

FIFTH CONFERENCE

OF

GOVERNORS OF FEDERAL RESERVE BANKS

1

MINNEAPOLIS, MINNESOTA

HOTEL RADISSON

Wednesday, October 20, 1915

Thursday, October 21, 1915

Friday, October 22, 1915

Saturday, October 23, 1915

WALTER S. COX

SHORTHAND REPORTER

COLUMBIAN BUILDING—TEL. M. 8324

WASHINGTON, D. C.

WEDNESDAY OCT 20 1915

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FIFTH CONFERENCE OF GOVERNORS

Of

FEDERAL RESERVE BANKS

Hotel Radisson,

Minneapolis, Minnesota,

October 20, 1915.

The Fifth Conference of Governors of the Federal Reserve Banks was called to order by Governor Benjamin Strong, Jr., Chairman, at the Hotel Radisson, Minneapolis, Minnesota, at 10:30 o'clock a. m. on Wednesday, October 20, 1915.

Present:

Governor Benjamin Strong, Jr., of the Federal Reserve Bank of New York,

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

Governor C. J. Rhoads, of the Federal Reserve Bank of Philadelphia,

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

Governor A. C. Kains, of the Federal Reserve Bank of San Francisco,

Governor Geo. J. Seay, of the Federal Reserve Bank of Richmond,

Governor E. R. Fancher, of the Federal Reserve Bank of Cleveland,

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

Governor R. L. Van Zandt, of the Federal Reserve Bank
of Dallas,

Governor C. M. Sawyer, of the Federal Reserve Bank of
Kansas City,

Deputy Governor W. W. Hoxton, of the Federal Reserve
Bank of St. Louis,

Mr. F. W. Foote, representing the Federal Reserve
Bank of Atlanta,

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

Mr. L. H. Hendricks, Assistant Cashier, Federal Re-
serve Bank of New York,

Mr. J. F. Curtis, Counsel for the Federal Reserve
Bank of New York, and Secretary of the Confer-
ence of Governors.

PROCEEDINGS.

The Chairman: Gentlemen, if you will come to order,
we will open the Fifth Conference of Governors of the
Federal Reserve Banks.

REPRESENTATION OF BANKS AT CONFERENCES LIMITED.

We have been advised that Governor Wells, of St. Louis,
will be unable to be present and that another officer of
the bank, Mr. William W. Hoxton, will attend the meeting
and represent the Federal Reserve Bank of St. Louis.

Whenever a necessity of this kind has arisen in the past we have generally, by unanimous consent, arranged to have the officer named attend the meeting and vote in behalf of the absent Governor. What is your pleasure in regard to Mr. Hoxton?

Governor Aiken: I move that Mr. Hoxton be permitted to attend the meeting, as the representative of the Federal Reserve Bank of St. Louis, and that he be allowed to vote for that bank.

Governor Fancher: I will second that motion.

The Chairman: May I suggest that the motion be changed so the record will show that Mr. Hoxton is to represent the Governor of the bank?

Governor Aiken: Yes.

The Chairman: Is there any debate on this motion?

(There was no debate and the motion, being duly seconded, was unanimously carried.)

The Chairman: We also received advice late last week that Governor McCord, of the Federal Reserve Bank of Atlanta, would be unable to attend the meeting, and that the bank had arranged to have Mr. F. W. Foote, one of the directors of the bank, attend the meeting in behalf of Governor McCord. This advice was received indirectly through Governor McDougal, of Chicago, and, after considering the matter, a telegram was sent from New York, over my signature, stating, briefly, that as we had no precedent for an arrangement of that character, and Mr. Foote was not an active officer of the bank, I did not feel like assuring

Governor McCord that the arrangement would be satisfactory to the Conference, at least not without the approval of the Conference of that arrangement, and suggested that they send an active officer of the bank to represent Governor McCord. In explanation of the situation I have this letter from Governor McCord that I would like to read into the record:

"I received your telegram today saying that you have been advised by Governor McDougal that Mr. F. W. Foote will represent this Bank at Minneapolis and notifying me that heretofore we have not permitted anyone except executive officers of Federal Reserve Banks to attend the conferences of Governors. I replied that it was absolutely impossible for me to attend the meeting at Minneapolis, and I have stated this in several communications, feeling that my services were needed here while this important matter of moving the cotton crop was on hand, also the services of our Cashier, Mr. Pike, are needed here.

"I submitted your telegram urging me to attend the conference to our Board of Directors on Thursday, the 14th, on which day they were in session here, and as Mr. Foote had been designated as the one of our Directors to act as Deputy Governor during my absence, and was still under that appointment, the Board of Directors by unanimous vote designated Mr. Foote, who had been previously named as Acting Deputy Governor, to represent this Bank at the conference at Minneapolis.

"I therefore wired Governor McDougal to make reserva-

tions for Mr. Foote. Mr. Giles Wilson, who was elected Deputy Governor of this Bank when it was first organized, resigned his position because of his being an active officer in one of the Class A banks, and not being elected as a Director, he felt that he could not act as Governor in my absence. This resignation took place last April and since that time we have had no Deputy Governor, the Directors deciding to fill that position in my absence by naming from time to time one of their number to act as Deputy Governor, from the Class A directors. This in my opinion gives Mr. Foote a clear right and title to represent this Bank at the conference of Governors and I trust that you will so regard it and will receive him as our representative.

Yours very truly,

(Signed) Jos. A. McCord,
Governor."

It certainly could have been an assumption of authority that would have been unwarranted, for me to have said yes or no to this suggestion. We indicated what appeared to be a safe course to Governor McCord to assure his being represented at this meeting, but Mr. Foote is here and undoubtedly expects to attend the meeting.

All of the members of the executive committee happened to be on the train last night, so Governor McDougal called a meeting of the committee. We discussed this matter with the result that a resolution was passed recommending what

the meeting should do. I will ask Governor McDougal to report the action of the Executive Committee and submit it for action by this meeting.

Governor McDougal: This resolution is as follows:

"Meeting of Executive Committee, October 19, 1915.

"Present: Mr. McDougal, Chairman, Messrs. Aiken, Strong, Rhoads, Fancher and Seay.

"Various telegrams were presented between Messrs. McCord, McDougal and Strong, with reference to the attendance at the coming Conference of a delegate from the Federal Reserve Bank of Atlanta in place of Mr. McCord. After considerable discussion the following preamble and resolution was unanimously adopted:

"Whereas the Conference of Governors of the Federal Reserve Banks is a wholly voluntary association, not provided for by the Federal Reserve Act, and

"Whereas at past meetings of the Conference certain executive officers of Reserve Banks have been invited to attend the meeting in the absence of the Governors of such banks, and

"Whereas in the opinion of this committee it would be inadvisable as a matter of principle to have anybody other than the active and salaried executive officers of the banks attend such conferences, in view of the fact that such other persons might have interests not wholly confined to or identical with such Reserve Banks, be it

"RESOLVED: That this Committee recommend to the Conference the adoption of a resolution limiting the attend-

ance to the active and salaried executive officers of the Reserve Banks to be selected when necessary by such Governors as cannot attend in person, and be it

"FURTHER RESOLVED: That in view of the fact that Mr. F. W. Foote, of the Federal Reserve Bank of Atlanta, has come to Minneapolis for the purpose of attending this Conference, he be invited to attend the Conference, as a matter of courtesy to Mr. McCord."

The Chairman: That resolution was unanimously adopted at the meeting of the committee.

Governor McDougal: The resolution was unanimously adopted and this recommendation is now offered to this conference for action.

The Chairman: Gentlemen, what is your pleasure in regard to this report from the Executive Committee? Is not this a matter about which some view ought to be expressed for our record as to the policy to govern the future meetings, and should it not be expressed by resolution such as submitted by the Executive Committee?

Governor Wold: I am thoroughly in sympathy with the ideas of the Executive Committee upon that question. I move that this resolution, as adopted by the Executive Committee, be adopted by this Conference. I think that will cover the matter as you would like to have it covered.

Governor McDougal: The resolution recommends the adoption of a resolution limiting the attendance, and so forth.

Governor Wold: I have suggested that the report of

the Executive Committee be accepted and incorporated as a part of the minutes of this Conference.

The Chairman: Governor Wold's motion, as I understand it, contemplates that this report be received and adopted as the action of this meeting, and that the resolution therein outlined be now voted upon. Is my understanding correct?

Governor Wold: It is.

Governor Fancher: Then I will second the motion.

The Chairman: Is there any further discussion of the motion?

(After some little informal discussion the motion was duly put and carried.)

(Mr. F. W. Foote, representing the Federal Reserve Bank of Atlanta, thereupon entered the Conference room.)

The Chairman: Possibly I should explain to Mr. Foote what has transpired up to this time.

Mr. Foote, we heretofore have had occasion at times to make arrangements with officers of Reserve Banks who have attended and represented Governors of those banks, as to their attendance, and this has generally been done by the unanimous consent of those attending the meeting. The alternate named by the Governor of the Bank of St. Louis, Mr. Hoxton, is accepted here to represent Governor Wells, of St. Louis. We have, by unanimous consent, arranged that he should attend the meeting. We have just taken action in regard to a report which was submitted by the Executive Committee, in regard to your attendance, that I would like

to explain, if I may.

These meetings have been, as you know, voluntary and informal meetings of the executive officers of the Federal Reserve Banks; that is, the Governors of the Federal Reserve Banks. When the question of your attending the meeting was first brought to our attention we did not know what to do about it.

The question had never been raised as to whether a director who was not an active executive officer of one of the Federal Reserve Banks, should attend the meeting. At a meeting of the Executive Committee last night we discussed the matter at length, and the view was unanimously expressed that it might cause embarrassment to enter an arrangement by which one of the Governors would name some representative who was not an active executive officer of a Federal Reserve Bank, one reason being that the meeting is very largely given up to a discussion of matters of bank management, where directors might have interests that would not be quite in harmony with those of the Federal Reserve Banks. A resolution was passed upon that point and has just been adopted. We were about to act upon a resolution inviting you to attend the meeting. I will ask that that resolution be now placed before the Conference and put to a vote, so that you will have the welcome to attend our meeting. I think Governor Kains made the motion and it was seconded.

Governor Kains: My motion was that Governor Wold's motion or resolution be accepted with the exception of the

last paragraph and that a separate vote be taken upon the last paragraph which contained an invitation to Mr. Foote to attend this meeting as a representative of Governor McCord.

Governor Aiken: I was the second to that motion.

The Chairman: If there is no further discussion we will now act upon it.

(The motion was carried.)

The Chairman: Governor McDougal: Will you be good enough to read the resolution as adopted by the Executive Committee last night.

(Governor McDougal thereupon read the minutes of the meeting of the Executive Committee of October 19, 1915, above referred to.)

Mr. Foote: Gentlemen, I appreciate the invitation to be with you, especially the unanimous consent I have obtained; but I wish to assure each and all of you that I did not or do not want to embarrass this meeting in any way.

The Chairman: We assure you, Mr. Foote, that you will not.

Mr. Foote: If it is desirable, or if you feel that the best interests of this work demand that I excuse myself, it will be my pleasure to do so. I do not want to take advantage of your kindness and courtesy from the fact that I am a stranger in a strange land. I do not want to avail myself of those assets. I assure you it is a pleasure for me to be with you, but I do not want to do anything

that will be in the least inconsistent.

