

VOLUME 3

FOURTH CONFERENCE  
BOARD OF GOVERNORS, FEDERAL RESERVE  
BANKS.

Blackstone Hotel, Chicago, Ill.,

Tuesday, June 15, 1915, - NIGHT SESSION  
Wednesday, June 16, 1915 - DAY SESSION

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## EVENING SESSION.

The conference met at 8:45 o'clock p. m. pursuant to the taking of recess.

The Chairman: Mr. Aiken will be here in the morning and there are a few topics left for consideration when he is with us.

Governor Van Zandt: You left out (b), stating that you were waiting for Mr. McKay's attendance.

The Chairman: Yes. Mr. McKay, Item 8-(b), "Transfers". It is under two sub-headings. One is "Charges" and the other is "Extension of facilities to non-joining banks." I believe you suggested the first sub-heading. Have you any report to make on that subject now? You did not refer to the forms that were to be used for transfers of funds. Is that covered in that?

Governor McKay: In regard to the charges for transfers of funds, I think that matter was practically settled by the schedule which was made up which provided that items could be received for immediate credit at the rate of five cents per thousand dollars per day for the time that it would take for mail transfers; and then if any Federal Reserve Bank wanted to make a greater charge than that, I think it was at liberty to do so. That was considered as a basis of charge, and particularly with the Federal Reserve Banks located outside of the subtreasury cities. I think in their case they would make a different charge, an additional charge sufficient to cover the

cost of shipping currency to the nearest sub-treasury city, provided it is necessary to do so, and I believe that matter could be best regulated by each Federal Reserve Bank.

Does that cover the question, Governor Strong, regarding charges to be made on transfers?

The Chairman: Mr. McKay, this item was suggested for the program, I believe, by you?

Governor McKay: I do not remember suggesting that item. I might have had some correspondence with Mr. Hendricks about it.

Governor Seay: Was not the question of charges in some measure covered by the recommendation of the clearing committee to the Federal Reserve Board at their request?

The Chairman: I thought it was completely covered by the report that we made following the conference in Washington at which you will recall Mr. Harding suggested the necessity for an extra charge at seasons of the year to protect some of the member banks. We then agreed to recommend and submit a memorandum of charges for telegraph and mail transfers, and I understand that that report is complete and ready for submission; in fact, it has already been submitted to all the banks for their adoption.

Governor McCord: The report from the Board at Washington?

Governor Seay: It was forwarded by the Board. A

copy of our report was sent by the Board to the banks.

Governor McKay: It was in the last meeting of the clearing committee.

Governor McCord: In the absence of any instructions, if I am not intruding on this subject here, we have adopted this plan, that we charge every member bank for all the items coming from beyond the district in a total sum by the week, and credit them with the outgoing exchanges on the other Federal Reserve Banks. For instance, a bank puts in five hundred thousand dollars exchange, and we pay \$600,000 for it. We charge them on \$100,000 because that produces \$500,000 against their \$600,000.

Governor Weld: Produces it how?

Governor McCord: Produces exchanges. It is a benefit to us.

Governor Weld: And gives the bank the benefit of it?

Governor McCord: No; we do not give that bank the benefit of it. We give it the benefit of what it produces. I wondered whether there is any uniformity about that or what system is observed by the other Federal Reserve Banks.

The Chairman: Governor McCord, is that in connection with charges for transfers that are made now by the use of checks on your bank?

Governor McCord: Yes sir.

The Chairman: Can you not induce your member banks to make these transfers by making remittances to you---

Governor McCord: Yes; I do that to a certain extent,

but nevertheless they are issuing their exchanges on me, and whether they want to send them out of the district or not they do get out of the district and come in; and besides that, member banks say, "We do not want that; we will take any check that comes on us." Some of them come from beyond the district, and we charge them with the cost of it in the clearings.

Governor Sawyer: In that connection, Mr. Chairman, we have a bank in one of our reserve cities that brings its checks on us to New York for credit, and they send their eastern exchange to Kansas City and get the benefit of the interest there for several days. It pays for the cost of the transfer.

Governor McCord: We do not allow that, Governor Sawyer.

The Chairman: That ought to be stopped, Governor Sawyer.

Governor Wold: It is getting to be a hardship for banks located at cities where there is no assistant treasurer to make transfers themselves. It is getting to be very much easier to have the transfer made by the check against of the member bank, owing to the fact that they are not allowed to maintain an account that permits us to draw against it. If they would allow us to maintain an account with you in sufficient size so that we could draw and sell our own drafts, it would obviate that necessity. The only time they call upon us for exchange is when there is not any in the market.

The Chairman: It seems to me, following our discussion of today, that it would be far wiser for the banks that need the New York exchange and are able to accumulate it in that way to go right at the problem and take it up with the Board to have it understood as an arrangement to meet the situation.

Governor Wold: I do not care to prolong this discussion, but I would like to make an inquiry from Mr.

McKay: He suggested a minimum of five years. How does that operate <sup>when</sup> eastern exchange is at a discount at Minneapolis? It might be 25 cents discount. In Minneapolis if they take eastern exchange at par or at the market rate, as the case may be, and if the eastern exchange is selling at a discount, why, <sup>if</sup> the discount is large enough we will have a profit in the transaction.

Governor Seay: You will make the transfer for nothing?

Governor Wold: Do you imagine we could charge five cents above par that New York is quoting and 25 per cent discount?

Governor Seay: No; but if you could buy New York exchange at less than par you could make a profit, because there would be a credit in the gold settlement fund.

Governor Wold: In the shipping season eastern exchange is usually at a discount.

Governor Seay: But you can clear all that at par in the gold settlement fund and you are just that much ahead in exchange.

Governor Wold: Tenyears ago eastern exchange was at a discount probably four months of the year. It is getting now where eastern exchange is at a discount hardly sixty days in the year.

Governor Sawyer: In Kansas City it is from ten to eleven months in the year at a premium.

Governor Fancher: I think our situation in District No. 4 is going to be rather a difficult one under all the circumstances. As you know, Cleveland is not a sub-treasury City, and New York exchange rules at a premium practically the entire year in the reserve cities. It is a subject we have been giving a great deal of thought to, to know just how to take care of it properly. The demand is practically for one sort of exchange, and on what basis we can make those transfers and what charge we can make to save ourselves is quite a problem. I had put up to me, not so recently, but in the last two or three months, from our local Cleveland banks, the matter of bringing into use currency and making a transfer in New York. That currency would be a miscellaneous run of national bank notes and probably several certificates. Just <sup>what</sup> basis we can make that transfer on and at the same time replace the amount in our settlement fund without depleting our gold settlement fund is quite a problem.

It seems to me as though the banks in Pittsburgh, possibly in Columbus, are outof it practically entirely because if at a time when currency is redundant a transfer is made, it means a transfer probably to the sub-treasury

at Cincinnati for our credit with the transfer made on the same basis. Cincinnati being a sub-treasury city, the banks in Cincinnati can go over there to make a deposit for our account and make a transfer on some basis. Cleveland can come to us and bring the certificates in and make a deal. The present situation in our district is a very complex one.

Governor McKay: I should think that in your district you could make a charge for transfers in accordance with what it costs to create the kind of exchange you wanted, either the cost of shipment to the nearest subtreasury city or where it might be necessary to ship currency. I do not know whether your sub-treasuries will exchange gold certificates for lawful money or not. Will they do that?

Fancher:  
Governor Yes, they will do that; but we are hampered as in the matter of national bank notes if we take them.

Governor Wold: Do you take them?

Governor Fancher: We have not, but we are going to be importuned to take them. That is the basis of the transfer proposition. If we can confine ourselves to lawful money that is one situation. The matter of a transfer based upon national bank notes is another situation.

Governor Seay: I refused to do that last year.

Governor McCord: You will have to do it.

Governor Fancher: Can you stand up?

Governor Seay: It might not be expedient, but you can do it.



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

The Chairman: Is not this a fact about the use of these checks on federal reserve banks as transfers, that it can be controlled by one of two methods, either of which would be effective and would probably result in the use of a Federal Reserve Bank transfer, which is what we want to bring about? In one case the Federal Reserve Bank on which the check is drawn can impose a charge against the member bank that draws the check that will be prohibitive, and by the other system the Federal Reserve bank to which the check is remitted for credit can defer credit for a sufficient length of time so that it is no longer a desirable form of making transfer. In other words, that matter can be controlled at either end. We have attempted, by imposing a time schedule on the credit of these checks, to arrest the use of checks on federal reserve banks for the purpose of making transfers, and as soon as we adopt and put into practice generally, if we can, the system of bank transfers with a very moderate charge for the service, we will pretty soon ascertain from experience whether it is the preferable form and will be used by the member banks, or whether they will continue to use the drafts on the Federal Reserve Banks.

As soon as we have the experience we can then determine whether the bank on which the check is drawn will make a charge to the member bank that draws the check, or

whether the bank that receives it for credit will defer credit for a sufficient length of time to stop that, or whether our charges are too high and need to be reduced.

Governor Sawyer: How are you going to find out what are transfer checks and what are not? And are you going to apply that to all checks or just above a certain amount?

The Chairman: We have to draw the line geographically by devising a system which will limit the circulation of checks, unless the circulation outside of the district is at a charge which will be equivalent compensation to a bank transfer.

Governor Sawyer: And apply it to all the checks?

The Chairman: Ultimately.

Governor Fancher: That will necessitate in Governor McCord's district rather a changing policy and will be going back on a custom that he has been encouraging. If we in Cleveland say that drafts on the Federal Reserve Bank of Atlanta are going to be credit subject to two days, we cannot differentiate between a transfer draft and a draft that is drawn for sundry remittances. That is going to be forced right bank, Governor McCord, and is going to have an effect upon the policy that you have encouraged down there, and rather upset it.

Governor McCord: We have not encouraged it, but there has been such an urgent demand by the member banks that we tried to meet their views. Here is what my cashier says about it:

"The matter of deferred credits on items by our reserve banks will do the Federal Reserve Bank of Atlanta a great deal of harm, for our members can no longer check on us in payment for collections, such checks being received in other Federal Reserve Cities of the United States on two days' deferred credit. This works splendidly for New York, Chicago and St. Louis, but not for us."

I agree with you thoroughly that these transfer items ought to be handled in some way or other, as collection items would be, in the sense that they are a part of the trade and commerce of the country and would be keeping us on an even keel.

Governor Van Zandt: Where is the difference between paying checks for collection and transfers?

Governor McCord: If the checks are issued for collection they carry their reserve balance with us. If they are transfer checks they take them out of our hands and place them where they get two per cent.

Governor Van Zandt: Over in Dallas we charge every bank that sends a check out of the district for any purpose whatever.

Governor McCord: We are making a charge against every member bank for anything they send out of the district, regardless of whether it be a transfer or otherwise, sufficient to cover our cost of the gold pool. We are doing that, and it does not make any difference how it arises; we add that up as an item against them.

The Chairman: Governor McCord, in our former discus-

sions of this matter we have all taken the view that this is a matter of actual accommodation.

Governor McCord: Sure.

The Chairman: As I understand your point, the imposition of two days deferred credit you would consider works a disadvantage in Atlanta?

Governor McCord: Yes.

