

Second Conference

CONFERENCE BOARD OF GOVERNORS

FEDERAL RESERVE BANKS

JANUARY 20, 1915.

DAY SESSION

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SECOND CONFERENCE OF GOVERNORS

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SECOND CONFERENCE OF GOVERNORS
OF FEDERAL RESERVE BANKS.

New Willard Hotel,

Washington, D. C.,

January 20, 1915.

10:30 o'clock a. m.

Present:

Benjamin Strong, Chairman, Governor Federal Reserve
Bank of New York,

A. L. Aiken, Governor, Federal Reserve Bank of Boston,

C. J. Rhoades, Governor, Federal Reserve Bank of Phila.

R. R. Fancher, Governor, Federal Reserve Bank, Atlanta,

G. J. Seay, Governor, Federal Reserve Bank, Richmond,

J. A. McCord, Governor, Federal Reserve Bank, Atlanta,

J. B. McDougal, Governor, Federal Reserve Bank, Chicago,

H. Wells, Governor, Federal Reserve Bank, St. Louis,

Theo. Wold, Governor, Federal Reserve Bank, Minneapolis,

O. Wells, Governor, Federal Reserve Bank, Dallas,

A. Kains, Governor, Federal Reserve Bank, San Francisco,

L. H. Hendricks, of the Federal Reserve Bank of New York,

C. R. McKay, of the Federal Reserve Bank of Chicago,

J. F. Curtis, Secretary.

Joint Conference with the Federal Advisory Council,

of whom the following were present: Mr. Morgan,

presiding, Messrs. Morgan, Wing, Jaffray, Rowe

Lyerly, Ardley, and also Governors Seay, Wells, and

Kains, who are also members of the Federal Advisory Council.

The Joint Conference was called to order at 10:30 o'clock a. m., Mr. James B. Forgan, Presiding.

The Chairman: Gentlemen, this is quite an informal meeting, by mutual arrangement between the Governors of the Federal Reserve Banks and the Federal Advisory Council. Our Council has been in session for two days. We knew that you were to have a session after that time, so we thought we would get a day in between, get together and get acquainted.

So far as the Federal Advisory Council is concerned, what we really want is to get some practical knowledge of how matters are going on at the different Federal Reserve Banks through the country, and especially how the Governors were getting along with the vexing question of collection of country checks, which question the Advisory Council has not taken action upon, because we have been waiting for practical advice from the experience of the Governors of the different banks, as it has developed.

I do not think there is anything more that I have to say on behalf of the Advisory Council. We will be glad to take up any matter for conference that the Governors wish to have us take up at this meeting, and so far as the Advisory Council is concerned, what we especially want to know about is if you think you can get along with the collection of checks?

(The Chairman then made a statement to the Conference which the reporter was directed not to report.)

The Chairman: Gentlemen, may we not hear from the Governors as to how they are getting along with the question of collection of checks?

Mr. Jaffray: Would it not be a good idea to take up the circular that we discussed last night, that is, the commercial paper circulation, and get the Governors to pass upon our recommendations? It will not take very long.

The Chairman: I might say, on behalf of the Advisory Council, that the Executive Committee of the Advisory Council had a meeting on Monday, at which it took up Circular No. 13, covering the eligibility of commercial paper for re-discount, and after deliberation on that circular we agreed unanimously to send the following opinion to the Board:

"In the opinion of ~~the~~ This Council many of the requirements in connection with commercial paper ~~are~~ eligible for re-discount under Circular No. 13 (dated November 10, 1914) which was deferred until July 15, 1915, under resolution A, series of 1915 (dated January 12, 1915) impose inconvenience upon the business public, the Federal Reserve and member banks, and cannot be successfully carried out in practice.

"It is our opinion that the regulations of the Federal Reserve Board should provide that the management of the various Federal Reserve Banks should determine the admissibility of commercial paper offered for re-discount by their member banks. Each application for re-discount

should be considered upon its merits.

"We would therefore respectfully recommend that the requirements in Circular No. 13, commencing with the words (in the middle of the second paragraph on page 3 thereof), 'It is, however, thought advisable by the Board to require that on and after January 15, 1915,' etc., should be permanently eliminated."

When we discussed that at the Advisory Council we learned from Mr. Seay that there was another circular in preparation that had been sent out to ~~xxxxxx~~ the Governors for their consideration, and that the new circular went a long way to correct the evils of the former circular. So we went to the Federal Board and asked them for a copy of the tentative circular they had gotten out, being circular No. 3, Series of 1915, and their regulation B in regard to commercial paper. Perhaps you gentlemen have seen that. However that may be, we will let it go. The circular was all right and the Regulation B is all right so far as the statutory requirements and the character of the paper eligible are concerned. When it comes down to the method of certifying eligibility we recommended that the requirement be eliminated; that is, that the rubber stamp "Eligible for rediscount in Federal Reserve Banks under Federal Reserve Board Regulation B, credit file, name of member bank," and so forth, should be eliminated. It cut down that section referring to certifying to eligibility to simply this:

"Every member bank will be required to certify in the letter of application, under the signature of a duly author-

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ized officer, that, to the best of his knowledge and belief, the bill was issued for one of the purpose mentioned in paragraphs I(c) and II(a) hereof, and that it conform to the provisions of the Act and the requirements of this regulation."

That has been changed to agree with the elimination that has already taken place.

Then "Every member bank should maintain a credit file"--- and this is a mere suggestion --- "which should contain a statement of the financial condition of the borrower, either signed by the borrower or duly certified by a member bank or notary public, to be a copy of the signed statement. Such statement should contain all the information essential to a clear and correct knowledge of the borrower's credit and of his methods of borrowing. A schedule specifying certain information which such statement should contain and the main points to be observed is hereto appended."

Then I come to the appendix. We cut out the Section D and Section E, in regard to the maximum and minimum amount of short time loans during the preceding year and the anticipated maximum during the present year; and Section H, referring to a statement evidencing the purpose of such short time loans and the policy of the borrower in financing slow, permanent or fixed assets.

We left the others as they were. It is only ^a suggestion as to how the statement should be made, but we did not think it was practicable to ask borrowers for that kind of information. We left it at that. We had a discussion with the Board afterwards and we seemed to make some impres-

sion on them, although of course I do not know how they will finally decide the matter.

Mr. Fuld: Did you take exception to paragraph I of Section C, "such bill bears the signature of the purchaser and the seller of the goods, and contains a statement on its face that it is issued for goods actually purchased or sold?"

The Chairman: We struck that all out.

Mr. Strong: Mr. Chairman, this circular which was considered by the Advisory Council has not yet been considered by the Governors at a meeting. It was submitted to a committee of five Governors that met in New York last week to consider other matters, the informal understanding being that it would be taken up at our meeting here this week. Inasmuch as most of the Governors have not had an opportunity to consider it and discuss it among themselves, might it not serve the purpose to have your recommendation submitted to the Governors for consideration now when they take up this proposed regulation, so that they can have the benefit of your views on the matter?

The Chairman: I think it is well for the Governors to know that we have put in that recommendation, and they can follow it up with further elimination, if they want to. It is a question of elimination I think. (Laughter)

If that is the sense of the meeting, we will leave it that way. We have put before you our recommendation in that particular, and we will leave it for the Governors to consider.

Now, I shall be glad to hear from the Governors on this

question of how you are getting along on check collections. We want that because we will probably be asked for our opinions before very long and we want to know the practical end of it, how it is working out, and how it can be worked out.

Mr. Strong: This subject of domestic exchange, as we have considered it, or as the Governors have considered it divided itself naturally into two quite separate accounts that are, however, interdependent. One is the ~~xx~~ adjustment of balances between Federal Reserve Banks that arise from the handling of checks drawn on Federal Reserve Banks; and the other is the general subject of clearing checks drawn on member banks.

Some figures that we have drawn up in New York, from our experience in the handling of checks drawn on Federal Reserve Banks, are rather enlightening. Since the bank was opened, I should say starting with about the end of the first week in December, or the middle of December, we have handled through the accounts with the other eleven banks a total of ^{and} ninety millions of exchange, the net debit ~~xx~~ owing to us by the other eleven banks today is \$18,000,000. That looks like a very startling sum of money, and my experience in discussing the matter with the Governors leads me to believe that the expense of adjusting these balances seems to them to be a very serious matter. We have asked one of the best insurance brokers in New York to prepare a proposition for the shipment of currency to settle these balances. He has submitted to us a schedule of ~~figures~~ figures for shipment between all the twelve banks; that is, 132 avenues or

shipment of currency. We have applied his proposition to the expense of settling the balance of eighteen millions that are now owing the Federal Reserve Bank of New York, and we find that it would cost \$1800; that is to say, it will cost us \$900 to settle out half of the expense, and the other \$900 will be divided among the other eleven banks.

So I am not scared to death yet about the expense of settling balances that arise out of these transactions, if it is thought wise to make exchange through that method.

The gross figures indicating the expense of shipping this exchange, if the offset had not arisen, are also rather interesting.

It would cost \$5,200 for the other eleven banks to ship us the amount that they owe us on the balance, and it would have cost us about \$3400 for us to ship what we owe them on the credit side of our account, so that the gross expense, approaching \$9000, is reduced to a net expense of about \$1800.

It seems to me that the striking thing about our account is that, having handled ninety millions of dollars through the accounts, there was \$18,000,000 net, that it will cost about \$1800 to settle.

I do not want you to feel, however, that I believe that what we are now doing is a sound thing to do. It gives rise to two things. It creates a float between Federal Reserve banks that I think ought to be precipitated and eliminated. It also opens the door to member banks abusing the privilege of drawing against balances that do not exist.

At the last meeting of the Governors that matter was

discussed ad nauseam. It finally resulted in the appointment of a thoroughly competent committee to deal with the matter, and when that committee of five met it found that instead of having twelve opinions, that existed at the meeting of the twelve Governors, they had reduced it to five opinions. (Laughter) Applying the process of ad nauseam exhaustum we finally succeeded in preparing a report which will be submitted when the Governors meet and I hope will result in a method being arrived at for dealing with the balances between the reserve banks that will be proper, fair and economical.

That, briefly, is the situation from the standpoint of New York of the checks drawn on Federal Reserve Banks.

Now, as to the general subject of collecting checks drawn on customers of member banks, they are a little differently situated in New York than in any other district. There are three reserve cities in our district; New York, Brooklyn and Albany. Brooklyn is included in the New York clearing house area, so that we only have Albany to deal with in handling checks drawn on national banks, member banks, in reserve cities. There are only three member banks in Albany. We have had no great difficulty in handling checks drawn on those banks, and no problem has arisen with us; but we have been urged --- I will not say urged --- but it has been suggested we were a little slow in undertaking the clearance of checks within our district. Therefore, following the last conference of Governors we undertook to get some data in New York to indicate what

the problem would be if we undertook first to clear the checks within our own district, and second to clear checks

drawn on member banks outside of the District. I cannot give you the figures from memory, but as to the whole problem of handling checks from the whole country, it is something like this:

Inclusive of the clearings that go through the New York Clearing House; that is, of the checks which are simply handled between member banks in the City of New York, which average in amount from \$250,000,000 to \$500,000,000 a day, we find that 446 out of 483 member banks in our district, if they sent all of their items, would send us 233,000 checks every day, amounting to \$46,500,000, which we would have to handle.

I may be wrong in this, but I believe that the theory of charge and credit which has been discussed as the proper method of clearing checks throughout the country can only be operated if the debit is always offset by the credit; that is to say, if we are to charge checks to our member banks' accounts, we have got to credit them with the checks that they are receiving, otherwise the balance will be constantly impaired. That will necessarily imply that we will gradually take over checks to go through the New York Clearing House. In order to have the offset --- on both sides of the account --- we have endeavored to get a line on what volume of business we would have to handle if we took member bank checks in New York City.

As nearly as we can estimate there are about 2500 men engaged for two hours every morning, in New York, making up the clearing house records of the city clearing. We estimate that if all the items going through the clearing house would ultimately come to us, that is to say, eliminating the 36 banks which are not members, and taking only the twenty-nine banks that are clearing, and that are members of the Federal Reserve Bank System, we believe it would result in our handling ultimately one half of all the items that go through the clearing house, and it would probably take from 1,000 to 1,500 clerks to handle that matter alone. Of course we have the benefit of a large amount of resources in gold locked up in the safe deposit vaults there, but I do not want to conduct this enormous operation, unless it is necessary to do it. Furthermore, I do not want to see the Federal Reserve Banks in New York undertake that tremendous operation until we know that it can be successfully done and done on sound lines.

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Speaking only for New York bank I have so many very grave doubts about the soundness of the scheme that has been discussed, of charging items and crediting items through the reserve accounts of the member banks, that my position is to urge the utmost deliberation and care before we undertake something that may lead us onto dangerous ground.

The Chairman: Perhaps we may hear from some of the other Governors. Mr. McDougal, will you tell us how you are getting along in Chicago?

Mr. McDougal: In Chicago we have been urged by the Federal Reserve Board to extend our activities, and we have considered in executive committee meetings a number of times the advisability of opening up the entire district. One thing, above all others, which had delayed action, has been the lack of any definite authority or advice as to what we were to do in the matter of charging and crediting items as they came in.

The Board in Washington has indicated some impatience recently, and that has resulted in our considering the matter again last week in executive ~~xxxxxx~~ committee meeting.

I think that if I should read a letter that we sent to Governor Hamlin, following that meeting, it would give a pretty good indication of what we are prepared to do. It will also be interesting to these gentlemen.

It might also be interesting to some of those present to know that up to the present time we have confined our operations, in so far as check handling is concerned, to items drawn upon member banks in reserve cities and items drawn upon the other federal reserve banks. On January 15, 1916, this letter was sent to Hon. Charles S. Hamlin, Governor, Federal Reserve Board, Washington, D. C.,

"Sir:

The Federal Reserve Bank of Chicago up to the present time has confined its activities with respect to the handling of checks to items drawn on member banks in reserve cities of this district and to items ~~xxxxxx~~ drawn on the

other eleven Federal reserve Banks

"The matter of extending out activities to include the handling of checks drawn on all other banks within this district has been delayed with a view of determinign our rights with respect to the charging and crediting of items as received. Our Executive Committee at its meeting today again discussed the subject and has instructed me to present to your Board for consideration a plan xxx under which it is proposed to receive from its depositors items on all member banks within this district.

"1 - All items drawn on member banks within this district to be credited immediately upon receipt.

"2 - Items received not to be immediately charged against member banks' accounts, charges to be deferred for two days affording time for member banks to protect their reserve balances.

"3 - Member banks located in the City of Chicago, it is believed, will agree to carry nine-eighteenths of their reserves with us, the excess to cover the aggregate amount of items in transit arising from deferred charges.

"The foregoing plan, it is believed, would be favorably received by our member banks. Provided the Chicago Banks will agree to carry the excess balances referred to above we are willing to adopt the plan as outlined, if the same meets with the approval of your Board.

"We await your advice in the premises before proceeding further.

Very truly yours,

Governor."

That is the way we understand it in Chicago.

Our operations between federal reserve banks have naturally not been so great as those referred to by Governor Strong, and the net result of our operations today has created a balance of \$2,390,759.36, or the net amount due us from the Federal Reserve Banks; that is, that is the amount that they will have to settle with us one way or another.

The Chairman: There is one feature in Chicago that I think Mr. McDougal might have mentioned, and that is the claim by some of the larger towns through our district, which do not happen to be reserve cities, but do have quite a clientele of country bank business, complaining that by opening up the Federal Reserve City Banks there is a discrimination created against them which was not permitted by law. And there is something in that, too. The banks in these reserve cities began supplying their customers with rubber stamps, and the customers would stamp on the checks, "Pay through Federal Reserve Bank at Chicago", which attracted the attention of these other good sized cities which were not having that privilege. And there is a great deal in that, too.

Mr. McDougal: And it was made the basis for solicitation of business. "Your check, drawn upon us, is good in this district at par, whereas the fellow you are doing business with could not offer you that privilege at present." That is very true.

The Chairman: Mr. Esay, will you be good enough to give us such information as you have along this line. I

know you have been studying the subject.

Mr. Seay: Mr. Chairman, we have all been studying the subject from different angles and from the point of view of conditions in the different districts. I suppose that I am only a little further from a conclusion than the others. We have been endeavoring to obtain the opinion of bankers in our district on this matter, and we find that quite a state of confusion exists among them. The most that we hoped, in asking them to give us their opinion of what ought to be done, was to get them to thinking on the subject in order that they might see how complicated it was, and what our own difficulties were in coming to a conclusion in their behalf.

We sent out certain inquiries to five hundred members and we received replies from only about two hundred. I think the others were too much puzzled to reply. In fact we got many letters indicating that and one gentleman proposed that we have a convention to discuss it. (Laughter) I told him I thought it would last 720 days out of the year. (Laughter) I informed him that the Governors had been having several conventions to discuss it and that they had not arrived at any definite conclusion and they felt hopeless about arriving at a conclusion through the medium of a convention. I think most of the Governors here are familiar with the character of questions that were asked the member banks, because we exchanged circulars; but I think perhaps the result of the inquiries in our district may be of interest to us all.

Governor Strong mentioned the two plans under considera-

tion. One of them was to give the credit, and the other was deferring the debit on such checks that we received and forward to member banks and making immediate debits in order to make the offset. We therefore asked the member banks the first question, which is as follows:

"Do you believe that all the checks sent to us by you should be counted by you at once in your reserve, and that we should give you credit on receipt and pay your drafts against the same before we receive advice of payment of such items?"

One hundred and forty-one replied yes to that. Fifty one replied no. Five made no positive answer, and the rest are yet to be heard from.

The second question was: "Would it be satisfactory to you to have us charge against your reserve account with this bank all checks drawn on your bank, immediately on receipt by us and before they reach you for examination?"

One hundred and thirty replied yes to that; fifty-four replied no. Thirteen gave no positive answer and the rest were silent.

The third question was:

"Should we give you credit on receipt for checks on other banks sent by you unless we have your permission to charge to your account on receipt checks on your bank received from other banks?"

Thirty-three said yes to that. They wanted to take but they would not give. (Applause) One hundred and forty-two said no, and twenty-two gave no positive answer.

The fourth question was:

"Which would you prefer ---

"(A) To have us credit immediately all checks on other members received from you and charge to you immediately all checks on you received from other members, you to agree to maintain a balance on our books, in addition to your local reserve, sufficient to meet any excess of debits over credits, and to protect items afloat in the main,"

"Or the alternative:

"(B) To have us credit checks sent by you only after advice of payment, or ~~fx~~ after the lapse of sufficient time to reach destination, and charge to you checks drawn on your bank only after acknowledgement of receipt by you, or after the lapse of sufficient time to reach you?"

Replying to the immediate credit proposition one hundred and nineteen answered yes, that they were willing to sustain a balance in excess of their legal reserve. Fifty-three replied no. Twenty gave no positive answer. I have that just a little wrong, gentlemen. One hundred and nineteen preferred the immediate credit system. Fifty-eight preferred postponed credit to give time for the checks to reach both ways, and twenty gave no positive answer.

The fifth question was:

"Would or would not plan (A) suggested above tend to lead to the practice of drawing ^{checks} against non-existing balances, and promote 'kiting' both on the part of banks and individuals?"

Fifty-~~five~~ five replied that it would. Ninety-eight said

no, and forty-four gave no answer.

The sixth question was:

"Do you think that items outside of District No. 5 should be handled upon the same terms as items within the district? If so, which plan under heading No. 4 would you prefer, (A) or (B)?"

To question No. 6 one hundred and forty-eight said that items outside of the district should be handled on the same plan as items inside the district; twenty-three said no and twenty-six gave no positive answer.

The seventh question was:

"Do you think it reasonable under either of the above suggested plans for this bank to make a charge for collecting items outside of District No. 5?"

Forty-one said that they thought it was right to do that. One hundred and thirty thought not, and twenty-six gave no positive answer.

Question No. 8 was:

"Do you think that any member bank should make a charge of exchange for items drawn upon it ---

- (c) if coming from within the District,
- (d) if coming from outside the District.

If so, who should pay it?"

Sixty-one thought there should be a charge; sixty-nine thought there should not be a charge; sixty-seven would not give a positive answer. There was hopeless confusion on the matter as to who should pay the exchange. Eleven ^{that} said the reserve bank should pay it; eight said that the payee bank should pay it; forty-five said that the

sending bank should pay it; four said that the collecting bank should pay it; three said that the drawer should pay it and 123 did not give a reply on that question. (Applause)

As to the number of items handled in the district, I sent out some queries that would give them the least possible trouble. I did not send them in the way in which I wanted to send them. I was rather discouraged by an experienced bank man in our bank, the Federal Reserve Agent, who did not think I ought to send them at all. I told him I wanted the information and was going to send them. I merely asked them to keep an account for a week and give us the volume of items that they were sending out and the amount received from all sources. I wanted to overwhelm them a little with the business they were handling and see what the result might be if it all went through our bank. It was for that purpose that I sent the inquiries in the form in which I sent them. I asked them to give the information as to the balance from items sent out by them to their presently designated reserve agents; to their regular correspondents and miscellaneous correspondents. I found the average number of items sent out for six days, per day, was 144,000, and the amount \$13,000,000. That involved, of course, items received from state banks, non-member banks and all. I suppose that we would handle at least one half of that if it all came to us.

You remember that the Comptroller obtained from the bank, some time prior, certain information, and between the two we might form a conclusion. Those returns came in very recently, and I have not had time to analyze them

any more than I am doing here now.

The Comptroller asked the following questions of the banks: To give the number of checks on other member banks outside of own city deposited by depositors other than member banks. In our district that amounted to 31,000 checks on member banks.

Mr. Strong: Was that an average for one day?

Mr. Seay: I presume that is an average for one day. Then he asked for all checks on other member banks received from correspondents outside of the district. That brought forth fourteen thousand, making a total of 45,000 items. If you will observe he did not ask them to give them number of checks received from correspondents within the district. Why, I do not know. That would be a volume as very large, perhaps, as the other, or nearly as large. At any rate, those two items amountd to 45,000 and the amount is \$6,000,000.

The resources of our bank at present are \$6,000,000 on deposit and \$1,000,000 capital, and you ~~xxxx~~ therefore see what the volume of business might be if we undertook to handle these checks on our member banks.

