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THIRD CONFERENCE
BOARD OF GOVERNORS
FEDERAL RESERVE BANKS

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THIRD CONFERENCE OF GOVERNORS
OF FEDERAL RESERVE BANKS.

EVENING SESSION.

Shoreham Hotel, Washington, D.C..

Thursday, March 11, 1915.

The Conference reconvened pursuant to adjournment, at nine o'clock p. m.

The Chairman: I am requested by Governor McDougal to read a letter that he has just received from Mr. E. D. Hulbert, Vice President of the Merchants' Loan & Trust Company of Chicago. I will read it for the purpose of the record, and it may be well for us to take some action on this matter:

"Chicago, March 8, 1915.

"Hon. J. B. McDougal,

"Federal Reserve Bank, Chicago, Illinois.

"My dear Mr. McDougal:

"I suppose you are getting more suggestions than you know what to do with, but I want to add one to the number.

"We, and I dare say all the other banks handling commercial paper, are exceedingly annoyed by the loose methods employed by nearly all the commercial paper concerns in

handling their paper. It is not an uncommon occurrence for those houses to take a lot of paper from their customers undated, with no specified maturity, and sometimes with no specified date of payment, it being left to the broker to fill in to suit the buyer.

"It is becoming almost a universal practice to have these notes filled in with the typewriter. This, it seems to me, is very objectionable, as it is not very much different from having them filled in with a lead pencil, such filling being easily erased and changed.

"We are constantly returning notes which have been purchased because they show plainly on their face that dates, maturities, or even amounts have been changed, the broker usually claiming, when his attention is called to it, that he had authority from the maker of the note to do this.

"It seems to me that the Federal Reserve Banks might very properly and fairly stop this practice by making a requirement that Federal Reserve notes, to be eligible for rediscount at the Federal Reserve Bank, should be filled out in ink and must show no erasures or alterations.

"I make this suggestion for your consideration.

"Very truly yours,

(Signed) E. D. Hulbert."

Mr. Seay: That is a very practical suggestion.

Mr. Kains: We have taken action on that very thing.

I got an application for a loan from one man of six months paper, commercial stuff, and I sent the application back and explained to him, and he just changed the form himself and sent it back.

Mr. Seay: We have seen them altered to fit the occasion, I am sure, and where there was the least suspicion we have always returned them.

Mr. McCord: Do you know what we call them down in the sixth district? "Tailor made".

Mr. Wold: Why do not the commercial banks take the position themselves on the matter? Why do they want us to pull their chestnuts out of the fire?

Mr. Seay: I think he thinks they will come to us from the member banks and say, "We will not take them," and the member banks will say they will not take them.

Mr. Wold: We will not take them if they have been changed.

Mr. Seay: That is what I suppose he means.

Mr. McCord: What are you going to do if a little fellow comes in, where a bill of goods has been sold? Is it outlawed because it is written in typewriting?

The Chairman: May it not be possible for us to agree as a matter of policy to discriminate against paper that is not properly prepared, and ask Governor McDougal if he would get Mr. Hulbert to prepare such a letter as would

seem to cover the ground? If he will send it to us we would be very glad, in New York, to give it to every commercial broker in town and tell him that we are going to observe the rule about this, and that they had better get their clients to be a little more careful about making out their paper.

Mr. Fancher: If the broker will be more particular it will soon bring about a change in that condition.

The Chairman: We do not have to bother the member banks with it at all.

Mr. Seay: He can fill it in in ink.

Mr. Fancher: That is all right if he does.

Mr. Seay: It is less open to suspicion, but it is of course a loose method.

Mr. Wold: Is that a practice on the part of the broker?

Mr. Seay: In some places, yes.

The Chairman: They make it while you wait, a good many of them. They get bunches of it, in New York, some of the brokers, and the out of town concerns telegraph them that they will need so much money, and the broker in New York just buys the paper himself and gives him credit, and then he goes out and sells it and gets the pieces made up to fit, both as to maturity and denomination.

Mr. McDougal: I think that will be a very nice way

to handle this matter. I assume that the other Governors would probably do the same thing in their cities. Would that recommendation go to the brokers with a suggestion that they discontinue the use of the typewriter?

The Chairman: Yes.

Mr. McDougal: I think that would be a good suggestion.

The Chairman: I do. I think a typewritten note is a dangerous thing.

Governor Aiken, would you be willing to communicate with the note brokers in Boston and call their attention to the loose practice developing in the way they make up paper for their clients?

Mr. Aiken: I will be glad to. We receive very little of it. I was just trying to think of any notes made up on the typewriter.

The Chairman: We have had such come in.

Mr. Aiken: I would be very glad to do it, however.

The Chairman: I am sorry to say we do see some acceptances coming in in that form. We have not discriminated against them because it is a little different situation when you get to acceptances of a concern stamped on the completed note.

Mr. McDougal: I shall be very glad to undertake to have Mr. Hulbert prepare such a letter, and I shall be

very glad to help him in that matter, too.

Now, Mr. Chairman, may I bring before the meeting one or two small matters at this time, for the reason that I am planning to leave you tomorrow morning?

The Chairman: Please do, Governor McDougal.

Mr. McDougal: First, we have here a circular I distributed to you called No. 180, which Mr. Delano asked me this morning to distribute among the Governors. I have handed them around, and I think each one has a copy. It bears upon the matter of the establishment of branches. It was not that he expected us to take any action, but he said he would like to have the matter placed before the Governors in order that they might have something to think about, if they did not have enough already.

The Chairman: We discussed that while you were out, Governor McDougal, not arriving at any conclusion, but stating substantially what you said.

Mr. McDougal: It got before the meeting?

The Chairman: Yes.

Mr. McDougal: The other matter is this, that it seems to me the clearings matter, left as it is with the committee, in all probability unless we take further and definite action at this time, will make it necessary to hold another meeting of the Governors in the near future, and I would suggest for the consideration of the conference that this committee be empowered to go ahead and formulate

a definite plan so that it will not be necessary to bring the Governors together again in the near future.

Mr. Kains: I second that motion. I do not see that there is anything to prevent four of our men from putting up something that will pass with every one of us. At any rate, if there are modifications to make, we can each modify.

Mr. Fuld: A certain point in that discussion, as to New York, Chicago, Cleveland and Richmond, we want to be left optional with the banks. With that understanding, there is no objection whatever. I think it will save us a lot of time if the committee goes ahead and completes the plan for clearings along the lines we have talked of, and we will not have to come back for the purpose of approving it.

Mr. McDougal: Will you make a motion to that effect?

Mr. Rhoades: I make the motion that the matter be left with the committee, with power.

Mr. Kains: I second the motion.

(The motion, being duly seconded, was put and carried.)

Mr. McDougal: Now, Mr. Chairman, another matter is the matter of providing for the Secretary's salary. I do not know to what date it is paid, but I do know that no definite provision has been made, and I would move that we at this time arrange for the Secretary's salary to be paid a half a month in advance, so that the apportionment can be made at the time the expenses of the meeting are apportion-

ed.

Mr. Rhoades: I second the motion.

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

Mr. Sawyer: Reverting, just a moment, to the motion as passed, I suppose you all understand the conditions in our district are somewhat peculiar, from the fact that we have been operating the clearing function to a certain extent, and we will have to modify the plan to suit our conditions.

Mr. McCord: I think that was taken into consideration in the discussion of the subject.

The Chairman: I think it was clearly understood, both as to Kansas City and St. Louis, Mr. Sawyer.

Mr. Sawyer: I just wanted to know that it was.

The Chairman: And probably the committee, in dealing with the circular itself, will make some reference to that.

Mr. Fancher: Mr. McDougal's reference to the salary for the secretary brings to my mind the matter of the expenses of this clearings committee, the committee of five. We have had two or three meetings, and I would like to know whether it is not a proper expense up to the present time, to be apportioned among the twelve banks. The expense has been borne by the five banks.

Mr. Sawyer: It certainly ought to be.

Mr. Kains: I move that it be so pro-rated.

Mr. Sawyer: I second the motion, Mr. Chairman.

The Chairman: Is there any debate on that question?

(No response.)

The Chairman: There being none, I will put the question.

(The question, being duly seconded, was put and carried.)

Mr. Curtis: I would say that my compensation has been paid up to last month; that is, it was added into the amount sent around to each bank.

Mr. Fancher: Up to some date in February?

Mr. Curtis: The 10th of February.

Mr. Seay: The motion, then, Mr. Chairman, would involve our turning in our traveling expenses and pro-rating the whole?

Mr. Curtis: If you gentlemen will send them in to me I will add them onto the expenses.

Mr. Seay: Governor Strong, do you regard the letter from Mr. Delano as disposed of, sir?

The Chairman: I understand that he does not want any action on the matter.

Mr. McDougal: No; no action. He thought he would like to have it brought before the Conference, not for an expression of opinion, but just to let them know that the matter was heading up that way, that is all.

Mr. Wold: Is it his desire that we write him or take

it up in any way?

Mr. McDougal: No.

The Chairman: I think, judging from a conversation I had with Mr. Delano some weeks ago, that this is a warning of possibly some formal inquiry later, along those lines.

Mr. Kains: Did you discuss the matter, Governor Strong, today.

The Chairman: No.

Mr. McDougal: I have no doubt that Governor Strong has stated the exact facts, for the reason that Mr. Delano, as I was leaving him this morning, said he would hand me these pages, and asked me just to distribute them, not that he wanted action, but simply that he would like to have the matter before the Governors so that they would know what might be coming, or something of that sort.

Mr. Kains: I would like to get an expression of some of the Governors' opinions regarding this branch business, if we could, now that we are all here together.

The Chairman: Governor Kains would like a little discussion of this matter of branches. The floor is open. I think we ought to hear from Mr. Seay, because he has let it out that he has an opinion about it.

Mr. Seay: While it applies to my own district, I would like to ask Governor Kains if the matter has been discussed among the bankers of his district.

Mr. Kains: It is being discussed. Some of them want branches, but they do not know what they want them for.

Principally, there is a rivalry between Seattle and Portland, for instance. If a branch was established at Portland and not one at Seattle, there would be the devil to pay and no pitch hot.

Mr. Seay: My own opinion, Governor Strong, since you asked it, is that the problems we have to work out now are of such a pressing nature that it is altogether premature to consider the subject of branches.

Mr. Kains: I have an idea that the Federal Board are going to press the question.

(At this point an informal discussion occurred, which the stenographer was directed not to report; after which the following proceedings took place:)

The Chairman: While you were out this afternoon, Mr. Kains, this circular was submitted. Governor McDougal was out, also. We had a little discussion, and the consensus, as I gathered it at the time, was that there were so many other things just now that ought to be dealt with that we would be burdening ourselves with a lot of work for very little result in dealing with possible new branches.

Mr. Kains: I am glad to know that, because I do not see any present necessity for bothering with the thing myself. I am just afraid that the Federal Reserve Board is going to force action.

Mr. McCord: I will tell you where it all comes from, gentlemen, briefly. New Orleans made a fight on Atlanta and

found out she was going to lose out on that fight, and it came to a kind of a proposition to have a branch in New Orleans. It came up to the Board, and the Board said "Whenever it is expedient." The Board had no objections to New Orleans having a branch bank, and they have put in their ear in the application right there for a branch in New Orleans; and that is where this comes from, evidently, because New Orleans evidently is pressing the question to get that branch bank there.

Mr. Seay: The adventure upon which we are about to embark is something that will give us experience to pass upon that subject, I think.

Mr. Kains: The clearing question?

Mr. Seay: Yes; the clearing question.

Mr. Aiken: I think that would be a very important factor.

The Chairman: Are you ready for the next subject? Governor Aiken has suggested Item No. 21, "Establishment of the practice to have District number printed on member bank checks."

Mr. Aiken: I wondered why my name was attached to that. I ~~had~~ forgotten that I had ever raised that inquiry at all. I have lost interest in it. (Laughter)

Mr. McCord: That is an advantage, or it will be an advantage, when we get into this clearing system.

Mr. Kains: We have that in practice.

Mr. McCord: Take, for instance, our district.

Tennessee is split in the middle; so is Mississippi. In handling the checks in Tennessee and Mississippi, if we had District 8 and District 6, we would know what to do with it.

Mr. Aiken: I think that was brought to my attention by a salesman for a bank stationery concern, and he told me that all the other banks were going to do it and asked why I was so refractory in the matter. I suggested it because I would like to find out if numbers have been adopted by the other banks.

Mr. McKay: The Chicago banks sent out notice of drafts to be drawn on the bank, with a large figure on it in the center. Our district is cut up into all the States except Iowa, and we thought it would be a good index in sorting the checks, so that we would know what district they were in; not only the member banks in the district, but the other districts involved.

The Chairman: You put a skeleton number on?

Mr. McKay: Yes; it is quite plain.

Mr. Fancher: A good many of the banks are adopting that.

Mr. Wold: That is, drafts drawn on the Federal Reserve Banks; not the checks drawn upon the member banks?

Mr. Seay: Not yet.

Mr. Fancher: We have suggested to our banks that they have the skeleton figure 4.

Mr. McCord: We suggested to our lithographer down there that he put in the upper left hand corner a small letter and

figure, "F-6."

Mr. Seay: This topic applies to member bank checks, you know.

Mr. McCord: Yes. Our reason for making that suggestion instead of a skeleton number was that you could hardly get the smaller banks to go to the expense of the skeleton number in the center of the check, and if they could get the "F-6" up in the corner it would be without any additional expense.

Mr. McKay: They could put the skeleton number there just as cheaply as this number in the corner. It is large, and the minute you see it you can tell at a glance.

Mr. Aiken: The upper left hand corner is the poorest corner for sorting purposes.

Mr. Seay: We issued a circular to our member banks when we received from the Federal Reserve Board ^{a sample} of the check they send out. We issued a circular simply suggesting that in the course of time, when the supply of checks was exhausted, it would be advisable to adopt that, but it was nothing pressing.

The Chairman: We are ready for a motion on this, I guess. Governor Aiken, you are responsible for the topic.

Mr. Aiken: I have not heard a sufficiently enlightening discussion of the subject to warrant making a motion on it. I cannot receive ideas enough on the subject to promulgate them. I move that the subject be passed.

Mr. Seay: Mr. McKay, when we begin intra-district clearing and handling of checks it will facilitate the physical handling of checks very much?

Mr. McKay: Very greatly. When you see that "7" in the middle of the check you can see where it belongs.

Mr. Aiken: Would you like to have me make that as a motion?

Mr. McKay: I think that is a very good motion.

The Chairman: Governor Aiken moves that the Federal Reserve Banks recommend to the banks in their respective districts putting a skeleton number or letter, or number alone, on their checks both for acceptances and checks on the Federal Reserve Banks.

Mr. Fancher: I second the motion.

(The motion, being duly seconded, was put and carried.)

The Chairman: In order that the Pacific Coast may not be neglected, I suggest that we take up topic No. 33, "Abrasion on gold coin."

I would like to suggest in connection with that that I took the liberty of trying to pull some of your chestnuts out of the fire, Governor Kains, by telling the Assistant Secretary of the Treasury the other day that they had a rotten sub-treasury out in San Francisco; that they could not weigh gold coin out there and they received more than any other sub-treasury in the United States. He was very much

surprised and said he would investigate it.

Mr. Kains: I did not know you were going to call this up. My cashier has made up a lot of figures on questions of this kind, and I will just read you what he says, if you will bear with me a moment.

"The coinage laws of the United States are defective in two particulars:

"1. They permit gold coins to be issued by United States Mint, which are never receivable by United States Treasury:

"2. They place upon the innocent holder the cost of abrasion plus the original deviation below standard."

I will send to each Governor -- I have a few of them here now--- some forms which give a very clear exposition of the facts in the matter, and a chart showing the years that coins are receivable; tens and fives, when they are issued, are not receivable right back. They do not weigh enough to be received, but they allow a certain amount of abrasion each year. After they have been in circulation for six or seven years the amount of abrasion is so much that it entitles them to be received.

As a matter of fact, we have about ten millions of dollars in our safe what weighs up very well, but the Treasurer will not take it because he says some of these coins are below the limit of tolerance, while others may be much above. Therefore I cannot get certificates for those coins.

At any rate, I think that as a matter of general policy the Government should help us to get all the gold in the country behind a cage and use the representative paper instead. They ought really to follow the example of the British Government and father that expense. It is not so very great. Just now it is causing a good deal of shifting, and with this abraded gold in the safe my life is hardly worth living. If I went in the clearing house they would make me the receiver of the whole thing.

The Chairman: They are working us for fifty-dollar silver certificates in New York. There is no abrasion on them, but there is a terrible lot of storage room.

Mr. Seay: I shipped \$800,000 in gold coin to the treasury about ten days ago, and I am waiting to hear what the abrasion was, now.

Mr. Wold: Have you any way of weighing it up?

Mr. Seay: Coin by coin?

Mr. Wold: And in bulk.

Mr. Seay: I could weigh it up coin by coin. I have some treasury scales, for that purpose, but it is a pretty big job.