The Chairman: And the same would apply in Cleveland and in Chicago and St. Louis. Last year when we were taking these checks at par for immediate credit in New York, the balance ran against you as high as over \$2,000,000 and it was a matter of some embarrassment to make good those balances, and it imposed an expense on both of us. If we take those checks for immediate credit at par, as suggested by your cashier, we are simply going back to a situation that embarrassed you at that time, as I understand it.

Governor Seay: That is what I wrote you, Governor McCord, in explanation.

Governor McCord: I know that; but you must remember one thing, that at that time we had no system of clearing between each other at all, and it was an accumulation all one way.

Governor Lowry. Speaking for San Francisco, we were very highly pleased to think the other Federal Reserve banks can take checks on us on the deferred basis, for the very reason that you spoke of; and our experience with the recent plan might be of some interest to you. Per-

haps an illustration of it would present the matter most clearly. A bank in San Francisco, just before I left, wanted \$200,000 transferred to New York. We told them we would make that transfer for ten cents a thousand. That is the rate we have established tentatively. They said "Why cannot we draw our check on you and send it to New York?" I said, "You can do that, but we will charge you exactly the same, and your check will not be received for immediate credit in New York." So that was sufficient inducement to them to give us a check on ourselves, and upon that check we made the transfer for them. So it worked out very nicely.

The Chairman: Governor Lowry, I think I ought to explain a little bit about the situation in New York. As you know, the Clearing House Association a good many years ago established a certain limited number of points that are really in practice par points, and as to all the rest of the country they imposed a schedule of charges. When our bank was organized we submitted to them that as we were going to take these federal Reserve checks at par for immediate credit and expected to take membership in the clearing house, a limited membership, it would involve a necessary violation of their rules for charges for collection, and they at once modified their rules so that all the checks on all the Federal Reserve Banks might be received at par through the New York Clearing House or by the members in New York. The result of that was to create

this flood of transfer checks, and when the committee that was considering this matter of transfers recommended that we change that practice and receive these checks for deferred credit, we took the position that it was not a matter that interested the Federal Reserve Bank of New York, but that it was a matter that interested every other Federal Reserve Bank, and that it should say to us what their preference was as to the extent of the deferred credit that we should impose upon their checks to protect them. The result of that has been that they are conferring with all of the others, and I understand that Governor McCord has expressed the same view, that each of them has, and advised us to what extent they wanted deferred credit imposed upon checks drawn on their own banks. We had to follow that schedule exactly. Philadelphia and Boston wanted immediate credit at par, and we said we would take them for immediate credit at par. San Francisco, I understand, was satisfied with six days deferred credit. Mr. McKay handled this matter and knows how it was taken up with each bank.

But the point I want to bring out is this; that it necessitated another change by the New York Clearing House association and when we submitted the proposed schedule of deferred credits that had been adopted and advised them that it would take effect on a certain date, the 15th of June, I think, they at once adopted that schedule as their own by a new rule which made a charge on all checks except San Francisco---

Governor McKay: I would like to ask there if they are going to defer interest on the items?

The Chairman: That is a matter that the clearing house does not attempt to control, and it would be most unwise for them to attempt to control it in any way. Why never have assumed to say anything about interest on a balance or on loans.

Governor Lowry: I might just add to that illustration, Mr. Chairman, that this San Francisco Bank immediately deposited with us \$200,000 in gold in mint sacks.

The Chairman: That is a subject that can also be developed. This thing is full of interesting possibilities. There are certain clearing houses in the country that settle entirely in gold; among others, Philadelphia; and Governor Rhoades and I have conferred on that matter and we find that the Philadelphia banks require a very large amount. That has been so for some years, and under our arrangement he permits these transfers. They are conducted at par. He gets paid for these transfers in gold in Philadelphia, and in New York where we make these payments, where we have silver in such form that we can work it off, we work off our silver, and the result is that that transfer arrangement is dumping gold into the clearing fund for our credit and we are performing a service in a sense for the member bank. But really we are creating a machinery where the New York Bank is getting rid of the silver and the Philadelphia bank is accumulating gold for us.

Governor Lowry: If we pay that gold to the sub-treasury to go into the gold pool it still remains in the system, whether it is that gold or other. It does not matter.

Governor McCord: The reverse of that is the case with us. Of course one of our banks comes in with \$100,000 of national bank notes and we deposit it to his credit and ask for a transfer to New York. We have no sub-treasury to deposit it in, and if we did, we could not deposit those national bank notes. Our procedure has been this, that we would charge the cost of transmittal of these national bank notes to Washington, and then take transfer checks to New York--- no, they will not give them to us to New York, but to Chicago or any sub-treasury but New York or Philadelphia--- and by that means we have been creating funds. There is an expense of shipping that, and we charge that into the remittance fund of the gold pool and pro rate it according to the service.

The Chairman: I honestly believe that we are making a mistake in attempting, before we have really started our transfer plan, to review the whole subject once more without experience, and we are willing in New York, and I believe all the rest of you are willing, to suffer some



inconvenience and some expense and swap accounts around in any way in order to gain the experience of how to deal with this matter. Why can we not go ahead with the program that has been worked out by the Committee and ask Mr. McKay, which I was proposing to do in just a minute, to furnish us with the forms that he and Mr. Hendricks have worked up, and let us push the transfer plan as rapidly as we can, with our member banks, so that at our next meeting we can determine where and how these charges or deferred credits may be shifted and changed so as to control the matter.

Governor Seay: May I ask this, hypothetically? If you should desire to take a check on Atlanta, for instance, for immediate credit at par, can you do so now at your discretion?

The Chairman: In the reserve bank of New York?

Governor Seay: Yes.

The Chairman: Hardly; our plan has not contemplated doing that. Actually, I do not think we are under any obligation that would prevent our doing it unless you objected to it.

Governor Seay: That is what I am asking this hypothetical question for, to see as to the status quo of this matter. If Governor McCord desired you to receive checks on Atlanta at the old standard, is there anything in your relations to your clearing house now that would prevent your doing that?

The Chairman: Yes. We would have to go back again.

I had understood, and I think Mr. McKay and Mr. Hendricks worked this out and had a clear understanding with the Federal Reserve Bank of New York. We simply wanted to know definitely what deferred credit was satisfactory to every other reserve banks, and we would impose whatever deferred credit they asked, and once having done that we have advised the clearing house and they have taken action on the matter and, frankly, I do not want to go back and change it all again.

Governor McCord: We would not ask you to do that. We do not want to work any hardship or any constant shifting or changing of conditions. We are just simply trying to find a basis upon which all the business can be handled legitimately and satisfactorily to all parties concerned. We are not disposed to be arbitrary about the matter, or even to try to insist upon a thing that is unreasonable. Our effort has been to try to make our member banks transfer through us instead of sending their checks out.

The Chairman: That is what ought to be done.

Governor McKay: And that is the very thing that would help to do that, Governor McCord.

The Chairman: That would drive them to you.

Governor McCord: I would say, that when we find a member bank kiting, so to speak, we do not stand for it two minutes. We will not allow it; we will not permit it.

The Chairman: May I ask if it will not be entirely satisfactory to you for us to try the arrangement which we have figured out and which I honestly thought was entirely satisfactory to you and had been made at your own suggestion, in fact?

Governor McCord: I have not raised any point about it, except that I was trying to see what could be done for the member banks. I feel it my duty to see what I can do for them. Of course, if it is not an agreeable and pleasant situation all around I would not insist on it two minutes.

Governor Fancher: As to Governor McCord's situation, it seems to me, Governor, that your having your member banks draw their drafts upon you is creating a very confusing situation. I do not know of any other Federal Reserve Bank that is permitting that. I know we are not, and it is a confusing situation to say to our member banks in Cincinnati or Pittsburgh, "We are going to impose a two day time limit on a little miscellaneous draft of \$24.75." for some little sundry remittance. We cannot differentiate between that and a transfer draft of \$25,000. It seems to me that if we are going into this transfer system at all we have all got to work along on the same lines and not permit our member banks to draw overdrafts against the balances and circulate outside of your district. We cannot take up the broader proposition until we have inter-district clearings. It puts the Federal Reserve Bank that joins your district in a rather disadvan-

tageous position. We are going to be in a controversy immediately with our Cincinnati banks when we impose this time limit.

Governor McCord: Apparently we have been encouraging that, but that is not the case. Our member banks have rather taken advantage of the situation and tried to do it.

The Chairman: Can we not agree now on this matter and still go ahead, as I suggested, on the basis of the deferred credits and the bank transfer arrangements through the Federal Reserve Banks on its proper scale of charges, and let us work along until we have the next meeting?

Governor McCord: Most assuredly we agree to it. We do not want to cut bias across the cloth.

The Chairman: I think that will enable us to pass this particular topic.

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

Governor Wold: I do not care to prolong the discussion, but it seems to me it would be a surprising turn if we encourage our banks to carry excess with us and draw against it and we are not taking any exception to the deferred credits that these banks have made. Philadelphia banks have written to Minneapolis and asked them in settlement of collection charges to send them checks upon the reserve bank of Minneapolis.

(Governor Wold then made a statement which the

stenographer was directed not to report; after which the following proceedings were had:)

Governor Fancher: If we were to permit our banks to draw miscellaneously on every bank in Cleveland and meet the demand for New York exchange, we would do nothing else but put up millions of dollars.

Governor Seay: I would like to know whether I had received a wrong impression. My impression was that the members of the collection system who created an excess balance were going to be permitted to check against that excess balance and send it where they pleased; that such check would be received by you in New York and subject to two days, and that would be a check against it. I was under that impression.

Governor Wold: That is my impression.

The Chairman: That is correct. I would like to ask Mr. McKay's opinion about this, that if Governor Fancher imposes the deferred credit which is provided in the schedule, whether that will effectually protect his bank for the inconvenience that he refers to. It may subject Governor McCord's member banks to some inconvenience before they find out there is a deferred credit up there in Cincinnati, but it will check the use of these drafts for transfers and have the effect of driving them to the use of the transfer check for which a charge will be made.

Governor Fancher: That is my thought exactly, Governor Strong. <sup>New York</sup> The/banks actually need about two days' time limit upon drafts on the Federal Reserve Bank of Cleveland.

Governor McKay: I would like to say, as a matter of information, that beginning today the Chicago bank puts in this system of deferred credit on all federal reserve banks, with the exception of Boston, Philadelphia, New York and St. Louis. Items on federal reserve banks in those cities will be taken for immediate credit at par or at the market rates. That will go into effect today, and that will tend to prevent our getting checks on some of the federal reserve banks that are located outside of sub-treasury cities.

Governor Wold: I do not see how it is possible, unless you are going to allow a bank after it has created an excess, to use it in some way.

Governor Seay: I was under the impression that that <sup>the</sup> was contemplated in interdistrict system. Now do I understand that you will charge your members, notwithstanding the deferred credit that is imposed by other Federal Reserve Banks, upon checks upon you outside of the system?

Governor Fancher: What I am striving to do is this, that if it is going to be a transfer through us I will see about the transfer and will try to make a charge that will offset that two days, and if there is any profit in the transaction I would try to make it.

The Chairman: We are discussing two very separate and distinct things. We discussed what Governor Fancher ought to do in regard to his member banks drawing drafts on his bank and circulating them out of his district, and I believe that we have not much to do with it except that

he should impose such deferred credit as he asks us to impose.

