sup>3</sup> The title of cashier may be preferred.

SEC. 2. *Chairman.*—The chairman of the board shall preside at all meetings thereof. He shall, together with the officers of the bank, have supervision of all credit records and data concerning member banks and borrowers which may be compiled from reports and examinations of such banks. All reports and statements made to the Federal Reserve Board shall be submitted to the chairman and shall be countersigned by him as Federal reserve agent. All examinations of member banks made on behalf of the Federal Reserve Board shall be conducted under his general direction as such agent.

SEC. 3. *Deputy Federal Reserve Agent.*—In the absence or disability of the chairman, as such, or as Federal reserve agent, his powers shall be exercised and his duties performed by the deputy Federal reserve agent. Subject to the rules and regulations of the Federal Reserve Board and the direction of the Federal reserve agent, such deputy shall represent the bank in examinations of member banks and shall perform such other duties as may be assigned to him. In case of the absence or disability of both the Federal reserve agent and his deputy, the third member of Class C of the board of directors shall act as chairman and Federal reserve agent pro tem.

SEC. 4. *The Governor.*—The governor shall have general charge of the bank and shall preside at all meetings of the executive committee, subject, however, to such rules and regulations as may be incorporated herein or from time to time promulgated by the board of directors. He shall have power to make any and all transfers of securities of the bank which may be authorized to be sold by the executive committee and shall, jointly with the secretary-treasurer, sign all certificates of stock of the bank.

In all cases where the duties of subordinate officers and agents of the bank are not specifically prescribed by the by-laws or the board of directors, they shall be the duties specified by and instructions of the governor. The governor may, with or without the advice of the executive committee, suspend or remove any employee of the bank, subject, however, to a hearing before said committee.

The secretary-treasurer shall have custody of the seal of the bank, with power to affix the same to certificates of stock and other instruments, as may from time to time be required.

SEC. 5. *The Vice Governors.*—In case of the absence or disability of the governor, his powers shall be exercised and his duties discharged by the first vice governor, and, in the absence or disability of the latter, by the second vice governor. In the event of the absence or disability of all three the board of directors shall, by a majority vote of its members, appoint a director governor pro tem.

SEC. 6. *The Secretary-Treasurer.*<sup>1</sup>—The secretary-treasurer shall carry out the instructions of the Board of Directors regarding the custody of all moneys received and paid out on account of the bank. He shall, jointly with the governor, have custody of all investments of the bank. He shall keep the minutes of all board meetings and of all committees of the board.

## ARTICLE IV.

### COUNSEL.

SECTION 1. The board of directors shall, upon such terms as it may prescribe, appoint a counsel who shall represent the bank in such matters as may be assigned to him and shall approve all legal instruments.

## ARTICLE V.

### AUDITOR.

SECTION 1. The board shall appoint an auditor, who shall be subject to its direction and to that of the Federal reserve agent and shall make a weekly report direct to the board of directors of the Federal reserve bank, giving a full statement of conditions based upon his audit. The auditor shall have charge of the internal auditing of the bank, the reconciliation of accounts, the periodical examination of branches, and, in general, the audit of all transactions, expenses, receipts, and disbursements.

<sup>1</sup> The title of cashier may be preferred.

## ARTICLE VI.

## BONDS.

Subject to the rules and regulations of the Federal Reserve Board, the board of directors shall provide all bonds necessary to cover officers and clerks of the bank.

## ARTICLE VII.

## BRANCHES.

All branches established by the board shall conduct business in the manner prescribed for the main office and pursuant to such by-laws, rules, regulations, and directions as may from time to time be promulgated by the directors and officers of the bank but subject to the approval of the Federal Reserve Board.

## ARTICLE VIII.

## INFORMATION.

SECTION 1. All persons employed by the bank shall keep inviolate its business affairs and concerns and shall not disclose or divulge the same to any unauthorized person whomsoever. Any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

SEC. 2. The action or policy of the board and of the executive committee shall not be expressed by any individual member, except by its duly authorized officers after formal action by the whole board.

SEC. 3. For the information of member banks and the public there shall be maintained in the office of the secretary treasurer a bulletin board, upon which shall appear the current rates of discount established by the directors and such other information as they may deem it desirable to make public.

## ARTICLE IX.

## CERTIFICATES OF STOCK.

All certificates of stock shall be signed by the president and secretary treasurer and bear the corporate seal.

## ARTICLE X.

## TRANSFERS.

No transfer shall be permitted, except upon the surrender of the outstanding certificate of stock or scrip, and no new certificate shall be issued until the former certificate is canceled; but the board of directors may authorize the issue of a duplicate in place of a lost certificate, taking a satisfactory bond of indemnity. It shall be the duty of the Federal reserve agent to register the stock or scrip of the bank.

## ARTICLE XI.

## AMENDMENTS.

These by-laws may be amended at any regular meeting of the board by a majority vote of the entire board; provided, however, that a copy of such amendment shall have been delivered to each member at least 10 days prior to such meeting.<sup>1</sup>

<sup>1</sup> After the by-laws have been adopted and in order to retain uniformity it is suggested that so far as possible there shall be no permanent changes in by-laws except on approval of a general committee on by-laws representing all the Federal reserve banks.

**CIRCULAR NO. 6a.**

**DRAFT OF BY-LAWS RECOMMENDED BY THE COMMITTEE ON LEGAL MATTERS AND  
PROCEDURE APPOINTED AT THE CONFERENCE OF DIRECTORS OF FEDERAL  
RESERVE BANKS WITH THE FEDERAL RESERVE BOARD ON OCTOBER 20, 1914.**

---

**BY-LAWS OF THE FEDERAL RESERVE BANK OF .....**

**ARTICLE I.—*Directors.***

**SECTION 1. Quorum.**—A majority of the directors shall constitute a quorum for the transaction of business, but less than a quorum may adjourn from time to time until a quorum is in attendance.

**SEC. 2. Vacancies.**—As soon as practicable after the occurrence of any vacancy in the membership of the board the chairman of the board shall take such steps as may be necessary to cause such vacancy to be filled in the manner provided by law.

**SEC. 3. Meetings.**—There shall be a regular meeting of the board every ..... at ..... o'clock .... m., or, if that day be a holiday, on the first preceding full business day. The chairman of the board may call a special meeting at any time and shall do so upon the written request of any three directors or of the governor. Notice of regular and special meetings may be given by mail or by telegraph. If given by mail, such notice shall be mailed at least ..... days before the date of the meeting. If given by telegraph, such notice shall be dispatched at least ..... days before the date of the meeting. Notice of any meeting may be dispensed with if each of the directors shall in writing waive such notice.

**SEC. 4. Powers.**—The business of this bank shall be conducted under the supervision and control of its board of directors, subject to the supervision vested by law in the Federal Reserve Board. The board of directors shall appoint the officers and fix their compensation.

The board may appoint legal counsel for the bank, define his duties, and fix the compensation.

**SEC. 5. Special committees.**—Special business of the bank may be referred from time to time to special committees, which shall exercise such powers as the board may delegate to them.

**SEC. 6. Order of business.**—The board may from time to time make such regulations as to order of business as may seem to it desirable.

**ARTICLE II.—*Executive committee.***

**SECTION 1. How constituted.**—There shall be an executive committee consisting of the governor, the Federal Reserve agent, and one or more directors chosen from classes A or B; the member or members of the committee chosen by the board shall serve during the pleasure of the board or for terms fixed by it. Not less than three members of the committee shall constitute a quorum for the transaction of business, and action by the committee shall be upon the vote of a majority of those present at any meeting of the committee.

The committee shall have power to fix the time and place of holding regular or special meetings and the method of giving notice thereof.

Minutes of all meetings of the executive committee shall be kept by the secretary, and such minutes or digests thereof shall be submitted to the members of the board of directors at its next succeeding meeting. Such minutes shall be read to the meeting if required, by any member of the board.

**SEC. 2. Powers.**—Subject to the supervision and control of the board of directors, as set forth in Article I, section 4, the executive committee shall have the following powers:

- (a) To pass upon all commercial paper submitted for discount.
- (b) To initiate and conduct open-market transactions.
- (c) To recommend to the board of directors from time to time changes in the discount rate.
- (d) To buy and sell securities.
- (e) To apply for and provide for the security of such Federal Reserve notes as may, in the judgment of the committee or of the board, be necessary for the general requirements of the bank.
- (f) To employ or to delegate to officers of the bank authority to employ clerks and other subordinates and to define their duties and to fix their compensations.
- (g) To approve bonds furnished by the officers and employees of the bank and to provide for their custody.
- (h) In general, to conduct the business of the bank, subject to the supervision and control of the board of directors.

