

VOLUME **2**

FOURTH CONFERENCE
BOARD OF GOVERNORS, FEDERAL RESERVE
BANKS.

Hotel Blackstone, Chicago, Ill.,

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DAY SESSION.

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S E C O N D D A Y.

Tuesday, June 15, 1915.

The Conference reassembled, pursuant to adjournment, at 9:30 o'clock a. m.

Present as on yesterday.

The Chairman: The meeting will come to order.

Item 5 on the program was to be held over until Mr. Broderick arrived.

Item No. 6 we discussed.

Item No. 7, "Commercial Paper", has four sub-heads. Item (a), "Form of application for rediscount to be used after July 15. Suggested forms to be submitted by Governors." Was suggested by Governor Aiken.

Governor Aiken: One of the principal obstacles which we meet in getting the small country bank to deal with us is the fear of what they consider needless formality. We had some tentative forms of application drawn trying to reduce those obstacles to a minimum, but the minimum which we achieved seems to be pretty formidable.

This suggestion is primarily a call for help from the other Federal Reserve Banks, to see if they have not been able to simplify it further than we have. I have brought with me the last draft which we made, and I would like to find out what other people have done and what their ideas are on the subject.

The Chairman: Governor Aiken, the new form of appli-

cation made necessary by the taking effect of a new regulation after July 15, becomes complicated by the necessity of showing, in addition to what we have always required on our application forms, the division between customers' paper and purchased paper, evidence of the rating of the paper and evidence of whether there is a statement on file or not. Am I correct in that?

Governor Aiken: You are.

The Chairman: Might not that subject be dealt with by an arrangement that each of the Federal Reserve Banks shall send to every other Federal Reserve Bank a copy of the form of application they are obligated to use?

Governor Aiken: It might; but I have been/having ^{more interested in} them send a form to me than I was in having them sent to others.

Governor McCord: Our bank has sent to each one of the reserve banks a form of application blank, with the blank made out showing how to use it. We will be glad to send out another set and address them to the Governors personally.

Governor Seay: I think it would be very useful.

The Chairman: I wonder if in this discussion we cannot be able to arrive at an arrangement calling for a uniform blank or an application blank of substantial uniformity, without going into the detail of the form. It seems to me that that would be impracticable at this meeting.

Governor Aiken: I move that the Governors of the

banks be requested to send copies of the form which they propose to use after July 15, 1915, to the Secretary of the Executive Committee and that we submit them to the executive committee for consideration.

Governor McCord: I would suggest that they send them to the Chairman of the Executive Committee. I think that would be better.

Governor Sawyer: Those ought to go out to the member banks right away.

The Chairman: That is the difficulty. Today is the fifteenth of June. Can we, in a month, by correspondence, determine a uniform style of application blank and get it into the hands of the Federal Reserve Banks in time to be sent out well in advance of July 15?

Governor Aiken: I did not think how short the time was. I do not think it is practicable.

The Chairman: Might it not be well for each bank to send to every other bank the forms they contemplate using so that any desirable features may be embodied in all of them, according to the requirements of each district; then each form of application blank can be submitted to the committee that we are contemplating appointing for the purpose of considering matters of detail?

Governor Aiken: I would modify my motion to the effect that the Governors of the banks be requested to send to the Governors of every other bank the form of application for rediscounting which they contemplate using

after July 15, and statement blanks for use by other banks with their customers.

The Chairman: Is that motion seconded?

Governor McCord: I second that motion.

The Chairman: Is there any further discussion?

(There was no further discussion, the motion was duly put and carried.)

The Chairman: The next item under Item No. 7 on the program is (b), "Circular No. 3- regulation B." That item was suggested by you, Governor McDougal, and I will ask you to make a statement in regard to it.

Governor McDougal: The statement I would make there is that the object in suggesting that topic was similar to that which has already been accomplished through Governor Aiken's resolution.

The Chairman: Has the matter been disposed of to your satisfaction?

Governor McDougal: Yes. If we have the benefit of the exchange of forms I should think that would cover it very nicely.

The Chairman: Then that will be considered dealt with, Governor McDougal.

The next item under No. 7 is (c), "Uniform credit statements." That was suggested by Governor Seay.

Will you make a statement with reference to that, Governor Seay?

Governor Seay: I do not know how it is with other districts, but I think there is room for improvement in

our district in the forms obtained by banks from their borrowers. I have found it exceedingly difficult to get a form which was satisfactory to me, without expressing too much. I have the ground work of a form that has been prepared by the American Bankers' Association, and which I think is as good as any I am acquainted with.

I think this matter may be one well worthy of some general consideration, Mr. Chairman. It is not possible to have one form of credit statement which will do for all styles of business.

Governor Aiken: I have here a letter from the General Secretary of the American Bankers' Association. It came the day before I left. It contained half a dozen different forms. I have looked them over. I suppose they were sent to all the Governors.

The Chairman: We received that, too.

Governor Seay: So did we.

Governor Aiken: My impression of those statements as I remember them is pretty favorable.

Governor Seay: I think perhaps they are the best that I have looked over myself.

The Chairman: Are you gentlemen sufficiently familiar with those forms to be willing to recommend their adoption, with such modifications as are required in each district, as a matter of policy?

Governor McCord: With such modifications, I am. We have certain conditions that surround us that are different from other conditions.

Governor Seay: In his letter sending these forms out the Secretary says, "If you have any suggestions to make bearing on this matter, we would appreciate same."

I take it from that that these forms are in process of making and are not on the press, and any suggestion that we might offer would possibly be incorporated into them. Would it not be possible to defer this matter to New York, Boston and Philadelphia, to a committee representing those banks, and have them make recommendations and see if those recommendations cannot be incorporated in these forms. I think it is the beginning of a better system of statements, and while we do not need to adopt it ourselves we can recommend it for the present and until we are prepared to recommend forms of our own.

Governor Aiken: I know, Mr. Chairman, that these forms were prepared with a great deal of care and as a result of consultation with some of the best credit men in New York.

Governor McCord: These forms furnished by the American Bankers' Association will do for a district like Boston, or New York, or Philadelphia or Chicago, probably, but to undertake to put a form like this out in the country in which I have the pleasure of living, would not bring one answer to ten of the questions. It is all right; it is a fine form. We ought to educate up to it; but we have adopted a very simple, plain form, that brings out the real facts that we want in a statement and gives us an insight into the man's business. That sort

of form suits us better than a long, extended form like this. After a while we may decide that we want a little better form, after we have educated them up to the one we have, and so on. But our condition is such that a form like this would be detrimental rather than beneficial.

The Chairman: Might it not be well, Governor McCord, for us to supplement the forms recommended by the American Bankers' Association, with a short form to be used with customers in the smaller country banks? The form submitted by the American Bankers' Association, I understand, contains two plans dealing with credit information. One is a brief statement and the other a very elaborate statement.

Governor McCord: Yes.

The Chairman: If they were further supplemented by a very simple statement for the individual borrower, firm or so on in the country bank, would we not then have a set of forms that would meet any situation in any section of the country in a bank of any size?

Governor McCord: Quite right, Mr. Chairman. We have gone to work and our credit department has prepared a form for a corporation, a form for a firm, and a form for what is known as the farmers' statement. That is all contained on one side of a piece of paper. We print them in different colors so that the bankers can quickly select which form they want. We found that very advantageous. We commenced on the first of January

putting that form out, and we are getting good results from it.

The Chairman: Your banks use it generally, do they?

Governor McCord: Yes. I will be pleased to send to each Governor a complete set of these forms just as soon as I get back home, so that you can see what they contain.

The Chairman: I should be very glad to receive them,

Governor McCord: There was one thing we overlooked when we first printed them, but that we afterwards put in, and that is corporation insurance. That is a very important thing.

Governor Sawyer: We also have a complete form.

Governor Seay: I look upon this as one of the most vital features of our credit system. Theoretically, at the beginning, it would seem that these simple forms would answer it, but I declare, when you come down to the actual operation, it does not work. You want all you can get, and in some cases more, too. A number of our banks also appear to want amplified statements. They want everything they can get also. They want us to aid them in the movement; but I am sure that there are some of the country banks, many of them, who would find these intricate statements formidable in dealing with borrowers.

The Chairman: Do you require the banks that are borrowing from you to send in copies of these statements when they make application for discounts?

Governor Seay: It is not a condition precedent, but

we very frequently hold up paper for it. When it is as much as five thousand dollars we always ask for a statement. We sometimes do that without having it in hand, the first time, but we always ask for it, and the second time it comes up and they do not have it, the flag goes up.

Governor Wold: Do I understand that you do discount without a statement?

Governor Seay: Yes.

Governor Wold: We require a statement with every piece of paper offered, regardless of the size. On farm paper, when it is not secured, we require cashier's statement.

Governor Seay: It would not have been possible to have met conditions in our district if we had enforced that. It was not a requirement on the part of the Board, but we adopted that as a principle and we put it in force. We get it when we can. When we do not get it the first time and take paper again we ask for it the next time.

The Chairman: Gentlemen, this is really a great big subject that we cannot hardly dispose of at a meeting of this character. It will have to be handled by a committee, or by the officers of each bank temporarily, and later referred to a committee. Might it not be well to exchange forms that are now in use by the banks, in similar fashion to the exchange that we have arranged for the application form?

Governor McCord: That was covered by the resolu-

tion?

The Chairman: Yes. Then I was going to suggest that instead of a committee being appointed from the Boston, Philadelphia and New York banks to deal with this matter, to refer it to a committee of credit men of banks that would be drawn from the typical reserve banks. New York is not a typical reserve bank and I certainly doubt if Boston and Philadelphia are. We should take into consideration the conditions at all the districts and see if we cannot make out a form of statement that would be uniform for the reserve banks to recommend to their member banks.

Governor Wold: I realize that the problem is one that should be looked at from every angle. We have not recommended the use of any printed forms of statement for that very reason. I believe when we prepare the statements they will have to be for business rather than for individuals, firms or corporations. They will have to represent business activities, and inasmuch as the American Bankers' Association is about to publish a statement, we might be able to induce them to get certain things in there that otherwise would not be incorporated, and in the meantime we have the benefit of that. We have not recommended that we put them out ourselves. Between now and the first of the year it can be considered. Statement time generally comes the first of the year. Possibly we can get around to the right printed form of statement to our member banks then.

Governor Seay: We have adopted none of our own. We have accepted such as we could get in handling three hundred or more thousand dollars of paper. It must be in such form that you can glance at it and pass it. You will not have time to spend five minutes on a form. It will have to be in such shape that the machine moves with rapidity.

The Chairman: The uniformity of statement is going to be one of the greatest facilities we can have for promptly acting upon commercial paper, and with a uniform statement you know immediately where to look for the essential information.

Governor Seay: We frequently spend a couple of hours over our discounts in committee, and of course the other officers and clerks spend a good deal more time in examining paper with great care.

The Chairman: How would you propose to deal with this matter, for the benefit of the record of the meeting, so that we can make progress and not attempt to deal with it in detail at this meeting?

Governor Seay: I suggest that as the best basis for a statement we take the American Bankers' Association form. That will give us the excuse of saying to our member banks, "This is the form prepared by the American Bankers' Association." We could take that as a basis and adapt it to our own uses as far as possible. I believe each bank will have to work out its own salvation in time. We cannot accomplish this at once; we will have to develop

statements. I would suggest that we take the American Bankers' Association forms as a basis and that each bank adapt them to its own use as far as possible, with the understanding that it is a preliminary form recommended by the American Bankers' Association. I think that will give us an excuse to initiate it into general use.

The Chairman: Do you offer that as a resolution?

Governor Seay: Yes.

The Chairman: Is there any second to that?

Governor Wold: I second it.

The Chairman: Is there any further discussion?

Governor Lowry: I have not seen the statement submitted by the American Bankers' Association and I would hardly be prepared to vote on that resolution.

Governor Seay: I look upon any resolution we might offer as suggestive, Mr. Chairman.

The Chairman: Governor Seay, the idea of attempting to arrive at a uniform credit statement, based upon the forms recommended by the American Bankers' Association, may lead to a certain degree of uniformity at the outset.

Governor Seay: Yes.

The Chairman: Each bank to modify it, of course, to meet with conditions in their own district.

Governor Seay: Yes.

The Chairman: Is there any further discussion?

(There were calls for the question.)

(No further discussion was had and the motion, being duly put, was carried.)

The Chairman: We have a number of inquiries in our district as to whether we will give credit information, not only with regard to commercial paper, but with regard to banks. That question was discussed at an earlier meeting. We decided that the Federal Reserve Banks would not give credit information to their members.

I put the subject on the program and it occurred to me that possibly the matter had developed further since it was last discussed and that we would want to consider whether any change of policy was desirable.

Governor McCord: There is no change of policy with us.

Governor Seay: We have received a few inquiries of the same character and have maintained the position which we, at the first consideration, deemed desirable. I am more confirmed than ever in the opinion that it is desirable to maintain the confidence of our own members by guarding the information carefully that they give us.

Governor Aiken: We have discussed that matter at some length in our bank and we see no reason for changing our minds. We think it would be inadvisable and hazardous for us to check paper from our banks.

Governor McDougal: I should like to inquire whether or not there is any disposition on the part of any of the Federal Reserve banks to do otherwise than, as Governor Aiken, has suggested, is being done by his bank. We think that that policy is the only safe policy to pursue.

Governor Wold: Do you mean in reference to information regarding banks, or checking commercial paper?

Governor McDougal: I am speaking particularly with regard to the matter of checking paper.

Governor Wold: We respond to all such inquiries by saying that under no circumstances will we advise people as to the value of investments, the soundness of any concern, or the advisability of purchasing paper. If we did that that would be our principal function and we would not have time to attend to the banking business.

The Chairman: It may be that in later years we will have to be a little more liberal in that respect. It is going to leave some of the banks in the country a little bit in the air when you restrict their relations with their correspondents.

Governor Wold: It is possible that we may later have to fall back on one of the phrases of the Federal Reserve Board--- nothing herein contained shall be construed to prevent the modification, enlargement or elimination of this ruling.

Governor Seay: Or a reconstruction de nove?

The Chairman: In answer to your question I have heard no one suggest that we modify the policy adopted at our first or second meeting, and I will ask if there is any further discussion on this point?

Governor McCord: I wish to say this, that our bank is willing at all times to give to all the other Federal Reserve Banks any information we can.

The Chairman: That of course goes without saying.

Governor McDougal: That answers definitely and satisfactorily one phase of the matter; but now how about the subject of giving information to banks regarding banks?

Governor Wold: The only information we are giving is when an application comes in for rediscount. We usually check up the bank with its correspondent, and if they make inquiry as to whether or not we are advancing them any credit we say that they are making applications. We do not give the amount, or character or other details. We think it is only fair to the correspondent bank, that is giving us information and possibly lending to the same bank, that they should know whether they are getting credit from the Federal Reserve Bank as well.

Governor McDougal: Here in Chicago the information with regard to member banks comes very largely from the correspondent banks. There have been occasions when we felt it a duty to give to the correspondent bank, discretely, the benefit of some information we had received, but never any information we had received through the Department. That is as far as we have gone. But we will write nothing regarding the subject. Any information that is given will be given orally.

The Chairman: Is there any further discussion on the question of information with regard to banks?

Governor McDougal, is your question answered?

Governor McDougal: Yes sir.

The Chairman: The next item on the program is No. 8,

"Relations between Federal Reserve Banks." Item (a)
under that is "Cipher Code and test word."

This subject was suggested by Governor Seay.

Governor Seay: It was my impression that we had not come to a conclusion upon this matter. It had been discussed on several occasions. I thought Governor Rhoades still had the matter in charge as to the cipher and test word for use of federal reserve banks among themselves.

Governor Rhoades: Governor Strong has some word on that, too.

Governor Seay: Was it concluded before?

Governor Rhoades: I do not think so.

Governor Seay: My impression was that we had decided that it would be desirable, but that it had not yet been perfected. I am under the impression that in view of the dealings that we have to have with each other, that it will soon be necessary, and the only idea I had in bringing the matter up again was that.

The Chairman: We have adopted, for temporary use, at least, the code of the American Bankers' Association. That, I understand, is in the hands of all the Federal Reserve Banks, and we are using it in New York and in our telegraphic communications to other Federal Reserve banks.

As to a test word, there were two schemes proposed, one by Mr. Hardy, who is a code expert. That is a simple open test word, and then there was one that was devised in New York by some man who had practical experience in coding

messages, and that is more complicated, but a very effective check. The scheme is one in fairly common use, and it protects the sender and receiver of the message very effectually. The other one I do not think is quite as effectual, but it is just a question of how complicated you want to make the protection.

We have more material here to discuss in reference to that than would be practicable to discuss in detail at this meeting. The real question is whether we want to adopt a complicated, but very effective, test word, which will require computation each time a telegram is sent or received, or whether we want to adopt a very simple method of adding an arbitrary word. What is your feeling about that?

Governor McCord: As far as we are concerned the simple word would be effective, although I have operated under the other system in the National City Bank. They had that system of calculation and it was very effective and very satisfactory.

But it seems to me that for the present I might send you a list of words that we would use as a test and you might send me a list, and we could create a list between us and check off and not take them in rotation, but have an understanding as to where we could begin and so forth, so that nobody could follow the line down.

The Chairman: Of course that system wears out after a while. That is the old-fashioned system of checking code messages.

Governor McCord: To go straight down the list of words is dangerous, but to have a system of changing from time to time is very effective.

The Chairman: What have you to say, Governor Rhoades?

Governor Rhoades: I think those examples there are not very long. If you would simply read the example in each case every one could see readily the difference between the two.

(Thereupon the Chairman explained to the Conference the difference in operation of the two suggested systems of cipher code. The reporter was directed not to place this explanation in the record.)

Governor McCord: I will make a motion that either you or Governor Rhoades make up that system (referring to one of the systems above explained), and send it by mail under seal, to the Governor of each bank.

The Chairman: Do you mean the more elaborate system?

Governor McCord: Yes.

The Chairman: Is that a motion?

Governor McCord: Yes; I make that as a motion.

The Chairman: Is that motion seconded?

Governor Aiken: I will second it.

The Chairman: Is there any further discussion?

(There was no further discussion and the motion was duly put and carried.)

The Chairman: The example given in the papers prepared of course will be entirely reset and new numbers

assigned to the code so that there is no possibility of its getting into hands that should not have it.

The next item on the program was suggested by Mr. McKay and we will pass it until he arrives.

Governor McDougal: Mr. McKay will be here in a few moments. When Mr. McKay arrives I should like to be excused for an hour. We have an important meeting at the bank and if it will be satisfactory to the meeting I would like to be excused when he comes in.

The Chairman: We will miss you, Governor McDougal, but you will be back for lunch, will you not?

Governor McDougal: Yes.

The Chairman: Will you bring your cohorts with you?

Governor McDougal: I think not, today.

The Chairman: We will now consider item (c) under Subject 8, "Credits between Federal Reserve Banks and their threatment as reserves." That was introduced by Governor Kains.

Governor Lowry: That refers to a matter that I think was discussed by this Conference, and we were a little uncertain as to what disposition had been finally made of it. We have always felt that when we owed money to other Federal Reserve Banks that it was not to be considered as a deposit but as segregated cash, and we deducted that amount from our cash. But the Federal Reserve Board took exception to that, claiming that the item due from banks contained some uncollected items, which it always did. As to those uncollected items we were quite agreed, but as

to items already collected, we felt that they should be regarded as warehouse reserves for the benefit of the bank that owned them.

The Chairman: The form provided by the organization committee and now required by the Reserve Board for making the reserve computation by federal reserve banks, I think we have all regarded as being incorrect and inaccurate. In making up our reserve, for instance, when we had a very large fund in the reciprocal accounts, they required us to take the gross due to and due from other reserve banks in computing our reserves instead of the net amount, which is incorrect in itself. Of course it should be the net amount between each of the Federal Reserve banks instead of the gross amount, because we have consistently and arbitrarily reduced both sides of this account by exchange of telegrams. Our understanding in Washington was that as soon as the gold fund was established for the settlement of balances that the method of computing reserves would be changed and a new and correct form be issued. That has not yet been done. Our directors are asking about it at almost every meeting. They ask why we are continuing to use an incorrect method of computing our reserves.

I would like to suggest that this matter be deferred for discussion until Mr. Broderick arrives, as he will a little later, and then endeavor, if we can, to persuade him that the whole method of dealing with reserve computations should be reviewed by the Federal Reserve Board and a correct method adopted, now that we are using this gold settle-

ment fund.

Governor Wold: May I inquire as to what the agreement was with reference to the net balances due to or from other Federal Reserve Banks after the inauguration of the gold settlement fund?

The Chairman: We have had no understanding up to this point with the Federal Reserve Board as to how the week's items should be dealt with. There is an accumulation every week. Of course that appears in our statement and necessitates some treatment in the reserve calculations. We are also without any understanding with the Federal Reserve Board with regard to the amount of any balance withheld from the weekly statement which enters into the reserve calculation.

For instance, San Francisco, Chicago, Boston and Philadelphia all calculate to carry some balance with New York for investment purposes, which balance they do not want cleaned up every week through the gold settlement fund. We have got to consider whether this will be treated on our books as due to banks and on the books of the other Federal Reserve Banks as due from banks, or considered as a warehouse fund which shall be deducted from our reserve and added to the reserve of the other Federal Reserve banks. If agreeable to the ^{conference} committee I would suggest that we defer the final discussion on this item until Mr. Broderick comes in. Then he can take it up directly in Washington.

The same thing applies to item (b) under Subject 11. That was left open for the same purpose, i. e., that we

might discuss it with Mr. Broderick.

We now come to subject No. 12, "Open market operations."

Item (a), "extent of reserve banks' activities" has been suggested by Governor McDougal.

Governor McDougal: The matter of how far we should go in the open market has been discussed by our directors and that topic was suggested simply as a matter for discussion.

Our Board of directors believe that we would be justified in picking up in the market, if we could, such security. We have been buying to the extent of perhaps \$15,000,000 which would make us an income sufficient to take care of our entire expense both here and with the Board. The Board, however, has passed a resolution which I think may be of some interest to you, indicating that the policy of the Board is against the matter of buying in the open market bills of exchange. This is the form of resolution:

"Resolved that it is the opinion of the Board of Directors of the Federal Reserve Bank of Chicago that the Federal Reserve Banks should buy domestic acceptances only from member banks with their endorsement."

We believe that we should keep out of the market so far as possible, in connection with investments such as commercial paper and domestic acceptances in handling which we would be in direct competition with our member banks; but we believe in the policy of picking up acceptances and warrants and such investments as we have been able to buy up to perhaps fifteen millions of dollars, in times like

this, and in times when there is a demand from our customers, to let them run off and to get out of it entirely if we can.

The Chairman: Item (h) under subject No. 12), "Open market operations"--- (h) "purchase of trade acceptances by Federal Reserve Banks"--- was suggested by the Federal Reserve Board and I have a communication here from Vice-Governor Delano which I will read a little later. It relates to trade acceptances which, as I understand, you describe by the words "Domestic acceptances."

Governor McDougal: I think they would be the same; yes.

The Chairman: And your statement indicates that your Board is in the attitude of confining its open market operations to the purchase of warrants, dollar acceptances, representing importations and exportations, and possibly government bonds.

Governor McDougal: I believe that would be a fair statement, although there might be some other open market opportunities that they would avail themselves of; but they believe in keeping out of the market in connection with buying commercial paper and domestic acceptances, where in they would be in direct competition with the member banks.

They also believe in the policy of buying these classes of investments and permitting them to run off, if possible, at times when we are having demands from our member banks.

The Chairman: I would like to ask Governor Wells if the Federal Reserve Bank of St. Louis has taken any action

in this matter of open market transactions and the purchase of domestic paper?

Governor Wells: No, we have not.

The Chairman: Governor McDougal, if we defer the discussion of item (h) under subject 12, until your return it will be entirely satisfactory for us to go ahead in your absence with the rest of subject 12?

Governor McDougal: It will be entirely so; yes.

The Chairman: Is there any further discussion of Subject (a)?

(There was no further discussion.)

The Chairman: Subject (a) will be passed without resolution.

Item (b), "Regulations in regard to warrants under which banks may purchase entire loan of a municipality up to a limited amount", was suggested by Governor Aiken.

Governor Aiken, will you discuss that matter?

Governor Aiken: That matter was brought up once before and I believe it was decided that we should not request authority to buy more than 25 per cent of outstanding current obligations of a municipality, in accordance with the regulations. In the last three or four months there has arisen a condition with us as follows: A large number of our towns in Massachusetts have been borrowing money in small amounts of perhaps \$25,000 to \$50,000 in single notes that were not divisible. With us a town's borrowings are very rigidly safeguarded by statute, and the notes are registered under a some what elaborate system

of registration with the Bureau of Statistics of the Commonwealth. This makes it a very attractive form of obligation. It seems to me that we could, with entire safety, buy an amount up to say \$50,000 of such obligations, and if it be available for any one bank, it could be done without the necessity of its subdivision. Sometimes the borrowings are so small in amount that it is not practical to divide them--- say \$10,000. The debts of our counties and towns are in some cases extremely small, and are quite as good an obligation as that of the larger cities.

I should like, both for my own purposes, and for the purpose of distribution among the other Federal Reserve Banks, to have authority from the Federal Reserve Board to buy obligations from a municipality or town up to \$25,000 or \$50,000. I personally think it could be safely done as high as \$50,000.

The Chairman: May not that matter be dealt with without the necessity for a ruling from the Federal Reserve Board; that is, could you not simply purchase those issues and divide them up on the same basis that we are dividing up warrants purchased in New York. If the amount is too small to be divided they could be sent over to New York and put in with other purchases that we make there, and which could accumulate for a few days and then the division could be made. It really would not make any substantial difference whether the bank gets the entire loan or whether it gets a participation certificate in an un-

divided interest in one of those warrants.

Governor Aiken: We would be glad to do that if New York is doing it. We would be very glad indeed to do it if you can take in everything of that sort that will pass muster up there.

The Chairman: I think in New York we would be very willing to accept your judgment as to the goodness of the obligation or the legality of the issue. We all realize how strict the procedure is that is followed in borrowing up there.

Governor Seay: I suggested that to the Federal Reserve Board in the beginning, and they were at that time not entirely favorable to it, although I never did agree with them. Down our way it operates against our buying the obligations of some small municipalities that are perfectly safe; but it has not been a matter of sufficient importance to take it up again with the Federal Reserve Board.

