

Volume \_\_\_\_\_

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Conference of  
Board of Governors  
Federal Reserve Banks

vs.

New Willard Hotel

Saturday Morning Session  
Dec 12-1914

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WASHINGTON, D. C.

The Gridiron Room, Willard Hotel,

Saturday, December 12, 1914.

The Board of Governors met pursuant to adjournment.

The Chairman: Gentlemen, I have here a telegram from Mr. H. C. Burnett to Mr. McKay. I will read it into the record:

"Some banks questioning our legal right to charge their customers' checks against their reserve balance before they receive the checks. Suggest you secure definite ruling from Board. It occurs to me everyone might be better satisfied if we charged all transit letters the day following their transmittal and credit all deposits the day following their receipt."

I should also like to read into the record the last part of a telegram addressed to Mr. Bardwell, from Governor Kains.

"Hope that a condition will be brought about whereby bank acceptances farthing commercial transactions will be readily bought and sold."

As I understand the expression by Governor Kains, he would like to see a policy adopted, or some rule adopted, that would permit at once of the purchase of bank acceptances by the federal reserve banks. Speaking for the bank in New York I would like to have the record clearly show that that is our position: We would like as soon as possible to be authorized to commence the purchase of bankers' acceptances as contemplated by the Act.

Mr. Wold: Minneapolis is very anxious to do likewise.



Mr. Seay: Did not one of the circulars from the Board provide for the same thing?

The Chairman: May I ask that this expression also go into the record: That the Federal Reserve Bank of Chicago would also like to have such ruling or procedure at once, so that they might purchase the bankers' acceptances.

Mr. Rhoades: We would like to do it in Philadelphia.

Mr. McDougal: I would like to inquire whether any of our banks have embarked in the matter of the purchase of acceptances?

Mr. Seay: I can say that some in our district have.

The Chairman: I think I can throw a little light on that from the standpoint of New York where the business has really developed to some proportion. There are two trust companies in New York that are accepting very considerable amounts of drafts covering cargoes coming from South America to this country, from South American to Europe, from Europe to China, and from India to Europe. In talking with some of the commercial paper brokers in New York, who are now handling bankers' acceptances, I gathered that one of the trust companies alone probably had their acceptances on from ten to twelve million dollars of paper that had been purchased by the banks or handled by the brokers. One of the national banks was estimated to have had about ten million dollars outstanding, and another trust company four or five million. I would not be surprised, judging from the general information I have gathered, if the transaction to-day in bankers' acceptances in New York would average from two to three hundred thousand dollars a day through the brokers.

The rates, when first the acceptances appeared in

the market at New York about seven or eight years ago, were in no case below six per cent. Before I left New York to attend this meeting they had actually sold at three and a half per cent.

Mr. McDougal: We were offered some at four and a quarter; at least I saw the broker's sheet.

The Chairman: This matter of acceptances is one of very great importance to us in New York because of the large amount of foreign commerce that passes through the port of New York and the large number of banks there that have to do with the handling of exchange. If it would be of any interest to the Federal Reserve Banks, I can arrange to send to the Governors a memorandum on the subject of the purchase of bankers' acceptances that we are shortly going to prepare for submission to the Federal Reserve Board, in the hope that we will get an early ruling that will permit us to buy those acceptances and to use them as a means of earning some part of our expenses until the discounts help us out.

Mr. McDougal: I would be very glad to have such information, Mr. Strong.

Mr. Bardwell: We will be very glad to have such a report in San Francisco.

Mr. Fancher: We know very little about it in our district, and we would welcome any suggestion or information bearing upon it.

Mr. Rhoades: We would like to have that too.

The Chairman: Inasmuch as the record of this meeting is to be considered a confidential record in the hands of these banks, I am at liberty to express one view that I



have heard from the Federal Reserve Board as to what their attitude will possibly be in the matter of rates applying to the purchase of this class of paper in the open market. It goes without saying that the rate of discount fixed by each bank would not apply to these transactions. It must subsequently be determined whether a uniform rate, different from the discount rate, shall be established for the purpose of this paper in the open market, or whether the banks shall be permitted to buy such acceptances at the best rate that they can in each individual transaction. The opinion expressed to me was to the effect that the banks should establish a rate which might prevail for one day, or even for a part of a day, subject to the view and determination of the Federal Reserve Board; but nevertheless any paper purchased by a federal reserve bank will be confined to the acceptance of those firms or institutions which had been approved for purchase by the management of that bank. In other words, each bank would have a list of obligations which would be recorded in the institution as acceptable for purchase, and when the bank was in the market to buy acceptances they would practically take everything that was offered within the reasonable limits at the rate established. That is in fact licensed by experience abroad, but in my opinion, at the outset, I think it would be very unsound practice in this country. In the first place, these acceptances are gathered together by commercial paper brokers and are offered in lots, and they are mixed lots; they make a rate in New York for the whole lot, which will be higher than the rate at which you would be permitted to take any one acceptance out of that lot. Inability to discriminate at once would

always cause the bank to take the paper at the lowest rate. We hope that all of that can be discussed in the memorandum which will be submitted first to those who attend the meeting here--- to all federal reserve banks, in order that we can get an expression on it and submit it to the Federal Reserve Board.

Is there any other matter that we should discuss before going to the meeting with the Federal Reserve Board at ten o'clock. The one matter that I recall is with regard to the newspapers. Mr. Curtis is just now preparing a statement for the newspapers bearing upon the meeting as a whole.

Mr. Fancher: In just ~~one~~ <sup>what form are</sup> ~~one~~ of the notes which are pledged with the federal reserve agent? What form of endorsement is to be used?

The Chairman: We have been advised by our counsel in New York that no form of endorsement for the federal reserve bank is necessary so long as the prior endorsement makes the note negotiable.

Mr. Seay: We have assumed that in our district.

The Chairman: The obligation of the Federal Reserve bank is a statutory obligation and does not need to be repeated on the back of notes that are pledged.

Mr. Fancher: Except where it is rendered strictly to the order of the bank.

The Chairman: Except where it is rendered as a non-negotiable time instrument.

Gentlemen, I think it is time that we adjourn to the Treasury Building for our meeting with the Federal Reserve Board.

(Whereupon, at 10 o'clock a. m. the Board of Governors adjourned to the Treasury Building for the purpose of holding a conference with the Federal Reserve Board.)