#### ARTICLE III.—*Officers.*

**SECTION 1.** The board of directors shall appoint a governor, a deputy governor, a secretary, and a cashier, and shall have power to appoint such other officers as the board may from time to time determine to be necessary and appropriate for the conduct of the business of the bank. The offices of deputy governor, secretary, and cashier, or any two of them, may be held by one person, in the discretion of the board. The officers chosen by the board shall hold office during the pleasure of the board.

**SEC. 2. Federal Reserve agent.**—The Federal Reserve agent, as chairman of the board, shall preside at meetings thereof. Copies of all reports and statements made to the Federal Reserve Board shall be filed with the Federal Reserve agent.

**SEC. 3. Deputy Federal Reserve agent.**—In the absence or disability of the Federal Reserve agent his powers shall be exercised and his duties performed by the deputy Federal Reserve agent, who may perform such other services as shall be prescribed by the board of directors not inconsistent with his duties as provided by law.

**SEC. 4. The governor.**—Subject to the supervision and control of the board of directors, the governor shall have general charge and control of the business and affairs of the bank and he shall be the chairman of the executive committee. He shall have power to make any and all transfers of securities or other property of the bank which may be authorized to be sold or transferred by the executive committee or by the board. The governor shall have power to prescribe the duties of all subordinate officers and agents of the bank where such duties are not specifically prescribed by law or by the board of directors or by the by-laws. The governor may suspend or remove any employee of the bank.

**SEC. 5. The deputy governor.**—In case of the absence or disability of the governor his powers shall be exercised and his duties discharged by the deputy governor, and in case of the absence or disability of the deputy governor the board shall appoint one of the other directors governor pro tem. The duties of the deputy governor shall otherwise be such as may be prescribed by the board of directors or by the governor. In case the board shall deem that the business of the bank requires the appointment of one or more assistant deputy governors, it

shall have authority to appoint such assistant deputy governor or governors and shall prescribe and define his or their duties.

SEC. 6. *The secretary.*—The secretary shall keep the minutes of all meetings of the board and of all committees thereof. He shall have custody of the seal of the bank, with power to affix same to certificates of stock of the bank, and by authority of the board or the executive committee to such other instruments as may from time to time be required. The board of directors may, in the absence or disability of the secretary, or upon other occasion where in the discretion of the board greater convenience can be attained, appoint a secretary pro tem or empower one or more officers to affix the seal of the bank to certificates of stock or other instruments. The secretary shall perform such other duties as may from time to time be prescribed by the board of directors, the executive committee, or the governor.

SEC. 7. *The cashier.*—The cashier and at least one other officer designated by the board of directors shall have the joint custody of all moneys, investments, and securities of the bank, subject to such rules as the board may adopt for their safety. He shall perform such other duties as may be assigned to him from time to time by the executive committee, the board of directors, or the governor.

#### ARTICLE IV.—*Certificates of stock.*

SECTION 1. *Signature.*—All certificates of stock, or of payment of or on account of stock subscriptions, shall be signed by the governor or a deputy governor and the secretary or cashier, or such other officers as may be prescribed by the board, and such certificates shall bear the corporate seal.

#### ARTICLE V.

SECTION 1. *Business hours.*—The bank shall open for business from ..... o'clock to ..... o'clock on each day except Sundays or days or parts of days established as legal holidays.

#### ARTICLE VI.—*Amendments.*

These by-laws may be amended at any regular meeting of the board by a majority vote of the entire board: *Provided, however,* That a copy of such amendment shall have been delivered to each member at least ten days prior to such meeting.

## FEDERAL RESERVE BOARD.

CIRCULAR No. 9<sup>a</sup>.

### PROCEDURE IN THE CONVENTION OF DIRECTORS AND OFFICERS OF THE FEDERAL RESERVE BANKS.

October 20, 10.30 a. m.

1. Meeting was called to order by the Chairman, the Honorable Secretary of the Treasury.
2. Roll call of those present, by calling on the cities. The delegates from each city stood up in turn, giving their names.
3. Address of Welcome by the Chairman of the meeting.

Points touched upon in the Chairman's address:

(A) The first object of the meeting was to give the Federal Reserve Board an opportunity to meet and form the acquaintance of the Directors and Officers of the various Federal Reserve Banks;

(B) To give these Directors and Officers an opportunity to meet each other. The whole Federal Reserve system was predicated upon complete cooperation between the different Reserve Banks, and it was important that these Directors and Officers should get to know each other and understand each other's problems;

(C) The importance of developing some enthusiasm in the work; first, because the work involved many new and difficult problems, and second, because the country expected a great deal as the result of the introduction of this system;

(D) It was the hope of the Board that the system would be put in operation at the earliest possible date, and the opinion had been expressed that by Monday, November 16th, the Reserve Banks could open (by which time the Federal Reserve Notes were promised for delivery), not to perform all their functions, but to undertake at least some of them. No elaborate system was expected at the moment of opening, but it would be necessary to prepare to receive reserve deposits from the banks and to have rediscount machinery ready for such part of the reserve as would be paid in by the banks. (In this connection, the Secretary of the Treasury was ready to cooperate as far as possible by offering the facilities of the various Subtreasuries or Mints.)

(E) It was proposed at this meeting to discuss many matters of common interest. Some of them might be properly taken up at this general meeting, at which all were present, while others might better be assigned to meetings of committees, which it was proposed to hold after the general meeting adjourned. The subjects were of a two-fold nature; on the one hand, questions of policy and regulations to be promulgated by the Federal Reserve Board upon which an exchange of views was desired, and on the other hand, subjects which affected the internal management of Reserve Banks. While the law contemplated that each bank should decide these questions largely for itself, it was clear to all concerned that uniformity was most desirable and this meeting had been called for the purpose of suggesting to all the banks a basis for discussion of these subjects.

(F) In view of the great public demand for early opening, it had been thought desirable that committees with representation from each bank should consider the various problems and if possible reach conclusions which they would submit to this conference at a subsequent session; and that after the approval by the conference of these reports, uniform action might be suggested by the Board to the several banks.

(G) It might be thought advisable for the Federal Reserve Agents to meet independently or with members of the Board to discuss their duties and the best way of fulfilling them; and in a similar manner the Governors or members of the Advisory Council might wish to hold meetings to discuss their own problems either with or without the presence of members of the Board.

4. The Governor of the Board was then called upon to present to the convention various phases of the subject relating to details. He explained the work done by the Willis Committee, mentioning that the gentlemen who did that work were present by invitation and had consented to place themselves at the disposal of the various sub-committees in order to aid in the work and give such information as the members desired. It was emphasized that the Federal Reserve Board did not want in any way to prejudge the findings or the conclusions of the Reserve Banks in matters which were under their own initiative, but at the same time very much desired to give them the advantage of the work already done, both in order to save time and to bring about ultimate uniformity. With these objects in view, tentative by-laws and organization charts had been sent to the members in advance of this meeting and some suggestions in respect to them had already been received.

5. To facilitate the work of the committees to be taken up upon the adjournment of this meeting it had been thought desirable to classify the work under various headings, assigning one or more members of the Board or some specified expert to cooperate with committees selected from among the delegates. The following is a table of subjects and committees:

(a) A Committee on Legal Matters and Procedure:—First, By-laws; acting with *Mr. Hamlin*. Second, Other Legal Points and the Preparation of Legal Forms; acting with *Mr. Elliott*.

(b) A Committee on Office Quarters, Equipment and Personnel; acting with *Messrs. Delano and Dawson*. Topics to be taken up by this committee: Office Quarters; Vault Space; Organization of Staff and matters affecting Officers and Directors, including compensation of Directors and Members of Advisory Council.

(c) A Committee on Re-Discount, including definition of Commercial Paper and consideration of credit bureaus; acting with *Messrs. Warburg, Harding, and Broderick*.

(d) A Committee on Duties of Federal Reserve Agents, including under this heading the auditing of Reserve Banks; note issues; the clearing of national currency; acting with *Messrs. Williams, Miller, and Fisher*.

(e) A Committee on Accounting and Statistics: Under this topic the Committee will consider books and forms, statements to be forwarded to the Federal Reserve Board, etc.; acting with *Messrs. Willis, Benton, Robinson, and Ward*.

(f) A Committee on Domestic Exchange (transit and clearing); acting with *Messrs. Harding, Ward, and Wolfe*.

(g) Committee on Bonding of Federal Reserve Agents, Members of their staff or other Officers of the Reserve Banks; acting with *Messrs. Williams and Allen*.

(h) A Committee on Mechanical Devices; acting with *Messrs. Delano and Ward* in connection with the keeping of accounts and statistics.

6. The Chairman of the meeting then threw the subject open to general discussion, calling attention to the fact that foremost among the general topics upon which the Board wished information was a response to the question, how soon the banks could be opened.

The meeting then adjourned, to reconvene subject to call of the Chair.