Mr. Wold: We, in Minneapolis, weigh all of our gold and then take the short weight and compute the abrasions.

Mr. Kains: Do you weigh coin by coin?

Mr. Wold: Yes sir.

Mr. Kains: How many millions do you get out there?

Mr. Wold: We do not get as much as you do, but we have a good deal of it. We give the member bank the option of taking back short weight, supplying us with full weight, or give them credit for the bullion value. But we have shipped all that short weight stuff to the sub-treasury and what we have in our vaults is absolutely full weight stuff.

Mr. Seay: Do you know what you have to pay?

Mr. Wold: There is a difference of four cents on ten thousand dollars between our figures and the sub-treasury, and that would be lost in shipment.

Mr. Seay: How much do you ship there?

Mr. Wold: About seven or eight million dollars.

Mr. Seay: What is the abrasion on the whole amount?

Mr. Wold: I could not tell you that; but we have a scale that weighs not only each coin, but we can compute.

Mr. Seay: It is not automatic, is it?

Mr. Wold: The coin scale is automatic.

The Chairman: If you are going into the whole subject of coinage, we have a big job.

Mr. Kains: It means a change in the law; and the law should be changed.

The Chairman: If we are going to deal with the subject of abraded coin alone, and how the sub-treasury may facilitate handling, it seems to me that we can make some representations by resolution here to the Federal Reserve Board to be brought

to the attention of the Treasury Department, which would help in a situation like Governor Kains, where he is now helpless, to get gold certificates.

(At this point an informal discussion occurred which the stenographer was directed not to report; after which the following proceedings took place:)

Mr. Kains: We are saddled here with this stuff and it takes too much time to pick it over. I am getting it in every day, two or three hundred thousand dollars a day, and we cannot do it.

The Chairman: It keeps a clerk weighing it up?

Mr. Kains: It does not settle anything. It keeps you at it all the time.

Mr. Seay: You will never settle it any other way.

Mr. Kains: Oh, yes; we have got to settle that thing. The banks are just using gold as a football, where they could use paper in its place just as well.

The Chairman: With no abrasion on it.

Mr. Kains: With no abrasion, no.

Mr. Wold: If the Government ever attempted to take gold otherwise than for its bullion value, everybody would be sweating gold.

Mr. Seay: The public would have to pay for it.

Mr. McDougal: Governor Wold, I do not believe you understand the situation in California. The gold that

Governor Kains has on hand we could take in readily and get full value for; but his sub-treasurer will not give it to him.

Mr. Wold: But he says that mixed in with that gold is some that is short.

Mr. McDougal: No; he says it is all full weight.

Mr. Kains: I say it is all good gold.

Mr. Wold: I thought you said some of it was below the limit of tolerance.

Mr. Kains: No; it is away above the limit of tolerance. We cannot get action unless it is brought in in mint sacks. If it is out 25 years they will not take it at all. We have a sub-treasurer who says that he wants to have his gold where it can be counted, where he can see every bag go into it, and he would not let us have a little corner. He has seventeen rooms, and he would not give us one of the rooms in that building. That is the sort of a sub-treasurer we have.

The Chairman: If you took that up with the department here they would straighten that out in no time.

Was it your feeling that we should take some action?

Mr. Kains: I thought we might. I do not know that any present action is necessary, but I just wanted to get it before you to show you the conditions. It is an intolerable sort of a condition out on the coast, where we are handling

more. I sent out a circular stating that we would not take it any more; that we would take it at its bullion value--- which scared all the country banks. The country banks all sent gold into the city and drew drafts against it. The city banks are full of it, and they are all fighting each other about it to see who will be the goat, and they are trying to make me the goat.

Mr. McCord: It is like the conditions down South. The more you talk about reduction of acreage in the cotton crop the more acreage they plant.

The Chairman: Would you suggest a resolution for us to act on, Governor Kains?

Mr. Kains: I think if we are discussing this abrasion I would like to make a motion, giving it some broader scope. I move that the Federal Reserve Board be approached and asked to help out in this situation in regard to the handling of abraded coins. We will show them what the situation is and they can probably see the Treasury Department with more influence than we have.

Mr. Seay: You mean now, as it affects California?

Mr. Kains: As it affects California, or as it affects any other place in this country. It is a broad question.

Mr. McCord: It affects us, too.

Mr. Kains: We are all interested, and we are all interested in getting this gold coin behind bars where it belongs.

The Chairman: Is this motion seconded?

Mr. McCord: I second the motion.

(The motion, being duly seconded, was put and carried.)

The Chairman: Governor McCord suggests that we discuss the subject of foreign exchange, being No. 30 on the program. Governor McCord, may I ask for your views on this subject.

Mr. McCord: I wanted you gentlemen to discuss it. I wanted you gentlemen who are experienced in this matter to lead out, because this is a new field to me, and I recognize the fact that I have to go up against it, and I wanted to get the expression of opinion of you gentlemen who have had experience on it, so that I would know how to handle it when it comes up to my counter.

Mr. Kains: Mr. Chairman, are we authorized to open London accounts?

The Chairman: The Federal Reserve Board can give authority to open London accounts. I think the likelihood is, unless some good reason is shown to the contrary, that it will endeavor to work out an arrangement by which there will not be twelve London accounts and twelve Berlin accounts, but simply one account for the whole system, when the time comes to open it. That is very much in Mr. Warburg's mind, who is the best posted man on that subject on the Board.

Mr. Kains: That would take in all other foreign countries? We will do business with Sweden and all the rest of

them?

The Chairman: Ultimately, if we went in to do that business, we would have to. We cannot do business with one without doing it with all of them.

Mr. Kains: I mean to say that we would all work together.

The Chairman: Probably through one agency.

Now, Governor McCord, are you thinking of commercial bills, that is, cotton bills?

Mr. McCord: Largely, yes, because that is the principal amount of our foreign exchange--- and phosphates and tobacco and so on.

Mr. Wold: I would like to inquire, Governor Strong, if the foreign bills Sterling have been handled in approximately the same manner as the dollar acceptances, without endorsement. My understanding was that on the foreign sterling bill the banks through whom it passed endorsed it. Take our flour drafts endorsed by the Minneapolis banks. They sell to Chicago and to New York and they are endorsed and the document is attached.

The Chairman: Unfortunately, in the South---

Mr. Wold: That is peculiar to the cotton bill, is it?

The Chairman: It is peculiar to certain bills, but more particularly to the cotton bill than any other. The cotton sixty or ninety day draft is negotiated in the South by the cotton factor or shipper or by the broker who buys the

exchange through the local bank down there, and that local bank or the broker himself negotiates the sale of the draft to New York, say, and the local bank draws on New York with the sterling draft and the shipping documents all attached; but the local bank does not endorse the sterling draft at all. It never takes title to it. It is simply a draft in the New York bank with documents attached; and when the buyer of the sterling draft pays that local draft he simply detaches the foreign draft without getting the endorsement of the southern draft at all.

Mr. Kains: And then sells it?

The Chairman: Then the New York buyer of the sterling draft endorses that draft and sends it to his correspondent in Liverpool or London for acceptance. There the documents are detached and the draft goes into the portfolio for the account of the New York draft or is sold to a discount house or discounted, where the goods are sold against it.

Mr. Wold: That is not true of our bills. Ordinarily they bear the endorsement of the banks through whom they passed.

The Chairman: Those that Mr. McCord refers to are rarely endorsed. Those lake ports are all rebate drafts. They are almost all of them endorsed; that is, they are drawn at seven days' sight and rebated on presentation instead of accepted payable seven days after sight. A great many miscellaneous commodity drafts are handled directly in New

York. The great bulk of them are so that you cannot see there is an interior endorsement to any of them. On the other hand, I think there are a great many drafts made from the middle west, such as grain from your territory, where they draw sixty days for grain shipments. Those are very frequently endorsed by the interior banks, and I think the Canadian banks almost without exception endorse their drafts.

Mr. Kains: Always.

(At this point an informal discussion occurred which the stenographer was directed not to report; after which the following proceedings took place:)

The Chairman: The southern banks, Governor Kains, have always said that they handled so many cotton drafts that the law would not permit them to endorse that quantity of sixty or ninety day paper, and they have always "ducked" it. They have claimed that the endorsement would be ultra vires, anyway, because they would be exceeding the amount of their capital and surplus many times over. I think that is a fallacy, but nevertheless they have made that claim quite often.

Mr. McCord: Possibly they pay for it in the rate.

The Chairman: Governor McCord, of course as to those cotton drafts, just now it is a very speculative commodity to buy in a market like this; and personally I would hesitate either to buy sterling long drafts or carry the necessary balance abroad or run the risk of having to carry the draft abroad until maturity. There are quite a few American

houses that do an exchange business that have balances abroad that they will whistle for until this war is over, in different parts of Europe.

Mr. Seay: You have not opened a department yet?

The Chairman: We have not, and we do not intend to.

Mr. McCord: I raised the question purely to get ready for the fall movement; not with the idea of anything at the present time. If we handle those drafts we have to conform to the rule down there, and if we insist on endorsement we will not get any.

The Chairman: Exactly.

Mr. McCord: I just wanted to know what would be the views of the Governors as to what we would have to do; whether we would have to endorse or not.

The Chairman: What you can do is this: Your member banks are going to be handling those sterling drafts in large quantities.

Mr. McCord: Yes sir; and they are not going to endorse them, either.

The Chairman: They are not going to endorse them, but what they will do will be equally good from your point of view. They can turn those in to you simply as collection items attached to their own drafts made on the buyer of the exchange in New York, and if you want to take those drafts as New York exchange with the documents attached, why, then, you get the draft of your own member bank and

that draft can be sent forward to us for collection; and while it cannot go through the exchanges in New York, we can collect them, deliver the documents to the drawee of the member bank's draft, surrender them, and get New York Exchange for them.

Mr. McCord: That has brought out something. I did not know whether you would do that for me or not.

Mr. Seay: Why do you not make the member banks do that themselves? After sending them to New York they can draw on New York and you can take their drafts. That would amount to the same thing.

The Chairman: That would amount to the same thing.

Mr. McCord: Sometimes they want to use them right there, and I would like to get my bills afloat. There are a good many things around the corner (laughter). Suppose the National Bank of Savannah wants to create a balance with me to meet the checks which are drawn against them. They have to remit to me. They say, over the long distance phone, "Can you handle foreign drafts, documents attached?" I want to know on what basis I can handle them. I want to be in a position to say, "Yes; we can handle it", if we can handle it. If we cannot, all right.

The Chairman: Those are purely collection items.

Mr. McCord: They are purely collection items. At the same time, Savannah can be called on to pay out quite a lot of money in the interior to pay for that cotton. It has got

to move quickly and they do not want to wait until that draft goes to New York until they get their guarantee. They want the guarantee out of me; and I ~~am~~ ^{may be} very glad indeed at that time of the year to give it to them, and I get my exchanges.

The Chairman: Do you think we can handle those, Mr. Hendricks?

Mr. Hendricks: Surely.

The Chairman: Let us try it on, anyway, Governor McCord.

Mr. McKay: It is just like buying in the exchange.

Mr. McCord: I did not know whether you could handle those or not.

The Chairman: Is there any further discussion on foreign exchange matters?

Mr. McCord: I had an inquiry from New Orleans the other day to know if we could handle their acceptances. That is the New Orleans national.

Mr. Kains: Baldwin's bank?

Mr. McCord: Yes. They were cashing the drafts of people out in the country buying export. They accepted a draft, you understand, and they wanted to know if we could handle those. Under this law where they are concentrating this product for foreign shipment the local bank can accept a domestic exchange under those conditions, and they wanted to know whether we could handle them. I blazed right in and told them yes. They certify those against the actual

product, concerntrating for foreign export. It is a very good thing. That is all I have to say about it, Mr. Chairman.

The Chairman: It was suggested that inquiry be made as to whether it might not be desirable to ask the Federal Reserve Board to change the date as of which the report is made by the Federal Reserve banks to the Board every week so we might have a day free in which to prepare the figures as of the close of business Thursday night. That would save some late work in the banks Friday night, so that the figures can get off that evening or the next morning.

Mr. Fancher: You send them by mail and we send them by wire.

Mr. Aiken: It would save telegraphing expenses to some of us, which is a very big item.

The Chairman: Governor Fancher, have you a resolution to suggest?

Mr. Fancher: I would offer a resolution recommending to the Board that the report be made up on those lines as of the close of business Thursday.

The Chairman: Governor Fancher has offered a resolution recommending to the Federal Reserve Board that the report of the condition of the Federal Reserve Banks be prepared on Friday, making the figures as of the close of business Thursday, instead of Friday, as heretofore. Is that motion seconded?

Mr. McCord: I second the motion.

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

The Chairman: We have received an inquiry from the Federal Reserve Board referring to Item No. 31 as to whether we would care to authorize the preparation of Federal Reserve bank notes to be used in the event we should wish to issue bank notes against government bonds. That matter was put on the program for discussion, and inasmuch as I think it was suggested in our own office and we had not made a final reply to that inquiry, Mr. Jay thought that it might be desirable to bring it up for discussion at this meeting with the idea of submitting something to the Federal Reserve Board.

Mr. Seay: We have done so, and paid for the plates.

Mr. McDougal: Some time ago we began purchasing two per cent bonds with a view at the time of exchanging them for three's. Upon reconsidering the matter, however, it was decided that we would hold those bonds for circulation purposes. Correspondence was begun with the Board with the result that our dies and plates I think are all ready for the Federal Reserve Bank notes, and as I understand it--- I think I am correct--- our notes can be furnished now if we want them, within a very few days' notice. It is the expectation that we will have them very soon, not for the purpose of putting them out, but simply to strengthen our position and have them in the vaults in case we need them. It

is costing nothing to carry the notes in that form, and they would be in readiness for any emergency.

The Chairman: You have lost your reserve, however; your gold against the purchase of the bonds?

Mr. McDougal: We have. We have a two per cent investment, which is a little better.

Mr. Seay: We have ordered the plates and the printing of a million dollars of the notes.

Mr. Fancher: We have ordered the plates.

Mr. Sawyer: We have ordered the plates.

The Chairman: Governor McCord, have you ordered any plates?

Mr. McCord: No.

The Chairman: Governor Aiken?

Mr. Aiken: No.

The Chairman: Governor Rhoades?

Mr. Rhoades: No.

The Chairman: Governor Kains?

Mr. Kains: No; but I think we will.

The Chairman: We have not ordered any plates or bought any bonds in New York. Some way or other I have had a feeling that we were going to get away from bond-secured bank notes under this new banking law.

Mr. Aiken: It seems to me, Mr. Chairman, that it simply perpetuates one of the most objectionable features of the currency system. We have bought none for that reason,

Mr. Wold: May I inquire as to what you propose to do when the Federal Reserve Board, after the first of next November, buys \$25,000,000 and asks you to participate? You will take them, will you not?

Mr. Kains: We bought a million dollars just for that reason.

The Chairman: Governor Kains, the Federal Reserve Board has no power to make investments or buy any bonds for you or for any of us.

Mr. Seay: It has the power to require the banks to buy them.

The Chairman: Oh, that is a different matter. They cannot start that for two years.

Mr. McCord: The 23rd of December, 1916.

(At this point an informal discussion occurred, which the stenographer was directed not to report; after which the following proceedings took place:)

The Chairman: I would like to make a motion, if I can get someone else to put it. I move that we inquire of the Federal Reserve Board whether they understand that in the apportionment of \$25,000,000 of bonds which may be purchased under the automatic provisions of the Act regard will be given to any purchases that may have been made in anticipation by the Federal Reserve Banks.

Mr. McCord: The question is settled right here, before that motion is made, if you will allow me to read just this

one sentence, in section 18:

"The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may in its discretion require the Federal Reserve Banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made, provided, that Federal Reserve ~~mmmm~~ banks shall not be compelled to purchase an amount to exceed \$25,000,000 of such bonds in one year, and which amount shall include bonds acquired under Section 4 of this Act for the Federal Reserve Banks."

That covers it.

Mr. Curtis: Section 4 does not provide for the acquiring of any bonds.

Mr. Seay: That also may mean that the aggregate required to be purchased cannot exceed \$25,000,000, but it may not necessarily mean that you might not have to buy your proportion of those offered up to that amount.

Mr. McCord: It says it shall include those.

Mr. Seay: That is to include the \$25,000,000.

(At this point an informal discussion took place which the stenographer was directed not to report; after which the following proceedings were had:)

The Chairman: I will ask the stenographer to read the motion that I suggested.

(The stenographer thereupon read the motion as above recorded.)

The Chairman: That is rather an important matter when we come to consider the question of price. It seems to me if we are going to be required to buy bonds, anyway, and we can buy them voluntarily for 98-1/2, and may have to buy them under direction of the Board at par in the course of some months, we had better have notice of that right now, and act. Is that motion seconded?

Mr. Kains: I make that as a motion, Mr. Chairman.