The Chairman: Let me say, Mr. Foote, that these proceedings are based upon a program which has been practically continuous since December 10th of last year, when we held our first meeting. We realize probably more than you can the importance of having those who attend the meetings in touch with everything that has gone before; That is one very important object to serve in connection with our proceedings, that is, to have those who are attending thoroughly familiar with all the previous discussion. It saves a tremendous amount of time and prevents the threshing out of old straw.

If you will be good enough to stay with us I feel very sure that you will enjoy the meeting and profit by it as that has been the experience of all of us who have attended them.

Mr. Foote: I thank you very much, Mr. Chairman. I want to get my status exactly. If it is the proper thing for me to simply be a listener I want to be only a listener. If I have the privilege of taking part in the discussion I would like to know that, in order that I may so indulge. However, I do not want to attempt any of those privileges unless I am entitled to them.

The Chairman: I understand that the action taken by the Executive Committee or by this meeting imposes no limitation at all upon your attendance.

INVITATION EXTENDED TO FEDERAL RESERVE BOARD TO
SEND A COMMITTEE TO ATTEND THIS MEETING:

The Chairman: I would like to announce for the purpose of the record that, carrying out the instructions given at the last meeting held in Chicago, an invitation was sent to the Federal Reserve Board to send a committee to attend this meeting. We are advised that a committee consisting of Messrs. Warburg and Harding will be here to attend our session on Friday. They will not attend the meeting before that.

INVITATION EXTENDED TO CONGRESSMAN GLASS
TO ATTEND CONFERENCE.

I also want to announce that some weeks ago the Federal Reserve Board requested the Executive Committee to meet in Washington at a time when they expected Congressman Glass to be there to discuss certain features of the operation of the reserve banks. All but one member of the Executive Committee attended that meeting. At the time it seemed desirable, in view of some statements made by Congressman Glass, that we should endeavor to persuade him to attend a portion of this session in order that we might go over some of these matters with him personally. I sent him an invitation to attend and received a letter from him about a week ago expressing very keen regret that he could not do so; that he was not very well, and that, in addition to that, his son was about to be married.

AUTHORITY VESTED IN THE CHAIR TO CONDUCT PROCEEDINGS.

The Chairman: I wish, now, gentlemen, to review, as is our custom, a few of the very simple rules governing the discussion at this meeting. You have been good enough

to give the Chairman a certain amount of authority to so direct the discussion of the program that time is not wasted in repetition, and so that the stenographers are able to get a clear and consecutive record of the discussion.

It is customary, as you recall, to take up the items of the program at the discretion of the Chair, unless he is otherwise directed by motion, and in each instance the discussion is precipitated by the submission of a motion made at as early a stage of the discussion as possible, and it is generally suggested by the Chairman when the discussion has proceeded far enough to indicate the possibility of a motion prevailing. You will also recall that our informal arrangement permits the Chair to offer motions himself, and I would like to continue the exercise of that privilege.

Mr. Curtis also calls attention to a rather important matter, and that is that in each instance where a topic is suggested by one of the members in attendance, the discussion is always opened by the Governor who has suggested that topic.

In regard to the present program, of which you all have copies, there are about seven of the headings which have been marked as reserved for discussion until Friday, and that is because of a request made by the committee of the Federal Reserve Board to be in attendance to hold those items for discussion when they are in attendance on Friday, as they are principally interested in those matters.

Governor Wold: Do you refer to the first seven items,

Mr. Chairman?

The Chairman: No. I will read them off so that you can check them on your programs. They are items 7, 8, 9, 10, 11, 23 and 24.

These meetings, as we all realize, have developed a divergence of views on a great many subjects that have come up for discussion; but, with three or four, or possibly five exceptions, when action has been taken in this meeting in regard to some matter that required a vote or a resolution, it has almost without exception been taken unan- imously, and we have trained ourselves to accept the judg- ment of the majority of those in attendance. In order that progress may be made along uniform lines I hope that that spirit will continue to direct the proceedings.

MINUTLS OF THE FOURTH CONFERENCE OF GOVERNORS.

The Chairman: Gentlemen, what is your pleasure in regard to the minutes of the Fourth Conference of Governors. They have all been furnished to the twelve Governors by the Secretary and we have been in the habit of approving them without having them read at the subsequent meetings.

Governor Van Zandt: I move that they be approved without being read.

Governor Fancher: I will second that motion.

The Chairman: Is there any further discussion of the motion?

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

UNFINISHED BUSINESS.

(Item a. Directors' profits in dealing with member banks.)

The Chairman: The unfinished business from the last meeting, under Topic No. 2, Item (a), was put on the program some months ago at the request, as I recall, of a director of one of the reserve banks, and just before coming west I was asked by a director in our bank to suggest to this meeting that it might be well to have some discussion in regard to the effect of the Clayton Act, which also has some bearing on this matter. I would like to ask if that question has arisen in any of the reserve banks, or whether the Clayton law has been held to disqualify any directors of Federal Reserve Banks, or has operated otherwise to the disadvantage of the reserve bank, and whether this meeting cares to make any recommendation as to that matter or as to the provisions of the Federal Reserve Act in regard to the profits of directors of member banks in dealing with their own institutions.

Governor Hold: It doesn't seem possible that any action we should take would have any effect on the law. It is a matter that, it seems to me, must necessarily be worked out of itself. Any action we take would have no effect.

The Chairman: It is perhaps a matter of more pressing importance to us than to the other reserve banks, because two of our directors who are strict constructionists, are inclined to believe that they are disqualified from being directors after this month.

Mr. Curtis: They will be disqualified two years after

the Clayton Act went into effect. That would be a year from next December, I think.

Governor McDougal: I have some correspondence here between Mr. Forgan and the board, and also the opinion of an attorney, all of which is directed at this question, or one phase of it, at least, and I will be very glad to read this correspondence if you so desire.

The Chairman: Are the letters very long, Governor McDougal?

Governor Mc Dougal: No, Mr. Chairman.

The Chairman: Suppose you read them.

Governor McDeugal: This is a letter addressed to Governor C. S. Hamlin, dated October 5.

"Will you kindly inform me if the Federal Reserve Board has made any ruling, or if it has obtained the opinion of its counsel in regard to the interpretation of paragraph 136 of the Federal Reserve Act,---"

I will eliminate part of it:

"The case I have in mind is that of two bank officers here who have been for the past two years on a creditors' committee managing the affairs of a large corporation. The committee has done splendid work, having reorganized the business of the company and re-established it on a sound financial basis so that it has paid all of its debts and now has a large working capital and enjoys excellent credit. It happens that the banks of which these two gentlemen are officers were interested as creditors of the

company and it was to protect the interests of their banks as well as the interests of many other banks and general creditors that they were selected to act on the creditors' committee. It has always been the practice to compensate members of such committees for their services and the company now proposes to remunerate the members of the Committee."

There is more to the letter, but that is the question.

That letter was replied to as follows:

"My dear Mr. Forgan:

"Your letter of October 5th, addressed to Governor Hamlin, has been duly considered, and I have been instructed to reply that the Board has heretofore consistently adhered to the policy adopted by it in advising all those submitting inquiries that it is not within its province to make any ruling on concrete cases. Such a ruling would not afford any protection to a party subsequently indicted by a Grand Jury."

That letter is signed by H. Parker Willis. There is a little more to it, but that I will not read.

Then the question is considered by E. E. Brown, Attorney for the First National Bank, and his letter, eliminating the first paragraph, is as follows:

"In my opinion this section of the Federal Reserve Act does not prohibit the acceptance of compensation in such a case as that stated in your letter. The work performed by the creditors' committee was not 'in connection with any transaction or business of the bank' within the

meaning of the law. The section in question is penal and the general rule of law is that penal statutes are to be construed strictly and ^{not} extended by implication. And in construing a criminal statute the courts will take into consideration the evils which it was designed to remedy."

That is Mr. Brown's opinion. He says they can make that charge. Mr. Willis says, on behalf of the Board, that they will not rule on it. But in another paragraph of Mr. Willis' letter he does say:

"The provisions of Section 22 of the Act were analyzed in an opinion which was published in the May Federal Reserve Bulletin, page 16, copy of which is herewith enclosed."

That bulletin I have here, but I do not think you would care to have it read.

The Chairman: So far as the subject that is dealt with there is concerned, it does not seem to me there is anything that can be done at this meeting unless it is taken up under another section of our program, in which section we consider making recommendations as to amendments of the Federal Reserve Act. I suppose it would be proper for us to consider -- if this meeting cares to do so--- whether Paragraph 133 of the Act should be made more clear in its application to the dealings of directors of Federal Reserve Banks with other banks.

Governor McDougal: My object in reading this at this moment was to let you understand that the Board declined to make any ruling in specific cases.

The Chairman: What is your pleasure in regard to these two items?

Governor Seay: What did you have in mind, Governor Strong, with reference to the disqualification of directors?

The Chairman: We have been wondering in New York whether the Clayton Act might not be cleared up by a simple amendment to the effect that the restrictions of the Act did not apply to directors of Federal Reserve Banks.

Governor Seay: That is the point. Do you regard that as necessary from a legal point of view?

The Chairman: Well, it is important, in that the Act strictly construed, would disqualify every directorship in reserve banks and some of the most important banks in our various districts.

Governor Seay: The Federal Reserve Act says that a Class A man may be the representative of a bank.

The Chairman: But suppose he is also a director in a state institution located in the same town? The Clayton Act is directed against that.

Mr. Vurtis: The Clayton Act was passed after the Federal Reserve Act was passed. If there is any inconsistency the Clayton Act would control.

Governor Seay: That is the point I was trying to develop.

Governor Fancher: The Clayton Act would have to be amended in order to clear up that point.

The Chairman: The question Governor Seay raises is whether the Clayton Act, which was designed to limit the

activity of a director in a national bank, would indirectly apply to a director in a Federal Reserve Bank.

Governor Seay: There exists no doubt that a director may be a director in a national bank and of a Federal Reserve Bank.

The Chairman: There is no doubt on that point whatever.

What is your pleasure with regard to these items? Will you do something with them, or will you decide to eliminate them from the program? They have been on the program for three meetings.

Governor Seay: I move that they be extended to Section 11 "Amendments to the Federal Reserve Act."

The Chairman: Is there a second to that motion?

Governor Sawyer: I will second the motion.

The Chairman: Is there any further discussion?

Governor Seay: It cannot be left in the state of uncertainty in which it now exists.

The Chairman: It ought not to be left.

(The motion was carried.)

The Chairman: Subject (b), Governor Aiken, was suggested by you prior to our last meeting. No action having been taken on it, it was carried forward to this meeting.

(b) APPOINTMENT OF REPRESENTATIVES TO EXAMINE FEDERAL RESERVE NOTES SENT TO WASHINGTON FOR DESTRUCTION.

Governor Aiken: Since that subject was put on the program I have heard so many expressions of opinion as to

the responsibility of the government in the matter of notes being equal to ours and it being hardly necessary to have an additional check in the matter of the destruction of notes, I am content to have that withdrawn.

The Chairman: You move the withdrawal of that subject, Governor Aiken?

Governor Aiken: I so move.

Governor Van Zandt: I second that motion.

Governor Wold: We are all agreed as to when our liability does cease? That it ceases when we have deposited the gold with the Federal Reserve Agent to retire the notes? They are not destroying or cancelling the notes now in accordance with the Act which, as I read it, requires the Treasury Department, when redeeming the notes of any Federal Reserve Bank to send them back to the bank through which they are issued for payment; that bank to cancel them, turn them over to the Federal Reserve Agent, who sends them back to Washington. They are redeeming those notes in Washington and destroying them. They are not coming back to the bank which put them into circulation. We have no knowledge as to what denominations are destroyed or redeemed at Washington.