OFFICE OF THE FEDERAL RESERVE BOARD,  
Washington, D. C., October 20th, 1914.

## FEDERAL RESERVE BOARD

WASHINGTON, D. C., *October 28, 1914.*

### TRANSFER OF RESERVES TO FEDERAL RESERVE BANKS

#### TO ALL MEMBER BANKS:

The Secretary of the Treasury having advised the Federal Reserve Board that formal notice of the establishment of the several Federal reserve banks will be given to all member banks on November 16, it is necessary that arrangements be made at once for the transfer of required reserves by the member banks to their respective Federal reserve banks on that date. It is the desire of the Board to arrange for the actual physical transfer of the first installment in such a manner as to create the least possible disturbance to business conditions in any city or section.

It is, of course, clear that if the banks in non-reserve cities undertake to make the necessary deposit of reserves with their Federal reserve bank by remitting checks or drafts on banks in reserve cities (which checks or drafts can be received by the Federal Reserve bank for collection only), there may result an unnecessarily heavy withdrawal of funds from the banks in reserve cities. In the same manner, if banks in reserve cities make remittances of checks or drafts on banks in central reserve cities, an unnecessary burden may be placed upon the latter.

The deposits of reserves with Federal reserve banks must be made in gold or lawful money, and in order that the withdrawal of funds from the vaults of member banks may be as nearly uniform as possible, and so distributed as to relieve any particular section or sections of unnecessary burden, the Federal Reserve Board urges all banks to ship from their own vaults gold or lawful money. The Federal reserve banks have been authorized to assume and pay the express charges involved in making such shipments.

The foregoing suggestions also apply to payments on account of the first installment of capital stock due November 2nd.

In view of the advantage to be derived from the deposits of gold, which may be used as reserve for Federal Reserve notes it is strongly urged by the Board that deposits of reserves in the Federal reserve banks be made, so far as practicable, in gold or gold certificates.

Due notice of the establishment of the Federal reserve banks on November 16 will be sent each member bank by the Secretary of the Treasury, and no transfer of reserve can be made until this is done.

Member banks of large resources will greatly facilitate the physical work of counting reserve money if they will send gold certificates in as large denominations as possible or clearing house orders calling for gold certificates or gold already counted by the clearing houses. The Federal Reserve Board appeals to the patriotic spirit of all member banks large and small to do their utmost in facilitating the difficult work now thrown upon the officers of the newly created Reserve banks, and to do all in their power to secure for the new system the greatest possible success from the beginning.

H. PARKER WILLIS,  
*Secretary*

CHARLES S. HAMLIN,  
*Governor.*

CONVENTION OF OFFICERS AND  
DIRECTORS OF FEDERAL RESERVE BANKS  
HELD AT WASHINGTON, D. C.  
OCTOBER 20-21, 1914

---

REPORTS OF COMMITTEES





## REPORT OF COMMITTEE ON LEGAL MATTERS AND PROCEDURE.

The Committee on Legal Matters and Procedure begs leave to report that it has given consideration to the form of by-laws for the Federal reserve banks, and recommends the adoption of by-laws in the form submitted herewith.

While it is manifestly desirable that the by-laws of the several reserve banks should be substantially uniform, it appears to be necessary to have the article relating to executive committee (Article II, section 1) modified to conform to conditions in the several districts so far as relates to the number of members of the committee to be chosen by the directors, their term of office and their qualification. For example, in some districts it may be desirable to increase the number, to choose a member from the class C directors, or to provide for rotation in office, and the matter may properly be decided by the directors of the several reserve banks.

Respectfully submitted.

ALLEN HOLLIS, *For the Committee.*

Adopted, October 21, 1914.

---

DRAFT OF BY-LAWS RECOMMENDED BY THE COMMITTEE ON LEGAL MATTERS AND PROCEDURE APPOINTED AT THE CONFERENCE OF DIRECTORS OF FEDERAL RESERVE BANKS WITH THE FEDERAL RESERVE BOARD ON OCTOBER 20, 1914.

---

### BY-LAWS OF THE FEDERAL RESERVE BANK OF -----

#### ARTICLE I.—*Directors.*

SECTION 1. *Quorum.*—A majority of the directors shall constitute a quorum for the transaction of business, but less than a quorum may adjourn from time to time until a quorum is in attendance.

SEC. 2. *Vacancies.*—As soon as practicable after the occurrence of any vacancy in the membership of the board the chairman of the board shall take such steps as may be necessary to cause such vacancy to be filled in the manner provided by law.

SEC. 3. *Meetings.*—There shall be a regular meeting of the board every ----- at ----- o'clock ---- m. or, if that day be a holiday, on the first preceding full business day. The chairman of the board may call a special meeting at any time and shall do so upon the written request of any three directors or of the governor. Notice of regular and special meetings may be given by mail or by telegraph. If given by mail, such notice shall be mailed at least ----- days before the date of the meeting. If given by telegraph, such notice shall be dispatched at least ----- days before the date of the meeting. Notice of any meeting may be dispensed with if each of the directors shall in writing waive such notice.

SEC. 4. *Powers.*—The business of this bank shall be conducted under the supervision and control of its board of directors, subject to the supervision vested by law in the Federal Reserve Board. The board of directors shall appoint the officers and fix their compensation.

The board may appoint legal counsel for the bank, define his duties, and fix his compensation.

SEC. 5. *Special committees.*—Special business of the bank may be referred from time to time to special committees, which shall exercise such powers as the board may delegate to them.

SEC. 6. *Order of business.*—The board may from time to time make such regulations as to order of business as may seem to it desirable.

ARTICLE II.—*Executive committee.*

SECTION 1. *How constituted.*—There shall be an executive committee consisting of the governor, the Federal reserve agent, and one or more directors chosen from classes A or B; the member or members of the committee chosen by the board shall serve during the pleasure of the board or for terms fixed by it. Not less than three members of the committee shall constitute a quorum for the transaction of business, and action by the committee shall be upon the vote of a majority of those present at any meeting of the committee.

The committee shall have power to fix the time and place of holding regular or special meetings and the method of giving notice thereof.

Minutes of all meetings of the executive committee shall be kept by the secretary, and such minutes or digests thereof shall be submitted to the members of the board of directors at its next succeeding meeting. Such minutes shall be read to the meeting if required by any member of the board.

SEC. 2. *Powers.*—Subject to the supervision and control of the board of directors, as set forth in Article I, section 4, the executive committee shall have the following powers:

- (a) To pass upon all commercial paper submitted for discount.
- (b) To initiate and conduct open-market transactions.
- (c) To recommend to the board of directors from time to time changes in the discount rate.
- (d) To buy and sell securities.
- (e) To apply for and provide for the security of such Federal reserve notes as may, in the judgment of the committee or of the board, be necessary for the general requirements of the bank.
- (f) To employ or to delegate to officers of the bank authority to employ clerks and other subordinates and to define their duties and to fix their compensations.
- (g) To approve bonds furnished by the officers and employees of the bank and to provide for their custody.
- (h) In general, to conduct the business of the bank, subject to the supervision and control of the board of directors.

ARTICLE III.—*Officers.*

SECTION 1. The board of directors shall appoint a governor, a deputy governor, a secretary, and a cashier, and shall have power to appoint such other officers as the board may from time to time determine to be necessary and appropriate for the conduct of the business of the bank. The offices of deputy governor, secretary, and cashier, or any two of them, may be held by one person, in the discretion of the board. The officers chosen by the board shall hold office during the pleasure of the board.

SEC. 2. *Federal reserve agent.*—The Federal reserve agent, as chairman of the board, shall preside at meetings thereof. Copies of all reports and statements made to the Federal Reserve Board shall be filed with the Federal reserve agent.

SEC. 3. *Deputy Federal reserve agent.*—In the absence or disability of the Federal reserve agent his powers shall be exercised and his duties performed by the deputy Federal reserve agent, who may perform such other services as shall be prescribed by the board of directors not inconsistent with his duties as provided by law.

SEC. 4. *The governor.*—Subject to the supervision and control of the board of directors, the governor shall have general charge and control of the business and affairs of the bank and he shall be the chairman of the executive committee. He shall have power to make any and all transfers of securities or other property of the bank which may be authorized to be sold or transferred by the executive committee or by the board. The governor shall have power to prescribe the duties of all subordinate officers and agents of the bank where such duties are not specifically prescribed by law or by the board of directors or by the by-laws. The governor may suspend or remove any employee of the bank.

SEC. 5. *The deputy governor.*—In case of the absence or disability of the governor his powers shall be exercised and his duties discharged by the deputy governor, and in case of the absence or disability of the deputy governor the board shall appoint one of the other directors governor pro tem. The duties of the deputy governor shall otherwise be such as may be prescribed by the board of directors or by the governor. In case the board shall deem that the business of the bank requires the appointment of one or more assistant deputy governors, it shall have authority to appoint such assistant deputy governor or governors and shall prescribe and define his or their duties.