These are the results, gentlemen. We have yet to reflect upon them, and dissect them, and draw our conclusions from them.

Mr. Weld: The information you have gotten, relative to the number of items and the volume --- the manner in which you have asked for the information would rise to duplication, would it not; when you asked for all the items the banks

sent out?

Mr. Seay: What is sent out on a single day.

Mr. Wold: I should think it would give a duplication of fifty per cent.

Mr. Seay: I would not think so, sir.

Mr. Wold: You get what the smaller banks send to the Baltimore bank, and what the Baltimore bank gets when they send it out.

Mr. Seay: The items sent by the small banks would not be handled at the other banks until a couple of days afterwards ; but taking the same day, these items are of interest and would come through.

Mr. Wold: The federal reserve bank handling today the items which the country bank handled the day before yesterday or yesterday, would make a duplication just the same.

Mr. Seay: To what extent. My estimate would be that we would have 70,000 odd a day, if you take the comptroller's figures, and they seem to be correct.

Mr. Fancher: Will you tell us about your experience in handling checks on other federal reserve banks?

Mr. Seay: I presume all of our experience in handling checks on the other banks has been that the number of checks is insignificant and I have not thought it worth while to report to this conference the number of checks. We have actually exchanged debits with ten of the Federal reserve banks and we are in debt to two of them. The others are in debt to us in a small amount. We are very heavily indebted to New York, two and a half million dollars at this

time. That arises from several different causes. Our member banks are appealing to us now to pay the money borrowed from the New York member banks, and our rediscounts amount to about \$3,500,000 at this time. A great deal of that has been used to pay off loans to the New York banks.

Our member banks, since they began to find that we were receiving checks on other reserve cities, and since we would receive checks on any Federal reserve Bank, would send us checks on members in the Federal Reserve Cities and then forward those checks against such balances to New York, transferring the balance through us. They would also deposit the cash with us. I have intimated to them as gently as possible the results of those things, but they did not take the hint. I have had to send out a second circular, hinting a little stronger, and I hope it will check that practice, for it cannot keep up. It would be too expensive to settle our debts at New York. There is only one way at this time of the year to settle it and that is by the shipment of currency. We do not happen to have anything but gold. We could transfer our gold to New York and take our chances on getting back an equal amount of gold.

That is about the state of affairs with relation to the other federal reserve banks.

The Chairman: Mr. Strong has a statement which is the result of a lot of questions to member banks in the New York district, and that might be interesting along the same line.

Mr. Strong. We have 482 member banks in our district.

We sent them six inquiries and received 430 replies, up to the time this statement was made.

The first question was whether it would be satisfactory to them to have a charge made against their reserve account. 320 said yes and 110 said no.

We asked them if we should give them immediate credit on receipt of items sent there. 371 said yes and 56 said no.

The third question was whether we should give credit on receipt unless we had authority to charge items. 116 said yes and 308 said no.

Perhaps I had better read that question, as it is not quite clear.

"Should we give you credit on receipts from other banks unless we have your permission to charge your account on receipt with checks on your bank received from other banks?"

116 said yes and 308 said no.

The fourth question was whether they thought they should make charges for paying checks drawn on their own banks. 202 said yes and 222 said no.

The fifth question was whether they thought the Federal Reserve Banks should make the charge for collecting items payable outside of District No. 2. 124 said that they thought it was desirable, and 283 said it was not desirable for the Federal Reserve Banks to make charges.

The sixth question was whether the member bank thought the Federal Reserve Banks should hold items payable outside of District No. 2 in transit accounts, making proceeds available when checks were paid. 88 thought that they should be

held in transit accounts, and 325 thought that they should not be held in transit accounts.

I have a letter here from Kansas City that I think possibly should be read. The Governor of the Federal Reserve Bank of Kansas City unfortunately had a death in his family and was not able to come. This letter is from Cashier Thrall.

The Chairman: The member of the Advisory Council from Kansas City, Mr. Swinney, could not come because of the illness of Mrs. Swinney. We have not a representative from Kansas City here and we will be glad to have the letter read.

Mr. Strong: There is a lot of data attached to the letter, but I think the letter is a good summary. The letter is as follows:

"FEDERAL RESERVE BANK

of Kansas City.

JANUARY
Eighteenth
1915.

Honorable Benjamin Strong, Chairman,

c/o Hotel Willard,

Washington, D.C.

My dear Sir:-

We are enclosing herewith statements with reference to the number of items handled through our city and country clearing departments since the opening of this bank. Also statements showing detail of our balances with other Federal Reserve Banks, and their balances with this

bank.

"We have handled, since our opening, up to and including the 15th instant, through our city clearing, a total of 11,409 items, aggregating \$30,531,997.85."

That is about ten per cent in amount, and less than ten per cent in number of items that daily go through the New York Clearing House.

"We have handled through our country clearings a total of 138,938 items, aggregating \$37,571,872.87."

That is a little more than half of what would daily go through our account in number of items.

"On December 15th, we extended the functions of this bank to include the clearing of all checks and drafts drawn against member banks of District No. 10, and to include checks and drafts on other Federal Reserve Banks, and on member banks in other Federal Reserve cities.

"On December 17th, owing to the action taken by the Governors at the conference in Washington, we advised our members that we would not take items drawn on banks outside of our district, except those drawn on Federal Reserve banks.

"And later, on December 24th, owing to the restrictions placed on endorsements by neighboring districts, we were compelled to limit the items to be handled by this bank, to those bearing endorsements entirely within the district. As a result of these restrictions, we have had a considerable accumulation of balances against us in St. Louis, Chicago and New York, which would not have resulted otherwise.

"Since the extension of the functions on December 15th,

we have handled through the country clearings an average daily, 5,301 items aggregating \$1,360,800.00. The total number of items handled from December 15th to January 15th inclusive, was 137,841, the aggregate being \$35,381,568.51.

"All items handled in the country department have been charged to the member banks accounts on the day received at this bank.

"At the outset, our mail was considerably delayed in getting out of our office, and owing to the heavy Xmas business, the incoming mail was also delayed. This resulted in quite heavy debit balances arising against the member banks.

"On the fifth day of the operation of this department, the debit balances ran over \$1,000,000.00. On the seventh day, they reached a total of \$1,261,000.00. This has been gradually reduced. The total at the close of business Saturday (the 16th instant) being \$458,295.78. Approximately two-thirds of these debit balances arise from our relations with banks located in three of our reserve cities, namely, Muskogee, Oklahoma City and Wichita. On the 16th instant, out of the debit balances aggregating \$458,295.78, \$235,000.00 was represented in Oklahoma City and Wichita alone. The banks in these two cities have a large number of nearby country correspondents that indulge in the practice of drawing drafts against their Wichita correspondents, and sending them to Kansas City banks for credit. These drafts are in the nature of transfers in round amounts, and since December 15th, the local banks; that is, the Kansas City banks have been turning these transfer drafts

into the Federal Reserve Bank at Kansas City, for credit, eliminating the debit balances; thus occasioned the total debit balances would be greatly reduced.

"We have had considerable complaint from our country member banks on account of the loss of exchange which they suffer. We believe, however, that this ~~xxx~~ objection will be corrected when a thorough explanation is made to each of these banks showing them the benefits which they may derive from the system.

"Considering the unsatisfactory conditions under which we have been working, and the fact that we have not had the cooperation of the other eleven banks in the way of clearing facilities, the writer believes that the plan has worked as well as could be expected.

"Regretting Governor Sawyer's inability to attend, and with good wishes for a most successful meeting, I am,

Respectfully yours,

(Signed) S. Thrall,

C a s h i e r.

JT-KB

"P. S. We also enclose the opinion of our attorneys regarding waiver of demand notice and protest."

The other figures submitted are the clearing figures in detail, with the exception that there is a statement of the debit and credit situation with the other Federal Reserve Banks. The largest item is St. Louis. They owe St. Louis about \$600,000. They owe New York \$200,000.

The rest are all nominal.

The net credit balance that is owing Kansas City is \$770,000.

Mr. McDougal: I notice from the figures as you have read them, and if I have them correctly, that Kansas City, with the entire district open, is handling about the same number of items that we are, when we are doing business only with the reserve cities; and that volume is less.

Mr. Weld: We had our auditor at Kansas City last week, and through correspondence with the Kansas City member banks we learned that the Kansas City banks are only putting through Federal Reserve Bank items on such points that they have no connection whatever. That would be the situation with relation to the Twin Cities. Our information leads us to believe that we would not get a single item from a Twin City Bank where they now had an account. They continue to send to that point direct, and we would simply get the surplus items on points where they had no connection whatever, and would probably handle the same number in amount and in volume, and not any more than that.

Mr. Morgan: That is the case in Chicago, too, is it not, Mr. McDougal?

Mr. McDougal: Yes, sir.

Mr. Wells: (Of Dallas) That would not be the case if all of the twelve banks should establish a permanent plan. ~~Isn't~~ Isn't it true that all of the member banks are not utilizing any plan --- for instance take the case of Kansas City ---

because they do not know how permanent it may become and therefore do not want to disturb existing conditions until some plan of permanency is adopted? The small volume handled in Kansas City may be due to the fact that Kansas City is experimenting and a number of the banks realize that the plan we have adopted is not a permanent plan. If the plan was adopted by each of the banks and utilized, it would perhaps be a fairer test than it is now when it is simply in the experimental stage in one of our districts.

The Chairman: Probably there is a good deal in that. I know from our experience we have had some correspondence to the effect that some checks ^{would} go through the Federal Reserve Bank instead of being sent direct in accordance with the previous arrangement.

Mr. Wells: (Of Dallas) The member banks are using the limited functions less than they would do if it was known to be a permanent arrangement. I do not think we can draw conclusions from the present volume handled, simply because it is known to be experimental.

The Chairman: One of the features that has always impressed me, and I think it is probably brought out as strongly at Chicago as at probably any other Federal Reserve Bank City, is that a small proportion of the floating checks are drawn on member banks and the large proportion of them are drawn on ^{the} State banks, which we would not be able to clear, necessitating the maintaining of a transit department very slightly reduced, and only slightly reducing the expense in order to obtain the benefits of col-

lections through Federal Reserve Banks or member banks.

Then that brings us to another idea, and that is that the State banks are watching our operations. We have a large majority of State banks in our clearing house, sixteen State banks actual members, and five National banks in our clearing house, all working now under clearing house rules regulating the charges on checks, so that you see, so far as the clearing house is concerned, the State banks dominate it and can out vote us three to one.

Another thing in that connection is worth mentioning, because it shows how the ideas and feeling in the country is. The clearing house committee in Chicago was approached by a committee of business men in Chicago, who were contemplating calling a meeting of business men to investigate why the banks in Chicago, the clearing house banks in Chicago, were still charging exchange on checks, when they understood that when the Federal Reserve Bank Law was passed they were going to get all their checks collected for nothing.

Prominent business men ---I do not mean the cheap fellows, but men who have a large volume of business ---have taken that position. We headed them off; we told them they had better go slow and advised them not to call the meeting at the present time; that the matter was in a state of evolution, and that until something was worked out we could not do any thing for them, at the present time anyway; that we would wait until this collection system through the Federal Reserve Banks developed. When it does develop --- and coming back to my original ideas--- it is only going to

be a small portion of the floating checks that are going to be collected. We have got to keep up our own old relations for the collection of checks on such banks, as it appears to me, and it will require practically, or pretty nearly, as much transit department as we have now, because I do not think the elimination of a small part of the checks makes a great deal of difference in that department.

Mr. Wing: I would like to know whether there has been any movement in Chicago, or in the Western District, by the State banks, looking towards organization to offset the clearing arrangements of the reserve banks.

The Chairman: There has been no concerted action, but they are talking about it. I know the State bank members of the clearing house have all been talking about it, and when we get together they ask such questions as follows: "How are we getting along?" "What are you going to do?" "How are we going to arrange this matter?" Of course we cannot know. We are making the same charges that we always did. It does not make any difference how we collect a check, whether through the reserve bank or not. We are under agreement with them; we are still charging and we are going to keep on charging. We have made no difference in our charges. X

Mr. Strong: How do you answer the State bank members? Or, is that an embarrassing question?

The Chairman: We just put them off and put them off until you governors have settled this question.

(Applause)

Mr. Wing: Is it true that any material extension of

this arrangement will immediately cause an organization of some kind by the State banks?

The Chairman: Undoubtedly. Take it in Chicago. What are you going to do? They are very much a majority, controlling three to one the business of the community. It is different, I believe, in New York. The State banks are not members of the clearing house.

Mr. Strong: Oh, yes they are. There is a majority of them. There are 29 national banks, one federal reserve bank with no vote, and 36 state banks and trust companies.

Mr. McCord: I will ask you how you charge in Chicago at the Federal Reserve Bank where the clearing house charges

The Chairman: I do not know how they are doing that.

Mr. McKay: You would have to charge on it unless you changed the clearing house rules.

The Chairman: We must charge on it now.

Mr. McKay: Under what authority?

The Chairman: There is not any authority, but it is a matter of agreements, an existing agreements, and until we break the first agreements we cannot adopt a new one with anybody.

Mr. Strong: We have put this item as the last item on our tentative program, believing that we can dispose of everything that we have on the program in one day, possibly, leaving two days for this subject. Before undertaking to discuss it and arrive at a solution as you suggest, we would like to know what the Federal Advisory Council thinks about it and how you feel about it, that is,

about the general subject of collecting checks or check clearance, as the term is used.

Mr. Aiken: I sympathize with Governor Strong. We came here to receive enlightenment from the Federal Advisory Council. We need it. (Applause)

The Chairman: Well, you have the better of us. You have met and discussed the matter and we have not.

Mr. Aiken: It is a new subject with you. We have trodden it into the mire and we would like to have an expression from you on it.

The Chairman: The desire of the members of the Advisory Council was to come here and see if they could get any light on the practical experience of the Governors so far as they have gone with it. We can see the difficulties and we were hoping that experience would throw light on them and that there would be some way of evolving a plan whereby the apparently mandatory law could be applied. I do not know that you gentlemen have read the opinion of Judge Elliott, the legal advisor of this Board?

Mr. Strong: Yes; I think we have all read it.

The Chairman: In answer to some question raised by the Advisory Council, as to whether the law either required or permitted Federal Reserve Banks to receive on deposit from their members checks on member banks in their district, the opinion was given. I am very glad it was referred to a lawyer, to a gentleman who did not undertake to construe a particular paragraph but went over the whole law and got a law of implied authority, I think you would call it. It

was an implied authority which was contained in the law.

Mr. Strong: Covered by the blanket provision that Federal Reserve Banks have authority to perform those things which are incidental to the business described in the act.

The Chairman: He had to find it implied in the other paragraphs. It wasn't in the paragraphs you refer to.

Mr. Strong: It is all right if xxx he would construe the whole law that way; but sometimes it works the other way. He gives a definition or exact interpretation of one paragraph regardless of what the other paragraphs have to say. However, I think we have a good opinion on that. I think it is a very reasonable opinion to give.

The Chairman: There is a necessary opinion, if we are going to do the business under the law.

Mr. Strong: You represent then those 278 members of Governor Seay's, that did not answer that question? (Laughter)

The Chairman: I am not prepared to answer the question definitely, but I would like to see how it is going to be worked out before we make a decision.

Mr. Seay: I notice in the arrangement which you suggest, Mr. Forgan, fro your district, that you introduce a little outside element. You suggest that you be prepared to handle checks on members in your district, but in order to do so the banks will put up a little surplus balance fund by which to handle them. That~~ix~~ is a little extraneous to the system.

The Chairman: Yes, it is.

Mr. Seay: Suppose you eliminate that? What would you do then?

The Chairman: If it is eliminated there is only one other way or thing to fall back upon, and that is to divert both the credit and debit, in my mind. I am very strongly interested in the member banks outside of Chicago. It doesn't make so much difference in Chicago, of course, but in the interests of the member banks outside of Chicago I am very strongly of the opinion that they could not be expected to keep a reserve balance with the reserve banks unless the balance at their credit on their books with the Federal Reserve Banks is absolutely within their own control. I do not think it could be attempted in any other way. If I was running a bank and had to keep a certain reserve at a certain place, and I was away a considerable distance from that place and had much business with a large number of customers drawing checks on me, and I did not know when they drew them or the amounts drawn; if I had no knowledge of what was sent out, but they were charged to my reserve account without my knowledge and consent, I would protest until doomsday about it. I wouldn't stand for it a minute.

Mr. Strong: They are doing it now.

The Chairman: I know they are doing it now, but I object to it just the same.

Mr. Aiken: You reserve your figure on the books of your own bank?

The Chairman: On the books of your own bank; yes.

Mr. Aiken: I am very much surprised at the banks in New England. I did not send them a general circular. I have inquiries of a great many country banks through that district, and I have yet to find one that objected to having the checks against him charged the night they were sent off. We gave him credit for his cash later that came in in the morning.

The Chairman: Your banks have gotten accustomed to country bank clearing.

Mr. Aiken: Yes, they have.

Mr. Strong: Those charges are made the second day.

Mr. Jaffray: I would like to know the Governors' feeling about the national banks in our district being willing to give up the exchange item. In our district we have banks that are three and four days away from Minneapolis and these small banks have Minneapolis exchange only about three or four months in the year. The balance of the year they are shipping currency to cover their balances with us. Are they going to be expected to ship currency to Minneapolis to cover these checks free of charge and also carry a balance in the Federal Reserve Bank? And stay in the National bank system? Many of these banks in our country make their expenses and their salaries and dividends on exchange accounts. I think the effect will be that a lot of them will have to leave the National Bank system where they can do so without injuring their own business.

Mr. Seay: Some of our replies on that question have been that as long as the time, distance, and express charges

are an element of doing business they think they ought to make the charge.

Mr. Jaffray: Many of the towns are three and four days from Minneapolis and on some of the branch lines they have two or three sails a week. They have ~~xxxx exchange~~ exchange on Minneapolis and Duluth during the grain moving season, and for the balance of the year it is all the other way. I have a very grave doubt whether these banks, where they can help themselves, will stand free exchange.

Mr. Wold: They cannot help themselves.

Mr. Jaffray: They cannot except by getting out of the system. They now get credit at par for all their checks. There are a dozen interior bank points, like Bismark and Dickinson that would take the country bank checks at par and give credit on receipt to do away with the question of exchange on their own part. Then they in turn charge us heavily on every check that comes to them.

Mr. McKay: That charge they do not have to pay.

Mr. Jaffray: They do not have to pay. They get everything free and charge in return for all checks.

Mr. McCord: May I ask a question ---

Mr. Jaffray: There was a meeting of about two weeks in St. Paul ---to show you how interested they are in it --- and at that meeting there were 500 state bankers, and they spent all day discussing the question of joining the Federal Reserve System. The question of exchange in the little towns came up, and they are evidently interested in it. I think the State Banking Department of our State is rather inclined to help these banks to protect them

selves in case this par question goes into effect.

Mr. McCord: I will state that in my district, the State of Georgia having 680 state banks and 114 national banks, have organized a state clearing house association. They have elected officers and are ready to go to work when the National System has put that business in force.

Mr. Seay: Have they formulated any plan for basis of charge?

Mr. McCord: The Georgia State Clearing House?

Mr. Seay: Yes.

Mr. McCord: They ~~can~~ realize, or at least they think the result of the national system will be that the checks will clear at par, and they are going along ~~xxxx~~ lines to meet that situation. In other words, they intend to clear at par, the overhead charges to be made against the banks depositing the checks and not against the banks on whom the checks are drawn. There are 425 member banks in that association now.

Mr. Morgan: This is a matter upon which I am not a doctor, because I never had to run a transit account; but it seems to me that on basic principles the statements of national banks have got to be accurate. The national bank makes its statement of its reserve from its own books. If one the same day it makes a statement its whole reserve ~~is~~ has been wiped out by unexpected checks which it does not know about, then that statement is not accurate. It seems to me that the fundamental difficulty with the whole thing is ^{having} that you cannot have a charge without/a corresponding entry on the books of the bank; you cannot keep the system

going. You have a floating account which will increase more and more and you might have the whole assets of the Federal Reserve System floating without any entry correspondingly made. I do not think it is a safe and proper way to do this kind of business, but of course I do not know.

The Chairman: I think you are right, sir.

Mr. Strong: The question from the standpoint of the reserve bank seems to me to be this: That the member banks now in the system have a total of \$12,000,000 of resources, a fraction of which consists of investments in uncollected checks. If this system transferred a portion of that investment to the Federal Reserve banks it would take all of the resources ---

The Chairman: The present condition is this: That the reserve agents of country banks always show more to their credit than the banks of the correspondent, do they not?

Mr. Wold: I believe that is true.

The Chairman: Would not the ~~xxx~~ reverse be the case if we should charge these checks up to them before they knew anything about ~~sk~~ them -- that the reserve balances of these country banks in the federal reserve banks would ~~x~~ always be less than the amount that the member banks' books show?

Mr. Wold: I do not quite understand the question. I do not quite agree with you that the country banker's books always show less than the reserve banks?

The Chairman: Yes.

Mr. Vold: I think very frequently they show more. The country bankers' account, the First National Bank of Minneapolis, for instance, with the First National Bank of Chicago, will frequently show more than the books of the First National Bank of Chicago. That is not a fair illustration because you do not charge their account with items. Where you are sending out items, so-called country items, and charging them to the account, the balance as shown on the books will be less than that shown upon the books of the country banker, because he charges you with remittances immediately but does not give you credit for the item you send him until he gets them. There are two elements. Items he sends you are charged on his books when you have not seen them; items you send him are charged on your books and he does not see them. There are two items that are floating, and are larger in his reserve account on your books than they are upon yours.

Mr. Wing: The reserve city banks do not ordinarily charge items until they get returns.

Mr. McCord: Suppose you carry two items on your ledger, one your reserve account and the other your collection account. The law is to carry it thirty-five per cent reserve. What would be the effect of carrying it against the collection account ---would they eliminate from the reserve until actually paid ---

The Chairman: (Interposing) I do not know how they construe that. I think you would have to offset one account against the other and charge the net balance.

Mr. McCord: If that is the case, then you would be carrying 35 per cent reserve against your floating balance--

Mr. Wold: Not if you offset.