Mr. Curtis: Governor Wold, there is a distinction between destroying and redeeming.

Governor Wold: The Act says they should be sent to the bank putting them into circulation. They are not doing that; they are destroying them.

Governor Seay: And determining the question of fit-

ness themselves.

Governor Wold: Yes. We have no control over it; we have no accounting from them as to the number or denomination of the notes they are destroying or that have been redeemed. We do not know what denominations or numbers are outstanding. In view of the fact that we are obliged to redeem them whenever presented, even though we have deposited with the Federal Reserve Agent the gold for their retirement, it seems to me that we have some interest in that question.

The Chairman: You entertain the view, Governor Wold, that it would be a mistake to withdraw this topic from discussion without deciding finally whether or not we are to have a representative to audit the destruction of Federal Reserve notes?

Governor Wold: We ought to know definitely whether our liability for those notes ceases when we have deposited with the Federal Reserve Agent the funds to retire them.

The Chairman: Is not the law specific on that? It says that we may reduce our liability by depositing the gold with the Federal Reserve Agent.

Governor Wold: It also says that we are obliged to redeem them in gold or lawful money whenever presented -- redeem our own notes or the notes of any other Federal Reserve Bank when presented, regardless of whether you have deposited the money with the Federal Reserve Agent to retire them or not.

Mr. Curtis: Of course the statute says "reduce your

liability". It does not say "wipe it out".

Governor Wold: No; it says "reduce it". It seems to me that the redemption and destruction of these Federal Reserve notes ought to be transacted in such a way that the banks would know at all times just how they stand and what their liability is.

(At this point Deputy Governor W. W. Hoxton, of the Federal Reserve Bank of St. Louis, entered the conference room.)

The Chairman: I will repeat what I have already said, but it need not be put into the record.

(The Chairman thereupon explained to Mr. Hoxton the proceedings up to the time of his arrival, which explanation the stenographer was directed not to report.)

The Chairman: We were in the midst of a discussion of item (b) under Topic 2. Governor Wold, you had the floor.

Governor Wold: I think I have relieved my mind of most of the material that was in it in reference to that subject. I do think it is of importance.

Governor Seay: I agree with Governor Wold. I think we cannot wholly trust to the arbitrary action of the Department in Washington in assuming the responsibility without advising the Federal Reserve Banks of what has been done, to say the least. If we are not to have a representative present at the destruction of these notes, inasmuch as the reserve banks are required to redeem the notes whenever presented--- and even if the law did not require it.

it would result as a matter of practice--- then the reserve banks should at least be advised of what is done; and that is so even if we do not have a representative there to witness the destruction of the notes.

The Chairman: This question has never been submitted to the Federal Reserve Board for a ruling, or with a request for an opinion of the counsel of the Board, because this Conference has never taken action on this topic.

It occurs to me that if a resolution should be passed, in place of the one offered by Governor Aiken--- if he cares to withdraw his--- directing our counsel to submit this question to the Board in Washington for a ruling or for an opinion by their counsel, we would have the basis upon which to make a final discussion of the matter at our next meeting.

Governor Aiken: I will withdraw my motion and submit another one based on the statement of the case just made by the Chairman.

The Chairman: Governor Fancher, you seconded that motion. Is that procedure agreeable to you?

Governor Fancher: Yes; that is agreeable to me.

The Chairman: Does that meet with your views, Governor Wold?

Governor Wold: Entirely so, Mr. Chairman.

The Chairman: Then that course will be pursued. Is there a second to that motion?

(The motion was duly seconded and carried.)

The Chairman: Governor Seay, you suggested item

(c) of topic 2 some months ago; and I find that Governor Van Zandt has also suggested it. Will you open the discussion, Governor Seay?

(c) WEEKLY REPORTS OF RESERVES BY MEMBER BANKS.

Governor Seay: This item, gentlemen, you will recognize as a "carry-over". It is one that was threshed out at that time and decided against a weekly report. But I believe the matter is one of importance and that it will be of increasing importance as we undertake to develop the collection system; and, inasmuch as we have the collection system subject on the program for discussion, I would suggest that we pass item (c) by until we have reached some conclusion as to the development and extension of the collection system. The first item is so intimately bound up with the last that I suggest it be passed until we have discussed the collection system.

The Chairman: What is your view of the matter, Governor Van Zandt?

Governor Van Zandt: My suggestion was not made in connection with the collection system at all. It was brought about by reason of the fact that I have noticed with my own member banks that immediately after a statement was called for their balances began to decrease with us. It was only for the moral effect it would have on the member bank, to know that they had to furnish a statement either to the comptroller or to the Federal Reserve bank of the amount of their reserve once a week, and how it was figured, that I made the suggestion. They would then keep their balances

up. At the present time, of course, it makes little difference to the Federal Reserve Banks whether the member banks keep up their reserve or not. Yet the time will come when the question of whether the member banks are keeping up their reserves will be a vital one to the Federal Reserve bank.

The Chairman: In order that the history of this particular discussion should be fresh in the minds of everyone, I think we ought to review what was done by the Federal Reserve Board on this subject. At one time the Board asked us to discuss the matter. Following that discussion there was submitted to each of the 12 banks a suggested form of statement to be made by the member banks. That statement, I believe, was to be made once a week. We analyzed the statement in the New York Bank and called the attention of the Federal Reserve Board to the fact that the statement required thirty-five calculations by the member banks and then required the tabulation of those calculations in our bank six hundred and ten (610) times, one for each bank; and that the amount of labor involved in the preparation of those figures, assembling them and reporting them to Washington, was so extensive, we were very strongly in favor of either eliminating the statement entirely at the time or reducing it to a very small number of items.

We made that report from New York. I think most of the other banks made a somewhat similar report to the Federal Reserve Board, with the result that nothing has been done. I am under the impression that the Federal Reserve Board is

again considering the matter and that doubtless they will be very glad to have an expression from this meeting as to what views are entertained on the question of weekly or monthly reports of the reserves of member banks; and I hope this meeting will be willing to pass a resolution on this subject and submit it to the Federal Reserve Board at Washington.

Governor Fancher: I think the question bears on the next item, item (d):

- (d) BI-MONTHLY STATEMENTS FROM MEMBER BANKS SHOWING REQUIRED RESERVE AFTER SECOND RESERVE PAYMENT HAS BEEN MADE.

We have been requiring our member banks, who are members of the intradistrict collection system, to report to us on the first of each month, from their books, their reserve which should be maintained with us. In that way we can follow through the month and tell approximately whether these banks are maintaining their reserves--- whether they are under or over.

Governor Seay: Do you mean the average reserve or the reserve at the end of the month?

Governor Fancher: They carry the tabulation through each day and average it at the end of the month.

Governor Seay: I mean does the bank report its average for the month?

Governor Fancher: No; just on that particular date. We have noted that some of our member banks, not members of the intra-district collection system, allow their reserves to go down. In the cases of banks maintaining reserve of

eight or ten thousand dollars, we sometimes know that the balances are down several thousand dollars and that they remain down for some little time. We hardly feel justified in calling their attention to it because we are not sure of the amount they should reserve. It seems to me we are approaching the time when we should have some sort of report instead of simply being able to check up the reserve at the time they make their statements to the Comptroller.

Governor VanZandt: I was very much opposed to the weekly statement, as proposed by the Federal Reserve Board, for just the reasons that have been given -- that it necessitated the making up of a great many figures. It was not so much our own work that we were opposed to, but it was the work put upon the member bank. We thought it would antagonize the member banks against the system. I think by simply reporting nothing but the reserve it would answer all of the actual needs of this matter; but just to show the average reserve for the week or bi-monthly I do not think would answer.

The Chairman: Do you refer to the reserve carried with the Federal Reserve Bank or to any other reserve.

Governor Van Zandt: I think it would be better to make it cover any other reserve.

The Chairman: It seems to me that one calculation without the other would be fruitless. It would carry an excess in one place and be short in another.

Governor Van Zandt: I should think it should all go together.

Governor Fancher: I think when this matter was up for discussion with the Federal Reserve Board the banks were asked to make some suggestions as to the report. I know our particular bank went in a suggested form and I think it only involved reporting on 7 items, a very simple report.

The Chairman: We boiled it down to five, in New York.

Governor Fancher: We boiled it down to seven and sent in a suggested form for a weekly report. It was quite simple and required very little work to furnish the figures each week.

Governor Wold: Outside of the statistical value these reports would have, I do not think we would consider them of any consequence in the operation of our bank here. The suggestion met with a great deal of disfavor on the part of our member banks, who are asked to make so many reports and asked to give so much information. They report to the Comptroller of the Currency five times a year. If we should then ask them to report their reserve weekly, it would discourage state banks from coming in. The maintenance of the reserves might be accomplished through the Reserve Board establishing a penalty for depletion. When the examiner makes his examination he can ascertain this depletion and assess them for it. If they are fined for not maintaining their reserve, then they will maintain it.

Governor Seay: That subject comes up under Topic 19, item (b), "Penalty for impairment of balances."

The Chairman: That is so.

Governor Seay: I am satisfied that the problem is a little different in the different districts. I am also quite sure that many of the member banks look upon their reserve with the Federal Reserve Bank as an ordinary bank balance and use it accordingly. That would be the case particularly when they begin to check on it.

Governor Wold: We have had no difficulty in that line at all with out member banks. Most of them maintain their reserves fully, and there is some excess.

Governor Seay: Your banks have been affluent. They have not had occasion to use their reserves. With us they have not only borrowed against them once, but two, three, four and five times. If, in addition to that, they go ahead and exhaust them, then it becomes a question which ought to be looked into and governed because of the principle at stake. They should not be allowed to feel at liberty to violate their reserve any more than they would if it was cash in their own vaults--- and the reserve is supposed to be a part of their cash in vault, transferred to our keeping.

Governor Wold: If that condition arises why do you not quote the law to them?

Governor Seay: It does not have any more effect than pouring water on the proverbial duck's back. They will write a letter to the Reserve Bank, couched in very polite language, saying "We had very heavy demands on us on the date we were compelled to check on you. We hope to be able to maintain our balance intact hereafter." That is the light in which they view it, and until a penalty is imposed.

I do not believe the reserves will ever be maintained. I believe I am in accordance with your view that there should be some penalty. That question was taken up by the Advisory Council; they formulated a very strong resolution, which they presented to the Board, to the effect that the balances of the member banks in the Federal Reserve Banks were in the Federal Reserve Banks for the purpose of acting as a basis of credit; that the banks ought not to be allowed to violate them, and that a penalty sufficient to discourage the practice ought to be imposed.

Governor Sawyer: What had the Board to say about it?

Governor Seay: The matter has been taken up with them on more than one occasion, by correspondence, and they have deferred action on it. I think they realize that it is a little delicate and difficult to handle. The action of the Federal Reserve Banks, in arbitrarily charging to their account the checks received, I think makes it impossible, in a good many cases, for the member banks to maintain their reserves by the Federal Reserve Bank's books, although they could in many cases by their own books; and their reserves are not only exhausted with us but their accounts are very largely overdrawn. The question is intimately connected with the question of collections---

Governor McDougal: (Interposing) Pardon me, Governor Seay, but I do not believe any penalty should be put upon the temporary use of the reserve. If that should be done, of course the reserves would be of no use to the banks. The banks always have used those reserves under unusual

conditions, and they always will. At the present time we are receiving five reports a year, giving us the condition of the reserves on those particular dates, and we are also getting sworn statements with respect to the status of the reserves for the preceding thirty days. It seems to me that rather than impose any further work upon the banks at present, we had better try to get along for a year or so -- or for a few months anyhow -- and see if we cannot get a pretty good line on the question of whether or not they are maintaining their reserves from what information we have available. I believe our banks will maintain their reserves pretty well, and if we keep our information before us, and check them up occasionally, I believe we can get along without more frequent reports.