SEC. 6. *The secretary.*—The secretary shall keep the minutes of all meetings of the board and of all committees thereof. He shall have custody of the seal of the bank, with power to affix same to certificates of stock of the bank, and by authority of the board or the executive committee to such other instruments as

may from time to time be required. The board of directors may, in the absence or disability of the secretary, or upon other occasion where in the discretion of the board greater convenience can be attained, appoint a secretary pro tem or empower one or more officers to affix the seal of the bank to certificates of stock or other instruments. The secretary shall perform such other duties as may from time to time be prescribed by the board of directors, the executive committee, or the governor.

SEC. 7. *The cashier.*—The cashier and at least one other officer designated by the board of directors shall have the joint custody of all moneys, investments, and securities of the bank, subject to such rules as the board may adopt for their safety. He shall perform such other duties as may be assigned to him from time to time by the executive committee, the board of directors, or the governor.

ARTICLE IV.—*Certificates of stock.*

SECTION 1. *Signature.*—All certificates of stock, or of payment of or on account of stock subscriptions, shall be signed by the governor or a deputy governor and the secretary or cashier, or such other officers as may be prescribed by the board, and such certificates shall bear the corporate seal.

ARTICLE V.

SECTION 1. *Business hours.*—The bank shall open for business from ----- o'clock to ----- o'clock on each day except Sundays or days or parts of days established as legal holidays.

ARTICLE VI.—*Amendments.*

These by-laws may be amended at any regular meeting of the board by a majority vote of the entire board: *Provided, however,* That a copy of such amendment shall have been delivered to each member at least ten days prior to such meeting.

REPORT OF COMMITTEE ON OFFICE QUARTERS, EQUIPMENT, AND PERSONNEL, ORGANIZATION OF STAFF, AND MATTERS AFFECTING OFFICERS AND DIRECTORS.

Your Committee on Office Quarters, Equipment, and Personnel, to whom was referred the following topics: Office quarters (including vault space), organization of staff, matters affecting officers and directors (including compensation of directors and members of advisory council), also the subject of telegraph code and proposed form of seal for Federal reserve banks, begs leave to report as follows:

First. In respect to office quarters, 10 of the reserve banks were represented by directors, who reported that suitable temporary quarters had been secured and quarters suitable for the opening of the banks (even if not definitely permanent quarters) could be obtained in the near future. After considerable discussion of the subject, the following resolution was offered and passed:

*Resolved*, That it is the sense of this meeting that the obtaining of quarters sufficient for the opening of the reserve banks can be arranged for at any reasonable date in the near future, and that the securing of suitable quarters should not occasion any delay in the opening of the reserve banks.

Second. The subject of the organization of the staff, the equipment, and the personnel was very fully discussed. No criticism was offered of the tentative organization chart. The general opinion was expressed that the banks would open with comparatively small forces, something in the nature of a skeleton organization, which might be expanded as the business of the banks grew. A force of 35 to 65 men was mentioned as adequate, in the opinion of the governors of a number of the banks, for beginning the operation of the banks. This, of course, would not include the handling of some of the functions, such, for example, as *foreign exchange* or the general *clearing of checks* between banks, which would necessarily require a large increment in the force. After a general discussion of the subject, the following resolution was offered and passed:

*Resolved*, That the matter of equipment and personnel of the Federal reserve banks be left to their respective boards of directors.

Third. The subject of a telegraph code was quite fully discussed, and the opinion was expressed that the members were not ready at this time to make a final recommendation. Thereupon the following resolution was offered and passed:

*Resolved*, That the Federal Reserve Board shall call upon each Federal reserve bank to submit in the near future the views of its board of directors upon the subject of a telegraph code.

Fourth. It was pointed out that under the Federal reserve act each bank was required to adopt a seal. After some discussion of the subject and an inspection of the seal of the Federal Reserve Board, the following resolution was offered and passed:

*Resolved*, That the Federal Reserve Board be requested to send to each Federal reserve bank a design for form of seal, following in a general way the design adopted by the Federal Reserve Board for the center of the seal, but with appropriate lettering to indicate the name of the reserve bank, a monogram bearing its distinctive letter and number and the date of its organization.

Fifth. The subject of compensation for deputy reserve agents and of the directors was freely discussed. It was pointed out that it was the duty of the directors of the various reserve banks to fix these compensations with the approval of the Federal Reserve Board. The discussion developed the fact that in some cases directors would have to travel long distances and, especially when serving on executive committees, would be compelled to give up a good deal of time. In view of the varying conditions which exist in the different reserve districts, the conclusion arrived at was formulated in the following resolution, which was offered and passed:

*Resolved*, That in view of the varying conditions existing in the different districts, it is recommended that the matter of compensation of the deputy reserve agent, directors of the banks, the governor, and the member of advisory council be considered by the directors of each bank and a report of the conclusions arrived at by each Reserve Bank Board be sent to the Federal Reserve Board for approval.

Submitted as the unanimous action of the committee.

Signed by—

THOMAS P. BEAL.  
 ARCHIBALD KAINS.  
 WILLIAM WOODWARD.  
 GEORGE J. SEAY.  
 EDWIN T. MEREDITH.  
 OSCAR FENLEY.  
 THEODORE WOLD.  
 CHARLES M. SAWYER.  
 OSCAR WELLS.  
 RICHARD L. AUSTIN.  
 W. H. PECK.  
 C. H. BOSWORTH.  
 J. F. OYSTER.  
 R. H. MALONE.  
 J. A. MCGREGOR.

Adopted by the convention October 21, 1914.

## REPORT OF COMMITTEE ON REDISCOUNT, INCLUDING DEFINITION OF COMMERCIAL PAPER AND CONSIDERATION OF CREDIT BUREAUS.

The Committee on Rediscount, Including Definition of Commercial Paper and Consideration of Credit Bureaus, has not confined its attention narrowly to the subject assigned, but with a desire to contribute to speediest determination has given consideration to a number of features more or less related.

The Federal Reserve Board deems it desirable that the Federal reserve system should be put into operation at the earliest possible date. In working to this end it is clear that a minimum number of functions should be undertaken at the outset. It is believed wise that an executive council should be formed, consisting of the 12 governors, with the deputy governors as alternates, to which should be referred the matter of determining the date and manner of undertaking, from time to time, such additional functions as the following:

1. Opening of branches of Federal reserve banks.
2. Open market transactions.
3. Purchase and sale of United States Government bonds and municipal six months' warrants.
4. Appointment of foreign agents.
5. Clearing and collection and determination of charges therefor.
6. Stipulation of charges to be collected by member banks from patrons for clearings and collections.
7. Dealing in gold coin or bullion and making loans thereon.
8. Purchase and sale of foreign exchange.
9. Purchase of bank acceptances.
10. Exchanging 2 per cent Government bonds for 3 per cent bonds and one year notes.

In order that the very minimum of machinery may be employed in the first days of operation it is thought that even (*a*) transfers between member banks, and (*b*) transfers between Federal reserve banks should be deferred until the executive council suggested is satisfied that the necessary preliminaries have been arranged for such transactions.

While the reserve banks in the central reserve cities might possibly be put in operation a few days before other reserve banks, the matter of greatest moment is that country banks shall realize both their opportunity and patriotic duty to help at this juncture by making their initial payments out of the gold in their vaults.

In order to give the reserve banks the greatest lending power, and thus most efficiently aid member banks and general business interests, and in particular to meet the present emergency in foreign exchange, it is vital that as much as possible of the gold now held by member banks and that is now in circulation should be concentrated in reserve banks. At the outset the discount rates should be high enough to encourage initial payments in gold with very moderate availing of the privilege of payment by rediscount. It is to be hoped that the pending amendment to the act may be adopted permitting member banks to carry with their respective reserve banks any portion of their required reserves. It seems also of prime importance that no tax shall be imposed upon Federal reserve notes. This would vastly facilitate the absorption by reserve banks of gold from circulation while a tax on such notes would prevent. The payment

of transportation charges by the issuing bank on shipments of Federal reserve notes to member banks would also be an important aid in concentrating gold in reserve banks. There should be continuous education of both member banks and the public and persistent planning in every proper way to induce cooperation in gathering gold into the reserve banks. Our commercial stability will be in direct proportion to the solidity of this gold basis of our credit structure. Too much importance can not be attached to the necessity of this cooperation and the mutual confidence growing out of it.