Mr. Fancher: I second the motion.

(The motion referred to, having been duly seconded, was put and carried.)

The Chairman: I think we would rather have that question answered before ordering our plates made. If we are going to be required to buy some bonds later on we might as well order the plates made. If we can avoid it we are going to.

Mr. McCord: The bonds are convertible into threes after purchase, under that rule.

(At this point an informal discussion occurred which the stenographer was directed not to report; after which the following proceedings took place:)

Mr. Kains: No. 36, chattel mortgages. I refer to cattle, principally. We are likely to be offered a good deal of that paper, coming from Oregon. I do not see any

objection to our taking it. We cannot take it under the law of California, but I think we can under the law of Oregon.

Mr. McCord: Can you not take it under the discount law?

Mr. Kains: It is a question of holding the security. If the cattle walk into another township we have to know about it and enforce our claim. If the laws of your State would admit of that sort of thing, do you see any objection?

Mr. Seay: We are taking them. I understand it is permissible under the regulations of the Board.

Mr. Kains: There is a danger. The Portland Cattle Company, with \$100,000 capital and \$100,000 of surplus, makes a business of borrowing money from national banks and other banks and lending it, and it has had itself extended. It loans \$3,000,000 or \$4,000,000 on cattle, and does it intelligently and makes lots of money. Some of these country banks state that they would have easy work getting that paper discounted with us, and they have made every effort and used all kinds of influence, and that sort of thing to get us into a position where we would get ourselves disliked. Of course, we would not take it.

Mr. Wold: Paper endorsed by that company, and you will not take it?

Mr. Kains: No sir.

Mr. Wold: I wish we had some of it. We would take it.

Mr. Seay: You would not if the company was extended.

Mr. Wold: If the paper was not good and the bank was not good, why no.

Mr. McCord: We are glad to get it.

The Chairman: Is this subject exhausted?

Mr. Kains: It is exhausted.

The Chairman: And no resolution is required?

Mr. Kains: No sir.

Mr. Seay: No. 35 could be disposed of very quickly.

The Chairman: The question has been raised ^{as to} what the consequences would be if it were found that an officer of a member bank has incorrectly certified the eligibility of some paper that is offered for rediscount, and whether the forms which we are now using, calling for a certificate of that character, cover the ground. I forget who raised that question.

Mr. Curtis: Governor Kains.

Mr. Kains: That is right. A bank at Los Angeles wrote us about that thing. They said they would discount with us, only they had to stretch their conscience a little; that is, they do not know; they think it is all right but they cannot certify that it is in all respects eligible according to the Federal Reserve Act.

The Chairman: It is to the best of their knowledge and belief?

Mr. Kains: Yes; it is.

Mr. Seay: Would they go that far?

Mr. Kains: Yes; they would go that far.

Mr. Seay: Is that not all that they are required to do?

Mr. Kains: He is rather tender. He thought if it turned out badly he would be arrested, or something of that sort.

Mr. Seay: If it is a perjury, I am very sure there are a good many of ours that are guilty. (Laughter)

The Chairman: Governor Kains, I did not know that they had consciences like that down in Los Angeles, but inasmuch-as they have, is that a matter that can be settled by a soothing letter from San Francisco?

Mr. Kains: Oh, yes; we can soothe them.

The Chairman: We have not had that question raised with us at all.

Mr. Fancher: That brings to my mind something ~~which~~ I do not know has occurred to you or not, in the matter of the application of national banks to act as trustee, executor, administrator, etc. Do you know whether the recommendation of the Board of Directors carries with it any responsibility?

Mr. McDougal: Our Board of directors in Chicago have declined to recommend that permits be issued, on the advice of counsel.

Mr. Fancher: We have the matter up with our counsel now.

Mr. Seay: Where the Federal Reserve Agent is undertaking to do that with us, I am very willing that he should shoulder that responsibility if he wants to.

Mr. Fancher: Our board wants to know its responsibility.

The Chairman: This question of national banks exercising these new powers as trustees is going to raise more or less of a storm all over the country. It is brewing in our state where I understand that yesterday an amendment was to be introduced in the State Legislature--- an amendment to the State banking law--- removing a prohibition against national banks exercising those powers; and that will array all the trust companies against the national banks in the State. They will be at it pretty soon and they will have a great controversy about it. In the meantime, my own feeling is that the Federal Reserve Banks should lay low and watch what is going on. But it may be difficult always to do that. If pressure is brought, can the Federal Reserve Banks come out and take that position?

Mr. Fancher: Have you had any applications?

The Chairman: A few.

Mr. Seay: Have you answered any of them at all?

The Chairman: The state law is clear and unequivocal in our state that they cannot exercise those powers.

(At this point an informal discussion took place which the stenographer was directed not to report; after which the following proceedings were had:)

The Chairman: Is it the desire of the meeting that any recommendation be made to the Federal Reserve Board in regard to the subject of national banks exercising powers of trustees, etc.?

(No response.)

The Chairman: If not, that matter will be marked "discussed."

Mr. McDougal: Mr. Chairman, may we take up No. 32?

The Chairman: That was suggested, I believe, by you, was it not?

Mr. McDougal: No; I did not suggest it, although I am interested in it. I would say that we are sending to each of the banks weekly a complete statement, and I think you are, in New York?

The Chairman: Yes.

Mr. Seay: And Richmond is.

Mr. McDougal: We have some curiosity to know the details regarding these items of resources. We have a little difficulty, I think, with the Board, or at least the Secretary of the Board at present, who is rather insisting upon our discontinuing the publication of a complete statement which we have done each week, in Chicago. I do not think you do, but we do.

The Chairman: No; we have not done it.

Mr. Fancher: That contains the orders?

Mr. McDougal: I think that should be done. I think the integrity of each statement can be questioned when they include in there among their other assets heavy expense accounts, and perhaps furniture and fixtures; but expenses, at any rate. We have taken that view of it and are going to continue to publish our report in that way, although we have been criticised by the Secretary.

The Chairman: This item was put on the program not with regard to that matter, but with regard to a plan to have each bank send to each of the other banks a complete statement of the condition of the bank every week, uniform in character, and it seems to me that that is the sort of a thing that ought to be delegated to a committee on one, say, to prepare the form so that each bank could be furnished with it if we decide to adopt that as a policy. We can possibly get some information of interest and value from an examination of these statements when they come in.

Mr. Seay: Do they all keep the same kind of books?

Mr. McDougal: It seems to me if the banks would exchange statements and give a detailed statement from their ledger or their daily statement book, that would cover all points and make it all uniform.

Mr. Seay: Provided we all keep the same kind of books, as I believe we all do.

Mr. McDougal: They must keep books showing the accounts coming in, and a statement of conditions.

Mr. Seay: Our statement is a copy of our ledger, and I presume New York's is?

The Chairman: Yes.

Mr. McCord: The amount due the banks and the amount due the reserve banks ought to be separated, in my opinion.

Mr. Wold: I believe I am the one who suggested that being put on the program. I have no desire to submit a formal statement, but I think discussion of it here possibly would encourage some of us who were not furnishing so complete a statement as we might to give a statement which could be analyzed a little more intelligently.

The Chairman: To each other?

Mr. Wold: Yes.

Mr. Kains: I have no objection at all to that.

Mr. Wold: I do not agree with my friend from Atlanta—and that is not the first time I have disagreed with him, either. I think we should show due to and due from Federal Reserve Banks---

Mr. McCord: But it all goes into one amount.

The Chairman: We separated ours last week. We started two weeks ago in our published form statement, and we now publish a balance statement in New York giving all the items; not in detail, as it appears in our ledgers, by any means, but we publish a statement which balances.

Mr. Aiken: We have, too, sir. I was not willing to have a statement put out that was not a balanced statement.

Mr. Seay: We have done that from the beginning.

Mr. McDougal: We have done that, showing the detail.

Mr. Fancher: We publish a balanced statement with a condensation of certain matters.

The Chairman: No objection having been made to the Chair's suggestion that a committee of one be appointed to prepare and furnish a form for use for the purpose of exchanging this information between the Federal Reserve Banks, I take the liberty of appointing Governor Wold on the committee, as he suggested this item for the program, to prepare a form statement and send it around; and we all hereby obligate ourselves to observe the spirit of this discussion and furnish each of the banks with a statement in such form as Governor Wold prepares. Is there any objection to that course?

Mr. McDougal: I move that course be pursued.

(The motion was duly seconded, put and carried.)

The Chairman: It is just five minutes to eleven, gentlemen. Somebody said we should adjourn at 11. We have made very good progress on the program. We have one or two hard nuts here to crack, however.

Mr. Rhoades: It has been suggested that if we stay at it another hour we can get away tomorrow night.

The Chairman: We have to meet the Federal Reserve

Board before we leave town.

Number 20: "Bookkeeping methods of handling gold deposited with Federal Reserve Agents." There is a matter we can dispose of. We made out thirty schedules the other day, a hundred and eighty sheets to get out three million of notes using \$100,000 of paper for that purpose, and we have sent a letter to Washington inquiring whether or not we could make up one schedule and then put appropriate notes and indications at the foot of that schedule showing that it is in proper form, thereby getting out \$3,000,000 of notes on one piece of paper.

Mr. Seay: Have they indicated a hostile attitude?

The Chairman: They have not answered yet.

Gentlemen, we have not taken any action toward recommending a plan for facilitating this substitution of gold for commercial paper.

Mr. Seay: I believe that would take an extended discussion. I would like to discuss some features of that myself. If we are going to adjourn at eleven, however, we will not have the opportunity to do so. The question of substitution of notes is a right serious one with us.

Mr. McCord: Here is a subject we can dispose of very quickly.

The Chairman: Governor Seay proposes that we let this matter of the method of substituting collateral for the Federal Reserve notes go over until tomorrow. We will

pass that. That is 19 and 20, both, Governor Seay?

Mr. Seay: Yes sir.

Mr. McCord: 24 you can handle very quickly.

The Chairman: "Federal Reserve notes as reserves for national banks." What is your recommendation on that, Governor McCord?

Mr. McCord: It cannot be done.

Mr. Seay: It not only can be done but it ought to be done.

Mr. McCord: No. (Laughter) It is pyramiding your reserves.

Mr. Seay: I think there is a method by which it can be done. ^{are to} If you get the gold circulation of this country you have got to do it. We must get it.

Mr. McCord: If you attempt it now you will pyramid it.

The Chairman: You would not, now, Governor McCord, if you do one thing, and that is if you could provide for the closing of your note issue, so that the greater part of it would be simply gold certificates issued by the banks instead of by the Government.

Mr. McCord: But that is not a Federal Reserve note; that is a gold certificate issued by the bank.

The Chairman: That is true, but it would subsequently take the form as the plan developed of a note of the bank with a very large gold reserve, which would decline in the percentage as paper was substituted, and would be subject,

possibly, to a tax as in the case of the German system; so that the note issue would get a flexibility which the gold certificates or bond secured bank notes have not got. It seems to me it would be the means of accumulating the gold into the Federal Reserve banks. Then you would be perfectly safe in having these notes issued for deposit in national banks. Where we get confused in this reserve business is that we are talking about reserves for deposits, on the one hand, and reserves for note issues on the other; and they should be just as distinct and separate as in the Bank of England. Do you not agree to that, Governor Kains?

Mr. Kains: I do, sir.

The Chairman: This whole Federal Reserve Act is wrong on that, and it ought to be amended. We are debarred now, by the terms of the Act from getting in between the coinage of gold bars into coins, so that there is no means by which the Federal Reserve Banks can accumulate gold by a natural process of buying it or getting in between the Government and its circulation, which we ought to be able to do.

Mr. Seay: We ought to control the gold of the country.

The Chairman: We have no control at all. If we could buy gold at a price and issue Federal Reserve notes against the gold, every time we performed such a transaction we would strengthen the Federal Reserve banks. But you cannot do that unless your own notes, which would be secured by 100 per cent gold, are just as available as national bank reserves--

as are the present gold certificates--- and we could do business for some years and probably a good many years and never put a dollar of commercial paper behind these Federal Reserve notes if we could get that started.

Mr. Seay: The Act provides for the exchange of Federal Reserve notes for gold, and then leaves the matter up in the air.

Mr. McCord: I agree with both of you gentlemen, except I say that the present Federal Reserve note ought not to be counted as a reserve in a national bank, the way it is issued today or the way it is possible to issue it today.

The Chairman: I do not know but what I agree to that.

Mr. Seay: It is a better note than the reserves of the bank now; a better note than the silver certificates.

The Chairman: And in most cases better than the bank of London notes with \$150,000,000 trust funds behind them.

Mr. Seay: That subject ought to be continued, I think, Governor Strong. It is one of the most important features we ought to address ourselves to, and it is an important development of the Federal Reserve Act and a pressing one.

Mr. Kains: I move we adjourn.

(The motion was seconded, and the Conference, at 11:04 o'clock p. m., adjourned until tomorrow, Friday, March 12, 1915, at 10 o'clock a. m.)

S E C O N D D A Y

THIRD CONFERENCE OF THE GOVERNORS OF FEDERAL RESERVE
BANKS.

Shoreham Hotel, March 12, 1915.

10:20 o'clock a. m.

Appearances noted upon the record of yesterday.

The Conference resumed its session, Governor Strong presiding.

The Chairman: I have one matter that has arisen over recess that I would like to bring up for discussion. I have just been informed that it would be timely for us to register a very strong protest against the method by which Federal Reserve notes are being shipped from Washington, and the expense attached to it. I believe the cost that we have paid New York on recent shipments, amounting to \$1,200, might have been reduced ^{to} \$300 if we had been able to employ the cheapest means, and that is borne out by the calculation made by Governor Fancher, where they paid a bill of \$160, and the shipment might have been covered at a cost of possibly fifty or sixty dollars.

Mr. Fancher: Yes; between fifty and sixty dollars: about \$54.

The Chairman: The Postmaster General recently made a ruling that the Federal Reserve Board, being a department of the Government, had a right to frank its mail matter, and by using the frank of the Government on shipments by mail at registered mail insurance, there is a very good chance that we can get this cost tremendously reduced, if we can persuade them to do it, and I think we should make a strong representation to the Board, and suggest an inquiry be made as to how that matter is handled in the Comptroller's office.

Mr. Seay: Mr. Chairman, they shipped us ten days ago \$600,000 by registered mail insured, and sent a special man down with it. They franked it. We only had to pay five cents a thousand, through Delanoy & Delanoy. It cost only \$32. Subsequently they shipped us \$200,000 and we paid \$40 for it, a shipment by express.

Mr. Wold: Did you make any request as to how the shipment should be made?

Mr. Seay: We did not. It ought not to be necessary to make any request. It ought to be done in the best and cheapest manner. But that is one shipment we have had in that fashion. They did frank, and they charged only the insured mail rate, which is very small now.

Mr. Sawyer: They made the other shipment by express?

Mr. Seay: The next shipment, of \$200,000, they made by express.

Mr. Fancher: Did you attend to the insurance at your

end of the line?

Mr. Seay: No, they attended to the insurance there, and sent us the bill.

Mr. Fancher: Did you request it?

Mr. Seay: No, we did not. They made the arrangements.

Mr. Wold: If you did request it, do you not think they would accede to your request?

Mr. Seay: They might; and they did not advise us. They insured it under policies which they have. Evidently they are trying to make some arrangement for insuring it. They were insured under the policies of the five companies with which Governor Strong made an arrangement through Delanoy & Delanoy.

The Chairman: I would like to make a statement on that matter. Unfortunately some of the letters written from our office, which I did not dictate, but which were written by one of our men and which I was asked to sign, very reasonably might give the impression that we were boosting Delanoy for business. Of course, that is not the fact. Delanoy was employed in our office to make up a schedule of time and rates in connection with making shipments at the time we were discussing a method of settling money balances between reserve banks. As soon as he saw there was an opportunity there to do some business, he got a syndicate of the good insurers together to make special rates for this particular service. The result of that has

been to very materially reduce rates on shipments below anything that was known before between a good many points, and by keeping at that matter we can gradually get the cost down to a very moderate amount. The reason we employed Delaney is because he has done a great deal of work for us for nothing, and I cannot help feeling a little sympathy for his position, as he is taking a very public spirited position in connection with this warrant insurance bureau. He came over here to Washington to run it for the Government, and has done it very successfully, and he is over here very much of the time himself personally in order to watch this thing from this end. It is Mr. Delaney who has kept me posted off and on as to these shipments, which he thinks are outrageously expensive now: So, from our standpoint, we would like to take advantage of the rates he has been able to bring about, and give him the benefit of the insurance. But that does not apply to any other bank. If they have local arrangements which are more economical, certainly they ought to employ those.

Mr. Wold: If I remember correctly, the rates furnished to our bank apply only between banks. We have not had quoted any rate to Washington.

Mr. Seay: He will give it to you if you ask for it. They have sent us a schedule covering the whole country, and we have been shipping at a lively rate by them under

those policies, and exclusively, since we got them, and I would say that the rates are in most cases about half what they were under our other policies.