As far as Governor McCord's situation is concerned he has already agreed to a time schedule which we have already adopted, and his cashier demurs to that on the ground that it is going to put the Federal Reserve Bank of Atlanta at a disadvantage. I think we ought to have more experience with the operation of the present deferred credit scheme before we attempt to change it. We have not started. The Federal Reserve Bank of New York got the arrangement through the clearing house and put it in operation on the 15th of the month, and it would be a shame to go back and ask them to change it now.

Governor McKay: The scheme only goes into effect today in Chicago, and naturally we will not know what the results are going to be until we have had some experience with it.

The Chairman: We are really threshing over old straw here that we have discussed at these meetings without limit; and our committee having worked out its plan, and our committee having adopted it, can we not stick to it and give it a fair trial?

Governor McCord: I did not bring that question here for discussion. I just accepted the vote on the situation and went on. Suppose a Macon bank sends a check to an Albany bank and the Albany bank puts their endorsement on the back and sends it to New York or Cleveland or

Chicago. Of course that is a deferred payment. When that comes back to me I am going to charge that bank with the cost of making that settlement. I am going to stand by that.

Governor Sawyer: They would not make it but once.

Governor McCord: Hold on; I want to show where it would be twice. Albany takes a chance---

The Chairman: I think Governor Sawyer has answered, it, because Macon will see to it that Albany does it only once. Macon says to Albany, "you have imposed a charge on us and used our check as New York exchange, and we cannot stand for it."

Governor McCord: That is the only difficulty with that. We will work it out; don't you worry.

The Chairman: I think we can work it out, but I do not think we can work it out theoretically. I think we will have to do it by actual trial of the scheme.

Governor Seay: There is this new situation, though, that now you are receiving only from members in your collection system items that will create excess balances.

Governor McCord: The other members are sending in money.

Governor Seay: For what purpose; not for the creation of excess balances?

Governor McCord: Yes; and they will send checks to Atlanta.

Governor Seay: But you are not taking them, are you? I thought we agreed that we would not take them from mem-



bers of the collection system.

Governor McCord: What--- a check on Atlanta?

Governor Wold: We do not take a check on Minneapolis.

The Chairman: I honestly think that we are going over old straw that we have already threshed over, and we have decided this matter.

Governor McKay: I have some forms requesting transfers of funds that I should like to distribute.

(The forms referred to thereupon were distributed to the members present.)

The Chairman: These forms are submitted as a result of the work that was referred to you and Mr. Hendricks, as I recall?

Governor McKay: I just received these forms from Mr. Hendricks, and we have made up a form at the same time that is similar to it but not quite the same. The form that we made up in Chicago leaves out the words "Federal Reserve Bank at \_\_\_\_\_." Our form reads this way: "Please charge our account and transfer by mail or telegraph to the \_\_\_\_\_ bank of \_\_\_\_\_."

We did not think it was necessary to say through what Federal Reserve Bank the transfer should be made, because the member bank might not know in what district the other member bank was located, and we would have to check it up anyway to see if it was correct.

The Chairman: If they are stamped or written in it provides the very simple index by having it on the face of the order.

Governor McKay: Yes. Then, in Chicago we thought the amount ought to be written as well as placed in figures, and we put in the word "dollars" down on this blank line (indicating) for the use of it. This is a very simple matter that can be taken up by any federal reserve bank in any way they want to. It is merely a suggestion.

The Chairman: If you will be a little generous with me we will conclude the evening session by completing Item 8 and consider the subject of extension of facilities to non-joining banks. That applies to the transfer facilities.

I will ask Mr. Curtis to read the extract from the letter received from the Federal Reserve Board suggesting this topic.

The Secretary: It is very briefly stated, without any reasons, in the same letter from which I read portions before:

"Should transfer facilities be given only to such member banks as have joined the clearing system?"

The Chairman: Is there a well crystalized opinion as to whether the system of bank transfers that we are about to adopt should be extended to all member banks or only to those banks which have joined the intra-district clearing system?

Governor McDougal: I should think it should be extended to all member banks.

The Chairman: Possibly to throw a little light on this, it occurs to me right here that there is very little,

if any, relation between the intra-district clearing system and a system of bank transfers.

Governor McCord: None whatever.

The Chairman: Are you ready to offer a motion to answer this positively and at once without further discussion?

Governor McDougal: I would move that the privilege of transferring funds be extended to all member banks on the same terms.

Governor Fancher: I second the motion.

(After informal discussion, which the stenographer was directed not to report, the motion was put and carried.)

(Whereupon, at 10 o'clock p. m., the conference adjourned until tomorrow, Wednesday, June 16, 1915, at 9 o'clock a. m.)

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## T H I R D     D A Y.

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

The Chairman: The meeting will come to order.

(An informal discussion was had as to the advisability of inviting a member of the Federal Reserve Board to be present at future conferences of the Governors of the Federal Reserve Banks.)

The Chairman: I will suggest that by resolution the Conference authorize the Chairman to extend an invitation to the Board to have one of its members present at our future conferences, such invitation to be sent to the Board prior to the next meeting.

Governor McDougal: I would be very glad to make such a motion, and there might be incorporated in the motion that he is invited for the purpose of discussing particularly such topics as the Board itself introduces.

The Chairman: Yes. Is there any further discussion of that proposition?

Governor Sawyer: I second the motion. I think it very desirable to have a member here.

The Chairman: If there is no further discussion I will put the question.

(The motion was duly put and carried.)

The Chairman: Governor Aiken, may we not take up item No. 22, which is "National banks-- letters of credit --

recent instructions of Comptroller", the latter part of which refers to recent instructions given to bank examiners by the Comptroller of the currency in regard to national banks guaranteeing letters of credit. We have a copy of the instructions referred to which might be read and put into the record.

Governor Aiken: The bank examiner called my attention to a situation in one of our banks in Boston where they had been issuing letters of credit in sterling, and were guaranteeing the London Bank acceptances made on account of those letters. The bank examiner received a letter from the Comptroller of the Currency calling his attention to the fact that such guarantees on the part of a national bank were not permitted under the law.

That is a very serious interference, as I see it, with the development of the acceptance business in this country. It is quite conceivable that the exchange market will be such in South America, for instance, that a merchant in Boston may want to be able to settle in Sterling and have the bills accepted in London. When that situation in the exchange arises, unless a bank can issue a letter in sterling, the bills to be accepted in London, we have practically got to stop doing that business. It seems to me that is a very strict construction of the law and it also seems to me that it would be desirable to have that matter taken up with the Comptroller's office, perhaps through the Federal Reserve Board to see if we cannot get a more liberal interpretation of the law in that respect.

because while we are doing everything we can to promote the extension of this business, here is a ruling that checks it very materially in its development.

The Chairman: I have a copy of the letter addressed to the National bank examiners which you were good enough to send me, and I will read that portion of it that relates particularly to this matter:

"Unless the liability of the bank is on account of acceptances so authorized in the sections quoted a national bank has no right to issue letters of credit to a party who has not the amount to his credit on the books at the time the letter is issued. It has been uniformly held by the Courts that a national bank cannot guarantee the obligations of other parties, or lend its credit, and this applies to all transactions except those authorized as indicated."

Mr. Curtis will correct me if I am in error, but I do not think there is anything in the national bank act which prohibits a national bank guaranteeing a commercial letter of credit except on the theory that it <sup>is</sup> ultra vires for the national bank to make any obligation or guarantee which it is not specifically authorized to make by law. Most of these letters of credit are guaranteed either on the faith of the credit of the customer of the bank or on his credit supported by adequate collateral, and the question arises whether the Comptroller is justified in restricting the operations of a national bank to simply

guaranteeing to pay money that is on deposit with it and appropriate for that purpose.

Governor Aiken: I wrote a letter to Mr. Warburg in regard to this case, because it seemed to me that the attitude of the Comptroller's office should be different. It is so easy, by fiction, to set up a credit against which guarantee could be made, that it seems to me that fiction ought not to be forced upon the banks. Our banks, as I understand it, issue a letter of credit against a definite and formal agreement on the part of the party to whom the letter is issued, agreeing to pay the bank in funds to meet those acceptances a certain number of days before the acceptance falls due. It ought not to be necessary for the bank to use that agreement as a basis for actual credit on the books. It is purely a fictitious operation and would not change the real situation in any respect, but whether it would comply technically with the law, I cannot say.

Governor Wold: That is a subject to which I have not given very much consideration, but it seems to me there is clearly a contingent liability there that ought to be disposed of in some way. If the customer for whom the guarantee is given fails to pay the bank will have to pay. The liability is the same as it would be upon a rediscount of your customer's bills.

Governor Aiken: The account is set up on both sides of the statement showing amount of the letter of credit outstanding and the liability, and the contract with the

customer to take care of that liability on the asset side. It is set up in the form of a statement. The actual amount of the letter of credit is not passed to the credit of the individual customer.

The Chairman: You mean he makes good if the letter is used?

Governor Aiken: Yes.

The Chairman: This question of a bank guaranteeing obligations if carried to the very last extreme, could be applied to the business of the national bank and would prove to be so embarrassing that the bank could not do business. Take this practice that is required by the Government. They will not make retransfer of government bonds except on a guarantee of the bank. That is a national bank in most cases, and when the national bank buys some government bonds and wants to have them transferred they have got to guarantee the signatures, creating an obligation that exists as long as the statute runs. It is just as ultra vires for a national bank to guarantee signatures in that way, it seems to me, as it is to guarantee a letter of credit. It is merely another form of extending the credit.

I think the ruling is simply an extreme ruling that will simply cause embarrassment and do no good whatever.

Governor Aiken: I would like to ask what you think would be the best way to deal with it. I acknowledge that my knowledge is only academic with regard to these matters. You have had a great deal of practice in dealing with these commercial credits.



The Chairman: This matter will probably cause a great deal of embarrassment later on. Just now it would be in isolated cases like the one you speak of.

As our acceptance business develops the customer of an American exporter in a foreign country is probably going to be able to draw either in sterling or dollars, according to the rate. He will elect to draw in dollars when the discount in New York is favorable to the dollar draft, and he will draw in sterling when the discount in London is favorable to the sterling draft. If the American bank cannot establish such arrangements with a bank in London as will enable an exporter to elect which kind of a draft he will draw then we are going to attempt to force him to always draw in dollars, and the minute we attempt to force him to always draw in dollars, then he is going to have two separate drawing arrangements instead of one. He can arrange his drawings at present with one bank in New York or Boston provided that bank can make similar and equally advantageous banking arrangements for him in London. I believe that the American banks ultimately have got to be in a position to facilitate giving customers, American exporters, the privilege of drawing either in dollars or sterling. Today that involves the American banks having a relationship with the English exporter that will indemnify the English exporter. The American bank will be in a position of accepting the responsibility of reimbursing the London bank, which now is entirely arranged in London.

Governor Aiken: It seems to us that the effect of that will be to drive that business back entirely into the hands of the private banker in Boston. We have two large banking houses there--- two large ones and one smaller one-- that have done practically all that business. The First National Bank, at great expense and with a great deal of commendable energy, has built up the foundation for an excellent foreign business. It seems to me that the carrying out of this ruling will interfere with their business so seriously that it will have to go back into the hands of the private bankers.

The Chairman: Why not pass a resolution at this meeting, if the others agree, for the purpose of getting it before the Federal Reserve Board for investigation. I have taken the liberty of also writing Mr. Warburg about it.