In the acceptance of paper for rediscount there must at first be wide latitude for the exercise of discretion, and it does not seem practicable at this time to attempt to define eligible paper in specific terms, nor should there now be discrimination between one name and two name paper. Steady effort should be made to develop bank acceptances, and when authorized for rediscount of domestic acceptances. The purpose of the reserve system is to help member banks by making credit sure, though not by making credit easy. Consequently, it must be found practicable to accept the best paper of each community, whether ideal or not. There should be the most persistent effort to so influence the habits of borrowing and lending that the paper offered for rediscount will be of a steadily improving character until it reaches and maintains the highest possible level of quality. Constant liquidation of loans is the most fundamental proof of a condition powerful to render aid. Paper rediscounted should therefore represent only temporary and not permanent investments, and preference by differential rates should be given to short maturities. Such paper may develop later as will render precise definition possible, but it now seems impracticable to do more than outline the principles determining the character of paper which should be accepted.

After the first few weeks no paper should be offered for rediscount except that given by a borrower from whom the member bank has received a financial statement. All such statements should be subject to the call of the rediscounting reserve bank, and a central credit bureau should be established making available for the whole system the information thus secured. Independent audits should be required in case of those desiring to borrow beyond a specified limit. The Comptroller of the Currency would doubtless be willing to cooperate through the examiners.

In rediscounting, a Federal reserve bank should not rest content merely because of the indorsement of a solvent member bank assuring against loss. It should recognize its larger duty to influence in every possible way the better conduct of both banking and general business. It is believed that careful investigation of all paper rediscounted and the development of a credit bureau for the benefit of the entire reserve system will conduce greatly to this end.

Respectfully submitted.

For the committee:

JOHN PERRIN, *Chairman.*

Adopted by the convention October 21, 1914.

## REPORT OF COMMITTEE ON ACCOUNTING AND STATISTICS.

### 1. ACCOUNTING.

When the committee assembled it found that the preliminary organization committee had been working for several months on the preparation of a system of accounting which might be adopted by all the Federal reserve banks. Two systems had been prepared, each with a set of forms necessary to put it into effect, one of the systems having been completely developed as to form and detail, while the other was developed and presented in a more general way. The originators of both these systems were present and explained them in considerable detail to the committee.

After listening to the presentation of the systems it appeared to the committee that they were not fundamentally at variance. Both had the block system as their basis, and both in part developed the machine principle. The committee adopted as the basis for its considerations the block control and unit system outlined in the report of the preliminary organization committee, described in pages 129 to 169, inclusive, of their report, and found that to this system could be added, if desired, the following books of continuous permanent record included in the alternate plan: Register or tickler or both, in the collection department; liability ledger and tickler in the loan and discount department; and members' journal and Government deposit journal in the general bookkeeping department. It appeared to the committee that this plan would provide for intermediate proofs, would give a simple and accurate basis for operation, provide for the expansion or contraction of business, and adopt itself to either a large or a small bank. It also appeared to be adapted to the exercise of a maximum or minimum number of functions of a Federal reserve bank.

During the short time allotted to the committee for its work it has been impossible to make a thorough study of the accounting systems presented, but the unit and block system referred to, which has been reproduced photographically for the consideration in detail by the respective banks, is recommended. It has been prepared by experts after several months of study, it has received the approval of the efficiency bureau of the Civil Service Commission, and has been in partial and successful use in several important banks for some years.

It, of course, must be understood that the adoption of this system does not preclude a bank from using the books with which its officers are familiar in the initial stages of its accounting, if necessary, until the system suggested is thoroughly installed.

Should the report and recommendations of this committee be adopted by the conference, it is suggested that the individual banks be given a reasonable opportunity to examine the plan in detail and suggest any needed amendments or corrections, after which it is recommended that they be requested to inform the secretary of the Federal Reserve Board of their approximate requirements, in order that the forms may be printed under his supervision, that each individual bank be billed direct for its proportionate amount of the cost of printing, and that at least four months' supply of the forms be ordered.

Changes will be found necessary in any accounting plan, and it seems desirable that in the future corrections or amendments be sent by the various Federal reserve banks to Dr. H. Parker Willis, chairman of the preliminary organization committee, for consideration and advice to the respective banks.

As the Federal reserve act provides that the foreign exchange policy of the various Federal reserve banks shall practically be under the control of the Federal Reserve Board, it is recommended that such forms as may be necessary to carry out the purpose of the board be promulgated by it at such times as it may be desirable.

## 2. STATISTICS.

The adoption of the unit principle as suggested makes it quite practicable for each Federal reserve bank to supply the statistics that may be needed both for itself and as a basis of economic control for the Federal Reserve Board.

Your committee has examined the plan for the statistical department outlined in the report of the preliminary organization committee, and recommends the establishment of such a statistical bureau under the direction of the Federal Reserve Board. In general, however, the committee believes that the statistical work of each individual bank should be mainly developed on request for data originating in Washington. Compliance with these requests will make it necessary for each Federal reserve bank to collect the economic, financial, and business data in its own district. This will give a basis for its economic control. It is therefore recommended that each Federal reserve bank establish a statistical department under the direction of one of its officers.

It is suggested that the Federal Reserve Board send from time to time to each Federal reserve bank a composite summary of the statistics collated, accompanied by an analysis developing what may be characterized as their economic significance.

The committee desires to express its appreciation of the valuable and painstaking work of the preliminary organization committee. It will expedite the organization of the banks, and we consider it a remarkable achievement to have prepared in advance a comprehensive and workable plan which seems to commend itself to all who have heard it explained and have examined the forms.

GEO. M. LA MONTE, *Chairman.*

This report was adopted October 21, 1914, by the convention, subject to such changes as should be recommended at the meeting of governors of Federal reserve banks to be held October 22, 1914.

The accounting system was examined by the governors of the Federal reserve banks, approved by them on October 22, 1914, and the forms are now being printed under the direction of the secretary of the Federal Reserve Board.

## REPORT OF COMMITTEE ON DOMESTIC EXCHANGE.

### CLEARINGS AND TRANSITS.

In view of the confusion which will arise from an attempt to handle the entire clearings by a new and untrained force, this committee recommends that the development be gradual, and that only very limited clearances be arranged for at the start; and this committee further recommends that at the outset as little divergence be made from the normal business procedure as possible to comply with the terms of the act, and that the Federal reserve banks join the clearing houses in the cities in which they are located as special members, subject to none of the clearing-house rules other than those directly affecting exchanges of checks.

On November 2, 1914, the first call for capital has been made payable. At the date of opening of the banks a call will be made for the first installment of reserves from each member bank, one-half of which may be paid in rediscounted paper.

Up to this point no checks need be handled. At that point you have created a credit which each member can draw against, therefore the bank should be prepared to receive on deposit checks drawn by members on their balances in Federal reserve banks.

We recommend that member banks be allowed to deposit for their credit at the outset any checks drawn by member banks on any Federal reserve bank or on member banks in reserve and central reserve cities.

In regard to the distribution of checks payable outside of each Federal reserve district, it is presumed that the full operations of clearances of that nature will be worked out in conjunction with the Federal Reserve Board should that body see fit to adopt a national clearing-house system.

It is presumed that each clearing house in a city where a Federal reserve bank is located will undoubtedly make arrangements to use the facilities of the Federal reserve banks in the settlement of balances to the extent that they see fit. Having in mind the fact that the banks will not be able to perform their full functions with respect to clearings at the very outset, it is therefore recommended that they start only with the partial plan above outlined, subsequently extending the function of collecting checks as they become able to do so.

### EXCHANGE CHARGES.

Under the act it is evident that all items which may be legally deposited with the Federal reserve banks shall be accepted at par, and that charges for handling such items through the Federal reserve banks, based on the cost of overhead charges, clerk hire, including that of department management, stationery, postage, and equipment depreciation shall be charged to the member banks upon which the items are drawn, and that this charge may be in turn made by the member banks to their depositors or customers.

This committee recommends that the charges be prorated on the number of items drawn on the member banks rather than on the amount of dollars.

And this committee further recommends that in adopting this report that these charges be applied solely to the administrative cost of handling of checks or items through the Federal reserve bank, and that the evident inequity of the law relating to the charges on checks, as we

interpret the law, seems to this committee to suggest a great disadvantage to members against nonmembers and great disadvantages to members in the smaller communities against members in reserve cities, and we respectfully suggest that the attention of the Federal Reserve Board be called to these inequities, which seem to exist, and their consideration thereof be asked.

METHOD OF HANDLING MEMBERS' CHECKS IN FEDERAL RESERVE BANKS.

It is recommended by this committee that the Federal reserve bank charge members' checks against the balances of such members upon the day the checks are forwarded, and that members be allowed to use all checks on members of the same district as reserve the day such checks are forwarded to the Federal reserve bank; the same procedure as is now permitted in making remittances to reserve agents.

Respectfully submitted.