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Governor Kains: I am in accord with Governor McDougal with reference to the collection system, but I think we can get along for a year or so, until we see what can be done in that connection.

Governor Aiken: Our banks in New England have been long on money and their reserves have been well maintained. I am very sure that they are conscientious in the matter, with perhaps a very few rare exceptions. I am also very sure that our banks in New England would account it a great hardship to be called upon to make up these reports every week. One of the most serious objections that I meet in our district is the objection to the constant calls for information and reports under which they labor at the present time, and I think that they would be very much aggrieved.

if we impose upon them a weekly report of reserves.

The Chairman: This discussion brings out different views, and before asking for a motion I want to read a memorandum which was just handed to me by Governor VanZandt that is almost exactly what is suggested by our bank in New York, as I recall. It asks that member banks certify the average reserve for a week, ending on a given date, as shown by the books of the bank, in three items, in the bank vault, extending in one column the amount required and in another column the amount carried, and the same two items, the amount of deposits with the Federal Reserve Bank required and carried, and, third, the amount of deposit with Reserve Agents required and carried, giving the total with a certificate by the cashier that it is correct.

That is about our view of what should be required when the time comes to ask the member banks to give us a regular reserve statement, and I do not think we have ever felt, in New York, that it would be necessary for the present to have those statements filed with us once a week. It might be desirable to have them, say, once a month.

Governor Seay: I think you are the senior in initiating this topic, and may we not have the matter for discussion in the form of a resolution?

Governor Seay: I repeat, Mr. Chairman, that this is a local problem to a very large extent. I have before me the statement which was submitted at the recent meeting of transit managers in Chicago, showing the average number of overdrafts daily in the different districts, and the average

amount of overdrafts daily. The variation is very large--- from \$7,400 in the case of Boston to \$800,000 in the case of Kansas City.

I should like to ask Governor McDougal this question: For the district of Richmond, where the Federal Reserve Bank has loaned to its member banks, a certain number of them, say 200 of them, the entire amount of its reserves, the reserve deposits are about seven and one-half millions, and the bank has loaned back to certain of those banks eight and one half millions; can you not see that it is of more importance in that district that the member banks who are doing the borrowing and who are the offenders, should be required to maintain their reserves?

Governor McDougal: Mr. Seay, I believe that the banks are required to maintain their reserves. I think, however, that the pressure should come from the Comptroller, and he should take such steps as may be necessary to make them maintain the reserves. I speak, I admit, more particularly for our own district. I think that it would be a hardship upon our banks now to inflict the work of preparing weekly reports of this kind which, I believe, are unnecessary; but I can see plainly that the conditions prevailing in the two districts are very dissimilar.

Governor Seay: I will say in further explanation of that^{that} the amount of overdrafts in our district is not large. They average from \$20,000 a day, in July, to \$83,000 in September. So that you see the offense is not widespread, and the aggregate amount is not very great; but it is the

principle of the thing that I am looking at. I feel that if the banks start with the feeling that they can draw ad libitum upon this reserve force it is inculcating a very bad precedent, and that they are acting upon a very bad principle.

Governor Wold: Are not those overdrafts caused by checks sent to them, charged to their accounts?

Governor Seay: They are in some cases, and in some they are not; but it is the offenders who ought to be reached by some penalty. I believe it is perfectly easy for banks to avoid that. It certainly should be easy. In flush times like these, they are encouraged--- I say, encouraged--- to check against their reserves at their convenience, and when money becomes really more valuable to them, and tight, why, they will use the thing further.

Governor McDougal: I think they have the machinery there now to compel them to maintain their reserves, if they will do it; and they always have had it.

Governor Seay: I should like to say that we are a little loath to leave anything to the Comptroller's office.

The Chairman: May I interrupt just a moment to call attention to one thing, and that is that there is not the slightest difference between the obligation that rests upon a member bank's maintaining its reserves today and what it was before the Federal Reserve Act was passed. Now they keep a part of their reserves with the Federal Reserve Bank instead of with the Reserve Agent, as heretofore, and in their vaults. The responsibility for maintaining that

reserve has rested, and still rests, upon the member bank, with this exception, that the Federal Reserve Act provides that certain penalties be imposed upon member banks for failure to maintain their reserves; and presumably the Federal Reserve Board is clothed with authority to fix penalties and enforce them, which authority formerly rested exclusively with the Comptroller of the Currency. I have never been clear in my mind that this was a matter with regard to which the Federal Reserve Banks were expected, under the terms of the law, to initiate any procedure.

If we assume a large authority over the member banks in this matter of their reserves, or attempt to, we are certainly guilty of a n invasion of the prerogatives of the Federal Reserve Board, and possibly of the Comptroller. I do not believe we are yet in the position to take over the duties of the Comptroller in connection with reserve matters.

Personally, I would not like to see the reserve banks assume any responsibility in regard to the matter for the present.

If in a given district, such as yours, Governor Seay, the extension of credit by your bank to the members has assumed such proportions that it becomes important that we know the reserve condition of these borrowing banks, as a matter of policy you have undoubtedly the right to ask for this information; you have the right to go and examine them; but to have the whole system start out, as a matter of policy, to supervise the reserve calculations by the

member banks, and possibly to be responsible for initiating a system of penalties for failure to maintain reserves, I think is going to create a lot of antagonism among the 7600 member banks; whereas, if you, in your own district, undertook to get that information for your own use and it were not a matter of policy for the whole system, I do not suppose it would cause any harm, for you are going to get the information from people that are leaning on you now for necessary accommodation. We would be asking statements from 610 banks, possibly all of them maintaining their reserves without exception, or very close to it, and not more than ten or fifteen of them borrowing any money from us. It would be a rather offensive thing to require these statements now, I believe.

Governor Wold: It appears to me that if we were suffering from the same difficulty that Governor Seay's bank is we would have incorporated on the bank of the application for rediscount a statement similar to this, so that you would know what the reserve was, and without bothering those banks who were not borrowing and were maintaining their reserves, you would ask the figures that you really did need. I do not believe that a bank would, under those circumstances hesitate to fill out this information blank.

Governor Seay: Without repeating too much, I want to say that the exhaustion of reserve balances and the overdrafts are less in the Richmond District than they are in six or seven other districts, so that it is not an administrative difficulty that we are encountering. There

are six other banks that have that difficulty to a greater extent than the Richmond Bank, although we have loaned more money to our members. But it was not from that point of view that I was introducing the subject.

The Chairman: In the other cases they use their reserve balances and do not give the receiver banks the benefit of the interest on loans, which it is very necessary for you to have the benefit of.

Governor Seay: There is this difference, Governor Strong, between the Reserve situation now and that which formerly existed. I am not prepared to say that the Reserve Banks should be too active in their control over the balances, but the required reserves of the member banks have been appreciably reduced. Then, again, the amount of borrowing from reserve banks is not counted in the liability of the bank, and its real condition can be very much weaker than it formerly could under the law. So it becomes a matter of greater principle and importance now that the member banks should maintain their reserves than formerly.

Mr. Foote: What is the record of the Atlanta Bank?

Governor Seay: The Atlanta Bank, for the month of July, had overdrafts to the extent of \$24,000, and for the month of September to the extent of \$200,000, in addition to the exhaustion of balances.

Mr. Foote: We made it a policy down there, whenever we suspected a bank, of going after them and the officers of the bank could write to them and urge their duty upon

them. We discussed this matter a number of times in our board, and we never felt like we could throw the checks out. They have shown a disposition to respond. While we have been annoyed and tantalized a little about it, yet we have always been able to correct those individual cases when we would take the matter up with them.

Governor Seay: This question was introduced several months ago, and I should not have brought it up at this meeting, but I remind you again that it was carried over.

The Chairman: It is on in three places, in different forms.

Governor Seay: And in a different form later on I should like to discuss it, but I do not care to offer any resolution. I move we pass it by.

Governor Van Zandt: I second the motion.

The Chairman: Is there any further discussion on Governor Seay's motion? There being none, I will put the question.

(The motion was duly carried.)

The Chairman: This, then, disposes of items (c) and (d) under heading 2, and the matter will automatically come up again when we reach item 19.

(e) DIGEST OF ACTION OF GOVERNORS' CONFERENCES.

The Chairman: Item (e), Digest of action of Governors' conferences, was suggested at the last meeting with a view to making the contents of the reports of these meetings, which are now getting very voluminous, more available for reference than they are in their present form.

On returning to New York I looked over the index that has been prepared in New York and found that it substantially answered the purpose. It gives a very complete analysis of the contents of each volume, and I am not going to ask for any action on this subject, but take the liberty of making this suggestion, that if the minutes and the index which we have furnished to each of the banks, and a copy of the program and the extended report of the discussion were bound in a bound volume, as can very readily be done, as we have them in the New York bank, I think it will prove very much more valuable as a reference book than it is in its present form. A small cloth binding is all that we have put on them. They are all of uniform size now, and they will bind up very well. I think it will be a very valuable record in that form. We will continue to prepare the index as soon as the text of the proceedings reaches us.

Governor Aiken: I should like to know, Governor Strong, who prepares that index?

The Chairman: It is prepared by Mr. Higgins, in our office.

Governor Aiken: It has seemed to me that it is an extraordinarily good piece of work and we are under obligations to you and to him for the very satisfactory form in which it is gotten up.

The Chairman: You will find practically everything in the volumes from the index; and rather than to have the whole record rewritten in the form of a careful digest of

the proceedings, it is almost as simple to make it up in the index. If that is satisfactory, we will consider Item (e) as having been disposed of.

3. REPORT OF ACTION OF FEDERAL RESERVE BOARD ON RECOMMENDATIONS OF LAST CONFERENCE.

The Chairman: Governor Rhoads, you suggested Topic No. 3, report of action of Federal Reserve Board on recommendations of last conference.

Governor Rhoads: It was my recollection that the Federal Reserve Board left open one or two of our recommendations, but I think some of those are coming up on our program at this time.

The Chairman: I think Mr. Curtis has the record of what transpired after the last meeting, when everything was reported to him, and he will be able to make a report of it.

By the way, the record of these meetings should also contain the complete report of the proceedings that Mr. Curtis always prepares and sends to Washington, a copy of which is furnished to each of the Governors. I think you have all received that regularly after each meeting.

Governor Seay: Do you send a full copy?

The Chairman: No; we do not send a full copy. We send simply an abstract of the record containing all the recommendations and such action as has been taken.

Mr. Curtis: On June 24 and 25 I reported to the Federal Reserve Board the various resolutions and votes taken by the Fourth Conference, and on July 1st I received

back quite a long letter from Mr. Willis stating what action the Board had taken on the various recommendations, and copies of that correspondence were sent to each Governor.

I have marked here the various recommendations that the Board did not dispose of. The first one was Topic 10 (a) of that Conference. It was the recommendation that the Board make arrangements to discount commercial paper for a time less than the actual maturity of the paper at the appropriate rate for the length of time for which discount is agreed upon.

The Board states:

"This recommendation, if adopted, might easily lead to renewals, or what, as a matter of fact, would be short loans on long paper. The Board prefers to get some experience with the short rate now established before finally passing upon this part of the recommendation of the Governors."