Governor Seay: Upon what ground?

The Chairman: We would have to base it upon our belief that it will interfere with the development of our foreign exchange business by member banks and drive it to private institutions.

Governor McDougal: It will go further than that, Governor Strong. It will restrict them in a matter of business that they have always conducted. I have no doubt that the banks in New York have a large amount in letters of credit issued both for cash and under guarantee. We have here, I know.

Governor Aiken: It is just as true of travelers' letters as it is of commercial letters.

Governor Wold: I was speaking to Mr. Forgan last week and he said they had been issuing them for forty years and would continue to issue them under guarantee.

The Chairman: The American banks have been guaranteeing credits of that kind for all the copper that is exported from Chile.

Governor Lowry: It has been the common practice in San Francisco for many years to issue these letters of credit with guarantees in Sterling exchange. Any interference of that kind with that plan would be quite a serious thing to the importers in that section.

The Chairman: The attention of the Conference having been drawn to the letter of the Comptroller of the Currency dated June 2nd, addressed to the national bankers, in regard to guarantees of commercial and other credit by national banks, it was on motion duly seconded, resolved that the Federal Reserve Board be requested to obtain if possible a withdrawal of these instructions, it being the conviction of the Conference that these instructions, if literally enforced, would seriously interfere with an important business now being conducted by member banks and further interfere with the development in the future of the acceptance business, which should be encouraged.

The Chairman: Does that cover what you have in mind, Governor Aiken?

Governor Aiken: Yes.

Governor Rhoades: I second that.

(The motion was duly put and carried as above stated.)

The Chairman: Item No. 23, "retirement of Federal Reserve notes", it seems to me has been already pretty well covered by our previous discussion of the method of handling federal reserve notes. If agreeable, and as I suggested the topic, I will mark it as already covered.

I would like to have you now indicate which of the last four items you wish to discuss first.

Governor McCord: I think we can get through with Topic 14 pretty quickly.

The Chairman: We will consider Topic No. 14, "Intra-district collections." Item (a) "collection of checks drawn on all banks within district with nominal compensation for collecting checks on non-members in member bank's own town," was suggested by Governor McCord.

Governor McCord: A good many of the banks in our district have expressed a willingness and desire to enter the clearing system provided we collect all checks, national and state. The question was taken up with a member of the Board at Washington and it was stated by Dr. Willis that the word "member" in reference to checks was in there by inadvertance, but that the matter could be handled under the open market transactions.

Our people whuld like to know if it would be desirable or possible to collect for member banks checks that they may have on all state banks or non-member banks at a

nominal rate of exchange, and the rate suggested by them is one-eighth of one per cent, up to 3,000 inhabitants, 1/10 of one per cent up to 25,000 inhabitants, and 1/20 of one per cent above that, reserve cities free.

I would like to hear an expression from the other Governors as to whether they think it is feasible and practicable, whether they would care to do it or not do it, and whether there would be any objection to doing it.

The Chairman: Who would pay the charge?

Governor McCord: We would pass it on to the bank that put it in and time his paper.

The Chairman: You would select a charge on the non-member bank's check?

Governor McCord: Yes.

The Chairman: And would pass that on to the member bank that deposited the check?

Governor McCord: Yes.

The Chairman: ~~Who~~ would pay the one-eighth of one per cent or the one-tenth of one per cent?

Governor McCord: The depositing bank. The charge would originate at the point of destination and be charged back to the bank that put the item in.

The Chairman: Would it not work just the other way?

Governor McCord: No. I do not see why.

The Chairman: Suppose we call the depositing bank Bank A, and the bank on which the check is drawn Bank B. You would give Bank A, when it deposited that check, credit for the face amount of that check, and would expect to

give the depositing bank A also one-eighth or one-tenth?

Governor McCord: No. You do not understand me. Your member bank at the collecting point would get the exchange for the service.

The Chairman: Then you would send the check of a non-member bank to one of your members in the same town?

Governor McCord: Yes.

Governor Aiken: The depositing bank would get credit less one-eighth of one per cent.

Governor Fancher: And you would pay the one-eighth of one per cent to the collecting bank?

Governor McCord: Yes.

The Chairman: Would that work in your district?

Governor McCord: It is working.

The Chairman: If it would work in our district I would like to see it done.

Governor McCord: It is working in our district right now; our members are participating in it, state banks are participating in it and also what is known as the Atlanta clearing house, which covers Georgia, Alabama and Florida.

Governor Wold: You are recognizing right there the principle that the exchange is a credit, something we are trying to get away from. We have taken the position that the deduction of exchange was a charge that was not justified. The drawer of the check was the one who ought to pay and not the bank or the person who happened to get possession of it. I think we should handle the checks upon our member banks advantageously and satisfactorily be-

fore we commence to attempt the collection of checks on non-member banks.

Governor McDougal: I do not see that it would be very advisable to undertake anything of that kind at the present time. One reason, among others, is that we are loaning now--- you can call it a collection plan, but it is really a clearing house system--- and we something to charge everything against that we take over the counter or through the mail. If the plan were extended to accept items on non-member banks within the district there is no bank to which the charge can be made, and it creates a float, does it not?

Governor McCord: No, there is no float.

Governor McDougal: It consumes your resources.

Governor McCord: No. I beg your pardon. I said time the items.

The Chairman: Might not this idea be just about as effective. If we said to the member banks which came into the collection system, "We will receive from you items on state banks," possibly not all state banks in the District, but by a gradual increase in area increase the amount of state banks, "and give you deferred credit for them at par, provided of course we have a similar clearing bank in the town in which the state bank is located, on which the draft is drawn. What the effect of that would be, it seems to me, would be to include a lot of items that the clearing banks would send us as an offset, and we would then be able to collect state bank checks in towns where we had clearing members, free of exchange, by

sending them to those banks and giving them the benefit of the offset.

Governor Wold: The trouble with that theory is that it would make it that much more difficult for member banks to provide excess funds to meet that. They will have to provide funds to meet such bank's checks as well as others. That is the complaint we make now. It is not so much the protest against the loss of exchange as it is a protest against maintaining an excess balance to provide for their checks.

The Chairman: As it is now the member bank that clears receives on deposit a good many checks drawn on state banks. Those checks it must send to some other collecting agent, where it is obliged to maintain a balance for collection purposes. They are under the necessity of two transfers; that is, on the collection through their collecting bank and then transfer for their credit with the reserve bank against which their items will be charged. That would not enlarge the number of items which we will receive from them. By receiving items on state banks located in towns where we have a clearing arrangement with any member bank, why, then, we are going to cut the state bank in that town out of exchange charges, because to the extent that we get items for collection drawn on state banks in towns where we have collecting banks, we can send them directly to that town and get them collected over the counter free of exchange charge. The influence upon the state bank is going to be the increasing of the



it  
volume of items drawn on the bank which has been the custom  
in the past to remit---

Governor Wold (Interposing): It will result in  
the national bank providing funds in reserve in order to  
take care of state bank checks. It will make the state  
bank's checks par at the reserve center without any ef-  
fort on his part at all.

Mr. Lowry: Suppose in a town there were two nation-  
al banks and one state bank. One of the national banks  
joins the collection plan and the other does not. If  
we send to the joining bank checks on itself and on the  
state bank and refuse to handle checks on the other nation-  
al bank that does not join the collection plan we are in  
a position of discriminating against one of our member  
banks.

Governor McCord: He is discriminating against him-  
self.

The Chairman: We are discriminating now, in a sense,  
it seems to me, because in our district we do not handle  
their checks at all.

Mr. Lowry: Exactly. You would offer facilities  
for collecting checks on a bank that had no connection  
with the system whatever and refuse to collect checks  
on a bank that was a member of the system, had its capital  
invested with you, but simply did not choose to join in  
your cooperative plan.

Governor Seay: If we did that we would probably  
have to take checks for collection and not for immediate  
credit--- checks on non-assenting member banks in the

same place.

Mr. Lowry: Undoubtedly we would. We would doubtless be forced to apply the same pressure to the non-clearing bank as we do to the non-member bank. We will be offering facilities for collection to the non member bank equal to what we would be offering to the member bank.

The Chairman: In our district these state banks charge exchange on their checks, and if all the checks drawn on the state bank, in the town which you refer to, came to that state bank through a member bank in that town that cleared, the state bank would lose its exchange, would it not?

Governor Seay: It would force them into a very serious position.

Governor Wold: It would not improve their position by joining the system.

The Chairman: Yes sir, it would. The position of the bank would be improved, if he joined the system, to the extent that checks on his bank would then circulate at par within the district, which they do not do now, because they are subject to exchange and collection charges.

Governor Seay: He could put them in himself in the most convenient form, but if they went to the member bank they would have to be paid in cash in all probability, unless there was a private arrangement to the contrary.

Governor Wold: In the customary settlement of balances between banks in the country towns is at the convenience of the paying bank. If they have excess currency they give them currency, and if they have not they give them

exchange at par. Also, some of the banks prefer to have their neighbor across the street get the items.

The Chairman: They give them exchange acceptable to the collecting bank. They would give them exchange on the Federal Reserve Bank in their district.

Governor McCord: If they do not send the checks to the bank they are drawn on they will come in and raise a row about it. The merchants will say, "I want my checks sent to my bank."

Mr. Lowry: I know if we should notify our member banks that we will take for collection checks on the First National Bank of Stockton, we will say, and on the State National Bank of Stockton, but that we will not handle in any way shape or manner checks on the Fifth National Bank of Stockton, we would have all kinds of trouble on our hands right away.

Governor Seay: That position could not be defended.

Mr. Lowry: We have taken the position in our district that unless the bank assents to the plan we have proposed we will not handle items on that bank either for credit or for collection.

The Chairman: That is our position.

Governor Seay: That is our position, and I think the position of all of us.

Mr. Lowry: If we agreed to take checks on banks not in any way connected with the system and refused to take checks on banks that are members, but which do not happen to like our plan of collection, why, we are in all

kinds of trouble.

The Chairman: We put out a circular in which we said we would only receive on deposit certain checks on the member banks that cleared; that is to say, we would accept checks drawn on member banks in the reserve and central reserve cities in our district, member banks, and we would receive on deposit checks drawn on any member bank which had joined the collection system and receive on deposit subject to the time schedule, checks on Federal Reserve banks . . . . .

Mr. Warburg at once called my attention to the fact that that was a violation or evasion of the express provision of the law which requires us to receive on deposit at par checks drawn on solvent member banks. I told him we would modify the circular in the next edition.

It may be that the Federal Reserve Board will call our attention formally to the fact later on that the terms of the circular in respect to not receiving on deposit checks drawn on member banks which did not come into the plan is a violation of the law which the Board cannot connivance and that we must receive those checks on deposit at par on the same terms.

The Board has made a ruling that "par" does not mean necessarily immediate credit. Consequently we are gradually moving to the point where we distinguish between a check on the clearing bank and a check on the member bank that does not clear, giving immediate credit in one case and deferred credit in the other. As I view the proposition we probably will have to do that later. The

minute we do that we have got to have a collection facility; we have got to have a bank to send those items to for collection. We want to avoid the exchange charge and the way we do that--- the only way that I see to do it --- is to enlarge our clearingplan so that we will have the area of our districts more nearly covered by banks that clear, and we can use those banks as collecting agents; and when we do that then we may be in a position to enlarge our operations and receive checks on state banks as well as non-clearing banks within the radius of each of our clearing banks in the different sections of the district.