Mr. McKay: The amount charged to transit account would come out of your gross deposits and equal that.

Mr. Seay: There is one possible danger of creating the system. Many of the member banks are now beginning to regard their deposits in reserve banks as deposits subject to check. If their reserves go into an active account they will be all the more so regarded. Whatever system is devised it should be one which would keep our reserves inviolate and rigidly maintained. Otherwise they will never be there when you want them. They have already granted credit against it. They now want you to grant additional credit against it, and then they want to check against it and have collections made against it.

The Chairman: And a step further; they present their checks against it for the purpose of transferring the funds from one point to another.

Mr. Seay: Precisely. They send a check on Atlanta to New York for credit. New York must put it in the Federal Reserve Bank at New York and send it back to Atlanta for credit. That is a system that has not been in vogue, as I understand it. It has not been with us, I know.

Mr. McCord: May I ask Governor Seay a question?

Mr. Seay: Certainly.

Mr. McCord: What is your experience with the ones that do use you as a checking account? Do they keep

their reserve or not?

Mr. Seay: They do not. It is our inference that they do not.

Mr. McCord: My experience is the reverse; that is, that they are using us for a checking account and have a balance with us larger than the required reserve.

Mr. Seay: That is not so with us, so far as I can form a conclusion. To mingle the reserve with an active account is a very dangerous principle.

Mr. Aiken: In the final analysis of the operation of this act, when all of the reserves are transferred to the Federal Reserve banks, I do not see how you can escape having an active checking account. I do not see why these accounts should not be used just as reserve accounts with reserve agents are used now. We have taken the other extreme of the position taken by Governor Seay. We have encouraged our banks that we have talked with to think that their relations with us-- in fact we propose, to commence with, to make their relations with us practically the same that they are with our reserve agents today; that it is to be turned into a benefit for them and is not to be absolutely a dead fund to be kept by the federal reserve banks; that they can check against it and use it as they would do with ordinary reserve accounts.

Mr. Seay: The point with us was that if they check against it they do it to excess.

Mr. Aiken: It is up to the office of the Comptroller to see that they maintain their reserve. It does not seem to

me that the burden rests upon us to see to that.

Mr. Seay: We think they are not maintaining their reserves. The Comptroller is a man at a distance. He can reach only one at a time. He does not reach them all.

Mr. Aiken: It is up to the reserve agent to see that the reserves are maintained, and it is up to the depositing bank as to its relations with the Comptroller's office. It seems to me that we are badly enough off now, and if we once begin to assume the responsibility of looking after the other fellow's reserve, why I think we might as well stop.

Mr. Seay: We want to inculcate^{into} them the idea that they should look after them and maintain them inviolate. That is the point I make.

Mr. Aiken: I do not believe the reserves should be so sacred as that. I believe they should be used.

Mr. Seay: I believe they should be used for credit purposes, but not for collection purposes.

Mr. McChord: May I offer a little statement with reference to something I put into effect with one of our bankers. We got into the habit of sending his checks up to Governor Strong----

Mr. Strong: We have not talked that matter over yet, you know, Mr. McChord.

Mr. McChord: When I got my statement from Governor Strong's bank that I was charged with this man's items on such and such a date, I examined our account to see whether he had a collection balance over and above his reserve, and I immediately wrote him that that would not be permitted;

that we were charged for that money in New York on the day it was received there, and in the event that he continued the practice I would have to buy exchange, at whatever price the market offered and charge him with the cost of the exchange. I have had no trouble with him since.

Mr. Strong: Neither have we. Thank you very much, Mr. McCord.

Mr. Wold: You may be interested in a practice indulged in early in the game. I notified the Duluth, Minneapolis and St. Paul banks to use us to make eastern exchange, and there were some very interesting things that happened in connection with the operation. We owed Governor Strong's bank in New York something like half a million dollars, and didn't want a charge put in. We tried to buy exchange in Minneapolis to cover it and Mr. Jaffray finally allowed us to have \$150,000 worth one day of New York exchange, and we sent it on to reduce our adverse bills with Mr. Strong. Mr. Jaffray used the \$150,000 excess credit to pay off the balance that he owed the St. Paul banks. He sent them a check on us and they immediately sent that check to Chicago and got the Chicago exchange, which was worth twice as much as New York exchange.

Mr. Strong: That is what they call whip-sawing.

Mr. Wold: You will be interested to know that some eastern banks have written to Minneapolis banks asking them to use their facilities to create eastern exchange, and are selling it at a profit.

The Chairman: When we get the circular from our New

York correspondent to the effect that checks on federal reserve banks would be received on deposit by them at par, the man in charge of our exchange operations sent down to Chicago for \$500,000 of it-- sold it the same day at 30 cents premium and made \$150 on the transaction.

Mr. McDougal: Chicago has out close to \$6,000,000 on New York. I think I am right when I say that the greater part of that represents drafts that our memberbanks have drawn upon us and sent New York to create exchange. I would say probably from \$4,000,000 to \$5,000,000. They are catching onto it very rapidly, and it is increasing every day.

Mr. Morgan: It is an attempt, at the expense of the federal reserve banks, to do away with the difficulties of time and space.

Mr. Strong: They are putting the burden on the federal reserve banks in Chicago to ship the money; that is all.

Mr. Morgan: And it is being done at the expense of somebody else.

Mr. Strong: It does not seem to me that the reserve should be used in that way.

Mr. Weld: That is excess over the reserve that they are using in that manner.

Mr. Morgan: If they are carrying float for the federal reserve system----

Mr. Weld: They have had excess to draw against.

Mr. Strong: It does not make any difference whether it is credit or debit, all the items go through the clearing house.

If Mr. Morgan should go into the reserve bank with a million dollars in gold and draw his check, and it is sent to New York so as to get the exchange, that is just throwing the burden on that bank of shipping to New York. Of course if the time element is stricken out the expense resulting would either have to be charged to the member bank or assumed by the Federal Reserve Bank.

Mr. Morgan: There are two elements, time and distance. It is a question of mileage.

Mr. McKay: If the items were not received for immediate credit by the New York banks these transactions would be changed, because it would not be possible for the Chicago bankers to do it. Their correspondents would not allow them interest.

Mr. Morgan: They are getting it done at somebody else's expense. I do not presume that they are losing any opportunity to sell the exchange at an advantage.

Mr. McCord: I asked the question a while ago if Chicago was charging. My purpose in asking that question was this. We are asking some of our member banks to use us for drawing checks, just as Mr. Aiken suggested. We have had this difficulty, that some of you decline to accept the reserve check on Atlanta at par, although the agreement with all twelve bankers is that they would recognize the check at par. That check I have been sending to New York as a basis for New York exchange.

I had a little experience along that line. Several banks said to me, "We cannot do that, because we are having

trouble. Our people say that they are being charged exchange on that.^a What is the result with us? The result is that we are carrying a credit balance in each of the Federal Reserve Banks, with the exception of two. We carry balances with all except San Francisco. We have no relation with San Francisco; but with all the other banks we are carrying credit balances with the exception of New York and Philadelphia, to whom we are debtor. Now, if these checks of all of our member banks would be honored by the bank in the district and sent to their federal reserve banks, that would offset our credit balance very largely. Instead of that it is being declined; New York exchange is being demanded, and it keeps us debtor to New York and Philadelphia, whereas we are creditor to the other banks. If the check was given its natural floatage it would come back to us through the New York channel; and inasmuch as the banks throughout the United States are not taking Atlanta checks at par, although they are taking them at par at New York, Boston, Philadelphia, Chicago and St. Louis, it is forcing us to carry credits in one direction and debits in another direction; whereas if the check was taken, or floated, it would offset a good deal of that and would not create a demand on New York and Philadelphia.

The Chairman: That will be the outcome of it when you get into it, and I hope it will.

Mr. McKay: If you had a settlement of those balances that would clean it up.

Mr. McCord: Yes. Unless it is a piece of exchange in any of the cities it would be useless for us to undertake it, because we are carrying credit balances with other cities. If they recognize it as a piece of exchange and make settlement weekly, then it will settle itself to a large extent and the float in the trade will naturally cover it.

Mr. Wold: I would like to inquire if the Federal Advisory Council are prepared to recommend to the Federal Reserve Board that the organization of these banks has progressed to such an extent that they ought now to commence handling checks for their own district, or are they prepared to say to the Federal Reserve Board that the time has not yet arrived and we need not commence it?

The Chairman: I do not think that question has been before the Federal Reserve Council. I would not undertake to speak for them at all, without about two days and two nights of discussion.

Mr. Wells (Of Dallas): We are willing for that discussion to begin at any time.

Mr. Wold: If the Council is prepared to go on record with the board in saying that the time has not arrived, then we can sit back in the traces a little longer. If, on the other hand, the council have determined that we have reached the stage of development at which we ought to commence in a modest way, at least to attempt to clear checks in our district, then it is up to us to make a system for doing it.

Mr. Rowe: As I understand it, you have the opinion

of counsel that the words "shall receive on deposit at par" do not necessarily mean immediate credit. Every item that comes into a bank comes in two ways either for collection or credit. When your young man at the counter enters it into a man's pass book it is a credit, an immediate credit, and it is subject to a debit check. The other way is for collection, where you give credit when you get return. I understand that you have this opinion, that the words "shall receive on deposit at par" do not necessarily mean immediate credit, without saying so.

Then there is another thing that occurs to me. Of course everybody knows that a check is payable at your counter. I have an indistinct recollection that there was a decision in reference to the check of some large corporation, that had, for the purpose of convenience, made its checks or drafts payable, if desired, at a bank in Chicago, New York or somewhere else, to the effect that the check was not finally paid-- that there was only one place of payment, and the check was not finally paid until it reached the bank on which it was drawn. That brings up the question of their right to charge checks to your account that you do not see.

If this matter was brought to the attention of the Advisory Council in any serious way, or if it were brought to the attention of the Governors, I do not think either party could get very far until you got a number of rulings from the counsel of the Federal Advisory Board. I think we would just go on here trying to thresh out some of

the intricate problems that the subject is full of, and we would not get anywhere until they establish some rules. You have to have a starting point. If you could get their rulings and decisions you would then have something to work on. But as it is now any subject that you take up it is necessary to go to some ruling that you know nothing about, or have never seen.

Mr. Wells (Of Dallas): We think counsel has already stated that we are not justified in charging items to member banks without their consent. The counsel of the Federal Reserve Board has given that as his opinion. Of course we are all doing it in the exercise of the limited function with which we started, in conformity to the conference here in October, which recommended it.

Mr. Strong: There is one very serious thing about this collection matter that we have not discussed here yet, but it is growing in importance in my mind. The country banks throughout the country, the member banks, have established relations with their reserve agents through whom they clear their checks, the checks they receive on deposit. The balance that they create by sending these items to their reserve agency is counted as a part of their lawful reserve. The Federal Reserve Act contemplates that that balance ultimately will not count as any reserve at all, but that the reserve will either be in cash in the member bank's vault, or on deposit with the Federal Reserve Bank. When the free period has elapsed and all the reserves are transferred to the reserve banks, unless the reserve banks are col-

lecting checks and affording facilities that are equal to those that the member banks now get from their correspondents, the country banks will be obliged to keep excess reserves, which will be the free balance upon which is based the service of their correspondent in collecting that item.

I do not regard that feature of the situation as one that we can control in any way at all. I think that this thing is going to be forced upon us by some development that we cannot now foresee. It may be a withdrawal of the country banks from the national bank system, or it may be possibly the withdrawal of the relations of country banks with national banks in the reserve cities and the state banks. If you outbid the national banks for this business and let the state banks come along and offer three per cent interest on these collection balances, you will no longer count as reserves for member banks at all. Within this period of three years the problem of collection has got to be dealt with by the Federal Reserve Banks. Either the law will have to be amended, or some system devised that will keep the business in the reserve bank system. How it is to be solved I am not prepared to say any more than Mr. Forgan is, but I think the question is going to be forced upon us for solution in some way within a period of three years. When the officers of these reserve member banks are made to fear that they are under necessity of keeping a greater reserve than they were actually required to keep under the old law, instead of less, as was apparently advertised; that they are losing money by the operation of the new law; that ~~some~~

they are not going to get any advantage in the collection of their items; that they are not getting any interest on their balances with the reserve banks, then I believe we have got to apply ourselves towards either bringing about an amendment of the Act, or else devising some plan by which that situation can be met before it arises in a serious way at the conclusion of the three years period.

The Chairman: Have you seen the opinion of Judge Elliott in regard to the legal right of federal reserve banks to act as collecting agents of notes and other items for their member banks? He brings that in as an implied authority, too.

Mr. Strong: That seems to me a perfectly fair implication of the law. The law says the federal reserve banks are authorized to discount paper and buy paper in the market, and they acquire title to that paper, and that it might be bought outside of their district. The law further says that they shall exercise all power incidental to the conduct of the business that they are authorized to conduct. Certainly one of the elements of that power is the right to collect the notes that they have invested their money in. They certainly have a right to send a note to an attorney for collection, and it seems to me they would have the implied right to send it to any of the responsible collecting agents for collection, and impliedly they would have the right to send it to any other federal reserve bank for collection.

Mr. McCord: Referring briefly to the question, if I may be permitted to do so, in reference to collection of charges, I want to read one of the paragraphs of Section 6

of the law and then make a brief comment on it. It is as follows:

"Every Federal Reserve Bank shall receive on deposit at par from member banks or other federal reserve banks checks and drafts drawn upon any of its depositors and when remitted by a federal reserve bank, checks and drafts drawn by any other federal reserve bank, checks and drafts drawn by any other federal reserve bank or member bank upon the fund to the credit of such depositor in such reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting the funds or for the exchange sold to its patron?"

That is a whole sentence complete within itself. Two members of the board have expressed their view that they would have a right to fix a reasonable charge against the depositing customer for the collection of these items, and that the member bank on whom it was drawn would have the right to make a reasonable charge for the expense of remitting.

The next sentence in the same paragraph is as follows:

"The Federal Reserve Board shall by rule fix the charges to be collected by the member banks from its patrons, whose checks are cleared through the federal reserve bank and the charge it may impose for the service of clearing or collection rendered by the Federal Reserve Bank."

There are two complete sentences in one paragraph, separate and apart from each other, the first authorizing the Federal Reserve Board to name the charge against the

depositing bank, because it says the bank on whom it is drawn shall charge the actual expense incurred in remitting it. That sentence in itself would give the Board a right to a decision along that line. In the next sentence it says that they can charge the customer when necessary. So they have there the two horns of the dilemma. They can do either one they want to.

That is all I had to say about that. I just wanted to read that. They can take ~~ahn~~ either horn of the dilemma. They can make the depositing bank pay the charges which are fixed as reasonable-

The Chairman: Or they can make the customer who sends his check out pay it when it comes back.

Mr. Wing: I think that is a question of which course is the least dangerous to pursue. It is not a question of the object of the state banks in joining this system. The real question is whether you will do something which will force the present member banks to withdraw. Personally I am thinking of that, as others are, and I do not want to decide that. I do not want to have to come to a decision on whether or not to change this system right away. I would rather we have another six months to see what happens. If you force this check collection feature on the member banks in each district, as you suggest, I think you are going to bring that question to a crisis, because you are going to force further organized competition by the state banks, and I believe anything that you can do to delay that practice another six months would give opportunity

for these questions to be really thoroughly threshed out and considered, as they ought to be, rather than to force the issue by check collections at once. Whether or not the Governors can stand it off I do not know; but I hope they will try to do it.

Mr. Aiken: I think it would be of great assistance to the Board of Governors if the Federal Reserve Board understood that the members of the advisory council felt that it should be deferred.

Mr. Fejfrey: I feel as Mr. Wing does, that we ought to go slow, because I am really afraid that we are going to drive out of the system a good many small national banks; they are afraid now of the expense connected with the federal reserve banks. They are afraid of assessment and the rules governing our assessments are very severe on them. They find that they cannot get what they want. I myself would feel very much inclined to go slow on it and give us more time to work it out.

Mr. Seay: Do you think there is more danger of driving certain small banks out of the system than there is of offering an advantage to state banks to enter the system?

Mr. Jeffrey: The advantage that the state banks would have in our district is nothing, because the state banks can now borrow money more freely on loans at longer time and at fully as good rates, and quicker, from their Minneapolis correspondents, than they can from the Federal Reserve Banks. Many of these small banks, when they figure in the afternoon that they are overdrawing with us three or four thousand

lars, go to their bill case, take out five thousand dollars worth of paper, draw their own C. D. and send it to us in the afternoon mail, knowing that the next morning they will have credit for it. They cannot do it with a federal reserve bank. They cannot figure that way.

Mr. Peay: The point of view of the Federal Reserve Board, as I understand it, is that the putting in operation of this system is going to offer such attractions to the outside banks that it will bring them in. Whatever influence is brought to bear on the board should be brought to bear upon that point of view, and any question as to whether there is more danger of disrupting the system than there is of adding strength to it should be taken up in the same way.

Mr. Jaffray: It is my opinion, in my district-- although I am not at all backed up by our bankers-- that the state banks today can get quicker and better accommodations, to suit their particular purposes, from their own correspondents than they can from the federal reserve banks. You cannot make a rule in the federal reserve banks that will possibly meet it, because you are dealing with the individual in the state bank. You know the men, you know their business, and you have known them for years. You know that they are all right. You have no rule to work under except individuality, and you cannot follow that in the federal reserve bank. You can never make Federal Reserve rules as liberal as you can the rules in your own bank.

Mr. Wold: If you knew some bankers as well as the

officers of the federal reserve banks know them, you would not be so free in extending credit.

Mr. Jaffray: In twenty-five years of loaning I haven't lost a cent.

Mr. Wold: I wrote to thirty of the leading bankers in Minnesota within two weeks, and asked for their opinion on the basis of admission of state banks to the system. The president of one of the larger Wisconsin banks, a member in the ninth district, whose opinion I value rather highly on general subjects-- although I do not thoroughly agree with him on this subject-- said to commence collecting checks at par. "That will bring them in quicker than anything else." That is the opinion of Mr. Burton.

Mr. Jaffray: That is Wisconsin, undoubtedly. But Wisconsin is a short distance from Chicago and has par checks now. But North Dakota, Montana and South Dakota haven't par checks.

Mr. Wold: He said that that would bring in the state banks.

Mr. McKay: I would like to see the Montana banks remitting at par to the Chicago banks.

Mr. Aiken: Unless you take bills for rediscount or security, I think that Mr. Jaffray raises an obstacle that can be overcome. In our district we have had comparatively few rediscounts, but I do not see why we should not be able to place the proceeds to the credit of the bank as quickly as Mr. Jaffray's bank. In fact no one has had to wait over night, provided his papers were

in order.

Mr. Jaffray: You probably come from a district in New England that has different paper from what we have in our district. To comply with the federal reserve bank law the rediscount man has got to go to his bill case and pick out stuff that he knows is going to pass muster. In our case he goes to the bill case and takes out the collateral.

Mr. Strong: I cannot help but say one more word about this law. Mr. Forgan, and some others of those who are sitting around this table, have given some eight or ten years of thought and study, and hard work, in an effort to get a better banking law in the United States. This Act has been passed, and I do not believe it is going to be repealed. It may have to be amended. Our efforts ought to be directed towards getting it going and not toward destroying it. There are a whole lot of problems in it. I believe that every Governor of the reserve Banks has made a personal sacrifice to take his position, in the belief that he is doing a public duty. That is the case with most of the Governors with whom I have discussed the matter.

Personally, I want to say that I am not going to consider the operation of the bank in New York from the standpoint that it is going to fail or that we are going to lose our members. We are going to get more members. The efforts of the last seven years of study, work and tribulations over banking legislation in this country must not be thrown away by discouragement coming from member banks.

By experience with the Federal Reserve Board-- and I

have seen a good deal of them in the last two or three months-- has been that they are devoting themselves very conscientiously to an effort to cooperate in solving these problems, and they are entitled to our cooperation. I do not think we ought to discuss this thing as though it were a hopeless task. I do not regard it as a hopeless task at all. In fact, although we were all criticised in many particulars, it will be the foundation of what we all want in the United States-- a sound banking practice.

Mr. Jaffray: Do not misunderstand me to criticize or do not think that I would like to see it turn out wrong. I feel as strongly as you do about it. We have a law that can be worked out and worked out well, but I say the danger is going to be in jumping into some things-- being forced into them-- which will drive out some of the small national banks, small national and state banks. They are all looking for the money they can make. We are in a country where conditions are different from what they are further east. I feel that we all ought to work towards making this a success, because I believe it is a good law in many ways. But we cannot change the custom of making exchange in threemonths. When this question of exchange comes up with the outside banker who is in business for his living we are not going to be able to change it at once. Let us take more time on it. It has taken a lot of time, a good many years to learn some of the things and you cannot change them in three months, doing it in such a way that another change will not have to be made in three months more.

Mr. Strong: I endorse everything that you say with regard to taking time. I think that has been our attitude in New York.

When the Imperial Bank of Germany was organized, they had two complete banks one of which had developed over a long period of years, the most skillful and complete system of check clearance known to banking. They only had 76 banks to deal with in Germany and in all the German states, as I recall it. It took them seven years to work out their problem in Germany: They have done it now very completely.

We have in this country 31,000 banks and I resent the pressure to solve in three months a problem that has taken seven years to work out and complete in Germany, when they were dealing with only 76 banks. There is no demand in the United States that we should do an unsound thing overnight. I submit it can't be done. I believe we ought to direct our efforts towards finding a solution of it. If the bill has to be amended let us ask to have it amended. I am very keen to see this bill do what we have hoped that it would do or that some bill would do, and that is to protect this country from a recurrence of 1907, for instance.

Mr. McCord: I want to endorse heartily what Mr. Strong has said. I made a personal sacrifice to accept the governorship of our bank. I was on the Currency Commission with Mr. Forgan from its incipiency. I have not gone into this thing with the idea of failure. In fact I see success in our district. I do not apprehend but what we will succeed with the federal reserve bank in District No. 6. Things are working out nicely and pleasantly. At

first there was considerable criticism, more of the rate of discount than anything else. People could not understand it. But that has worked out all right, and the member banks that are discounting with the Federal Reserve Banks at Atlanta are largely banks of \$50,000 to \$100,000 capital, from the interior points. Their paper has been found to be very satisfactory. They were surprised that they had plenty of paper in their port folio that they did not know was available.