No further word has been received from the Board so far as I know, beyond that; so that has been left open.

The Chairman: I understand, however, that that is not a final ruling by the Board, and unless circumstances justify our bringing that subject up again for discussion, there would be no particular point in renewing that recommendation.

Mr. Curtis: It is a ruling by the Board that they will not renew it on their present knowledge and experience.

The next questions left open were topics 4 (b) and 4 (f), which relate to the subject of the cooperation be-

tween chief examiners and local examiners, and the recent order of the Comptroller of the Currency, authorizing the omission of certain items from reports. The Board reports:

"These matters have been the subject of conferences with the Comptroller, and it is hoped to reach definite conclusions in the near future."

I think you are all familiar with what happened on the first one.

The Chairman: That matter will also come up under item 20.

Mr. Curtis: On the question of change of form of statement, where this Conference recommended that the details of the borrowings of the officers and directors shall be given, etc., I do not think any action has been taken by the Comptroller on that, so far as I know.

The Chairman: The matter was verbally discussed in Washington, I think, at one of the meetings of the Executive Committee. Governor McDougal, correct, me, if I am not right about this. The Comptroller's reply was that he was observing the law, and that he did not feel justified in ^{changing} his position in the matter. I think you were present when that occurred. The form of the last statement sent out by the Comptroller omitted directors' borrowings and officers' borrowings, and the names of the reserve agents of the member banks.

Governor McDougal: I think your statement is correct, but I do believe that something should be done to accomplish the desired result with respect to the liability of

the individual directors. It is very essential, I think, to know who the directors are and from whom they are borrowing, and the amounts that each one borrows. Instead of having a lump sum of \$150,000, for instance, we should like to know whether the cashier is using any of that, or the vice president.

Governor Wold: Are you not able to get that information from the chief examiner?

Governor McDougal: We do not get that in the copies of the official reports that we receive.

Governor Wold: You are able to get that information from the chief examiner, are you not?

The Chairman: Not automatically.

Governor McDougal: Wait a moment. We have not been able to get it; no.

The Chairman: Are you prepared, Governor McDougal, to offer a resolution which would in any way revive or renew the recommendation which was made at the last meeting of Governors?

Governor McDougal: I would be very glad to revive that portion of it directed at the matter of the individual liability of the directors of the bank under which we would have incorporated in the copies of the reports we receive not only the total amount of the borrowings of the directors, but the amount that each director has on his own account.

The Chairman: Governor McDougal, Mr. Curtis suggests that it would be appropriate for this meeting to recite the correspondence with the Federal Reserve Board, and in-

stead of renewing the recommendation, make inquiry of the Board as to whether any progress has been made in adjusting this matter with the Comptroller, as their reply to our report of the last Conference indicated that the matter was under discussion with the Comptroller but had not as yet been settled; and if we direct an inquiry to the Board asking if the matter has not been settled or will not be settled at an early date, it will have the same effect as though we had renewed our recommendation.

Governor McDougal: If we could incorporate in that, however, a strong emphasis on the importance of No. 1 of the three items to which reference was made, that is, details of the borrowings of the officers and directors, I think it will be well to do it.

The Chairman: Would you care to submit that as a motion?

Governor McDougal: I would like to submit that as a motion in the form that you stated it, if the Secretary can re-write it, to which I would like to add some reference to Topic No. 1, to emphasize the importance of that particular feature of the report, that we received the details of the borrowings of the officers and directors. That is the one that I have been most interested in, and I think it is the one of the greatest importance.

The Chairman: It is, Governor McDougal. Your motion is to the effect that, after reciting the correspondence with the Federal Reserve Board on this subject, this meeting direct an inquiry to the Board as to whether

any progress has been made in negotiations with the Comptroller, and renew its recommendation that it is important in the interests of the reserve banks that they should be informed as to the liability of directors and officers to the member banks, and that information should be contained if possible to arrange it with the Comptroller, in copies of the regular reports sent to the Comptroller which comes to Federal Reserve Agents, for our files.

Governor McDougal: That will cover it, Mr. Chairman.

Governor Rhoads: I second the motion.

(The motion was thereupon duly carried.)

The Chairman: There are some more items in this correspondence which are unfinished business also.

Mr. Curtis: Item No. 6 (b), was the question of the wish of the Governors to have the codification or digest of informal rulings of the Federal Reserve Board prepared. The Board said that this would only be of advantage after a considerable amount of material has been accumulated, and the Board has in mind to have a compilation of this character made, possibly at the end of the current year.

In that connection I have made from time to time and kept up a digest of informal rulings and instructions that have come to our bank alone and to other banks in the form of circulars, and others in the Federal Reserve Bulletin made up by Sections of the Federal Reserve Act, and it really is quite a document already. I thought perhaps I

really is quite a document already. I thought perhaps I would offer a part of that here, and the other Governors might say whether they thought it was worth while to have the Conference take hold of that. It would not be very much trouble to have what I have prepared roughly gone over and smoothed out and put on the mimeograph and sent around after the conference, if the Governors would care to do it. I brought a copy of it here.

Governor Seay: I would like to say, Mr. Chairman, that I have to make a research every now and then to find out what has been done about a certain matter.

Mr. Curtis: There is the size of it (exhibiting same to conference), and each page is filled with perhaps ten or a dozen instructions that may have come by telegraph, letter, Federal Reserve Bulletin, or circular, and each one is referred to. So that if any question arises as to just what instructions we have received, and how to proceed under Section 7, say, of any question, you turn over here and find ^{it,} for instance, just reading at random, just where you can put your hand on it. Here is the one about taxation, and there have been about seven rulings on the taxation question alone.

If the Reserve Board are not going to get out something like this for a while, I am not sure that it would not be a good plan for the Conference to do so.

The Chairman: If this were put in shape, this being more in the nature of an index now than a real digest, and all of this material were gradually boiled down into

a summary of the ruling in each instance, or the instructions, and sent to each of the banks, divided up as it is here under the various sections of the Act, it might be possible for each bank to submit this digest which consists simply of material which has reached our bank with such material as has been received directly from the Board, and then if it were all sent back to us we would get this same man, Mr. Higgins, who prepared the digest of our proceedings, to work it up into mimeograph form and furnish it to each bank. In order that the work might be useful continuously in the future, it would be necessary to keep it up. These rulings are coming through all the time. An informal ruling on one subject will be sent to one bank which the Board may not consider to be of sufficient general importance to send to all the banks, and we would like to have a complete review of all these former rulings, etc..

Governor Rhoads: We have quite an elaborate card system of a digest of all the rulings which we have been able to assemble, which we would be very glad to offer for what it is worth.

The Chairman: Suppose, then, we make a record by resolution indicating that it is the wish of the meeting that the digest as prepared in New York be put in form to send to each of the banks so that they can submit it with such rulings as they have and the whole thing be sent back to New York and there reassembled and furnished to all the banks, and that it is the sense of the meeting that instruc-

tions be given to each of the Reserve Banks that all informal rulings be held out and digested and reported to us for the time being until some other arrangement is made and we will have them put in shape.

Governor Fancher: I offer that as a resolution, Mr. Chairman.

Governor Aiken: I second the motion.

(The motion was thereupon duly carried.)

The Chairman: What is the next item, Mr. Curtis?

Mr. Curtis: The next topic is changes in design of Federal Reserve notes .. The Conference at the last meeting recommended four changes in the design of the notes. The Reserve Board replied:

"This topic has been referred to the committee on note issue and redemption (Mr. Delano, Chairman), which will take up this matter with the Treasury Department."

So far as I know, that is the last word received on it.

Governor Wold: It seems to me that the character of the notes which are furnished to us and the price which we pay entitles us to a better quality of paper and a better quality of printing. What notes we have received here are very poorly printed, and some of the numbers are out of alignment. The ink will run. Our teller handed one out just before I left, which came in yesterday. There is the back of it (exhibiting the note to the Governors).

The Chairman: We have had similar cases.

Governor Wold: We are paying a price which it seems

to me entitles us to a good paper and good ink, something that can be laundered.

The Chairman: You understand, Governor Wold, that ink of the character that has heretofore been used in some of these processes is a little difficult to get just now?

Governor Wold: But these notes were printed before the old ink was exhausted.

The Chairman: Some of them.

Mr. Foote: Mr. Wold, has a note in that condition ever been submitted to the Board for its examination?

The Chairman: Yes.

Governor Wold: Yes.

The Chairman: May I suggest that this meeting ought to take some action on that matter. We have had a very careful inquiry made, in New York, in regard to the cost of all the processes of manufacturing these notes. The correspondence is not completed yet, but our men who have studied the subject say that they are convinced that we are paying too much for the notes and that the quality is deficient and that the original design of the note is an unsafe and incomplete one. I think this meeting ought to pass a resolution asking the committee of the Federal Reserve Board, to which this matter has been referred, to make a further investigation of the whole subject, to see whether the cost of preparing notes cannot be reduced and the quality cannot be improved.

Governor Rhoads: I offer such a resolution if it is in order now.

Governor Seay: That comes up under the heading over here, Mr. Chairman, being No. 12.

The Chairman: We had a note brought in by the bank which had been partly destroyed, so far as the engraving was concerned. We could decipher what it was, but it was in a bad condition. The story was that this note had been in the pocket of a man who became intoxicated and fell into the water, and it was taken out of his clothes; that the water had reduced it to this condition. We sent it to Washington and it was in turn sent to the Bureau of Engraving and Printing, and they reported that the story was undoubtedly a fabrication; that they knew from tests and experiments made with that particular note that it was impossible for water to destroy the engraving of the note to the extent that that had been destroyed; that they had quite a number of notes come in that were in very bad condition and it was very difficult to determine whether they were Federal Reserve notes or not.

Governor Wold: The story that comes with that note, gentlemen, is that it was carried by a man who worked in a garage, and he got grease and dirt on it and he took water and washed the grease off and that is the result.

The numbers on our notes are miserably out of alignment, and everything else.

Governor Van Zandt: The notes that we have had recently have a different colored number on them.

Mr. Foote: Governor Strong, did the experts in Washington assume to offer any opinion as to how the note

reached this condition?

The Chairman: Yes. They said it had been laundered, and the lye, or something in the soap, had affected the ink and reduced it to that condition, and that note bore every evidence of having gone through a laundering machine.

Governor Seay: It is a subject that may become a grave one with regard to the quality.

Mr. Foote: I should consider it positively alarming.

Governor Wold: If we cannot put these notes out, and they cannot be fit for circulation, apparently, longer than they are, it will be a great expense to us.

Governor Seay: And it is also a question of the ease with which the identity can be lost.

Governor Wold: We cannot afford to loan those notes to our member banks.

The Chairman: They have abandoned the use of carmine ink for the seal and number and are using a blue ink for the seal and number, and the Assistant Secretary of the Treasury, Mr. Malburn, reported to me that he was sure we would get better results from a change in the ink. He admitted that there was difficulty with the carmine ink they had been using.

Are we not in sufficient agreement as to the importance of this matter to pass a resolution with regard to it and consider that we have done our duty?

Governor Van Zandt: In that resolution is anything to be said about the fact that only on three places on the bill are there any distinguishing numbers, and that three-

fifths of the bill might be offered for redemption and with no evidence whatever as to what bank had issued that bill?

The Chairman: That was contained in the former resolution to which the Board now replies, saying that they have taken the matter up with the Bureau of Engraving and Printing. We could add to the resolution a renewal of the recommendations made at the last conference, and that would contain the point that you raised.