Governor McCord: The laws of Georgia and adjoining states are very rigid as to what a municipality or county may issue. They may issue obligations for casual deficiencies only. The courts have been very rigid in their decisions. I have asked Governor Aiken to send us a copy of the regulations of Massachusetts, so that when our legislature meets in June I will be in a position to try to get more satisfactory laws passed concerning that subject. At present we are afraid to touch any of the warrants because they may not be for a casual deficiency.

We would have serious trouble if they were not.

Governor Seay: I believe Governor Aiken is right in his application for more latitude in that direction for the Federal Reserve Banks; but if it can be managed in other ways there is no occasion, so far as we are concerned, for bringing it up for regulation.

The Chairman: If Governor Aiken would feel more comfortable in carrying out the policy that I have just described, after getting informal relief from the Federal Reserve Board, possibly we could join in requesting him to submit the matter from this meeting as a recommendation of the meeting on the method of dealing with these smaller issues in his district, for the benefit of all the banks.

We are in the anomalous position today of being really urged by the Federal Reserve Board to bring our banks up to a larger earning basis and at the same time these restrictions are imposed upon classes of investment which are almost the only kind that we can get at this time.

Governor Seay: I believe it might be made a means of popularizing Federal Reserve Banks if they should help communities in that respect. It would be a good thing to help them when they desire to borrow. One small community in the Carolinas came to us and made the statement that they could not get money under ten per cent.

Governor Aiken: They could get it at about three per cent in my country.

Governor McCord: Conditions surrounding the warrants

have something to do with the rate down there.

Governor Seay: That is natural. At the same time I believe if it were properly managed by the Federal Reserve Bank it might be a means of popularizing the institution in those localities. It is a very spreading thing the relieving of a community.

Governor Aiken: It seems to me that if we could establish some standard and have it generally known that we could help different communities, raising the present standard, that it would broaden our field for investment very much, without any risk.

Governor Seay: Yes.

Governor Aiken: And at the same time, as Governor Seay suggests, add something to the interest in and popularity of the Federal Reserve Banks.

Governor Seay: That would give the banks an outside influence that would probably be of benefit. You would not have to argue your case; you might have somebody to argue it for you.

The Chairman: The burden rests upon you to make a motion, Governor Aiken.

Governor Aiken: Was it the intention of the Conference that we would seek to have the matter taken up by the Federal Reserve Board by requesting an informal ruling from them?

The Chairman: What was in my mind was simply this: This is a matter where you would be acting for the other Federal Reserve Banks, and you are the one that would really

be entitled to whatever protection by way of ruling, or
that
otherwise, could be secured.

Governor Aiken: Frankly, I should like to have a ruling. I do not want to approve these things and then find myself in difficulty with the Federal Reserve Board because of them.

Do you think it likely, if the matter was taken up directly with the Federal Reserve Board asking for the modification of their regulations to the effect that we could buy the entire loan from a municipality or town up to say \$50,000, that they would feel indisposed to grant that authority?

The Chairman: Why, I think they would be disposed to grant it. That is speaking from our experience. We have had occasion now and then to ask them for special authority to exceed the limits of their regulations and in every instance I think they have given us that authority; and we felt so satisfied about getting it in one instance that we made a purchase first and asked for authority afterwards.

Governor Aiken: That has been our experience. We have always done the same thing without any disastrous results.

I therefore move, Mr. Chairman, that the Federal Reserve Board be requested to make a special ruling in regard to paragraph 2, regulation (f), series of 1915, authorizing the Federal Reserve Bank of Boston to purchase the

of a county,
total amount of warrants outstanding, city or town within
its district, to an amount not to exceed \$50,000, for the
purpose of enabling the Federal Reserve Bank of Boston to
purchase for its own account or for the account of other
Federal Reserve Banks.

The Chairman: Is there any further discussion of
Governor Aiken's motion?

Governor Aiken: I should like to ask one question
before the motion is put, and that is as to the amount.

Do any of you gentlemen think the amount of \$50,000
is too high? We should not hesitate to buy as high as
\$50,000.

Governor Fancher: That is above 10,000 population?

Governor Aiken: Yes; that is for a town above that.

The Chairman: Is there any further discussion?

(There was no further discussion and the motion
was duly put and carried.)

The Chairman: It will have to be understood that
Governor Aiken will submit this matter to the Federal Re-
serve Board if agreeable, and that we will not do so from
New York.

Mr. Curtis: The Board in some cases may lift the
limitation on debts to 15 per cent instead of 10.

Do you know the percentage of debt in Massachusetts?

Governor Aiken: 13 per cent.

The Chairman: I think it would be perfectly safe
for us to pass a resolution recommending to the Federal
Reserve Board that in the case of the State of Massachusetts

the limit now imposed by the regulation as to the amount of debt of a Commonwealth be increased to 15 per cent.

Governor Wold: Will you not establish a precedent which may cause us difficulty hereafter? Possibly Minnesota, Virginia, or some other place may want the same ruling.

The Chairman: The Board would have to deal with that by special ruling in the case of Massachusetts. If we desire to buy Massachusetts warrants there is a good supply of them just now, and we have not been able to buy them.

Governor Wold: On what basis are they selling?

The Chairman: The last sale I know of was 280.

Governor Aiken: They sold \$2,000,000 six weeks ago at 280, with interest following in six months.

Governor Wold: Apparently the higher the percentage of debt on taxable property, the higher the rate.

Governor Aiken: You are entirely mistaken. It is the quality of the goods.

Governor Wold: There is only 100 cents in a dollar in Massachusetts, the same as there is in Minnesota.

The Chairman: Is there any further discussion of this item on the program? If not, we will proceed to the question of the purchase of government bonds, unless you would prefer to have that deferred until Dr. Miller is here. It is a matter where a change of opinion by Mr. Elliott has thrown some doubt on the action of the Federal Reserve banks in buying Government bonds. Would it be satisfactory to let that go over?

Governor Fancher: I would suggest that we pass that until Dr. Miller comes in.

The Chairman: If there is no objection that course will be followed.

The next two topics were suggested by me. Some of them need no discussion. Item (e), "bills of exchange accepted payable at another place."

I will make a statement with reference to that item.

We have purchased in New York some bills of exchange accepted by the Philadelphia National Bank, accepted payable at the Hanover National Bank in New York, and I think some bills accepted at the First National Bank of Boston, made payable at a bank in New York.

The question has arisen as to whether the bank on which the bill is drawn does not affect the recourse of both the maker and endorser of the bill by changing the place of payment by the terms of its acceptance, and one opinion has been rendered to the effect that when such a bill is presented at the place where it is made payable, by the terms of the acceptance, that the holder there did lose recourse upon the drawer and endorser provided the bill was not paid in the place where the acceptance makes it payable.

Mr. Curtis is of the opinion that if the holder of the bill presents the bill at the office of the acceptor and not at the office where the acceptor makes it payable, that thereby any defect in the recourse of the maker or endorser is secured. In other words, the bill is being

A

presented at the place where, by its terms, it is payable and where, by its terms, the parties to the bill have been placed on notice that it would be presented for payment. It is not a matter, it seems to me, on which we can take any action. Where the member banks in the Philadelphia and Boston Reserve Districts are making acceptances of that character, it is up to them to bring it to the attention of the member banks that the question has arisen if that arrangement for that it would possibly be unsafe acceptances were permitted to develop.

Mr. Curtis: Unless the place of acceptance differs from the place of business of the acceptor and is stated in the body of the bill. That cures all the defects. Then everybody is on notice and agrees to that place. But this question arises on bills where the acceptance says it is payable at another place and the drawer of the bill and the endorser of it have had no notice of any such change.

The Whitney Central Bank is doing that; it is accepting bills payable on other cities and the question has arisen down in Philadelphia. Mr. Rhoades' counsel takes a more fearsome view of the situation than I do. I understand he has advised the bank not to accept any bills payable in any other place.

Governor Rhoades: Not if the bill as originally drawn contemplates that.

Mr. Curtis: I mean if the acceptance states that it is payable in a different place, he has advised them not to take them under any circumstances, has he not? If

bill is drawn on a bank in City A and the bank there accepts it payable in City B, he would advise them not to take it under any circumstances.

Governor Rhoades: Unless it was stated in the original bill that it should be accepted at another place.

Mr. Curtis: That comes under the negotiable instrument act of Pennsylvania.

Governor Wold: Would it release the accepting bank?

Mr. Curtis: No, you always have the accepting bank.

Governor Rhoades: The only acceptance on the Philadelphia National bank which I have seen, having that change of place of payment, is where the bill was originally drawn payable in New York.

Governor McCord: Then that cures the defect?

Governor Rhoades: Yes.

The Chairman: The dealing in acceptances is a new business in this country, with a good many of the banks, and there are a great many problems that undoubtedly the bank officers have not studied and are not acquainted with in connection with that business.

We found, in New York, for instance, that some of the banks were accepting bills payable through the clearing house, and that meant that, under the clearing house rule, they could not be cleared until the day after they had matured by their terms, as the clearing house does not clear any items as of the date they are drawn. We took it up with those banks which have adopted that practice, and they have now abandoned making any acceptance payable

through the clearing house.

It might be a good plan to watch the development of the practice of making bills payable in places other than where they are payable by their terms and try to check it up. That was the object of putting the item on the program.

Items (f), "Purchase of domestic bills of exchange not based upon imports or exports", and (h) "Purchase of trade acceptances by Federal Reserve Banks" are also held over as is item (c), "Purchase of Government Bonds," for discussion when Governor McDougal and Dr. Miller are here.

In regard to Item (g), "purchases in New York market",--
Governor McCord: Did you check item (d), "endorsements on acceptances under negotiable instrument law and common law?"

The Chairman: Yes. In regard to Item (g), "purchases in New York market", I wish to say this: We have of course purchased a good many bills and a good many warrants for account of other Federal Reserve Banks. I do not know to what extent it is wise for us to have any positive, hard and fast rule as to the extent of the operations of the other Federal Reserve Banks in New York.

I want to call your attention, however, to some things that have occurred in handling that account that I think you ought to be aware of. In one instance a very active firm of brokers offered some warrants in Philadelphia at a certain rate, stating that we had purchased some of

these warrants at that rate in New York. We happened to have been negotiating for some of those warrants in New York at that time at a somewhat higher rate, and after some consideration we dropped our rate and purchased at the rate they claimed Mr. Rhoades had purchased at. I would not say that the broker lied, but the fact was---

Governor Rhoades: I would not hesitate, Mr. Strong.

(Laughter);

The Chairman: The broker immediately went to Mr. Rhoades, or to his office, and said that we had made a purchase at this rate and so he bought some at that rate and the rate was too low. I am convinced that the broker made too large a profit on the transaction and it had the effect of generally marking down the rate for New York City warrants.

We want to be frank with each other about these matters.

A somewhat similar transaction occurred in San Francisco. It was a very small matter. An active firm of brokers offered some acceptances, \$19,000 or \$20,000, which they had offered to us for discount. The rate was too low for those acceptances based upon the New York telegraphed market. Governor Kains me that he had purchased them at a certain rate and to take them in for his account, and we did so. We have a purchasing account for all the banks. That incident also has the effect of making it a little difficult for us to deal with those brokers.

As to what extent we are justified in going in making

hard and fast arrangements for our own protection in the matter of rates I do not know, but we certainly ought to discuss it and try not to cross wires in these negotiations so that we all are at a disadvantage and will suffer as to rates.

I think it would be very desirable to have a frank expression of views as to how we ought to handle these matters in New York. Our services are entirely at the disposal of the other banks and we want to be of help. Acting for eight of them as we have been right along, if any one bank is negotiating in our market it embarrasses us not only as to open transactions but as to all others.

Governor Wold: It is perfectly evident that if each of us entered the market we would depress it and we would not only be competing against New York but against ourselves.

Governor Aiken: I have a sympathetic attitude in that respect. I have a memorandum of purchases by us for other Federal Reserve Banks. We purchased at the request of one of the other banks \$135,000, the total issue being \$350,000. I bought them under their instructions at 2-7/8 and bought the rest of the issue for the rest of the banks at 3 per cent.

The Chairman: In order not to destroy our market in New York we have to let some things go by. What I mean is: If you buy everything that comes along you will just mark the rate down on yourself right along. The only way to get a real market there is to let enough stuff go by

so that you can find out what the outsider is willing to pay.

Governor Wells: St. Louis, as you all know, is suffering from want of investments as well as rediscounts. We have thought, as far as the New York market is concerned, that we have no right to enter for the purpose of making purchases of acceptances or warrants. We have the same feeling with reference to Boston for the reason that we understand that, through arrangements made with those two places, we have an established agency for the purpose of purchasing.

The Chairman: That is correct.

Governor Wells: That is the position of St. Louis in the matter.

The Chairman: Of course we do not want you gentlemen to think that we are making any complaint about this matter. I am speaking in your own interests. If you want us to act intelligently and effectively, I would say that it would be a little difficult for us to do that with direct negotiations taking place with reference to these purchases.

Governor Lowry: I would like to ask what competition you have to meet in New York in buying these acceptances. Are the larger banks in New York in the market extensively?

The Chairman: All the time. They take practically every thing of this kind that is offered that they can get their hands on. We have in some instances under bid them; in other instances we let some of this stuff go so

that we are not making an artificial market with our cheap money.

Governor Lowry: I would like to say that in San Francisco--- and we do not want to be the bull in the china shop--- we are in a position of having a lot of money that we want to get invested. We could use a lot of these acceptances and warrants, say five or six millions.

Governor Wold: Your position is unusual.

Governor Lowry: I want to assure you that we very thoroughly appreciate the very invaluable service that the New York Federal Reserve Bank has done for us and the Boston Federal Reserve Bank as well, and if we can get a sufficient quantity of this paper through you, Mr. Strong, or through Mr. Aiken, we would very much prefer to do that. We have only gone in once or twice independently, because the paper did not seem to be forthcoming and offers made to us were rather attractive.

However, we have no desire to depress rates or to embarrass you in the slightest degree.

The Chairman: With respect to both acceptances and warrants, at the present time, the situation is this: The acceptances are running off and they are not making them. We buy practically everything offered unless the rate is so ridiculously low that we have no right really to buy it.

As an illustration, the acceptance account of the Guarantee Trust Company has run down \$20,000,000 to \$25,000,000 in the last few months, I guess. I think it

is the experience generally that the amounts of outstanding acceptances is being reduced. Some of the accepting institutions, like the Guarantee Trust, the National City Bank and the Bankers' Trust Company endeavor to get control of their own acceptances. In those cases they do not reach the brokers and do not reach us. For instance, the acceptances of the National City Bank are offered to their own correspondents around the country and they are largely taken in that way. That restricts the amount really within our reach for investment.

As to warrants, those are dealt in very largely by brokers, and to some extent directly between the City of New York and the banks. Where we are able to deal directly with the City of New York of course we get the best rate we can without the broker. Where they sell outside we do the best we can with the broker in making the rate.

Our present arrangement with the Deputy Comptroller of the City, concluded just before I left New York, was to give us the first opportunity on the next issues that the city makes of revenue warrants. It probably won't be until early in July that the city will borrow any money at all, but when they do we may probably buy ten, twelve or fifteen million dollars of New York City's at one lick. That is very much better than letting them dribble out through the brokers with everybody bidding for them. ✓

Governor Fancher: I think what is true in New York is true in a smaller way in some of the other centers. We have had two or three issues in Cleveland of warrants and

in a sale of \$950,000 of Cleveland warrants on the first of May, we had several outside concerns in the market that had never come there before, bidding for these warrants. I think in one particular case a firm making the low bid had the encouragement of being able to dispose of some of the warrants at a pretty low rate and that influenced a low bid. The warrants were awarded to them and then they suddenly found that they could only market a part of them and that nobody else was apparently interested. They finally had to give them over to some brokers who paid them \$42 for their expenses in living at the hotel for a week and scouting around. You see that transaction was not a profitable one for that particular firm of brokers.

But I do think the bank on the ground knows the situation, and I am quite willing, as far as the bank of Cleveland is concerned, to leave it entirely to Governor Strong or Governor Aiken to handle these matters in their localities, and we will keep entirely out and not bid against them.

The Chairman: I would like to explain also just what the accounts have represented to the New York Bank. I will give a little history of the accounts, because otherwise you won't appreciate what our attitude has been.

Just as soon as the regulation was issued governing purchases of warrants we concluded a direct negotiation with the City of New York to purchase for our own account five million/warrants of the City of New York. At that time there was no arrangement between the Federal Reserve

Banks in regard to these purchases, and frankly, it did not seem to us wise or proper that we should suggest of our own volition to the other Federal Reserve Banks that we would make investments for them; that if any program of that sort was devised the suggestion should come from them.

As soon as it was known that we had made the purchase we had telegrams from most of the Federal Reserve Banks that were interested, asking us to buy some for them, which we did.

Taking the account as a whole, we have purchased a total of acceptances and warrants for our own account, of something over \$19,000,000--- between \$19,000,000 and \$20,000,000--- and deducting the five millions, it would be something over \$14,000,000. During this period we have purchased something over \$19,000,000 for the other Federal Reserve Banks. We have in fact, since we started the arrangement, purchased a good deal more stuff for the other banks than we have for ourselves. The only basis on which we can justify that is that we are dealing with this matter as one system without unduly interfering with other districts.

The real question is whether it is proper for the arrangement to continue. I personally think that it is, but it is a question on which we ought to have a fairly definite understanding.

Governor Fancher: May I inquire whether anything has come from the Federal Reserve Board bearing on that

question, whether they have in any way sanctioned the operation or criticised it?

The Chairman: Well, I do not think they have criticised it in the slightest. They have apparently sanctioned it without formally doing so.

Governor Aiken: I would like to say, on behalf of the Federal Reserve Bank of Boston, that our experience has been almost the same, on a small scale. We have bought for the account of other Federal Reserve Banks \$1,770,000, and our purchases for our own account have been approximately the same.

I would like to take this opportunity of expressing our appreciation of the courtesy rendered by the Bank of New York in the large purchases that they have made for us--- \$668,000 in all.

1-8-fls
The Chairman: While we are on this subject, Governor Fancher suggests discussing, under (j), the question of "Basis of allotments of acceptances and warrants between Federal Reserve Banks." Governor Fancher thinks that this is a matter we ought to take up while Dr. Miller is here.

Governor Fancher. In giving this matter of allotment some consideration I rather approached it from the point of first employing the capital stock of the bank; for instance, the amount of rediscounts and local employment in your district, the percentage of which, under capital that you employ within your district, deducting that from the capital, and then arriving at the basis of allot-

ment along those lines rather than total resources. We have worked out a little different basis here, for proceeding along those lines. In working out this percentage the New York basis is practically the same. The New York basis I understand to be about 42 per cent, Governor Strong?

The Chairman: 42 per cent, yes. By the way: When the Reserve Board made their report on this matter we found by some rule of calculation they had the percentage exactly forty, although I admit that was a little chance, because you cannot divide these things up exactly evenly when they come in odd pieces, particularly the acceptances.

Governor Fancher: It changes the basis somewhat in cities where there are a number of reserve banks. Take particularly in Boston and Philadelphia, where it is the custom of your banks to take them, in times like this they are, I believe, somewhat up above the required amount. That is not the case in some of the other banks. In Cleveland our reserve deposits do not fluctuate more than half a million dollars. It is not the custom of the banks to carry their deposit reserves--- I think that is true with you, Governor Wold?

Governor Wold: Yes.

Governor Fancher: So that you have to approach this matter of percentage by taking the capital and from that deducting the amount that is employed in your own district through rediscount and through the purchase of warrants and so forth that originate in your district, and then taking the balance and on that arriving at a basis of percent-

age. That changes the basis somewhat. Under the present plan of allotment Boston's percentage is seven per cent. The plan we worked out would be ten. New York, 42, our plan, 44; Philadelphia, 8; it would be under our plan 10; Cleveland 7, under our plan 10; Chicago 16 on the present basis; under our plan, 16 and a fraction; St. Louis 6; under our plan 4-1/2. Minneapolis works our practically the same; Kansas City 4, our plan 3-1/2; San Francisco 6; our plan 4. That is taken from figures along about the first of May as to their present investments. Of course that would change from time to time.

Governor Wold: Inasmuch as it is purely a voluntary courtesy extended to us by the New York and Boston banks, I do not see why we should assume to say we are entitled to any percentage whatever. We are simply taking what has come to us and have said "Thank you."

Governor Fancher: I think we are pretty much all of us in that frame of mind.

Governor Aiken: We have based our figures on the relation of the deposits in the different banks to one another, because of the limitation of ten per cent of the deposits as investments and warrants, and our figures are surprisingly like those recited by Governor Fancher. We have reserved the right, as you know, to invest as much as we could or felt disposed to for our own account first, before making the division. I would like to say in that connection that we have seldom taken our full percentage. We have distributed the entire amount in order

to give the other banks a larger investment.

Our percentages are as follows; and I give them in round amounts, or even multiples of five, because it makes it a little easier: New York, 40 per cent; Chicago 15; Cleveland and Philadelphia 10; San Francisco and St. Louis 7-1/2; Kansas City and Minnespolis 5.

Governor Lowry: Is there not another element that should be taken into consideration there, and that is the earning requirements of the banks? Some of the banks are making considerably more than their expenses. Some are making enough to pay their dividends. I venture to say that the banks in the South are doing it quite easily.

The Chairman: They are not included in this percentage, and we have not made any purchases for them, Mr. Lowry.

Governor Lowry: In our district we find local employment for barely one half of our capital stock, to say nothing of our deposits; and if it were not for those outside investments that we have been able, through your courtesy, to obtain, we would not be making our expenses. As it is, we are making a little more than expenses. At least we did in the month of May. Prior to that we had been going behind quite steadily. It seems to me that that is a factor that might reasonably be taken into consideration, assuming that we have any business to take an allotment at all.

The Chairman: This is going to be a difficult matter to adjust around the table. It is one that will require possibly some arbitrary statement. Frankly, we do not want

to be the ones to apply arbitrary treatment to the matter, except possibly as to what we invest for ourselves, as each of you mention that you do.

I want to call your attention to the fact that in our bank we have no demand for discounts at all. I suppose we have as small if not the smallest amount of discounts of member banks of any of the reserve banks. We have only \$400,000.

Governor Aiken: \$375,000.

The Chairman: Of course our expenses are larger and will be the largest of all the reserve banks by a considerable amount. We have followed the policy, with possibly a few exceptions, when our acceptances have been running off faster than those allotted to other reserve banks, of dividing up everything we purchased according to the percentage that was proper. I think there was one exception to that recently, when we had something like \$2,000,000 or \$1,500,000 of acceptances run off in one day that we had purchased some time ago. We ran them off in advance of those of the other banks for whom we had made purchases. So that from our point of view this arrangement is a distinct advantage to us because we divide everything we buy, and none of the other banks, with the exception of Boston and Cleveland, make similar divisions with us. That does reduce the percentage of our investment account as compared to the other banks. It had not been a matter of sufficient importance to take up by correspondence, but I think it ought to be taken into consideration in making these allotments from time to time, in some way. You see

the point, Mr. Lowry. If we divide everything we buy, whereas each bank in its own district is not making these divisions, it means that our opportunity for retaining what we do buy is thereby reduced considerably.

Governor Lowry: So far as the twelfth district is concerned, there has been nothing to divide.

The Chairman: I realize that.

Governor Lowry: None of this paper originates there. We have hopes, however, that the San Francisco banks will within a short time, perhaps, have something of that kind for sale. Some of them have applied for permission, and have received it, to accept time paper; but so far there has been none whatever offered in that market. Municipalities do not borrow out there on the same plan as they do in the eastern states. So that there has been no local supply whatever.

Governor Sawyer: We have none of that class of investments at Kansas City. We have made no purchases outside of those we get through you and Boston.

The Chairman: In the original arrangements of percentages the net figures went out instead of the gross figures, and it reduced their percentage somewhat, and we have arbitrarily made that up by making some outside investments for them.

Governor Sawyer: We appreciate that very much, Governor Strong.

The Chairman: Who has a suggestion to make in this matter that will enable us to reach a conclusion? You

were out, Governor McKay, at a very particular moment. They cut down the Chicago allotment in making purchased from seventeen to ten per cent.

Governor McKay: I just noticed that Governor Fancher said it was from 16 to 10. I just want to say that in Chicago we have not had any allotment of this kind. We tried to but have not succeeded.

(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: Governor Wells suggests that this matter might be allowed to run along until the end of the fiscal year and then take data from the published figures as of June 30, and make a new apportionment on that basis.

Governor Aiken: I second the motion.

The Chairman: (After a brief conference with Governor Wells): I find that Governor Wells' suggestion was that this matter be permitted to run until the end of the calendar year, so that we may have the experiences of a full year before making any definite arrangement of percentages.

This matter embarrasses me very much, gentlemen. I think we ought to dispose of it, but I would a great deal rather you did than for you to look at me with the idea that I could.

Governor Wold: If you frame a resolution I will move its adoption.

The Chairman: If you care to have us do so, it would take a little time. Each of the banks could prepare a memorandum, and we might combine that in some way with the figures of capital and deposits and endeavor to work out a tentative suggestion and submit it to the other banks.

Governor Rhoades: We are so grateful for anything that we are entirely willing to let the matter rest.

Governor Fancher: I rather feel as Mr. Lowry does, Mr. Chairman, that there is an element there of the earning power that the banks have developed up to the present time. That should be taken into consideration. I think there is an element there that might have some bearing on this allotment. I think your suggestion is a very good one, that the participating banks--- there are nine banks participating --- and the purchasers of warrants and acceptances work out some basis and furnish figures as to their earnings and expenses and work out some basis of figures here and submit them to you and whether, ^{see} out of the data given, there may be some basis that may seem a little more equitable that may be worked out.

The Chairman: In point of fact, we have tacitly admitted among ourselves that earnings are really the best test of a division, because it has been assumed without any discussion that we are not going to buy warrants and acceptances for Richmond, Atlanta and Dallas, because they have no discounts and do not require those investments. It may be that later on their discounts will run off and Governor McCord will be telegraphing me, "Buy some accept-

ances up there in New Yorkⁿ, in which case we will certainly do so. But we have already, without discussion, tacitly admitted that net earnings is one factor to be taken into consideration. If we are going to do that as to those three banks, why should we not do it as to all of them? If you gentlemen feel willing to trust us confidentially with your earnings, of course brought down to June 30, and will send them to me personally, I will see that they are handled by some confidential clerk, and some basis of apportionment will be made up which is reasonable to all the banks.