We are restricting our operations now to an extent. We have far greater leaway under the act, but we are doing it of course by necessity.

Mr. Lowry: Then, as I understand you, you do take for collection checks on member banks that have not assented to the plan?

The Chairman: No, we do not, and we are in the same position that all the other districts are in, or almost all of them, and that is of violating the law in that respect. Our circular is quite specific in stating that we are violating the law, unfortunately, and when we put out another circular we will try to avoid that.

Mr. Lowry: What does the Board object to? Do they object to the circular or to the fact?

The Chairman: It objects to the statement of facts.

Governor Seay: I recall distinctly that that ques-

tion was discussed with the Board and they agreed and acquiesced in it or winked at it in the beginning. Dr. Miller himself expressed in that language. I am sure that that was the decided understanding, that it would be undertaken in the beginning in that manner.

The Chairman: Some unkind member bank in our district went through our circular and called the attention of the Board to the fact that we were violating the law. I think that was the cause of this communication. It would not make a bit of difference to us if we stopped today and said to the member banks in our district, "We will receive on deposit any checks on any member banks in this district, but will only give you credit on those checks drawn on clearing banks" --- because we wouldn't get any checks on the other banks. They would get immediate credit from their correspondents, and are getting it now.

Governor Aiken: In our district we would get a good many and would have to use the Boston Country clearing. They don't get immediate credit for those items now. Credit is deferred two days. It would simply mean that we would get those checks and send them out through the Boston clearing.

Mr. Lowry: If we did that it would be extremely expensive. Los Angeles makes a charge of five cents a hundred on all items they collect for San Francisco. If we agreed to take checks on member banks in Los Angeles at par, whether for immediate credit or deferred credit, we would get from Los Angeles checks deposited in San

Francisco, to the amount of thousands of dollars, and we could not collect those at par.

The Chairman: Have you any bank in Los Angeles that is in the clearing plan?

Mr. Lowry: No.

(Informal discussion followed which the reporter was directed not to take.)

The Chairman: Governor McDougal has offered a resolution, if I heard him correctly, to proceed with item 14-(b).

Governor Wold: The condition resulting from Federal Reserve Banks accepting items upon federal <sup>member</sup> Reserve banks in federal reserve cities would not affect those banks located in cities where there is a sub-treasury, but with those banks that are located in a city where there is no subtreasury, if checks on member banks in those cities are generally accepted by other federal reserve banks, it will make it difficult and expensive <sup>ive</sup> for them to make settlement in the gold pool.

There has been a little of that done. I do not like to charge the Atlanta banks with any more things than she is now charged with, but Atlanta has sent up some items that we have taken. They have not been of a size that would cause any concern, but they may reach that. I think Chicago has sent us a few. I would like to know what the attitude of the other banks is. Of course we are accepting checks drawn upon banks in the Chicago district and the New York district because we need that exchange; it is for the purpose of settling something. If

one of the accepting banks is in our debt we have no objection, of course, to their sending checks to us drawn upon member banks in our city, but I think there ought to be some understanding as to just how far it should go.

Governor McCord: We have to do one thing or the other; we have to send them regularly or not send them at all. You cannot regulate that with your member banks because they do not know the condition of your account with me or my account with you. If we take a few one day we have got to take them continuously. If we do not take them at all, why, that is all right.

Governor Fancher: We have sent a circular to the member banks saying that we would take certain exchanges, confining it to cities right around our territory and central reserve cities such as Boston and Philadelphia. We are not attempting now, or are our members asking us to do it, to take checks on member banks in Dallas, Minneapolis or Kansas City. I think when you go into that proposition you are starting something on pretty broad lines that is going to work a hardship on banks located like the bank in Minneapolis and Cleveland.

The Chairman:

Gentlemen, this item is also covered in Item 15. May we consider this brief informal discussion of Item 14 as preliminary to considering item 15 and proceed with the program?

Governor McCord: Item (c) under subject 14, by Governor Rhoades, has not been heard from.

The Chairman: But before coming to that I was



going to suggest, as a means of dealing with this subject raised by Governor Wold, that we pass a resolution which I will take the liberty of dictating.

14

After informal discussion of item/(b) it was resolved that before any reserve bank undertakes to receive on deposit items drawn on member banks in their districts it will first effect satisfactory arrangements with the Federal Reserve Bank of that district.

Governor Fancher: I second that resolution.

Governor Wold: I move its adoption.

The Chairman: Is there any further discussion?

(There was no further discussion and the resolution was duly adopted.)

Governor McDougal: May I state that in our collection circular we offer to take from member banks who have joined the collection plan items drawn on member banks in the Federal Reserve System located at four points from the Federal Reserve System located at four points from which we take exchange at par for immediate credit, Boston, New York, Philadelphia and St. Louis. Would that be in violation of the resolution that we have just passed?

The Chairman: It would be if we had passed a resolution before you started to do it; but having started to do it now you will have to square your account with the resolution by a little discussion with the banks.

As to New York, Governor McDougal, I want to reiterate what has been frequently stated at these meetings, that we are willing to try anything as long as the money lasts, and if it does not work we will let you know.

(Further informal discussion followed.)

Mr. Lowry: I would like to explain our position in San Francisco if it would be of interest to the Governors.

We have notified our member banks that we would charge them ten cents per thousand for paying checks drawn on us by them and coming to us from other federal reserve banks from outside the district.

The question has been raised by some of the Federal Reserve Banks as to what basis we will take items drawn on member banks at San Francisco, and we have thought it was only fair to impose the same charge. We have to deposit gold in the sub-treasury to make our settlements good, and eventually that gold will have to be moved. The Pacific Coast is the only section in the United States, practically, where gold originates, and during the last three years there have been received in the sub-treasury \$40,000,000 in gold. They have at present \$120,000,000 in the sub-treasury. We have not been happy over that situation. We would rather have the gold in New York.

I have some figures here that will show somewhat our position there. We have received in cash from other districts \$11,000,000. They have sent us for investment purchases by us, \$2,000,000, making \$13,000,000. We have sent cash letters to other districts amounting to \$4,000,000. We purchased exchange to the amount of \$5,600,000, some of which we got at par and some of which we paid a premium for. We have sent gold order certificates to New York to the amount of \$5,900,000. These

certificates simply mean that the gold remains at San Francisco and is paid out at New York. That of course will not cost us anything, but we are anticipating a cost in the future when the gold does have to be moved.

The Chairman: That is just the point I fear. As you know, the gold in most parts of the country, with the exception of San Francisco, goes promptly into the sub-treasury and is represented by issues of gold certificates. These certificates are more largely presented at the New York sub-treasury for gold than in any other part of the country. By establishing the gold fund in Washington, which is not an exchange center, which results in moving the gold from the New York sub-treasury to Washington, we are going to have imposed upon us an expense, by the establishment of the gold fund and the maintaining of it in Washington, that otherwise would not be imposed upon us

Mr. Lowry: If we attempted to take items on San Francisco at par, and San Francisco banks receive a large number of items in their district from New York or from other eastern centers, and if instead of remitting for them would wait for the New York bank to draw on them, we would have to make the transfers in very large quantities at a cost which we could only guess at. We guess it to be ten cents a thousand. We may be guessing very wrong, but that is the preliminary rate that we have made. On that basis we shall be glad to handle items on member banks at San Francisco for other federal reserve banks. We may change that rate. If it is found to be too high we will change it.

Governor Wold: I am not clear on this point at all .  
As I understand the operation of the gold pool we understood we might be required to pay a certain portion of the expense of moving the gold from one part of the country to the other in connection with the gold pool. But if you desposit the coin in the sub-treasury at San Francisco and get gold order certificates and send them to New York the New York bank or your bank will not be expected now, or at any other time, to make any contribution to the expense of moving that gold. That is a sub-treasury operation.

The Chairman: Yes.

Governor Lowry: They reserve the right to make a charge.

The Chairman: They protect themselves by another method. The sub-treasury system has adopted a policy, in order to protect these sub-treasuries where there is a drain of gold, of only receiving gold on deposit for transfer to other districts, say at New York, where the drain occurs, but never receiving it at San Francisco and other points. They reported to us, for instance, in connection with this plan originally that they would not receive deposits of gold at San Francisco in order that payments might be made at New York, because the drain in New York was constant. If you wanted to make payments in San Francisco you could deposit all the gold you wanted to in New York and they would make all the payments you wanted to make in San Francisco; and that is the way they

protected the New York sub-treasury from the drain.

Governor Seay: They are actually doing what they say they will not do.

The Chairman: Subject to a future charge.

Mr. Lowry: Not subject to a future charge in ordinary transactions. Any bank in San Francisco can take gold to the sub-treasury, get order certificates payable in New York, and they are actually doing what they formerly declined to do.

The Chairman: But there is a charge for shipments and insurance on these other certificates, which affords them some protection, whereas, if they receive the gold in San Francisco and issue certificates in New York the only course is a telegraphic course which they make you pay in most cases. That puts a drain on the New York sub-treasury without any restriction whatever---

Mr. Lowry: (Interposing) The banks of San Francisco, when they send such certificates, ordinarily insure them at a cost of 2-1/2 cents a thousand. They very much prefer to deposit gold with us and let us get the certificates and send them. They argue that if a certificate gets lost in the mails we could get it replaced with very much less trouble than they can. One bank in San Francisco has an experience of that kind some years ago. They sent a shipment of these orders to pay on the New York sub-treasury and did not insure them, and the certificates became lost or destroyed in the mails. It took them the better part of a year to get duplicates, and

it required a special act of Congress before the matter was finally cleared up.

Mr. McKay: I think we are talking about two separate things in regard to this Gold settlement fund. I think where a shipment of gold from one sub-treasury city to another sub-treasury city would be required that the Government expects there would be a charge for that service, but that would only be in a case where gold certificates on one sub-treasury were presented at another sub-treasury. Under the gold settlement fund it will not be necessary to have such transactions at all, and the only charge that will be liable to be incurred in the gold settlement fund is where a bank, we will say the federal reserve bank in Philadelphia, should draw out of the sub-treasury in Philadelphia more money than they have on deposit there in the fund, which would necessitate the shipment, from some other sub-treasury to the sub-treasury in Philadelphia, of gold for the purpose of paying the Federal reserve bank this gold. I think that was the understanding when we had the matter up in Washington, that that would be the only time a charge would necessarily be made. When a sub-treasury was not able to supply this fund and would have to call on another sub-treasury to ship gold in order to pay the federal reserve bank its excess in the gold fund a charge would be made. That would only take place if the amount withdrawn by the federal reserve bank would be in excess of the amount that they had originally deposited in the subtreasury. That is my understanding of it.

Governor McCord: That would be charged to that operation only and not to the general operations of the sub-treasury.

Mr. McKay: Yes.

Governor Seay: That is correct. That is the understanding of the Federal Reserve Board, and my understanding of it.

Governor Fancher: That was clearly my understanding of it.

Governor McCord: I had in mind, when you were speaking of transfers, that we might be called on to pay for the transfers of all the other business interests of the country. If San Francisco issued certificates payable in New York and the gold fund was depleted in New York, and they had to move the money, they might say that the gold pool would have to bear this expense. However, this explanation by Mr. McKay clears that up.