Governor Rhoads : I thought that the bill that we got for altering our plates was following that out. Am I mistaken?

The Chairman: No; that was for repairing plates.

Mr. Curtis will read the recommendations which we made at the last meeting.

Mr. Curtis: (Reading:): "Printing the distinctive letter or figure designating the Federal Reserve Bank of issue in larger and clearer type, and placing the same directly below and as near as practicable to the counter figure in the upper right hand corner of the note. (This recommendation is for the purpose of assisting in the sorting of notes.)"

Second. "Placing in the border a distinctive letter or figure. (This recommendation is for the purpose of identifying portions of mutilated notes where the present identifying marks cannot be seen.)"

Third. "Changing the ink or other material used in affixing the red seal in such a way as to make the notes

fit for laundering."

Fourth. "Omitting the name of the Federal Reserve Bank through which the note is issued, the text of the Federal Reserve Act indicating that the means of distinguishing the issuing bank should be limited to figures and letters ."

Those were the four recommendations that went forward.

The Chairman: The motion will then consist of a renewal of the recommendations made at the last conference, and the further recommendation that the Board take steps through their committee, or as they see fit, to secure, if possible, a better quality of paper and workmanship on the notes, and a reduction of the cost. That motion is seconded. Are you ready for the question?

Governor Seay: Will you include in the verbiage, Governor Strong, the point that this Conference has considered and looked upon the matter as such a grave one, both from the point of view of safety and expense, that it should be remedied?

The Chairman: In the draft of that resolution, Mr. Secretary, will you incorporate those remarks, please?

Mr. Curtis: Yes.

(The motion was duly carried.)

The Chairman: That will dispose of an item carried over from the last meeting, and item No. 12 of the program, suggested by Governor Rhoads, cost of Federal Reserve notes.

Governor McDougal: The cost of Federal Reserve notes

comes in indirectly in connection with my report from another angle.

The Chairman: Mr. Curtis has still further report to make on the results of the last Conference as submitted to Washington to the Federal Reserve Board, and their reply.

Mr. Curtis: The next topic is "Transfers from the Gold Settlement Fund for the account of Federal Reserve Agents." The Board replied:

"The Board is unable to find that it has taken any action with reference to this matter, but has it under advisement."

That was subsequently issued in the form of a regulation.

Topic No. 19, Federal Reserve Banks as Fiscal Agents. The reply of the Board is as follows:

"This subject has been referred to a committee of the Board and is under careful study."

That comes up later.

The Chairman: I have a report to make on that subject later, and if agreeable we will pass discussion of it now.

Mr. Curtis: The next is Topic No. 22, Letters of Credit. The reply of the Board is that this matter has been taken under advisement with the Comptroller of the Currency, and it is believed that a satisfactory adjustment will be arrived at shortly.

That was subsequently arrived at.

The next is Topic No. 16 (b), Deducting of national bank notes in reserve calculation. The Board states:

"This matter is in the hands of a committee, and as soon as report is rendered or action obtained, you will be advised."

I have not been advised of anything more.

The Chairman: Is it your pleasure to take any action with reference to the topics on the program of the last meeting? You will recall that we recommended that the member banks be permitted hereafter, as was the case prior to the inauguration of the Federal Reserve system, to deduct national bank notes on hand from gross deposits in figuring their reserves, on the theory that it was a due from bank item and was just as eligible for deduction as would be a check on a bank in the same town. Is it your wish to renew that recommendation or revive the topic?

Governor Seay: Mr. Chairman, in reporting the recommendations to this conference--- and I presume there will be some--- I move that those remaining over unacted upon in the previous conference be included---

The Chairman: Governor Seay, that would be the case with every topic that we have discussed, except those that have been reported as subsequently disposed of. For instance, this matter of letters of credit has been dealt with, and the matter of transfer of gold for the credit of Federal Reserve Agents has been disposed of, and those would not be reported again.

Governor Seay: Precisely. Those which have not been acted upon by the Board. I had reference to that. My motion would cover that.

The Chairman: Governor Seay, there is a motion to the effect that we should renew the recommendations of the last conference as including the recommendation in regard to treatment of national bank notes in our reports subsequent to this meeting made to the Federal Reserve Board. Is that seconded?

Governor Fancher: I second it.

The Chairman: Is there any further discussion?

Governor Aiken: Would it not be more apt to get prompt action if it were made a matter of special inquiry?

The Chairman: It will appear in our report as a separate topic with a renewed recommendation.

Mr. Curtis: I have reported on that now.

The Chairman: Your motion would only cover the last?

Governor Seay: That would be practically all. I do not want the Federal Reserve Board to labor under the impression that after having passed a resolution of that character, after full discussion, we are willing to let it lapse. Does that complete the memorandum?

The Chairman: That completes the memorandum. Are you ready for the question on Governor Seay's motion?

(The question was called for and the motion was duly carried.)

The Chairman: That will complete the last report.

Governor Seay: With the exception of one item, Perhaps, if it has not been overlooked. There was one question which was for discussion by the Board verbally, I believe. At the last meeting a tentative resolution was

offered relating to communications between the Federal Reserve Board and the Federal Reserve Banks, and I believe it was then determined that instead of making it a subject of formal resolution the matter would be taken up and discussed with the Board, and I believe the onus was thrown upon our Chairman to introduce the discussion. I am curious and interested to know if a favorable opportunity offered itself to introduce that discussion, and, if so, if anything came from it?

The Chairman: It has been discussed, but I cannot make any report as to the attitude of the Board. I had a long talk with Dr. Miller about that. You will recall that it came up for discussion when he was at the meeting?

Governor Seay: I remember.

The Chairman: And Dr. Miller was to submit the views of the meeting to the Federal Reserve Board, and he was prepared to recommend that the form of communication sent to the Federal Reserve Agents should be such as to insure banks getting a copy and being promptly in a position to attend to whatever business was required. Dr. Miller went from Chicago directly to the Pacific Coast, and I have been in Washington only once since he returned, and I am sorry to say that I have not a final report on that matter.

Governor Seay, may it not be a good plan for us to put that down as Item 29, to discuss with Messrs. Warburg and Harding here?

Mr. Curtis: 28 and 29 have been added.

4. REPORTS OF EXECUTIVE COMMITTEE.

The Chairman: Governor McDougal, the next item on the program is "Reports of the Executive Committee", of which you are chairman.

Mr. Curtis: I just want to say that the word "Rhoads" opposite that item is an error of mine. It should have been your name, Governor McDougal. I do not know how Mr. Rhoads' name got in there.

Governor McDougal: With your permission I will reverse the order here a little and make a general report first, rather than adhere to the form of the topics as suggested here. I prepared my general report. It is not long. I will read it. It is as follows:

The Fourth Conference of Governors appointed a standing Executive Committee of six, viz: Governors Aiken, Strong, Rhoads, Fancher, Seay and McDougal, Chairman; three members to constitute a quorum. The Conference referred to this Committee the following matters:

1. Compensation for making purchases for other Federal Reserve Banks.
2. Purchase of Government bonds.
3. Inter-District Clearings.
4. The appointment of a sub-committee of Auditors and Accountants to consider the following subjects:
 - (a) Forms.
 - (b) Unit of cost.
 - (c) Daily transactions - records and reports.
 - (d) Analysis of Operating Expenses.

(e) Standard Form for Analysis of Expense and
Income.

The ~~above mentioned~~ matters have received attention
follows:

1. COMPENSATION FOR MAKING PURCHASES FOR OTHER
FEDERAL RESERVE BANKS.

As this subject is assigned a place on our program,
it will be passed for the moment.

2. PURCHASE OF GOVERNMENT BONDS.

In view of the ruling of the Federal Reserve Board
that bonds bought prior to December 23rd, 1915, will not
count in the allotment to Federal Reserve Banks under the
terms of Section 18 of the Federal Reserve Act, there is no
need to give further consideration to the action of the
Fourth Conference of Governors on this subject.

3. INTER-DISTRICT CLEARINGS.

This will be passed for the present, as it comes up
under Topic 7 on our program.

4. SUB-COMMITTEE OF AUDITORS AND ACCOUNTANTS.

A sub-committee was appointed and held its first meet-
ing July 26th to 28th, inclusive, at the Shoreham Hotel,
Washington, D. C., there being present representatives from
Boston, New York, Cleveland, Richmond, Chicago, Minnea-
polis and Dallas. Copies of the complete minutes of this
meeting have already been sent to each of the Federal
Reserve Banks and a condensed report made by the Secretary
was incorporated in the minutes of the Governors' Execu-
tive Committee meeting of August 10th and 11th, 1915.

I will refer briefly to the action of this Committee

on the subjects allotted to them by order of the Governors' Conference:

(a) FORMS.

Their specific recommendations on this subject are included in the minutes above mentioned. "It was the general sense of the meeting that the forms used in the transactions between the Federal Reserve Banks and between the Banks and the Federal Reserve Board should be uniform, but that the forms used for the internal work of each bank should be those which they considered best suited to their needs."

(b) UNIT OF COST.

It was recommended that the subject of establishment of Unit Cost for standard of comparison be deferred until more experience would help to determine a proper method of arriving at Unit Cost."

(c) DAILY TRANSACTIONS - Records and Reports.

A conference was held with Messrs. Broderick and Jacobson of the Federal Reserve Board, in the course of which a revision of Form 34 (Daily Statement) was considered; and the members of the Committee were enabled to get a better understanding of the reports required by the Federal Reserve Board.

(d) ANALYSIS OF OPERATING EXPENSES.

(e) STANDARD FORM OF ANALYSIS OF EXPENSES AND INCOME.

The Committee recommended a distribution of expense into a great many sub-divisions as detailed in the complete minutes of the Conference of Auditors and Accountants. In

view of the fact that the Federal Reserve Board now requires monthly reports of expenses distributed in a certain manner, no action has been taken toward carrying out the Committee's recommendation on this subject.

MEETING OF GOVERNORS' EXECUTIVE COMMITTEE, AUGUST
10th and 11th, 1915.

In accordance with the expressed wishes of a majority of the Executive Committee of Governors, a meeting of this Committee was called August 3rd, 1915, to be held at Governor Strong's office at 10:30 o'clock A. M., August 10th, 1915. While the meeting was called primarily to discuss the operations of the collection system, it was intended, if possible, to dispose of other matters referred to the Committee by the Fourth Conference of Governors.

Copies of the minutes of this meeting were mailed to the Governors of the several Federal Reserve Banks by the Federal Reserve Bank of New York on August 28th, 1915. These minutes, together with the foregoing, constitute my general report on matters handled by the Executive Committee up to that time, and I ask that a copy be filed with the official minutes of this Conference of Governors, although it is of course unnecessary to transmit to each of the Governors an additional copy with the minutes of this conference."

In a supplementary report the Chairman of the Committee stated that the committee appointed to correspond with the several Federal Reserve Banks with a view to securing uniformity in the forms used for rendering to member banks

daily statements of their transactions, had reported that the adoption of uniform means for this purpose seemed impracticable.

That is with reference to subject No. 2. In regard to subject No. 3, Mr. H. M. Jefferson, the Auditor of the Federal Reserve Bank of New York, appointed to investigate and report on cost of printing Federal Reserve notes, has reported on the progress made to date, and, moreover, that when the work is finished his report will be completed and rendered.

Subject 4. Reference is made to the Conference held at Washington on Thursday, October 16, 1915, by members of the Executive Committee with Hon. Carter Glass, but in view of a report having previously been made by letter to each of the Governors further reference to the matter is considered unnecessary.