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

On motion of Governor Fancher, duly seconded, it was resolved that each of the eight reserve banks for which the Federal Reserve Bank of New York is making investments, submit, as of June 30, to Governor Strong a memorandum of earnings and expenses to be used in connection with the amount of capital and deposits of the respective reserve banks in figuring a suggestion for reapportionment of the investment account, and that he is requested to submit the suggested reapportionment to the other eight reserve banks when the calculation is made.

There being no discussion the resolution was adopted.

The Chairman: Mr. Cox has just handed me a typewritten resolution suggested under Item 6-(a) of our program.

which is as follows.

"Whereas it is reported at this conference that considerable inconvenience has been caused by the failure of mail addressed to Federal Reserve Agents to be promptly acted upon in the absence of the Federal Reserve Agents, and for other reasons, on motion duly seconded, it is resolved that it is the sense of this meeting that all communications addressed ^{by} ~~to~~ the Federal Reserve Board ~~to~~ the Federal Reserve Banks should be addressed to the bank or to the chief executive officer of the bank, and only those communications which pertain particularly to the duties of the Federal Reserve Agent should be addressed to him personally."

Governor Rhoades: I move that this be referred back to the Secretary with power, in view of the expressions he has heard.

The Chairman: Mr. Lowry prepared what struck me as being an excellent resolution, and if you are ready to adopt that with a preamble prepared by Mr. Curtis, I will put the vote now. Mr. Lowry, will you read that once more?

Governor Lowry: I will suggest a preamble too, if I may, Mr. Chairman:

"Whereas it is reported at this conference that occasionally inconvenience and delay have been caused by the failure of communications addressed to Federal Reserve Agents to be acted upon promptly in the absence of the Federal Reserve Agent, on motion duly seconded it was re-

solved that it was the sense of the meeting that communications from the Federal Reserve Board to any Federal Reserve Bank, if relating to banking transactions, should be addressed to the bank and not to the Federal Reserve Agent."

Governor Wells: I suggest that you strike out the preamble and confine yourself to the resolution itself. I do not believe that that preamble is a wise thing to put in, and I think you will accomplish your purpose by confining yourself to the resolution.

Governor Van Zandt: I think the preamble is the heart of the resolution.

Governor Seay: It gives the occasion for it.

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

The Chairman: Would you care to entrust me with the duty of explaining this situation to Dr. Miller and discussing it with him quite frankly.

(No response.)

The Chairman: For our record, would you care to have that resolution passed, to be dealt with in that way, and not to be made a basis of communication to the Board?

Governor Seay: I think that would be advisable, too, sir, to have it in our record to be dealt with by a personal communication.

The Chairman: You understand, Governor Wells, that this is not to be conveyed to the Reserve Board; it is merely

an expression of our own views, and we will take it up for personal discussion with Dr. Miller. Does that meet your view?

Governor Wells: I am not in favor of that preamble. I base my feelings on my personal experience. I have had no difficulty in my experience that would warrant me in doing anything that might reflect in any way upon the harmonies that exist between the Federal Reserve Agents' Department and the Governors' Department.

The Chairman: There is no discord in our bank; not the slightest.

Governor Van Zandt: You can have no more perfect harmony in any of yours than we have in ours; but these things do come up. Something might come to the reserve agent or deputy reserve agent's desk and probably be a week getting over to our desk,--- not through any premeditation or intent on their part, but just through an oversight.

The Chairman: I think everybody agrees as to the method to be employed in dealing with this matter. The question is whether you want to pass a resolution, gentlemen, and if you do, whether that resolution shall contain the preamble that has been read. The matter is in your hands.

Governor Lowry: Inasmuch as it has to be taken up with a member of the Federal Reserve Board, cannot that preamble be explained? Cannot the occasion for the resolution be explained, but not make it a part of the record?

The Chairman: Will someone offer a motion so we can count hands, if necessary?

Governor Seay: I move that the resolution and preamble, substantially as read, be recorded in our minutes; it being borne in mind that these are private records; that in the discussion of our Chairman with the representative of the Board he make such explanations as he may deem judicious in order that this matter may be fully explained, and above all, to explain that the real desire of this board is to promote the prompt and efficient transaction of all matters relating to the bank, and not from any other motive at all.

Governor Fancher: I second the motion.

(There being no further discussion, the motion was put and carried.)

The Chairman: We had just concluded the matter of allotments of purchases of warrants and acceptances, and in that connection I am going to be mean enough to bring up Item 5 (k).

We are in great doubt in New York as to what policy if any should be adopted in the matter of asking or suggesting any compensation to the Federal Reserve Bank of New York for making investments for other banks. I do not know that it is justified. If it is justified, and you are to compensate the bank, it is a question whether that should be a percentage or an annual fee, or, possibly, taken into account in the basis of allotment so it would be automatic and save a lot of bookkeeping. The matter

is in your hands. We would not think of suggesting any basis of compensation. We would a great deal rather have the banks for whom we are acting express what would be satisfactory to them. And let me say that if you would prefer to have this work done without any compensation, we are quite prepared to do it.

Governor Fancher: It seems to me that the Federal Reserve Bank is justly entitled to some compensation for its services. It has already assumed pretty large proportions, and in active times it seems to me that the volume which you are likely to purchase for the other banks is likely to entail considerable work. There has to be a full record kept in your office of all purchases; the matter of clerk hire, and things of that kind, are items of expense to the Federal Reserve Bank of New York. I feel, as one of the participating banks, that it is perfectly proper that a charge should be made; certainly for the actual outlay of the bank for clerk hire and necessary stationery and forms and the records of allotments, correspondence and so forth, relative to those things.

Governor Wells: I agree with Governor Fancher on that.

The Chairman: Mr. McKay, have you ever thought of that matter since our correspondence of some months ago as to what ought to be done about it?

Governor McKay: With regard to apportioning the expense connected with the purchase of warrants by the New York Bank?

The Chairman: Yes.

Governor McKay: No; we have not really done anything about that, Governor Strong. We ^{figure} that some means ought to be arrived at by which we should pay our share of the expenses that really are necessary.

The Chairman: May I suggest the advisability of appointing a committee of those banks that do not do the buying to consider the matter and figure out what in their opinion would be a fair basis of dealing with it?

Governor McCord: Do you mean the other four banks?

The Chairman: Yes; three or four of the other banks.

Governor McCord: I hardly think that would be fair to you, because we are not in a position to know what the service would be or what the expense would be. It would be purely a surmise on our part.

The Chairman: I was thinking of possibly suggesting to those banks for whom the purchases were made that they themselves consider it, and that possibly we could get Governor Wold and Governor McKay and Mr. Lowry to make up some figures as a suggestion, and then Boston and Philadelphia and Cleveland and New York, that are doing some of this purchasing, can consider what they suggest.

Governor Wold: There can be no question, Governor Strong, that these purchasing banks ought not to be out anything. They ought to be reimbursed for any expense and possibly receive some compensation. The difficulty would be for one who is not familiar with the amount of work

involved in handling that transaction to arrive at a proper figure. It seems to me that the Boston and New York banks are better able to determine what is fair and right and proper than the banks of Minneapolis and San Francisco.

Governor Lowry: I move that matter be referred to the Executive Committee. I am quite in accord with what has been said in regard to compensation. I think it is perfectly right and proper that the banks that perform this service should receive compensation for it; but as Governor Wold suggests the others of us have no facts at all on which to base a judgment of what is proper compensation. The Executive Committee would readily obtain all those facts and act upon them.

Governor McKay: I think if such a committee was appointed it would acquire those facts as to what work was entailed in the Federal Reserve Bank of New York. I know there is a great deal of work in dividing them up and allotting them, and unless the committee who will decide that matter knew what that work amounted to, or had some idea of it, I do not think they could correctly arrive at any conclusion in the matter.

The Chairman: You know, where it all goes into the records, to know whether it is for your own account or for the account of somebody else, it is a difficult thing to get at. Our procedure has been to treat this paper exactly as though it was our own paper, and if it was purchased for our own account the bookkeeping would be comparatively

simple. Buying it for account of eight other banks, making a record of it, issuing certificates of participation, keeping track of maturities, and keeping records of everything in connection with it,--- it is quite a complicated piece of business, and the men have a lot of work to do in connection with it. I rather lean to the idea of dealing with it on the basis of allotment rather than figuring commissions or an annual fee, or anything of that kind, because then the whole thing is automatic. You are not keeping a lot of accounts and paying and rendering bills; and if when the allotment is worked out we were able to suggest an increase in the percentage retained by New York, that would be one way of compensating New York.

I am a little embarrassed about one feature of it. If New York should enter into a definite, positive arrangement, in regard to those allotments, I do not know that our directors would be willing to do that. We have not considered it in a formal way in our board. They know what we are doing and quite agree to it, but it might very much restrict the operations of the bank in time of need, in New York. We might feel that it was necessary temporarily to withdraw from this arrangement for some reason, and I do not want to feel that we are tying ourselves to such a very positive arrangement that it would be a breach of faith on our part sometime to modify it at our own motion.

Governor Wold: We assume that it is a matter of courtesy entirely that you permit participation. You are under no obligations to do so whatever. You can dis-

continue the arrangement at any time. I can imagine a condition where it would be a hardship for the bank to participate in the purchase of these warrants and acceptances.

Governor McKay: Could it not be arranged on a commission basis? Some sort of commission basis could be arrived at. There would be no bookkeeping attached to it to amount to anything. I should think if some arrangement of that sort could be made it would be the simplest way of handling it. That ought to be large enough to include the cost of clerk hire and the work of your men put in in these purchases, because I know it is pretty heavy, especially dividing them up.

The Chairman: You have been in there to see the machinery involved, and it is considerable.

Governor McKay: I was in there one day, and I think two or three of them spent the whole day on allotments.

The Chairman: We have purchased, in round figures, say \$20,000,000 for account of the other banks in six months. What would be a suitable compensation on that? Mr. Curtis suggests that the Executive Committee consider this matter and make a suggestion after considering the actual figures of what has been done.

Governor Wold: I move that the whole matter be referred to the Executive Committee with power to act and make recommendations as to fixing the compensation.

Governor McKay: I second the motion.

The Chairman: How do you feel about that, Governor

Wells?

Governor Wells: I feel, Governor Strong, that the matter of charging for purchasing should be made by the buying bank and the charge should be such as may be deemed proper for the service rendered.

(At this point Dr. Miller, a member of the Federal Reserve Board, entered and was invited to take part in the conference.)

The Chairman: A motion is pending to refer the subject of charges for making investments for other reserve banks to the Executive Committee to make a recommendation, after studying the figures, which we shall be very glad to submit to the committee. I do not recall whether that motion was seconded or not.

Governor Sawyer: Yes; I seconded it.

(There being no further discussion, the motion was put and carried.)

The Chairman: Item 5-(a), Mr. Broderick, has been suggested for discussion by the Federal Reserve Board. That is a general discussion of daily transactions, records and reports. Possibly Mr. Curtis had better read the paragraph of the letter received from the Federal Reserve Board on that subject, to throw a little light on what this refers to.

The Secretary: (Reading):

"All Governors to be asked to bring with them their printed forms used for their daily transactions, reports, etc. It is suggested that if each Governor would bring

about 12 copies of these documents, an exchange of experience might be discussed and the best methods developed by each bank might be adopted by the others."

The Chairman: In considering this suggestion, Mr. Broderick, which has just been read, you realize that it would be quite impracticable for this meeting to sit down and discuss in detail these forms and the daily practice in each bank in handling its business. We have already approved a suggestion made by one of the Governors that the Executive Committee should form an organization of some kind of the accountants or officers of the Reserve Banks, or of some of the Reserve Banks, not necessarily all of them, to meet at one time. They might meet in groups, or entirely, as the executive committee might decide, and arrange for such meeting and have such discussion for the exchange of forms and for recommendations for uniformity of accounting practice and methods, and so on. Except we deal with it generally in that way at this meeting it would be impossible for us to make any progress at all, here, and in considering this item (a) I would like to ask whether it might not be possible for you or some other representative of the Federal Reserve Board to attend a meeting of that character and join in the discussion of the details of bank records.

Mr. Broderick: I would, Governor; and I would like to say that I can arrange at almost any time to have a representative meet with the representatives of the banks. In fact, I agree with you that that is the only proper way

to handle it. A discussion of technical matters would take some time, and it might cause a loss of much valuable time of the Governors if they discussed it in that way. And then, again, you would have to go back to explain it to your men, and probably they might not grasp the same idea that you wanted to convey.

We discussed yesterday, Governor, the desirability of meeting these men that were designated by the officers of Federal Reserve Banks to act as examiners. It might be possible to have a joint meeting at one time. The chances are that those who are designated as examiners would be the ones designated to represent you at the Conference.

The Chairman: In many cases that would undoubtedly be so.

Mr. Broderick: I think that a great deal of good could be accomplished in getting the accounting men together at one time.

The Chairman: Will someone suggest a resolution that will make a record of the procedure to be followed in dealing with item 5-(a)?

(On motion of Governor McCord, duly seconded, it was resolved that Item 5-(a) of the program be dealt with by authorizing the executive committee of the Conference of Governors to arrange for the appointment of representatives from each of the Federal Reserve Banks to act as a committee and meet in Washington or elsewhere, together with representatives of the Federal Reserve Board, to discuss and

report upon the files of daily transactions, records and reports.

There being no discussion, the motion was put and carried.

The Chairman: Item 5-(b), "amortization of organization expense and cost of printing notes." Mr. Broderick, we would like to hear from you on that subject.

Mr. Broderick: The division of expenses into organization expense and current expense is made for the purpose of enabling the banks to make a better showing than they could make if it was all considered one item. It was intended to secure in the item of organization expenses the expenses incurred up to November 16, 1914, the intention being that so far as may be the item of organization expense would be reduced. I find in examining the banks that some banks have taken a very strict view of that interpretation and others a very liberal one---

The Chairman: May I interrupt you to inquire what construction we have placed upon that ruling?

Mr. Broderick: The New York bank has, if I am not mistaken, included only the amount of assessment by the Federal Reserve Board. My mind is a little hazy on that. It includes the assessment of the Federal Reserve Board and probably all the current expenses up to November 16. I have not reports with me now, but I have a record of ---

Governor Wold: May I inquire if you expect to have them include the entire assessment made by the Federal Re-

serve Board?

Mr. Broderick: That is being included there now.

Governor Weld: Not by our institution.

Mr. Broderick: That is the trouble; there is no uniformity. I believe in Philadelphia the item includes only the sum paid by the Federal Reserve Board, whereas in other institutions they have not only the items of expense incurred up to November 16 and assessment of the Federal Reserve Board on November 16, but also a number of other expenses which they claimed were incurred prior to that time.

The Chairman: We have done so in New York. I was wondering what you consider as conservative. In other words, we had twice as many clerks in the bank immediately at the time of its organization, to get it started, as we have now. Just double, as a matter of fact.

Mr. Broderick: That was not made until a later date. I think that is perfectly proper. A strict construction of course of the item of "expense" would probably cause a transfer of at least 60 per cent of those items which are being included in organization expense now, to current expense. The idea was to arrive at some uniform method of gradually eliminating the item of organization expense. In some institutions, namely, the southern banks, they would be able to eliminate that entirely within the next six months or a year. Some institutions are not now earning more than current expenses, and

some are not earning that much. It is likely that the item of organization expense will be carried along for a longer period than some of the other institutions. Uniformity, while desirable, is not altogether practicable at this time.

The Chairman: We discussed this at a meeting of our directors recently, and some of our directors took the view that with a fairly liberal construction, I think, of what was organization expense, and what was current expense, the Federal Reserve Banks would be justified in amortizing the item over a period of even five years. Let me call your attention to one thing, that ought to be taken into consideration in determining what is organization expense and what is current expense. These banks were organized on November 16 on notice of about three weeks. If we had pursued the course which would ordinarily have been pursued in organizing these banks we might have taken as much as six months, with a considerable staff of clerks and experts at work, to get up forms and to organize a complete bank. We started business first and incurred practically all of our expenses for organization after we had started; and personally I favor a very liberal construction of what are really organization expenses, when you consider that we are not yet through spending money for organization. A lot of these studies that are being made, even the expense of these conferences which are largely devoted to matters of organization, could very properly and fairly be construed as an expense of organ-

ization, organizing an institution that had not yet started business. The mere fact that our money was put in on November 16, so that we nominally have an earning power at that time, would not affect my judgment as to what could properly be dealt with in that item.

Governor Seay: I am thoroughly in accord with that view.

Mr. Broderick: The Board is in accord with the view of giving it as liberal a construction as it can possibly do, and I am sure they would be guided by a recommendation of your conference. They would like a uniform method of dealing with it, if possible, to amortize the items included in operating expenses.

The Chairman: I was going to ask, not knowing whether it would be in line with your own ideas, however, ^{that} each of the banks be asked by the Federal Reserve Board to submit before June 30 a complete statement of their organization expenses and everything it contains, and that the accountants of the Federal Reserve Board themselves, after examination of those accounts, make suggestions to the Reserve Banks as to whether they are adopting too liberal or too conservative a view as to what is organization expense, and that the accountants so far as possible be readjusted to meet that view so we can conclude the first six months of the fiscal year of the reserve banks on as nearly a uniform basis as possible. Personally, I would prefer to have the accountants of the Federal Reserve Board

review our own organization expense account and deal with it on such a basis as they thought was fair.

Governor McKay: I will say that the Chicago bank, or its directors, had that matter up the other day, and as the books will be closed on the 30th of this month, and we had a lot more than the current expenses, their idea was that we can wipe out the current expenses and take whatever we have left and put it against organization expense.

The Chairman: We do not want to do that.

Governor McKay: That was their idea in the matter.

The Chairman: In New York we would do it if we had a little more assurance as to our earning power for the next six months or a year, and the suggestion made by our accountant in New York, assuming that the items in our organization expense account are all proper, was as follows: First, we would start on July 1st charging to current expenses the actual cost of preparation of all Federal Reserve notes that were used after July 1st; second, that we set up as an accrual against expense each month an amount which will fairly equal the annual assessment to be made for the expenses of the Federal Reserve Board; and, that, beginning with July 1st, we establish an amortization account to be based upon a fair estimate of the earnings of the bank to extinguish the entire amount of the organization account over such period as we felt was safe and wise. The result of that will be to

start in from July 1st to pay out of our earnings all of our current expenses; to pay out of our earnings, beginning with July 1st, the proportion of expenses which is assessed against us for the Federal Reserve Board's expenditures, and to pay out of our current earnings the cost of all Federal Reserve notes which were issued, but everything up to that date will have accumulated in our organization expense account, and be amortized by monthly charge against our earnings.

Governor McKay: I omitted to say that we have made an arrangement providing for the cost of issuing federal reserve notes and that that will be kept in a separate division of the organization expense account, and that that cost will be wiped out gradually as the federal reserve notes were actually put into circulation. That would be a definite help, because we have ordered \$60,000,000 worth of Federal Reserve notes. That might last for years, until these notes were put out. I omitted to state that.

The Chairman: Mr. McKay, the expense of preparing notes on the first installment we procured in New York would be about \$9 per thousand notes, and we figure that after deducting the cost of preparing the original plates, which will have now been paid, it will cost about \$8.50 per thousand, as I recall the figures. The result of charging the actual cost of notes issued to current expenses will be to leave on the books of the bank as an asset

the actual cost of all notes on hand at all times by the Treasury Department at a cost of \$8.30 a thousand, or whatever it proves to be. We consider it is good accounting to carry as an asset on our books the cost of preparing notes that have not been issued.

Governor Wold: At \$8.30 a thousand.

The Chairman: At whatever it proves to be.

Governor Wold: Why are you setting up your organization account and providing for amortization over a period of years?

The Chairman: We have an organization expense account of \$180,000, in round figures. That includes \$130,000 odd assessed against us by the Federal Reserve Board, and the cost of preparing notes, and so on. We are going to increase that amount very materially by separating the cost of preparing notes and the organization expense account, and then increasing the net cost by the cost of a very large additional supply of Federal Reserve notes which we have ordered. If we consider that all organization expense and attempt to extinguish it right away, we would be assuming quite a burden on our earning power, which I do not think is justified.

Mr. Broderick: We are in favor, Governor Strong, of separating the organization expense account to, first, one item covering actual expense of organization, and, second, the actual cost of the Federal Reserve notes. I think that is a very good solution of that difficulty. One

could be carried as a straight asset, and the other could be carried as an expense asset.

The Chairman: Exactly. Mr. Broderick, that theory is based upon the idea that from October 26, say, until July 1st of this year, a good deal of the expense incurred has been really the expense of organization which would have been incurred before the capital and deposits were ~~paid~~ paid in under normal circumstances, and our haste in getting the banks organized, resulting in incurring expenses really ~~after~~ after the capital and deposits were paid in. If that theory can be adopted by the Board in considering an analysis of the organization expense account, I shall be very glad to send a very careful memorandum of our accounting to be considered in connection with the treatment of this whole subject.

Mr. Broderick: Of course, you can realize, too, that it would be impossible to get uniform treatment of that account on the part of the Federal Reserve Banks, ~~that~~ because those banks have been very conservative in regard to setting up the account would not care to transfer items to organization expense.

The Chairman: They are on the safe side.

Mr. Broderick: It might probably be better to postpone uniform action until the end of the calendar year or until the end of the fiscal year.

The Chairman: That would suit us all right.

Governor Seay: There is not time, now, Mr. Chairman,

to have any submission of those detailed accounts to the Federal Reserve Board, and any analysis made by a representative of the Board. We could not render a statement until a long time after the first of July.

The Chairman: Is there any action desired at this meeting in the way of a recommendation to the Federal Reserve Board on the subject of the items which are in our organization expense account now, or as to a policy to be adopted in providing for the amortization of that account?

Governor McCord: I think it would be right well to bring this to the attention of the Board and ask them to give a ruling on it in order that the banks may so adjust their accounts that on December 31st they will not have the same condition of affairs as they have on the 30th of June. I think it would be better to call their attention to it now, if you want to have it adjusted on the 31st of December.

The Chairman: Your suggestion is, then, that our recommendation to the Federal Reserve Board be to establish a policy in the period between July 1st and December 31st, and that the data upon which that policy is to be predicated should be now submitted to the Board?

Governor McCord: That is it. That is my idea exactly.

Governor Fancher: It occurs to me that in view of the fact that we are going to publish our statements as

of the close of business July 1st, we should submit data up to that time, all the items set up in our organization expense, and make a very careful analysis of it, give very full information to the accountants of the board, and then, after they have had an opportunity to analyze these figures of each bank, they can arrive at some general policy and some general plan of readjusting, if necessary, those accounts. Then, at the close of the calendar year, we can adopt some general policy of amortization of certain of the items.

Governor Seay: Mr. Broderick, do you not think that the time between now and the first is entirely too short to attempt any analysis?

Mr. Broderick: I think so; but I am not in sympathy with Mr. Fancher's idea that a policy should be suggested to be effective covering expenses incurred after July 1st. We might start off uniformly on July 1st as to future expenses---

Governor McCord: That is exactly my view, and it called forth the remarks that I made.

(Mr. Fancher offered the following resolution:)

"Resolved, that it is the sense of this conference that each federal reserve bank submit to the Federal Reserve Board a complete detail of the items which have been included in the organization expense as set up by the respective banks, and that this data be analyzed by the accountants of the Federal Reserve Board, and that if it

is found necessary, a suggested adjustment be made to the banks where certain items have not been included that they should be properly included in organization expense, so that that item may be uniform as nearly as possible in the banks; and that, effective July 1st, a general form of carrying the expense accounts of the banks be recommended by the Board."

Mr. Broderick: I would like to make this suggestion, that the stenographer give me a copy of that resolution. I will send it ~~up~~ to Washington tonight so that you can by the time you gentlemen reach your banks, have the information specified.

Governor McDougal: Do we want this information before the first of the month? Every man here knows what to do with his expenses. In our bank the organization expenses include nothing except the expenses of the notes which should, in reality, be considered as nothing but ordinary expenses. We know what to do with those, and we do not want to be told before the first of the month, because we will do it at that time.

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

Governor McDougal: May I ask whether Mr. McKay stated the plan upon which he proposed to act at the end of the month?

The Chairman: He did; yes. It seems to me we have all overlooked one important difference between these

banks and an ordinary commercial bank. It is rare, now, that a national or state bank is organized without its being paid in at the time of its organization a certain amount of surplus. It is not uncommon for them to pay in their capital and surplus and an additional small amount per share to cover the organization expense as a sort of preliminary assessment upon the subscribing stockholders. These banks have been organized without surplus and without any fund of any kind to cover the expense of organization. We have got to deal with it squarely. I do not want to show in a public statement, by some misconception of bookkeeping, that the capital of the bank of New York is \$150,000. It would be stating the facts falsely to the public, Governor McDougal---

Governor McDougal: I agree with you heartily. That is the reason I believe in what we propose to do. I would go a little further and state that there is not a bank here that has anything it need to be ashamed of in the matter of expenses having exceeded their profits. While it may be true that in most cases now banks in organizing pay in something to take care of expenses of operation for a short time, it is also true that a very large proportion of the banks that have been organized, big and little, at the end of the first six months, or possibly a year or even longer, have shown exactly the same condition that they did before. There is nothing unusual about it and nothing to be ashamed of.

The Chairman: Governor Fancher's motion has been called for.

(There being no further discussion the motion was put and carried.)

Governor McCord: It is not on the program, but I ask the privilege of putting this in just for a moment. The printing of the Federal Reserve notes is going to incur a heavy expense on the banks in assorting these notes hereafter, and it is going to be a continual expense. I notice from the remarks here that nearly every bank has ordered an additional supply of notes, and a little suggestion that I have here and which I have submitted to several of the Governors present, it seems to me is timely and it would be right to correct the matter now.

The Chairman: Will you read it, Governor McCord.

Governor McCord: (Reading): "Suggest the advisability of printing the distinctive letter or figure designating the Federal Reserve Bank of issue in much larger ~~mm~~ and clearer type, and placing the same directly below and as near as practicable to the 'counter figure' in the upper right hand corner of the notes.

"The labor and work of assorting notes by the F. R. Banks will soon require the services of a considerable force ~~mf~~ in each bank and that work can be made much less difficult if the suggested change is made in the issues to be printed hereafter.

"The necessity for this is shown by the manner of print-

ing similar distinctive lettering and figures on the national bank notes."

This was suggested by my assistant cashier, who has been for years in the sub-treasury at New Orleans, and he pointed this out to me and showed wherein we would be at a considerable expense throughout the years to come if this system goes on with this form of notes that it would be much easier and less expensive to the banks. There would be an expense added, but it would save the expense to the banks.

I should like to submit that to the reserve board, if it is agreeable.