The other day a banker from Lebanon, Tennessee, came in and submitted some paper, to discuss with me whether I would take it or not. I divided it. There was a state banker from the same city with him, who came along as a looker on. After I got through with the transaction he said: "Is that the way you are going to handle the business?" I said, "Until they stop us." He said, "I want to make application to join this federal reserve system with my own state bank. Look me up and see whether I am responsible or not and whether my institution is sound and strong." He said, "I wasn't aware of the fact that I had such valuable paper in my portfolio, as has been demonstrated here today. I believe that your conclusions and your reasons are sound, and I want to become a member."

The Chairman: Of course, gentlemen, we are meeting here merely for an informal conference and to exchange views. That is about all we could expect to do. On behalf of the advisory council I would say this: That when the Governors meet to receive the report of their special committee that they have appointed on this ques-

tion, that if they will send to me their final views that they are going to submit to the Reserve Board, I will submit them to the individual members of the Federal Advisory Council, and undertake to send the views of the Advisory Council to the Reserve Board. Of course I cannot say in advance definitely that we will support the position taken by the Governors, until we know what it is; but upon the expression of views here today I feel very confident that the Governors will get the backing of the Advisory Council to the findings that they will make on this subject at their meeting.

It has been suggested once or twice that you would like to know the position of the Advisory Council on it, but of course I cannot give that until we have considered it. When you have gotten through with your work, if you should wish the funding of the Advisory Council, if you, Governor Strong, as Chairman, will simply send it over to me I will send copies of it to the members of the Advisory Council, asking them to send me their individual opinions, and when we have received that, I will write to the Federal Reserve Board on the subject, backing up the recommendation. I have no doubt that we will back up the recommendation of the Governors. I think that is about as far as we can go today. Some of our members have gone home. We have been here for two days.

I think that would be the method by which quick action could be gotten, to back up the action of the Governors by having the advisory council send their opinion to the

Federal Reserve Board, after the Governors reach a conclusion on the matter.

Mr. Wells (of Dallas): Apparently Mr. Pegen is of the opinion that our special committee has been appointed for the purpose of coming to some conclusion and giving a report on this particular subject. He perhaps should be given the right idea.

The Chairman: I understand it was only on the question of settlement, but I suppose after you have done that you will take some action on this.

Mr. Wells (Of Dallas): At least we will have some discussion.

The Chairman: If you do not come to a conclusion you will have to ask for a postponement.

Mr. Wells (Of Dallas): The only statement I want to make is that the special committee was not appointed to make a report on this whole proposition.

Mr. McDougal: The subject submitted to the committee was the question of settlement between Federal Reserve Banks. However, these other matters would come up naturally.

The Chairman: After you have settled that you will have to take the other step and decide how far you are going to go, or you would not have any settlement to make.

Mr. McDougal: Just before we adjourn I have a settlement to make now. I have heard that the gold pool was allowed to disband. They have \$15,000,000, \$18,000,000, or \$20,000,000 in gold there that is going back to its owners, those who contributed to the fund. New

York has \$18,000,000 coming from various sources. Is not that so, Mr. Strong?

Mr. Strong: Yes.

Mr. McDougal: I do not know exactly how it could be worked out, but I wondered if we couldn't have some of that \$2,000 of expense by applying this gold fund to pay New York.

The Chairman: A large part of it belongs to the state banks.

Mr. Strong: I do not think that necessarily would interfere with doing what we have in mind, or a considerable part of what we have in mind. It would seem a perfectly absurd thing for us to ship \$18,000,000 of gold to 1400 odd banks throughout the United States from New York, and at the same time require shipments back to New York from all over the country. I do not know what decision will be arrived at by the gold fund committee. I am a member of that committee, but we haven't had any meeting to finally determine what we will do.

Mr. Wells (Of Dallas): May I ask if that is not returned to the subscribers in New York exchange?

Mr. Strong: No, the proceeds of exchange is sold.

Mr. Wells (Of Dallas): But not subscription, which is unused.

Mr. Strong: No, the unused subscription we have felt would have to be returned to the subscribers. If we can persuade the committee-- and I talked to some of them about it, and they favor it-- if we can persuade them to use the facilities of the Federal Reserve Banks it will off-

set a very large part of this exchange and save the expense of shipping both ways.

Mr. McDougal: It will moreover solve the problem of settlements between federal reserve banks, at least to some extent.

(Further discussion followed.)

Mr. McCord: Will that fund be distributed by the second of February?

Mr. Strong: I am sorry not to be able to answer you now. The matter is under active consideration, and possibly in a day or two it will be decided.

Mr. McCord: If so, we can arrange that our subscriptions in my district be handled in New York by having member banks draw their checks on the banks of New York and have the gold deposited there. They can pay it in to you and your bank can pay us in gold coin and we will give you credit, because we are debtor to you already.

Mr. Strong: We will work out a plan on that, Governor McCord.

The Chairman: Gentlemen, before we adjourn, if you will give the photographer your attention a minute, he will address you in another way.

(Whereupon a photograph was taken of the conference.)

(Whereupon, at 1:15 o'clock p.m., the Conference adjourned until 2:30 o'clock p.m. on the same day.)

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AFTERNOON SESSION.

January 20, 1915.

The Conference reassembled at 2:30 o'clock, p.m., the Chairman, Mr. Strong, presiding.

The Chairman: Gentlemen, we will come to order and we will start on our second session. Before taking up the program I am going to take the liberty of making a suggestion in regard to our procedure. At the first conference our discussion necessarily was rather fragmentary and broken up, and very difficult to have transcribed. If we are a little more careful, and permit each speaker to complete what he has to say before breaking in, we will have a correct, and I hope an accurate record of the proceedings here that will be of value to us in the future, and it will be very difficult to have such a record unless we both speak distinctly and continuously.

I am anxious, as you all are, to cover as much of this program that has been laid out as is possible, but to cover it successfully I am afraid it is going to be necessary to control the meeting a little bit, by methods that I hope you will not regard as arbitrary, simply in the interests of progress; and if my efforts in that direction overstep what you think is the proper course for the meeting to follow, just call my attention to it and I will subside.

Mr. McCord: Mr. Chairman, so far as I am concerned, I invite the rap, because Scotch blood, you know, will talk, you can not help it; and all you have to do is just to call me, and I yield gracefully, and am glad to

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have you do it, and I think that is the proper way to have it.

The Chairman: I know that we all want to accomplish the same thing, and we are all better acquainted now and I guess we can cover the better part of this program without any difficulty.

At the last meeting our first business was to appoint a committee to advise the Federal Reserve Board that we were in session and place ourselves at their disposal. What is your pleasure in that matter now?

Mr. Wold: I move that we hear the report, if that is in order, if they have a report to make.

The Secretary: No committee has been appointed.

Mr. Wold: I thought you meant this committee that you appointed last night.

The Chairman: No committee has been appointed, and if it is your pleasure to notify the Board by appointing a committee, we can do that, and while that committee is absent, we can do as we did before, go over some simply routine matters that can be reviewed on the return of the committee in a very few words.

Mr. Seay: Do you think that is expected of us on this occasion?

The Chairman: We have advised them that the meeting is to be held here commencing today, and we have sent Governor Hanlin a copy of the program and have invited him to make any suggestions that the Federal Reserve Board cared to make, and I have now a note from him stating that he will lay the tentative program before the Federal Reserve Board, but we have no advice as to the wishes of

the Board in regard to meeting them, and possibly the courteous thing to do would be to give them the opportunity to say something rather than simply wait for them to take the initiative. What is your pleasure about notifying the Federal Reserve Board?

Mr. Seay: I move that the Chair follow his discretion and sense of propriety in the matter by suggestion to the Board through its council.

The Chairman: Is Governor Seay's motion seconded? It is in the form of a motion.

Mr. Wold: I second the motion.

The Chairman: It is moved and seconded that the Chair shall direct what shall be done in regard to notifying the Federal Reserve Board.

(The question was taken and the motion was unanimously agreed to.)

The President: My best judgment is that a committee should notify the Board that we are in session, and ask their pleasure, and I suggest that the same committee who acted before should notify the Board. That committee, as I recall it, consisted of Governor Wells of Texas, Governor McDougal and Governor Sawyer. Governor Sawyer is not here, and I will ask Governor Wold to act in his place.

Mr. Wold: I will.

(The committee at this point retired from the room.)

The Chairman: If there is no objection, may I take up certain items of the program that are of a routine character entirely, and dispose of them in the absence of the committee, and report to the committee on their return?

Mr. Seay: I move that that be done, sir.

The Chairman: I suggest that we take up item No. 3, "Membership in Bankers Associations." The Chairman reports in that matter that following the last conference a report was made to the Federal Reserve Board that it was the unanimous opinion of the governors that the Federal reserve banks should associate themselves in some way with the American Bankers Association, and with the local associations in the respective districts, and I now have a reply from the Secretary of the Federal Reserve Board to the effect that the Board sees no objection to an honorary membership in such association, which will not involve active participation or office holding on the part of the representatives of the Federal reserve banks. The letter says:

"Such membership might be entitled either honorary or 'special' but should be of such a nature as to comply with the substance of the Board's recommendation in the matter, which is that the representatives of Federal reserve banks shall not actively participate in the management of the Association."

Mr. McCord: Mr. Chairman, may I ask whether that would preclude a man who is already on the executive council from finishing out the term, or what would be your idea about that?

The Chairman: That question was not specifically submitted to the Federal Reserve Board, and I suppose this letter is open to an interpretation that the Federal Reserve Board would discourage the officers of the Federal reserve banks from actively participating in the councils of

5 these associations.

Mr. McCord: I am a member of the executive council of the American Association, and my board of directors authorized me to apply on the part of the Federal reserve bank for honorary membership. In discussing it with the President of the Georgia Association and the secretary, they requested me if possible to serve on the executive council until my term expires, which would be this year, 1915. They did not want to disturb the relations just at the present time. I do not want to do anything but what is reasonable and right, and yet at the same time if it is permissible that I should serve on the executive council to fill out the term of 1915, I should be glad to accede to their wishes, because they do not want to disturb the relations. They have some matters in view as to who should succeed me, and they prefer that I remain on the council until my term shall expire.

The Chairman: Governor McCord, it is clear enough to me that if that matter was submitted to the Federal Reserve Board as a personal case, the chances are they would make a ruling that might result in your feeling obliged to resign, and it seems to me that is not a matter of general policy as with the Federal reserve banks; that is a sort of a hold-over in the case of individual members. I have the same situation in New York, where I was vice-president of the Trust Company Association of the State, and I felt obliged to resign from it; naturally, as we could not take part in any way in the trust company organization.

Mr. McCord: I can get at it another way. I can just

decline to attend the spring meeting, and that will leave the matter open.

The Chairman: Yes. This is in the nature of a report of unfinished business, and if there are no suggestions to make in regard to the matter, the record will be complete with that report, and we will proceed to the next item on the program. Item No. 5 is "Uniform method of deferring charging off so-called organization expenses, as suggested by Federal Reserve Board." That was put on the program as a result of a suggestion which we received and which doubtless other Federal reserve banks received, as to the method of dealing with the large item of expense at the time the banks were organized. It seems desirable that the method of charging off the accumulation of expense including the assessment levied on the Federal reserve banks should be a uniform arrangement among all the banks, and we put it on the program for the meeting for discussion, and for an expression of views.

Mr. Seay: Is the word "deferring" correct? It says "Uniform method of deferring charging off."

The Chairman: It should be the method of distributing the organization expense.

Mr. Seay: Yes.

Mr. McCord: Are you ready for the discussion on that subject?

The Chairman: Yes.

Mr. McCord: Mr. Robinson, who devised the forms and so on, is in Atlanta. I took up with him the division of the expense account. You know, we started out as having it

all one expense, and suggested that all the expenses up to the day of opening, and such as occurred afterwards, should come out of the organization--should be treated as an organization expense--and that after that the other should be treated as a current expense. He took a memorandum of it and came back to Washington, and immediately we had that ruling from the Board here, that we would divide our expenses that way. Then I took up with our board of directors how we should care for the organization expense, and the disposition of our board is to let the matter go until the first twelve months shall have ended, and if we are satisfactorily advanced, then we will charge off as much as we can of the organization expense at the end of the twelve months, November 16th, or at the next annual meeting; and in that I have carried the insurance on the employees, the title insurance and the insurance on the vault for three years, and have arranged with the book-keeper to take those items monthly and transfer from the organization account into the current account such things as we are consuming or using up, leaving the original expense account to stand until the end of the year. That has been the policy adopted by our bank.

The Chairman: Governor McCord, is it not a fact that each bank will be obliged to determine by an analysis of its expenditures how much is organization expense and how much is current expense, and the problem that we have to determine is a matter of uniformity, is not the division of the items, but the disposition of the resulting item "organization expense?" That would appear on the books

as an asset, and it would seem to be unwise for one bank to attempt to charge that off, say in six months, and another distribute it over two years.

Mr. McCord: Yes.

The Chairman: What I had in mind in putting that item on the program was to do distribute the charge-off of the item of organization expense that it would be uniform in all twelve banks, and whether we decide to charge it off in one year or two years or possibly decide at the end of the year how we should distribute it, is really the question for decision now, and once we decide, we will all do the same thing and the reports to be made by the banks thereafter to Washington will be uniform.

Mr. Fancher: It would seem to me, Mr. Chairman, that with the meager earnings that some of the banks are having at the present time we can not give that item very much consideration within a year.

Mr. McCord: We will have to split it up.

Mr. Fancher: It seems to me if we defer it for one year and let the account stand for one year before we attempt to charge off all or any part of it, it will be better.

The Chairman: Will you make a motion?

Mr. Fancher: Yes; I will move that the matter of charging off any of the organization expense be deferred for one year from November, 1916.

Mr. McCord: I second the motion.

The Chairman: You have heard the motion of Governor Fancher, which is seconded. Is there any further discussion?

(The question was taken and the motion agreed to.)

The Chairman: The next item was put on the program as the result of an inquiry that was addressed to us by one of the other banks as to what our policy would be in New York in furnishing information in regard to credits to member banks, and what little discussion I have had on the subject leads me to believe that there is a difference of opinion as to what the policy should be. It seems to be desirable that the policy should be uniform, so that in one district they will not be giving out information and in other districts declining to give information. That subject is now open for discussion.

Mr. McKay: In the Chicago district our executive committee had a meeting about that matter and they decided that we were not to give out information either about the member banks or either about the makers of any of the paper that we had, or about any commercial names that we had. There was a decision like that in our executive committee a few days ago.

The Chairman: Governor Rhoads?

Mr. Rhoads: We had the specific inquiry from more than one bank, to get an expression of our opinion as to certain names of makers of commercial paper, and after discussion we pointed out to them that we would prefer not to check paper; that the difficulties were obvious, if we said yes or no.

We also believe that the same reasons apply to giving information about member banks. I reported our decision to Mr. Warburg individually, and he wrote back a brief

answer, saying that he heartily concurred with our view. I took it that that was his personal opinion, and not an expression of the opinion of the Federal Reserve Board as a whole.

The Chairman: I was asked for an expression of opinion on that subject by some of the Federal Reserve Board, and while our executive committee have taken no action in the matter, I think it is likely, after hearing from the officers, that they would take the view that the Federal reserve banks should be entitled to information from the member banks, and should educate the member banks to the idea that they will be called upon for information but that they cannot get information from the reserve banks; but that the utmost freedom should prevail between the Federal reserve banks in regard to giving information both in regard to member banks of the respective districts and in regard to commercial paper. The importance of the interchange of information between the reserve banks in regard to the credit of the member banks becomes apparent if we undertake this collection business, right away; and likewise it is going to ^{be} absolutely necessary to exchange information in regard to paper, particularly if we buy acceptances, because the principal market for acceptances will be in New York, and it would impose upon New York an obligation to the other banks of furnishing them information in regard to paper that we might be buying for them; and naturally if we asked them to buy acceptances in other districts for us, we would want the same information in exchange.

Mr. Hendricks: The representative of one of our member banks came into the bank about a week ago and he said "What are we going to do if you refuse to give us information in regard to paper? At the end of three years we will have no other New York correspondent, we will not have any additional reserves to keep in New York, and we will have no other way of getting information."

The Chairman: The answer to that at the end of three years will be that they will get paper in only two ways, one from their customers and the other will be by purchase of paper through brokers; and the paper that they purchase through brokers will be based upon accurate information in regard to the maker of the paper rather than upon hearsay evidence from some party who may give them a prejudiced opinion, as has ^{been} known to be the case in the past.

Mr. Fancher: Are we not working right along the line here, in the matter of regulation of commercial paper, of putting it up to the banks to get that information? That is what we want them to do; not have them rely upon some chance opinion of one or two people, and stop there.

The Chairman: The practice of checking paper, using the technical expression well known to all bankers, has not ~~was~~ always resulted acceptably to the buyer of the paper.

Mr. McCord: Not by any means.

Mr. McKay: Nor to the checker of the paper, either?

Mr. Fancher: No.

The Chairman: Have we gotten to a point in this discussion where anybody would care to offer a resolution as ^{to}

the policy?

Mr. Kaine: I make a motion along the lines you have mentioned, that we get information from member banks and do not give it out.

Mr. McCord: Could you get the information?

Mr. Kaine: They would have to give it to us.

Mr. McCord: I do not think so. Checking against somebody else's credit is not buying from them.

Mr. Kaine: I do not understand.

Mr. McCord: For instance, suppose you buy a piece of paper. You call upon a party in the immediate vicinity, you write to them and say "Give us the information about this party?" Suppose they should come back and say "We would be very glad indeed to exchange information with you, but in the event of you not giving us information, we do not feel obliged to give you any."

Mr. Kaine: I was in that position in San Francisco for about five years. I got information, and never gave any. I never found any difficulty. After I had explained my confidential position, it worked very well.

Mr. Seay: I think, Mr. Chairman, the member banks would feel a greater degree of safety and deal with us with a greater degree of confidence if they felt that what they were giving us would end in our archives.

The Chairman: So do I. Governor Kaine has offered a motion.

Mr. Foucher: I second the motion.

The Chairman: The motion is seconded. That motion, Governor Kaine, did not however refer to the exchange of the

information between the Federal reserve banks.

Mr. Kains: I think that should be unrestricted. Add that.

The Chairman: Then may I state the motion as I understand it?

Mr. Kains: Yes.

The Chairman: The motion is: That is the sense of this meeting that the Federal reserve banks should adopt the policy of asking for information from the member banks and not giving information to the member banks in regard to credits, and that they should exchange information freely between the Federal reserve banks in regard to such credits.

Mr. Kains: Yes.

The Chairman: That motion has been made and seconded. Is there any further discussion?

The question was taken and the motion was unanimously agreed to.

(The Committee of three sent to notify the Federal Reserve Board of the meeting of the conference at this point returned to the room.)

The Chairman: I will say that in the absence of the committee the report has been made to the meeting of the action of the Federal Reserve Board in regard to the Federal reserve banks taking membership in bankers associations, and that the meeting has decided that the method of distributing the charge-off of organization expenses shall be deferred for decision until a year from November 16, 1914, and a resolution has just been adopted stating that it is the sense of this meeting that the Federal reserve banks should ask member banks to give information in regard to credits through the Federal reserve banks, but should not

give that information out themselves, and that they should freely exchange credit information between the Federal reserve banks.

Mr. O. Wells: Under what head is that?

The Chairman: The matter of ^{credit} information is under No. 15.

Mr. Wold: Do I understand that we are to absorb all information from the member banks, and give out nothing?

The Chairman: Yes.

Mr. Wold: Then they simply will not give us anything.

The Chairman: I think at first that will prove to be a difficulty, but I think they can be educated to do that.

Mr. Aiken: Mr. Chairman, we have made some inquiries among our member banks, and have given them to understand that we would give no information, and that policy has met with approval among the bankers with whom we have talked, and there is no hesitation about giving us information and there is a complete recognition of the undesirability of our imparting information.

Mr. Rhoads: That same experience is true of banks in District No. 3, with which I have communicated.

Mr. O. Wells: Mr. Chairman, may I say that I have been quite free to co-operate with the corresponding banks, or those applying for credit, and discussed quite freely the conditions under which perhaps we ought to extend credit, even inviting their co-operation in giving other credits, and it is almost necessary in doing so to impart information to them; and a strict interpretation of

this rule would preclude that.

Mr. Wold: One of the first queries we get when we ask for information from the correspondent bank is, are they asking for any re-discounts. I do not think that we can give any information we get through our reports, but it seems to me in our experience in dealing with them we can only operate intelligently with the other reserve bankers by an exchange of experiences. The reserve city bank of New York would not get much encouragement with the Chicago correspondent of the same bank if they did not get any information. It is a give and take proposition.

The Chairman: But our credits and our relations are going to be confined to the banks within our own districts in each case, and the city correspondent of country banks usually deals with banks that are a considerable distance away, outside of what would be the district of the Federal reserve bank, and that would reduce the number of inquiries to be dealt with very materially, right away, would it not, Governor Wold?

Mr. Wold: In our district I presume that 90 per cent of our member banks have accounts in the Twin Cities. I presume that we have asked the Continental Commercial Bank of Chicago for reports on two hundred banks. They all have accounts in Chicago as well.

The Chairman: Have they indicated that they want information from you about banks in your district?

Mr. Wold: Yes. They want to know what our experience in dealing with them is; whether they are asking for re-discounts.

Mr. McDougal: Speaking for the Continental Commercial Bank of Chicago, I think I can say that they will continue to cheerfully give information, and will not expect to receive information in return from the banks. That has been discussed in our city, and it might be interesting for you to know that at a recent meeting of our executive committee the matter was discussed, and while under ordinary circumstances the rule, "If you do not give you do not get," works in this case, it seemed to be perfectly proper for us to decline information, politely, and undertake to explain our reasons as the occasion arose; so that our executive committee decided that it would be the part of prudence not to undertake to give information, because we were laying ourselves open to difficulties that might arise.

Mr. Wood: Why would a Federal reserve bank be placed in any more embarrassing position than any other bank disclosing information regarding customers?