The Chairman: We are a little bit away from the subject, which is item 14-(b), "Receipt of items drawn on member banks in other federal reserve cities." That subject has been sufficiently discussed, and we will pass it. We have passed a resolution on it and we will now take up item 14-(c), "Will Federal Reserve Banks undertake the collection of time items as well as cash items," and will ask Governor Rhoades to make a statement.

Governor Rhoades: In view of the ultimate transfer of reserves in the case of small country banks they will have no balances to handle time items. While I would not

advocate taking the matter up now, I would like to ask if we can hold out any hope of ultimately taking up that business as an inducement to bring banks into the collection plan.

Governor Wold: We will not cross that bridge for two years, will we? Will we cross it until the reserve adjustment is complete? It seems to me that we have plenty of time to consider that at some future meeting.

Governor Rhoades: We have had a great many inquiries as to whether we would ever undertake that business.

Mr. McKay: I should think member banks would collect those items directly themselves probably as advantageously as the federal reserve banks could in many cases.

The Chairman: Do you suggest, Governor Rhoades, that we should now undertake the collection of items <sup>time</sup> of items?

Governor Rhoades: No sir. I asked the question for information, as to whether it is the sense of this conference that we could ever hold out the hope to country banks of undertaking that business?

Governor Seay: I believe we shall have to do it when we are the only depositories of the banks.

As Governor Wold says, we have ample time to consider that when we approach the withdrawal of balances from reserve banks for deposit in federal reserve banks. But I cannot see any way of escaping it. I think it will be thrust upon us and we shall have to provide for it.

The Chairman: This question won't come up for two years, or probably longer.



Governor Rhoades: The question is answered, Mr.

Chairman:

The Chairman: In connection with the topic which we have just passed I have just read over a letter from our office which seems to me to have some bearing on the matter. As you know, the New York clearing house settles in gold and silver certificates or legal tender notes and not in national bank notes. Mr. Jay writes me:

"Our silver and legal tender certificates have been piling up at a tremendous rate."

Our silver had gotten down on the 7th to \$7,000,000. On the 9th of June it was \$24,700,000, and on the 14th of June it was \$29,000,000.

Legal tender on June 9th was \$7,400,000, and on June 14th it was \$12,800,000.

"At the close of business June 9, Chicago had on deposit with us \$2,700,000; at the close of business June 14 it had \$8,200,000.

"At the close of business June 9 other Federal reserve banks owed us about \$150,000; at the close of business June 14 we owed other federal reserve banks \$8,100,000.

"During this same period also member bank deposits have increased from \$135,300,000 to \$139,200,000.

"I am not an expert on these things, but it looks to me as though the other federal reserve banks are piling up credit here established through the deposit of New York exchange, which is paid to us in silver, and will re-

quire us to transfer it to them in gold through the settlement fund tomorrow evening."

That is where the pump works the other way. If we can work that silver off, when you gentlemen in Chicago draw enough against your exchange balance, it would not have any material effect on the gold situation. If, however, you let these excessive balances run over a settlement period we are not able to work off the silver. You would be paying gold out in Chicago and we would be absorbing silver and paying out gold. It seems to me in taking exchange on New York it ought to be well to bear in mind that it has that effect of increasing our holdings of silver, and unless you exceed these balances by drawing New York exchange, which we can settle through the clearing house with silver certificates, the amount of gold that we would accumulate will disappear.

Governor Wold: Is not that just one more reason why we ought to be permitted to maintain <sup>drawing</sup> accounts with you?

The Chairman: Yes.

Mr. McKay: That will work the other way when the exchange market changes and goes to a premium. It will be wiped out again to some extent.

The Chairman: Yes, but suppose we have not the means to settle through the clearing house with anything but gold, which situations sometimes will arise? I mean to say that our clearing house gets clogged with bills there; the clearing house banks have small bills in hand, and the facilities for counting this small money at the

clearing house are inadequate. If, just for mechanical reasons, we were not able to get rid of this silver and legal tender, then we are forced to lose our gold in order to pay our balances in accordance with the clearing house rules.

Mr. McKey: Will your sub-treasury exchange gold certificates for silver certificates? They will give us gold certificates for silver certificates here.

The Chairman: If we should try to do that, in the volume that we might be called upon to do it, in New York, you would certainly "hear something drop". It would at once open the door to a demand upon the Government to convert five hundred million dollars in silver outstanding into gold.

Mr. McKay: We have been getting some gold at the sub-treasury here in that way.

Governor McCord: You had better keep that quiet, Mr. McKay. (Laughter).

Mr. Lowry. I would like to make a suggestion, to be considered by the committee appointed to consider relations with sub-treasuries, and that is: if some arrangement could be made by which national bank notes can be presented for redemption at the sub-treasuries, instead of at Washington, it would result in these sub-treasuries, such as the one located at San Francisco, paying out gold and getting rid of that gold, and the national bank notes would come on to Washington finally.

Governor McDougal: I will say that the sub-treasury

here has accepted from us all of our national bank notes that we receive from banks other than Chicago institutions.

Mr. Lowry: If we could do that we could accept national bank notes for deposit from our member banks which we have refused to do up to this time.

The Chairman: The same thing is true in New York. The New York sub-treasury would never permit us to dump the mass of national bank notes for redemption in that way that might be imposed upon them. It would be impossible to force upon the Treasury this whole subject of the conversion of \$1,500,000,000 of paper money into gold.

Mr. Lowry: The only thing in San Francisco would be the difficulty of handling it. The force is very small. They simply cannot handle the national bank notes under the present arrangement. That was the reason I suggested that the matter be referred to that committee to deal with in their conference with the Secretary of the Treasury.

I think it would be of great advantage to the Pacific Coast and to the Treasury itself if that could be done. It would result in reducing very much the accumulation of gold there.

Governor Seay: With the expectation, which seems to be rather widespread, that the Federal Reserve Banks themselves are going to undertake some of these functions, I think there will be very little disposition on the part of the treasury Department or the sub-treasury to extend its operations at the present time.

Mr. Lowry: Very likely you are right.

The Chairman: Mr. Lowry, I would like to call your attention to one thing in connection with your suggestion, and that is that the gold in the treasury of the United States is divided into two classes; first, the gold that is held in trust there for the payment of gold certificates which the treasury has issued or held in trust for the redemption of legal tender notes. That is the first class, the so-called trust fund. The other class refers to whatever gold may happen to be in the general fund of the United States Government, and that general fund includes such money as is deposited by national banks as a redemption fund for their national bank notes. Let us suppose that the redemption of national bank notes was forced upon the general fund at a rate much greater than the rate at which they receive gold in the general business of the treasury. They would be absolutely prohibited from paying gold for national bank notes at San Francisco, because they would have to use the trust fund gold.

Mr. Lowry: The inconsistency of their position lies in the fact that payments to the redemption fund are made constantly in San Francisco whereas the actual redemption takes place only in Washington. If the fund is placed in San Francisco for the purpose of redemption why should not the redemption be made there?

Governor Seay: The fund is not placed there in gold, is it?

Mr. Lowry: Yes; every dollar of it in gold.

The Chairman: They are using the gold that you pay in out there to augment the general fund of the Government in gold. I suppose they are wise enough in Washington, when the redemption takes place, to pay out silver or legal tender. I am satisfied, from the volume of silver certificates that came out from Governor Rhoades' bank recently, that they are paying out silver at the Philadelphia sub-treasury pretty fast.

I would like to suggest in connection with this discussion another feature of the matter that is of equal, if not more importance, and might prove to be the solution of the difficulty about the shifting of gold.

We have a feeling in New York that a part of the process of developing the use of federal reserve banks, and a very important part, is an accumulation of gold which takes place against the issue of our Federal reserve notes. If means can be found to discontinue the issuing of ten and twenty-dollar gold certificates the tendency would be to drive out of bank reserves other bills of small denominations and drive into the bank reserves all the gold certificates which would thereafter be of fifty dollar denominations or over, and which will not stay in circulation. They are like a check. They come in for collection or come in for deposit in the bank. With the discontinuance of the issue of the ten and twenty dollar gold certificates the first tendency would be to put into circulation and keep in circulation a greater portion of the silver certificates and legal tender notes,

and if that process could be carried far enough so that the great mass of the gold certificates could get into the bank vaults, then a very considerable portion of the paper money in circulation would undoubtedly become federal reserve notes, and it is not impossible to assume that, after a great many years, or at least some years, the notes of the federal reserve banks would not have to be gold certificates, so far as their security was concerned. The process of issuing federal reserve notes against paper discounted by the Federal Reserve banks would be what we might describe as an emergency issue, a sort of expanding issue on top of the normal issue secured entirely by gold.

Of course if the Federal Reserve banks should accumulate some hundreds of millions of gold as the result of that process, the difficulty of shifting gold would be a very slight matter. We could very much enlarge the gold fund on deposit in some way and probably avoid any question of expense of shifting gold around the country.

However, I do not believe we can get anywhere by discussing this matter until the whole subject gradually unfolds itself by the process of normal, slow development. That will be much facilitated if this committee to be appointed can make progress with the Treasury Department in working out some of these things.

Is any action suggested or required in connection with items (a), (b) and (c) under heading 14? If not possibly we can proceed to item 17, which I imagine we can dispose of without a prolonged discussion.

Mr. McKay: There is one question with regard to intra-state connections that I do not see how to overcome. I do not know whether it could be introduced now, but it came up with us the other day. We have postponed a decision in the matter because it brought up an entirely new situation.

A bank in Sioux City, which is a member of the collection system, wanted to know if we would permit them to advise all of their correspondents, whether members of the collection system or not, or whether they are members of the federal reserve system or not, to send to us for the credit of this bank in Sioux City items on banks who are members of the collection system. They claim that by doing that they will quickly get deposited in Chicago all items on other member banks that have joined the collection system in order to offset quickly checks that they would have on this bank in Sioux City. We told them we were not ready to make a decision in the matter at present, but that no doubt it would come up in the future. I thought it proper to introduce that question before the Governors here.

The Chairman: I suggest we let Mr. McKay try it out and let us know how it works. Do you want action on that suggestion?

Governor McKay: No; I just simply introduced the subject so that you would know something about how it came up with us. There is a question there as to whether it would be justified or not.

Governor McDougal: I would like to have action on

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that, Mr. Chairman. That would simply result in giving to non-member banks the facilities of our collection system, and we take the stand that we could not afford to accept remittances from that source, but we have not answered the communication definitely. It would help us a whole lot if we could get an expression here as to the propriety of such a procedure.

The Chairman: How do you feel about that, Governor Wold?

Governor Wold: It seems to me that such a broad authorization would make it difficult for you to decline an individual remittance by a member bank to you for the credit of the First National Bank of Sioux City, which is a member of the collection system, would it not?

Governor McKay: If it is a member of the collection system, of course that question would not arise.

Governor Wold: That would be all right. It is a member of the collection system and a federal reserve bank. But pending in a remittance for an amount by a bank that was a member, it would be difficult for you to refuse.

Governor Seay: It depends upon what he sent. If he sends something acceptable, a check on the bank, that you would receive at par. I think it is a matter for each bank to settle for itself.

Governor McKay: It would be good banking practice, providing the member banks did not object to it.