The Chairman: The effect of the whole thing has been to bring about a ^{great} economy already, and to bring up some sort of an understanding about these rates among the insurers, and now we must make that rate apply in some way to the shipment of Federal Reserve notes, because we are just having a great expense imposed upon us now that we should not pay. Will someone offer a resolution to submit a memorial to the Reserve Board, formally asking them to deal with this matter vigorously right away?

Mr. Aiken: I so move.

Mr. Fancher: I second the motion.

The Chairman: It is moved and seconded that we bring the matter to the attention of the Federal Reserve Board, and ask for a prompt investigation and development of a bureau system of shipping Federal Reserve notes.

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

Mr. Rhoades: Mr. Chairman, in endeavoring to get large notes to ship to you to pay our debts, I exhausted the supply at the local sub-treasury, and Mr. Warburg arranged that I should have them shipped from Washington by turning in order certificates at Philadelphia. Mr. Malburn said that nobody in the Treasurer's office could make the shipment as a Government officer, and we would

have to designate some individual. Have you struck that?

The Chairman: Yes, and discussed it with Mr. Malburn. They have no one here who is properly authorized to take the responsibility of making a shipment and taking a receipt, and Mr. Malburn asked me about that. I also spoke to one of the members of the Board about it, and I think it was their feeling that that should be taken up as part of the whole subject of the sub-treasury relations, so that we could thrash it all out at once. Another branch of the same subject develops in San Francisco about the gold, and still a different phase of it appears in New York, where we can deposit ^{only} gold, but we cannot withdraw gold.

Mr. Fancher: That is the situation we had in attempting to make a transfer from Cincinnati to New York the other day.

The Chairman: That is Item 5 on our program, and we have passed it for the time being, inasmuch as it had been turned over to a committee of the Governors to deal with. At our meeting yesterday it was decided to refer that whole subject back to the Committee for further negotiation with the Treasury Department.

Mr. McDougal: Mr. Chairman, bearing upon this subject, I take this opportunity of bringing a matter before the Conference which has been suggested by our assistant treasurer in Chicago. He has looked into the future, and

can see plainly, with his own eye, at least, where ultimately the Federal Reserve Agents in these various banks will become the assistant treasurers and have charge of the sub-treasury; in other words, he can see coming consolidation of the department of the Federal Reserve Agent and the sub-treasuries. I have nothing to say there, excepting he wished me to present the matter to this Conference and get an expression of views as to whether or not, in other words, that might be practical, and worked out at some time in the future.

The Chairman: Governor McDougal, that was also discussed with Mr. Malburn and with the members of the Federal Reserve Board, informally, and Mr. Malburn tells me that he has already been instructed by the Secretary of the Treasury to prepare a schedule of all of the services and duties that now are performed by the sub-treasury by statute, and those have been tabulated, and they are now discussing in the Treasury Department some method of arriving at a decision as to which of those duties may be performed by the Federal Reserve Banks. Mr. Malburn informed me, when I was talking with him about it, that, so far as he could determine, the great part of all the duties of the sub-treasurers could be performed by these reserve banks, and probably all of them, with a very slight amendment to the law, and the disposition in the Department seems to be to work in that direction. I

suggested to some of those with whom I talked about it that we ought to have a committee, composed of one or two of the Assistant Treasurers of the United States, some of the Assistant Secretaries of the Treasury, and officers of the Federal Reserve Board and the Federal Reserve banks, to make a special study of that whole subject and take it up comprehensively. The reply was that they thought a large committee might develop conflicting opinions and difficulties, and that a small committee, consisting of possibly one of the Assistant Treasurers and one of the Governors, and, say, the Governor of the Federal Reserve Board, might make some progress. Mr. Warburg this morning tells me that they are anxious to make progress in the direction of developing that whole subject as promptly as possible, as well as the matter of the examination of the member banks, and I think he would be very glad to have us bring that up for discussion with the Board. Let me suggest that if anyone would like to make a specific recommendation by way of resolution or otherwise, this is a very proper time to get it on the record, because we can take it up this afternoon if we decide to meet with the Board then.

Mr. Seay: I think it is a very pressing question in the development of this system, one which takes precedence over the branch banks and many other questions.

The Chairman: Would not a resolution intimating that

that was the feeling of this Conference bring the matter to a point where we could get something started?

Mr. Seay: Yes, sir; I will offer such a resolution.

The Chairman: Will you frame the language of that resolution?

Mr. Seay: That this Conference take up with the Federal Reserve Board the whole subject of sub-treasury relations and Treasury relations with the Federal Reserve Banks, by a committee to be appointed from the Federal Reserve Board, the Treasury Department, and the Governors of the Federal Reserve Banks, with a view of developing the banking business of the Reserve Banks, now conducted by the Treasury Department.

Mr. Rhoades: I second it.

The Chairman: Is there any discussion of the motion?

Mr. Rhoades: Does that motion include any reference to the examination of banks?

The Chairman: No, that has been covered already.

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

The Chairman: We left off last night in the midst of the consideration of Items 19 and 20; that is, the question raised by Governor Seay, which was the mechanical difficulties of moving bills receivable in and out to the Federal Reserve Agent, and the bookkeeping method of effecting substitutions of gold for other collateral. Is it your

wish to make any further recommendation to the Board as to those two items, which we are considering together?

Mr. Seay: I think the matter is one of very considerable importance in the practical operation of the banks. To illustrate: We have about six and one-half millions under discount, represented by bills of all denominations, from five thousand up to ten thousand, twenty-five, sometimes fifty, with bills of a smaller denomination predominating. We have up with the Federal Reserve Agent now as security for our notes about \$3,500,000 bills. We have maturing within the next thirty days \$2,600,000. There is \$6,100,000 of bills. We have outstanding for collection at all times about a million dollars of bills. You see, therefore, that our resources are not fully available as security for the Federal Reserve notes. Having a million or more out, with the present volume of discounts, it will increase in proportion as our volume of discounts increases. Likewise, the proportion of short time bills will increase as our volume of discounts increases. It is safe to say, therefore, that at least 25 per cent or more, or 33-1/3 per cent, of our bills will not be available as security for our Federal Reserve notes. That is a very considerable loss of capital. If there should be an active demand for Federal Reserve notes, and I anticipate that this fall there will be in our district to back up cotton and other crop-moving purposes, a very heavy de-

mand for Federal Reserve notes, I am inclined to think we could probably use fifteen or twenty million dollars of Federal Reserve notes just for use in our own district. But we will not have bills receivable to put up for them, in the first place, and in the second place, if we did have them, the substitution would be so onerous it would present great difficulty, and, as I have just said, we could only use within 25 or 33-1/3 per cent of our capital in bills.

The Chairman: Governor Seay, with reference to that portion of your collateral which is out for collection, you are now effecting substitutions, as I understand it, with Federal Reserve Agents, so as to get the maturing paper out and get long term paper in its place, and consequently the million dollars that is out for collection is free paper in the hands of the Bank?

Mr. Seay: Yes, that is free paper in the hands of the bank, in process of collection.

The Chairman: Why would it not be possible now to have that go out directly on trust receipts given to the Federal Reserve Agent, so that the paper is, as a matter of fact, still serving as security for your notes, and all you would need to do would be to add every day to the paper held by the Federal Reserve Agent an amount equivalent to what has matured and been charged to your depositor's account on that day.

Mr. Seay: That would be an improvement, and would render available a considerable portion of our capital which is now lost, so to speak. But it would not avoid the daily substitution, and we sometimes have as much as two or three hundred notes a day to substitute, at present, and imagine with twelve or fifteen million to discount; we would have forty or fifty millions of bills to substitute.

Mr. McDougal: What would be your remedy for that, Governor Seay, that you have in mind?

Mr. Seay: Some method of giving the Federal Reserve Agent a lien on the bills receivable of the bank, an effective lien, without actually putting the notes up in his custody; and furnish the Federal Reserve Board a list every time we put them up, and a list every time we take them down. The examiner was down to see us last week, and I understood him to say that he believed no practical use was made of that substitution list which the Federal Reserve Board had. To begin with, our list of discounts is daily sent to them, giving a full history of the bills, and those substitution sheets were but a repetition of the same information, and conveyed nothing practical new to them.

The Chairman: You would suggest, then, reporting the total transactions, without giving a detail of the bills substituted?

Mr. Seay: That would also be a great improvement. The

Federal Reserve notes are a lien upon all the assets of the bank. I have never been able to see quite, with a representative of the Government in the person of the Federal Reserve Agent in the bank, how it gives them any more effective lien to place the notes in his hands.

Mr. Rhoades: Governor Seay, the Federal Reserve Agents took the same view in their conference here, I was told by our Federal Reserve Agent.

Mr. Seay: I do not quite see the absolute necessity for that.

The Chairman: Governor Seay, one difficulty that arises from making a general recommendation to the Federal Reserve Board, which is a very practical one, is that they themselves, not being in these banks and running them, are really not in position to devise the technical, mechanical means of meeting these developments.

Mr. Seay: I appreciate that.

The Chairman: And I think we can assist them very much if we offer a concrete and fairly complete suggestion of how to meet a difficulty of that sort, where we make a recommendation.

Mr. Seay: I am sure of that; although the accounting department of the Federal Reserve Board undertakes to make a great many recommendations to the Federal Reserve Banks as to how they shall make reports, calculate reserves, and do various other things which we might do differently,

one point of which we discussed here yesterday.

The Chairman: Yes.

Mr. Seay: If they desire to keep the matter entirely within their control, they may be competent to devise the mechanical means to do this, and I agree with you that it would be practical if we all agreed upon some method, to submit this matter to the Federal Reserve Board, by which it might be done.

The Chairman: Would it meet your situation if the Board agreed to accept from your bank a statement of the total of the notes that are substituted, together with a memorandum of the amount which matured in 30 and the amount which matured in 60, and the amount which matured in 90 days, in each instance, so that they would have a fair idea of how the notes were running off? Then, in your own bank, you would be able to devise the most economical means of keeping your own records, without being under the necessity of going to the Reserve Board at all in that matter.

Mr. Seay: That would be a very great step in advance.

The Chairman: Then, the next recommendation would be, that a policy be adopted to permit of the delivery of the notes on the trust receipt by the Federal Reserve Agent for the purpose of collection, with the understanding that the substitution of new paper against maturing paper that is being paid would be effected, say, one day before

maturity of the paper that is being collected. Then you would be able at all times to feed into the Federal Reserve agent the new paper, to take the place of what matures, and you would not have to make out these loan substitution reports on account of maturities.

Mr. Seay: That could be done if the legal phase of the matter would be satisfied, or would be met. I have in mind this, whether or not the Federal Reserve Bank, in sending out such notes for collection, with its own endorsement upon them, could, unless some different method were being pursued, give the Federal Reserve Agent any real lien upon those notes.

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The Chairman: You would be acting as a collection agent.

Mr. Seay: For him, but without giving notice to others who might be interested.

Mr. Curtis: I think that might be done. I have not thought over that problem.

Mr. Seay: Without the bank which we use having any knowledge of the matter, and without being able to identify the bills.

The Chairman: Your collecting agent would not be concerned with that, because you are dealing with that on your own books entirely. You make a contract, it seems to me, with the Federal Reserve Agent, an agency contract of some kind, and if, the day prior to the maturity of that paper,

he does not get an equivalent amount of paper, then he is entitled to come to you with a demand for the gold, which would be realized by the charge that you would make to your depositor's account.

Mr. Seay: I am supposing the far-off contingency, which I cannot say ever would arise, of a Federal Reserve Bank becoming involved in difficulties, and ^{having} ^{out} for collection a proportion of its assets which could not be identified, as having been segregated for the purpose of securing Federal Reserve notes which might become mixed with ^{its own} general funds and be subject to such creditors of the Federal Reserve Bank as it might have.

The Chairman: I cannot see it would require any identification, because the only question of ownership is the question which would arise right in your own bank, and the Federal Reserve Agent, who is there all the time as an official representative of the Government, would have his record, and each day he would say "Today I am entitled to so much in amount of paper in substitution for that which will mature tomorrow."

Mr. Seay : All right.

The Chairman: If you do not give him that paper, he will say "You are going to charge that paper to the account of the member bank tomorrow, and you will get so much gold released, ^{to} go into your general assets, and you give me that gold."

definition of the legal rights of the bank and the Federal Reserve Agent, so that the Board can be asked to review the matter and give us a definite ruling on that point?

Mr. Seay: I have written a letter to the Board on that subject, a copy of which I have given to the Governors, because I have felt there would be an occasion arise. It has presented itself in our ^{case,} because we are discounting heavily. I have no doubt it has presented itself in the Atlanta case. But you will all encounter it, and I feel that the ability to substitute gold freely for these notes is one that we should have, and that the Federal Reserve Board if possible should make a ruling that we may be able to substitute the gold freely. It is unfortunate we are not able to put the gold up directly, and perhaps indirectly. The Federal Reserve Board might be able to rule so that we could do it.

The Chairman: Would it be satisfactory to you and to the others to dictate on the record a request to the Secretary to write a special letter to the Board outlining the three points we have discussed, and ask for a ruling, or some treatment of the matter which will be conveyed to the Federal Reserve Banks?

Mr. Seay: There is another aspect of the case, Mr. Chairman. We put our bills up as security for Federal Reserve notes, and they are reported in detail, partly in

the hands of Federal Reserve Agents and partly in the hands of the bank. They are reported in our statements in full as merely bills discounted, the full amount given.

I do not see why, when we put up gold for the security of the Federal Reserve notes, we should eliminate it from our assets, and should eliminate the same amount from our circulation. I think it is a desirable practice, from a circulation point of view and from every other point of view, that we should report a full liability of the Federal Reserve notes in our statements.

The Chairman: We are doing that now, are we not?

Mr. Seay: No.

The Chairman: They sent out a letter requesting that we do that.

Mr. Seay: Supplementary only. It does not occur in your balance sheet.

The Chairman: No.

Mr. Seay: I do not see why, when we put gold up and take down our bills receivable, we should wipe that out, so to speak, from our assets. You reduce the resources of the Federal Reserve Bank very materially by doing it. Suppose, for instance, we want to put up four millions of gold, and publish a balance sheet afterwards. It would present a very small appearance. You would ap-

parently have wiped out your gold, and you would have no liability for Federal Reserve notes on the other side.

Mr. Wold: You have no liability, as I understand it.

Mr. Seay: Suppose the Federal Reserve Agent, for example, were located off the premises, somewhere else, and had your gold, and suppose those notes were presented at your counter for redemption. You would have to redeem them.

Mr. Wold: The fact is, he is not; he is right there.

Mr. Seay: I am theoretically arguing the case.

The Chairman: Governor Seay, I think we have to regard the language of the statute, even though it may seem unusual. The statute provides that when you deposit gold with the Federal Reserve Agent to secure these notes, you really extinguish your liability on them. We must bear in mind this point, that the notes of the Federal Reserve Bank are the notes of the United States Government, and, to use the language of the statute, they have been advanced to these banks -- loaned to them, if you please. The United States Government is obligated to pay those notes, and the minute you put up gold behind the notes, you step out of the transaction, and the obligation is simply the obligation of the Government, with the gold in hand to meet it. The theory of the law is that whenever you do that, you do exactly what a national bank does when

it deposits the necessary lawful money with the Treasury to retire its circulation. It extinguishes its liability, and takes down its bonds, and they are no longer liable for the payment of those. The National Bank Act can very well be construed, and I understand has been construed, to make the Government directly liable for the payment of the National Bank notes, because that money goes into the general fund, and the deposit of the 5 per cent fund is the first step in putting the entire liability on the Government to pay the entire issue of National Bank notes.

Mr. Seay: I appreciate your position, and while I never understood there was any statute on that subject requiring the extinguishment of a proportionate amount of circulation on the books of the national banks and the deduction from its assets on the other side, I thought it was a practice which had grown up; however that may be with national banks, it has occurred to me that there is no particular reason for following the practice in the case of Federal Reserve Banks, if it is practically undesirable. In other words, I would like to be able to accomplish indirectly what we have just discussed at this Board, and that is putting up gold directly behind Federal Reserve notes. In that case the gold would be in the hands of the Federal Reserve Agent. You would not eliminate it from your assets. You would show your liability on one side, and you would show the gold in the hands of the Federal Reserve Agent on

the other side. That is all I wish to bring about, if they can do it indirectly by a construction of the ruling or the law. Suppose, for instance, this fall we desired to put out five or ten millions of gold and have not the bills to put up? If we put out our own gold we practically extinguish that amount from our own assets; we eliminate that from our assets, we publish our statement, and it will appear.

The Chairman: I fear that is what the law requires you to do.

Mr. Seay: I fear so, too, unless they can get around it in some way, if it is desirable, as I believe it to be.

The Chairman: As a practical matter, whenever the time comes when you must put up gold to take care of your Federal Reserve notes, your commercial paper will have liquidated itself to such an extent that you will have plenty of commercial paper to put up, and you will be able to keep your gold on the basis of 20 per cent reserve, and as the gold comes in, you will extinguish your liability by depositing 100 per cent gold, and your statement is strengthened by the fact that the gold is coming in.