Governor Fancher: Do you suggest that that go as a recommendation from this Conference?

Governor McCord: Yes.

Governor Fancher: I second it.

The Chairman: Before asking for a vote I would like to call attention to two other things in regard to Federal Reserve notes that might be corrected at the same time, if any change is made. In the first place I am informed that the failure to put the indication by number or letter of each bank which issues the notes, in the border, in some way, might result in a great many notes being partly mutilated in a fire so that it never could be told by which bank they were issued.

Governor McCord: Exactly.

The Chairman: And the suggestion was made to me

by a man of considerable experience that these notes were very defective in design because the border did not indicate, as in the case of National bank notes, by what bank they had been issued. A considerable portion of the end could remain untouched by fire, for instance, and still the distinguishing mark be entirely obliterated.

I would like to call your attention to that as a suitable recommendation to be made in connection with any change in these notes, and to one other matter. I understand the process of laundering paper money have been brought to a point where it is quite successful, and a great deal of money can be restored so as to be put into circulation again. In the case of Federal Reserve notes they tell me that this red seal is printed in such a way, either due to the color or kind of ink used, that it prevents the laundering of these notes; that the color runs, and it cannot be reused. If we are going to take up the subject of Federal Reserve notes I would like to see Governor McCord's resolution broadened to include a provision for remodeling the borders when any change is made, so as to include the number and letter assigned to each reserve bank, and so as to make provision that they be prepared in such a way that they may be laundered, and that a study be made of any further changes or improvements in the design or quality of the note that may be found desirable after experience.

Governor McCord: I am perfectly willing to accept that in my resolution if my second will agree.

Governor Fancher: Yes.

The Chairman: Mr. Curtis calls my attention to another matter where a change might be desirable in order to conform to the statute. The law provides that the notes shall be distinct as to the bank that issues them, by a serial number or letter, and makes no provision whatever for the name of the Federal Reserve Bank appearing on the face of the note. That was also drawn to the attention of the Board some time ago.

Governor McCord, may not your motion include a reference to the fact that printing the name of the Federal Reserve Bank on the note does not conform to the provisions of the Statute.

Governor McCord: I am perfectly willing to have that go in, sir.

The Chairman: With this conglomerate addition to Governor McCord's motion, are you willing to have the question, gentlemen?

(The question was called for, and there being no further discussion, the motion was put and carried.)

(Whereupon, on motion duly made and seconded, the Conference, at 1:15 o'clock p. m., took a recess until 2:30 o'clock p. m.)

A F T E R R E C E S S .

The Conference reassembled pursuant to the taking of recess, at 2: 30 o'clock p. m.

Hon. A. C. Miller, Member of the Federal Reserve Board, was the guest of the conference at the opening of the afternoon session.

The Chairman: Gentlemen, you will come to order. If it is agreeable I will report to Mr. Miller the substance of the action taken by the meeting this morning in regard to communications addressed to Federal Reserve Agents.

Mr. Miller, we have made it a practice to discuss matters here pretty frankly, believing that that is in the interest of the work that is being done, and in the course of the meeting this morning reports were made by a number of Governors of inconvenience that had resulted from communications which are made by the Federal Reserve Board to the respective Federal Reserve banks, but which are addressed personally to the Federal Reserve Agents. This inconvenience arises from two or three causes apparently. In one case mentioned it was on account of the absence of the Federal Reserve Agent with no provision made in his absence for having his mail opened. In another case it was apparently due to the practice of the Federal Reserve Agent of not submitting official mail from the Board to the Bank itself but to submit a report either by memorandum

or verbal communication the contents of mail. In another case mentioned it apparently is the practice of the Federal Reserve Agent to segregate his mail entirely from the mail of the bank in such a way that it is not consistently accessible to the bank. I think that covers the three general classes of objection that were made to that practice. At first it was determined to pass a resolution making a recommendation to the Board, the effect of which would be to ask the Board to address communications having to do with the actual transactions and business of the bank to the bank itself, or to ~~the~~ those officers of the bank who are especially in charge of the business to which the correspondence related. The point was made that by some chance it might come to the ear of the Federal Reserve Agents and give offense. Especially with reference to the cases noted by a number of those present, where very cordial relations existed, they did not want anything to arise that would possibly disturb those relations, and the final action taken by the meeting was to convey to you rather confidentially and not as a matter of record, the feeling which is unanimous at this meeting, that inconvenience has resulted and is liable to result in a good many cases from making these communications, which have to do with the current business of the banks, personal communications to the Federal Reserve Agents.

I have no hesitation in saying that as to our bank in New York it has been the uniform practice there to consider all of the mail as really matter addressed to the

bank; we have not distinguished in our files or in the method of handling the mail, and whatever Mr. Jay gets he submits to us and vice versa. We have had no inconvenience or difficulty at all in our bank. That situation, however, does not prevail in the other banks.

I would feel no hesitation in voting for a resolution of that character, because I feel that we would be occasioned inconvenience in New York if that practice should be followed by our Federal Reserve Agent.

Mr. Miller: Of course there ought to be the freest interchange between the Governors of the banks and the Federal Reserve Agents. You know there are two general classes of communications that go to the Federal Reserve Agents. There are the regular official communications that come from the Executive Officers of the Board, with the signature of the Governor or Secretary, one of the two; then there are the semi-formal and semi-personal communications that go from a member of the Board to the Federal Reserve Agents, not binding the board and not necessarily dealing with matters that have been under consideration by the Board. Sometimes they are in the nature of inquiries; sometimes they are in the way of suggestions, where the Board would not care to go on record, or perhaps where the individual member of the Board would not care to go on record in a direct communication to the operating officer of the bank. That condition makes it extremely convenient. It enables us to do things that perhaps would not be done and could not be easily done. When the Federal

Reserve Agent has occasion to act on an informal matter we cannot very well make it a matter of record. Those matters he has got to be allowed to have in his record, and he must have a little discretion as to whether he ought to present them. Wherever there is any substantive matter in a communication of that kind, that is of concern to the bank, that ought to be shared, of course, with the bank. Those communications should either be given to the Governor, shown to the Governor, copies of them, or excerpts of them made.

It is possible that a remedy for that would be to simply include a phrase in these letters, "Please present this matter to the Governor of the Bank", or "present this letter to the Governor of the bank."

Let me give an example of the things that we do that it would not do to make a matter of record. Recently I had some correspondence with the Chairman of your Bank, Governor Wells, on the subject of discounting of renewal notes. It is a pretty delicate subject for the Board to express itself on, and it would not want to do so, because it might be embarrassing to go back to it in the future. It might be very valuable for the Federal Reserve Agent of your bank to know what the attitude of the Board is, or at least the attitude of the member of the board who is in immediate connection with the district, and to allow him to present that in an informal way to the Governor of the bank would not bind the board in the future if

the board had occasion to change its decision. It might be liable to abuse, and in that case we should not want to be bound by anything that could be considered a ruling or an opinion. I think under any system there has got to be some leeway. If it does not work satisfactorily and is brought to the attention of the Federal Reserve Agent, it will be corrected.

The Chairman: One case mentioned was the case of a telegram which reported the result of settlement through the gold fund which was received by the Federal Reserve agent and the advice to the bank of the actual settlement of its account that week was not received at the bank.

Mr. Miller: Does not somebody open his mail in his absence?

Governor Wold: No. It is put on his desk and he opens it himself. He has an assistant there at times who opens the mail, and if he thinks it is of enough importance he will lay it on my desk, or possibly wait until he comes in.

There is the utmost harmony between the Federal Reserve Agent and the Governor and the board at our bank. I took it up with Dr. Willis and suggested to him, in view of the fact that these confirmations of the gold settlement agent and the advice to the bank of the actual settlement of its account that week was not received at the bank.

Mr. Miller: Does not somebody open the mail in his absence?

Governor Wold: No. It is put on his desk and he

opens it himself. He has an assistant there at times who opens the mail, and if he thinks it is of enough importance

fund were strictly a bank matter, they ought to come direct to the bank and the bank should get that information at the earliest possible moment.

Mr. Miller: I think you ought to have it. If they cannot give it to you directly through the channel of the Federal Reserve Agent, it ought to come to you under separate cover.

Governor Wold: What connection has the Federal Reserve Agent with the management of the gold fund?

Mr. Miller: He has not any, and the only reason for doing that is that on the whole we have less embarrassment and working at cross purposes if communications go through a single channel. Otherwise we will soon get to the point where the Secretary or the Assistant Secretary will determine what communications in one instance go to the bank direct in the case of a given district, and what should go to the Federal Reserve Agent in another. We would have a variety of practices where there ought to be uniformity. There is a great variety now, I think, in the matter. I know there is direct correspondence with one or two of the Governors.

Experience has shown that the reserve agents are perhaps a little slow in expediting business. We wanted to get quick action and our communications were made to those Governors directly.

The Chairman: We all agreed, Mr. Miller, that it would be very unfortunate for the Federal Reserve Board

to predicate any communication, in the direction of straightening this matter out, upon a recommendation of this meeting. In other words we want to ask that whatever may be done originate with the Federal Reserve Board.

Mr. Miller: Certainly.

The Chairman: For that reason we made this verbal communication to you. I have explained my understanding of the situation, and it seems to me that any of the others present who want to add to it ought to do so at this time and before we take up the next subject.

Governor Wells: I will say for your information that at St. Louis the Federal Reserve Agent is very careful to provide a carbon copy of all communications which he gets from the Federal Reserve Board not of a confidential nature to the heads of the various departments of the bank. It is a very prompt arrangement and it has worked very satisfactorily.

Governor McCord: That is true of the Atlanta district.

The Chairman: We have a little different system in New York. We prepare a little slip about that size (indicating), which contains a list of the officers and the departments, and also shows the method of dealing with the mail. Certain items are put under "to note" "to file" "to answer", and so on. The Federal Reserve Agent and all the officers of the bank have these slips on their desks. When the mail is received in the morning it is distributed to the various departments where it should receive

attention. If Mr. Jay gets a letter that he thinks should go to Mr. Curtis, having to do with legal matters, or to me, or to some other officer, he just makes a note on the slip and it passes through the office just as any other mail would. We do the same with mail that comes originally to us. We do not distinguish, in fact, between the mail that comes to the Federal Reserve Agent and that which comes to the bank, our conception of the Federal Reserve Agent's office in the bank being that he is really one of the officers of the bank with duties to perform as a part of that organization.

Mr. Miller: Of course that is the right view to take of it. But you must remember that the Federal Reserve agents have a position of responsibility under the law. Their duties are not onerous and we do not want to breed indifference or indolence on their part by not keeping them in close contact with the connections between the Federal Reserve Board and the Federal Reserve Bank.

We make it our practice at the Federal Reserve Board offices to have all communications of an official nature go through one channel. Occasionally that is not done and some trouble has been produced on two or three occasions because that practice was not observed on the part of some of the banks and on the part of the Board.

Very frequently members of the Board write letters for the signature of our secretary. I write a good many of that kind. Every now and then something happens

which shows that a matter that ought to have come to the attention of the Board or was intended for the attention of the Board, has become mislaid in some pocket, either in the case of the outgoing or incoming mail. We find the only way to obviate discrepancies of that kind is to have one simple avenue through which all mail travels to and from the board and the banks, if it is of an official nature. On the other hand it is true that some of the most important communications are not of that official nature and cannot be.

The Chairman: We enjoy a very favorable arrangement with our members of the Board by being able to correspond with them with the utmost freedom on all sorts of things, and I would not want to see that disturbed in any way if it could possibly be avoided.

Mr. Miller: I think in two or three instances I have heard of officers of banks magnifying the importance of communications that go to and from the Federal Reserve Agents and are not given to the banks. Some of our Federal Reserve Agents have very active imaginations and they are putting up to us all sorts of hypothetical questions--- what would be done in this case and in that case? what do you think of that and what do you think of that. Sometimes those things are answered and sometimes they are not answered except to receive a simple acknowledgment. I have answered a great many of those things feeling that if the Federal Reserve Agent is really mentally concerned with those questions that we ought to give him

a certain amount of he ring and cognizance. But many of the things that I have received, and I guess the same is true of other members of the Board, they wish to die right then and there, and certainly they would look at it from that point of view two or three weeks or two or three months hence, because they represent an offhand expressions on a variety of questions. Now, when we deal with banks officially we do not want to deal with hypothetical situations, but with actual situations, and in the case of opinions and rulings they are carefully considered and we will willingly abide by them.

Governor Fuld: The only object I had in bringing this subject up was to see if we could not expedite the business of the bank.

Mr. Miller: I think that can be cured very readily by sending with the letter a carbon of it with instructions to deliver to the Governor.

The Chairman: That would be a very desirable arrangement.

Mr. Miller: The instruction could be ~~a~~ "present a copy of this communication to the Governor of your bank."

The Chairman: That will be excellent.

Governor Van Zandt: That would fit our case exactly.

Governor Seay: There are frequently instances of communications made to Federal Reserve Agents concerning matters involving executive administration of the bank, and in order for him to reply to that it is necessary

for him to come and discuss that matter with the bank. He gathers his impressions from the discussion and he goes back and writes his reply. You always get an indirect reply from a communication of that nature. It comes to the bank indirectly, and there is so much lost motion.

Mr. Miller: Yes, that is true, and it really develops a condition that interferes with the prompt administration of the affairs of the bank and the Board, and something ought to be done about it.

I, myself, have communicated directly with the Federal Reserve Agent where the communication was really intended for the Governor. There was recently a case of that kind in your district, Governor Wells.

Governor Seay: We all have in mind the fact that we are approaching the point where the activities of the bank are broadening and these communications from the Board to the banks will be more numerous, and it was for the purpose of prompt, direct transaction and direct reply, and purely for the purpose of facilitating the efficient accomplishment of such matters as pertain to administration of the banks that this question was brought up. I think that was in the mind of everybody.

Mr. Miller: I think with these suggestions the condition can be improved.

Governor Fancher: This condition has arisen with us. We have the most harmonious and close working relations. All mail is common mail. I see all the letters that go to the agent and he in turn sees all the communi-

cations that come on my desk. The following day a copy of all the communications that have gone over the desks of all the officers are brought to my desk and I review them all. There have been times when communications addressed to the Agent are clearly intended for the Governor and I have dictated those replies and sent them back over the signature of the agent.

Mr. Miller: I think perhaps there it might be well for the Governor to address his letter to the Board, perhaps, in case of the Federal Reserve Agent and afterwards put under a cover of its own, so that you have a record each way complete. I do not know that that is the best way. It occurs to me offhand.

The point in my mind is, as I have said, that we want to keep the Federal Reserve Agents alive and interested. We want them to know what is going on, so that if at any time a situation arises that makes it necessary to turn to the Federal Reserve Agent for advice he will be in a position to give it, at any rate so far as the facts are concerned.

The Chairman: We want to discuss while Mr. Miller is here Item No. 5 on the program in regard to the accounts to be carried by one Federal Reserve Bank with other Federal Reserve Banks.

At the time the committee concluded its work in connection with the establishment of the gold fund a number of Federal Reserve Banks called attention to the fact that

while they were making investments in other markets, particularly in Boston and New York at that time, their balances were settled and completely wiped out every week it would cause them loss of interest and some inconvenience in taking care of the necessary payments for investments that were largely being made in New York; and the suggestion was made that either a separate account be opened for that purpose, or that a regular stated amount be withheld in forwarding balances.

I have simply stated the substance of that situation and I will ask Governor McDougal if he will explain just how it operates with the bank in Chicago, as he and some of the other banks are really more interested in it than we are.

Governor McDougal: The Federal Reserve Bank of New York has rendered us valuable assistance in the matter of securing in the market there certain investments, acceptances, and in many cases warrants, and we have found it necessary, naturally, to provide payment for these purchases. When the gold settlement fund plan went into effect we recommended to your bank, Governor Strong, that in reporting the balance each week they deduct a fixed amount of \$2,000,000, in order that we might at all times have a fund there to meet investments that you might make on our account, and also for exchange purposes.

We found that it was useful and necessary to have a balance with you; and the same has been true, to some extent, in Boston. Our account there is a small one.

But, as bearing directly upon that subject, I think it might be well, Governor Strong, for the Secretary to read a letter of which you have a copy there. It expresses the views of the Board in regard to the subject and I think calls for some action by this body here today.

Mr. Curtis. This letter is signed by Mr. Delano, Vice-Governor of the Federal Reserve Board, and is addressed to Mr. A. B. McDougal, Governor of the Federal Reserve Bank of Chicago, and is under date of June 11, 1915.

"In making, on May 19th, for the Gold Settlement Fund, its initial report of balances due to other Federal Reserve Banks, the Federal Reserve Bank of New York stated that:

"Three of the Federal Reserve Banks wish to keep a balance with us for exchange purposes and have requested us to withhold from our report to the Gold settlement Fund, even amounts as follows:

| | |
|-----------------------------------|-------------|
| ^ Federal Reserve Bank of Chicago | \$2,000,000 |
| " " " of Philadelphia | 1,000,000 |
| " " " of Richmond | 1,000,000 |

We have carried out their directions and therefore the total balances in the "due to" accounts with other Federal Reserve Banks, as advised you by telegraph, will be \$4,000,000 less than the total of such balances appearing in our daily statement."

In reporting for the settlement of May 27th, a similar course was pursued by the New York Bank, the amounts withheld being:

| | |
|--------------------------------|-------------|
| Federal Res. Bank of Richmond, | \$1,000,000 |
| " " " of Chicago | 2,000,000. |

With these deductions the Federal Reserve Bank was creditor at the clearing in amount of \$4,909,000.

Again, in reporting for the settlement of June 3rd, the Federal Reserve Bank of New York withheld the following payments due to other Federal Reserve Banks:

| | |
|-------------------------------|-------------|
| Federal Reserve Bank of Phila | \$1,000,000 |
| " " " of Richmond | 1,000,000 |
| " " " of Chicago | 2,000,000 |

In none of these cases did the Federal Reserve Bank reported by the New York bank as desiring to keep a balance with the Federal Reserve Bank of New York "for exchange purposes" so advise the Federal Reserve Board, and the Federal Reserve Bank of New York has, therefore, been permitted to withhold the sums named entirely upon its own statement.

I am writing to you about the foregoing matter because it seems to me it violates one of the principles of the Gold Settlement Fund plan to accept a credit or debit statement from any one bank unless the bank owning the corresponding debit or credit notifies us of a similar entry and thus permits us, as caretakers of the Gold Settlement Fund, to check up one statement against the other.

As I see it, the only difficulty that we may ever run into, in the care of this Gold Settlement Fund is the difference of opinion as to how the balances should stand; and

if we accept the statement of the Federal Reserve Bank of New York as to certain debits and credits due it from any other bank, without insisting on that statement being checked and concurred in, we shall run into trouble.

As you have been chairman of the Gold Settlement Fund Committee and can readily see the difficulties we may run into, and as you will be meeting with the Governors of other banks, I trust you will give me the benefit of a clear statement of this matter and avoid the necessity in future of our accepting the statement of any one bank, unsupported by others. "

Governor Seay: I would like to say that we advised the Board that we had requested New York to retain \$1,000,000, so that in the case of one bank I am sure that we have advised the Board. The Federal Reserve Agent mailed the advice at my request.

The Chairman: Mr. Miller, one difficulty in handling investment accounts without cash balances lies in the fact that I think we would be obliged, when we take up an investment for one of the other banks, to carry it for our own account, of course adding the accrued interest to our own interest earnings, until we can get exchange to cover it. That would give rise to a series of transactions outside of the Gold fund in order to facilitate prompt payment to get the interest.

Mr. Miller: Why should you not use the Gold Fund for that purpose; just carry these additional balances in the Gold Fund. That might necessitate more frequent

statements than a weekly statement.

Governor McDougal: That fund is there not alone for the purpose of taking care of investments, but for general banking purposes, for instance---

Mr. Miller: (Interposing) You must not say that. We do not know that is the case. The law does not authorize that, you know.

Governor McDougal: I was going to say that we frequently sell New York Exchange to our local banks, and we frequently buy it, and moreover I think we are going to do more for our member banks by putting funds in New York for them. Every day there will probably be a transfer to be made, and we believe that the balance is necessary. It is certainly convenient.

Mr. Miller: Of course the theory of the Gold Settlement Fund is that that money is New York's. Wherever it happens to be physically, by transfer it becomes New York's.

That letter is a memorandum that was prepared for our settling agents. They did not know what to do and wanted definite instructions from the Board. Governor Delano has taken up the matter by correspondence to see exactly what the situation was and what the need was for these balances which are carried to the credit of Richmond, Chicago, I think Philadelphia, and perhaps one or two other Federal Reserve Banks, outside of the Gold Fund. The difficulty, as the situation presents itself at the moment is that the statements of these several banks that are in-

volved with the New York Bank, and the statement of the Gold Settlement fund do not reconcile. You have a "due to" on the part of some banks that does not appear in the statement of the Gold Fund, and if the Board decides to sanction the carrying of these separate balances there has got to be some change in the form of statements so that when one picks up the statements of the separate balances and the Gold Fund statement, he can see that they reconcile at all points.

I think there is a question on the part of some members of the Board as to the necessity or desirability of this. The question is whether all of the purposes that are proper under the law, and that are now accomplished in this way, could not be just as well accomplished by carrying an additional balance in the gold settlement fund, drawing against it by geographical divisions and transferring from Chicago to New York or Boston, as the case may be. From our point of view that raises the question as to whether or not we will advance to the point where we will have to have daily settlements. We will have to do that if these transactions are very numerous. It does not involve very great hardship. The gold settlement fund has proved to be a very much more simple affair than it was first thought.

Mr. McKay: The question comes up with us a good deal in selling exchange on New York. When we sell exchange we have to draw a draft on the Federal Reserve Agent at New York, and if all the balance there was wiped out

in the settlement fund we would not have any balance on which to draw this draft. Then when the draft got to New York, if they were going to pay it, it would create an overdraft, and we believe we ought to provide money in New York to pay these drafts that are drawn on that account.

When we get to operating well we may have a dozen, fifty, and probably a hundred drafts in one day and besides that we would have transfers of money to be made by telegraph, and if we had to advise the settling agent of all of these telegraphic transfers and also advise the New York Bank of all of these transfers it would be a duplication of the telegrams in the first place, and a duplication of the work in New York and also in Washington. It is the custom with all commercial banks when they draw a draft, to draw against a balance which they actually have and when they make transfers, to do the same way. I think it is good banking practice.

If you use the other method you are going to have overdrafts on the bank in New York, and unless you can make arrangements through the Gold Settlement Fund in time so that the New York Bank is advised that they can credit the Chicago Bank with the amount that has been put through to the credit of the New York Bank in the settlement fund, it necessitates the duplication of work and makes these telegraphic transfers harder to make. It would be more advisable, I think, for the Federal Reserve Bank to have the privilege of carrying accounts in New York and

other centers --- possibly in Chicago--- for exchange purposes, to say nothing of the matter of investment; and I think it is just as important in the matter of investments, as it is in the matter of exchange. It is the way that other banks do. It is a commercial practice of long standing.

Governor Aiken: Is not this practically an account for exchange purposes? We have a special investment account in New York against which their purchases for us are charged. Theoretically that account is an account to provide us with New York Exchange and to reimburse New York for the investments that they make for us. Is not that within the purview of the law?

Mr. Miller: Well, I would not want to express an opinion for the Board on that question, certainly, and I should hesitate to express my own opinion. It is largely a technical question, I think, of the construction of the law; but I suppose the question will be asked what is the Gold Settlement Fund? What is it for? This is really the maintenance of an additional fund for the convenience of certain of the Federal Reserve Banks.

Governor Aiken: New York is entitled to be reimbursed at once for the purchases that they make for our account, so that they will not suffer any loss of interest if this comes out of your credit in the gold settlement fund. It is not a matter of material consequence whether the gold is actually in the vaults in the New York Bank or whether it is in the Treasury vaults at Washington.

Governor Aiken: Certainly not; but they might not get their settlement for a week.

Mr. Miller: I admit that. If this practice is discontinued some provision will have to be made.

Governor Deay: Even if daily settlements were made and the balance is entirely wiped out by balancing the gold fund, it will multiply the transactions required, that is, telegraphic transfers through the medium of the Gold Fund for the purpose of meeting drafts that have been drawn. That is so even if we reach the point of daily settlements.

Mr. Miller: The balance of Chicago ought not to be wiped out. If your balance is wiped out you ought not to draw exchange against it. In Chicago they simply deposit in the sub-treasury and telegraphically advise Washington---

Mr. McKay: (Interrupting) Mr. Miller?

Mr. Miller: Let me say one word more. I hesitate to speak about this subject because I realize that even with a warning to the contrary I might convey the impression that I am speaking for the Board. As a matter of fact the Board has not given anything more than the most cursory attention to these matters. The question was raised and it was simply suggested that we find out more about it, and Mr. Delano has written to Mr. McDougal for that purpose. But, inasmuch as we have got the Gold Settlement Fund we want to use it and justify it as much as possible. The settling agents particularly, I think,

have a certain pride and interest in it, and this perhaps would be construed as reflecting upon the availability and mechanical possibilities of that fund. There it is to be used.

Governor Seay: What is to become of the deposits made under Section 13 by one Federal Reserve Bank for another for the purpose of exchange, if you are going to wipe it out as fast as it is made?

Mr. Miller: I suppose it would be regarded as an alternative procedure to the gold settlement fund. If we did not have the Gold Settlement Fund that question would hardly arise, but we have the fund for the purposes of exchange, and those are the only purposes for which the Reserve Banks can carry balances with one another.

The Chairman: If every time Chicago needs New York Exchange and creates that exchange it deposits the gold, then all the New York Exchange sold by Chicago would represent a depletion of its gold reserve. It must get New York exchange as New York exchange, and not make it all the time by giving up its reserves, or it would pump itself out. In other words, this gold fund, as I understand it, is for the purpose of settling net balances which could not be settled by the purchase of exchange economically.

On any other theory the operation of the Gold Fund would be to arrest the movement of natural exchanges and reduce the creation of exchange and shipments of currency or gold altogether. The account that Chicago is con-

sidering carrying with New York, it seems to me, is an account for the purpose of utilizing exchange instead of shipping gold, which would be imposed upon it, if it relied upon the gold fund for all its transfers. As a matter of fact most of the Chicago balance is now created by shipping our New York exchange, in other words drafts on New York which are collected and placed to the credit of New York.