Governor Fancher: Our situation is not quite parallel. In view of our city being at one side of our district,

we have made this arrangement between some of the centers: They send their items direct and advise us of the total. Pittsburgh sends their drafts on Cincinnati banks direct to Cincinnati, and advises us that they have sent so many checks, and we debit the Cincinnati account.

Governor McKay: That would be a little different.

Governor Seay: When we begin the interdistrict clearing we would have to enforce in many cases a practice similar to that, having items forwarded direct instead of going back and going forward.

Governor McDougal: If this practice is indulged in it will result in our taking checks on member banks from non-member banks, and I think it would be questioned by the banks upon which they are drawn. We can handle this, of course, ourselves, but it was an interesting subject, and I thought perhaps it might properly be referred to here.

Governor Seay: Is it not an indirect violation of what we undertook to correct? We would be doing it in that way, although it is for the benefit of a member bank.

Governor McDougal: I told the bank that was my information in the matter. On the other hand, there would be the advantage of quick action, a saving of two days time, probably, if it could be done.

The Chairman: As the plan now operates in our district, after a very brief experience the chief difficulty lies in the fact that member banks which are not in the clearing plan send their items in for collection through

banks which are members, and the amount of charge very materially exceeds the amount of offset. The plan which you suggest would in a measure correct that; at least, it would in a measure provide the offset. It is extending the same privilege in the matter of depositing checks that we are extending to other banks in the matter of the collection of checks.

Governor McKay: Of course, the offset would be for the bank for which the credit was given. It would not increase the amount of the charges to be made to the others,

Governor Fancher: Would not that same volume, come through your Sioux City member bank? In other words, is not the object of this to facilitate and make more direct the collection of the items?

Governor McKay: Yes; I think possibly that is so.

(Informal discussion then occurred which the stenographer was directed not to report; after which the following proceedings were had:)

The Chairman: Has this discussion reached the point where you feel satisfied with the expressions of views?

Governor McDougal: I feel satisfied that we can handle the subject ourselves.

The Chairman: I should like to interrupt the program by reading a statement for the press that Secretary Curtis has prepared; and let me suggest that if anybody sees any reason to change any part of the statement as I read it, let him say so while I am reading it in order that

we can change it as we go along.

(The chairman read the statement referred to, and on motion of Mr. Fancher, duly seconded, the statement was approved.)

The Chairman: May we not take up item No. 17, "establishment of branches of Federal "eserve banks", suggested by Governor McDougal. Will you refer to this matter, Governor McDougal?

Governor McDougal: That subject was suggested for the reason that it had been discussed at former conferences, and my impression was that the Board was inclined to establish some branches here and there, and I should like to know whether any progress has been made in that direction. That was the object in sending the topic in to you.

The Chairman: Is it your feeling, Governor McDougal, that we should undertake at this time to develop that subject; with any recommendation to be made to the Federal Reserve Board?

Governor McDougal: Under my belief, judging from our own condition, there is no occasion for it at the present time, and I do not think there is any occasion for action here, Mr. Chairman. I would like to know from the Governors whether or not any progress has been made in that direction. What do you know about that, Mr. Lowry?

Governor Lowry: There has been none in our district.

Governor McCord: New Orleans has made a strenuous effort to get the bank, but it could not get it.

A plan was taken up with Atlanta and New Orleans, causing a visit of New Orleans bankers to the meeting of our directors in Atlanta, and a resolution was passed that whenever it was deemed advisable for a branch of the Atlanta bank to be destablished, that branch should be established in the city of New Orleans. So we have settled the question to that extent. Birmingham wanted a branch and Jacksonville wanted it, and Nashville wanted it and somebody else wanted it. That is all that has been done in our district.

The Chairman: The most significant statement on that subject that has been made here has been made by Governor Lowry with relation to their collection plan. San Francisco undoubtedly is the one district that would require branches sooner than any other. I think we would all like to hear how they feel out there about it.

Governor Lowry: Our feeling is this, that we realize that eventually we shall have to have branches, but we are not disposed to start branches for the purpose of facilitating a collection plan in which we have no special heart. It would be an additional source of expense, and there is no particular occasion now for a branch to be established for any other purpose. Rediscounts can be handled quite readily from San Francisco in the limited volume in which we are called upon to make them, and the idea of building up an expensive branch for the mere purpose of assuming a function of that kind does not appeal to us at all. There is no pressure, so far as we can discover,

in the district for the establishment of those branches.

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

Governor Seay: I move that it is the sense of this conference that it is inexpedient to undertake at this time to establish branch banks.

Governor Fancher: I second the motion.

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

The Chairman: Mr. Curtis has just received a communication from the Secretary of the Federal Reserve Board which I should like to have him read.

(Mr. Curtis then read to the conference a letter received from the Secretary of the Federal Reserve Board requesting an account of the meeting of the Board of Governors in Chicago, to be printed in the Federal Reserve bulletin. Governor Fancher moved that the Secretary be requested to furnish the Secretary of the Federal Reserve Board with an outline of the work accomplished. The motion was duly seconded by Governor Rhoades, and, there being no further discussion, it was put and carried.)

Governor Lowry: May I interpose a word on behalf of my associates in San Francisco? We were very much disappointed that the Governors decided not to come to San Francisco at this time, and I want to extend an invitation to meet there at the next meeting; and in that connection I understand that objection was raised that some attack might

result if a trip were made across the country resembling a junketing trip and it might be made the subject of political comment. If the next meeting should be held in September, either just before or just following the American Bankers' Convention in Seattle, it seems to me that the stinger would be removed from that objection, and we should be most happy to have you come out there as our guests at the conference.

The Chairman: Governor Aiken, how do you feel about that? You live the longest distance away.

Governor Aiken: I should like very much to go, but I think there would be some objection to it. I would not let that interfere with the action of the committee.

Governor McCord: In view of the fact that my directors have granted me a leave of absence with compensation to take the Seattle trip, what will suit me very nicely indeed.

The Chairman: I should like very much to see a meeting held out there. I know there is a sentiment in one or two of the banks, and it would develop a little bit in our bank, and it might be misunderstood.

Governor Aiken: I am sorry you called on me for an expression of view in regard to that, because I think the attitude of the people in New England is peculiar. They are peculiarly conservative about it, and I would rather not have our feeling make any difference at all. I think it might be brought around so it could be done. You must recognize that in New England a trip from Boston to San-Francisco seems a great deal longer than a trip from San-

Francisco to Boston. It is an event of a lifetime for a New Englander to cross the continent, while it is a semi-annual or quarterly event for a San Franciscan to go to New England.

The Chairman: Might not that matter be taken up immediately after the adjournment of this meeting, when we return home, so that the matter can be broached to the directors of the Reserve Banks? When we have considered the subject we might possibly persuade the Federal Reserve Board to give us an informal suggestion that would indicate that they would be glad to have these meetings held in this way so that we might be able to visit the other banks.

Governor Lowry: Nothing would be so delightful in my district as to have that suggestion come from the Federal Reserve Board.

Governor Fancher: That would be very effective in our district.

The Chairman: What is your pleasure as to the very kind invitation that Governor Lowry has extended to us to have the next meeting at San Francisco?

Governor Rhoades: I think the suggestion of the Chairman is the best way to deal with it. We all appreciate it, of course.

Governor McCord: I move that we adopt the course suggested by the Chairman.

Governor Rhoades: I second it.

Governor Seay: Coupled with a sense of appreciation of the invitation.



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

The Chairman: If we have a meeting in San Francisco at about the 6th of September it might be desirable to hold it before the convention rather than afterwards.

The reason for suggesting that is that if we can spend two or three days on our program and get it all cleaned up, then we might be able to get to the Convention while the convention was in session and not have to go out in advance and attend the convention and then break up engagements which might be made for the purpose of attending our own meeting.

Governor Wold: I <sup>already</sup> have an engagement for September 2nd and 3rd in Montana, and if we had a meeting on the way it might interfere with my being present, at least.

The Chairman: We have only two general subjects left on the program, and I suggest that we take up No. 18, "National Bank reserves."

Governor McDougal?

Governor McDougal: That was placed on the program, Mr. Chairman, for an expression of opinion as to whether Federal Reserve notes could properly be counted as reserve, or whether it would take an act of Congress. I do not know that they can be counted at all.

The Chairman: It would take an act of Congress; I think that is pretty clear, Governor McDougal. The National Bank Act specifies what character of money is now permitted to be counted by a national bank as lawful.

money reserve.

Governor McDougal: I do not believe it does specify that. It specifies the legal tender; but the United States notes, for instance---

The Chairman: I think you will find that the Act has been interpreted to specify certain money as being reserve money. Mr. Curtis, correct me if I am in error on that.

The Secretary: I think it says lawful money. I do not think it has been defined by statute.

Governor McDougal: There are inquiries here and there as to whether or not they can be counted as reserve, and of course they can in state banks. That I believe you are all agreed upon.

The Chairman: They cannot in New York State, because it is prohibited.

Governor Van Zandt: I had our counsel look into that question of lawful money. He said there is nothing in the statute that prescribes or at least defines lawful money; that the only real authority that he could find was a decision of the Supreme Court of the United States in the case of Bronson against Rhoades, in which it says that lawful money of the United States includes only gold and silver coin or that which by law is made its equivalent, so as to be exchangeable at par and on demand, and does not include a currency note which, though nominally exchangeable for coin at its face value, is not redeemable on demand.

Governor Seay: In gold.

The Chairman: Governor McDougal, you may be inter-

ested to know of the discussion that took place in New York last August when the fear arose as to whether the Aldrich-Vreeland Act would produce currency fast enough to satisfy the country, and whether the country would be able to furnish a sufficient amount of gold to be able to take care of maturing debts that had absolutely to be paid. One of the most influential bank officers in New York very seriously advanced the suggestion that the National Bank notes should be permitted by a special act of Congress to be counted as reserves for national banks. That at once raised a storm of dissension from banks in New York who very properly, I think, took the position that if a national bank could take its securities out of one box where they did not count as reserves, and put them in another box and get notes for them and then put the notes in a box and count them as reserves, there was no limit to the inflation that would result from it.

The next step in the direction of using the bank note or the equivalent of a bank note as bank reserve probably would be to make a bank note which in fact was secured by gold, like the bank of England notes, and some of the banks in New York in response to this suggestion said, "It is all well enough to have national bank notes serve as reserve for national banks, provided they are covered by gold or a sufficient proportion of gold to insure their conversion into gold;" and the next step in the argument naturally is now to consider whether the operation of the reserve banks will not have the effect of converting Federal

reserve notes into substantially a gold certificate of such quality that it will be perfectly satisfactory to have it serve as reserve. If we admit that we are going to be in a position to do that, then the sole remaining question is whether the country would stand for it.

What is the opinion in Chicago?

Governor McDougal: It has not been discussed, so far as our local banks are concerned. It has been up before at the Governors' conferences, and I think I have heard suggestions that it would be perfectly proper to consider it as reserve.

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

The Chairman: Governor McDougal, do you feel that opinion has crystalized sufficiently on the subject of the quality of federal reserve notes to justify this meeting in passing a resolution recommending to the Federal Reserve Board that they take steps to bring about a discontinuance of the issue of small denomination gold certificates?

Governor McDougal: I cannot say that I do feel that, Governor Strong.

The Chairman: Is there any difference of opinion as to the wisdom of that course?

Governor Seay: Not in my mind.