Mr. Wold: In your plan, Governor Seay, there would be inflation ^{of} your statement.

The Chairman: You would have your liability stated, and it is a liability under the Act. You might assert on one side of your ledger ten million liability Federal Reserve notes,

and assert a resource of ten millions of gold on the other side. It would not mean anything.

Mr. Seay: It is a question of fact, is it not? The liability is there, even though it is not shown. You are liable for the payment.

Mr. Wold: You deposit the gold with them for the purpose of satisfying, of extinguishing the liability of the bank.

The Chairman: You are not liable for those notes at all.

Mr. Seay: If they come to your counter you either have to pay those notes or get the gold from the Federal Reserve agent.

The Chairman: You do not have to pay them. If you have gold behind those notes, you are not obligated to pay them under this statute. The obligation then rests entirely upon the Government, and the Government may pay them by requiring the Federal Reserve Agent to furnish it with the gold which you would have given it.

Mr. Curtis: The Treasurer can ask the Secretary to require the Federal Reserve Agent to ship the gold to Washington.

The Chairman: Governor Seay, Mr. Curtis is our authority on this subject. He has made a study of this.

Mr. Seay: I have a very high respect for him. This situation might arise. The big volume of those Federal

Reserve notes would actually come back to the bank for redemption, and it will extinguish them with the Federal Reserve Bank notes. What I more desired to bring about than anything else by indirection was some plan by which we might actually put up the gold behind these Federal Reserve notes, take it from our member banks, for instance, in the fall, when they are called upon to ship currencies and have only legal tender to put up behind it --- we take the gold and carry our own Federal Reserve notes against it, accomplishing it in an indirect manner, just as New York does every day.

The Chairman: You can do that without weakening your statement one particle.

Mr. Seay: I know we can, provided the gold comes from the outside. If, however, we put up our own gold, we do weaken it. Perhaps this has been pursued long enough, however.

The Chairman: I think we are all agreed on the three recommendations to make, Governor Seay, if you feel willing to entrust the framing of this as a resolution and a letter to the Board to Mr. Curtis. We have got a record here that expresses, I think, what we all feel about it.

Mr. Seay: I am more than willing to entrust it to the counsel.

The Chairman: He has been at them already on that.

Mr. Curtis: Only on this last point; not on the other question.

The Chairman: Governor McDougal?

Mr. McDougal: The subject I have in mind at the moment is something that is foreign to the matter under discussion.

The Chairman: Before we take that up, then, may I state that we should now arrange our conference with the Federal Reserve Board this afternoon, if possible.

Mr. McDougal: May I announce at this time that I should like to be excused in five minutes, and that before I go there is one matter that I should like to bring ~~to the~~ before the Conference. It pertains to No. 13 on the program. It is my understanding that the Federal Reserve Board is now preparing for a call upon the member banks for a periodical statement.

The Chairman: Yes, sir.

Mr. McDougal: Mr. Delano requested me to say here that he, and he thought the Board, would appreciate very much if this Conference, or a committee of one or more, would let them have the benefit of its advice, or their advice, with respect to the items that should be enumerated on this statement, his thought being that they wanted to make it as simple as possible, and not ask for a lot of unnecessary detail that would be of no use, and he said he would personally appreciate it very much if you would appoint someone to confer with their committee for a few moments and help them to determine just

what would be useful, and what they should ask for.

Mr. Wold: Did we not make a recommendation at our last conference to the Federal Reserve Board on that question?

Mr. McDougal: I do not think there was anything done at that time that would take the place of the question he asked this morning.

The Chairman: Gentlemen, possibly I do not need to refresh your memory as to what transpired at the last meeting. A formal statement was submitted, which we all regarded as too long and too complicated, involving so many computations that the member bank and the Federal Reserve Bank would be immensely embarrassed by it. A new form was considered and generally approved upon the basis that the average figures should be given only as ^{to} ~~the~~ banks in the reserve cities, and actual figures on reserves be given by all other banks. Personally, I am prepared to stand by the recommendation we made at that time, that the report be asked for monthly only, and that the report should consist practically of a calculation only of the reserves of the member banks, and that the reserve figures should be given on the basis of the actual figures of each bank, with the exception of banks in reserve and central reserve cities, and those banks should give both the actual and the average figures. Is there any dissent from that general statement of the action taken at the last conference, and, Governor

McDougal, is that what Mr. Dolano wanted from us?

Mr. McDougal: I think that is exactly what he wants, and I think he would like to have someone meet with their committee and work the plan out to a finish. I thought from what he did say that they could very quickly determine what figures they would ask for, after they had had our help.

The Chairman: Is it your suggestion that I should appoint a committee to deal with that matter with them?

Mr. McDougal: To take up with him personally, and then carry it over to the committee. I think it would take only a few moments.

The Chairman: If that is the wish of the meeting, I will appoint a committee to meet with them. Governor McDougal, do you offer that as a resolution?

Mr. McDougal: I would do so; yes, sir.

Mr. Kains: I second the motion.

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

The Chairman: I will appoint Mr. McKay and Mr. Kains.

Mr. Kains: I wish you would not appoint me. I am not in shape to talk at all.

The Chairman: Then I will appoint Governor Fancher to serve with Mr. McKay.

Mr. McDougal: Now I am going to ask you to excuse me, if you please. I am going back to Chicago, and would like to have Mr. McKay represent me during my absence, if

that is agreeable.

The Chairman: We are all very sorry to have you go, and will miss you.

Mr. McDougal: I am sorry to go.

(Mr. McDougal thereupon withdrew.)

After informal discussion, it was agreed, upon motion, to meet in conference with the Federal Reserve Board at four o'clock p. m. The Chairman withdrawing, Mr. Fancher took the chair.

The Chairman Pro Tempore: What will be the next item to be taken up during the absence of Governors Strong and Wold?

Mr. McKay: There is an item here in regard to the banks joining certain associations.

The Chairman Pro Tempore: I think that was cleaned up at the last conference.

Mr. Seay: Has anything new arisen in regard to that, Mr. Curtis?

Mr. Curtis: One member put that down for the purpose of finding out what had actually been done, just as a matter of inquiry, what banks had joined, and what associations.

Mr. Seay: I will state that the reserve bank of Richmond has been admitted to associate membership in the State Association. We have not as yet joined the American

Bankers' Association.

Mr. Sawyer: With or without a fee?

Mr. Seay: In the State Association they are admitted without a fee.

Mr. Sawyer: The Virginia State Association?

Mr. Seay: The Virginia State Association.

The Chairman pro Tempora: Was that permissible without an amendment of their constitution and by-laws?

Mr. Seay: That was permissible, yes, as associate members.

The Chairman pro Tempore: I might say for the Cleveland bank that we have corresponded with the secretaries of the four State Associations making up our district, and in no case do the constitutions of the associations permit of an associate membership, and they are going to take action at an early day, each probably at their convention, which will provide for associate memberships, and then it is our intention to join. We have had some correspondence with Sec. Fransworth, of the American Bankers' Association, and, as I understand the constitution of the American Bankers' Association, it does not yet provide for associate memberships. That is a matter which I understand will be taken up at the coming convention.

Mr. Seay: Is it not a fact, however, that some banks have joined the association upon the opinion of the counsel of that association that they might do so, and not actively

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participate in it? I understood that there were some banks---

Mr. McKay: Mr. Farnsworth, the Secretary of the American Bankers' Association, called on us and stated he did not think it was necessary to make any change in their rules for the federal reserve banks to become members of the Association, that they did not need to take an active part unless they saw fit to do so, that the matter was brought up, as Mr. Fancher stated, at the next meeting, but that he did not believe any particular action would be taken by the Association about it. He thought that any of the Federal Reserve Banks could come in under the present regulations as members, and not take any active part. It was up to the Federal Reserve Banks themselves as to whether they wanted to take an active part.

Mr. Seay: And not be bound in any embarrassing way by any action that the Association might take in which the Federal Reserve Banks did not participate.

Mr. McKay: Yes. He said any action that was taken would not bind the members of the Association individually.

The Chairman pro Tempore: However, the Federal Reserve Banks would be subject to the usual admission fee and dues?

Mr. McKay: Yes; they would have to pay the same dues as any other banks, in accordance with their capital, I believe.

The Chairman pro Tempore: May I ask of Governor

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Rhoades, did not your bank join the American Bankers' Association?

Mr. Rhoades: We joined the Association before the matter was discussed by the Governors. We have been invited to join the State Association, but have not done so. But they reported a recommendation to the Federal Reserve Board that we be admitted as associate members, and they have that under consideration.

The Chairman pro Tempore: Has any other gentleman present anything to offer on that topic?

Mr. McKay: I would like to know if it is proper for the Federal Reserve Banks to join the American Bankers' Association under the present status?

Mr. Strong: We have joined with a definite understanding with the American Bankers' Association, expressed in our correspondence, that we are free of any obligation in connection with our membership that might in any way embarrass the bank. The way we handled it was to write to the General Secretary, Colonel Farnsworth, giving him a copy of the letter of the Federal Reserve Board, written in response to our request for a ruling, and asking whether there was any objection to membership in the association under the limitations expressed in that letter, and they advised us, in reply, that the matter had been taken up with the counsel of the Association, who stated that there was no objection to our taking membership with those limitations, and we went in.

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Mr. Rhoades: Have you joined the State Association?

Mr. Strong: We would if we were invited, but they have not made any overtures yet. There are a good many state banks in that membership.

Mr. Seay: Do they look to you for the first move in the matter?

Mr. Strong: We really have not done very much about it. The only State association that I have dealt with is the trust companies, and they got me over at their meeting a few weeks ago and put me in a terrible position by quoting some remarks that I had made the year before in regard to this bill, and asked me what I had to say.

Mr. Seay: I think we could all tell them that our views have become very much modified by a close association with this bill.

Mr. Strong: Yes, that is just what I did tell them, that I was in the position of the man who had been in the habit of criticising his neighbor's children as being very bad mannered, rough children; that when his own baby arrived, he modified his views a good deal. I understand the Federal Reserve Board, as a matter of fact, have no objection to our taking membership in the various associations and would, I think, be inclined to encourage it, with a view to the officers of the Reserve Banks getting next to the member banks and establishing closer relations with their stockholders and depositors, attending the meetings, talking

about the work of the banks, and familiarizing the bankers generally with what they are doing.

(Mr. Strong thereupon resumed the chair.)

Mr. Wold: Governor Delano says there will be some members of the Board there to meet us at four o'clock. We desired to know whether we would be prepared to discuss all matters with them. I told him we would not have finished our program at that time.

The Chairman: No, but we are going to make great progress in it by that time.

We will now take up Item No. 22. We have been asked in New York, in a friendly fashion, whether the terms of the Federal Reserve Act would prevent a director in the National bank getting interest on an account which he might carry with the bank of which he is a director. That relates to that portion of the Act which prohibits a director from making, directly or indirectly, any profit in dealing with the bank in which he is a director. We have also been asked in the case of some country banks, whether a director who happened to be running an insurance business could write a policy of insurance on the bank building, and a number of other similar cases arose where the inquiry has been made. I happen to know a little about the genesis of this particular part of the Act, and that it has caused a good deal of criticism in different parts of the country and is a source of some embarrassment to the banks. Whether it is desirable for us

to discuss that matter, with a view to making any recommendation or not, is a question. I do not know whether the act would be amended or not, but certainly no ruling of the Federal Reserve Board would cure the existing doubt, because the Board is not a judicial body and cannot interpret the Act--- at any rate that part of it--- and it was put on the program because we have had quite a number of inquiries, and I happen to be aware of other inquiries that have been made in other districts. What are your wishes about Item No. 22?

Mr. Wold: What reply have you made to those inquiries?

The Chairman: Mr. Curtis has been our authority on those matters, and has generally ruled, I understand, that in writing insurance and making commissions, and things of that sort, the Act is prohibitive. We have not done any more than convey the conditional ruling of the Board in regard to interest on bank deposits. They made a ruling on that subject with a string to it, indicating that the ruling was not any more than an expression of their personal views, and had no weight in law.

Mr. Curtis: On the question of a direct dealing as an insurance broker for bonding the employes of the bank or putting fire insurance upon the bank property, I felt it fell right within the terms of the statute, and I have so advised two or three banks. I do not know what they have done about it. One man told me that he had to resign, that

he would have to stick by his business and not by the bank. It is pretty stiff on those people. But I have an idea that it was meant to be.

Mr. Rhoades: Have you had the case of the cashier being a notary public in his bank in protesting matters?

Mr. Curtis: That has not come up.

Mr. Rhoades: We have had that.

The Chairman: In New York City there is a penal statute which prohibits a notary public from performing his service without a fee.

Mr. Rhoades: In Pennsylvania a bank officer cannot be a notary.

Mr. Fancher: He cannot in Ohio.

Mr. Rhoades: (Continuing) and act for the bank. But in New York he can.

Mr. Wold: They recently passed a bill in the Minnesota legislature making it legal for a cashier of a bank to act as a notary in connection with papers in which the bank is interested.

Mr. Seay: Would you construe that as permissible under the act when we are guided not by a state law, but by laws passed by Congress?

Mr. Curtis: Do you mean for a cashier to accept a notary fee?

Mr. Seay: Or any officer of the bank.

The Chairman: Do you think this matter should be brought to the attention of the Board?

Mr. Seay: I do not believe it could be solved by them. It is a question of expediency and fact, and the man who must determine it for himself is the

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man who has to decide between the bank and his business, and if the Federal Reserve Board says any opinion it may render is not a legal authority, but is only for guidance or moral conduct, he couldn't get any advantage from it. Do you not think so, Mr. Curtis?

Mr. Curtis: I do not think there is any use in putting it out.

The Chairman: It being the sense of the meeting, then, that this topic be passed, it is so ordered.

We will now take up item No. 18, "Stock subscriptions". This letter from Mr. Willis, dated March 10, 1913, is a final letter, as I understand it, Governor Rhoades?

Mr. Rhoades: That is a copy of a letter received at our office yesterday.

The Chairman: This having to do with Topic No. 18, possibly I had better read it.

" " "Washington, March 10, 1913.

"Mr. Richard L. Austin,

Federal Reserve Agent, Philadelphia, Pennsylvania,

Sir:

It is believed that a system of notifying member banks of the approval of applications for stock which will be more satisfactory to the Federal Reserve Banks can be adopted. It has heretofore been the practice of the Federal Reserve Board to send a notice of call for the payment of the first in-

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stalment of subscription directly to the member bank, and at the same time advising the Federal Reserve Agent of the district of this action. This system will be more satisfactory to all if the members banks receive notice of the approval of their applications for stock directly from the Federal Reserve Banks, and to accomplish this the following will in the future be observed:

"NEW BANKS

"Under the law, new banks can be required to pay one-half their subscriptions at the time of taking out stock. Upon the receipt of notice from the Board of the allotment of stock to such banks the Federal Reserve Agents can notify the banks and require the necessary payments to place them on the same footing as those which originally entered the system, until May 2, 1915, when the third installment is payable, and then require payment in full of the required 3%."

The Chairman: That is a most satisfactory method of dealing with this matter.

Mr. Fancher: In other words, that would mean that the new bank would pay its two calls.

The Chairman: Two calls at one clip.

"ADDITIONAL STOCK

The Board has been advised that in the issuance of additional stock, member banks very frequently prefer to pay one-half of their subscription at the time the stock is

issued, thereby avoiding the inconvenience of three small payments. Under the law this cannot be required, but the option should, it would seem, be given. Therefore, upon receipt of notice from the Board of allotment of additional stock, the Federal Reserve Agents should advise the applicant banks and extend to them the option of paying the necessary instalment to place it on the same footing as other stock held by them.

"It is believed that if the foregoing procedure is followed, so that all stock will be upon the same footing as regards payments, the work of keeping accounts will be greatly simplified both in the Federal Reserve Banks and by the Federal Reserve Board.

"Respectfully,

"(Signed) H. PARKER WILLIS, Sec."

This whole subject will be disposed of as to new payments by our acting on this letter.

Mr. Wold: Just one moment, Mr. Chairman. Here is some additional information that I secured this morning from Mr. Willis on this same subject. Here is a tentative circular that he proposes to put out, and here is an additional one covering points not covered in this letter.

Mr. Curtis: Well, there are several points still left.

Mr. Wold: There is no doubt about that.

The Chairman: The letter, which is apparently intended

to accompany a circular, is as follows:

"In view of the confusion which will inevitably follow the taking out of additional stock and the subsequent payment of instalments and the transfer of the required reserve to Federal Reserve Banks in each instance where there is an increase in the paid in capital or the surplus of a member bank, you will please hereafter require member banks to adjust their stock allotments quarterly on the first days of January, April, July and October in each year. Newly organized banks upon coming into the system, and banks which have been allotted additional stock, shall immediately make such payments as have been called and future payments as may be called.