The substance of it is that our committee went to Washington and we were informed at the outset by Governor Hamlin that this conference had been called at his suggestion and not at Mr. Glass'. The meeting was held soon after, and Mr. Glass, I noticed, prefaced his remarks by the statement that he wished it understood that this meeting was not called at his instance; that he was glad to meet with us, but in any event we went along with Mr. Glass, and I think made plain to him that there was some difficulty in the way of the development of a check collection plan that he had in mind, and he expressed himself as pleased with the opportunity of meeting with the committee,

and stated very plainly that he would like it understood that he had made no complaint regarding the progress that had been made, but that nevertheless he was interested in seeing progress made. I believe he said he was responsible for those provisions of the Act calling for that, and that the Act gave the Board full authority to go ahead and make a mandatory plan, if it saw fit. But nothing developed in this meeting except what I have written you, and I think it was a very satisfactory one.

Mr. Glass found that the undertaking was greater than he had before thought, and there were some obstacles in the way that he had never dreamed of.

That is about all, Mr. Chairman, that I have to report.

The Chairman: What action do you care to take in regard to the report submitted by Governor McDougal? Let me remind you, however, that we have been in the habit of making reports of this character a part of the record of the proceedings, so that it would be preserved and handy for reference. Do I understand, Governor McDougal, that this is in such shape that it may be handed to the stenographer to be incorporated in the record?

Governor McDougal: If you will permit me to say, Mr. Chairman, my general report is in proper form, but as to the other I will instruct the stenographer about what shall go in.

The Chairman: What is your pleasure about the report, gentlemen?

Governor Aiken: I move that it be received and incor-

porated in the record.

Governor Seay: I second the motion.

(The motion was thereupon duly carried.)

ITEM 5. REPORT OF COMMITTEE TO CONFER WITH FEDERAL RESERVE BOARD AND TREASURY DEPARTMENT ON FEDERAL RESERVE BANKS AS FISCAL AGENTS OF THE UNITED STATES.

The Chairman: Item 5 of the program is the report of the committee to confer with Federal Reserve Board and Treasury Department on Federal Reserve Banks as fiscal agents of the United States. I was appointed a member of that committee, it being understood that we would arrange to have a meeting, if possible, with officers of the Treasury Department and a member of the Federal Reserve Board. Vice Governor Delano was appointed by the Board to deal with that matter, and we had two meetings with Assistant Secretary of the Treasury Malburn, and we had a very extended discussion of the whole subject of the fiscal agency relations with the Federal Reserve Banks with the Treasury Department. I learned that Secretary McAdoo had given instructions to Assistant Secretary Malburn to make an examination of the subject and report to him at length the recommendations of the course of procedure to be dealt with.

Secretary Malburn informed us that he had studied the whole subject of the Government deposits with the National banks, and had made up his mind, as I recall the figures, that it was possible to reduce the number of special and regular depositaries from something like 1800 in number to about 300 in number, without seriously, if at all impairing

the service that was being rendered to the Government in handling the Government's accounts. He was prepared to recommend that the deposits with these twelve or fifteen hundred banks that were unnecessary be gradually withdrawn and that arrangements be made for opening government accounts with the reserve banks and by gradual stages turn over a considerable portion, probably the greater amount, of the Government's deposits which are now held by national banks, to the reserve banks. He felt that it would be inadvisable to extend the services of the reserve banks very materially at the outset. They should rather be inactive depositaries of the Government's funds because of the possible disturbance that would result in handling the accounts, on the one hand, of the disbursing officers of the Government, and, on the other hand, of those officials of the Government who now required depositaries that were accessible to custom houses and internal revenue department officers, and so on.

As I understand his statement, he had prepared, or would shortly prepare for submission to Secretary McAdoo a very complete report with recommendations of the course of procedure.

Subsequent to the meeting at which this conversation took place, and which was also attended by Vice Governor Delano, I have received from Washington a report made by a subcommittee of the Federal Reserve Board on this same subject. It is a long, elaborate report, suggesting that the Act contemplated that the Reserve Banks should act as

the fiscal agents of the Government, and that the Treasury system should gradually shift the business of the Government Departments to the Reserve Banks. That report has not resulted in any action by the Federal Reserve Board, and so far as we are concerned the matter seems to be blocked, or, at any rate, in a state of suspense on account of the failure to act on the report made by Secretary Malburn and the failure of the Federal Reserve Board to agree with the Secretary of the Treasury upon a course of procedure.

At our meeting with Secretary Malburn both Mr. Delano and I agreed in urging that the Treasury Department should not undertake a program for the transfer of business to the Reserve Banks without having substantially the whole program laid out in advance. We felt it was important that the Reserve Banks should know in advance just what duties they ultimately might be expected to perform for the Government. It affects us in a good many ways. One is the question of handling currency; another is the old subject of handling the enormous number of checks that are disbursed by the Government--- something like 25,000 every business day. The third was the question of the receipt of the income of the Government which is paid in through the Government's various fiscal officers in a great variety of different institutions and by different methods.

The more we went into the subject the more complicated it appeared to be and the more work seemed to be involved. We therefore urged Mr. Malburn to develop a program which would indicate to us where we would end in this business

without starting something that apparently would have no end at all. I think he is agreed now in the wisdom of the course and will not do more at the outset than to recommend the opening of probably inactive accounts with the Reserve Banks as regular Government depositories, an arrangement by which they would handle a very limited amount of the Government's checking and deposit business.

I believe it would be wise, if this report answers inquiries raised as the result of the last meeting, to take some action by which a committee to deal with this subject would be appointed to serve permanently, and that at every convenient opportunity we take the subject up for discussion in Washington and undertake to make some progress. As indicating the necessity for a definite program for the long future, this affects our banking accommodations in a very important way. Going back to the original theory of the Government's abandonment of the independent Treasury entirely, if we took over the functions of the Treasury Department, aside from the Bureau of Redemption, etc., we would have on our shoulders a tremendous amount of work requiring a large clerical force and large accommodations, probably, and facilities that none of us have, and we would have to specially employ men who are experienced in doing certain kinds of work.

I would like to see the subject handled in a regular and systematic way by a committee that would be prepared to keep the discussion going right along with the Department in Washington and finally develop a definite program.

Governor Seay: I move that the Committee appointed to confer with the Board be continued.

Governor Wold: I second the motion.

The Chairman: Would you feel disposed, Governor Seay, to provide for the enlargement of the committee by appointing another member so that when it might not be convenient for one of us to be there to push this matter along, the other one might attend?

Governor Seay: Entirely, sir, if, in your experience that is desirable.

The Chairman: I believe it would be a desirable thing to do. I will say two. Is it your suggestion that I should appoint another member of the committee, or do you wish to suggest someone?

Governor Seay: I suggest that the Chair associate with himself a member with whom he may find it to his convenience to confer.

Governor Aiken: I second the motion.

Governor Seay: It is a question of convenience very largely, I think, and he ought to be governed according to his convenience in the location, etc.

The Chairman: Then your motion is to continue the committee with the addition of one other member to be selected by the Chair, and the committee be requested to continue their work in the conference at Washington looking toward a development of the program in the matter of fiscal agency relations?

Governor Seay: I make that my motion, sir.

The Chairman: Is there any discussion on the motion?

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

The Chairman: It is now one o'clock, at which hour we have been in the habit of taking a recess for lunch. What is your wish about continuing?

Governor Van Zandt: I think we had better continue, Mr. Chairman.

6. REPORT OF COMMITTEE ON METHOD OF COMPUTING DIVIDENDS.

The Chairman: Let us take up Item No. 6, then, the report of Governor Seay, who was appointed a committee to investigate and report back on the subject of the method of computing dividends .

Governor Seay: I believe, Mr. Chairman, that the matter was left to the three southern banks, it being supposed that the question of dividends would be more imminent in them than in others, and I do not understand there was any chairmanship of the committee at all. If such is the case I am remiss in not having communicated with Mr. Van Zandt. I will endeavor to make such report as I have here.

The question involved, sir, is the manner in which dividends shall be calculated. We had reached the conclusion in Richmond that the most equitable thing to do would be to calculate interest on the capital payments made by the banks from the dates on which they were made, and, since we reached that conclusion we have received a communication from the Federal Reserve Board which may have been sent to all the banks and which was substantially to

that effect.

The Chairman: They did not authorize the calculation of a dividend on payments made as of the date prior to the date on which the payment was called, as I recall.

Governor Seay: No. The dividend should commence from November 2nd. The calculation should be based upon payment as of November 2nd, and of course any bank which had anticipated that would not be entitled to receive the advantage, but banks which had not promptly made it should have calculations made from the date of payment. So it resolves itself into an interest calculation which shall commence not prior to the second day of November and, in the case of banks which did not make them properly, from the date on which the payments were made. We had one bank prepare a stock ledger which would at the same time answer as a dividend calculation ledger, and I can give one of these to each of the members present.

The Chairman: I should be very glad to have a sample of that.

Governor Van Zandt: Why the second of November instead of the 16th?

Governor Seay: The early payments were called as of the second of November.

Governor Van Zandt: The charter was issued on the 16th?

Governor Seay: No; the charter was issued back in May, and we were an organization for certain purposes at that time. But the Federal Reserve Board thought it wise to make

it the second day of November. Consequently it is of that date, and it was felt we were entitled to receive interest from that date. The banks did not open until later and were not in a position to begin to earn dividends, but nevertheless it was thought wise by the Board, and equitable, to determine on November 2nd as the proper date. We had reached that conclusion and I believe now the Board has confirmed that, not due to any reference of the matter to them by us, but on application from some other institution; I do not know which it was.

Governor Van Zandt: We have asked and have not yet received a reply.

Governor Seay: Our bank received a reply and it was to that effect. We reached the conclusion that the banks would expect to receive interest at least from the time at which they parted with their money, and we believed that that was equitable. They were not to blame for the fact that the banks failed to issue it until 14 days later, and probably they were entitled to receive interest on the capital from the time they placed it in our hands.

That is the report I wish to make, that dividend calculations be based upon the payment of capital not prior to the second day of November, the date on which the capital was called by the Federal Reserve Board, but, in the case of each bank, to date from the date of its payment.

Governor McDougal: Mr. Chairman, we considered that matter, I think, very carefully, and concluded that the time to begin the calculation would be not prior to the date.

but on that date, and we had calculated the accrued dividends exactly in accordance with Governor Seay's plan.

The Chairman: You figure from the 16th instead of from the second of November?

Governor McDougal: Yes, believing that was the proper time to do it. We were not a going concern prior to that, and I am just speaking now of what we have done.

The Chairman: I thought all the reserve banks had received this ruling or this opinion of counsel for the Board, dated October 7. We received such an opinion in New York, as I recall. Possibly I saw this in Washington. This matter has been made the subject of an opinion by counsel for the Board, and I suppose that will be conclusive.

Governor Seay: I concluded that our bank, having received that information of other banks, had likewise received this---

Governor McDougal: I do not think we received that. I have not received it.

Governor Seay: It was partly upon our own initiative and upon that opinion that I am making this recommendation to the Conference.

Mr. Curtis: Did you take up at all, Mr. Seay, the question of calculation of dividends where surplus had been erroneously reported, where a bank was in temporary receivership, and things of that sort?

Governor Seay: No; not in detail. I felt that those things were a little bit too much in detail and that

the Reserve Bank itself would have to adjust that; that it was not a subject on which the Board might make a ruling or even involve giving an opinion.