Governor Wold: It seems to be a very advisable way of getting the small gold certificate out of the pockets of the people where they serve no particular purpose, no other

purpose than a federal reserve note would serve; and if they could be put in the federal reserve banks it would serve as a basis for credit that we might need in the future; and it seems to me that it is quite advisable for us to suggest to the Board that that should be brought about. It would injure no one and would not interfere with the banks securing \$50 certificates, but would simply substitute our notes for the notes heretofore carried in the pockets of the people as a medium of exchange.

Governor Seay: I think we are on record, Mr. Chairman, to the effect that in our opinion an amendment should be made to the Act against the issue of federal reserve notes directly against gold, are we not?

The Chairman: I do not think we are. I do not think we have ever passed such a resolution. We have discussed it a great many times. We have discussed it jointly with the Federal Advisory Council.

Governor Seay: It was my impression that we had put ourselves on record in that particular.

The Chairman: Is any action desired under this heading?

Governor McDougal: No.

The Chairman: Governor McDougal, are you satisfied to pass this without any recommendation?

Governor McDougal: I am entirely satisfied, Mr. Chairman.

The Chairman: Item 18-(b), "Ruling of Comptroller withholding privilege of deducting national bank notes in reserve calculation", offered by Mr. Fancher.

Governor Fancher: That is a matter which I brought up at a previous meeting of the Governors and I think that you all clearly recall that the matter was presented to the Board and a rather curt reply was received from the Comptroller in the matter. He clearly was within the law in issuing such a ruling.

We are finding in our district from the smaller banks considerable complaint because they are not permitted to offset national bank notes in the reserve calculation, as has been the custom for many, many years, and I thought I would bring the matter up again to the Governors to see whether they would deem it advisable again to bring the question before the Federal Reserve Board. That is the object I had in mind.

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

The Chairman: The action taken at the meeting held last January was as follows:

"Topic No. 7 concerning the Comptroller's recent ruling ~~man~~ with respect to national bank notes was then taken up for discussion. On motion duly made and seconded it was voted that it was the sense of the meeting that the national bank notes of any national bank ~~which~~ bears the same relation to a national bank as a credit and should be allowed as an offset in counting the reserves of such banks."

Governor Seay: I move that the action of this conference be submitted to the Federal Reserve Board in writing, and that they be requested in behalf of the member banks to

consider the matter with the Comptroller.

Governor Aiken: I second the motion.

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

The Chairman: Item 18-(c), suggested by Governor Fancher, "Member banks having more than full reserves in federal reserve bank, and in reserve agent banks should be permitted to show the excess as bank reserve."

Governor Fancher: That is another cause of complaint on the part of some of our smaller member banks. They claim that their excess reserve in reserve agent banks does not affect them, because, not having a bank balance, it has no offset.

The Chairman: They are not permitted to deduct it from individual deposits?

Governor Fancher: No; and it is confusing in calculating reserve. It is necessary to make the full calculation to find out what the deduction is, and then go over the figures.

Governor Seay: I should think the Comptroller would be very much inclined to allow that, since he himself figures the total reserves of the country upon that basis.

The Chairman: May I ask if this involves a change in a former practice, Governor Fancher, or is a complaint resulting from a recent ruling?

Governor Fancher: It is a complaint as a result of the recent ruling on figuring reserves. As I understand the matter, all the reserve a small member bank carries is simply the required amount at the present time

with their federal reserve agent bank, and in their vaults, and up to the percentage of the reserve agent.

The Chairman: It does not mean a deduction from their gross deposits?

Governor Fancher: No.

The Chairman: In this case the allowance of that deduction is simply permitted to offset bank deposits carried with that bank?

Governor Fancher: That is it.

Governor Wold: Is it not a fact, Mr. Chairman, that the reserve requirements are rather small at this time under this new law, and we ought not again to reduce them materially by a method of computation of reserves? I do not believe in the past--- I think Governor McDougal would be familiar with that--- that country banks have been allowed to deduct excess against individual deposits.

The Chairman: How would this strike you, Governor Fancher? Suppose the Comptroller could be persuaded to permit the deduction of national bank notes from gross deposits, also to deduct federal reserve notes as an offset to the deposit liability, also to deduct due-from banks in excess of reserve requirements as an offset, and then to require by ruling that national banks only count as deposit reserves the actual reserves in the hands of their reserve agents, and not the amount of checks on the way to the reserve agents in the mail.

Do you not believe that if that were brought about at a time when the reserves of the bank are so excessive.



as they are now it would cure the collection system of one real difficulty? It would be a bold stroke, and would do the thing at once. How do you feel about that Mr. Lowry?

Governor Lowry: I am inclined to agree with Governor Wold that we ought not to be taking steps to make the banks have smaller reserves than they actually do have. The mere matter of bookkeeping does not make any change in their actual situation. If they have excess balance somewhere and national bank notes somewhere, it is something they can use. The mere fact that they did not get credit for it is a minor consideration, and in view of the fact that in cities like San Francisco they have been permitted to go down to 15 per cent, which, in my personal judgment, is too low, is sufficient reason to me why we should not encourage any further actual reductions.

The Chairman: Mr. Lowry, the country banks have \$335,000,000 of excess reserve.

Governor Lowry: Legal, you mean?

The Chairman: In excess of their legal reserves. Let us suppose that at a time when the banks are not able to use their money the reserve requirement should be reduced as I have outlined, and then again increased by eliminating checks on the way to the reserve agents as reserves--as they now count as reserves--- would not that increase the reserve requirements and give all the banks a real reserve balance instead of a hypothetical reserve balance assumed to be there because they think these checks

on the way to the agent will be collected?

Governor Wold: Let me call your attention to the fact that two years from now the float will be eliminated, and then we will have this method of computation of reserves which would reduce them below what the reserve is now, and it is low enough. It is not any hardship for a bank to carry that reserve under the method of computation in vogue at the present time. He can loan his national bank notes and his excess---

The Chairman: He can now, because it would not be there if he could loan it.

Governor Wold: It is only a question of counting it.

Governor Seay: Would it not have a tendency to force them to borrow money from the Federal Reserve banks?

The Chairman: Let us state this proposition a little differently. Suppose we assume that at the end of two years these checks on the way to the Federal Reserve agents will no longer count as reserves, and that the reserve requirements in effect are now to be increased; we may have tight money and difficulty in bringing that about. Advantage should be taken at the present time of the abundance of money in order to eliminate this float from bank reserves at one stroke of the pen and by that drastic action give the banks this little relief of permitting excess reserve balance and notes of other national banks as an offset to the amount of deposits on which they calculate their reserves.

Governor Wold: Inasmuch as it is more dangerous

for a country in a period of easy money than in a period of tight money, I think it is the wrong time to let the bars down on reserves.

The Chairman: So do I.

Governor Fancher: Are you not strengthening them for the time when it is easy for them to do it?

Governor Seay: You are strengthening them by means of one of the suggestions which Governor Strong is offering.

The Chairman: How much do you suppose that will increase the reserve requirements?

Governor Van Zandt: It would be a material increase.

Governor Seay: \$200,000,000.

The Chairman: I am told that the investigation of the New York Clearing House, conducted in 1911 and 1912, indicated that all checks sent out from there--- just using this as a very rough test--- took an average of 3.2 days for return. Cut that in half. That would mean 1.6 days and apply it to the whole country. Say, in round figures, two days is the average time for a man's check to pass from a bank in which it is deposited to the bank where it begins to count as reserve. Someone, I do not know who, has made the estimate that there is every day \$200,000,000 of those checks sent out. That would mean that the reserve requirements of the country as a whole would be increased about \$400,000,000, and absorb, at any rate, all the rest of the reserves of all the

country banks.

Governor Seay: That would be about five per cent, then; between five and six per cent?

(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: Do you desire any action taken on this subject of excess reserves, Governor Fancher?

Governor Fancher: I brought the topic up more with a view of getting the sense of the Governors here and seeing whether it was their judgment that it was advisable to make a recommendation to the Comptroller for a new method of computing reserves, whether it would amount to anything?

Governor Seay: I believe it involves too many collateral considerations to justify our taking a decided position on the matter.

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

Governor McDougal: The method of calculating reserve rests entirely with the Comptroller.

The Chairman: Not entirely, Governor McDougal. I believe he has the power to say whether those checks shall be counted as reserves or not.

Governor McDougal: I remember very well having written him once to ascertain, if I could, why, if the banks that had deposits from banks were permitted to deduct the

excess they had due from banks, a bank which had no deposits from banks could not make a similar deduction from its individual account. It resulted in several letters passing back and forth, and the substance of the final one which fixed it, was that there was no reason given. We have been doing this for years, and "Therefore you will tell your bank that unless they have bank deposits to deduct from, the deduction will not be counted." There was no reason given, but it said it was a practice <sup>was</sup> in use for a good many years, and as the result of a ruling that had taken place.

The Chairman: That offers a lot of encouragement as to item (c) on our program. In other words, he has already taken action on the matter.

I would like to ask the meeting to pass a resolution, which it has been customary to pass, authorizing the Secretary to reframe the resolutions which have been dictated rather hurriedly so as to correct inaccuracies of expression or English and put them in a little better form.

Governor Rhoades: I so move, Mr. Chairman.

Governor McDougal: I second the motion.

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

The Chairman: This meeting has accomplished more than any other meeting we have ever had--- 76 items on the program and much discussion that was not on the program,

and we are now down to the last item.

We will take up item 15, inter-district collections and clearing. This was suggested by Governor Seay.

Governor Seay: Mr. Chairman, many subjects relating to this heading have already been discussed here, and it was not my purpose to have any prolonged discussion or reach any definite position upon that point. It takes us a very long time indeed to consider the subject of inter-district collections and to arrive at some definite plan. It is going to take us equally long, I believe, to arrive at a definite plan, and I think this is something which might well be taken in hand by the executive committee at a very early stage, and I would propose that the subject of inter-district collections be referred to the executive committee for action at such time as it deems proper. It is confronting us. The subject of intra-district collections brings us into most intimate touch with the inter-district collections, and we are all doing some interdistrict collections now.

Governor Wold: We have a letter from the Kansas City Bank, as follows:

"June 4, 1915,

"Since the plan of settling balances has been put into operation we assume that you are broadening your collecting functions to some degree, and we will appreciate it if you will advise us by return mail as to what items you are prepared to take from us for credit."

The Chairman: Is it proper to make comment on that letter, Governor Wold?

Governor Wold: It is in the record.

The Chairman: I was going to say that Kansas City has displayed that degree of promptness for which they have been noted, by asking in advance. You do not mind my saying that, do you, Governor Sawyer? That strikes me as exactly the way to get at it. They write and say, "What can you handle?" We will gradually get down to that basis of handling this matter, and the time will come when we may want to take items from New York City banks in Chicago in order to offset these tons of silver certificates.

Governor Aiken: We are going to develop quite an amount of it. Almost all the districts are going to handle items on member banks, and it is going to run into a very large amount of money. We are going to have some real experience, and I should be desirous of having ample time to see how that works out before we extend it considerably.

The Chairman: Governor Seay has offered a resolution to refer item 15, interdistrict collections and clearings, to the Executive Committee.

Governor Van Zandt: I second the motion.

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

(Whereupon, at 12:30 o'clock p. m., the Conference adjourned subject to the call of the Chairman.)

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