"In making applications for additional stock member banks should exercise care to see that the blanks are properly filled in, using as a basis the total capital and surplus at the time of their last previous stock allotment, and stating the total of all increases in capital or surplus, separately, so that the total at the date of the prior allotment and the increases will equal the then total capital and surplus."

The Chairman: There is also a memorandum here from Mr. Broderick to the Secretary. It seems to be simply a repetition of Dr. Willis' letter. This pretty nearly disposes of this matter except as to decreases.

Mr. Seay: The letter is preferable to the circular.

Mr. Rhoades: I assumed that that letter had been sent to everybody, as it came to us.

The Chairman: Apparently this letter is a recast of Mr. Broderick's circular and relates to new banks and additional stock only. The other letter is supplementary and has not yet been sent out. It refers to fixing a definite period, that is, quarterly, for making these readjustments. Are there any suggestions in regard to these that we can submit to the Board?

Mr. Wold: I think they are disposed to act on the suggestions from the Governors' replies to these circulars.

Mr. Fancher: They do not touch on the matter of decreases there at all.

The Chairman: No.

Mr. Curtis: Also they do not state definitely as to what dates these stocks will be issued and dividend payments calculated upon, and that is going to be a very big question.

Mr. Fancher: It is certainly going to be a very hard proposition to solve.

Mr. Seay: We have received a letter from the Board saying that in cancelling the subscription of any bank, due to dissolution or consolidation with others, we should not at the present time pay them any interest on the capital for the time it had been with us.

Mr. Curtis: Nor charge them any assessment.

Mr. Fancher: How about deducting for the deficit?

Mr. Seay: That matter was not touched upon in our letter, as far as I can recall.

Mr. Wold: There is one other question that I discussed with Dr. Willis bearing on this same subject, and that is in reference to the report of the Comptroller's office as to surplus and application. It always comes back requesting affidavits of the officer of the bank, which is ridiculous, and I suggested to him that they ask for a report from the bank as usually made to the Comptroller, that report to be made in duplicate, one copy to go to the Comptroller and one copy to come to the bank with the application for additional stock.

Mr. Seay: Instead of the Federal Reserve Bank requiring the banks to adjust their books to the books of the Board, I think it ought to be the other way.

Mr. Wold: I did not think anybody else had any trouble except Minneapolis on that score.

Mr. Fancher: I believe in going over our correspondence for the last sixty days letters out of our bank bearing on capital stock adjustments have averaged fifteen a day; inquiries and applications and that sort of thing, correspondence bearing on this particular topic, increases ^{and} adjustment of capital stock.

Mr. Seay: Do you think, Mr. Fancher, that quarterly adjustments would be more advisable than semi-annual adjustments?

Mr. Wold: There are a great many banks that think so.

Mr. Fancher: And the number is increasing.

Mr. Wold: I would rather see it semi-annually, but there is a reason for the quarterly report, due to the fact that there is a quarterly adjustment.

The Chairman: Might we not recommend that as long as the Federal Reserve Board adopts a system of monthly reports of reserves by the member banks, that there be embodied in that a requirement to report any change, if it occurs in the capital or surplus, directly to the Federal Reserve Banks?

Mr. Fancher: Would you suggest that that be one of the captions of this report, to show their capital stock and surplus?

The Chairman: Well, that is one inquiry there. If there is no change they can check it.

Mr. Wold: Are you sure that that report will come to the bank at all? I was under the impression that it would go to the chief examiner.

The Chairman: I understand that is to go to the Federal Reserve Bank.

Mr. McCord: What report is that, Governor?

Mr. Wold: The monthly report.

Mr. McCord: I understand it is going to the bank.

Mr. McKay: The Federal Reserve Bank is supposed to make up all these reports.

Mr. McCord: The Auditor has to compute the reserve by

by it, and how would ~~im~~ he get it if it went to the chief examiner only?

Mr. Seay: Then the bank has to make a consolidated report, I think, based on that.

Mr. Fancher: Somewhere in this report we could ask to have that question included.

Mr. McKay: And have the capital and surplus reported monthly.

Mr. Fancher: The inquiry could be made whether there had been any change in capital or surplus since the last report.

Mr. Seay: I believe it would be better to make it separate.

Mr. Curtis: You want to throw the burden on the member bank. You do not want to have the reserve banks always checking up to see if there has been any change. You want to have them take the first move to tell you of a change.

Mr. Fancher: That is the way we are now finding out these changes in surplus. It is not from the banks reporting to us, but we find it in checking up or making a comparison of the statements. We run a card on these statements and make comparisons of each call.

Mr. McCord: I think you would have to continue to rely upon that.

Mr. Seay: If they get in the habit of reporting quarterly, they will, upon circular request, make the definite

report, and I do not think we will get it in any other way.

Mr. Fancher: A couple of weeks prior to the end of each quarter.

Mr. McKay: There is a semi-annual report of earnings. It might be possible to put it on that report.

Mr. Seay: There is a quarterly report by many banks.

Mr. McKay: I do not think it applies, though, outside of reserve cities.

The Chairman: In our district there is a good deal of complaint about the amount of calculating and information that is required of many banks, and if we could make it a part of the present automatic system of reports on the monthly report, or on their regular report in response to the call of the Comptroller, we would save considerable kicking about reports. Governor Seay's suggestion would involve another call on the bank for a special report on a special subject, which I think in our district they would now resent.

Mr. Rhoades: If we got copies of the earnings report which each of us makes to the Comptroller, that would show any change in surplus or capital.

Mr. Seay: It would necessitate going through all those reports for that purpose.

Mr. Wold: If you get five reports a year and you check those up, it seems to me it is a very simple matter to ascertain those that have made any change in their capital.

Mr. Fancher: If a quarterly day were determined upon

for the adjustment, it seems to me that each bank, in a circular, could simply send out and ask those banks which have made any adjustment in their capital and surplus during the quarter to report.

Mr. McCord: Mr. Chairman, I am adverse to any report that we can get around. I believe that the auditors of the Federal Reserve Banks can control this situation by checking the reports as they are called for five times a year. I know that my auditor does it, and we immediately go for a bank that has increased its surplus. I believe it is a far better way of handling it than any other. It gets rid of the report of the bank and saves them that trouble. We have enough things now to look after.

Mr. Seay: I believe that Governor McCord was nowhere when that letter from the Secretary of the Board was read relating to the payment of capital stock and the adjustment quarterly. That might perhaps make a difference in his view.

The Chairman: Possibly the stenographer will hand the letter to Governor McCord to read.

(The letter from the Secretary of the Federal Reserve Board was thereupon handed to Mr. McCord.)

Mr. McCord: I beg your pardon, gentlemen, for talking on a subject that came up while I was not present. I believe that adjustment can be made just the same quarterly.

Mr. Seay: The reports do not come at those dates. They come irregularly.

Mr. McCord: But we can get it through the auditors of the banks. That is what we hire them for.

Mr. Fancher: Is it not, after all, a simple matter? Out of our 750 odd banks there might not be more than 15 or 20 that would have two reports. You would simply send out a notice calling their attention to the fact that those who had not reported should report.

Mr. Seay: It is not at all difficult. It is simply a question of uniform practice in dealing with the matter.

Mr. Fancher: It only calls for a response from a bank that has made some adjustment. To closely check your Comptroller's reports that come in five times a year involves a good deal of labor. In that way you would check five hundred or more, when by the other method you would only have to check fifteen or twenty; and one report would be as good as another.

Mr. McCord: If you could provide a method whereby a man who takes an extra share can pay for it in the same way, I would appreciate that.

The Chairman: That is covered by that.

Mr. Sawyer: It seems to me that matter can be covered by one line in this monthly report and obviate the necessity of an extra report. It could be covered by one line showing the capital increases since the last report and probably increases or decreases since the last report.

The Chairman: Governor Seay, would not that accommodate your matter?

Mr. Seay: Perfectly. I have no objection to that.

The Chairman: If Governor McCord has read that circular, we can frame up a resolution:

Mr. McCord: That simplifies it. It is all right.

Mr. Fancher: Except that it does not touch on decreases.

The Chairman: Then, suppose I dictate a resolution that may embody the ideas of this meeting, provided Mr. Curtis has no suggestions to make.

Mr. Curtis: I was going to suggest that it be left to the Committee that will talk to Governor Delano. That committee might cover these things. That question of decreases and dates from which any dividends may be calculated will be covered by that committee. I think we are all agreed as to the necessity of pinning those things down definitely. It does not make much difference when, so long as the time is established.

Mr. Fancher: Then the date of dividends would be done by rulings of the Board.

Mr. Curtis: I should think they could establish it easy enough.

The Chairman: The resolution, then, would be as follows:

Resolved, That the Committee consisting of Messrs. Fancher and McKay submit to Governor Delano the views of this meeting in regard to the method of handling increases and decreases of capital stock and reporting changes in capital and surplus of member banks; that it is the sense of the meeting that the proposed circular letters which have been submitted substantially cover the points referred to in those letters, but it is

further recommended that the form of monthly report be required from member banks, but enlarged to include a brief report to include any changes made in capital and surplus of the member bank; and that that ruling be prepared by the Reserve Board as to method of dealing with decreases in capital stock and calculating dividends to be paid on capital stock which has been paid in by the member bank in installments.

Does not that cover the whole thing?

Mr. Curtis: I think so. There is one more point they ruled on for us, that is where a bank went into the hands of a receiver and it was reorganized and some new money put in and it was reopened. I thought the receivership under the law automatically terminated its membership in the reserve bank and that they would have to make out a new application based on their new capital and surplus as of the date when they reopened, but the Board sent me word that they did not consider that necessary, that they might adjust their old capital and surplus and the stock subscription based thereon to the time of reopening, and whether or not they are entitled to a dividend for the time they are in the hands of a receiver, I do not know.

Mr. McCord: Or assessment.

Mr. Curtis: Or assessment.

Mr. Seay: Do they reopen under the same name?

Mr. Curtis: Yes. It is the same institution, undoubtedly. Query, were they a member of the Reserve Bank during the time of the receivership?

The Chairman: Mr. Secretary, is it not a fact that where banks become insolvent that question will take such an indefinite variety of forms that it will have to be dealt with in individual cases? That is to say, one bank will reorganize and will leave the capital stock in the hands of the reserve bank, and another will withdraw it and possibly reorganize and subscribe again, and so on; and will it not be necessary to deal with that particular matter by special rulings in each case, particularly when the question of dividends has to be dealt with?

Mr. Curtis: I think a general rule should be laid down by the Board as to whether or not a receivership terminates the relation of the stockholder automatically.

Mr. Seay: I believe that would be more desirable

Mr. McCord: How about readjustments opening up?

Mr. Curtis: The statute seemed to me to contemplate that that automatically terminated the relationship of stockholders, and when they were revided and started business under the old name again they should start a new subscription and the old one be cancelled. I think

the principle underlying it could be established, whether the relationship continues under a receivership. I think the matter would be covered if the committee brought that to the attention of Mr. Delano and suggested that they might make a ruling on that point.

Mr. Seay: I think there was some difference between the dividend circular submitted here and the letter of the Secretary. I believe that the letter of the Secretary sounded more satisfactory to this conference than the dividend circular submitted by Mr. Broderick.

The Chairman: I think the circular that you refer to was simply a memorandum made by Mr. Broderick, not to be sent out to the reserve banks, but for the use of the Federal Reserve Board in preparing a circular letter.

Mr. Wold: That circular letter is not complete yet. He asked me for any suggestions that we might have to make on that.

The Chairman: Then suppose we add to the resolution already dictated the following:

Be it further resolved that the Federal Reserve Board be asked to make a ruling as to whether a member bank continues to be a stockholder in the reserve bank after its affairs are placed in the hands of a receiver, or would it automatically cease to be come a stockholder and the amount of its paid in capital stock thereupon

immediately be set aside in suspense subject to withdrawal by the receiver of the bank upon evidence of his authority?

Mr. Curtis: There was one more question ~~me~~ raised in the same case that I refer to. After it went into the hands of the receiver it was discovered that its surplus was all wiped out, and the question has been raised whether the original surplus should be reduced from the very beginning of its stock subscription?

Mr. Seay: It would probably involve readjustment in any circumstance.

The Chairman: Mr. Secretary, will you dictate a further resolution covering that point?

Mr. Curtis: It brings up the question also whether an application to decrease is retroactive, whether your decrease is dated back to the original subscription of stock; and also these increases, that is another question.

The Chairman: Are you raising the question for interested discussion, or to get the Federal Reserve Board in a hole?

Mr. Curtis: I think the resolution covers pretty nearly enough as it stands.

Mr. Wold: In the case referred to they had not put in their portion based upon the capital and surplus. They wrote us that the surplus was really wiped out and

they carried it as an imaginary surplus.

The Chairman: Governor Fancher and Mr. McCord are appointed a committee for the purpose of conveying this delicate question to Governor Delano. May I ask if both of you have these resolutions indelibly engraved in your memory and all the questions ready to present to the Board?

Mr. Fancher: The question comes to my mind as to whether or not this could not best go up to them in the regular way?

Mr. Wold: They are getting ready to prepare a circular, and you might just as well get ready to put this in that circular.

The Chairman: I will add Governor Wold to that committee. We have a committee of three now.

Mr. Aiken: I move that that committee be limited to three.

Mr. Wold: I amend that motion to confine the committee to two, as originally intended.

The Chairman: Do we wish any more discussion of this topic, gentlemen?

Mr. Curtis: That motion has not been passed yet.

The Chairman: Gentlemen, you have heard the resolutions as stated and amended. Are you ready to act on them?

(The resolutions as amended were duly seconded and

carried.)

Mr. Seay: Mr. Chairman, in reference to shipments by parcel post; is that authoritative, that it can be done? Our office will not take it unless it is sealed and they cannot get at it.

The Chairman: The Federal Reserve Board has franking privilege through the Post Office . How they exercise that we do not care, as long as it is insured and the shipment is by a method that will permit us to get a full and unrestricted insurance.

Mr. Seay: That is from them to us, though.

The Chairman: Yes; we could not ship the other way.

Mr. McKay: The question is whether Federal Reserve Banks can ship by parcel post or not, that is for ordinary shipments.

The Chairman: No; they will not permit that.

Mr. Seay: You have to seal it, and, if sealed, they charge the regular postage.

The Chairman: It does not make any difference if it goes at regular postage if it goes under frank.

Mr. Seay: I mean out shipments; the shipments from us.

Mr. McCord: I think going out from the Treasury Department if they can use their frank we ought to have

them do it, that is get them to aid us in that way, but, of course, when it comes to our shipping we have to submit to the regulations. There is no question about that.

Mr. Aiken: Before we leave question No. 18, I would like to say that I am still not satisfied as to our legal rights in paying par for stock that is retired. Under conditions existing in our district we have paid it. One or two banks have gone into liquidation. One or two have reduced their stock, and we have paid under a somewhat indefinite letter from Mr. Willis, which he confirmed by telephone, par for our stock, but I still think we have no legal right to do it. I would like to know what has been done in other districts where the value of stock is as great as par value.

Mr. Seay: We have received a letter from the Board stating that in making payments for stock handled the matter should be referred to the Board, and, if that is the case generally, that responsibility can be put upon them and thus relieve us.

Mr. McCord: Does not the law say that it shall not exceed the book value, and would not that be left to the board of directors to determine the real value and pay the real value?

Mr. Aiken: What is the book value?

Mr. McCord: The book value is whatever your expenses are below your face value?

Mr. Wold: I do not think we care to go on record in saying that our stock is impaired.

Mr. Curtis: It seems to me it is purely a question of practicality. As long as the Board says you may spend par, why go behind it?

The Chairman: Governor Aiken, you raised this question and we are lining up a conversation here to set on it. How are you going to take it?

Mr. Aiken: I will take it for what it is worth and carry it along with me.

The Chairman: It is worth par.

Mr. Wold: The conversation or the stock?

The Chairman: Both, constructively and actually. But when we get into the question of calculating the book value of the stock in a Federal Reserve Bank on the basis of a liquidation of the bank, we have a very serious question to face, because we are making contracts for leases and so forth, and if we charge those liabilities that are actual liabilities against the bank without creating funds in the bank of the component earnings of the future, you would impair the stock of the banks, until we had actually a large surplus. It seems to me that the practical way to handle it is to consider that we are now entitled to take into consideration the future earning power of these banks as

being sufficient to justify strengthening the banks and as not having impaired its capital by organization expense, and on an equitable basis in considering the relations of the member banks to the Reserve Bank I do not believe there would be any question about that.

Mr. Aiken: That is the most helpful discussion of the subject I have heard yet.

The Chairman: I would like now to read to the Conference the text of a telegram dated March 10, 1915, from Secretary Willis, conveying the ruling of the Board in regard to rediscount.