Mr. McDougal: The Federal reserve banks are in an entirely different position, for the reason that you, as governor of your bank, have access to information which heretofore has never been disclosed at anyone outside of the Treasury Department.

Mr. Wood: Do not misunderstand me. That part of the information is to be given out under no circumstances--that part of it. Information that we get by reason of the connection with the Comptroller of the Currency is to be given out under no circumstances. But our experience in dealing with them, whether we are loaning them money or

not, it seems to me that the correspondent bank is dealing with this same information, and we are expecting them to divulge to us the nature of their dealings and the experience that they have had, and it is unfair to them to expect that they will give up all information and get nothing. They are entitled to know whether they are discounting in the Federal reserve bank and then going across the street and asking for more with them.

Mr. Seay: It seems to me this would be certainly correct as the declaration of policy. I presume there will be times when in the exercise of judgment and discretion the official of a Federal reserve bank may say so much and no more. For instance, the matter of whether or not a bank has discounts with the Federal reserve bank is a matter of public advertisement. I would not consider that I was violating the spirit or the letter of this declaration here if I were to convey just so much. I do not know that that is too broad a construction to place upon what you intend to convey by this, but that is a matter that will come out. But as to giving private information which comes to us, either from the bank itself or which comes to us through the Comptroller's department or from special examinations, I presumed that it applied as a broad declaration of policy to such information.

The Chairman: We are talking really about two things. One is checking paper and the other is reporting on member banks. As far as reporting on the member banks of our district is concerned, there is a certain trust relation-

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ship in the matter of information that we have, that we have got to be very careful about divulging. We have got the right of examination, and I suppose every bank has got to use its own discretion as to the way in which that information is used. In checking commercial paper, however, I do not see how the Federal reserve banks can afford to take the responsibility of checking commercial paper.

Mr. Todd: No; we do not want to assume that responsibility. I did not know that was a part of it.

Mr. Aiken: In checking commercial paper favorably, you attach to yourself a considerable degree of responsibility. If you check it unfavorably, you may irretrievably injure credit, and it does not seem to me that that is something we should assume.

Mr. Pencher: You might check favorably, and then six weeks or two months later not take that paper.

The Chairman: In view of the fact that three of the governors were absent when this action was taken by the meeting, it is only proper that the question should be re-opened, if they desire to have it re-opened.

Mr. O. Wells: Was the vote unanimous?

The Chairman: Yes.

Mr. O. Wells: Suppose we let the vote stand, then.

The Chairman: Let the stenographer read the motion so that they may know what it was.

(The motion referred to was here read by the stenographer as follows:)

That it is the sense of this meeting that the Federal reserve banks should adopt the policy of asking for informa-

tion from the member banks and not giving information to member banks in regard to credits, and that they should exchange information freely between the Federal reserve banks in regard to such credits."

Mr. McDougal: That, I would take it, Mr. Chairman, is a matter of policy, and we would still be permitted to use our discretion to some extent.

The Chairman: Oh, absolutely. I do not understand that we are binding ourselves irretrievably to a course of action; but we had to get an understanding of the policy of it by this discussion.

Mr. McDougal: I think it is the correct policy.

The Chairman: Governor McCord has made a motion to reconsider the vote on that motion, and he having voted in favor of the motion is entitled to have it reconsidered. Is the motion to reconsider seconded?

Mr. Seay: I second the motion, if it is desired to reconsider it.

Mr. Wold: Do not reconsider it on my account.

Mr. McCord: I think it is fair that these gentlemen should have an opportunity to vote on it. I am not wedded to that policy.

Mr. Seay: You did not hear the discussion?

Mr. Wold: No, but the time is too valuable to thresh over old straw.

Mr. McDougal: It is entirely satisfactory to me that it should stand, I having been absent when the action was taken.

Mr. McCord: I will withdraw the motion now, if ~~it~~

these gentlemen are satisfied. It was purely to give them a hearing and a chance to vote that I move to reconsider.

The Chairman: The motion to reconsider is withdrawn, with the consent of the seconder, Mr. Seay. Do you feel satisfied with the motion as passed?

Mr. Wold: Well, I do not want to set up my judgment against that of the other eleven governors.

Mr. Seay: I do not think we differ on the matter, at all.

The Chairman: These three subjects were taken up for consideration in the absence of the three governors of the committee to notify the Federal Reserve Board of our sitting, and they are now acquainted with the action taken, and we should proceed now to the formal transactions of the meeting.

The first thing would be, naturally, the reading of the minutes.

Mr. McDougal: Mr. Chairman, in view of the fact that each of the governors ~~have~~ ^{has} been furnished with a copy of the minutes, and assuming that they have read them, I would move that the reading of the minutes be dispensed with.

Mr. Kaine: I second the motion.

The Chairman: It is moved and seconded that the reading of the minutes be dispensed with. Before putting that motion I think I should ask that any governor who feels that there are any corrections to be made in the minutes should not hesitate to mention them now. No such suggestion being made, I ask for a vote on the motion to approve the minutes as submitted in writing to each of the governors.

(The question being taken, the motion was agreed to.)

The Chairman: The minutes are approved. The first order of business would naturally be the report of the committee appointed at the last meeting to consider the method of handling checks drawn on Federal reserve banks, and settling the resulting balances; but I should like to ask your indulgence to bring up another matter before that report is made.

Mr. O. Wells: May I report on behalf of the committee of three, before you do that, what we did?

The Chairman: Yes.

Mr. Wells: Briefly, we informed the Federal Reserve Board as we were instructed to do that this conference was in session. Governor Hamlin said he would go over our program and communicate with us as to any suggestions that they might have to make. I took the liberty, as I understood you would expect us to do, to suggest that he need not confine himself to the program, or that the Board need not confine itself to that program, if they had other suggestions.

Mr. McDougal: Mr. Wells, did not Governor Hamlin indicate that it might be well to place the most important subject at the last?

Mr. O. Wells: He said this, "We may not make suggestions in the order in which the topics are given here," and I told him that the order was not an essential with us; that these things had been listed simply as indicating the ground that would probably be covered, and that we had put last the thing which would take the most time to discuss.

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and if they wanted to indicate the topics which should be discussed from the standpoint of greatest importance, they should feel at liberty to do so; but he did not indicate any necessity for doing that, except that they might indicate to us certain things which they thought were important.

Mr. McDougall: That is all right.

(Informal discussion followed.)

The Chairman: The first item on the regular program is the report of the special committee appointed at the last conference. Governor McDougall, will you ~~present~~ report as chairman of that committee?

Mr. McDougall: Mr. Chairman and gentlemen, the subject given to this committee for consideration was the question of settlement of balances between Federal reserve banks, and I have prepared here a report which I will read as the report of the committee of the conference. The report is as follows:

"REPORT OF THE COMMITTEE APPOINTED BY THE
CONFERENCE OF GOVERNORS ON DECEMBER 11, 1914,
TO CONSIDER THE SUBJECT OF CLEARINGS BETWEEN
THE FEDERAL RESERVE BANKS.

To the Conference of Governors:

Your committee held meetings at the office of the Federal Reserve Bank of New York on January 11th and 12th, 1915, and after considering plans suggested by Mr. McKay of Chicago, Mr. Geo. C. Bordwell of San Francisco, Mr. John Cofer Sherley and an unsigned memorandum from the Federal Reserve Board, your committee voted that Mr. McKay's plan as

modified by the committee be recommended to the Conference of Governors for adoption in the following form:

SYSTEM FOR SETTLING BALANCES

BETWEEN THE FEDERAL RESERVE BANKS.

1. A gold settlement fund to be established in Washington.
2. Each Federal reserve bank to carry a deposit of gold or gold certificates in Washington under the custody of the Federal Reserve Board which will act as the settling agent for the Federal reserve banks. The funds thus deposited to count as reserve for each Federal reserve bank and to be kept by the Federal Reserve Board as a fund for the purpose of settling balances between the Federal reserve banks.
3. Each Federal reserve bank shall maintain two accounts with each of the others, one account showing due to each Federal reserve bank-- representing items received from each Federal reserve bank; and the other account showing due from each Federal reserve bank; representing items sent to each Federal reserve bank.
4. Each Federal reserve bank shall telegraph the settling agent by night letter, with mail confirmation, once a week on Thursday night, and if Thursday or Friday is a holiday, on Wednesday night, the amounts in even thousands due to each of the Federal reserve banks - these balances to be taken from the account due to Federal reserve banks only. When these telegrams are received, the settling agent will make corresponding debit and

credit entries to the accounts of all the Federal reserve banks on a settling sheet and thus ascertain the net debit or credit balance of each Federal reserve bank. The settling agent will then telegraph each of the Federal reserve banks in even thousands, the amount of the credits to its settlement account, giving the name of each Federal reserve bank from which its credits were received, and also its net debit or credit balance in the settlements. Each Federal reserve bank will then know the result of its clearings, and will debit the due to Federal reserve banks' accounts and credit the settlement fund and will credit the due from Federal reserve banks' accounts and charge the settlement fund; the difference between the total debits and credits being equal to the net debit or credit to the settlement fund as advised in the telegram received from the settling agent. The settling agent will then debit or credit the fund of each Federal reserve bank, thus making a settlement at once for the clearings of the week's transactions between the Federal reserve banks.

5. For the purpose of replenishing the fund of any Federal reserve bank, exchange may be purchased and forwarded to any of the Federal reserve banks in sufficient quantity to turn the debtor bank into a creditor bank at the next settlement day, or gold may be deposited in any sub-treasury for the credit of the settling fund of any Federal reserve bank.

6. Direct settlements between Federal reserve banks may be effected by shipments of currency or otherwise by mutual agreement.

7. On the other hand, a surplus accumulated in the settlement fund by any Federal reserve bank may be withdrawn through any Sub-Treasury, or exchange may be sold by direct drawings by one Federal reserve bank on any other, against existing balances.

8. Cost of operation and settlements to be apportioned by a semi-annual accounting among the twelve Federal reserve banks upon a basis to be later determined in accordance with the relative benefit derived by each Federal reserve bank.

9. The cost of currency shipments to and from Sub-Treasuries which are not located in Federal reserve cities to be included in the general expense.

10. Checks drawn on Federal reserve banks to be credited on the basis of the time taken to reach their destination.

11. Telegraphic transfers of funds for member banks and the subject of charges therefor to be determined later.

12. By this system, all transactions between Federal reserve banks, including Federal reserve notes sent by any Federal reserve bank to the others, could be settled weekly and by settlement on Friday the weekly statements of the Federal reserve banks would not show any large amounts due to or from the Federal reserve banks.

13. Under this system, which provides that two accounts, viz., a debit account and a credit account, shall be operated between each Federal reserve bank and the others, it is possible for Federal reserve banks to draw drafts on

other and sell them for exchange purposes. By providing a facility for selling whatever marketable exchange they may have and as they also can buy exchange, the matter of regulating their respective settlement funds could be handled scientifically so that shipments of currency to or from the settlement agent would seldom occur.

Respectfully submitted,

J. B. McDougal, Chairman

A. L. Aiken

Benj. Strong, Jr.

E. A. Fancher

George J. Seay

Committee."

In your several copies of this report I would call your attention to the fourth line in the heading, which reads "To consider the subject of clearings between the Federal reserve banks." It should read "To consider the subject of settlements between the Federal reserve banks."

That is a small matter, perhaps.

Mr. O. Wells: Mr. Chairman, as I recall the appointment of this committee, it was just a little broader than the sub-heading would indicate.

Mr. McDougal: I will read the vote under which the committee was appointed, if that will answer. It reads:

"Voted that a committee of three -- later changed to five -- be appointed to consider the question of settlements between Federal Reserve Banks, and to make a report thereupon to be presented to the next conference of the governors of the banks."

That was the vote.

The Chairman: May I say just a word in regard to the record on this resolution which resulted in the appointment of the committee? There were a large number of motions made during the course of the discussion, some of which failed of having a seconder, and one or two ~~of~~ which were passed and the vote then re-considered. The motions which did not ultimately prevail, I think in every instance, provided for some method of dealing with checks drawn on Federal re-
settlement
serve banks, and the ~~method~~ of the resulting balances. The record, however, as finally made, which was carefully taken down by the stenographer, reported the motion as Governor McDougal has read it. This matter was discussed by the committee and by Governor McDougal with me in New York, and I expressed just the view which you did, that the action of the conference was to appoint a committee to consider the method of dealing with Federal Reserve bank checks and settling balances. The heading follows the text of the resolution as passed, but the report covers both matters, because it does provide for the method of handling the checks; and whether the heading or the report is wrong, the effect is the same, anyway, in that both subjects have been covered by the report. Am I correct in that?

Mr. McDougal: You are quite correct, Governor Strong; and I think that if Governor Wells will notice the ^{sa} clause on page 2, he will see the clause that was put in to cover the settling of checks between reserve banks.

Mr. O. Wells: I am quite willing to accept the explanation of the appointment of the committee. I hoped that

it might go a little further than the language of No. 10 indicates, and that we might have a little more perfect conclusion of the whole subject of the handling of checks. I do not say that by way of criticism in any way whatever, but there is perhaps a little more in it than the question of the time element in transmitting funds from one section of this country to the other, because we are running counter to establish exchange charges, and I feel that keenly in our district, because we have a great deal of complaint arising from the effort to do away with some sort of an exchange charge. I realize that the time element will inject some exchange charge into it, I presume, and therefore I shall defer any further comment upon it until we discuss by paragraphs the report; because clearly some of the paragraphs will have to be interpreted as to the effect of the operation of the paragraph upon the transactions.

The Chairman: In discussing a sub-committee report at a meeting of this character, I believe it is customary to have the discussion follow such procedure as the Chairman of the sub-committee suggests, and I should like to ask Governor McDougal if he will express any preference as to the way in which this report shall now be dealt with, as the subject is open to discussion by the meeting, and he may have formulated some plan by which it can be expeditiously handled and disposed of.

Mr. McDougal: My only recommendation, Mr. Chairman, would be that it be taken up paragraph by paragraph.

The Chairman: In view of Governor McDougal's suggestion, it being a matter of a courtesy which I believe we will all

agree to accord him, we will proceed to discuss paragraph No. 1.

Mr. McCord: Mr. Chairman, may we ask Governor McDougal ^{off} to lead ~~off~~ in the discussion; because he can give the ideas and views that came up before the sub-committee, and possibly may explain why certain conclusions were arrived at, and it would save a good deal of discussion of subjects, that otherwise would come about.

Mr. McDougal: I was so much discussed at that meeting that I do not know whether I can give you the why's and wherefores of all of this (laughter).

The first paragraph, ^{is} "A gold settlement fund to be established in Washington." The committee agreed, I believe, that the settlements should be made -- actual settlements -- and it was thought that we might persuade the Treasury Department to put a fund in Washington for that purpose and to handle it for us. I think it was thought that it would be better to have the settlement made in Washington than it would be to have it in any of the Federal reserve cities. That was the consensus of opinion.

Mr. McCord: I think you are quite right. There are various ways for replenishing that fund, especially at Washington.

Mr. Kaine: I prefer Chicago, myself; but I must not be selfish, I suppose.

Mr. O. Wells: Those of us who are closer to Chicago prefer Chicago, unless this distribution of cost is to be made on some other basis than that of distance. If it is,

it does not make any difference --

Mr. McDougal: It was assumed that we could secure the co-operation of the Treasury Department and the use of the sub-treasuries' facilities in the movement of currency, and if so, it might just as well be done here as any place. The matter of securing their co-operation, though, is something that may be attended with some uncertainty.

Mr. McCord: Inasmuch as later on in the report there is a provision for such cities as have not the sub-treasury advantages, for those expenses to be borne, I think that covers it.

Mr. McDougal: That was a matter brought up for consideration, naturally, and it was agreed that in view of the fact that six of our cities have sub-treasuries -- I believe it is six --- and six have not, the expense and that Dallas and other cities might be put to in the shipment of currency might be equally divided among all.

Mr. O. Wells: Equally divided --

Mr. McCord: The expense might be divided in some way.

Mr. O. Wells: That the expense of operation would be provided for, as I understood it.

Mr. McCord: On a ratable basis.

Mr. Panzer: That plan can be worked out later -- a plan for division.

Mr. McDougal: Yes.

The Chairman: Governor McDougal, I am afraid Governor Wells has not quite got the point in that matter.

Mr. O. Wells: That will come up later, Mr. Chairman. That is all right.

Mr. McDougal: As we go into this plan I think it would be better if the conference will permit, for Mr. McKay to handle the plan. He is very familiar with it. It is his own plan, modified to some extent, and he has a better understanding of it than I have.

Mr. Aiken: Mr. Chairman, I do not wish to appear as a refractory member of the committee to the report of which I was a subscriber, but after that meeting, as I have written to you, and after we had scattered, I got to thinking over the results of our deliberations, and the figures submitted there as to the trend of the exchanges between the banks, and it was obvious from these figures that a very, very large percentage of the exchanges in or out reached New York ultimately, and I could not avoid the impression that from a purely banking point of view New York was the natural settling place for these banks. Under any other arrangement it seems to me such heavier shipments of currency back and forth, whether it is done through the sub-treasuries or is done in any other way, will result than would result from the establishment of a settling point in New York City; and I felt further that a recommendation of the Governors should be based on their conclusion from a purely banking point of view. It seems to me that the governors, operating bankers, should treat it purely from the banking viewpoint. While I concurred in this report, I cannot escape the feeling that from that point of view a settlement in New York would be the best, would be the least

expensive, would be the most scientific, and the settlements would more nearly offset themselves there than anywhere else.

Mr. McCord: Are you through?

Mr. Aiken: I am through.

Mr. McCord: Mr. Chairman, I possibly may admit that from the checks that have been drawn and have been handled Mr. Aiken would be justified in that view; but I wish to call attention to one particular fact, that quite a large amount of the exchanges in my district go to the west in payment for food products and for work animals, mules and so on. Of course that is not for the whole season of the year, but just at this time, and I want to show you what effect it has on this particular feature right now. I asked several of our member banks to use us in drawing checks. I wanted to see what effect it would have. Some of them acquiesced in my views and my wishes and sent the checks out, and as Mr. Forgan said this morning, under the clearing house rules of Chicago we have to charge an exchange on the Federal reserve bank check on the Federal bank at Atlanta, and Louisville, Kentucky has charges for remittances made there in the Federal reserve bank of Atlanta, although as each of you gentlemen know, the endorsement on the back of that check would carry it either to Chicago or to New York or to St. Louis for credit.

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That has induced the members not to exercise that feature, but to create their exchanges in New York, and value against New York, and that has brought about the payment by us to New York of \$250,000 to \$300,000 a day, a great deal of which would, by the natural flow of transactions if the system was free and open, come back to us through Chicago, through St. Louis, through Kansas City, and some through Cleveland by reason of the iron industry and steel industry of that particular district. Therefore these figures are not in the main correct, for the simple reason which I have just stated, nearly everything is paid in New York exchange, a large part of which could be paid in western exchange, and would find its way back through the other channels. But, inasmuch as it has not been put into practice, a great deal of it takes the old channel through New York. When the system gets into full working order we will be able to offset credit balances to ourselves that we carry in the other reserve cities. We owe New York and Philadelphia. The others owe us, with the possible exception of just the change of St. Louis to a \$14,000 credit balance in the last day or two.

The Chairman: What is your conclusion, Mr. McCord?

Mr. McCord: My conclusion is that Washington is about the best point of settlement, from the point of view that these things will largely offset themselves, and there will be very little money to be exchanged or remitted.

Furthermore, if we make Washington the settlement city, we can get the support of the Treasury Department, and possibly get the advantage of their sub-treasuries. There is a feeling somewhat in the sub-treasuries that the Federal Reserve Banks are going to so encroach upon them that they

will not be sustained, and probably some of them will be discontinued; whereas, if we clear through Washington, and get the benefit of the sub-treasury cities as they now exist, that feeling will subside, and, in fact, go away, and we will work in harmony with the present system of the Treasury Department.

Furthermore, at certain seasons of the year we have quite a lot of national bank notes for redemption, and if Washington is the settlement city, these redemptions are best made in Washington, and the replenishing of the reserve would be better made here. That is my view of it. That is the way I feel about it, and I think Washington is the proper place.

The Chairman: Is there any further discussion as to paragraph 1? Mr. McCord, is it your desire that these paragraphs be submitted to a vote, or discussed and the whole report voted upon at the conclusion of the discussion? Each paragraph being the subject of a separate vote may prolong the discussion considerably.

Mr. McCord: I think we can handle that as a whole, Mr. Chairman, and when we get through we will know about where they all stand.

The Chairman: If there is no further discussion of the first paragraph, we will proceed to No. 2. May I say one word on that subject? This plan is to some extent dependent upon successful negotiations with the Treasury Department in regard to two matters. One is the use of the sub-treasuries for transfers, and partly, but not entirely, upon the willingness of the Secretary of the Treasury to establish a

fund --- possibly not a complete fund, but certainly the beginning of a fund --- for settlement purposes, by a deposit with the twelve Federal Reserve Banks of some portion of the general funds of the Government. In the discussion at the committee meeting in New York it was thought unwise that reference should be made in this report to a possible deposit by the Secretary of the Treasury, which might be open to misconception; but it would be a great deal better to consider this transaction and this report as quite independent of any deposit by the Secretary of the Treasury, and then this same committee, or some other committee of the Governors, might meet with the Secretary of the Treasury and take up the question of Government deposits as an independent matter, and suggest to him that if he is disposed to make such deposits, this is an opportune time to do so in connection with this fund, which would simply avoid the expense of shipping money by turning it over in Washington for the use of such fund.

Are there any comments in regard to the second paragraph?

Mr. McCord: Only one, Mr. Chairman. Suppose we put in the gold ourselves? Would we be prohibited from using that in times of stress, that volume of gold, as against the issue of notes, carrying it into that general gold fund?

The Chairman: Mr. McCord, this specifically provides that it shall count as a part of the reserves of the bank, and the use you would make of it would be in a bookkeeping sense as a portion of your reserves, and its physical location would not affect your ability to use it in the sense that I understand you mean.

Mr. McCord: That is the only point.

The Chairman: Is there any further discussion of the second paragraph? If not, we will take up No. 3.

There are no comments as to No. 3. I will allow time to read No. 4. It is a pretty long one.