Mr. Miller: One of the things that surprises me is that some of the reserve banks seem to be very reluctant to part with their gold, even to deposit it in the sub-treasury that is conveniently at hand. The theory upon which we proceeded is that the gold holdings of the bank individually and in the aggregate, are so huge in proportion to their needs, that you can create all the exchange you want to on the basis of gold holdings without a shipment of the gold, or without any shipment that involves very much inconvenience or expense, by depositing in the subtreasury. If it should develop in any given case that a bank should outrun the possibilities in that way and would have to buy exchange, I suppose a new situation would exist for which some remedy would have to be provided. I think this remedy would be an altogether appropriate one under the circumstances.

The Chairman: Through our eleven reciprocal accounts up to this time in New York, we have handled \$426,300,000 of exchange, and the handling of exchange between the sections of the country means the using of balances to

avoid shipping currency. I cannot see how this exchange can be created in New York for the benefit of member banks in Chicago except by the use of the exchange that is in the market out here, which means using all the exchange that is available at a price which is less than the cost of shipping the money, and only shipping money to the gold fund or creating exchange through the gold fund after the supply of natural exchange is exhausted.

As I understand, Mr. McKay, you have been shipping us right along all the exchange that you can buy in Chicago whenever New York exchange is at par or nearly par?

Mr. McKay: I would like to say, in regard to that, that our balance with the New York Bank this morning was ten million dollars, because we have been purchasing New York exchange at a discount.

When New York exchange is at a discount, if we can get a large quantity of it, it will create for us an excess credit in the gold settlement fund when it is cleared and will leave about a million or two million dollars with the bank as a working balance. On the other hand when New York Exchange is at a premium we sell New York exchange and that ultimately will reduce the amount of our fund in the gold settlement fund, but will not cause us to ship any currency.

I think it would be profitable for all the banks, when they are able to get New York exchange at par or less than par, to buy all they can and create an excess balance in the settlement fund. I should think that would

be particular advantageous in the case of the bank in Dallas. At certain times of the year, during the cotton season, New York Exchange is at a heavy discount, sometimes as high as a dollar, and if that season of the year ^{at} the Dallas Bank created an excess in the Gold Settlement fund, then they could sell that exchange after it went above par. It would also tend to regulate the market for that exchange and keep it closer to a parity than it has been in the past. The member banks would appreciate that because they like to have it as near par as possible.

Now, with regard to making transfers or drawing drafts on New York and depositing in the sub-treasury. Every time we drew a draft we would not know until three o'clock how much we would have to deposit in the sub-treasury. It might be \$100,000 or it might be two or three million dollars and might represent a great many transactions. If these transactions were made by wire it would be too late to get the credit in New York the same day they were made, because the sub-treasury would be closed and we could not make a deposit. That would be one reason and another reason would be the multiplicity of transactions to be totaled up, divided and sent in to the settling agent.

Mr. Miller: With regard to your last point, I should say that that could be anticipated by just increasing your balance. What is the objection to putting a million, two

million, of three or four million of gold into the sub-treasury and having a large credit in the gold settlement fund.

As regards the former point I think that there might be serious consequences. I did not appreciate that you had to buy exchange and build up your balances in New York to be used when the current shifts.

The Chairman: If it had not been for that practice, of course we would not have had anything like the sale of exchange that we have had in the last six months.

Governor Fancher: It seems to me that the exchange operation is going to be one method of strengthening our gold position at times.

Mr. Miller: Yes. I think that is a very good point. I was not, myself, aware of it.

Governor Fancher: I can say that in our operations we can at times strengthen our gold position in that way.

Governor Seay: On the other hand that is the way we are liable to use up our gold funds.

Mr. Miller: It might of course be said in that case that as you build up your balance it ought to be transferred to your credit in the gold settlement fund. That is a matter of opinion, as to the feasibility or practicability of it. I think the board is disposed to do anything that really makes for the efficient operation of the banks in regard to this matter; but I think that the point is well taken, that the account of the gold settle-

ment fund and of the Federal Reserve Banks amongst themselves have to square up at all points.

Governor Seay: That is the point, Mr. Miller, on which we do not quite agree. The gold fund is for the purpose of the transfer of balances between federal reserve banks, the whole or any part thereof, one to the other. If you settle it will necessitate a duplicate transaction, that is all. We call it a settlement, but it is a transfer. Suppose we do not want all that transfer, but only want part of it. If you transfer it all it necessitates another transaction, and if you only transfer a part, and that is all you need at the time, you do not have to make another transaction?

Is that your point, Mr. McKay?

Mr. McKay: Yes; that is true. Suppose the New York Bank has a million dollars of funds reported in the gold settlement fund and that is all the funds they have there, according to their books. But they have drawn drafts against that to the amount of \$750,⁰⁰⁰ They report a million dollars in the gold settlement fund today, but that will be wiped out tomorrow when the \$750,000 in drafts come in that they have drawn against the fund. Then, if they are going to pay the drafts they have created an overdraft and would have to report a debit in the settlement fund. I think the fund ought to be there to provide for whatever drafts are drawn against it.

Governor Seay: It seems to me if we viewed the gold

fund as a means of transfer between the Federal Reserve banks and such funds as they wished to transfer, rather than regarded it absolutely as a settlement fund by which to entirely extinguish balances, we could achieve the result sought.

Mr. Miller: Suppose we had established the gold settlement fund with the Federal Reserve Bank of New York, which might have been done? Then this difficulty would not arise, would it? Suppose you carried and managed in your bank the gold settlement fund. Then this difficulty Mr. McKay points out would not arise.

The Chairman: The banks found that they would be able to handle their balances with New York exchange, and there is no such thing as Washington exchange.

Mr. Miller: But the question is whether the gold settlement fund being located at Washington alters the situation so materially that it is not operative. I do not see that it does except in the case that Mr. McKay points out where the Federal Reserve Bank is building up a balance in New York for the purpose of providing exchange for its members, and doing that through the purchase of exchange.

(Further informal discussion followed.)

The Chairman: Is not this a matter that can be dealt with better after we have had more experience with it than we have at present?

Mr. Miller: Yes. I think all that this letter of

Governor Delano's is to be treated as is an inquiry of an informal nature; an inquiry for a statement of the facts and conditions that have given rise to the practice. That is all.

Governor Fancher: It occurs to me that we will have a little additional light on it after we get in operation the transfer work in the various districts. To my mind that may lead to a daily settlement. If we have a daily settlement the transaction that Mr. Wold speaks of would be done by transfer and not by drawing a draft, and it will be wiped out daily.

Mr. McKay: I think this matter will take care of itself.

There was one statement you made with regard to buying New York exchange, Governor Strong, and that was that the only way we could get New York exchange was to buy it. There is another way that we can create New York exchange. If it is at a premium in Chicago we would deposit in the subtreasury in Chicago for the credit of your gold settlement fund, which would give us the exchange directly at par. In that way we could regulate the market.

The Chairman: That is what I say. I say that you buy exchange as long as it is possible to buy it at a rate which is cheaper than the shipping rate.

Governor McKay: That is true. When New York exchange is at par we will buy it and when we have to sell

New York exchange and it is at a premium, we can deposit in the gold settlement fund and create New York exchange, when it is necessary to do so, but only when it is necessary.

The Chairman: There is another point in connection with the creation of exchange by depositing gold that should be considered, if what Assistant Secretary Malburn told me the other day is eminent. As I understand the arrangement with the Treasury Department to effect these transfers is subject to possible later assesement for expenses of shifting gold that may arise by reason of our transfers. The difficulty in effecting shifts between the sub-treasuries has been that New York is always paying out gold and is running short of gold, and that gold accumulates at the other sub-treasuries. If the operation that Mr. McKay suggests always arises when we are short of New York exchange, we will force upon ourselves sub-treasury shipments of gold that will impose upon us the very expense we are seeking to avoid by this system.

Mr. Malburn spoke to me with reference to the time he appeared before the Committee on Appropriations in regard to the appropriations for the Treasury Department. Some of the members of the committee rather objected to the size of the appropriation wanted by the department on the score that this expense to the Treasury Department of shifting money around and so on, the committee under-

stood, was going to be eliminated as a result of the establishment of Federal Reserve Banks, and that they ought not to ask for as large an appropriation. His answer was that the system had not yet gotten under such headway that they could expect, in the next twelve months, to effect any saving in the Treasury Department. If we rely upon these transfers to make New York exchange, which is the one that causes expense to the Treasury Department, we are then liable to bring on ourselves the very expense that we want to avoid, it seems to me.

Mr. McKay: I spoke of the transaction when New York exchange was at a premium and New York exchange was created by depositing in the sub-treasury. Each Federal Reserve Bank which sold exchange would have a profit on the transaction and could about pay for the cost of shifting^a certain amount of that currency when it was necessary to do so, and would be assessed, as I understand it, a part of that cost, through the operation of the gold settlement fund.

Governor McCord: Referring to Governor McKay's statement just previous to the last, with reference to the deposit of funds in the sub-treasury, that would be true of six of the Federal Reserve Banks and would not be true of the other six. We have no arrangement whereby we could sell exchange on New York and deposit in the sub-treasury, because we haven't got any sub-treasury.

Mr. McKay: In regard to cities outside of sub-treasury cities, they would be one day behind in getting their money

into the sub-treasury, and they would be put to the expense of shipping currency to the sub-treasury. What that would amount to would depend a good deal upon the amount of currency that would have to be shipped, the denominations that would have to be shipped, and whether they had to ship silver or not. It would seem that in a case of that sort these banks would make allowance when they sold New York exchange and could charge enough for it to more than cover the cost of shipment. So far as time is concerned, that cannot be eliminated. As to making tele-
not
graphic transfers, it would be possible for those banks to make them unless they anticipated it by depositing in the sub-treasury and creating an excess in the gold settlement fund. On the other hand, they might overdraw their account in New York.

Mr. Miller: What is the objection to creating an excess? What do you mean by "excess", anyhow?

Mr. McKay: By excess I mean any amount over \$1,000,000 which is the original amount.

Governor McCord: The further objection is that we would not have the gold to make the deposit. We would probably have silver certificates. It would be a pumping dry of our gold all the time, if we dealt in any exchanges at all.

The Chairman: Is it now quite apparent that we have devoted all the time we should to a discussion of this subject? It is also apparent that the best way to make

a recommendation that will be of value to the reserve board is to wait until we have had more experience. The gold fund has been in operation only a few weeks, whereas we have had nearly six months experience with our reciprocal accounts. We know, for instance, that there is an enormous swing of exchange through these accounts. Why should not we take some action that would enable us to gain experience and make a recommendation later to the Board. In the meantime if the Federal Reserve banks find it necessary or convenient to withhold balances from their settlements, do not let them ask the Board and rely upon their advice alone, but let them file some permanent statements in Washington that will justify the Board in making settlements on the basis of our advice,---

Governor McDougal: (Interrupting) The criticism offered by Governor Delano here is directed against that one matter and nothing else, and that is the failure of banks for whose benefit this credit has been arranged to notify the Federal Reserve Board of our wishes in the premises.

I think ^{we may} understand here among ourselves that from now on the banks for which the balances may be retained will notify the Federal Reserve Board, that for the time being we have nothing more to do. I do not know that that would require a motion. That is what they would like us to do--- both sides of the transaction notify the Board at Washington.

The Chairman: In the form of standing instructions?

Governor McDougal: That would suit us exactly. Otherwise we would have to notify the Board once a week that we requested you to withhold \$2,000,000. That is the fixed amount, I think, that we intended to have with you, or at least that amount.

The Chairman: I would like to call your attention, Governor McDougal, to the fact that this subject really comes up under three items that have been suggested for our program. I will read them.

One is the subject we have just been discussing, 5-(h); another is 5-(j), "Method of settlement for investments made by one Federal Reserve Bank for the account of other Federal Reserve banks", and the third is 12-(i), suggested by Governor Fancher, "Investment accounts with Federal Reserve Banks in cities where considerable volumes of investment originate." As a suggestion from this meeting as to the method of dealing with these three subjects until we have had further experience.

Governor Seay: I suggest, Mr. Chairman, that we recommend to the Federal Reserve Board that other Federal Reserve Banks be permitted to maintain, for exchange purposes, balances with each other outside of the gold settlement fund, or outside of the balances which will be cleared weekly by the gold settlement fund.

The Chairman: Do you offer that as a motion?

Governor Seay: Subject to discussion, amendment, and so forth.

Governor Wold: I will second the motion.

The Chairman: Is there any further discussion on these three topics?

Governor McDougal: I am not sure that that will answer the expectations of Governor Delano. It seems to me that we can have it understood, without passing any resolution, that every bank which asks another bank to withhold anything from its settlement fund, will advise the Federal Reserve Board of the particulars.

Governor Seay: I think my resolution needs amendment to that effect.

Governor Wold: Governor Strong, let me say I think we should be permitted to have a separate account against which investments might be charged and against which we might draw, and that would not clear through the gold fund at all.

Governor Seay: That was the resolution.

Governor Wold: That would be a convenient way to handle it and each institution could withhold a stipulated amount from the weekly settlement.

Governor Seay: Governor McDougal's amendment is that in such case the bank maintaining the balance advise the Federal Reserve Board that the bank holding the balance be requested to withhold that amount from settlement of the fund.

Governor Wold: What about?

Governor Seay: A certain stipulated amount that the bank may desire to maintain. Two million dollars in the case of Chicago; anything you please in the case of

Minneapolis, and a million in the case of Richmond.

Mr. McKay: Sometimes the amount changes.

Governor Seay: Then you can change your advice to the Federal Reserve Board.

(Informal discussion followed.)

The Chairman: I assume you gentlemen know what you want to do in the way of handling these accounts. If somebody will offer a resolution making a recommendation to the Board, in which we can all join, we can wind this topic up.

Governor Rhoades: I will second Governor Seay's motion.

The Chairman: Will the Secretary read the motion?

Mr. Curtis: I will paraphrase that motion if I may. Moved that the Conference recommend to the Federal Reserve Board that the Federal Reserve Banks be permitted to withhold balances from the Gold Settlement Fund whenever such balances are held, and both banks will advise the Federal Reserve Board of the amount to be withheld.

Governor Seay: It is questionable whether it can be done in that language or not. The act permits one Federal Reserve Bank to maintain balances with another Federal Reserve Bank only for exchange purposes. That is the only condition under which a bank is allowed to maintain a balance with another Federal Reserve Bank.

The Chairman: I will ask the reporter to repeat the resolution.

(Mr. Curtis thereupon stated the resolution as follows:)

Moved that the Conference recommend to the Federal Reserve Board that Federal Reserve Banks be permitted to withhold, for certain exchange purposes, balances from the gold settlement fund ^{and} whenever such balances are withheld both banks will advise the Federal Reserve Board of the amount to be withheld.

Governor McDougal: May I make this suggestion: That the last sentence read both banks to advise the Federal Reserve Board by telegraph weekly.

Governor Aiken: What is the object of advising them weekly by telegraph? Why not have a standing order?

Governor McDougal: What I had in mind was that this week we might want one amount held out and the next week another amount.

The Chairman: You can change the standing order once a week, once a day, once a month, or as frequently as needed.

Governor McDougal: That is true.

(There were calls for the question.)

(Governor Seay made a suggestion which was discussed and withdrawn.)

The Chairman: The resolution as prepared by the Secretary has been offered. I think I heard a second.

Governor Rhoades: I seconded the motion.

Governor Aiken: May I hear it read again?

Mr. Curtis: Moved that the conference recommend to

the Federal Reserve Board that Federal Reserve Banks be permitted to withhold for certain exchange purposes balances from the Gold Settlement fund, and whenever such balances are withheld both banks will advise the Federal Reserve Board of the amount to be withheld.

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

(There was no further discussion and the motion was duly put and carried.)

The Chairman: Mr. Miller, another subject held up for your attendance here is subject 12 (c), "Purchases of Government bonds."

At the time of the last Conference of Governors held in Washington a resolution was passed asking the Federal Reserve Board--- and I am relying on my memory without refreshing it because I have not had time to look over the old record--- for a ruling as to whether purchases of Government Bonds made prior to December 23rd, 1915, would be taken into consideration in making allotments to the Federal Reserve Banks of any portion of the purchase of \$25,000,000 of bonds which might be offered by the member banks commencing December 23rd, and an opinion was rendered by the counsel for the Federal Reserve Board which has the effect, as we understood it in New York, of permitting such purchases to be applied on the allotment but only to take effect after the 23rd and to be operative during the calendar year in which the allotments were made. The effect of that would be to deprive any

Federal Reserve Bank of the privilege of having bonds purchased prior to December 23rd next counted in the allotment of next year.

By a subsequent opinion, published in the bulletin, as we understand, counsel for the Federal Reserve Board has modified his view of this provision of the Act and we understand the effect of that to be that purchases now made by Federal Reserve Banks would in fact be counted as a part of their allotments made after December 23rd next to an amount which would in the aggregate, in each instance, exceed their possible allotment out of the \$25,000,000, that it would render completely inoperative that section of the Act, at least this year, because the allotment would be filled and no bonds could be delivered to the Federal Reserve Bank on tenders made by member banks.

That affects us in New York, and I assume some of the other Federal Reserve Banks too, for this reason: We have felt in New York that we would have an allotment of possibly 40 per cent of all the bonds which might be purchased under the tenders the next year, and that would be all we would care to take in the first instance; but if we are going to be permitted to count purchases in the meantime as a part of our allotment, we can buy them now at 98-1/2 instead of getting them at par later, and we would prefer to buy them now.

We would like very much to know just what our position is, and I assume the officers of the other Federal Reserve banks are considering the same thing.

Mr. Miller: I am sorry I cannot contribute anything to relieve the doubt on that point.

Mr. Curtis: I think we have written a letter to the Board asking that question.

Governor Seay: Did you say that counsel for the Board had modified his first opinion?

The Chairman: He has rendered an opinion in language different from the first opinion, which winds up with a proposition as stated in terms of geometry, which, if we have interpreted it correctly, means that the purchases will be counted as a part of the allotment.

Governor Seay: Did you not agree with Judge Elliott on his first opinion, Mr. Curtis?

Mr. Curtis: I never formally agreed or disagreed with either opinion. The second opinion is dated before the first. The first opinion was dated April 26th and the second opinion is dated April 27th. He winds up the opinion first with this statement:

"Inasmuch, therefore, as the first fiscal year during which allotments may be made cannot, under the terms of the Act, begin prior to December 23rd, 1915, that is to say, two years from the passage of the act, the bonds acquired by Federal Reserve Banks prior to that date can not be deducted from the amount allotted to any Federal Reserve Banks after this date."

The one published under a different date is changed materially.

Governor Aiken: Will you read that, Mr. Curtis?

Mr. Curtis: At the end of the opinion dated the 22nd, he says:

"To summarize: In order to determine the amount any one reserve bank may be required or permitted to buy under Section 18, take the entire sum offered for sale in this manner, allot to each bank its proportionate share, and deduct therefrom the amount of bonds bearing the circulation privilege bought by such bank in the open market during the year.

"Let X equal the amount to be bought by the reserve Bank A, then

$$X = \begin{array}{l} \text{Total} \\ \text{amount} \\ \text{for sale} \end{array} \times \begin{array}{l} \left(\begin{array}{l} \text{Capital and sur-} \\ \text{plus of A} \end{array} \right) \\ \left(\begin{array}{l} \text{Aggregate capital} \\ \text{and surplus of} \\ \text{all banks.} \end{array} \right) \end{array} = \begin{array}{l} \left(\begin{array}{l} \text{Amount of bonds} \\ \text{bearing circulation} \\ \text{privilege bought} \\ \text{in open market by} \\ \text{A within the year.} \end{array} \right) \end{array}$$

(Informal discussion followed.)

Mr. Curtis: It is left in doubt whether he means the calendar year or the year beginning next December 23rd.

Mr. Miller: I presume the date would be from the passage of the Federal Reserve Act.

The Chairman: We cannot determine what Judge Elliott's opinion means without getting further advice from him. We are not going to get anywhere discussing that opinion.

This was put on the program at my suggestion with the object of dealing with the more practical feature of

the matter, and that is how we shall handle purchased government bonds in case we do get an opinion from the Federal Reserve Board that they will count as a part of the allotment. That is really a practical matter, because if each of the Federal Reserve Banks is advised that on the 23rd of December next or shortly thereafter they may be asked to take up their apportionment of the \$25,000,000 purchased, every one of the reserve banks will endeavor, if it is permitted, to anticipate that by buying them at the lower price that prevails today. The effect of that would be to at once have all the Government bond brokers hunt around to have all the twelve banks buy these bonds and we would put them at par. That might be a good thing to do and it might not. I think we ought to consider, as a matter of policy, whether there is any action that ought to be taken at this meeting with regard to the policy of buying government bonds.

Governor Wold: The Minneapolis bank has bought bonds, but the policy of our board at present is not to purchase any more government bonds until they might be offered by the Reserve Board under the provisions of the Reserve Act.

Governor McCord: Is it not true that if we made purchases and there was offered by the member banks in the next calendar year the full amount of bonds, that that allotment would have to be taken care of under the law?

Governor Wold: The Board is not required to purchase them. It is optional with the Board.

Mr. Curtis: They cannot require the Federal Reserve Banks to purchase more than \$25,000,000.

Mr. Miller: The question is whether you can take advantage of the market, by some sort of a procedure here, anticipating your obligation with respect to the \$25,000,000 in bonds, or whether if you make those purchases you are still liable---

The Chairman: (Interposing) If we felt in New York that there was a likelihood of our being required to buy ten millions of twos at par unless we had previously purchased them at 98-1/2, I think our disposition would be to buy them at 98-1/2 now and get the income. But on the other hand if we felt that in purchasing them now they could not be applied upon this allotment, and that we would have to take the ten million dollars at par anyway, we doubtless would buy none now but would wait until the allotment was made and take up what we were required to take up.

Anticipating that we may be permitted to purchase bonds now in anticipation of the allotment, has anyone a suggestion to make as to the policy to be followed in buying government bonds, if such a ruling be made?

Governor Aiken: It seems to me there is only one practical way to do it and that is to have one bank act as agent for the others in making these purchases. As you have suggested, the price would go to par at once if we began to buy against one another.

The Chairman: It would be worse than that. The price would go to par and be par so hard that we would not be able to get the bonds. As long as they are selling at even a shade under par we always have a market to work on; but if they get right squarely up to par the banks would likely not sell them.

Governor McDougal: Very few Government bonds can be had now at the current quotations. Is not that true?

The Chairman: That is true in New York. I do not know how it is elsewhere.

Governor McDougal: I think that is true everywhere. We have picked up our purchases a few at a time and have seen the market respond almost instantly to every order that we put out. When we would wait for a week or two before buying more. We bought three and a half millions and we did not buy them with any idea that we would be relieved of the necessity of taking our portion of the allotment. I do not believe we will be now.

The Chairman: That is the understanding of the ruling.

Governor McDougal: I do not see how it will be possible for them to permit that ruling to stand. If the banks want to retire these bonds after a little while they are going to be permitted to do it and they have to be taken care of. It would seem so, at least.

The Chairman: I think, myself, that this ruling would defeat the purpose of the Act.

Mr. Miller: That is not a ruling; it is just an

opinion.

The Chairman: I mean the opinion.

Governor McDougal: I might say, for the benefit of those present who are not already acquainted with the fact, that our bank originally intended to exchange these twos for threes, but upon reconsidering the matter determined that that would be the wrong policy, and concluded to apply at once for circulation against the twos believing that it was the duty of the Board to keep the bank in the strongest possible condition; not with the intention of using that circulation, excepting in emergencies. I believe some of the other banks have applied for circulation also, and we have applied for the full amount on our twos.

The Chairman: Do you offer a motion in connection with this matter, Governor Aiken?

Governor Aiken: I did not, but I will.

I move that in case of a ruling being rendered by the Federal Reserve Board that the United States bonds available for circulation bought prior to December 23rd, 1915, shall count as part of the allotment of bonds under the terms of Section 18 of the Federal Reserve Act, that the Executive Committee of the Governors shall immediately thereafter request one federal reserve bank to act as agent for the other Federal Reserve Banks in purchasing such bonds, prior to December 23rd, 1915, under a plan to be formulated by said committee.

The Chairman: Is that motion seconded?

Governor Rhoades: I second the motion.

(There were calls for the question.)

Governor McDougal: May I have that motion read again.

The Chairman: The reporter will read the motion.

(The reporter read the motion as follows:)

"That in case of a ruling being rendered by the Federal Reserve Board that United States bonds available for circulation bought prior to December 23rd, 1915, shall count as part of the allotment of bonds under the terms of Section 18 of the Federal Reserve Act, that the Executive Committee of the Governors shall immediately thereafter request one Federal Reserve Bank to act as agent for the other Federal Reserve Banks in purchasing such bonds, prior to December 23rd, 1915, under a plan to be formulated by said Committee."

(There were further calls for the question.)

The Chairman: The question has been called for. Is there any further discussion?

(There was no further discussion and the motion was duly put and carried.)

The Chairman: Item (f) under Subject 12 is "Purchase of domestic bills of exchange not based upon imports or exports. That is likewise covered by item (h) under the same heading, "Purchase of trade acceptances by Federal Reserve Banks." One subject was suggested in New York and the other by Governor Delano.

I have a letter here from Vice-Governor Delano on

this subject. I will not read the whole letter, but he states that at the request of Mr. Warburg he is sending two drafts of the circulars, one of which bears on the subject of trade acceptances and the other is related to purchases of bills of exchange in the open market. They are too long for us to consider in detail here.

I wonder if we might not ask Mr. Miller to make some statement with regard to the consideration that this matter has had by the Federal Reserve Board?

Mr. Miller: I have stated nearly all I can say on the subject already. This was one of the matters that I spoke about as a matter that has not been considered except in a very cursory manner by the Federal Reserve Board; a matter that has been referred to a few times in the course of general discussion of policy to be pursued by the board, and a matter that sooner or later would have to be taken up by the Board and pressed to a solution.

The main question, I should say, from our point of view, is whether we should restrict operations to discounts under Section 13 or authorize purchases in the open market under Section 14. The main desire--- I do not know whether this would be the attitude of the Board or not, but I think that it probably will be--- is that in the beginning things should be restricted to the purchase of bills bearing the endorsement of member banks. It is a very simple provision, as all these regulations are, and there is only one feature that contains anything that is of particular interest. That is the statement in the

body of the bill substantially to the following effect:
"This bill has been drawn against goods sold" or a rider attached to the bill, stating, over the signature of the drawer or acceptor, that the bill "has been drawn or accepted against a sale or purchase of goods."

With a view of insuring that these should be genuine trade bills in other respects, it avails of the provisions in the latest regulations upon the subject of commercial paper.