In view of the possibility of an early demand for rediscount between Federal Reserve Banks, the Federal Reserve Board today fixed a rate of discount for the present between Federal Reserve Banks of $3\frac{1}{2}$ per cent for paper up to thirty days and four per cent for paper of maturity over thirty days and up to ninety days. All applications for rediscounts are to be filed with the Federal Reserve Board, the Board reserving the right to apportion the applications for rediscounts among other Federal Reserve Banks.

I would like to suggest that we submit a recommendation to the Board that the bank which applies for the rediscount be given reasonable discretion in determining where they would like to get their money, so as to avoid the cost of shipping currency.

Mr. Seay: Both for its rediscount and for repayment of its rediscount.

The Chairman: Both for the amount of its rediscount and for the amount of repaying them.

Mr. Wold: I do not know whether that is the point or not. If Minneapolis rediscounts notes for New York and the notes are payable, we accept them on the basis that they are payable and we must expect payment there. When we buy from you or rediscount you we must expect to provide you with the funds.

Mr. McCord: I do not think that is what Governor Strong means. He means that the bank should be permitted to say "We prefer to do it with Cleveland or with Chicago, because that is most convenient for us as to the shipment of money and also in connection with the repayment."

Mr. Wold: It is not a question of shipment of money at all. If we purchase paper from the Richmond bank we pay for it at Richmond, and we collect it where it is made payable.

Mr. Seay: Do you collect it?

Mr. Wold: We collect it through you.

Mr. Seay: Would not the Richmond Bank have to pay you if it collects for you?

Mr. Wold: We would have to stand the expense of getting the money back.

The Chairman: I do not think that is a sound view I am sorry to differ with you, Governor Wold. This is the first time this has ever occurred.

Mr. Wold: If we buy a piece of paper offered by a Boston broker, payable at Providence, we must expect payment at Boston.

The Chairman: Let us suppose, however, that one of your customers in Richmond says to you "We would like to borrow some of your money. At what rate will you lend it?" Do you say to that customer of yours in Richmond, "That is all right; we will stand the cost of shipping the money to Richmond, and will pay the cost of your shipping the money back to us when you pay that loan off." This is a case where a loan can be imposed upon you, where a Federal Reserve Board can require you to loan the money whether you want to or not.

Mr. Wold: It is not the borrowing of money; it is the rediscount of a specific instrument that has a definite security at a given place.

Mr. Seay: But it may require you to do it. It has such a right.

The Chairman: You would establish this inter-district discount based upon the plan of having the lending bank pay the expense of the loan, which is contrary, according to my view, of what is sound banking. When the Federal Reserve Bank of Dallas --- they not being here we can use them as an illustration --- wants to rediscount some of its paper up in Chicago,

they ought not be put to the expense of shipping the money to Chicago. It is a loan made for the benefit of that bank in Dallas, and the interest rate should be net, free of exchange, free of cost for shipping the money.

Mr. Wold: I had this one here in mind, where it is optional with us whether we participate or not. If we do not care to participate on those terms, we do not have to. If it were mandatory, I might take a different position.

Mr. Rhoades: It is not optional where the rate of interest is fixed.

Mr. Wold: Possibly I might get the Dallas exchange of discount when I made the loan and get a premium for it when the notes were collected.

Mr. McKay: I think the New York or Chicago exchange could be made by any bank that rediscounted it, and they could pay them in either kind of exchange, and in that way there would not be a necessity to move money.

Mr. Eacy: Which to me goes to show that if the bank had the liberty to make loans where it could make exchange to its own advantage, it would be more desirable.

The Chairman: Yes.

Mr. McKay: I think either bank could use either Chicago or New York exchange.

Mr. Aiken: The form that the operation would take, if a Boston bank were discounting in New York, would be that they would send some receivables to New York for discount. The proceeds would be passed to our credit with the Federal Reserve Bank at New York, and we would create New York exchange by doing it, and it would be up to us to use that exchange or pay for the money representing it that was shipped over to us.

The Chairman: Yes. Governor McCord, could you handle a rediscount by taking New York exchange for it?

Mr. McCord: Certainly.

The Chairman: Governor Aiken, if you were discounting some paper for Atlanta, would you be willing to have that cleared say at New York, or to have that operation take place on your books so you would participate just as you do in buying acceptances and send a bill for the cost of getting the exchange out of New York, if there were any, to Governor McCord?

Mr. Aiken: Yes.

The Chairman: There would not be any cost, as a matter of fact, would there?

Mr. Aiken: There might be a cost. I might have to ship currency to New York.

The Chairman. That is getting exchange into New York to meet the investment.

Mr. Aiken: Yes; and it would be up to Governor McCord to pay for it,

Mr. Seay: It would be a question of getting the money to Governor McCord.

The Chairman: Now, this has occurred to me as a means of dealing with this matter, which I do not believe in as a permanent policy, but as a temporary matter might do. I do not think we ought to take a step in the direction of having the Federal Reserve Bank of New York clearing too much of this stuff for the other banks as long as we are working in the direction of having a clearing system, but if it would accommodate those who would participate in any such transaction to have the discounts handled by the use of New York exchange by having us make it a clearing committee, pending the establishment of a clearing fund, which would take care of it automatically, we would be very glad indeed to do that, but I would rather have that recommendation go to the Federal Reserve Board from the Governors here of their own motion than appearing to come from me as a suggestion, because I do not want to have the New York bank appear to be endeavoring to swing that thing, which we have no desire whatever to do. If it is going to be a convenience to put this

specific transaction through, we would be very glad to do it, pending the establishment of the clearance fund.

Mr. Wold: So far as Minneapolis is concerned, it would be perfectly agreeable to us to participate and allow the bank who desires a rediscount to indicate whether they preferred Chicago or New York.

Mr. Seay: At the risk of reiteration, I want to express the opinion that it is more desirable for the bank which desires to rediscount to make its arrangement with the bank from which it desires to have the rediscount and which can most advantageously furnish funds to it, with, of course, the approval of the Federal Reserve Board, and at a rate to be approved by the Board.

The Chairman: Of course, Governor Kains is at a very distinct disadvantage in participating in such a transaction, and I do not see how he can do it without considerable expense and inconvenience.

Mr. Aikon: Referring again to this notice of the establishment of the rate, you understand that it is optional with the different Federal Reserve Banks whether they take up this allotment?

The Chairman: Yes, sir. It is underwritten.

Mr. Wold: Is it understood that the repayment will be made in the same class of exchange as the payment is made in?

Mr. Seay: That is between the bank granting the discount and the one asking for it. That is the way all the other banking transactions are carried on.

Mr. McCord: Suppose I rediscount within the next two or three months. That would not be in currency; it would be for credits in New York or Chicago. Do you not see that I could use that very readily? Then when it comes to repayment, if I had to repay within the next ninety days, I would have to buy New York or Chicago, possibly at a premium, or ship the funds, but if I should wait until July or August to make my rediscount, I would probably have to call for the gold equivalent, because I would want to use it as a basis for circulation. Then my repayments would be in cotton bills into New York, and that would save me the expense of paying exchange.

The Chairman: It is not perfectly clear that the handling of the exchange settlement growing out of a rediscount has got to follow the line of least resistance, by taking the least expensive method?

Mr. McCord: Absolutely,

Mr. Seay: In addition to that, he is imposing upon the rediscounting bank the bookkeeping burden of eleven operations too, where it might be made with one or maybe two.

Mr. Fancher: It seems to me that this whole subject has a vital bearing upon the matter of Federal Reserve Bank settlements. Whatever our recommendation is here it ought to be coupled up with that.

The Chairman: And coupled up with the intra-district clearing just as well. One bears upon the other. Do you agree with that, Mr. McKay?

Mr. McKay: Yes, sir. They are usually payable in Chicago or New York.

Mr. Seay: Suppose one Federal Reserve Bank is heavily indebted to another Federal Reserve Bank, whether New York, Kansas City or New York. It would want to rediscount at that point. How would you do about the apportionment when such a thing occurs?

The Chairman: If you give the borrowing bank the privilege of fluctuating its own market, all that happens then is if it borrows all of its money at one place we might have an arrangement by which that can be apportioned again using the exchange which is the least expensive.

Mr. Seay: I think the Federal Reserve Bank can manage that admirably among themselves if left at liberty to do so.

Mr. Fancher: It seems to me it would be the most natural thing in the world where one bank has a heavy

creditor at some other Federal Reserve Bank it would be willing to arrange a rediscount for that balance. That could be an operation that could be arranged between those two banks.

Mr. McCord: That was in my concrete illustration.

The Chairman: In view of this discussion, can we not simply have it understood that at our meeting with the Federal Reserve Board we suggest we exchange views on this subject informally without making a formal recommendation?

Mr. McCord: I think that is a proper course.

Mr. Seay: Since they have taken that position, I think that would be the most diplomatic way to present the matter and then let them modify it if they find that the views presented are of sufficient force to call for it.

The Chairman: I think they may decide to modify it. Our talk with Governor Delano about it indicated that there were some points that had not been considered which they would be glad to discuss with us. Are we satisfied to pass that matter in that shape without further discussion, or is there any recommendation to go on record?

Mr. Fancher: Are we to discuss the further custody of the paper?

Mr. McCord: I would like to have that discussed, because that would very materially determine the action

or not. If we have to handle thirty day paper to and fro between New York and Boston and Atlanta, it would be due by the time we get it up there, and any arrangement that would be perfectly safe to the discounting bank or the bank that furnishes the money we would be perfectly willing to meet their agreement, but we would not like that business of switching backward and forward of the securities.

The Chairman: How would it do to make a specific loan of a round amount, maturing on a specific date, and put up the collateral with a Federal Reserve agent, and provide the advance to meet it?

Mr. McCord: That is a logical solution of the proposition.

The Chairman: Are you willing to recommend that to the Federal Reserve Board if they can find the means to do it?

Mr. Seay: For consideration; otherwise the discounting bank will be paying off every day its items as collects and rediscounting every day the small items that it has to rediscount.

The Chairman: And the work will be simply tremendous.

Mr. Wold: Can they borrow on collateral?

The Chairman: They can borrow gold.

Mr. McCord: I can borrow a certain amount of gold from New York, and how I settle with him is another

question.

Mr. Seay: It involves just the same point as the substitution of paper for the bills receivable with the Federal Reserve agent, and with those two things operating together I can tell you that the discount department will be a very lively one.

The Chairman: Is it desired that we pass a resolution covering the recommendation as to loan rather than discount?

Mr. Seay: I move, Mr. Chairman, that the Federal Reserve Board be requested to consider how transactions with Federal Reserve Banks involving the loan or re-discount can be managed from the loan point of view.

(The motion was duly seconded, put and carried.)

The Chairman: As we have still a few moments before time for luncheon, we may be able to dispose of item No. 24.

Governor Seay has offered a resolution which was not acted upon, but which was to be reflected upon, recommending to the Federal Reserve Board that a special committee be appointed to consider an amendment to the Federal Reserve Act which would ultimately serve to bring about the use of Federal Reserve notes as reserves for member banks.

Mr. Seay: Mr. Chairman, there was introduced,

I believe, at one time in Congress a bill making an amendment to the Federal Reserve Act which would have allowed the gradual substitution of Federal Reserve notes, or the gradual use of Federal Reserve notes as reserve in the national banks to the extent of five per cent of their total reserve, the idea being to increase that gradually, one per cent the first year, or two per cent the first year, and so on. I cannot help being impressed with the conviction that either that or some other method will have to be adopted through the issuing bank to gather in the gold circulation of the country.

Mr. Wold: Do you mean one per cent or one-twelfth?

Mr. Seay: One per cent of their total reserve, and up to ~~mm~~ five per cent of their total reserve.

Mr. Wold: One-fifteenth as the case may be?

Mr. Seay: One-fifteenth as the case may be.

The Chairman: As the matter now stands, the only way in which the Federal Reserve Banks can get the reserve gold of the country is to substitute their notes for the gold shipments held by the national banks and the only way in which it would be safe to effect that substitution is by having a majority of the Federal Reserve notes issued against gold and substituted directly. As that can only be ^{brought} about by an amendment to the Federal Reserve Act, it can be safeguarded

by imposing a tax upon that portion of the notes of the Federal Reserve Banks which are secured by commercial paper. That is the way in which reserves of the Imperial Bank of Germany have been handled and they have been very satisfactory. We would have to do it with every possible safeguard around the process in this country, but I believe it is the only way in which this method can serve to get the gold together. Originally I did not think so.

Mr. Wold: Would not that make it necessary to have two classes of Federal Reserve notes,

The Chairman: Not at all.

Mr. Wold: How are you going to differentiate?

The Chairman: You are going to put the tax on the percentage by the books of the bank.

Mr. Wold: It would be a reduction of your reserves under the present method.

The Chairman: It would be only a reduction of the reserves to the extent that Federal Reserve notes were issued against paper, would it not?

Mr. Wold: Yes.

The Chairman: Suppose today at one stroke we took over the six hundred million of gold which is held by the national banks as reserve and substitute for that gold the notes of the Federal Reserve Banks. What would the position of the Federal Reserve Banks be? Every

dollar of their notes would be secured by a dollar of gold, would it not?

Mr. Wold: What would you do with the bonds held as security?

The Chairman: This would facilitate that conversion. Ultimately the Federal Reserve banks would be then in a position of having very large holdings of gold. They would be able to retire a portion of the bonds in circulation and again attract additional gold as reserve, and a very large portion of all the notes of the Federal Reserve Banks would be secured by gold, and they would have fifty per cent of their gold at once.

Mr. Wold: That would give you three hundred and seventy-five million dollars invested. What would you have left to do business on?

The Chairman: I do not claim that we could at one stroke retire all of these Government bonds. The act might have to be amended as to amortization of the whole national bank circulation, but if the act can be amended so that the greater proportion of the Government bonds can be sold, they in themselves would be the means of attracting the gold to the bank and we would get rid of the bank circulation entirely and substitute the Federal Reserve notes.

Mr. Seay: Then there is the question of being

able to acquire the new gold. We are supposed to have some control over the gold circulation of the country, but I cannot see how it can best be exercised at this time.

Mr. McKay: That would mean a transfer of the gold held by the Government to the loss of the Federal Reserve banks?

The Chairman: It would not necessarily involve that. Hold the certificates. But if these banks ultimately took over the sub-treasuries and accumulated all the gold certificates, then the thing would clear itself. You would take the direct custody of the gold.

Mr. Wold: What would your basis be; one hundred per cent, and forty per cent, with a tax for every point that the reserve dropped?

The Chairman: Yes; that is contemplated by the act now.

Mr. Wold: But it would not be below one hundred per cent.

The Chairman: But the principle would be applied. Another necessary step would be then to have the Federal Reserve bank notes act as the reserve of the banking department in the Federal Reserve banks, because that is all you would have. All of your gold would get behind the notes then.

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Mr. McKay: That would limit your issuance of notes.

The Chairman: No.

Mr. McKay: You are only required now to carry forty per cent gold. In this case you would be required to carry one hundred per cent against such as were issued against gold.

The Chairman: As long as you could issue notes for gold directly, and you would issue them gradually to the extent that your notes would act as reserves for national banking, you would simply take the gold in, but as soon as you were able to cover your notes with gold, you would adopt that process rather than pledge your commercial paper. Then the issue of the notes against commercial paper would be in the nature of an emergency issue entirely. When your notes were secured by less than twenty per cent gold, then your tax would begin to operate. The extent that they would require gold covered by the notes would have to be governed by experience.

Mr. McKay: The Federal Reserve notes would fluctuate dependent upon how much gold there was against them.

The Chairman: I think we can figure out how the currency system would be left with this operation

completed. Let us assume that we take in one hundred million of gold and issued one hundred million dollars of notes against that. Then let us assume that we retired all of the national bank notes, say seven hundred and fifty million and issued against them seven hundred and fifty millions of Federal Reserve notes. We would then have in our vaults three hundred and ~~seven~~ seventy-five million dollars of three per cent thirty year bonds and three hundred and seventy-five millions dollars of one year notes. We would sell the thirty year bonds and get three hundred and seventy-five millions of gold, We would consequently have three hundred and seventy-five million of gold and three hundred and seventy-five million in notes against a total note issue of one billion seven hundred and fifty million. We already have in gold say three hundred and fifty million for the purpose of figures, which would be added to the billion, three hundred and seventy-five million, and we would have one billion six hundred and twenty five million in gold against a total note issue of one billions even hundred and fifty million. Now, let us suppose that the country required rediscount with the Federal Reserve banks of five hundred million, and this were issued in notes,

That would inflate our note issue up to two billion two hundred and fifty million and against them we would have one billion six hundred and twenty five millions of gold and three hundred and seventy-five millions of one year notes and five hundred million of commercial paper, and the proportion of commercial paper would be trifling compared to the gold holdings of the bank. It would be about eighteen per cent, roughly speaking. We would have only eighty per cent of gold behind the notes.

Mr. Wold: There has got to be a break there at some place.

The Chairman: You have the tax. You raise your discount rate and protect by the amount of your tax.

Mr. Seay: To a point that will bring them in.