FREDERIC H. CURTISS, *Chairman.*  
 WM. McC. MARTIN.  
 C. H. McINTOSH.  
 M. B. HUTCHISON.  
 WALDO NEWCOMER.  
 LESLIE R. PALMER.

The above report was adopted by the conference after paragraph 4 had been amended as follows:

"We recommend that member banks be allowed to deposit for their credit at the outset, after the initial reserve and capital payments have been made, any checks drawn by member banks on any Federal reserve bank or on member banks in reserve and central reserve cities within their respective districts."

OCTOBER 21, 1914.

REPORT OF THE COMMITTEE ON BONDING OF FEDERAL RESERVE AGENTS,  
MEMBERS OF THEIR STAFF, OR OTHER OFFICERS OF THE RESERVE  
BANKS.

Your Committee on Bonding Federal Reserve Agents and their Staff Officers and Employees of the Banks beg to recommend:

First. That the bonds of each of the Federal reserve agents and their staffs shall be at least \$500,000.

Second. That the American Bankers' Association bond form, with phraseology modified to make it a blanket form, be adopted for bonding the Federal reserve agents, their staff, and all officers and employees of the banks.

Third. That all bonds be written in American companies approved by the Treasury Department.

Fourth. That after obtaining competitive rates for the security of the Federal reserve bank the several banks should secure their bonds in their respective localities, as far as possible.

Fifth. That the amount of the bonds to be given by the officers and employees should be determined by the directors of each bank.

Respectfully submitted.

J. Z. MILLER, Jr., *Chairman.*

The above report was adopted after the convention had voted to strike out the recommendation that the bonds of the Federal reserve agents and their staffs shall be at least \$500,000.

October 21, 1914.

## REPORT OF COMMITTEE ON MECHANICAL DEVICES.

Your Committee on Mechanical Devices met in the office of Dr. Adolph C. Miller, at 2.30 o'clock, October 20, and proceeded to give careful consideration to the subject before it, and begs to report as follows:

The committee decided that it could best serve the interests of the Federal reserve banks by avoiding details as largely as possible in its recommendations, as the requirements of the banks will vary according to size and other peculiarities, and for the further reason that, in its judgment, the naming of machines and manufacturers could offer little advantage and might seriously prejudice the cause.

First. We recommend the general use of standard mechanical devices by the banks to as great an extent as such devices can be employed to the most economical end.

Second. We suggest that inasmuch as a council of the governors of the banks will be held immediately following this meeting, this subject be referred to them for final solution, and we make this further recommendation.

Inasmuch as the 12 Federal reserve banks will collectively buy a great number of all kinds of machines, a plan should be devised whereby concessions can be obtained in the matter of the cost of same, and, looking to that end, we recommend that the council of governors take action promptly to receive bids from all manufacturers of standard mechanical office devices, those bidding to agree to supply a part or all of any bank's requirements, and to make deliveries of equipment at as early a date as same may be required. The bids should state the price to be paid for each machine, and each firm, company, or person offering a bid should be bound by same to furnish as many of the machines as may be required by each of the 12 Federal reserve banks for a period of 12 months from the date of the opening of the banks. Each bank should be furnished with a list of the machines and prices, and be privileged to buy any machine desired, or to pursue its independent course if it so elects.

Attention is called to the General Supply Committee, which is the agency through which the Government departments jointly buy supplies. It is possible that an arrangement could be effected by which the Federal reserve banks could order their labor-saving devices, etc., through this agency, thus availing themselves of the low prices obtainable by the Government. We call the attention of the council of governors to same as information without recommendation.

F. W. FOOTE, *Chairman.*

Adopted, October 21, 1914.

**FEDERAL RESERVE BOARD.**

**STOCK SUBSCRIPTIONS OF MEMBER BANKS.**

WASHINGTON, *November 6, 1914.*

Section 2 of the Federal Reserve Act requires all national banks to signify within 60 days after the passage of the act whether or not such banks intend to become members of the Federal Reserve System, and also requires those banks which accept the provisions of the act to subscribe to an amount equal to 6 per cent of the unimpaired capital and surplus of such banks within 30 days after notice from the organization committee.

In allotting the stock to banks the organization committee adopted as a basis of allotment the capital and surplus of the applying bank at the time its application was filed. Accordingly the transcript of the stock register forwarded to you to enable you to open your stock ledger shows the amount of capital stock of your bank allotted to the various member banks by the organization committee on the basis described.

Section 5 of the Federal Reserve Act reads as follows:

The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

In order that your records may show the original subscription of all applying banks, your stock ledger should contain the amount allotted to each bank by the organization committee. The increase or decrease of capital stock of any member bank should likewise appear on your stock ledger as a separate item.

Your attention is called to the note on the back of the application for stock in the Federal reserve banks for use by member banks, which reads as follows:

If 6 per cent of the capital and surplus shown amounts to a sum not divisible by 100, any excess or fractional part of \$100 will entitle the applying bank to one additional share of stock.

Accordingly, in filling out the subscription on the reverse side of this form, the sum representing 6 per cent of the capital and surplus should be divided by 100 in order to obtain the number of shares to be applied for, and if an excess of less than \$100 remains, one additional share should be added to the application and included in the subscription of stock to be paid for at par in accordance with the provisions of the Federal Reserve Act.

From this you will observe that if 6 per cent of the capital and surplus of any applying bank amounts to a sum not divisible by 100, any excess or fractional part of \$100 would entitle the applying bank to one additional share of stock. Accordingly it may happen that a bank has already been allotted a share of stock for a fractional part of \$100. In such case, if the applying bank increases its capital stock its total allotment should be for an amount equal to 6 per cent of its total capital and surplus, including the increase. Therefore, in order to ascertain the amount of new stock to be issued such bank it will be necessary to determine to what amount the bank is entitled in toto and then to deduct the number of shares of stock previously allotted.

Forms for use by banks applying for additional stock will be furnished to the several Federal reserve banks or to any applying bank, and these applications when properly filled out should be sent first to the Federal reserve bank of the appropriate district and by the officers of such reserve bank to the Federal Reserve Board for approval.

Pending the adoption of these forms by the Federal Reserve Board all Federal reserve banks should collect from the subscribing banks an installment equal to one-third of the stock allotted to such bank by the organization committee, and should subsequently adjust on the stock ledger of the Federal reserve bank the matter of any additional stock subscribed.

#### DECREASE IN CAPITAL STOCK.

In case of decrease of capital stock and surplus of any member bank the Federal reserve bank should likewise collect from the subscribing bank as its first installment an amount equal to one-third of the stock allotted to such bank by the organization committee, and should subsequently adjust with such bank any amount due on account of any decrease either in capital or surplus.

In all cases where a subscribing bank notifies the Federal reserve bank of increase or decrease, this notice should be transmitted to the Federal Reserve Board for its action.

It is important that the records of the Federal Reserve Board, the Federal reserve bank, and the Comptroller of the Currency should be in accord at all times, and to this end notice of any change in capital and surplus should be transmitted to the Federal Reserve Board when received from any member bank.

The subscribing bank should be notified by the Federal reserve bank of this method of adjustment whenever any increase or decrease of capital stock or surplus is called to the attention of the Federal reserve bank.

#### STATE BANK APPLICATIONS.

The same method should be adopted in dealing with State bank subscriptions. The by-laws governing conditions under which State banks may become members and a form of application for stock subscription by State banks will be furnished to all Federal reserve banks in due course, with full instructions. In the meantime Federal Reserve banks should collect the first installment from those State banks which have been allotted stock by the reserve bank organization committee. All other applications for stock should be referred to the Federal Reserve Board.

H. PARKER WILLIS, *Secretary.*

**FEDERAL RESERVE BOARD.**

WASHINGTON, November 10, 1914.

*To all Federal Reserve Banks:*

In view of the impending opening of the Federal reserve banks, the Federal Reserve Board deems it proper to outline in this circular, in broad general terms, the discount policy which it believes might be pursued to advantage by the Federal reserve banks at the outset.

While the most acute stage of the recent financial emergency appears to have passed, the conditions in other countries make it necessary that the United States should, to the utmost degree of efficiency, organize and make available its own resources in order that it may provide for its own needs and replace the facilities suddenly destroyed by the closing of so many of the accustomed channels of credit and trade.

The directors and governors of the Federal reserve banks at a conference in Washington on October 20 and 21 recommended that the banks be opened without attempting at the outset to perform all the functions and duties contemplated in the act, but that they be prepared to accept deposits of reserves payable in lawful money, to discount bills of exchange and commercial paper, and to accept the deposit (after the reserve payments had been made) of checks drawn by member banks on any Federal reserve bank or member banks in the reserve and central reserve cities within their respective districts. It was the opinion of the conference that arrangements for the exercise of the additional powers granted by the act to the Federal reserve banks be completed as rapidly as the establishment of safe and efficient organizations would permit. The Federal Reserve Board is in accord with these suggestions.