The Chairman: I would rather gather from what you said yesterday and from the discussions we have previously had at our meetings, that it might be desirable to consider at this meeting whether the opinion is sufficiently crystalized in the different federal reserve banks to enable us to express to the Board how the management of the twelve banks would feel in regard to the Board extending the scope of open market operations by federal reserve banks in the purchase of domestic trade bills or acceptances, or whether it should be restricted for the present to the purchase of these bills when endorsed by member banks. I think some pretty strong opinions already prevail in some of the banks on that matter, and if agreeable I will ask each of the Governors present to express, as briefly as possible, what the sentiment is in his bank.

Mr. Miller: Let me add one word more, and that is with reference to an essential part of each of the plans here proposed, namely, the granting of a preferential rate on bills of that kind. That I think is a point upon

which the Board would most like to have advice from the Governors.

The Chairman: Governor Wells, will you make a statement for the record of the feeling in the St. Louis bank as to the preferential rate in favor of paper of that character, and further as to whether the Federal Reserve Banks should or should not be permitted to buy such bills in the open market without the endorsement of member banks?

Governor Wells: That is a subject that has not been taken up by the St. Louis Bank.

The Chairman: Governor Fancher?

Governor Fancher: It has been discussed only tentatively by our Board at two or three meetings. This feeling prevails, however, as to the preferential rate. I think there is a sentiment on our board that for strictly liquid paper there should be a preferential rate for a short maturing bill. There is a difference of opinion as to the purchase of bills in the open market without the endorsement of a member bank. While I say it has been informally discussed, I rather think the majority lean towards the purchase only of those bills that have the endorsement of member banks, although there has not been any extended discussion upon the subject.

The Chairman: Governor Wold, what is the sentiment in your bank?

Governor Wold: Our Board has discussed the question of extending open market operations and are opposed to any further extension of open market operations under

existing conditions.

The question of preferential rates upon so-called trade paper or acceptances has not been discussed. My opinion would be that it might encourage the making of more of that kind of paper. Whether that is advisable or not I am more prepared at this time to state.

The Chairman: Governor Sawyer?

Governor Sawyer: The question has been referred to several times in our board meetings, but we have never had any very serious discussion about it. Opinion seems to be divided as to whether or not it is advisable. I am inclined to think the majority of our Board would be of the opinion that it is a little early to take up purchases on the open market at this time.

The Chairman: How do you feel about that personally?

Governor Sawyer: I think they ought to be taken on member banks' endorsement, as yet. I do not believe these bills are numerous enough--- regular trade bills--- and we are a little afraid to open that subject up.

The Chairman: Governor Wold, I understood it was your personal view that you would not advocate the buying of such paper without the endorsement of a member bank?

Governor Wold: Most decidedly not.

The Chairman: Governor Fancher, how do you feel about that?

Governor Fancher: That would be my opinion at the present time.

The Chairman: Governor Wells, what is your personal view? Would you be opposed to it?

Governor Wells: Yes.

The Chairman: Governor McCord?

Governor McCord: It has been discussed at our board largely because of some transactions at New Orleans, and it is the consensus of opinion that they would not care to take them except with the member bank's endorsement.

The Chairman: Do you feel that way yourself?

Governor McCord: Yes.

The Chairman: Governor Aiken?

Governor Aiken: The matter has not been discussed by our board. I have talked it over with Mr. Curtiss, and my personal feeling is that I should prefer not to buy such bills without the endorsement of the member bank at the present time.

The Chairman: What is the condition in your bank, Governor Rhoades?

Governor Rhoades: We have never taken any formal action on the matter, but my impression is that our directors would not be in favor, at the present time, of taking paper without the endorsement of the member bank.

The Chairman: What is the feeling in your bank, Governor McDougal?

Governor McDougal: The feeling of our board with respect to open market transactions is that in times when there is a good demand for member banks for re-discounting, that we should keep out of the open market;

and on the other hand, in times such as we are going through at present, we should enter the market and buy only such securities as we can buy with the least harm to member banks.

With respect to the matter of domestic bills of exchange, our board is of the opinion that they should not be taken except with the endorsement of a member bank.

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The Chairman: How do you feel about this?

Governor Lowry: That matter has not been taken up by our board of directors, so I could not give their views on the question.

The Chairman: But how do you feel, yourself, about it?

Governor Lowry: Personally I feel that we are so far away from the sources where such paper is created that I do not know very much about it, but my personal view is that we would rather have the endorsement of a member bank and take it as rediscount rather than as an open market transaction.

The Chairman: Governor Seay?

Governor Seay: I am safe in saying, Governor Strong, that we are not disposed to require those bills be purchased in the open market. We would not take them without the endorsement of member banks. That is as to the question of entering the open market. Do you wish to know at the same time about the preferential rate---

The Chairman: Yes.

Governor Seay: I believe, sir, that it is of very great consequence that some movement should be started to

encourage the creation of such a class of paper, and if it should come up at a ~~proper~~ proper time later on I would like to offer for consideration a resolution to that effect, and I think it might be further encouraged. I am only offering you a personal opinion, now, as to the preferential rate.

The Chairman: Governor Van Zandt

Governor Van Vandt: Our board has not discussed that matter in a very determined way. Personally, I am not in favor of open market purchases of acceptances without the endorsement of a member bank, out of consideration for our member banks. I am in favor of a preferential rate as to that class of paper from our member banks.

The Chairman: I think the feeling in our bank would be at the present time opposed to the Federal Reserve Bank purchasing such paper in the open market, at any rate without the endorsement of member banks; but I think they would favor a preferential rate for the discount of such paper of member banks, in reasonable amounts, to stimulate the creation of that class of paper. My own personal view is a little different from that, however. I think that whatever regulation is made by the Board it should afford that protection to member banks, and that the preferential rate will be used in order to stimulate the making of that class of paper with the idea that ultimately the reserve banks will buy that paper in the open market. Whether it can be purchased with or without the endorsement of member banks will depend very largely upon the success

that is realized by the reserve banks in creating a market for that kind of bills. If it cannot be created except by their entering the market and dealing in them actively themselves, without the member bank's endorsement, then we believe we have got to do that in order to get the market going, even if it amounts to some slight sacrifice on the part of the member banks in the matter of rates.

Might it not be desirable to get a consensus of views, inasmuch as they are almost identical, in the form of a resolution covering both of these points, first, as to the desirability of buying such paper only with member bank endorsements, and, second, as to the establishment of preferential rates or the employment of any other method to stimulate the creation of that class of paper?

Governor Seay, have you such a resolution?

Governor Seay: With reference to the creation of that class of paper, Governor Strong, it involves some change in the present commercial practices. Somebody will have to start the movement. I am of the opinion that the Federal Reserve Banks probably should start the movement.

In talking with a bank president of one of the largest Pittsburgh banks a couple of days ago, he thought that in this district if some methods were started by the banks to encourage it it would be taken up by the trade. He believed that quite a large volume of acceptances could be made, provided some encouragement was received. I have here a resolution of this character:

It is recommended that the Federal Reserve banks enlist the aid of clearing houses, chambers of commerce and credit bodies, in their respective districts to bring about a change in commercial practices which will cause the creation of trade acceptances in all commercial transactions when practicable, to the end that sounder credit practices may be promoted and a part of that vast fund of bank accounts be turned into trade paper eligible for rediscount with federal reserve banks, and that the resources of those banks may to the fullest extent and on the soundest basis be available for the benefit of the commerce of the country.

It sounds a little technical and a little strained and formidable, but I am so thoroughly imbued with the idea that such a movement should be considered for the encouragement of this kind of paper that I believe it is well at this time to bring that matter up here and now.

The Chairman: That does not deal with the preferential rate.

Governor Seay: It does not. I had not gone that far. That can be done by a separate resolution.

Governor Van Zandt: Do you not think, Mr. Chairman, that the mention of a preferential rate in that resolution would add weight to the resolution?

The Chairman: I certainly do.

Governor Seay: I certainly do. I think it is one of the important things that will bring about the practice. I had not considered that point when I had this resolution

in my mind.

The Chairman: Will you not add that to the resolution, that we consider the establishment of preferential rates for that class of paper proper?

Governor Seay: I think it would be highly desirable sir.

Governor McDougal: I would like to have someone who is better posted than I am state why that paper is better than what we are handling at the present time. Personally, I do not believe it is. That is the kind of paper we are inclined to look upon with a little suspicion at the present moment. I personally would not be in favor of that resolution. There is one change that I would make to it, I think, if I were to vote for it, and that would be to strike out "clearing houses", because it is not within the power of a clearing house to undertake such a matter.

Governor Seay: The idea I had, Governor McDougal, was that the banks themselves should give expression to a preference for that class of paper if they had a preference, and that if you enlisted the clearing houses they would aid the movement.

Now you ask also for an expression of opinion as to why that class of paper is preferable. I do not by any means pose as a credit expert, nor do I think that I have any more information upon that than you have, or others, but I believe that the class of paper that is the soundest and that is the most eligible for discount for federal

reserve banks is that class of paper which arises out of a straight transaction and would be liquidated by the consummation of that transaction. I think that acceptances are usually based upon some specific commercial transaction, identifying the purchase and the sale, and it has usually to be paid out of the commodity sold, or when the transaction is completed; and for that reason, more than any other, it identifies it as a piece of liquid paper.

The practice of selling paper for the purpose of conducting business means the establishment of a continuous credit line. If one piece of paper is paid it is usually paid by the floatation of another, whether the paper is sold in the open market or whether it is offered to a bank, based upon the maintenance of a certain balance. But, as I conceive the matter, the acceptance will be based upon specific transactions; it would be more likely to be liquid than the ordinary single name paper, or the ordinary two name paper---

Governor McDougal: I believe that the paper that would result from that practice would represent the poorest named, the weakest named, for the reason that the buyers now who ask for and obtain thirty, sixty or ninety days are those who are not able ultimately to discount their bills.

Governor Seay: What would it be if a preferential rate were given by all the banks today?

The Chairman: There is a complete answer to your question, I think, Governor McDougal, in this way, that if

a customer of a strong house wishes to take time for the settlement of his account, at the present time it lets this account run and does not discount the bill. If under the arrangement suggested for a trade acceptance it should accept a draft made on it by the concern to which it owed the account, why, then, there would be created a piece of paper with the name of the weak debtor, together with the name of the strong creditor available for use; and when we today speak of single name commercial paper, you say that that paper, without the obligation of the maker's customer, is better than the same paper with that obligation on it, which bears the acceptance of the weak customer of that house. You are going to get the same kind of paper, with the same obligation attached to it, but that you are going to get paper, instead of book account, and it has this additional advantage, that if this weak customer of the house that is selling him goods is able to get its obligation on the bill it can be discounted at a bank, which means that the acceptor of that bill is going to be more prompt in paying his bills than he ever has been when he had an open account and let it run along for thirty or sixty days beyond the maturity of the account.

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

The Chairman: It is to stimulate a banking practice that will enable strong houses to get their customers on their books in the form that will enable them to collect

their debts when they are due and not let them run along indefinitely.

Governor Seay: And moreover, to create in volume a class of paper about which there can be no question as to the commercial quality. There is a very great question, I think, as Dr. Miller announced yesterday, as to the quality of a very large proportion of the paper that we are compelled to take now in order to aid our member banks; and that paper is provided for in the circular promulgated by the board, where it can be identified as the specific transaction made by the seller and the buyer.

The Chairman: Governor McDougal, I have talked with Mr. Forgan, who has very strong views about this, at different times, and I know the way he feels about it, but I cannot help feeling, and I think we all do, that this movement has started already. The minute the New York bank began to accept on import and export bills they started a movement that is going to extend to domestic trade, inevitably, and I hope that you gentlemen are going to be willing to vote for some resolution in some form that we can make unanimous and that will really get the expression before the Federal Reserve Board on this subject, both as to the making of that class of paper, and as to the establishment of a preferential rate for it. There will be plenty of single name paper made by the customers of banks.

Governor McCord: That movement has already reached the agricultural sections, Governor Strong. We are seeing it come up in our district.

Governor Aiken: I am very sure that the board of our bank will be entirely in sympathy with the attitude you take in that matter. We will be very glad to do anything we can to further this practice.

The Chairman: How about the resolution that Governor Seay has prepared, which was to have an addition recommending to the Reserve Board that they consider the question of establishing preferential rates for this class of paper?

Governor McDougal: Bearing the endorsement of member banks?

Governor Wold: I am very much in sympathy with any movement toward the creation of a commercial bill of this character. I think a preferential rate will go a long way towards educating and encouraging business interests to inaugurate that method of settling.

Governor Aiken: May we have the resolution read again, Mr. Chairman?

The Chairman: Governor Seay, will you read it, please?

Governor Seay: (Reading) "It is recommended that the Federal Reserve Banks enlist the aid of clearing house, chambers of commerce and credit bodies in their respective districts to bring about a change in commercial practices which will cause the creation of trade acceptances in all commercial transactions where practicable, to the end that sounder credit practices may be promoted and a part of that vast fund of bank accounts be turned into

trade paper eligible for rediscount with Federal Reserve Banks, and that the resources of those banks may to the fullest extent and upon the soundest basis be available for the benefit of the convenience of the country.

"It is further recommended that the Federal Reserve Board be requested to consider the advisability of allowing the Federal Reserve Banks to establish a preferential rate for such acceptances, bearing the endorsement of member banks."

Governor Fancher: I second the motion.

(There being no further discussion, the motion was put and carried.)

The Chairman: Item 11-(b) was left for consideration until Mr. Brockerick should be with us. Mr. Brockerick, transactions between the Federal Reserve Bank at New York and the Federal Reserve Bank at Philadelphia have resulted in an overdraft in one or two cases in the due-to account, which has been reported as part of the report of our bank for settlement with Philadelphia and has been eliminated from settlement. I think the matter was discussed by one of our accountants with Mr. Jacobson, and I think the men in our office had the impression that the transaction which resulted in the overdraft was not thoroughly understood and that we ought to have some recommendation before the Reserve Board to clear that matter up. I do not know that there is any action required by this meeting except to call attention to the fact that when an account is overdrawn, notwithstanding the fact that the debtor

bank might have considerable of the fund that is not being settled in the weekly settlement.

Governor Aiken: On what theory was that overdraft thrown out?

The Chairman: It becomes in a sense a due-from account, then, instead of a due-to account.

Governor McKay: That matter was brought to the attention of Mr. Jacobson and some of the others in the department at Washington. Mr. Broderick, I believe, understood it, but he has been away. I think perhaps those gentlemen quite clearly understand it, but our arrangement then was that any overdrafts would be reported as an overdraft, as a due instead of a credit, and could be settled through the fund, just the same as the credit could be settled through the fund. It was all arranged, as we supposed, until I heard from the New York Bank that they had refused to make a settlement for an overdraft. I think Mr. Broderick ~~mmm~~ will support me in saying that it was agreed upon.

Mr. Broderick: It was discussed; I do not know that an actual agreement was had. I think the difference of opinion arose from the different classes of transactions that entered into the due-from and due-to accounts. We have considered one question with the other, and I think if you will let the matter rest without recommendation we will have it straightened out within the next week or two.

The Chairman: That is all we wanted to do with this subject, and we will pass it without further discussion,

going back to the program in its regular order. We will take up heading "5-(c), Analysis of operating expenses." I am taking the liberty of making suggestions as to some of these items merely to refresh your memory as to what has gone before. Item (c) would naturally be referred to the committee to be appointed by the Executive Committee, for consideration in connection with other matters of accounting.

Governor Aiken: I move it be so referred.

Governor Seay: I second the motion.

(There being no discussion the motion was put and carried.)

The Chairman: Item 5-(d) should be treated in the same way.

Governor McCord: I move it be so referred.

Governor Aiken: I second the motion.

(There being no discussion, the question was put and carried.)

The Chairman: Item (e) should likewise be referred to the committee. Is there any objection?

(There being no objection the item referred to was referred to the committee having in charge the other items just mentioned.)

The Chairman: Item (f) is suggested by Governor Aiken. I will ask him to explain the matter.

Governor Aiken: I put that in for information as to who was to bear the expense of getting the Federal Reserve notes back to the original bank of issue; how that expense was to be borne. The Federal Reserve Bank of

New York, for example, has outstanding a very ^{much} larger amount of Federal Reserve notes than any other bank. It will accumulate in the other banks. We send them to New York. Are the banks sending them to New York for redemption to pay the expense of shipping them, or is it to be distributed in some way?

The Chairman: I cannot say what the practice has been with the other reserve banks. In the case of the New York Reserve Bank we make a shipment to quite a number of the other reserve banks every week, and those shipments we are making at our own expense. Have you any suggestion of any other method that should be adopted in dealing with that, Governor Aiken?

Governor Aiken: No; I simply wanted to know what the practice has been. It is going to put a heavy burden on the smaller banks which accumulate the notes of the larger banks. The question arises as to whether that is a fair burden for them to carry, in my mind. It has been our practice to pay the expense of such shipments ourselves, and I wanted to find out what the other banks were doing.

Governor Seay: The alternative would be for each bank to pay the charges upon its own notes, would it?

Governor Aiken: Yes.

Governor McCord: I represent the smallest bank, and it would be an expense on it. If we send them to you they would immediately enter into our gold fund and we would be converting Federal reserve notes into gold?

The Chairman: As a matter of fact, we have got to recognize certain absolutely fundamental principles. In connection with banking one principle is that a note is redeemable at a certain place by law, and a federal reserve note is redeemable either at the Treasury Department in Washington or at the office of the bank that issues it. Of course the impediment that is applied to Federal Reserve notes against their being paid out ~~ann~~ again gives these particular notes a peculiar quality that no other circulating note has--- I mean, being paid out again by a Federal Reserve Bank that happens to receive them. I suppose a Federal Reserve Bank may protect itself in a way by declining to receive them, if they wanted to act to that extreme, but that would be a very extreme measure to adopt. Is there any suggestion from anyone here, after hearing this discussion, as to any other practice which should be pursued?

Governor Rhoades: Does the practice of redeeming the notes of National banks cause any additional burden?

The Chairman: The burden of redemption or the cost of redemption in each instance is borne by the banks that happen to receive them, if it wants to redeem them. They ship them to their correspondents, and gradually ^{they} ~~ann~~ will work back to the bank that issues them.

Governor Rhoades: If they are shipped to Washington, who bears the expense there?

The Chairman: Up to the point that they reach Wash-

ington it is always borne by the bank that sends them.

Governor McCord: Except unfit currency?

Governor Aiken: The Federal Reserve Bank could not decline to receive notes on other Federal Reserve Banks, could they, Governor Strong?

The Chairman: No, you are quite right.

Governor Aiken: We must take them, and we cannot pay them out.

The Chairman: Governor Aiken, would you like to have that question submitted to the Board in Washington in order to get a ruling on it?

Governor Aiken: No, not at the present time; it has not become burdensome. I just wanted to know what the practice was of the other banks.

The Chairman: Are you ready to pass that item?

Governor Aiken: Yes.

The Chairman: "Standard form of financial statement, " Item 5-(g).

Governor Rhoades?

Governor Rhoades: That has already been dealt with, Mr. Chairman.

The Chairman: Yes; that has been covered. I put on the program for discussion the question of the settlement of old exchange accounts, which should be disposed of now that the gold settlement fund has been established. The rule adopted at the first conference of the Governors was that the cost of shipping currency and the cost of purchasing exchange for the purpose of evening up balances would be borne half and half by the respective banks that had the

transactions. We have had so many transactions with the other banks that we are not quite certain that even those accounts have been settled, and I would like to ask those here that they render accounts against us, if there are any accounts; and, addressing myself particularly to Mr. McKay, if there is any credit balance---

Governor McKay: Our relations have been very satisfactory, Governor Strong.

Governor Seay: I would consider it quite unappreciative of the large account you have now with us if I should charge you with any of the cost of settling it.

The Chairman: Item (1), "Gold held by Federal Reserve Agents as security for notes." The question arises as to whether some means may not be devised which will be in conformity with the statute and acceptable to the Board in Washington, by which a control account may be entered on the general ledgers of the reserve banks so that we will show the total amount of notes outstanding in a complete sense, and offset that by the total amount of collateral or gold which is held by the Federal Reserve Agent. I would like to say that we have considered that very carefully in New York, not from the standpoint that we should show those notes as a liability in a legal sense, which we do not think we should do, but as a matter of good banking practice there should be a control account on our general ledger which would again be reflected as a total in a subsidiary ledger, showing as to the bank, and as distinguished from the Reserve Agent, all transactions for the issuing and retirement of Federal Reserve notes.

Our account^{ants} in New York are clearly of that opinion, that our bookkeeping method is deficient and to some extent dangerous now in that respect.

Governor Seay: Those are my convictions, sir. I believe that the books should reflect the actual state of affairs at all times, and I do think that it would give more accurate information to the public and they would understand it better if they could see in the daily published statements the actual full outstanding circulation of the Federal Reserve Banks, if it is desirable to separate that portion of them which is secured by gold in the hands of Federal Reserve Agents from the other portions secured under the Act and to have both appear in the balance sheet. It reduces in volume the assets of the bank. Our bank has two and a half million of gold behind its Federal Reserve notes, and yet it has about two millions of bills receivable which, if some proper method might be devised, could be put up behind these notes. A portion of them are in process of collection. A portion of them consist of a great volume of small notes of short maturity which would have to be taken down as quickly as put up. We have \$7,500,000 of bills receivable, but we have only about \$5,000,000 of it for security of Federal Reserve notes, and the other two and a half is gold. There should be a control account. The condition should be reflected in the books. It is very difficult for a great portion of the public to understand how seventy millions of Federal Reserve notes can be had, fifty of which are secured by gold, and yet it does

not appear in the general balance sheet of the banks.

The Chairman: Mr. Broderick, we considered this one time with you, I think, in New York. We are very anxious to bring this about in New York, and one or two of the other Governors have mentioned it at different times in casual conversation. Might it not be desirable at this meeting to refer the subject to Mr. Broderick informally, not officially, to take up as an accounting matter as to one feature of the subject we are discussing, and then pass a resolution at this meeting asking the Federal Reserve Board to get an opinion as to whether there would be any legal objection to our establishing such accounts on the books of the Federal Reserve Banks? It has to be approached from both aspects. One is a practical accounting matter and the other is a legal matter.

Mr. Broderick: The San Francisco bank has a very good way of handling that point that you speak of now. They show it as a memorandum account on their daily balance sheets. They show the total amount of Federal Reserve notes outstanding, and underneath they have this separate account, less gold in the hands of agent, and then a cross that it shows net liability. I think that would cover the point that you are making now.

The Chairman: That would cover the point in the statement, but it would not cover this point, Mr. Broderick, and that is if we want to exercise the kind of control that a bank should as to a note issue, for instance, or as to any liability of that kind of the bank, considering that

there is no legal question involved in the other liabilities of the bank, we have got to have an account on our books concerning which every transaction will require an audited entry. At present we have not such a situation in our banking, and I do not like it. I do not think it is sound.

Mr. Broderick: Mr. Strong, may I come back again with the remark I made there and ask in what way you would be prevented from having audited entries on those accounts?

The Chairman: You spoke of the daily statement---

Mr. Broderick: And the balance sheets, also. It is the same thing. You would have a ledger account in your ledger showing the transactions on those accounts.

The Chairman: That is all we want. That will answer our question completely.

Mr. Broderick: You will have an indented account showing the net liability as well as the total amount of notes outstanding. In that way, suppose you have three million dollars of discounts against three million notes outstanding. You have two million notes against which the Federal Reserve Agent holds two million dollars in gold. The item of Federal Reserve notes on the liability side would show in a memorandum account the total amount of Federal Reserve notes outstanding, \$5,000,000. The second line would be less gold in the hands of Federal Reserve agents, \$2,000,000; net liability, which would be in the liability column of the balance sheet, \$3,000,000.

The Chairman: Would that be treated in a similar way

on the ledger of the bank?

Mr. Broderick: Oh, yes.

The Chairman: That is all we want.

Mr. Broderick: You can control that in the same way you can control trust investments in the trust companies.

The Chairman: That carries the net figure into your balance sheet?

Mr. Broderick: Yes sir.

Governor Seay: I take it for granted that the full liability of the bank should be shown on the balance sheet, that its resources, although they may be in the hands of Federal Reserve Agents, for extinguishment of the notes, should likewise be shown. Bills receivable are shown. And then another thing that has occurred to me is that as the fund increases we are going to have \$100,000,000 of gold of the Federal Reserve Banks which will not appear in their statements.

The Chairman: More than that.

Governor Seay: It will be a sequestered fund, so to ~~mean~~ speak. I think it quite important to have it appear on the balance sheet.

The Chairman: Dr. Miller, how would you have it appear?

Mr. Miller: I think it might appear in two items; that the gold in the hands of the federal reserve agents to secure federal reserve notes should appear on the balance sheet. The liability might appear on one side and the

gold appear on the balance sheet on the other side, so that the gold fund--- and I take it that the federal reserve agent is an officer of the bank as well as an official of the Government---

The Chairman: There are legal objections to that, as I understand the law, which provides that the operation of depositing gold with the Federal Reserve Agent is an operation for the extinguishment of the liability of the bank. We have proceeded entirely on the theory that the minute we do that the bank's liability has been entirely extinguished. It is turned over to the Federal Reserve agent who is under bond to the Government for all the collateral he holds for the Federal Reserve notes.

Governor Van Zandt: Do you not think that until the note has been actually redeemed and destroyed it should show on your balance sheet?

The Chairman: I would rather have Mr. Curtis' opinion on that, because in this instance this is strictly a matter of the interpretation of this law, which provided that you put up your gold to extinguish the liability, although as a matter of fact you continue to be liable. It does not relieve you of your primary liability. That is your obligation; but you might pay it out of the collateral that you have created in the hands of the Government for that purpose.

Governor Seay: You would not accomplish all that the law requires, notwithstanding the fact that you report in your statement the gold in the hands of the Federal Re-

serve agent.

The Chairman: Let us put this up to Dr. Miller.

Mr. Miller: That is a legal question. I sympathize with Governor Seay's desire to make his statement of the bank reflect as much of its condition from a banking point of view as possible. The difficulty, as I see it, is to get it into your statement in proper form, so that it will square with the law. I suppose it will not be a great while before the federal reserve notes will be issued directly against the gold, and then the matter will be simple of adjustment. But until that is done I am a little at a loss to see how it could be accounted for so as to satisfy your purpose and satisfy the law.

Perhaps Mr. Broderick might have something to suggest here. It might perhaps be set down as gold in the hands of the Federal Reserve Agents for the extinguishment of this liability.