Mr. Wold: It is a matter of bookkeeper, largely.

Mr. McCord: Section No. 4 is so clear that I do not think it is necessary to discuss it. It is perfectly plain and clear.

The Chairman: If there are no comments in regard to paragraph 4, we will proceed to paragraph 5.

Mr. O. Wells. Mr. Chairman, linked with the consideration of No. 5 must necessarily be, perhaps, a clear understanding of what is suggested in No. 10; in other words, if we do not inject any exchange charge as a means of caring for the time element, then the purchase of exchange in actual operation would perhaps be difficult. In our dis-
mmttmmn strict at certain seasons of the year it would be difficult.

The Chairman. Governor Wells, is it not a fact that Paragraphs 5, 6 and 10, read together, would afford ample facility for dealing with any local exchange situation such as might arise between Dallas and New York, and Dallas and Chicago?

Mr. O. Wells: Do you mean without any elaboration of the language of Paragraphs 5, 6 and 10?

The Chairman: Paragraph 6 was introduced with the idea, as I recall the discussion (correct me if I am not right, Mr. McKay), that special situations might develop between Federal Reserve Banks which would require treatment outside

of the regular settlement arrangement; that is to say, Boston and New York, or Philadelphia and New York, speaking of cases with which I am personally familiar, might accumulate very large balances between each other that would necessitate an unnecessary expense by making shipments all the way to Washington. Consequently, Philadelphia and New York could effect private settlement by such means as they desired without shipment to the fund, and without disturbing the balances in the fund, and without having very much experience in dealing with these matters, it seems to me that the ability to effect direct settlements in that way, by the purchase of exchange, or by direct shipments, or employing the means provided by this plan, would save any Federal Reserve bank from being at a disadvantage in dealing with excessive balances arising with any other bank.

Mr. O. Wells: Except the disadvantage that it might fail to measure up to the language by mutual arrangement.

Mr. McKay: That is, an arrangement that is not regular. It is simply a question for two banks wanting to do that of themselves.

The Chairman: Exactly.

Mr. O. Wells: It is a matter of convenience for both of them to do it, and if they did not want to do it, the settlements could be made weekly just the same. But for convenience of both banks, I think it would be well to have such an arrangement in the plan, because, as Governor Strong just stated, between Boston and New York, and probable between Philadelphia and New York, there would be large transactions, and there might be times when they could clean the thing up

there without having to interfere with the fund through Washington, either by shipping into the fund or by drawing out.

The Chairman: I understood that might arise between New York and Chicago also.

Mr. McKay: It might arise there, but it is hoped that under this plan there will be no cost for shipping currency from the sub-treasuries to the Treasury Department, and that the small cost of shipping from Dallas and the other five cities that have not got a sub-treasury will be turned into the general expense, and the whole thing will not amount to very much.

Mr. O. Wells: Mr. Chairman, of course, to appreciate my desire to get some of these details straight in my own mind, you must remember that I am from a section of the country where the shipment of currency is nearly always one way or the other. If this plan was in operation now, for example, there would be no way by which we could protect ourselves against either a considerable expense in the shipment of currency for redemption, or an attack upon our supply of gold. Using it as it has been in a limited way, we owe now perhaps \$1,750,000 after having shipped a million dollars of currency. That will continue to get larger unless we can have some privilege of dealing in exchange on some premium basis, by which we can sell exchange at a premium, or buy exchange at a premium, and it will be impossible for us to keep covered at this season of the year.

The Chairman: That is all provided for in here.

Mr. McKay: This plan provides that you can buy or sell exchange, which means at the market price of exchange.

Mr. Wold: As I understand this, if we had a large credit balance, when the exchange is moving in the opposite direction from what it is now, we are accumulating large credit balances in New York, and we do not care to have that credited to the gold, ^{pool.} We could draw our drafts and protect ourselves from getting a large accumulation of credits in the gold, ^{pool,} and if the exchange is running the other way, in preference to shipping to Washington and protect the gold, we can, before the settlement day, draw exchange and send to you to cover.

The Chairman: Absolutely.

Mr. Wold: It is perfectly clear to me.

Mr. McCord: I call Mr. Wells' attention to a new condition arising. Heretofore Dallas, like Atlanta, has had to ship in volumes of currency to move its crops. Under the new order of things Dallas and Atlanta will not ship in those volumes of currency, as in the past, but Dallas and Atlanta will move their own currency, from their own vaults, into the interior, and back into them.

The Chairman: And it will be Federal Reserve notes.

Mr. McCord: And it will be Federal Reserve notes, and the only question that would come up would be the redemption of unfit Federal Reserve notes, and that is provided for, as I understand, with express companies at a rate of 20 cents a thousand; and into Washington, and of course into New Orleans, you can get your insurance policies at probably a less rate. Furthermore, there will not be that necessity of shipping in ~~money~~ currency as there has been in the past. It will be your own Federal Reserve notes that will go out and flow back into your own vaults, without going beyond your own

district, and the only reason why that is not possible at the present time is the enormous amount of Aldrich-Vreil and currency that is afloat that we have to take care of and get out of our districts.

Mr. O. Wells: I appreciate that to a very large measure that is true; and yet it is possible that we may be called upon to furnish currency in excess of our ability to obtain the Federal Reserve notes, because they are obtainable only upon a discount basis.

Mr. McCord: And to protect your gold supply, you have that privilege, too.

Mr. O. Wells: No, I do not understand we have any privilege of issuing Federal Reserve notes to protect the gold supply.

The Chairman: We are going to show you.

Mr. O. Wells: Perhaps I am anticipating, in allowing that matter to come into my mind at this point. But paragraph 10 states that checks drawn on Federal Reserve banks should be credited on the basis ~~of the~~ ^{of the} time taken to reach the destination, which means that checks drawn on the Federal Reserve Bank of Dallas would be accepted by you and credited to your member bank after three days time.

The Chairman: Yes, sir.

Mr. O. Wells: At seasons of the year when New York is at a discount, because of the volume, the drafts against us will be in different volume from what they are when New York exchange is naturally at a premium. I cannot maintain a very high premium rate on eastern exchange out of which to cover the cost of shipping currency, if the member bank

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in New York is willing to take the member bank's check of District No. 11, drawn on the Federal Reserve bank of Dallas, charging him only perhaps with a low rate of interest for those three days necessary to send it home for redemption, or perhaps the member bank in New York might be willing to credit him, and to simply deduct from the interest calculation of his account. Suppose that should follow. Then I cannot hope to sell eastern exchange at a premium.

The Chairman: Governor Wells, will you offer such amendment as you feel will take care of that situation?

Mr. O. Wells: I am sorry, Mr. Chairman, not to be able to state an amendment which I think would cover it, and yet any plan which we adopt must take into consideration the fact that there are certain exchanges in this country which are now considered as commodities, and are bought and sold in the open market, and such drawings cannot be put upon the same basis as drafts which may be sent to other points, and which are available at the expiration of a certain number of days. That is the only thing that runs counter, in my mind, to some zone system, and the time element which may be applied to all points alike. In other words, we have heretofore been selling New York exchange at a premium of 50 cents, even though we know that that is not available for three days, but you could not sell exchange at some other point three days distant.

Mr. McKay: Why not?

Mr. O. Wells: Because there is no demand for the exchange at that point.

Mr. McKay: If you sell a bank exchange on New York, the bank that sends it to New York gets credit for it when then,

the same as it does now.

Mr. O. Wells: Yes; but I could not sell exchange drawn on Minneapolis on that basis at the same rate that I can in Chicago, even though Minneapolis is about the same distance from New York.

Mr. McKay: Of course, not.

Mr. O. Wells: Therefore, when Paragraph 10 says that checks drawn on Federal Reserve banks are to be credited with the time taken to reach their destination, it does not take into consideration that certain exchanges are recognized commodities, and are being bought and sold in the open market.

Mr. Wold: On this plan, if you had a half a million Minneapolis exchange, your settlement would be made the same as if you had half a million on New York.

Mr. O. Wells: Certainly.

Mr. McKay: But you can buy this exchange and get your credit for it. If it is for exchange purposes, that is different. You not supposed to receive it on deposit for immediate credit, but if you want that particular kind of exchange, or any kind of exchange, you can buy it and take it in immediately credit.

Mr. O. Wells: Then, Mr. McKay, how could I justify a procedure which would enable me today to accept a check drawn on New York for credit on the basis of the time taken to reach its destination from one member, and buy from another member on a premium basis?

Mr. Wold: Those are two different things.

Mr. McKay: That matter was pretty well talked out,

and the idea was this, that if exception was going to be made on one Federal Reserve bank's checks, it ought to be made on all.

Mr. O. Wells: I grant you that.

Mr. McKay: And we did think of exchange being a marketable commodity for the different sections of the country, but we concluded it would be better if no exceptions were made, and we did not make one city's exchange any better than another's.

Mr. O. Wells: Let me illustrate again.

Mr. McKay. For deposit purposes, that; but you can still buy exchange and sell exchange at the market rate.

Mr. O. Wells: It is the common practice among reserve banks city ~~markets~~ in our section of the country to be in the market for the purchase of exchange from their interior bank customers at a pretty generally fixed rate; in other words, an interior banker does not have to communicate with the reserve city bank to know whether or not he is going to get credit on a block of exchange which he may be forwarding for credit.

Mr. McKay: You deal at the market rate in Texas?

Mr. O. Wells: We deal at the market rate in Texas, and the rate fluctuates, depending upon the conditions.

Mr. McKay: Do you do the same with other kinds of exchange, or is it with New York only?

Mr. O. Wells: Oh, yes; we do with other, even to the extent of buying and selling Kansas City.

Mr. McKay: How many different kinds of exchange is there market for in Dallas?

Mr. O. Wells: Kansas City, St. Louis, Chicago, and New

York; but when we are buying one we are usually buying the other, because out of one we sometimes make the other.

The Chairman: Governor Wells, that is New York exchange, and from our point of view, this Dallas exchange arises out of checks drawn by their banks on the Federal Reserve banks of New York and Dallas respectively?

Mr. O. Wells: Yes, especially Dallas. I do not suppose we have a piece of exchange on the Federal Reserve Bank in New York.

The Chairman: You want to protect your position of being able to deal in exchange --- as a matter of fact, to buy exchange. That has no reference to the exchange which is made by your members drawing on you?

Mr. O. Wells: It has this reference, that if Paragraph No. 10 prevails, the member banks will soon find out at what expense they can create exchange by drawing against balances which they may have created with me in other ways, by the discount of paper, and that will fix the rate of premium at which I am able to buy exchange.

The Chairman: Yes.

Mr. O. Wells: The difficulty is that while they are creating exchange in that way, there is no exchange offered at that price. I will have to pay a higher price, and to pay this higher price would mean simply the profit that would naturally fall to the member bank. If I pay him a higher price than he can make exchange, he gets credit for the proceeds of the transaction by which I buy exchange, and against that can draw a draft and put it back in New York.

The Chairman: In other words, the situation is no

different from what it is now, except that we recognize---

Mr. O. Wells: As it is now it is very desirable, because we are shipping currency constantly, and will continue to do so at this season of the year, and next summer, when it comes the other way, we will be under the necessity of shipping currency down to take care of the demand against us made by creating New York exchange.

The Chairman: This retards the shipment, This retards the creation of New York exchange, and reduces the practice which you now complain about.

Mr. O. Wells: I grant you that.

The Chairman: In other words, it will reduce the volume of shipments which you will have to make to meet the drawings made on you by your members, and if it retards the practice to such a point that the maximum demand made upon you will not exceed the amount of your contribution to this settlement fund, you will never have to ship a dollar. If it does exceed that settlement fund, then your procedure would be, first, possibly, to pay a small premium for New York exchange. If the premium for New York exchange exceeded the cost of either increasing your settlement fund or making a direct shipment by using possibly Chicago exchange, if that were available, then you would have to ship the currency. That is the only way it can be met, and that is what we are discussing, a scheme to meet it.

Mr. McKay: To the nearest sub-treasury.

The Chairman: To the nearest sub-treasury.

Mr. McCord: There is another feature that concerns that in the sixth district. I have been putting the reserve cities

at work very freely, and by doing that we have practically reduced the rate of New York exchange to par nearly all over the District, pro and con, and this question of New York exchange is going to be a thing of the past, largely; I mean the premium or the discount of it, because the settlement we will make will adjust ourselves between ourselves.

Mr. O. Wells: What you say would be absolutely true, Mr. Chairman, if there were flowing backwards and forwards transactions by which there was some exchange coming our way, the difficulty being that at a season of the year when it is all being paid in New York, it requires the money which we have in our vaults, and it has been drawn back from the interior to be shipped to New York to create those balances.

The Chairman: Governor Wells, that situation will always exist between the different sections of this country as long as we grow cotton in Texas and sell it in Europe, and you buy goods in New York.

Mr. O' Wells: And just that long must we either have some basis of premium and discount, depending upon the volume of the ebb and flow, or else we absorb the cost ourselves in creating those balances for and against.

Mr. McCord: Except in the condition in which we now find ourselves, which was never seen in the history of the world before, where people are not marketing their crops, and yet are calling for money, is it not also true that while credits are created against you in New York, the products of your country are moving, and moving to the centers, and that you are the purchaser of the bill? When the foreign

exchange feature goes in, you will be in a better position, having the credit in New York to buy those bills as an advantage more than most anyone else in your district, because you have your credits in New York, and you buy the bills, which settles with your man at home.

The Chairman: Governor Wells, this may seem to be a very extreme statement of what may ~~may~~ happen, but I believe it is well within the possibilities that the day will come when the Federal Reserve Bank of Dallas will make all the New York exchange it requires by shipping cotton bills payable in Liverpool and London and Bremen and other points, directly to the Federal Reserve Bank at New York.

Mr. O. Wells: I grant you that.

The Chairman: That may not seem a practicable thing to do, but I apprehend that the day will come when the settlement of the New York exchanges that are now apparently a menace to your reserves will be effected by your being in the market there to buy sixty and ninety day cotton bills, which you will remit to us under an arrangement by which we will forward them to London, where they will be discounted.

Mr. O. Wells: We will hold them until maturity.

Mr. McCard: And you will get six per cent interest out of them.

Mr. O. Wells: I grant you that; but, in the meantime, I am very much concerned about establishing in a permanent way a plan by which we have practically eradicated a time-honored custom of premium and discount upon eastern exchange, and by which neither those who utilize it pay the transportation charges. That is what we do now. At certain seasons

of the year, when we are shipping currency from any eastern point of supply, the discount on the New York exchange takes care of the shipping of the currency. At certain other seasons of the year, when we are shipping currency back, the premium on the New York exchange takes care of the cost of the shipment, and it falls where it is used. What we are doing now is working a hardship upon certain of our member banks. When we agreed to the plan of making a five or six weeks experiment of Federal Reserve Bank checks being currently accepted at par, I forced the member banks in our District to either give me New York exchange at par, or ship currency to me at their own cost, while heretofore they have been able to protect themselves against that cost by a premium on exchange covering the cost of transportation. If the three days --- by the way, what is the three days? What is the per cent on a thousand dollars?

Mr. McKay: It is about six cents a day.

Mr. O. Wells: About 18 cents?

Mr. McKay: About 18 cents.

Mr. O. Wells: That will fix the premium at which we may deal in New York exchange in our district. When it comes the other way we will have no way of fixing the discount, because this is a fixed plan summer and winter, fall and spring.

Mr. McKay: Governor Wells, may I say something?

The Chairman: I do not want to apply arbitrary rules, but we are spending too much time on this Paragraph. Cannot we get a motion to act on it? Governor Wells has the floor, being the objector. Governor Wells, will you offer a motion

on this matter, so that we may try to find a seconder?

Mr. O. Wells: I do not know how to cover it.

The Chairman: I may make a suggestion.

Mr. McKay: I would like to point out, if I may, that exchange is not disregarded as a commodity, and also that the transactions you have had with New York, where you are owing New York, were caused probably by your member banks sending their check on Dallas to the New York correspondent for immediate credit at par. Is that so?

Mr. O. Wells: Much that way.

Mr. McKay: If the New York Federal Reserve Bank makes a deduction of three days before it goes into the reserve account, the time allowance, the New York correspondent banks will make a three days interest deduction, and that will stop the practice of the banks in your district sending their checks on to the New York correspondent. Therefore, you will not have to get all this New York exchange to settle that.

Mr. O. Wells: It will not stop it, Mr. McKay, if they need that money in New York, because that will be the cheapest way by which they can make the exchange. That is cheaper than shipping money.

Mr. McKay: You can make exchange cheaper than 18 cents per thousand by shipping currency at the rate of 10 cents per thousand, a little more than 10 cents per thousand, to the nearest sub-treasury.

Mr. O. Wells: That is upon the assumption that we have always good round shipping bills. Frequently we have small bills, and the cost of the redemptions, the sending to

Washington or a sub-treasury, is very much exaggerated.

The Chairman: Governor Wells, would your point be met if a paragraph were inserted in this report which would permit a Federal Reserve Bank to sell its draft at the point where exchange was demanded at a premium which would cover the cost of shipment and possibly a profit besides; that is to say, if the balances in your member banks accumulated in your banks in excess of their requirements, and they wanted to draw New York exchange, you might be privileged to give them your draft on the Federal Reserve Bank in New York at a sufficient exchange charge, which is permitted under the Federal Reserve Act, to enable you to actually ship the currency that they gave you for the purpose to the nearest sub-treasury, and make New York exchange in the natural way, provided you had exhausted your contribution to the clearance fund, and required an amount in excess of your contribution. I want to make a suggestion, or have somebody else make a suggestion that will enable us to get over this snag so that we can take a vote on the report.

Mr. Wold: Why not go on with the other paragraphs?

Mr. O. Wells: I should not like to think that I was the only one who found difficulty in this paragraph, because I would not want to stand out against the judgment of eleven other men, some of whom are situated similarly to me. But I come from a place where the exchange moves one way or the other preponderately.

The Chairman: I think our books show that there are some of us who are worse off in that respect than you are.

Mr. O. Wells: I think throughout a whole season that is true.

Mr. Seay: The nearby district of Richmond is feeling the movement all one way at this time.

Mr. O. Wells: As Mr. McKay knows, we have utilized our ability to get Federal Reserve notes to the extent we have been able to utilize it, and we are able to induce our good friends at St. Louis to accept National Bank bills to the extent of about a million dollars, which they found they could use because of the clearing functions which they are exercising there; and putting themselves in debt to the members of the clearing house, so they took the national bank bills from us and settled in their clearing house balances with national bank bills, relieving us of the necessity of shipping to Washington for redemption, in order to give them gold. We asked them to do that, knowing it was intended that we should give them gold and lawful money.

Mr. McKay: You will note under this plan that the cost of shipment of currency by you to the Sub-Treasury, or from the Sub-Treasury to you, will go into the general expense.

Mr. O. Wells: I think we are being treated generously in this arrangement, and it is not so much, after all, the matter of expense, because perhaps we can afford to stand our proportion of that, and in fact you gentlemen are standing your part of it, although we are contributing most of it, and giving the benefit to our member banks --- it is not so much that, after all; it is the question of encroaching upon our gold supply while we are converting national bank bills into redemption.

The Chairman: In the absence of a motion, I am afraid we will have to move along to the next paragraph,

Governor Wells.

Mr. O. Wells: I think you have treated me very generously, and I really think I should apologize for holding you so long, and I jumped over into Paragraph No. 10 in doing so. I may do it again presently.

The Chairman: Paragraph No. 6. Are there any suggestions? If there are no suggestions, we will proceed to paragraph No. 7. (After a pause!) There seem to be no comments on No. 7.

Mr. Wold: May I go back to No. 6? Why does it provide for mutual arrangement, settlements between Federal Reserve Banks? If we owe you a million dollars, and are willing to pay you a million dollars, why should you not be obliged to take it?

The Chairman: I do not believe you could make such an arrangement without a mutual arrangement. Of course, if you want to ship it and we accept it, that ends it.

Mr. Wold: If we owe you the money and you want it and we offer you the money, should not that be sufficient?

The Chairman: I do not think you get the point of this, Governor Wold. When money is shipped, or exchange is purchased, or direct settlement is effected between two banks, there is a question of expense involved, and necessarily the disposition of that expense is a matter of mutual arrangement, unless one bank wants to assume it all. That would be the shipping bank, of course.

Mr. Wold: I assume that if we owe Chicago money and prefer to make a shipment direct rather than have it go through the gold pool, we would have to bear the entire

expense.

The Chairman: Do you offer an amendment on that point? It seems to me there is a point in what you say.

Mr. McKay: You notice it says "may", not "shall".

Mr. Wold: Yes.

Mr. O. Wells: This paragraph No. 6 is certainly harmless as it stands now. If Governor Wold's idea should prevail, that it should be mandatory upon the receiving bank, then it certainly must be coupled with his other suggestion, that the expense should be borne by the sending bank. But if it remains as it is, it is certainly harmless.

The Chairman: Governor McDougal, would you accept a possible amendment there, adding the words after "mutual arrangement", "or at the expense of the debtor bank"?

Mr. McDougal: There would be no objection to that.

Mr. O. Wells: Under that, in actual operation would it not result in using the gold pool rather than sending it direct to you at his own expense?

The Chairman: Not always, Governor Wells.

Mr. O. Wells: The debtor bank would have no interest in giving you the money, except to reduce his debit balance, which he could do at less expense than he could by carrying all the cost.

The Chairman: Excuse me on that point, Governor Wells. Philadelphia owes New York now five or six millions. They might have only three or four million balance in the fund, and still owe us five or six million. It would be much cheaper for them to effect the settlement by direct shipment in two hours time than it would be to go to Washington.

Mr. O. Wells: There never would come a time when Chicago would prefer to ship to you the money at its own expense, in toto, than to use the gold fund, the replenishing of which would be proportioned among all the banks.

Mr. McDougal: I do not see that any good could come from such an amendment, because if any bank wished to ship currency at their own expense, they could do it without making any arrangement.

The Chairman: Governor McDougal, I really thought so, and think so still.

Mr. McDougal: I think so.

The Chairman: And that we are declaring a self-evident thing by making that amendment.

Mr. Wold: Then why have Paragraph 6 in there, if you have stated the basis upon which it can be done outside, and it can be by mutual arrangement?