It should be borne in mind that, although our exports are showing a gratifying increase, there is still a large cash balance due to European countries for which gold may be demanded, and that a large quantity of American securities held abroad may be returned to the United States; while on the other hand more than \$300,000,000 of emergency currency must be gradually retired. No one can estimate the duration of the war or predict what will be the financial and commercial conditions when peace shall be restored. Our own industrial development has been greatly facilitated by foreign capital, and we have been accustomed to borrow large sums annually in Europe and to sell American securities there, which attracted foreigners because of their higher rate of return as compared with European investments. It is probable that at the end of the war interest rates in Europe will be higher than they have been in the past and greater investment returns will be yielded. The tremendous destruction of property and waste of capital will not only check the flow of European savings to the United States, but may dispose foreign investors to return us the securities they now hold. Lower money rates in this country would be likely to accentuate this tendency, while, on the other hand, higher interest rates and larger investment returns on our side would check it.

The function of the Federal reserve banks is, therefore, of a twofold character. They should extend credit facilities, particularly where the abnormal conditions now prevailing have created emergencies demanding prompt accommodation; and, on the other hand, they must protect the gold holdings of this country in order that such holdings may remain adequate to meet demands that may be made upon them. While credit facilities should be liberally extended in some parts of the country, it would appear advisable to proceed with caution in districts not in need of immediate relief and to await the effect of the release of reserves and of the changes which the credit mechanism of the country is about to experience before establishing a definite discount policy.

*Commercial paper.*—The Federal Reserve Board, under section 13 of the Federal reserve act, has the right to determine or define the character of paper eligible for discount, to wit, “notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes.”

Bearing in mind the requirements of the present situation, the Federal Reserve Board believes that it would be inadvisable at this time to issue regulations placing a narrow or restricted interpretation upon the section defining the character of paper eligible for discount. It has, therefore, been decided not at this time to enter upon the discussion of the question of single or double name paper, but to admit both forms of bills to rediscount with the Federal reserve banks.

The Federal Reserve Board proposes, however, to prescribe the following basic principles for the guidance of Federal reserve banks and member banks:

(a) No bill shall be admitted to rediscount by Federal reserve banks the proceeds of which have been or are to be applied to permanent investment, and regulation No. 2 has been formulated with the intention of giving effect to this principle, and is herewith inclosed.

(b) Maturities of discounted bills should be well distributed. It is the well-established practice of European reserve banks to invest only in obligations maturing within a short time. It is a general rule not to purchase paper having more than 90 days to run. The maturities of these notes and bills are so well distributed as to enable those banks within a short time to strengthen their hold on the general money market by collecting at maturity or by reinvesting at a higher rate a very substantial proportion of their assets. Acting on this principle, the Federal reserve banks should be in position to liquidate, whenever such a course is necessary, substantially one-third of all their investments within a period of 30 days. Departure from this principle will endanger the safety of the system. It is observance of this principle that affords justification for permitting member banks to count balances with Federal reserve banks as the equivalent of cash reserves.

(c) Bills should be essentially self-liquidating.

Safety requires not only that bills<sup>1</sup> held by the Federal reserve banks should be of short and well distributed maturities, but, in addition, should be of such character that it is reasonably certain that they can be collected when they mature. They ought to be essentially “self-liquidating,” or, in other words, should represent in every case some distinct step or stage in the productive or distributive process—the progression of goods from producer to consumer. The more nearly these steps approach the final consumer the smaller will be the amount involved in each transaction as represented by the bill, and the more automatically self-liquidating will be its character.

---

<sup>1</sup> For brevity's sake, the words “bills” and “notes” whenever used in these paragraphs include bills, notes, and drafts, as specified in the act.

Double-name paper drawn on a purchaser against an actual sale of goods affords, from the economic point of view, prima facie evidence of the character of the transaction from which it arose. Single-name notes, now so freely used in the United States, may represent the same kind of transactions as those bearing two names. Inasmuch, however, as the single-name paper does not show on its face the character of the transaction out of which it arose—an admitted weakness of this form of paper—it is incumbent upon each Federal reserve bank to insist that the character of the business and the general status of the concern supplying such paper should be carefully examined in order that the discounting bank may be certain that no such single-name paper has been issued for purposes excluded by the act, such as investments of a permanent or speculative nature. Only careful inquiry on these points will render it safe and proper for a Federal reserve bank to consider such paper a “self-liquidating” investment at maturity.

Turning now to the question of procedure, it is not thought necessary to impose upon the banks the observance of methods which would involve needless difficulty or delay. It is therefore not deemed essential that a statement of condition be attached to each bill when sold to a Federal reserve bank. It is, however, thought advisable by the board to require that on and after January 15, 1915, no paper shall be discounted or purchased by Federal reserve banks that does not bear on its face the evidence that it is eligible for rediscount under the principles and definitions above outlined and as expressed in regulation No. 2, and that the seller of the paper has given a statement to the member bank. A rubber stamp stating, in substance—

<p style="text-align: center;">ELIGIBLE FOR REDISCOUNT WITH FEDERAL RESERVE BANKS</p> <p style="text-align: center;">UNDER REGULATIONS OF FEDERAL RESERVE BOARD CIRCULAR No. 13.</p> <p style="text-align: center;">CREDIT FILE NO. ———</p> <p style="text-align: center;">DISTRICT NO. ———</p> <p style="text-align: center;">(Name of Member Bank.)</p>
---

is considered sufficient evidence to that effect at this time. It would be understood that the Federal reserve bank could at any time call for the appropriate credit file, and it may well be expected that the data thus gathered—particularly the files of more important firms and of those rediscounting in larger amounts—will be so catalogued as to furnish the nucleus of an effective credit bureau which, in turn, may eventually develop into a central credit bureau for the benefit of all the Federal reserve banks of the system.

For the time being, certified accountant's statements will not be required. This matter is reserved for regulation at a later date. The required statement as outlined above should be signed under oath and should contain a short general description of the character of the business, the balance sheet, and the profit and loss account. Assets should be divided into permanent or fixed investments, slow assets, and quick assets. On the liability side should be shown capital, long-term loans, and short-term loans. Short-term loans should be in proper proportion to quick assets, and the statement should contain satisfactory evidence that short-term paper is not being sold against permanent or slow investments. The statement should, furthermore, show the maximum aggregate amount up to which the concern supplying

this paper expects to borrow on short credit or sale of its paper, and the concern giving the statement should obligate itself to obtain the member bank's consent before exceeding the agreed limit. The affixing of the stamp stating such paper to be eligible for rediscount will be considered a solemn and binding declaration by the member bank that the statement has been examined from this point of view and that the paper bought complies with all the requirements of the law and the regulations hereby imposed.

The board appends two additional regulations: No. 3, covering discount transactions on or before January 15; No. 4, discount operations on and after January 15.

*Six-months paper.*—The law provides that the Federal Reserve Board shall fix the percentage of its capital (by which is understood that portion of the capital paid in) up to which a Federal reserve bank may discount "notes, drafts, and bills drawn or issued for agricultural purposes, or based on live stock, and having a maturity not exceeding six months." The law permits the Federal Reserve Board to deal with each Federal reserve bank individually in fixing this limit.

The Federal Reserve Board has determined to fix this limit generally, and until further notice, at 25 per cent of the capital that shall have been paid in from time to time. For those districts in which, during certain seasons, six-months paper is particularly required to carry through agricultural operations the limit will be increased from time to time upon requests made by Federal reserve banks to the Federal Reserve Board.

Regulation No. 5, relating to six-months paper, is appended hereto.

Regulation No. 6, relating to bank acceptances, is likewise appended.

CHARLES S. HAMLIN,

*Governor.*

**FEDERAL RESERVE BOARD**

WASHINGTON

---

**PROCEDURE IN APPEALS FROM DECISION OF THE RESERVE BANK  
ORGANIZATION COMMITTEE.**

---

**1. Petitions for changes in designation of Federal reserve cities.**

Petitions for review of the action of the Reserve Bank Organization Committee in designating Federal reserve cities must be signed by duly authorized officers of a majority of the member banks located in the city requesting a review.

Such petitions must set forth briefly the grounds and reasons relied upon for such review.

Within five days after mailing said petition the petitioner shall file twenty copies of a brief setting forth fully the grounds relied upon for a review of the action of said Reserve Bank Organization Committee.

The secretary of the Board shall notify all member banks in the Federal reserve city of the district in question that such petition has been filed, and shall request such banks to designate a representative to act for such city at the hearing thereon. He shall also send to the representative of such banks, when designated, a copy of the brief filed by the petitioner, and said representative shall be given seven days within which to file twenty copies of his brief in reply.