The Chairman: Now let us go a step further. Let us suppose that in order to strengthen the bank's reserves, we had a contract with the Government by which of those three hundred and seventy five millions of one year renewable notes that we held we were permitted under certain conditions to again convert a portion of those into thirty year bonds at a rate of interest that would enable us to market them. There we would get more gold in, and at any point where the reserve of the bank got down we raise our discount rate and require the payments of our discounts, and again

we attract gold. I cannot see where, taking a period of 25 years to work this thing out that these banks would hold possibly, with the growth of the country, two thousand millions of dollars of gold and might have twenty-five hundred millions of circulation outstanding, and with the eighty per cent reserve it would be the best bank note in the world and we would have the most flexible system.

Mr. McCord: It would be available in pulling the gold into their vaults without the Government having to do it.

Mr. Wold: They recently passed a bill in the Minnesota legislature making it legal for a cashier of a bank to act as a notary in connection with papers in which the bank is interested.

Mr. Seay: Would you construe that as permissible under the act when we are guided not by state laws, but by laws passed by Congress?

Mr. Curtis: Do you mean for a cashier to accept a notary fee?

Mr. Seay: Or any officer of the bank.

The Chairman: Do you think this matter should be brought to the attention of the Board?

Mr. Seay: I do not believe it could be solved by them. It is a question of expediency and fact, and the man who must determine it for himself is the

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we attract gold. I cannot see where, taking a period of 25 years to work this out that these banks would hold possibly, with the growth of the country, two thousand millions of dollars of gold and might have twenty-five hundred millions of circulation outstanding, and with the eighty per cent reserve it would be the best bank note in the world and we would have the most flexible system.

Mr. McCord: It would be available in pulling the gold into their vaults without the Government having to do it.

The Chairman: I have not said anything about the banks withdrawing the deposits from the national banks. There would still be a very considerable amount of gold there that would operate as a reserve against a deposit liability against the Government, which would have the effect of increasing the banks' reserve again.

Mr. Fancher: Of course, in this computation here, out of that 80 per cent of gold you would have to take your reserve on deposit.

The Chairman: Excuse me right there. You are going to take out your notes from the Federal Reserve Agent on this plan, not issue to your depositor in the first instance, but in order to make the reserve for the first deposit of the bank.

Mr. Fancher: I see. You change the form of reserve,

The Chairman: You change the form of reserve, so it

figures as a part of the note liability of the bank.

Mr. Fancher: You change the gold into Federal Reserve notes and they are reserved as Federal notes and liability.

The Chairman: The bank of England holds today 18,000,000 pounds of obligations of the British Government in its issue department, which are simply government bonds. The Bank of England issues those notes against 100 per cent of gold, except as to this 18,000,000 pounds of Government securities. That has been there for a hundred years or more. Those notes issued by the issue department of the Bank of England serve as a reserve for the deposits of the bank, and when you read about fifty per cent reserve of the Bank of England it means that in their banking department they have their deposit liabilities covered by fifty per cent of their notes, the e notes being covered by 18,800,000 pounds obligation of the British Government and the balance by gold. So that we would be doing no more than has worked successfully with the Bank of England for 100 years or more, except that even on this basis the percentage of missing gold covered would be considerably less than is the case in either the Bank of England or the Bank of France or the Reichstag.

The Chairman: As indicating what the prevailing opinion is in London, the joint stock banks have frequently urged upon the Bank of England that instead of having a rigid gold security note issue they amend the charter of

the Bank of England so that they may be permitted to issue notes to their banking department secured by their bills, that note issue being a super-issue, so to speak, to be taxed exactly as the note issue of the Reichstag is taxed so they would get the flexibility that we would get by this system. That has been recommended by the bankers of England combined with this condition, that the Bank of England has already over traded on their stock of gold. The bank of England when this war broke out had been running along on an average of 170,000,000 million to 200,000,000 of gold, which is nearly 100,000,000 less than these Federal Reserve Banks have now, and they were doing the trade of the world on it. They thought the Bank of England was not carrying enough gold. They were trying to make too much money from the deposits.

Mr. Fancher: In the reserve of national banks they are permitted to carry legal tender notes, and bank of them what have they? They have 150,000,000 against a 300,000,000 issue.

The Chairman: If we once start this thing going what will happen will be this: Coupled with this process of re-adjustment we will get the Government to start amortization fund for the greenbacks, that will take care of the \$350,000,000 in our vault. When that is out of the way then then perhaps we can declare the silver certificate.

Mr. Seay: The whole financial system of this country is bound up in this issue.

Mr. McCord: I have been on the banking and currency committee looking to the taking care of the greenbacks by the purchase of gold, and I have always advocated that from the beginning to the finish.

The Chairman: It may be a wild dream, but I hope that some day we may be at work bringing about an amendment to this Federal Reserve Act that will accomplish this very thing. It will not require very many computations on paper to show what an immense strength to our whole system it would be to have such a thing developed.

(Thereupon, at 1 o'clock p. m., an adjournment was taken until 2:15 o'clock p. m.)

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AFTER RECESS.

The Conference resumed its session at 2:30 o'clock p. m.

The Chairman: I have a letter from Governor Delano that I will read:

"The Federal Reserve Board, in session this morning, received word through Governor Wold that members of your Conference desired to meet members of the Board informally at four o'clock this afternoon.

"I beg to say that we will be glad to meet you at that hour. It has occurred to us, however, that if there were certain specific topics to be taken up, time might be saved by referring committees of your Conference on those topics to committees of our Board who have those subjects in hand.

"Yours very truly,

"F. A. Delano."

If anyone can suggest a method by which this program, now consisting of considerably over 40 items, can be divided up so that we can convey it in that way, I will be glad to appoint the committees.

Mr. Wold: I think we should proceed as we have in the past; and that is to let the Chairman be the spokesman and to have members of the Conference, who wish to add anything, have the privilege of doing it.

The Chairman: The only trouble is that I have been doing all the discussing, and consequently I have been getting

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all the kicks. I do not mind that, though.

Mr. Fancher: I think that method has accomplished good results.

Mr. Rhoades: They can refer it to a committee after they have gone over it.

The Chairman: It seems to me that we ought to convey word to Governor Delano promptly as to the difficulty of arranging a conference by committees, when we have not, in advance, an arrangement of the topics so that each committee of this Board and of their Board will have a specific set of topics that will fit in together. I do not see how it can be done.

However, I would like to have your wishes in the matter.

(Governor Wold was thereupon appointed as a committee to convey to Governor Delano an expression of the views of the meeting as to dealing with the report by sub-committees, which the meeting felt could not be arranged without more preparation than is possible now.)

The Chairman: I have been skipping around on this program a good deal and I will ask that the next topic be suggested by someone other than the Chairman.

Mr. Seay: Can we clean up the first page?

Mr. Fancher: No. 11 is an open topic.

The Chairman: Yes; discount rates. We decided yesterday to pass that for the time being. It is still on the program and unchecked, though.

Mr. Fancher: Under present conditions, could we not pass it?

Mr. Seay: Was that put upon the program with a view of discussing the question which has been raised heretofore as to the authority for initiating and putting into force rates? Or was it put on the program from some other point of view?

The Chairman: I think that was just carried on as a permanent subject and there was no particular object in putting it there at this time. It did not have relation to the former discussion, particularly.

Mr. Seay: I move that we allow it to stand in its present status.

Mr. Fancher: I second the motion.

The Chairman: It is moved and seconded that topic No. 11, discount rates, be passed.

Mr. Rhoades: May I ask for an expression of opinion on the publication of acceptance rates in that connection?

Mr. Fancher: Do you mean as to giving publicity?

Mr. Rhoades: Yes.

The Chairman: Our feeling in New York is that we should only have a minimum rate. I do not know that our feeling is very strong one way or the other, as to this being published. I think it was a matter that ought to be worked out by evolution, rather than by a decision at the outset.

Mr. Aiken: As a matter of fact the rate will soon be

known at which we are doing business, whether it is published or not; that is, if you buy the acceptances.

The Chairman: But your minimum rate may not be known.

Mr. Fancher: May I inquire if it is generally known that certain brokers are buying these acceptances of the Federal Reserve Banks? How generally is that known in New York?

The Chairman: Every broker with whom we have dealt or contemplated dealing, has been told that the first evidence we get of a leak we will cut them off the list and will not do any business with them.

Mr. Fancher: That is very, very essential.

The Chairman: Is there any further discussion of the matter? If not, will somebody suggest the next subject.

Items 14 and 15 are still unchecked on the first page.

Mr. McKay: I understand the Federal Reserve Board are considering the State Bank proposition, and the last time we were here I think they said that that would be the next subject they would like to dispose of. The time is short between now and the time set for the meeting this afternoon.

The Chairman: Possibly we ought to report what occurred at the last meeting of the Committee on Clearing checks. You attended that meeting. We discussed the subject of state bank membership, and the statement was made to the Federal Reserve Board that the inauguration of a system of clearing checks would doubtless crystalize the situation as to State bank membership and the opinion in regard to that, and

might develop in the near future to the psychological moment for their admission; and when that moment passed they would adjust themselves to non-membership and continue out indefinitely. A suggestion was made that a regulation be prepared on a more liberal basis for their admission, and the members of the Board were impressed with what was said because they indicated that they would like to consider a suggestion of a regulation along that line.

A number of attempts have been made to prepare such a regulation and every time we bump into an opinion of counsel or some difficulty that seems to make it unworkable. Besides that, some of the state bankers who have met the Federal Reserve Board, have taken the ground that they would not come in anyway unless the Act was amended. They have not suggested in what particular the Act should be amended. They have raised objections to admission upon three general grounds. One is that ~~it~~ it will subject them to a new Federal examination which they are unwilling to submit to; another is that it subjects them to future regulations of the Board which may be restrictive as to the character of the business they do; and the third objection is that there is no means for them to get out of the system and consequently they cannot run the hazard of subsequent restrictive regulations which will do them a possible injury. Those are, I think, the three particular general grounds that have been advanced.

Mr. McCord: As to the last objection I was advised by a member of the Board this morning that they had about arrived at a conclusion as to how to allow them to get out of the system, if they are not fully satisfied, without any trouble. So I think that they have about made up their minds on that question.

The Chairman: Governor McCord, we are going to hazard an attempt at preparing a regulation over in New York, and it might be a good plan for the Governors to send us suggestions ^{give us} and ~~and~~ the benefit of any thing that occurs to them. It is a very pressing matter right now, with opinion crystallizing all over the country. Here we have a big fight on over in New York. There is one out in Michigan and one developing over in New Jersey, I understand. There is sure to be one in Pennsylvania on the amendment to the law there.

Mr. Seay: Would it not be wholesome, if I may use the word, in the light of what has occurred, to let them prepare a regulation and then submit it.

The Chairman: To this meeting?

Mr. Seay: To the Governors.

(Informal discussion followed.)

The Chairman: As I have said, there are objections to their admission, and one very strong incentive to their admission; that is one very strong practical incentive and one very strong potential incentive. There is the clearance matter, which is a practical incentive, and there is the protection, which is a potential incentive. Then

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there are three very strong objections. The rest of the objections I believe can all be ironed out without great difficulty. The question is can we get the Federal Reserve Board to apply itself right away to the preparation of a regulation which will be promulgated simultaneously, if you please, with the giving effect to a system of clearing checks, so that one will take the edge off the other.

Mr. Seay: Are you inclined to think that the smaller banks among the State banks would welcome the clearing system any more than the smaller banks among the national banks?

The Chairman: No, I do not, in all cases, but the queerest thing about it is that if the clearing system is successful among the national banks it is going to deprive the state banks of their exchange charges ultimately, anyway. It is a matter of competition. It seems to me that they will then set up their own system which will be substantially the same in effect as the Federal System, and they will lose their exchange charges by their own system when they adopt it; and both systems will be antagonistic to each other.

Mr. McKay: I think they will very likely adopt a clearing house system similar to the one in Boston.

The Chairman: Yes.

Mr. McKay: The State banks will have to provide some system ultimately.

Mr. Seay: Is there a state bank commission in your state, Mr. Chairman?

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The Chairman: Yes.

Mr. Seay: Do you believe the state banks broadly could be admitted under the regulations which were made by your State banking department?

The Chairman: Our State banking department really makes no regulations. They have no power to interpret the law. That is done by the Attorney-General. The function of the Banking Department of New York, generally speaking, is to make examinations and report to the legislature and to take charge of failed banks. The Banking Department covers a great variety of different kinds of institutions, like Building and loan associations, private bankers that receive deposits, savings banks and trust companies, State banks and various cooperative associations that are all subject to the State Banking Law. It also covers real estate building and loan concerns.

Mr. McCord: And mutual savings concerns and so on.

The Chairman: Yes. They are all under the banking department, but they do not make any regulations. They give certain rather narrow instructions from time to time, that are contemplated by the Act, as to the form in which you shall make your statements, and as to the method of submitting various matters to the Boards of Directors and things of that sort, but they are purely administrative matters.

The Chairman: Gentlemen, what are your wishes with regard to State bank membership?

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Mr. Aiken: I move that that be brought to the attention of the Federal Reserve Board again and that they be informed that, in the judgment of the Governors, it is most important that the matter be taken up at once and some plan devised under which it would be possible for them to become stockholders in the Federal Reserve Banks.

The Chairman: Is that motion seconded?

Mr. Rhoades: I second the motion.

The Chairman: If there is no further discussion I will ask for a vote.

(The motion was put to a vote and duly carried.)

The Chairman: We will now hear Governor Wold's report.

Mr. Wold: Mr. Delano stated that that would be very satisfactory to him under the circumstances. I explained to him that we do not transact our business through committees at all, but through a committee of the whole, and that we have not finished quite a number of subjects, and that we preferred to have our interview based upon the established custom which has heretofore prevailed. He said that that would be agreeable, but said, however, that he did not expect that over four members of the Board would be present.

The Chairman: The next subject is "Relation of Federal Reserve Agents to Federal Reserve Governors." Topic No. 16.

Mr. Kains: I would like to get some ideas. I am so far out on the outward boundary that I must apologize for not contributing here any ideas. I come here for light and in-

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spiration.

The Chairman: This subject appears also under Topic No. 28, in a different form.

Mr. McCord: Let us discuss them together.

The Chairman: I understand unofficially that the Board is at the present time engaged in preparing a regulation or regulations pertaining to the duties and responsibilities of the Federal Reserve Agents. The question is whether it would be an unwarranted intrusion into that field of their activities to ask them to confer with us on that subject.

Mr. Wold: So long as it does not conflict with the operation of the bank, I do not know that we have anything to say about it.

Mr. Seay: Mr. Chairman, it is a matter which might also very well be brought to the attention of the Federal Advisory Council.

(Extended discussion followed which the reporter was directed not to take.)

Mr. McCord: Can we not check off No. 16, No. 28 and No. 34, as being fully discussed?

The Chairman: I do not know about No. 34.

(After informal discussion on No. 34, Examinations of Federal Reserve Banks By the Examiners of the Federal Reserve Board, on motion of Governor Rhoades, which was seconded, it was resolved:)

"That the Federal Reserve Board be requested to give the management of the Federal Reserve Banks the benefit of all comments made by the Examiners in regard to the management and affairs of the Federal Reserve Banks.)

(This resolution was put to a vote and duly carried.)

The Chairman: Gentlemen, we have discussed Item No. 34. Do you wish to take any action generally on that subject?

Mr. Kains: I do not think any action is necessary.

(Discussion followed on Topic No. 29.)

The Chairman: As to the first part of Topic No. 29, it seems to be the sense of the meeting, after considerable discussion, that the auditors of the Federal Reserve Banks should make their reports to the Board of Directors of the Banks and should be subject to the direction of the Governors and the Federal Reserve Agents with respect to their work.

(Extended discussion followed as to the second part of that paragraph, "Credit Department.")

The Chairman: For the purpose of the record, what do you wish to appear on the subject of relation of the credit

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department with the bank and with the Federal Reserve Agents. Will somebody offer a resolution covering that matter?

Mr. McKay: I will offer this resolution: That the credit department be a part of the bank and under the supervision of the Governor of the Bank, and that so far as bank records concerning examiners' reports, that they be in the hands of the Federal Reserve Agents and turned over to the credit department, and that the credit manager have access to those files for the use of the Executive Committee.

The Chairman: Has Mr. McKay's motion a second?

Mr. Kains: I second it.

(The motion was put and carried, with qualifications.)

Mr. Wold: I voted no and wish to qualify my vote by saying that all credit information should be kept in one file.

(Mr. Sawyer, Mr. Wold and Mr. Strong dissented.)

The Chairman: Gentlemen, it is now time for us to make our call upon the Federal Reserve Board.

(Whereupon, at 3:55 o'clock p. m. the conference adjourned for the purpose of calling upon the Federal Reserve Board. At the Joint Conference with the Federal Reserve Board an understanding was had that within a period of two months, subject to the call of the Chairman, another meeting of the conference would be held, the place of such meeting being tentatively agreed upon as San Francisco, California.)