Mr. McDougal: I would say, Mr. Chairman, that if I have a correct understanding of the intent of this paragraph, it was put in here knowing it was rather superfluous, but feeling that it might enlighten some of the Governors to some extent. There could be no harm come from striking it out. This could be done regardless of the plan.

The Chairman: Do you not think that it is just as well to have this report, which will be submitted to the Federal Reserve Board, declare that if there is a more economical method of settling balances than the one we are providing here, we can depart from this and employ the more economical method?

Mr. Wold: It does not do any harm.

The Chairman: Then we are down to Paragraph No. 8,

now.

Mr. McDougal: The question arose during our meeting as to how we were going to arrive at any fair basis. The belief was that the cost of operating would not be very great.

Mr. Wold: If it has to be determined later, why not put it over and discuss something more especially pressing at this time?

Mr. McCord: I think we can arrive at that. We might as well get down and fish or cut bait.

The Chairman: Our discussion in New York, Governor McCord, was really along this line: I think it is the general practice in the clearing houses of the country that the assessment of various items --- expenses, I believe, in some cases --- is based upon the amount of clearings which the banks take to the clearing house. We discussed whether that might not be the basis for apportioning the expense of operating this plan, but, if I recall correctly, a suggestion was made that until we had experience with the operation of the plant, it might be found that developments would arise that are quite dissimilar from what occurs in a clearing house, so that the expense would not be fairly apportioned upon the same theory that clearing house expenses are apportioned, and that we should defer this final adjustment of the expenses until experience had shown how it was going to work; and, in the meantime, we would simply make a declaration in our report that the principle to be adopted was dividing the expense upon the basis of the advantages enjoyed by the respective banks, without determining the basis at this time. So far as I am concerned, I would be

quite willing to let this account run for a year, or for any period of time, and then bring our accounts all in and figure them out and see how it ought to be divided.

Mr. McCord: I was going to offer a simple little solution of it, to see what you thought of it. Of course, the conditions surrounding us at a distance are very different from those in the clearing house. My solution would be that you count the entire volume on both sides of the ledger --- that is, take everything that each bank sends in and which it receives, and adjust it on that basis. There can be no fairer basis, as I can see.

Mr. Seay: That is suggested in here, but not determined absolutely.

Mr. McCord: That would put a district that is going one way on a fair basis with the other, and the other on a fair basis with it.

The Chairman: In the interest of progress, Governor McCord, would you be willing to permit that matter to rest until we concluded the consideration of the report?

Mr. McCord: Most assuredly.

The Chairman: And then, inasmuch as Paragraph 8 leaves the matter open for determination as a supplement on the matter, have a resolution adopted such as Governor McCord suggests as the completion of Paragraph 8. Shall we proceed to Paragraph 9? Are there any comments?

Mr. McCord: paragraph 9 might interfere with some arrangement that banks outside of the reserve cities possibly may have with the Treasury Department, if this is to be submitted to the Federal Reserve Board. I do not know that I am

going to be successful, but I am going to make my best efforts in that direction, as we are not in a sub-treasury city, asking the Department to allow us to ship "Collect" such items as are for redemption; whether or not this clause being in here would affect that settlement or not I do not know.

Mr. O. Wells: They have already advised us, have they not, Mr. McCord, that we can send such items "Collect" under the arrangement that the Treasury Department has?

Mr. McCord: But they insist on sending you back redemption money for that.

Mr. O. Wells: And not transfer certificates?

Mr. McCord: Yes.

Mr. O. Wells: I did not know that.

Mr. McCord: That is the thing that I want to get out of the way, if possible. For instance, I can get national bank notes redeemed, but when we send up unfit lawful money, they insist on sending back new bills. They will not give me a transfer check.

The Chairman: Governor McCord, if that situation can be dealt with by permitting the credit in this fund ---

Mr. McCord: That is the point I am after; that is exactly why I wanted Washington as the settling point.

The Chairman: May I suggest, then, on that point, also in the interest of progress, that that is a matter to be dealt with in connection with our negotiations for the deposit.

Mr. McCord: Yes.

The Chairman: And we will put it on that part of the

program.

Mr. McCord: Let this pass, then.

The Chairman: Are there any comments on Paragraph 10? Then we will take Paragraph 11. May I suggest that Paragraph 11 be referred back to the same committee that dealt with this matter for the determination of a basis of charge in case it is thought fit to consider making charges and telegraphic transfers, their report to be ultimately submitted to the Federal Reserve Board for approval, as that would be necessary anyway.

Mr. Fancher: In other words, that would be a detail to be thrashed out if the general plan is approved?

The Chairman: Yes, in the committee.

Mr. McCord: Mr. Chairman, on that point, I have had to deal with that as a national banker for about nineteen years, and since the organization of this bank I have had one or two ask me for transfers, and the basis I got to them on was --- and it proved very satisfactory, and it kept down a good deal of telegraphic transfers --- there is no reason for it except a fellow who is running close to the shore, and he runs that way all the time, and my rule in the national bank was to charge the time necessary for making a remittance, and for the express charges --- not registered mail charges, but express charges. For instance, I charge him 75 cents a thousand for transfers by telegraph, plus the accumulated interest, and when you do that, you will eliminate a good deal of those transfers. (Laughter.) And they ought to be eliminated.

Mr. O. Wells: During the last seventeen years he had

very few, Mr. Chairman.

Mr. McCord: No, I had them.

Mr. Kains: Mr. Chairman, if you and I started to do that between Boston and New York I think we would hear from them.

Mr. O. Wells: The invariable rule in force in the city in which I was engaged in business was 50 cents a thousand.

The Chairman: Gentlemen, we have a basis for considering telegraphic transfers that never existed before --- or a scientific treatment of that matter --- or at least we will have when this whole subject is concluded. We will have a uniform schedule for the cost of shipping currency between all the reserve banks, and we will have a bank rate on which the lost time may be used as the basis of a charge for transfers; and if the committee considers this matter, it seems to me most natural that they should take into account, in fixing charges for telegraphic transfers, these two elements that will be unvarying except as we change our bank rate, and as the bank rate is changed, it is ample justification for a change in the charge for telegraphic transfer. That is the basis upon which the German bank effects all of its transfers.

Mr. Wold: Do you mean the discount rate, Mr. Chairman?

The Chairman: Yes.

Mr. Wold: The short time discount?

The Chairman: Yes.

Mr. O. Wells: The mail transfer is supposed to be based on the shipping rate.

The Chairman: That may have to be modified; but what-

ever basis is worked out may be made uniform by using this discount rate as the basis.

Mr. O. Wells: But we could not use the shipping rate, because the mail transfer is based upon the same rate.

Mr. McKay: The mail transfer could be made at the market rate.

Mr. O. Wells: That would be just the three days.

Mr. McKay: The telegraphic transfer could be made at a certain sum plus the market rate --- that is, representing the interest for the time, the two days, or the three days, or as many days as it might be, according to the distance of the transfer.

The Chairman: Is there any further comment in regard to Paragraph 11? I am not pushing this along too fast, am I, gentlemen?

Paragraphs 12 and 13 are just explanatory. One word about Paragraph 12. There is considerable discussion as to whether the settlement should be weekly, daily, every two weeks, or once a month. There are pros and cons. Whatever action is taken in respect of this report, when we come to adopt the plan, it seems to me that we can agree now that the time of effecting settlements through the fund will be experimental at the outset, and subject to change, possibly by the direction of a committee which we may want to continue to keep in touch with this whole matter for a period after we start operation, if we do. Governor McDeugal, the matter has now reached the point where it is proper for you to make a motion.

Mr. Kains: Mr. Chairman, might I revert for just a moment to Paragraph 5, in which it is said, in the last

few words, "Gold may be deposited in the Sub-Treasury for the credit of the settling fund of any Federal Reserve bank." In San Francisco it is gold altogether with us. The law says that gold may be taken within a certain limit of tolerance, but if I go with a million dollars to the Sub-Treasurer and he weighs it and it is all right --- it is away up over the limit of tolerance --- and I ask him for a certificate of transfer for that, he will not give it to me. He will say, "I have not the stuff. I would have to weigh every coin separately. I know you have gold enough there within the limit of tolerance, but there may be some coins that are so much abraded that they are much below the limit of tolerance." That is made up by the amount of new coin there is. That is a great difficulty with me. I owe you four or five million dollars now which I would be very glad to pay off if I could get from the Sub-Treasurer a transfer for that gold within the limit of tolerance.

The Chairman: May I suggest we put that on our program to take up with the Secretary of the Treasury?

Mr. Kains: I would be very glad to have that done.

The Chairman: Those matters should be straightened out in the interest of this system. It is not right that your bank should not be permitted to deal with the Sub-Treasurer there in handling gold, which the law requires a Sub-Treasurer to deal with in a certain way.

Mr. McKay: It might be well to put in "or gold certificates" there.

Mr. O. Wells: It is understood, is it not?

Mr. McKay: It is understood, but it might be better to

have it in there.

The Chairman: Do you offer that as a resolution to amend?

Mr. McKay: I do.

The Chairman: The motion is made and seconded that after the word "gold", appearing in Paragraph 5 at the end of the fourth line, the words "or gold certificates" be added.

Mr. McCord: Did you notice a recent ruling of the Treasury Department that silver certificates could be counted as an offset against your reserve notes?

The Chairman: We are going to talk about that later.

Mr. McCord: Why not just say "lawful money"?

The Chairman: I do not think that would do for this fund.

Mr. Fancher: We provide a gold fund, to start with.

The Chairman: The motion is made in regard to this slight amendment. I will ask those who favor it to say "aye".

(The motion was carried.)

The Chairman: Is there any further discussion of the report as a whole?

Mr. McDougal: Mr. Chairman, you have heard the report as it has been read and considered. I will now make a motion that the same be adopted as amended.

The Chairman: You have heard the motion, gentlemen.

Mr. McCord: I second the motion.

The Chairman: The motion is made and seconded. Is there any further discussion?

(The motion being put, was carried.)

The Chairman: May I also offer a suggestion, that some-

one make a motion that some method be adopted for conveying this to the Federal Reserve Board formally as the result of our deliberations, and that the next procedure on the program be discussion of what should be done in regard to the arrangements with the Secretary of the Treasury. I am under obligations to keep an engagement at half past five for a few minutes. I will probably be back before you are through, but if I may ask someone else to take the chair while I am away, the question of how this report should be dealt with in taking that up with the Federal Reserve Board, and what procedure should be followed with the Treasury Department, can go right ahead during my absence. I would like to hear what happens when I get back.

Mr. McDougal: I move that Governor Aiken take the chair during your absence.

(The motion having been seconded and the question put, the motion was carried, and Governor Aiken took the chair.)

Mr. Wold: Mr. Chairman, it occurs to me that the Federal Reserve Board should have a copy of this before we go into conference with them, and then, when we go into conference, the committee who had this matter in charge select their own chairman to bring the subject up, and to have charge of the discussion. Instead of having every one of the twelve Governors getting up whenever we get an idea into our heads, let the committee delegate one of their number to represent the Governors in presenting this, or answer any questions that the Federal Reserve Board may see fit to propound in connection with it. But it seems to me they should have a copy of this before they go into the conference, so

that they can talk it over.

The Acting Chairman: Do you wish to make a motion to that effect?

Mr. Wold: I make such a motion.

Mr. McCord: Will you amend that to state that if a Governor has in mind something which has not come up, he shall hand it to the chairman of the committee, calling attention to any particular feature that might not have been brought up?

The Acting Chairman: I understand you had in mind the making of a motion contemplating conveying this in some way to the Federal Reserve Board?

Mr. Wold: Yes. Let the committee send it over by one of their members, and advise them it has been adopted by the Governors this afternoon, and that we are sending a copy over to them for consideration, and that we will be prepared to discuss it, or the committee will be prepared to defend their action at the conference we have with the Federal Reserve Board.

The Acting Chairman: You have heard Governor Wold's motion, that the chairman of the committee drafting this plan present one to the Federal Reserve Board, with the statement that it has been adopted by the Board of Governors, subject to the approval of the Board.

Mr. Wold: Yes.

The Acting Chairman: I believe that is necessary under the law.

Mr. Wold: That is necessary.

The Acting Chairman: Is Governor Wold's motion seconded?
(The motion was seconded.)

Mr. O. Wells: Before putting it, may I suggest that before making that report we should not overlook some things which are to be supplemental to this report, bearing directly upon the sub-treasuries.

The Acting Chairman: I understand this report has been adopted as it is.

Mr. O. Wells: I thought perhaps it might be unwise for us to convey that fact to them without also expressing the things which are yet to be determined by this committee.

Mr. Wold: That will come out at the conference, will it not?

Mr. O. Wells: Perhaps so.

The Acting Chairman: I think that suggestion is worthy of consideration. I think there are some assumptions in this report that the Federal Reserve Board might perhaps take exception to, unless with this we presented a memorandum of things that we proposed to ask the Treasury Department to do. I would like to have a discussion of that by the Board.

Mr. O. Wells: I think, Mr. Chairman, that perhaps that may be covered, as Governor Wold suggests, in the conference, because the report itself rather remains clear of any assumption. It has only come out in the discussion here.

The Acting Chairman: Are there any other remarks on Governor Wold's motion, that this be presented to the Federal Reserve Board by the chairman of the committee having it in charge?

(The motion having been put, was carried.)

Mr. McDougal: Mr. Chairman, would it be too late to submit that today? I would be very glad to go over with it

now.

The Secretary: I was just in communication with Mr. Willis on the telephone, and he says the Board would like to have this Conference consider, in its order of topics, if it is agreeable to the Conference, first, topic No. 12, on "Commercial Paper"; next, topic No. 13, on "Revenue Warrants"; next, topic No. 14, on "Acceptances"; next, topic No. 15, "Credit Information for Members", which we have already considered; next, topic No. 16, "Reports By Member Banks"; next, topic No. 24, "Clearing House Relations." They also would like to know when it would be agreeable for the Governors to have a joint meeting with the Board.

Mr. Fancher: Did he suggest any time?

The Secretary: No. They suggested no time, except that they would be pleased to have it at the convenience of the Governors.

Mr. Fancher: It will probably be tomorrow some time, not tonight.

The Secretary: I gathered they might like to have it tonight. He made no suggestion on that.

Mr. Seay: Let them suggest the time.

Mr. McCord: Mr. Chairman, as we have from them the suggestion of several topics here, I think it would be well for us to see what we could do with the discussion of these topics before we set a definite hour.

Mr. Fancher: We could now set an hour for tomorrow, and continue our discussion this evening, really accomplishing something definite before we go before them.

Mr. Seay: I think we might settle all these points.

Mr. Fancher: If we continue through this evening, we

could; I do not know what is in the minds of the gentlemen.

The Acting Chairman: Let someone make a motion as to the hour at which we should have a conference with the Federal Reserve Board.

Mr. Wold: Let them set the hour tomorrow.

The Acting Chairman: I will ask the Secretary to confer with the Secretary of the Federal Reserve Board, and ask him if he will set an hour when they can confer with us.

The Secretary: Tomorrow morning, or afternoon?

Mr. Kains: Let them say.

Mr. Wold: Would you suggest that we are going to hand them this report, and also suggest we will take up these things in the order of their precedence? Then they might desire to give us the time to thrash them out beforehand.

The Acting Chairman: That is a good suggestion, and unless there is some objection, I will ask the Secretary to communicate that to the Board.

Mr. Rhoades: As the Federal Reserve Board has not seen this report, they probably will want a little time to look it over.

Mr. McDougal: I think they have a copy of the program sent them, have they not, Mr. Curtis?

The Secretary: Yes, but not of the report.

The Acting Chairman: If the Chair may suggest, I concur with Governor Rhoades that tomorrow afternoon after lunch will give us the whole morning, and give them the whole morning to thrash this over. There are questions involved in these recommendations of theirs that will take some time.

Mr. Fancher: Two-thirty tomorrow?

The Acting Chairman: The Secretary might suggest that

the sense of this meeting is that 2:30 be the time for our conference tomorrow.

The chairman of the Conference suggested that we take up, as supplemental to the adoption of this report, topic No. 22, "General Sub-Treasury Relations." That follows naturally from the terms of this proposed arrangement for settlements, and I would like suggestions from members of the committee as to the topics to be taken up with the Federal Reserve Board or the Secretary of the Treasury in this connection. I presume they would be taken up with the Secretary of the Treasury.

Mr. Kains: Mr. Chairman, in regard to that, are we taking up Topic 22 now?

The Acting Chairman: Topic No. 22, yes.

Mr. Kains: Under present arrangements it is practicable to deposit mint gold, or full weight gold, in the Sub-Treasury and get certificates. These certificates are in denominations of \$10,000, and may be used for exchange purposes. But \$10,000 is a very inconvenient sum of money for that purpose, is very small, and I think it ought to be possible to obtain a letter transfer for a good round sum of money, a hundred or two hundred or two hundred and fifty thousand dollars at a clip, and I think it would be a very good idea if we could get that before them as one thing, to see if they would grant that.

The Acting Chairman: Do I understand you to mean that they should make transfers by mail, or give us some form of receipt?

Mr. Kains: Some form of receipt.

The Acting Chairman: Non-negotiable receipt?

Mr. Kains: A non-negotiable receipt, and advise Washington, or wherever the transfer is required.

Mr. Wold: You mean to replenish this gold fund?

Mr. Kains: I do not especially mean to replenish the gold fund for years. For the last few years it has been the custom of the Sub-Treasury people to allow that to be done, in San Francisco. It does not seem to be with any regularity that they have adopted that rule, but they have done so, and it has made exchange between San Francisco and New York at a very small premium. Prior to five or six years ago it was a regular thing for what we call regular exchange --- that is, demand --- to go to the shipping point, and telegraphic two and a half cents above that. But that has not been the case for some years, owing to the willingness of the Treasury to exchange their certificates for our gold. I was wondering whether we could not improve that by getting a letter transfer for a round amount of money, because shipping these certificates costs insurance, and it would be very difficult to get them replaced if they were lost.

Mr. O. Wells. Mr. Chairman, just to inform the Governors, I want to say that we ship a very great volume of gold certificates, and some gold coin, to the Sub-Treasurer at St. Louis, and obtain these gold certificates payable to our order for the purpose of minimizing the hazard against theft or fire, and to relieve the congested condition of our vaults; and we are arranging now to have the member banks make the payment of their next instalment of capital, if they will, to the Sub-Treasurer, for the same reason.

The Acting Chairman: Do I understand, Governor Kains, that what you want is to have some form of instrument in larger denominations?

Mr. O. Wells: I understand that, but I was only giving that for information. He said it was the rule in San Francisco, and he did not know whether it was done in other places.

Mr. Kains: And to avoid the risk of loss of these little \$10,000 certificates.

Mr. McCord: Governor Kains, in reference to that gold coin, you stated that some of it was light weight in the volume you weigh up.

Mr. Kains: Yes.

Mr. McCord: Is there not a mint in San Francisco?

Mr. Kains: There is.

Mr. McCord: It seems to me as if the Treasury Department ought to be prevailed on, as they take them weighed, it is their business to take care of a light coin. It is a duty of the Government to the people.

Mr. Kains: I agree with that, but they will not admit it, and I think now is the time to make them admit it. As a result of this new law we are hoping that gold will go out of circulation, as it should go out of circulation.

Mr. McCord: It will.

Mr. Kains: And we do not want the last fellow who has that abraded coin to get stuck with it. It is not fair.

Mr. McCord: No, it is not.

Mr. Kains: It is a thing that is properly chargeable to the Government, and I thought that we would never have a more influential delegation before the Treasury than this

Board of Governors.

Mr. McCord: I would try to straighten out the case by calling attention to the fact that the mint was there, and that it was their duty to produce good coin if you furnished the weight.

Mr. Rhodes: We cannot do a thing with the Philadelphia mint. We have tried steadily.

Mr. Kains: That is what I say. If this body will use its influence with the Federal Board, we may get something through, and it will be a distinct service to the American people.

Mr. Wold: I would like to inquire upon what basis Governor Kains thinks that the Government should stand this loss from abrasion and sweating and milling?

Mr. Kains: I do not mean sweating. I mean properly worn coin. I do not mean any ruined coin.

Mr. Wold: How do you know it is properly abraded?

Mr. Kains: It just shows.

Mr. Wold: The sweating process will not show.

Mr. Kains: That can be easily detected.

The Acting Chairman: Let us take up and dispose of the suggestion of Governor Kains. Do I understand that you move that there be incorporated in this a recommendation that we take up with the Treasury Department the issuance---

Mr. Kains: Of letter transfers.

The Acting Chairman: Of letter transfers. Those are receipts, practically, in letter form?

Mr. Kains: Receipts in letter form, yes, non-negotiable, and which certainly will be acceptable to the office to whom remitted.

Mr. McKay: Not negotiable between Federal "reserve banks?

Mr. Kains: I would just as soon have them negotiable.

Mr. McKay: If they say "Pay any Federal Reserve bank", it would be like a gold clearing house certificate.

Mr. Kains: That was not my idea. I thought these letters would just clean up a transfer.

The Acting Chairman: Simply an order of transfer.

Mr. Kains: Yes.

Mr. Bold: You want to deposit a million dollars there and get a certificate of transfer to New York?

Mr. Kains: Yes.

Mr. Bold: Is not that reducible to the question of making transfers without charge between the Sub-Treasuries?

Mr. Kains: That is just what it resolves itself into. You can get these certificates and send them, and it costs the amount of the insurance, and puts the risk on the bank sending them. I think they might do it for Federal "reserve banks; I do not mean the public.

The Acting Chairman: Then your recommendation is that we take up with the Secretary of the Treasury the question of arranging for transfers between Sub-Treasurers for the account of Federal "reserve Banks without charge?

Mr. Kains: Yes.

Mr. O. Wells: Mr. Chairman, could that not be made a portion of the subject which would naturally come under Paragraph No. 7, and which is to be referred to this committee for supplemental action?

The Acting Chairman: I should think it would. I should

think that was one of the important matters to be taken up.

Mr. McKay: The idea was in this plan that the Sub-Treasurer would make these transfers over. That is just the idea, as I understand it.

Mr. McKay: Though not expressed here, that transfers be made free between Sub-Treasurers.