Governor Seay: But expressed in the balance sheet in a manner to conform to the law, if it can be done.

Mr. Miller: As I remember, in our first statements we simply expressed the net liability. That seemed to be very misleading, and I suggested that it should reflect the condition that the public was interested in; that there ought to be some statement as to the notes outstanding. Speaking personally, I should sympathize with your desire to get this gold that is in the hands of the Federal Reserve Agents and is a part of the bank's reserves segregated as a special fund in the custody of one

of the officers of the bank in the general statement of the bank's condition. How do you feel about that Mr. Broderick?

Mr. Broderick: I am sorry to say I am not in sympathy with that view. I believe that the purpose of the law is that the money shall be absolutely segregated, from the assets of the bank, and should be so considered. I do believe, however, that it would be well to have the balance sheet show the operation of the Federal Reserve note account, in order to show the total amount that is outstanding, and the total amount upon which the bank is liable. I would say that I think that should and probably will meet the point that Mr. Seay raises.

The Chairman: Do you consider that the bank is contingently liable for the payment of these notes on which it has extinguished its liability, to use the language of the act, or reduced its liability?

Mr. Broderick: I do not think that they are contingently liable, because while they may have to redeem some of those notes themselves, they can immediately turn them over to the Federal Reserve Agents and obtain reimbursements for the funds advanced.

The Chairman: Would they not be obligated to redeem them, whether the Federal Reserve Agent has the gold or not---

Mr. Broderick: Yes; but they could be reimbursed by applying to Washington for the money.

The Chairman: Then, if there is a contingent liability, is it not better banking practice and would it not bet-

ter conform to the law to show it on the books of the bank and in the balance sheet of the bank as a contingent liability?

Mr. Broderick: Yes, Governor Strong; but every reserve bank is contingently liable for every reserve note in the country, because every reserve note now outstanding may be presented to the Federal Reserve Bank of San Francisco, and they would have to pay it.

Governor Seay: In what respect?

Mr. Broderick: Every Federal Reserve Bank has to redeem Federal Reserve notes.

Governor Seay: That is a different matter. That is a different kind of a liability.

Governor McCord: There is a paragraph of section 16 of the act that provides that upon the request of the Secretary of the Treasury the Federal Reserve Agent must send the gold into Washington. Certainly the liability ought to cease somewhere.

Governor Seay: It makes no difference about the liability ceasing, providing the gold fund is there. You do not care to have the liability extinguished if the gold is there for that purpose and you know it is there, although it is in the charge of an officer of that bank and he is acting in a dual capacity.

Mr. Broderick: There is one other way. We may have the Federal Reserve banks state their total reserves and total liability and the amount of gold in the hands of the Federal Reserve agents on the one side and the Federal

Reserve notes against which the Federal Reserve Agent holds the gold reserves, and then have a second total.

The Chairman: The obligation rests upon you to dictate a resolution to meet your views and put it before the meeting for a vote.

Governor McDougal: Do you not think that the Federal Reserve banks are in the same position with respect to their notes they have retired that the national banks are with reference to their circulation?

The Chairman: No.

Governor McDougal: Do you not believe that when we have deposited the gold our liability has been discharged entirely?

The Chairman: I would think so, Governor McDougal, if we did not want it otherwise.

Mr. Miller: It is a reimbursable liability. You are liable to the public, but there is a resource outside of the immediate vicinage of the bank out of which it can reimburse itself. Those notes have to be redeemed.

The Chairman: Governor McDougal, we have developed a plan which I think everybody now thoroughly approves of, by which the issue of Federal reserve notes is made the means of accumulating a large fund of gold, which, under certain contingencies, can be added to the reserve of the banks, and if we get off on the other theory, that the bank loses control of this gold absolutely when it turns it over to the Federal Reserve Agent, we may be depriving ourselves of the advantage that has already been gained by the

whole system.

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

The Chairman: We must not get away from our subject, which is areally a bookkeeping matter, as to finding a means of having those things included in our balance sheet as a contingent liability or a memorandum account, and to have the gold also included.

Governor Seay: That would be my suggestion, sir, that it is the sense of this conference that it is desirable that the full amount of Federal Reserve notes of any bank should be shown, as to liability, in its balance sheet, and that the gold deposited with the Federal Reserve agent for the redemption of said notes should likewise be shown as a fund available for the redemption of those notes on the balance sheet.

The Chairman: And in order to make that declaration effective, will you make a declaration as to a change of bookkeeping methods?

Governor Seay: And it is recommended that the Federal Reserve Board consider whether this change in bookkeeping methods can be made by the Federal Reserve Bank.

(The motion was duly seconded.)

Governor Van Zandt: Does not that resolution or recommendation take into consideration the fact that the full amount mentioned is decreasing or will be decreased by reason of a federal reserve bank depositing with the Federal

Reserve agent notes which it has redeemed--- in other words, suppose the Federal Reserve Bank of Dallas redeems or has \$100,000 of its own notes on hand that it has no necessity for and that it has deposited gold with the Federal Reserve agent to secure. It goes to the Federal Reserve Agent and gives him these \$100,000 of federal reserve notes. That reduces its outstanding Federal Reserve notes that much.

Governor Seay: They are no longer outstanding, then. This applies to the outstanding Federal reserve notes.

Governor Van Zandt: Those that are in circulation, so far as banks are concerned?

Governor Seay: Yes.

The Chairman: Do you make the point that the resolution is ^{incomplete} in that respect?

Governor Van Zandt: Oh, no.

The Chairman: Are you ready for the question on the motion?

(The question was called for, and, there being no further discussion, it was put and carried.)

Governor McCord: There is one matter a little collateral to that which I should like the privilege of mentioning to see what the consensus of opinion is. Our dis-
counts were run off pretty largely, very heavily so. Our funds will also turn largely into exchanges, and we would like, if it can be arranged, to have a transfer from our balance of the gold settlement fund being made to the Treasury of the United States or into the Federal Reserve

Board, and on such deposit the Federal Reserve Agent in Atlanta could release to us our notes, because it is going to be quite a problem. One half of the bills discounted ^{within} mature in probably one day or ~~more~~ five days, and all of the money we are getting in is largely exchanges and cleared through the other banks from the gold settlement fund. It would necessitate quick action to get the gold back to Atlanta, not having any sub-treasury, and put up the gold with the Federal Reserve agent to go behind those notes. If some arrangement could be made whereby the money could be deposited in Washington direct, the Federal Reserve Agent would be authorized to turn loose those notes. It would aid very materially.

The Chairman: Is not that a situation that is peculiar to the Federal Reserve Bank of Atlanta?

Governor McCord: It will be peculiar to Dallas, I should think, and also to Richmond, possibly.

Governor Van Zandt: Dallas is the same way. At the present time we have over a million dollars due---

The Chairman: Would you not have enough gold in the bank to enable you to take care of your outstanding federal reserve notes when the discounted paper was withdrawn?

Governor Van Zandt: Oh, we might have. We probably will have if the settlement fund---

Governor McCord: But that settlement fund is not available for that purpose, you see.

Mr. Miller: Was not that question put up by Mr. Milburn?

The Chairman: Yes.

Mr. Miller: Certainly I have heard of it. My impression is--- I speak with a very faulty recollection of the disposition that was made of it--- that that matter is under consideration with the Treasury officials and it is their desire to see if that purpose cannot be accomplished.

Governor McCord: Thank you, sir.

The Chairman: Is there any action you wish to have taken at this meeting, Governor?

Governor McCord: I just brought it up, but as Dr. Miller states they have it under consideration I do not think it is necessary to take any further action. I will withdraw it.

The Chairman: Do you wish to bring that subject up, Governor Van Zandt ?

Governor Van Zandt: No; I think it might be well to make a recommendation to the Federal Reserve board that it investigate the matter of transfers from the gold settlement fund to the Treasury of the United States, if such transfers have not yet been arranged for.

Governor McCord: It is provided for in Section 16, where the Secretary of the Treasury can call in the fund.

Governor Van Zandt: It has not been provided for as a transfer from the gold settlement fund.

The Chairman: Would you care to have any action taken at this meeting?

Governor Van Zandt: No sir; Dr. Miller has explained that the Board has it under consideration.

Mr. Miller: I think the question is whether the Secretary can make a special order with respect to a certain reserve bank, or whether it has got to be done.

Governor Van Zandt: It might be well to consider it as a whole, then.

The Chairman: It would be rather unfortunate if a settlement should be made as a result of the application from one or two of the banks that would result in a pro rata call from all of the banks, because it would render unavailable then an accumulation of gold which has now taken place; and a very small amount of gold from Atlanta or Dallas applied in percentage to the whole system might take \$25,000,000 or \$50,000,000 of gold out and turn it into the Treasury.

Governor McCord: Only when we request it; that is all we ask.

The Chairman: Dr. Miller raises the point whether it could be done for any one bank without having an equal call made upon all the other banks?

Governor Seay: Whether it could be done for all the banks only for their request?

Dr. Miller: I think the law places it in the judgment of the Secretary of the Treasury.

Governor Wold: Would it be possible to order transfers into the Treasury, to the redemption fund, and cover it that way?

Governor McCord: They will not let us put over five per cent in the redemption fund.

Governor Seay: And is not this to be considered, whether or not that fund in the gold settlement under the custody of the Federal Reserve Board is not effectively in the hands of the Federal Reserve Agent?

Mr. Miller: That is the bank's fund. That is not the Federal Reserve Agent's fund.

Governor Seay: But it is to be in the hands of a federal reserve agent for retirement. That is your point?

Governor McCord: Yes.

Governor Seay: And he wishes to avoid the expense of transferring it from the gold settlement fund to the Federal Reserve agents---

Governor McCord: Time is the essence, Governor Seay.

Mr. Miller: As I remember the letter that was considered by the Board and which was referred to the Council, it inquired whether the board would assign part of its balance in the gold settlement fund to the credit of the Federal Reserve agent and he then be credited with it, as in the Treasury of the United States it goes out of the Gold Settlement fund and becomes a new fund to the credit of the Federal Reserve Agent in the United States Treasury.

Governor Seay: That is what I had in mind, whether it might not be retained by the Board outside of the settlement fund.

Governor McCord: You mean the Board handle it instead of the Treasurer?

Governor Seay: Retained by the Board itself.

Governor McKay: Could not that be put into the redemption fund?

The Chairman: That is just the point.

Mr. Miller: The point really is, as I understand it, whether the Federal Reserve Agent can use the Treasury of the United States to carry a part of the gold that is left with him for the retirement of Federal Reserve notes. That is what it comes down to.

The Chairman: Dr. Miller, we have a curious rule at these meetings, that the Chairman is permitted now and then to offer a resolution and then to put it to a vote. I am going to exercise that privilege now, and offer a resolution, if I may:

Resolved, That the Federal Reserve Board be requested to communicate with all of the Federal Reserve banks the result of its investigation of the application made by Governor McCord for a consideration of this matter.

Just to explain the object of that, gentlemen, it is highly desirable, it seems to me that if any greater percentage of redemption fund should be decided upon as a result of this call that develops in Atlanta and Dallas, we should all have opportunity to consider what effect it will have upon our respective banks. I can see quite a difficulty arising in New York if the process that is now taking place continues indefinitely in a large way, although we have only \$135,000,000 of deposits in New York. Including the gold held by the Federal Reserve Agent, we have

about \$143,000,000 of gold, and twenty or thirty millions of lawful money, besides that, and we should be very much disappointed to feel that it was necessary to put up ten or twenty or thirty and take the entire amount of the gold out of the hands of the Federal Reserve Agent, which is, in fact, a secondary gold reserve that is being created for strengthening the bank---

Governor McCord: We do not care to strengthen the redemption fund. That is not the purpose of our contention. The purpose of our contention is that some custody or control should be given over that gold in Washington that will aid us in quick retirement of notes. It becomes the property, then, of the Federal Reserve Agent. His bond is liable for it and it does not enter into the Treasury, from my point of view, as a redemption fund, except as an account for the Federal Reserve Agent.

The Chairman: I appreciate that point, Governor McCord; but you realize under the terms of this resolution it would not interfere in the slightest degree with your going ahead without any interference at all in carrying out your plan, and should it take the form of an increase from five to twenty per cent, then we would be on notice and would be able to deal with it.

Governor McCord: Sure. I do not want it that way, but as a custodian for the Federal Reserve Agent. That is what I want.

The Chairman: Does it appeal to you as wise to pass such a resolution, gentlemen?

Governor McCord: I do not think so, because Dr. Miller gives us assurance that the matter is being considered there, and of course they will give all due consideration to that particular feature.

The Chairman: The object of that resolution was simply to give us notice of any possible increase, general increase, applying to all banks in the percentage of the redemption fund that may be placed in the Treasury, and it was not in any way intended to hamper Governor McCord in undertaking an arrangement by which he can effect these transfers in Washington.

Is there any objection to the passage of such a resolution? It has not been seconded.

Governor Wold: I second it.

Governor Van Zandt: What objection would you have to having 40 per cent of your circulation on deposit?

The Chairman: This objection, Governor Van Zandt: Possibly two years hence we should have a situation develop which might be a serious one. We do not know what will be the outcome of the war. We should have a tremendous demand made upon us, such as occurred last August, and we had to discount very heavily for our member banks. By reversing the pump process which is now in operation we can take that commercial paper and get back gold and put it in our reserve fund---

Governor McCord: I tried to make my point clear, that we do not care to disturb the redemption fund at all.

The Chairman: I have tried to make it clear that I

understand that you tried to make it clear, Governor McCord. (Laughter)

I just wanted to make sure we have notice and that you will not go right ahead and forget all about this discussion and go away and say "Let Governor McCord just send us a note saying he would be glad to have the Secretary of the Treasury make some rule about it, " and then forget all about this.

Governor Aiken: Would it not be possible to have a hypothetical question presented to the Federal Reserve Board to find out what can be done, and then if we found out there would be a prorata call upon the Federal Reserve Agent we could suggest to Governor McCord: that he devise some other way of handling his difficulties?

The Chairman: I do not think we are in any difference of opinion with Governor McCord in the slightest degree, and I do not think that he thinks so.

Governor McCord: No; I do not think so.

(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: Has the motion been seconded?

Governor McCord: Yes; Mr. Van Zandt seconded it.

The Chairman: Do you favor the motion, the object of which is to ask for information as to how this matter is dealt with by the Board?

(There being no further discussion the question was put and carried.)

Governor McCord: May I state to Dr. Miller a suggestion of the way out of the proposition, so that it might be considered at the same time? My last suggestion, Doctor, was not to treat it in the redemption fund at all, but simply to have either your Board or the Treasurer of the United States, whoever you might designate, advise the Federal Reserve Agent that we are shipping so much money in our certificates, and upon that advice coming from the proper authority the Federal Reserve Agent will liberate or release to us our commercial notes. That will be perfectly satisfactory to us, and if we can get that we will be satisfied. Time is the essence. It amounts to a good deal with us at certain seasons of the year.

The Chairman: May I check off that subject?

Governor McCord: Yes.

The Chairman: No. 19 is the question of the appointment of Federal Reserve Banks as fiscal agents of the United States.

I should explain in connection with this item that I was requested by a member of the Federal Reserve Board to submit this for discussion to the Governors of the Federal Reserve Banks. Let me say in further explanation that this matter, I am advised, has been studied in Washington by the officers of the Treasury Department, and from a report which is too long to read, that I have received, I am afraid that they have missed the point of the gold fund entirely, and apparently they came to the conclusion that the establishment of this gold fund in some way reaches

into the whole subject of gold redemption by the federal government of the various forms of outstanding paper money. As it has no relation to it whatever, I am going to take the liberty of laying this communication on the table without reading it, and suggest that we carry out the request that you have received from Governor Delano that we discuss that subject generally. I know that he is anxious to get a report from this meeting as to the views of the officers of the Federal Reserve Banks on that subject--- how they should be established, when, and what form it should take, and so on.

To start the discussion let me say that this has been up before. A resolution was passed at an earlier meeting directing that Governor McDougal and one or two others of the clearing committee should take the matter up with the Federal Reserve Board and the Secretary of the Treasury with a view to ascertaining whether or not the gold fund might not be established in the first place by Government deposits with the reserve banks. That was abandoned, as you all know.

Governor Rhoades: What is contemplated by this--- the opening of accounts by the Government and taking care of the drafts?

Governor Seay. The collection of internal revenue.

The Chairman: It opens up a vista of inquiry that would keep us busy a long time if we attempted to thresh it out completely.

Governor Aiken: In my opinion, and as a basis for discussion, I would like to know what applies as to the duties of the banks in acting as fiscal agents for the government. I never happened to have been connected with a bank which was a fiscal agent.

Mr. Miller: I suppose that in the course of two or three years, perhaps at this very next session of Congress the question as to the future of the sub-treasuries may receive discussion; in fact, it has already been discussed. There is a new sub-treasury building in contemplation, and Mr. Newton, I think, has the matter in charge in the Treasury Department. He sent a memorandum to the Board three or four weeks ago, which brought the whole matter again to our attention as to what our ideas were as to the fiscal functions that were to be taken over by the Federal Reserve Banks. He wanted to get an answer from us before determining his own view as to the necessity of including appropriations or estimates of the next appropriations to Congress for the use of Treasury facilities. The question was, as I remember, very briefly discussed at one of the recent meetings when the Secretary of the Treasury was present. He did not seem at the time disposed to go into a discussion of it. He made it perfectly clear that he contemplated the possibility of federal reserve banks in time practically succeeding the sub-treasuries, or reducing their functions to a very modest minimum. I suppose that if the Treasury had surplus funds on hand at the present time it would be dis-

posed to use or make some use of the Federal Reserve banks, and the question might arise as to whether it will knock at the doors of these federal reserve banks for assistance. There has been a little informal discussion at every meeting of the Board as to having federal reserve banks make loans on the pledge of United States bonds.

The Chairman: The Secretary of the Treasury has authority now under existing law, to borrow up to \$200,000,000 at not over 3 per cent interest and for a period not to exceed one year on a treasury note; and he could knock with that very effective weapon at our door. (Laughter)

Mr. Miller: And you would let him in?

The Chairman: Yes sir. I happen to have had opportunity to go over a memorandum that was prepared in Washington. I think it was at Secretary Malburn's direction. In it was shown the functions of the Treasury and sub-treasuries which could be performed by the Federal Reserve Banks and those that could not; in other words, a study of the law had been made to see which functions were within the discretion of the Secretary of the Treasury and which were ~~shown~~ statutory s to the Treasury Department in such a way that they could not be turned over to a bank. It appears from that, with the obligation of the Bureau of Redemption, ^{obligation} of the custody of the gold behind the gold certificates and the silver behind the silver certificates and the issue and reissue of United States notes, the functions of the Treasury and sub-treasury could not be turned over bodily to the reserve banks.

Governor Wold: Is it contemplated that the duties and perquisites shall be turned over to us, and we bear the entire expense in conducting these operations?

Governor McCord: That is what I have been doing for six months. (Laughter). We are practically doing a sub-treasury business in Atlanta. We have no sub-treasury there, and the banks are giving us a lot of sub-treasury work.

Governor Seay: Of what nature?

Governor McCord: Deposit of unfit currency, and everything of that kind.

Governor Wold: And you let them do it?

Governor McCord: How can you help yourself? You have got to accept lawful money on deposit.

The Chairman: Is not the real obstacle in the way of extending the relations of the reserve banks with the Treasury Department on the one hand, the fact that the Treasury is poor just now, and on the other hand the fact that even if they had plenty of money to deposit in the reserve banks we could not use it, and consequently could not make enough money to justify the expense?

Governor Van Zandt: It might be lack of confidence.

The Chairman: I am speaking from a bank point of view entirely.

Governor Fancher: I think, Mr. Chairman, there is another feature of that, too, that as to some of the banks it would be a physical impossibility until we are in more substantial quarters.

The Chairman: You would not permit that to prove a continuous obstacle to doing the work that this system is really designed to do?

Governor Fancher: Oh, no. We would have to be given time. It would take some little time before we could equip ourselves.

Governor Fuld: We have discussed that phase of the question at our Board meetings, and ultimately we hope that the condition might be brought about, but just now our expense is as large as we like to see it.

The Chairman: I suppose you gentlemen know that there is a precedent abroad for the Government to pay a bank for work, clerical and otherwise, that the bank does for the Government. In those cases the Government gets nothing back in the way of dividends or surplus earnings whatever. In this case the Government will ultimately possibly get a revenue from these banks from the surplus earnings after paying six per cent dividends, but in the meantime when we have no revenues and cannot pay any to the Government, and if the Government should call upon us to do a large amount of work that would cost money, might it not be proper, in the right way, to suggest that if these relations are established at a time when we cannot stand the expense, a part of the appropriation for the Treasury Department which would be saved by having us do this work be appropriated for the benefit of the banks themselves that do do it? Is that an unreasonable business suggestion to make?

Governor Aiken: Would it not be very difficult to get such an appropriation, and would there not be a constant attempt to pare that appropriation down? Would not that whole question be a question that would come up time after time and be fought over at every session of Congress?

Governor McCord: I should prefer to do some work without asking for compensation.

Governor Seay: In connection with the inadequacy, Governor Strong, I would like to inquire if any of the banks have thought of the question of building adequate homes for themselves?

Governor Van Zandt: We have leased for fifteen years a home that we are remodeling.

Governor Aiken: We should like to extinguish our organization expense account before we contemplate that.

Governor Seay: It would not come out of expense; it would come out of capital account, of which there is a superfluity at the present time.

Governor Wold: I think we ought not to discourage that. I think we ought to encourage that idea at the proper time.

The Chairman: Could not a committee be appointed to join with the Federal Reserve Board or a committee of the Federal Reserve Board, or a committee of some of the Board and the officers of the Government, or anyone suggested, for the purpose of making a study of this matter, and not go at it haphazard, and possibly agree upon a program for the gradual development of the relations of the

reserve banks and the Treasury Department? That is the practical way to get at it. I should like very much to have Dr. Miller express his view with the object of getting something of value before the Board on this subject.

Mr. Miller: I have not given it very much thought. It is obvious, of course, that when the Federal Reserve banks are full institutions they can do a great deal, and it seems to me obvious that the Treasury should not undertake to impose duties and responsibilities upon you until you are ready to take care of them. I do think that it is important to get the relation established, on many accounts.

The Chairman: So do I--- most important.

Mr. Miller: And the thing that seems to me is worth considering at this meeting, or, at any rate, by a committee that may result from this reference to the matter, is finding out what functions you can take on at the present time without unduly burdening yourselves so as to establish the connection. There is a variety of functions, some of them involving a responsibility and no great expense, and these can be taken on successively as the banks find themselves in a position to do it, or as individual banks find themselves in a position to do it. Sooner or later we would come to the question of the handling of the Government's deposits, which is bound to arise, and we would have established a precedent and a basis which in some way would be of advantage to the banks as well as to the Government.

The Chairman: May I read a resolution that was passed

at a conference held on March 12 in Washington, as follows:

"Voted: That the Conference take up with the Federal Reserve Board the whole subject of Treasury and sub-treasury relations of the Federal Reserve banks by means of a committee to be appointed by 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 Federal Reserve Banks, now conducted by the Treasury Department?"

The Secretary: That was sent to Mr Delano shortly after the last conference.

Mr. Miller: You see, the Secretary has been ill for a long time and matters have been brought up in informal ways four or five times. It has been discussed informally with Mr. Malburn. He has some very definite ideas on the subject and is rather strongly of the opinion that there is a large amount of work now done by the sub-treasuries that can be done by these banks, very much more efficiently; but the Secretary has never committed himself, as far as I know, and has never really given very much thought to it. If he has he has not shared his hopes or his fears with the Board. Or it may be that he has done a lot of thinking and is not yet ready to state his conclusions, if he has reached them. But it is my belief, and I think it is the basis upon which you ought to proceed, that this relationship is going to be established, and I think you ought to have a fairly definite opinion as to the point of contact, the first point of contact, that

you will be ready to establish between the banks and the treasury. It is coming, and, for one, I feel that it is a very desirable thing on many accounts. I think the advantage to the banks is going to be very considerable. Certainly it is going to be of very great advantage. It will in time be of very great consequence.

So that I should think that the suggestion made by Governor Strong that you have a committee to confer with a committee of the Board and designated official of the Treasury Department would be a very good way to determine just how the question can be most profitably met from the point of view of the banks.

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

The Chairman: Without considering this matter individually, do you wish to act by way of resolution on a request that has been made by Vice-Governor Delano that we should consider this matter and make some suggestions? There is no occasion to read his letter, but I should like to have some views expressed by this meeting as to whether progress should or should not be attempted at this time to make the first step towards establishing that relationship?

Governor Aiken: Would not the appointment of such a committee as you suggest be a step in the direction of meeting his wishes in the matter?

The Chairman: Yes.

Governor Aiken: I move, Mr. Chairman, that the Chair appoint a committee of three, of which the Chairman shall be one, at its convenience to confer with the Federal Reserve Board and representatives of the Treasury Department on the matter of the relations between the Federal Reserve Banks and the Treasury Department. I would suggest that the Chair word that motion, he being an expert on motions.

The Chairman: How about repassing the old resolution which covers the matter a little more fully?

Governor Aiken: I think it is of great importance, however, Mr. Chairman, without undue flattery, that you should be a member of that committee.

The Chairman: I will read this to the stenographer, for the record, and see whether, Governor Aiken, it meets your views.

"Voted: That the Conference take up with the Federal Reserve Board the whole subject of treasury and sub-treasury relations of the Federal Reserve Banks, by means of a committee to be appointed by 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 Federal Reserve banks now conducted by the Treasury Department."

Governor Aiken: I would add, "of which the Chairman of this committee should be a member." I think that is of great importance, Governor Strong.

The Chairman: I do not attach very much importance to that, Mr. Aiken.

Governor Aiken: As a matter of fact, you know a great deal more about it than the rest of us do, and have discussed it more with the people in Washington.

The Chairman: I should like to have the privilege of conferring with the Federal Reserve Board to get their views as to the personnel of that committee, Governor

Aiken: It seems to me quite important that they themselves should consider who might best serve on that committee--- the point of convenience and experience, and so on.

Governor Aiken: Will you be kind enough to read that motion again? It can be so worded that it would meet your views.

The Chairman: Yes; I should think that would be very desirable.

(The motion referred to was read as above recorded.)

Governor Aiken: After the words "Treasury Department", make it read, "and by the Governors of the Federal Reserve Banks in consultation with the Federal Reserve Board."

(After informal discussion:)

The Chairman: Your idea is to require me to serve on that committee.