The Federal Reserve Board will thereupon fix a date for the hearing of oral arguments by counsel, which arguments will be limited to one hour on each side.

The Board will not hear testimony, but the parties will be limited to the record before the Organization Committee.

The record need not be printed, but reference may be made in the briefs by page to the report filed by the Organization Committee with the Senate of the United States and ordered printed, and may likewise be made by page and volume to the typewritten testimony of the witnesses appearing before the Organization Committee at the hearings held by the Committee.

**2. Petitions for changes in the geographical limits of Federal reserve districts.**

Petitions for review of the determination of Federal reserve districts by the Organization Committee must be signed by duly authorized officers of at least two-thirds of the member banks in the territory which the petition asks to have taken out of one district and annexed to another.

Proceedings as to notice, filing of briefs and arguments shall be the same as for petitions for changes in the designation of Federal reserve cities, except that the board of directors of the Federal reserve bank and not the member banks in the Federal reserve city shall select the representative to appear and answer the petition. Class A and B directors elected may act, pending appointment of Class C directors, in the selection of such representative.

At all hearings held hereunder all questions of law or fact, including jurisdiction and powers of the Federal Reserve Board, may be argued.

FEDERAL RESERVE BOARD,

By

August 28, 1914.

*Governor.*

FEDERAL RESERVE BOARD.

WASHINGTON, November 10, 1914.

That part of section 13 of the Federal reserve act which relates to rediscount operations of Federal reserve banks reads as follows:

Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act. Nothing in this act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section 19 of the Federal reserve act, relating to reserves, reads in part as follows:

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank.<sup>1</sup>

The announcement to be made by the Secretary of the Treasury on November 16 will bring into operation these two sections, and it is accordingly necessary that the several Federal reserve banks shall be advised of the characteristics that must be possessed by paper offered for rediscount to be acceptable under the terms of the act.

While section 13 provides that the Federal Reserve Board shall have the right to determine or define the character of the paper thus eligible for discount within the meaning of the act, the section referred to defines in general terms the elements which such paper must possess in order to be eligible.

All paper offered for discount under this section to any Federal reserve bank must conform to the following requirements:

---

<sup>1</sup> Attention is called to the fact that the error in the original act which refers to eligible paper, referred to in section 14, has been corrected by amendment approved August 15, 1914, and this section now reads:

"Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section *thirteen* properly indorsed and acceptable to the Federal reserve bank."

First. It must be indorsed by a National or State bank or trust company which is a member of the Federal reserve bank to which it is offered for rediscount.

Second. Such bank must, with its indorsement, waive demand notice and protest.

Third. Paper so offered shall be in the form of notes, drafts, or bills of exchange arising out of commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes.

Fourth. If in the form of acceptances, they must be based on transactions involving the importation or exportation of goods and must have a maturity at the time of discount of not more than three months to run. They must furthermore be indorsed by at least one member bank, and the total amount offered shall in no event exceed one-half the paid-up capital stock and surplus of the bank offering same.

Fifth. The aggregate of notes and bills bearing the signatures or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed 10 per cent of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Subject to these limitations, it devolves upon the Federal Reserve Board to determine or define for the several Federal reserve banks (1) notes, drafts, and bills of exchange eligible for rediscount; (2) bank acceptances eligible for rediscount.<sup>1</sup>

The limitations relating to rediscount operations, contained in section 13 of the act, may be divided into two classes: First, those positive limitations under which such notes, drafts, and bills of exchange may be accepted for rediscount; and, second, those limitations specifically stating what paper shall be excluded.

If we begin with the latter, we find the very clear provision excluding all notes, drafts, and bills of exchange which are "issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities (except bonds and notes of the Government of the United States)." This clause does not require comment.

The act further excludes notes, drafts, and bills of exchange covering "merely investments."

Any funds employed in agriculture, commerce, or industry are quasi-investments, and the emphasis is, therefore, to be laid on the word "merely" in this connection.

From this point of view are to be excluded all bills whose proceeds have been or are to be used in permanent or fixed investments of any kind. "Agricultural, industrial, or commercial purposes" cannot, therefore, be held to include investments in land, plant, machinery, permanent improvements, or transactions of a similar nature.

The purchase of commodities for purposes which are merely speculative and not connected with an ultimate process of manufacturing or distribution would constitute a "mere" investment, and bills covering such investments are accordingly not eligible for rediscount.

In order to be eligible for rediscount bills must "arise out of actual commercial transactions." and "the proceeds must have been used or they are to be used for agricultural, industrial, or commercial purposes."

In like manner "notes, drafts, and bills of exchange secured by staple agricultural products or other goods, wares, or merchandise" are eligible for rediscount provided they arise out of "actual commercial transactions" covering some particular stage in the process of production and distribution.

They are not eligible when drawn to cover merely speculative investments.

CHARLES S. HAMLIN,  
*Governor.*

<sup>1</sup> Bank acceptances eligible for rediscount are defined in regulation No. 6.

**REGULATION NO. 3.**

**FEDERAL RESERVE BOARD.**

WASHINGTON, *November 10, 1914.*

Whenever a member bank shall offer for rediscount any note, draft, or bill of exchange bearing the indorsement of such member bank, with waiver of demand notice and protest, the directors or executive committee of the Federal reserve bank may, until January 15, 1915, accept as evidence that the proceeds of such note, draft, or bill of exchange were or are to be used for agricultural, industrial, or commercial purposes (and that such notes, drafts, or bills of exchange in other respects comply with the regulations of the board) a written statement from the officer of the applying bank that of his own knowledge and belief the original loan was made for one of the purposes mentioned, and that the provisions of the act and regulations issued by the board have been complied with.

69110\*—No. 3—14

**CHARLES S. HAMLIN,**  
*Governor.*

**FEDERAL RESERVE BOARD.**

WASHINGTON, *November 10, 1914.*

From and after January 15, 1915, all notes, drafts, or bills of exchange offered for rediscount shall show on their face, or by indorsement, a statement substantially to the following effect:

Eligible for rediscount with Federal reserve banks under regulations of the Federal Reserve Board Circular No. 13—

Credit File No.-----

District No.-----

Name of member bank.-----

The credit file number shall refer to evidence in possession of the member bank that the proceeds of such notes, drafts, or bills of exchange, under the terms of the loans made or to be made, were, or are to be, used for agricultural, industrial, or commercial purposes, as required by section 13 of the Federal reserve act and as imposed by regulation No. 2 of the Federal Reserve Board, and such credit files shall be open to inspection by any examiner appointed by the Comptroller of the Currency or selected by the Federal reserve bank discounting same, and copies of such files, or any part thereof, shall be furnished to the officers of the Federal reserve bank upon request.

The credit files referred to should contain not only evidence of the purpose or purposes for which such loans are made but also full and complete information as to the financial responsibility of the borrower, including a short general description of the character of the business, balance sheet, and profit and loss account of the borrower. Assets should be divided into permanent or fixed investments, slow assets, and quick assets. On the liability side should be shown capital, long-time loans, and short-term loans. Short-term loans should be in proper proportion to quick assets, and the statement should contain satisfactory evidence that short-term paper is not being sold against permanent or slow investments. The statement should, furthermore, show the maximum aggregate amount up to which the concern supplying this paper expects to borrow on short credit or sale of its paper, and the individual, firm, or corporation giving the statement should obligate himself or itself to obtain the member bank's consent before exceeding the agreed limit. The affixing of the stamp stating such paper to be eligible for rediscount will be considered a solemn and binding declaration by the member bank that the statement has been examined from this point of view and that the paper bought complies with all the requirements of the law and of the regulations hereby imposed.

**CHARLES S. HAMLIN,**  
*Governor.*

**REGULATION No. 5.**

**FEDERAL RESERVE BOARD.**

WASHINGTON, *November 10, 1914.*

Whenever notes, drafts, or bills of exchange offered for rediscount have a maturity of more than three but less than six months, and the Federal reserve bank has been satisfied in the manner provided by regulation No. 2 that the proceeds of loans applied for are used or are to be used for agricultural purposes or are based upon live stock, such notes, drafts, and bills of exchange may, until further notice, be accepted for rediscount in an aggregate amount not exceeding 25 per cent of the paid-in capital of the Federal reserve bank accepting same.

**CHARLES S. HAMLIN,**  
*Governor.*

**REGULATION NO. 6.**

**FEDERAL RESERVE BOARD.**

WASHINGTON, *November 10, 1914.*

Whenever bank acceptances are offered for rediscount it must appear on the face of such acceptances that the proceeds thereof were used or are to be used in connection with a transaction involving the importation or exportation of goods; that is to say, it must appear that there has been an actual bona fide sale which involves the transportation of goods from some foreign country to the United States or from the United States to some foreign country.

CHARLES S. HAMLIN,  
*Governor.*