Mr. Kains: It would ~~make~~ relieve my mind if I knew that could be done.

The Acting Chairman: Will you move, Governor Kains, that we incorporate a recommendation that arrangements be made by which transfers can be made between Sub-Treasurers without expense?

Mr. Kains: I move it.

(The motion having been seconded and the question put, the motion was carried.)

The Acting Chairman: He will call that free transfers between Sub-Treasurers on account of Federal Reserve banks.

Mr. McKay: Does that come under the head of Paragraph 22, or Paragraph 10?

Mr. Seay: Both.

The Acting Chairman: Are there any other suggestions of matters to be taken up with the Treasury Department?

Mr. Fencher: The suggestion of the deposit of the gold fund would be rather separate and apart from anything of this sort, would it not?

The Acting Chairman: I should think that might well be taken up with the Federal Reserve Board in the hope that they might negotiate with the Treasury Department. Do you know Mr. Strong's feeling about that, Mr. Curtis?

The Secretary: No, I do not. I think he had some idea

of taking it up with both the Board and the Secretary, getting more or less informal talk with the Secretary on that.

The Acting Chairman: I might say that one thing that has arisen with us is the question of having the national bank notes redeemed at the Sub-Treasury. Now they have to be sent to Washington, and I do not see why it would not be practicable for the Treasury Department to redeem those at the Sub-Treasuries in lawful money. I do not see any reasonable objection to it. I have had very little experience in that sort of thing, and I would like to hear some suggestions and criticisms of that plan from you gentlemen who have had more. There may be some substantial reason why that cannot be done.

Mr. McKay: In Chicago we took that up with the Sub-Treasurer. We had a lot of national bank notes. We have now about a million. He said he would write to Washington and see if he could get any arrangements of that sort put through. That was last week, and we have not heard anything further about it.

Mr. McCord: I can give you reasons why they will not do it.

Mr. Kains: I have refused to take them on deposit.

Mr. McCord: National bank notes?

Mr. Kains: Yes.

Mr. Seay: Ditto.

Mr. McCord: The law says you shall take them.

Mr. Kains: "May" take them.

The Acting Chairman: As a matter of information, I

would like to ask Governor McCord why they cannot do that.

Mr. McCord: I will tell you. The Government maintains only a small office force at each of the Sub-Treasuries. They try to minimize the expense of handling business at the Sub-Treasuries. They will not take over a certain amount of silver on any one day in New Orleans, for instance. The redemption of national bank notes in a Sub-Treasury involves an enormous amount of labor, and requires expert accounting, and for that reason you will never be able, in my opinion, to get the Treasury Department to allow the redemption of the national bank notes at the Sub-Treasuries. They require us to ship these bills in 100 bills in a package, and when they get here the Department turns them right into the redemption department, where they are sorted by States, then by cities, and then by banks in the cities, and out of that they evolve those that are for retirement and those that are for re-issue. To do any part of that work in a Sub-Treasury involves a system of expert accounting, and they will not do it for that reason. That is the main reason for it.

Mr. Fansher: Bearing on that, I might speak of an experience we had with the Sub-Treasurer in Cincinnati, in regard to the redemption of mutilated lawful money. Cleveland not being a Sub-Treasury city, when the Sub-Treasurer from Cincinnati came to us, when he got to the matter of shipping out mutilated money to Cincinnati, we arranged with him to send up to us his straps, and we strapped the money in the form required, and guaranteed the count, and shipped our money to Cincinnati, and it simply went through there, and they cancelled the gold certificates, and it went through to Washington and saved them all the labor. We

shipped them in the required form, in packages of the required shape, with their straps on, which he told us how to fix, and we have passed all our mutilated money through the Cincinnati Sub-Treasury, and it has gone on here in that form and saved them that actual labor.

Mr. Kains: Without being counted by the Government?

Mr. Fancher: Without being counted by the Sub-Treasurer. It is guaranteed. It comes to my mind whether we can not affect some arrangement in the matter of national bank notes, guaranteeing the account.

Mr. McCord: Let me make this explanation, then. It costs you as much to send them to Cincinnati as to send them down to Washington, did it not?

Mr. Fancher: No. Our shipping rate is less. We shipped by registered mail. We get some very cheap rates. We shipped quite a bunch of our money by parcel post before they stopped us. We got it insured, and we got a very low rate on \$2,000,000, but finally they checked us up on that.

Mr. McCord: The Government will not permit it?

Mr. Fancher: Would not permit the parcel post. In other words, they would not register the packages in bulk. We shipped \$200,000 in a package.

Mr. McCord: The reason I asked that question was, I have the same insurance rate for the parcel post that I have for the regular letter postage.

Mr. Fancher: We shipped our mutilated gold certificates, to reduce the bulk of the currency in our vaults, to save space, and it went through and saved the Sub-Treasury all that manual labor.

The Acting Chairman: I might say that I have taken up the matter a number of times with the manager of the Sub-treasury in Boston, and he was very anxious that we should arrange, if possible, with Washington to do that. He said they could handle it without difficulty if Washington would only let them, with the force of men they had in the Sub-Treasury in Boston.

Mr. McCord: He would have to augment his force.

Mr. Fancher: I am not familiar enough with Sub-Treasury methods, but do you not suppose that if we shipped our national bank notes to the nearest Sub-Treasury, and guaranteed the account, they could pass them through and it would save the Sub-Treasury that labor that they want to avoid?

Mr. McCord: Taking that view of it, I presume that could be done. I do not know whether you could make that arrangement with the Sub-Treasurer.

Mr. Fancher: We have passed through the Assistant Sub-treasurer in Cincinnati at least \$3,000,000.

Mr. McCord: I am glad to know that. I will make New Orleans work for me.

The Acting Chairman: I would like to ask Governor Fancher what charge you had to pay?

Mr. Fancher: We simply paid the shipping charge to Cincinnati.

Mr. Wold: And they paid the express charges from there to Washington?

Mr. Fancher: I suppose so. That is all we heard from the Sub-Treasury. You say you ship lawful money?

Mr. Wold: Yes, lawful money.

Mr. McCord: The difference about the national bank note is that it goes for redemption or retirement.

Mr. Fancher: Yes, that is it.

Mr. McCord: It is not so in the lawful money case.

Mr. Seay: But there may be a fund for the payment of charges on the lawful money, and on the other not.

Mr. McCord: The other expense is prorated among the national banks in the United States, according to the amount of redemption.

Mr. Fancher: That might be a double shipping charge.

The Acting Chairman: Would you gentlemen think it worth taking up to get an official opinion from the Treasury Department as to how they would handle that? It makes a great difference with the member banks if it is going to be possible for them, particularly where a Federal Reserve bank is in a Sub-Treasury city, if they are going to be able to turn in nationals, and if we can turn them into Sub-Treasuries, and if they are handled free of transportation charges.

Mr. Kains: I know we would be swamped in San Francisco with them if we would take them.

Mr. McCord: We have in the sixth district twenty-two millions of Aldrich-Vreeland, four millions has been deposited for redemption, or for retirement, --- the words are nearly the same, but they are entirely different. It is my purpose --- and I got my board to pass a resolution authorizing me --- to send out Federal Reserve notes into the other cities, and to pay the insurance and the postage, and also to pay the insurance and the postage of the return of the national bank notes. You say "That in the world do you want to do that

for? What do you want to incur that expense for?" I would be very glad indeed to make the swap in the sixth district, because I would float out my own credits to the extent of about sixteen millions, if I had the discounts to take care of it--- and they are coming very fast.

Mr. Seay: That is the point.

Mr. McCord: And at the same time I would be taking out the Aldrich-Vreeland that is going to be retired, and I have got to furnish the money to retire a good deal of it, and in exchange I would get gold in Washington for it.

Mr. Seay: Have your State banks responded to that?

Mr. McCord: Certainly. There is only one State bank in the city of Atlanta that is a member of the clearing house. The others are all nationals. When I mentioned it to the vice-president he said, "Most assuredly, I will aid you. I can give you four or five hundred thousand dollars national bank notes right now, and I will take your Federal Reserve notes, and will be glad indeed to get them, because it is a direct obligation of the Government, and secured by gold. It is no better than the other, but then I know that is good, basiv money." I have arranged with New Orleans whereby they ship me national bank notes, and I ship them Federal Reserve notes. I have also made arrangements with the banks in New Orleans whereby they will count their money up in hundred bills, in a package, and they will ship them direct to the Treasury for my account.

Mr. Fancher: At your expense?

Mr. McCord: At my expense; and I am doing that to the extend only of the Aldrich-Vreeland money. Nearly every bank in the district has issued it. Nearly all are

retiring it, and it enables me to discount more freely for my member banks, by getting my Federal Reserve notes out in the hands of the State banks, as well as national banks.

Mr. Seay: How much have you swapped on that plan?

Mr. McCord: I have not swapped much, but I am ready to swap a good deal more, and I have the contracts made for it. I can swap five or six millions.

Mr. Wold: What are your discounts?

Mr. McCord: My discounts are now approaching two millions, and they are coming very fast, because the tax on the Aldrich-Vreeland has reached a point higher than my discount rate, and owing to the non-movement of the products of the country they have to keep some kind of credit out, and they prefer to give us the discounts, and I prefer to have the discounts, and float my Federal Reserve notes into the territory, rather than to have their Aldrich-Vreeland out as a menace against me, and against my having an opportunity to do business.

Mr. Fancher: Is it your thought that your State banks will put the State notes into the Federal Reserve?

Mr. McCord: Yes sir. They have agreed to do it.

The Acting Chairman: Do the gentlemen think it is worth while to take up with the Treasury Department that matter?

Mr. Seay: It is quite worth while, but there are very little hopes.

Mr. Wold: You have a committee. Why not let them handle the whole subject?

The Acting Chairman: You would leave all of this to the committee having in charge the matter of drafting this plan?

Mr. Wold: I think so.

Mr. Fancher: I move you that this be one of the topics to be discussed with the Treasury Department.

The Acting Chairman: Governor Fancher moves that the matter of the redemption of national bank notes at Sub-Treasuries be added to the list of topics.

(The question having been seconded and put, was carried.)

The Acting Chairman: Are there any other subjects to be taken up with the Treasury?

Mr. Scay: Mr. Chairman, I will mention, in connection with this topic, something that came out of the meeting of the committee in New York. I understood Governor Strong to say that Sub-Treasuries has been approached as to the cost of making some of these transfers, and they had stated that the provision for their expenses was pretty well exhausted, and when they applied for some additions to the provision for expenses, they were met by a committee in Congress--- when the Sub-Treasury officials applied--- who stated that it was contemplated that the Federal Reserve Banks would absorb some of these charges, and they they were expected to absorb some of these charges, and that provision at the Sub-Treasuries for some of these things we wish to have done might not be so ample in the future.

The Acting Chairman: I think that was brought out particularly in connection with the transaction----

Mr. McCard: What charge is that we will absorb?

Mr. Geay: These transfers to the subtreasuries. They expect the federal reserve banks to absorb the charges between themselves.

The Acting Chairman: If I remember rightly that objection was based particularly on the expense involved in the shipments between San Francisco and New York, San Francisco being the great gold center of the country and the exchanges going to New York for settlement of international balances. We thought, however, that transfers might be arranged between the other sub-treasuries.

The Secretary has some forms for weekly reports from members in reserve cities, which he will distribute.

I think the questions that the Federal Reserve Board has asked us especially to consider, in the order in which Mr. Curtis has named them, are of such vital importance that I think it desirable to postpone consideration of them until Governor Strong is here. If there are any other matters which the Conference cares to discuss informally we will take them up.

Mr. Wells (Of Dallas): We could go on as far as we can with our regular program.

The Acting Chairman: If there is no objection we will take up No. 2, in the order of business, being the report from Governor Rhodes as a subcommittee on cipher

codes. Is the subcommittee prepared to report to the Conference?

Mr. Rhoades: Do you mean with reference to telegraph reports?

The Acting Chairman: Yes; if you please.

Mr. Rhoades: Following up the line which Governor Strong referred to about the business at New York, I have both corresponded and had interviews with Mr. Harding, the manager, and have this letter from him:

"THE BUSINESS CODE CO.

New York.

Jan. 15, 1915.

Mr. C. J. Rhoades, Governor,
The Federal Reserve Bank,
Philadelphia, Pa.

Dear Sir:-

TELEGRAPH CODE.

"We are in receipt of your letter of the 13th inst., and note that you approve the dummy showing the method of attaching the "Federal Reserve Supplement" to the A. B. A. Code.

"The copies of replies received from the Federal Reserve Banks are not very full but with the assistance of the Index to the Federal Reserve Act which we have obtained from the National City Bank, we will be able to prepare the necessary phrases for the code. When these are in typewritten form they can be submitted to each of the banks as you think desirable, and will tend to bring forth more concrete

suggestions from them.

"It is somewhat difficult to estimate the size of this supplement, but as a basis for figuring we have assumed that 32 pages containing about 800 phrases will be sufficient. This supplement to be printed on the same size sheet, and same type and paper as the A. B. A. Code. The binding to be similar to the A. B. A. Code, with a pocket on the front cover which may be slipped over the back cover of the A. B. A. Code similar to the dummy submitted.

"The cipher to consist of selected English codewords to follow in alphabetical order those used in the A. B. A. Code.

"We will prepare the contents of this supplement, submitting the same to you for approval, print, bind and deliver in New York, 8000 copies of the supplement, in accordance with the above specifications at the price of 25.20 cents (25-1-3 cents) per copy.

"The major part of the total cost is the binding. This has been increased by the addition of the pocket for affixing the supplement to the A. B. A. Code. We have given the matter of binding considerable study with the result that the dummy submitted to you seems to offer the best solution. If you desire to submit this dummy at your meeting on the 20th we will forward it to you.

Very truly yours,

THE BUSINESS CODE CO.,

B. Harding, Manager."

I might explain what I mean by "dummy". You take an

envelope and clip it right on the back of the A. B. A. Code, as I do it here (indicating), so that you would practically have one volume and would not have to look for a volume all the time. Now, gentlemen, I am ready to answer any questions.

Mr. McChord: I think your plan is an admirable one, but I think there are some members of each of these reserve banks who are not members of the American Bankers Association. Very naturally the American Bankers Association would not like, and probably would not permit, the issuance of their code to a non-member bank. This system would not be applicable to a bank which is not a member of the American Bankers Association. Take a small bank in an interior town, or a crossroads, counting every dollar, figuring every expense, and they figure they have no need to become a member of the American Bankers Association. If you take that into consideration I would like to know what remedy you are going to offer for that class of banks that are members of our system?

Mr. Rhoades: I have no data as to the number of member banks in our system which are notmembers of the American Bankers' Association. I presume, perhaps improperly, that such banks would be very small in number and we would not be apt to have telegraphic communication with them.

The Acting Chairman: Gentlemen, you have heard the reports submitted by Governor Rhoades. Is there any further comment on it?

Mr. Wells (Of Dallas): We have not disposed of No. 3 entirely, have we? That report was made while I was out as a member of a committee. Have we disposed of the question?

Mr. Seay: We did dispose of it.

Mr. Wells (of Dallas) How did you dispose of it? I understood there was a report made and that is all. We are not all members of the American Bankers Association now are we?

The Acting Chairman: A letter from the Federal Reserve Board was read.

Mr. Wells (Of Dallas): That was the extent of the report, and that was to the effect that there would be no objection to our taking out a special membership; but the Secretary of the American Bankers Association, I think, replied to that communication to Governor Strong to the effect that the by-laws did not provide for a special membership and that there would not be any means of remedying that until the next council met, which will be some time in the future. So we are not members and have no way of becoming members according to that letter and according to the regulations, or rather restrictions suggested in that letter by the Board. We are not in a position to avail ourselves of a continuing use of the American Bankers Association Code. That code has only been loaned to us until such time as it may be perhaps necessary to become members.

Mr. McCord: To me the Secretary's letter almost amounted to a statement that he would be perfectly willing for us to join.

Mr. Rhodes: I understood from the letter I received from the Secretary of the American Bankers Association that all Federal Reserve Banks would be granted the use of their code until such time as it might be possible for them to join as associate or special members, or something of that kind. They did not construe the letter strictly, and I believe these codes have been sent. At first they were not sent, but they subsequently advised me that they had sent them to every Federal Reserve Bank.

Mr. Seay: I construed that letter, rightly or wrongly, as an intimation that they would receive our membership subject to confirmation by their executive committee. I have sent our subscription card.

Mr. Wells (Of Dallas): They sent us one too, which we did not fill out. I have not taken action yet, but I construed it to mean that we were at liberty to signify our intention to send the money, and that we would be constructive members of the A. B. A.

Mr. McGord: I am a member of the Executive Council of the American Bankers Association and I say for myself that I will most assuredly vote to admit you.

Mr. Curtis: I think Mr. Seay construed it the way it was construed in New York, that we could go in as honorary or special members subject to ratification of that action when the Council met.

Mr. Wells (of Dallas): What is the regular membership?

Mr. McGord: Up to ten million dollars it is \$75.

The Acting Chairman: That was our understanding in

Boston, that we can join subject to the ultimate approval of the Council.

Mr. Wells (of Dallas): Have you joined, Mr. Chairman?

The Acting Chairman: We have not.

MR. Wells (of Dallas): I should like to ask if any member here is a member of the American Bankers' Association.

Mr. Rhodes: Philadelphia joined before the last conference.

Mr. McCord: I can say that Atlanta has joined.

Mr. Curtis: In New York the Board of Directors passed a resolution authorizing the Governor to join that association or any other State association in his discretion. I understand Mr. Strong has not yet actually put through the transaction.

Mr. McDougall: In Chicago our executive committee has authorized the Governor to make an application for membership if it sees fit to do so.

Mr. McCord: Our resolution also applied to State membership as well as national.

The Acting Chairman: Governor Wells, is there any further light that you wish on that?

Mr. Wells (of Dallas): I think from the expressions that have been given around the board that we are to believe that all federal reserve banks contemplate joining the association, and that will remove the suggestion I made as to the possibility of or not using the American Bankers Code.

Mr. Wold: That does not follow that all the members will join.

The Acting Chairman: Let us return once more to the report of Commissioner Rhoades, the subcommittee, on cipher code. The report is before you gentlemen for action.

Mr. Wells (Of Dallas): May I ask one other question, Governor Rhoades?

Mr. Rhoades: Certainly.

Mr. Wells (of Dallas): Governor Rhoades, what is the approximate cost per copy of the code that might be constructed for our use?

Mr. Rhoades: An entire new copy, do you mean?

Mr. Wells (of Dallas): Yes.

Mr. Rhoades: For an entire new copy, \$,000 copies was estimated to cost about 33.65 cents per copy.

Mr. McCord: That is based on the size of the American Bankers' Code?

Mr. Rhoades: Yes.

MR. Wells (of Dallas): Then I am of the opinion there are more reasons why we should have a copy of our own rather than undertaking to use the American Bankers' Association Code, one of them being the point raised by Governor McCord and the other being that we would be in perhaps a more independent position than in trying to utilize the code already manufactured.

The Acting Chairman: May I ask Governor McCord how many national banks there are in the country that are not members of the American Bankers Association; that is, in your capacity as a member of the Executive Council of the American Bankers' Association?

Mr. McCord: I cannot tell you that because I have never segregated the states and nationals. I know practically about how many states, you understand, but as to the states and nationals, I couldn't say-- I mean as to national banks being members I could not say. However, I think I have a solution that would settle the question. The American Bankers' Association Code is not copyrighted, is it, Governor Rhodes?

Mr. Rhodes: I think so.

Mr. McCord: They have no right to copyright words, of course. While I would not want to take any advantage of that Association, being a member of the Executive Council, I think it would be probable they would not object to our using identically the same words and terms that they use, supplementing such as we need in the code and making it cost us 33 cents apiece. Then we would have it for the non-member banks.

The Acting Chairman: Speaking from my own experience in our bank at Worcester and our banks in Boston, we have had so many different kinds of codes that it was a perfect nuisance. We would have been only too glad to reduce the number of codes instead of adding one more to our collection.

Mr. McCord: That was just exactly the point. That is why I wanted to make that suggestion, that if perchance a member bank should happen to get hold of the American Bankers' Code and wire to a Federal Reserve Bank, it would be in their code. If perhaps they got hold of an American Bankers Code and happened to telegraph any

bank that was not a member of the Federal Reserve Banks, still the words would be applicable in that transaction, and there would be no confusion arising from the use of the code thus prepared.

Mr. Wells, (Of Dallas): I move that we adjourn for recess.

Mr. Rhoades: Our thought in not attempting an entire new code was that we really didn't know what we wanted until we had had a few years' experience. This was a temporary makeshift. It seems to me it is too expensive as he has outlined. I think the way to save is on the binding, as he has indicated.

Mr. Wells (of Dallas): May we not use the American Bankers' Code for a number of years without too great expense as it stands; instead of having a new code, when, at the end of a year, we might find ourselves in need of a new code. Would not that be a rather expensive plan?

Mr. Rhoades: I did not make any recommendations. I have merely submitted the facts.

Mr. Wells (of Dallas): That is my recommendation now.

The Acting Chairman: Mr. McDougal, we will hear you.

Mr. McDougal: I was going to ask for your permission to report before we adjourned. The Governors' message to the Federal Reserve Board has been delivered. I found Secretary McAdoo in the Chair and he indicated real pleasure at being informed that we had agreed on something. (Laughter) we wished me to convey his compliments to the Governors in session, and stated that he will take the

matter up and give a decision promptly.

I also, on behalf of Mr. Curtis, delivered a message to the Board that we will take the matters up in accordance with their wishes, by number, and we would be very glad to meet with them at 2:30 o'clock tomorrow afternoon, if that suited their pleasure.

I should have stated that I gave that message to Dr. Willis and he was to report later as to a conference.

Mr. McCord: I think I can dispose of this question of Governor Rhoades' right here.

The Acting Chairman: Mr. McCord, there is a motion before the conference to take a recess.

Mr. McCord: Of course I yield.

The Acting Chairman: The motion has been made and seconded that the Conference take a recess until half past eight o'clock.

(The motion was carried.)

(Whereupon, at 6:25 o'clock p.m., an adjournment was taken until 8:30 o'clock p.m. of the same day.)

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