Governor Aiken: That is my intention. I do not mean to leave you a loophole for escape. "The Treasury Department and the Chairman of the Conference of Governors

of the Federal Reserve Banks."

Governor Fancher: I will second that.

(There being no further discussion, the motion was put and carried.)

The Chairman: The next item on our program is 5-(m), "Weekly report of reserve by member banks."

Governor Seay, that is your suggestion.

Governor Seay: It occurred to me that with the increase of the intra-district collection system we would be subject to overdrafts on the part of our members, sometimes acquiesced in by them, and not made as promptly as might be, and that it would probably be the time to take up the question of reports of reserve by member banks to see how they are being maintained on their own books in comparison with the way in which they are being maintained by our books. I do not believe that a report, unless it occurs as frequently as once a week, would be of any great value to us, and it is a question in my mind now whether it would not be advisable to request the Federal Reserve Board to consider whether it is not expedient to require weekly reports to be made to Reserve Banks of the balances.

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

Governor Seay: When last this matter was considered by us, Mr. Chairman, I think perhaps most of us will remember that we were of the opinion that reports

oftener than once a month would not be advisable.

The Chairman: That was our last action on this matter.

Governor Seay: Affairs have changed considerably since then, and I am of the present opinion that it would be necessary to have reports more often.

Governor Aiken: I would like to say that nothing that I can think of would do more harm in our district at the present time than the present attitude towards the reports and analyses that they have had to prepare, and calling now for weekly reports.

Governor Sawyer: That is the condition in our district, too.

Governor McCord: Yes; it is dangerous.

The Chairman: We have the same situation in our district, Governor Aiken, and instead of asking the member banks to send reports or thinking of asking them to send reports, we are sending them a weekly report of what balance our books show, assuming it is their desire to keep their balance intact. Of course that only applies to the banks that have adopted the collection plan; and for the purposes of cooperation, ^{with} the banks, many of whom have joined rather reluctantly, I believe it is going to have better results than to require reports from them just now.

Governor Aiken: I could never get into the bank again if it were noised around that I was asking for weekly reports.

Governor Wold: I am of the opinion that it would be very inadvisable to ask for any more reports at this time. Every little additional request for information and additional work adds fuel to the flame, and it might deter state banks that contemplate coming in from joining at this time.

Governor McCord: I should have to vote against it.

Governor Seay: There is nothing to vote against just at present. The subject is just being discussed in the way in which I hoped it would be.

The Chairman: Governor Wells, how would you feel about asking the member banks in your district to give you a weekly report of their reserve?

Governor Wells: I do not believe there is any particular occasion for it right now. The ordinary system is working very satisfactorily.

Governor Wold: May I inquire as to the amount of overdraft that the member banks are carrying with you now?

Governor Seay: The last statement I saw was about \$20,000.

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

The Chairman: I think it has become necessary to push this program a little bit on the item under discussion. Will someone offer a resolution and let us get in the habit of voting it down or putting it through, so as to make

progress. Most of us have pretty strong views on this particular matter, and we do not need to exchange them very freely.

Governor Wold: I move that the item be carried over.

Governor Seay: I second the motion.

(There being no further discussion, the motion was put and carried.)

The Chairman: The next item suggested by Governor Rhoades has to do with the method of endorsing commercial paper and gold certificates deposited with the Federal Reserve Agents. Governor Rhoades, will you speak to that question?

Governor Rhoades: I simply wish an expression of opinion as to what is the best method. Of course, for security, it is better to have them endorsed to the agents by title, but that ties it up to an individual and has some objections, to my mind.

The Chairman: Did we not have a ruling by the Federal Reserve Board covering that point?

Mr. Broderick: I believe that question is now under consideration by the Federal Reserve Board, and it is probable that they will ~~communicate~~ communicate with each Federal Reserve Bank within the next week or two as to the question of title of gold order certificates and as to the proper method of endorsing, if endorsement is necessary.

Governor Rhoades: In view of the fact that a ruling is about to be issued I think this topic might be safely passed.

Governor Van Zandt: I second the motion.

The Chairman: In view of the fact that it is under consideration by the Federal Reserve Board, might it not be advisable to make some recommendation to them for their consideration?

Governor Wold: What has been the policy of the New York bank, if I may inquire?

The Chairman: We have made our deposits for member banks without any endorsement. We have deposited our gold order certificates endorsed payable to the order of Pierre, Jay, Federal Reserve Agent, and we have assurances informally from the sub-treasury that in the event of Mr. Jay's disability they would recognize in an emergency the endorsement of the deputy Federal Reserve Agent in order to make the gold certificates available.

Governor Wold: We have not endorsed our bills. In depositing gold certificates, order certificates and retirement federal reserve notes we have given a separate endorsement, a separate instrument attached to each ten thousand dollar order certificate. It is given a number and a date and assigned to the Federal Reserve Agent.

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The Chairman: Isn't it a fact that it is undesirable to endorse commercial paper anyway?

Governor McCord: We do not endorse commercial paper.

The Chairman: Did we not all agree about the undesirability of further mutilating commercial paper by endorsement of that character?

Governor McCord: Yes.

The Chairman: Did we not make a recommendation to the Federal Reserve Board that in considering this matter they endeavor to find a means to avoid the necessity of any endorsement on such paper, and if any conveyance of title is necessary that it be effected by a separate instrument?

(Informal discussion followed which the reporter was directed not to record.)

The Chairman: Without suggesting a means, can we not pass a resolution recommending to the Board that no endorsement be required on commercial paper pledged with the Federal Reserve Agent?

Governor Seay: I will make a motion to that effect.

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

The Chairman: In regard to gold order certificates, what is your pleasure there?

Governor Fancher: Up to the present time the certificates that we put out have been made payable to the Federal Reserve Agent, that is a part of them, and the others to the joint order of the bank and the Federal Reserve Agent.

(Informal discussion followed about this matter which the reporter was directed not to take.)

The Chairman: It has been moved and seconded that it be recommended to the Federal Reserve Board that the Federal Reserve Banks deposit the gold order certificates with the Federal Reserve Agent, payable to the order of or endorsed to the order of the Federal Reserve Bank or the

Federal Reserve Agent.

(The motion was duly put and carried.)

The Chairman: Our program is now clear up to items 8-(b) and 8-(c). It is doubtful whether we want to bring up item 8-(b) without Mr. McKay being here, and I suggest that we wait.

Item 8-(c), "Credits between Federal Reserve Banks - Treatment as reserves" is a subject that was suggested by Governor Kains, Mr. Lowry.

Mr. Lowry: That we discussed this morning and deferred until Mr. Broderick could be here and we could get his views upon it.

(Mr. Broderick thereupon entered the conference room.)

The Chairman: Mr. Broderick, you know we now have intermediate reciprocal accounts between the Federal Reserve banks for the period of a week, and in some cases continuous accounts for exchange purposes. Governor Kains raises the point as to whether they should be treated as due to and due from banks, or whether they should be treated as warehouse gold and added to the reserve of the due-to banks and deducted from the reserve of the due-from banks.

I will read a resolution that has just been handed to me by Mr. Curtis and which was passed at the Conference held in March.

"Voted: That it is the sense of the conference of Governors that the balance of one Federal Reserve Bank

carried with another should be carried as the property of the former and part of its gold reserve, and that conversely the debit balance of one reserve bank to another should be deducted from its cash in calculating its reserve."

Mr. Broderick: Has not that question been pretty well settled by the establishment of the gold settlement fund? At the time that resolution was passed no means of communication existed between the various federal reserve banks. Now the question is simply as to the intermediate balance between settlements.

The Chairman: And as to these exchange balances?

Mr. Broderick: Yes. Personally I think it very bad practice to count anything as gold unless gold is actually in the vaults of the Federal Reserve Bank, in the hands of the Secretary of the Treasury for redemption of Federal reserve notes, or in the hands of the Federal Reserve Board or the Gold Settlement Fund. I do not think very much injustice can be done at the present time by adhering to such ideas, in view of the fact that we have a settlement once each week.

The Chairman: I do not think so either, except in a very few unusual cases. Chicago's balance with us this week has run up as high as ten million dollars.

Mr. Broderick: That will become reserve on Thursday morning.

The Chairman: Mr. Lowry, how do you think Governor Kains is going to feel about dealing with these due to and due from banks in the intermediate period between settle-

ments?

Mr. Lowry: That was where the question came up, on funds collected for another bank. Now, for example, if the New York Bank sent us checks on San Francisco that we collected on Wednesday, the New York bank would not receive that money until the following Wednesday. In the meantime we felt that it was only a matter of justice that that money should be counted as a part of the New York bank's reserve and deducted from our cash. In fact that is the way we have always treated it. Conversely, with respect to the investment fund that we have in the hands of the New York Bank, we feel that it should be counted as a portion of our reserve until used.

Governor Seay: May I ask, when you say that that was the way in which it was treated, if you made entries in your books to that effect or just simply regarded it in that way?

Mr. Lowry: We regarded it in that way, because the Federal Reserve Board would not permit us to treat it that way.

Governor McCord: We have regarded it that way and would like to still regard it that way on account of the very rapid fire exchange conditions on cotton. We would be out a week without reserves, sometimes.

Governor Seay: I think I remember the spirit in which that resolution was offered. I believe I probably offered it myself. It was at a time when our own bank was heavily in debt to the New York Bank. I think it was

merely for the purpose of putting on record how the debtor banks felt at that time with reference to the New York bank, and we regarded that these bills were payable in gold and payable on demand. It was more to express that feeling than otherwise, that that resolution was passed. But I believe it a matter entirely beyond our power to keep our books in such manner that they will show that any balance due to any other Federal Reserve Bank is a part of its gold reserve or that it shall be deducted from our gold reserve. It is merely an attitude of mind towards it and cannot have any effect.

Mr. Lowry: It comes down to this. We are speaking only of collected funds, not funds afloat; that is, funds for which we have actually obtained money for some other Federal Reserve Bank. That is either warehouse reserve for the other bank or else it is a deposit of the other bank. We do not consider that it is a deposit or that we should treat it. As Mr. Broderick says, it is now a matter of no great consequence since the gold fund has been established. But there was a time when it was of considerable importance. When we owed the bank in New York \$3,500,000 we certainly did not count that as a deposit from the New York bank. It was a purely involuntary deposit on their part. We considered it as the reserve of the New York bank, held by us in trust.

Mr. McKay: If the due from is not considered as reserve money between settlements, then there would be a big fluctuation in our reserves in the Chicago bank. As

an illustration: We have \$10,000,000 in the New York bank. If we do not count that as reserve today and could count it on Thursday, our reserve would go up \$10,000,000 at one time.

The Chairman: That in itself would not be an objection.

Mr. McKay: It would be a big fluctuation in the reserve. It would attract attention and would not really show the true condition of the bank, because if we cleared every day we would not have any such big fluctuation in reserves at all.

Mr. Broderick: I would like to say that in the event of any unusual transactions going through there is no reason why immediate settlements could not be made through the Gold Settlement Fund. If the San Francisco Bank should collect for the New York Bank \$1,000,000 an immediate settlement could be made by telegraphing Washington to transfer on the gold settlement fund books \$1,000,000 to New York, and in that way give New York immediate credit for it.

The Chairman: That would meet the situation suggested by Mr. Lowry, Mr. McKay and everybody else. An unusual balance might be dealt with by special transfer.

Governor McDougal: The question still remains unanswered, however, as to what treatment shall be given these balances in calculating our own reserves. I believe the proper way to do that is to use what we have from other Federal Reserve Banks when we are calculating re-

serves and deduct from the deposit liability the amount of the deposit on which you are carrying reserve---

The Chairman: (Interposing) The national bank practice?

Governor McDougal: Yes, and I think we have had instructions from the Board with regard to it. It is exactly what we are doing and have been doing through and through in our bank.

The Chairman: Mr. Broderick, what is the status of the subject of method of calculating reserve? Is that liable to undergo any alteration?

Mr. Broderick: As far as the Federal Reserve Banks are concerned I think not. The only thing is that for a time there it was not considered proper to consider a collected balance with other federal reserve banks as deduction from deposits. That has all been straightened up through the gold fund. I believe it is perfectly proper now to consider that excess due from a federal reserve bank is a proper deduction from deposits on the ground that it represents uncollected items.

The Chairman: Then we will consider that Item 8 (c) is covered.

Let me suggest that we now take up Item 12 (j), "Basis of allotment of acceptances and warrants between Federal Reserve Banks."

For the purposes of the record I will state that that has already been covered in the discussion this morning.

We will now consider item (k) under subject 12 "Ac-

ceptances- authorized signatures of accepting banks, for certification of genuineness."

That is suggested by Governor Fancher.

Governor Fancher: The thought I had in mind in suggesting that topic was whether it was practicable for one Federal Reserve Bank to furnish the other Federal Reserve Banks with the signatures of officers authorized to accept bills, in order that the genuineness of the signatures might be checked. I had in mind the fact that the acceptances that we have purchased have been purchased through the Federal Reserve Bank of New York, and I wondered if it put upon you the burden of determining the genuineness of those signatures, and whether it was practicable to have these accepting banks furnish the other purchasing banks with specimens of their authorized signatures.

The Chairman: It is perfectly practicable to do that, and if each bank will send to us the necessary cards they are now using for specimen signatures we would like to get them all together and send them out to the banks whose acceptances we are buying so that they can sign them up on one request and send them back all at once, when we will distribute them.

May I ask if any of the other banks will care to follow that course?

Governor Van Zandt: We would like to do that. I may not be in the market for some time, but the occasion might arise.

The Chairman: For the purposes of the record only, let me just state that if the officers of the Federal Reserve banks will at once send to the Federal Reserve Bank of New York the necessary specimen signature cards, that when we receive them all from the eleven banks we will be very glad to get the signatures of the various institutions and return them complete.

Governor McCord: That is institutions authorized to accept paper?

The Chairman: Yes; whose acceptances we buy for the account of other federal reserve banks.

Governor Lowry: How many such cards shall we send?

The Chairman: I was going to suggest that you look over your acceptance books and send one card for every accepting institution or firm, and possibly some additional cards so that we could have them on hand at all times in case additional names come in. We are advised that there are a number of banks that are going to develop the acceptance business in New York and if you have the cards on hand it will save time.

Governor McCord: Would you send the signatures of officers of trust companies or banks other than member banks who have filed their statements for acceptance and of course are not in the open market on the outside?

The Chairman: This relates to signature cards that you would send to us so that we might get the signatures of accepting officers of banks where we were buying acceptances for other Federal Reserve Banks. We would not bother you about getting the signatures from member banks

in your district unless we were buying acceptances down there through you.

Does that dispose of this matter, Governor Fancher?

Governor Fancher: Yes; it does.

The Chairman: Item (1) under Subject 12, "Purchase of investments by one Federal Reserve Bank in ~~flaw~~ territory covered by another" was suggested by Governor Aiken, and I believe has been fully covered in the former discussion.

Governor Fancher, Item (m) under Subject 12, "Standard forms of municipal warrants."

Governor McDougal: May I interrupt a moment and ask that action was taken in regard to item (1) under Subject 12?

The Chairman: That was disposed of in the discussion when Dr. Miller was present, Governor McDougal. Were you out at that time?

Governor McDougal: I think I must have been.

The Chairman: Do you agree that that item may pass without further discussion, Mr. McDougal?

Governor McDougal: I do.

The Chairman: Will you address yourself to item (m) under subject 12, Governor Fancher?

Governor Fancher: We had the thought in mind whether it was advisable on the part of the Governors of the Federal Reserve Banks to endeavor to have used some standard form for municipal warrants so that paper might be issued in some regular way. In a few occasions

where we have purchased warrants we have recommended the form that is in common use down in the Boston territory. They seem to have the situation very well covered there, and we have in some cases suggested those forms.

It seems to me that if the Federal Reserve Banks in territories where municipal paper is likely to be issued in goodly volume, would attempt to have some general form standardized, patterned after the Massachusetts form, possibly, I think it would be very desirable.

Mr. Curtis: The Guarantee Trust Company is just getting up such a standard form for use in New York, and it saves a great deal of trouble. The Massachusetts form is a very good one.

The Chairman: If we can bring that about we can invest our money in warrants with a great deal more freedom and with less trouble and delay than is now the case.

Mr. Curtis: I might add that the Guarantee Trust Company sent over their forms to us to look over and to make suggestions. I went over it and made two or three suggestions to them, and they are going to try to put it into use with all the municipalities that deal through them.

Governor McCord: May I ask, Mr. Curtis, if there are provisions in the forms for special statutes of various states? Suppose there is a peculiar law in Georgia that would not be in some other states, or a peculiar law in Massachusetts that would not be in some other states. Is there a provision in the warrant setting forth those

facts?

Mr. Curtis: This form that the Guarantee Trust Company has prepared recites that it is a certificate of indebtedness; it has the signatures on it and then underneath there is a copy of the ordinance under which it is passed, duly certified to by the city clerk; a certificate by the mayor and the city clerk that the signatures are genuine, and also that the ordinance was passed under a certain section of the New York law.

Governor McCord: That answers my question.

Mr. Curtis: There is an opinion from the city solicitor or attorney that all formalities have been gone through and that it is a legal obligation of the city. Then they have added a certificate by the Comptroller setting forth all the requirements of fact that we have to have to bring it within the provisions of the regulations. The date of assessed valuation is shown, the fact that it is an obligation of the municipality; the date when taxes are due under penalty and so forth. They have the whole thing on one piece of paper and it is a very complete piece of work.

The Chairman: Possibly Mr. Curtis would be willing to furnish the Governors of the Federal Reserve Banks with a copy of this form.

Governor McCord: I would be very glad to have a copy for our bank.

Mr. Curtis: I presume I can get copies of it.

The Chairman: Will it answer this item on the pre-

gram then if Mr. Curtis endeavors to get a copy and send one to each Federal Reserve Bank?

Governor Fancher: Yes.

The Chairman: It is almost dinner time, and I will take the liberty of taking up only one or two more items that we can handle rather quickly. I will take up subject 20: "Method of computing dividend on three capital stock payments." That is suggested by Governor Fancher.

Governor Fancher: I wish to inquire, as a matter of information, on what basis the other Federal Reserve banks have computed this--- that is, banks who have in prospect the payment of a dividend. I think I noticed in the Chicago statement---

Governor McDougal: (Interposing) It was not in the statement. We put it in a footnote.

Governor Fancher: I would like to know just what basis you have arrived at. How did you arrive at it?

Governor McDougal: I cannot tell you exactly how we calculated it. I know it took them a number of weeks to work it out and I have assumed that it is correct.

The Chairman: Is it not the fact that this dividend will be payable to the member banks from the date of payment, in no case earlier than the date required by law, but in no case earlier than the date actually made.

Governor Seay: I will state, that having in contemplation the possibility of having to pay a dividend according to the law, I have given some consideration to that and I would view it as interest on payments made, not earlier than the date required to be paid by the law.

That is what I have fixed in an indefinite kind of way in my mind, and I have instructed our bookkeeper to proceed to gather his data along that line.

Governor Fancher: Then the payment would be November 2nd, and then along on subsequent dates as the money was actually in hand; and then February 2nd, and down to May 2nd---

Governor Seay: Precisely.

The Chairman: Is there any difference of opinion on that?

Governor Van Zandt: I should think the first date would be November 16th.

Mr. Curtis: One question is raised when a bank goes into the hands of a receiver for a little while and then comes out again. Other questions are raised, when its capital is increased or decreased, as to the date that you figure on and what amount you figure on. I think those are the principal points.

Governor Seay. That is what I mean by saying, "according to the facts of the case."

(Further informal discussion followed which the reporter was directed not to report.)

The Chairman: It has now been moved . . . seconded that this matter be referred for investigation and report to a committee consisting of Governors McCord, Seay and Van Zandt. Is there any objection to that action?

(There was no objection and the motion was duly carried.)

The Chairman: We will now take up item No. 21, "Decreases in member bank surplus." Must there be a proportionate surrender of stock in Federal Reserve Banks? That is suggested by Governor Fancher.

Governor Fancher: What prompts that item is this: I think probably all of you governors have some banks that, by reason of temporary loss, decrease their surplus, which may be filled in from earnings in the next three or four months. In some cases the banks, rather than go through the trouble of passing the necessary resolution to decrease capital, may just like to hold the stock until they were entitled to the number of shares by a proportionate increase in surplus.

Governor Seay: Following Governor McCord's trail, and knowing that there are no precedents, there are one or two small instances in which I have suggested that course to the bank, that is, when it involved only one or two shares, that it take no action at the moment and restore its surplus.

The Chairman: As a matter of fact, Governor Fancher, is not this one of those things which will develop and solve itself gradually by evolution? Some bank will come along and force the issue some day by making formal demand for the return of its capital payment and the reduction of its surplus.

Governor McCord: They have done so in my district and the Board has ruled that the stock would have to be

correspondingly decreased. Then the question of earnings came up and I stated to the bank that inasmuch as we had assumed the obligation of rent contracts and one thing and another I did not think we were due them any earnings at all; that we would so consider it; and that was the last of it.

Mr. Curtis: The point is that there ~~is~~ an option given, but the statute is silent as to who has the exercising of the option. You have two cases. A bank says "I have decreased my surplus and I want to have my capital stock reduced." I understand the Federal Reserve Board has ruled that the Federal Reserve Bank must reduce it. Another bank comes along and says, "We have reduced our surplus and do not want our stock reduced." Has the Federal Reserve Bank or the Federal Reserve Board or the member bank the option of holding that extra stock?

Governor McCord: The explanation to us was that it was necessary to reduce it.

Mr. Curtis: Who has the option? Somebody can force that reduction.

Governor McCord: It is the duty of our bank to do so, because our bank must show exactly the number of shares each member is entitled to quarterly and we cannot allow any one bank to hold any more shares than it is legally entitled to at that time.

Mr. Curtis: Then your ruling is that there is no option?

Mr. Lowry: Section 5 of the law says that outstand-

ing capital stock shall be increased from time to time as member banks increase their capital stock and it will be decreased as member banks reduce their capital stock.

Mr. Curtis: Then a little further along it says that when a member bank reduces its capital stock they shall surrender a proportionate amount of their holdings; but there is nothing said when it reduces its surplus and when it shall surrender the stock---

The Chairman: (Interposing) I guess that is a matter that will have to be brought to the attention of Congress, gentlemen. Are you prepared to make a recommendation to Congress on this?

Governor McCord: No. Don't disturb Congress.

(Laughter)

Governor Seay: It is a section of the law, which I think has some flexibility in its enforcement.

The Chairman: What action do you propose to take on this matter?

Governor Fancher: I do not know, Mr. Chairman, whether it is vital enough at the present time to have a recommendation from this Conference to the Board. It was brought up more to find out the position that other banks were taking in matters of that sort. In all cases we have gone through the procedure of the decrease and return of the capital, but in some cases the bank has said, "Well, if it can be done, we are going to restore this amount and we would like to keep the shares." They have not insisted upon it, however.

Mr. Curtis: This has happened in our district. One or two banks have reduced their surplus and said that they did not want to take back their stock, that they would rather leave it.

The Chairman: Is any action desired on this matter?

Governor McDougal: I would suggest that nature take her course and be allowed to develop.

Governor Van Zandt: I think information should be asked of the Federal Reserve Board as to its construction on that, and that they get it from their counsel, the Attorney General, or someone else that they consider an authority.

The Chairman: Governor Van Zandt offers the motion that a request be conveyed to the Federal Reserve Board for a ruling as to the right practice to be followed where a member bank reduces its surplus.

Mr. Curtis: I think we have already written and asked them that, but have had no reply. My recollection is that we have written twice.

Governor McCord: If you care to take this course, we have a case in point, and we will take it up individually--- I mean our bank will ask the board for a ruling on that particular feature and we will then advise you.

Governor Seay: The reply will come out in the bulletin.

The Chairman: While we are here discussing the matter, why not pass the resolution requesting the Federal Reserve Board for a ruling?

Governor McCord: Mr. Curtis says that the request has already been made.

Governor Seay: I do not believe the matter is pressing. We have asked the Federal Reserve Board for too many rulings, and I believe that when we ask for a ruling it should be one of importance.

Unless some of the Governors think that the matter is pressing, I think Governor McDougal's motion to let nature take her course ought to prevail.

The Chairman: Governor McDougal, did you secure a second to that motion?

Governor Seay: I second Governor McDougal's motion.

The Chairman: The motion has been made and seconded that this matter be allowed to take its natural course. Is there any further discussion?

(There was no further discussion and the motion was duly put and carried.)

The Chairman: The next two items can be passed for the moment.

I am going to take the liberty of bringing up the last subject on the program, which is not on the copies of the program which you have, but which is suggested by a number of matters that have been discussed at this meeting.

We have frequently felt in New York that the proceedings at these meetings, whilst submitted promptly to the Federal Reserve Board and at formal meetings, both verbally and in

writing, have not been dealt with sufficiently formally to result in as prompt action by the board on some things as we would like to have. It has occurred to me that we might pursue a little different method and prepare a separate report and have that sent over in seven copies, or five copies, including one copy to each of the active members of the Board, with the information that we are sending a sufficient number of copies so that each member of the Federal Reserve Board can consider the subject, and ask that they be referred to committees or dealt with in some way so that we may continue this as a regular, permanent and continuous record and get the results in such shape that we can distribute them to the other banks promptly. What is your pleasure in this matter?

Governor McDougal: I move that that course be pursued; that that be done.

Governor Seay: I second that motion.

Governor McCord: Seven copies or five copies?

Governor McDougal: One for each member of the Federal Reserve Board; and that the reply be prepared in such a way that a sufficient number of copies shall be made to supply each bank with a copy.

The Chairman: Is there a second to that motion?

Governor Seay: I second the motion.

Governor McCord: I will second the motion also.

The Chairman: Is there any further discussion.

(There was no further discussion and the motion was duly put and carried.)

The Chairman: I was going to ask your pleasure as to the next session. Shall we meet tonight and endeavor to get as much of the program finished as possible, or shall we give up the evening meeting this evening and endeavor to finish up our program tomorrow morning?

What is your pleasure in the matter?

I will entertain a motion to adjourn if there is coupled with it the setting of an hour for reconvening.

Governor Fancher: I move that we reconvene at 8:45 o'clock p. m.

The Chairman: The motion is made that the Conference take a recess and reconvene at 8:45 o'clock this evening. What is your pleasure with regard to that motion?

Governor Seay: I second that motion.

(The motion was duly put and carried, and at 7:15 o'clock p. m. on the 15th day of June, 1915, the Conference took a recess until 8:45 o'clock p. m. of the same day.)