The Chairman: Have you concluded your report, Governor Seay?

Governor Seay: Yes.

The Chairman: Governor McDougal, referring to your remarks on this subject, Governor Fancher has received a copy of the opinion of counsel for the Reserve Board dated October 7, which I find upon reading it over does not answer your point, nor does it completely answer the question as to what treatment should be made of payments of capital stock received before the 2nd day of November; and in connection with the action on the report of Governor Seay's Committee, it may be desirable to submit those questions to Washington if they have not been fully answered by a special ruling of the Federal Reserve Board.

Governor Seay: Could we have that read, Mr. Chairman? Is it long?

Governor Kains: Have we not the power in each individual bank to control after its own manner a question of that kind? Why should we want to refer that to the Board?

The Chairman: I should think it would be a question of interpretation of the statute; and if we happen to have twelve different interpretations of the statute we might have a little mix-up. It is a case where uniformity would be highly desirable.

Governor Kains: Yes; I admit the desirability.

Mr. Foote: Mr. Kains, the Government has an interest in the question of the revenues. Would it not naturally want to participate in a decision of the date on which interest should be calculated?

Governor Kains: I do not know what interest the Government has in dividends to the member banks.

Mr. Foote: The Government gets everything over a certain amount.

Governor Kains: Oh, yes.

The Chairman: I will read this memorandum, Governor Kains. This bears on the matter, and is as follows:

"This office has been requested to give an opinion on the question of whether dividends payable under Section 7 of the Federal Reserve Act accrue from the date of payment by the member banks or from the date the several Federal Reserve Banks were opened for business.

"Section 7 provides in part as follows:

"'After all necessary expenses of a Federal Reserve bank have been paid or provided for, the stockholders shall be entitled to receive annual dividend of six per centum on the paid in capital stock, which dividend shall be cumulative.'

"Under the provisions of Section 4 a Federal Reserve Bank becomes a body corporate and is vested with the powers enumerated therein upon filing of an organization certificate with the Comptroller of the Currency, but under the terms of this Section

"No Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act."

"The collection of stock subscriptions is clearly 'incidental and necessarily preliminary to its organization' and payments were accordingly made by the subscribing member banks before such banks were authorized to begin the business of banking. The subscriptions paid to the bank, therefore, constituted from the date of payment the paid-in capital stock of such bank and under the provisions of Section 7, above quoted, the member banks are entitled to receive an annual dividend of six per centum on this paid-in capital stock.

"As these dividends are cumulative, and as the amount is definitely fixed by statutes at six per centum, it would seem clear that they should begin to accrue from the date of actual payment, and in the opinion of this office each member bank should, at the end of the first year, be credited with dividends amounting to six per centum from the date of the actual payment of stock subscriptions - such amounts to be paid when the earnings of such banks are sufficient to defray all necessary expenses and to take care of such accrued dividends."

You can see that that does not fix the date as accurately as it should be fixed, because many banks made capital stock payments prior to November 2nd, but it is apparently

held that the date from which the dividends should be calculated is the date when the payment was made rather than the date when the bank opened for business or was authorized to commence business.

Governor Seay: I discussed that in our bank, and we reached the opinion that if banks elected to pay prior to November 2nd, that it was their affair; that they were not required to pay it in until that date, and at least the Federal Reserve Banks should not be liable for it prior to that date. We believe that to be a just position and a sound one.

Governor McDougal: Your calculations, then, Governor Seay, begin as of November 2nd?

Governor Seay: Yes sir; as to those banks which made their payments on that date.

Governor McDougal: Or before.

Governor Seay: Or before; interest running from November 2nd.

The Chairman: What does the meeting wish to do in the way of a report or a recommendation to the Reserve Board? I assume that you are willing to receive and make the committee's report part of our records, but do you wish in addition to that to ask for any further or clearer ruling from the Board in the matter of calculating dividends on capital stock? This opinion does not refer to the date from which the calculation should be made where the payment has been made prior to November 2nd.

Governor Kains: If we all agree with Governor Seay

to date from November 2nd, or, in fact, all the little particulars about it, whether to calculate 300 or 365, and whether the second installment shall be from February 2nd, and all of that, that will go, will it not?

The Chairman: I think it undoubtedly will.

Governor Kains: We might just as well do that.

The Chairman: May I suggest, in order to get this record rounded up, that this committee be asked to prepare a memorandum embodying their recommendations, which can be made a part of this record and a copy sent to each of the twelve banks, and then possibly there will be no occasion to take the matter up for further ruling by the Reserve Board. We would have a uniform method provided each bank approved of the method reported by this committee. Will someone offer that as a motion, or some other motion that will answer the purpose?

Mr. Foote: I offer that as a motion, sir.

Governor Seay: Mr. Chairman, it will be understood that the general idea, in view of the report that has been made here, will govern that committee in making the report, and that we accept for our guidance the opinion rendered by the counsel of the Federal Reserve Board.

(The motion was duly seconded and carried.)

(Whereupon, at 1:25 o'clock p. m., the Conference took a recess until 2:30 o'clock p. m.)

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

The Conference reassembled at 3 o'clock p. m.

The Chairman: The meeting will come to order. The next subject is No. 13, the next item to be taken up after passing those items that are temporarily reserved for discussion while Messrs. Warburg and Harding are here.

13. COST OF RETURNING FEDERAL RESERVE NOTES TO BANK OF ISSUE.

The Chairman: Will you open the discussion, Governor Rhoads?

Governor Rhoads: This matter has been discussed informally a number of times, and I merely hoped we could arrive at a uniform practice and settle it.

The Chairman: This matter has been submitted for discussion by the Federal Reserve Board also, and I think if we could make any progress on it they would appreciate it very much.

Governor Rhoads: You do not think we had better leave it?

The Chairman: I do not think we had better pass it if we can make any progress at all towards a settlement of the matter through discussing it.

Governor Rhoads: Would it help to make a motion: That the cost of returning notes be borne by the issuing bank?

The Chairman: I think that would bring out considerable discussion.

Governor Aiken: I will second that motion.

The Chairman: Is there any discussion on this motion, gentlemen?

Governor Van Zandt: I am very much opposed to the motion as offered. I think that these notes are receivable under the law at the counter of the bank or at the office of the Treasurer of the United States in Washington, and to make a Federal Reserve Bank that issues those notes go out into the highways and by-ways and pay the cost of the transporting of those notes back to the place of issue, is something that is not contemplated but is in direct opposition to the intent of the law.

Governor McDougal: I think Governor Van Zandt is quite right. I think the expense will have to be borne by the banks that return them to the issuing bank.

The Chairman: It is something like those gold coins that are shy of weight out in San Francisco. They pass them along from one to another, and the last bank gets stuck.

Governor Rhoads: I submit that the issuing bank presumably gets the benefit of the use or credit by the issuing of the notes, and they should therefore bear the expense.

Governor Wold: That word "presumably" is good, Governor Rhoads.

Governor Rhoads: It does not want to lose that benefit.

Governor Wold: But notes we are putting out are not of any particular benefit to us, except in anticipation of

something that may occur in the future, when our banks will want credit and not want currency. It is a matter of issuing Federal Reserve notes against gold with us, chiefly, and there is no profit in it at all. There is a considerable expense connected with it--- express charges and so forth. But, as a matter of insurance against the future, we have thought it wise to put out a number of those notes and get in the gold.

Governor Kains: We feel that the cost should be borne by the people sending the notes in.

The Chairman: The statute is so specific, that it looks to me as though it would be a voluntary payment by the redeeming bank, the bank that issues the notes, that possibly would be open to objection. The statute reads that the note shall be redeemed in gold on demand at the Treasury of the United States in the City of Washington, District of Columbia, or in gold or lawful money at any Federal Reserve Bank. Then it provides later on that no Federal Reserve Bank can pay out these notes of other Federal Reserve Banks when once they have received them, except subject to a severe penalty. In other words, they are forced to redeem them at the place where they are payable.

Governor Seay: They are also forced to receive them on deposit.

Governor Rhoads: Any reserve bank is forced to pay them in gold or lawful money.

Governor Wold: But they get the gold back.

The Chairman: Certainly they get the gold back.

Governor Aiken: They are forced to pay for them, but are estopped from using them.

Governor Wold: Strange as it may seem some of our notes have been floating eastward. It would be the natural thing for them to go west. They float east and are finally redeemed at Chicago, and how they do that is beyond my comprehension. The Chicago bank gets more than all the other banks put together.

Governor Aiken: In some way or other quite a large amount of new Federal Reserve notes from one of the small western banks turned up in Boston. There were quite a number of them that came in that way. I never knew the transaction by which they got there, but there was a big block of those notes. It is a great burden to the banks to get those notes shipped. We have to pay out gold against them, that is, advance it, for the benefit of the issuing bank.

The Chairman: Mr. Hoxton, what is your view of this matter?

Mr. Hoxton: I feel, Mr. Chairman, that the bank of issue should stand the cost.

The other day I had our auditor figure out that matter for me, and I found that we were sending out for redemption far more notes than are coming back to us; in fact, the exact proportion is thirty to one. Some time ago I initialed a package of Federal Reserve notes, just as it came from the bank of issue, which was one of our state

banks. I have initialed that package of notes three times in the original package. Each time I have put out the gold for it and paid the cost. That bank, which is in the south, has issued that package of notes to a bank in its own city; that bank has sent the notes to a correspondent in St. Louis; the correspondent brought it to us in the original wrapper and demanded gold. We sent it back to the Federal Reserve bank and paid the cost. This happened three times after I had marked the notes. How many times it happened before I put my initials on the package I have no way of knowing. But I do feel that the bank of issue ought to stand the cost.

Governor Seay: How many notes have you issued in Chicago, Governor McDougal?

Governor McDougal: Between two and three million.

Governor Seay: Richmond has perhaps issued the largest amount next to New York. We have about thirteen million. They have been put out legitimately. That is to say they were not turned over to one bank for shipment to another bank, to come back three times in that way. These notes have been issued in response to a legitimate demand, so far as we know. We have furnished some of them for railroad payrolls. They have been scattered far and wide. I imagine there are quite a good many of them in the Treasury Department now. Being one of the banks that has issued the largest amount, it seems to us that it is a question of a little more than the law. I believe if we were to follow out the exact verbiage of the

law that unquestionably the bank forwarding the notes for redemption would have to pay the cost. It is a question of what would be equitable under all the circumstances, and that is always a hard question to determine.

Governor Wold: We have worked the pump as Governor Strong has used the term, a great many different ways, legitimate ways, such as the moving of crops and so forth by the country bank, and a great deal of it goes out every day.

Governor Seay: What I meant was that they were not issued to the bank en bloc for the purpose of enabling the shipper to make an exchange. I think any process by which we get them out is legitimate and legal, so far as that is concerned. We have done some pumping as well as anybody else.

The Chairman: How many have you out, Governor Wold?

Governor Wold: We have out ten million. We have asked our banks not to ship Federal Reserve notes of the ninth district out of the district. We have asked them to ship them to banks that would bring them to us and not send them out.

Governor Seay: It seems to me that the bank that does use them gets the benefit of the gold for future use, and I am inclined to believe that it is more equitable for the bank of issue to bear the burden.

The Chairman: Governor Kains, what is your view with regard to this matter?

Governor Kains: I said I believe the place sending

the bank of issue the notes should pay the expense.

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

Mr. Hoxton: If you will pardon me, I would like to ask who pays the expense in connection with the redemption of national bank notes?

The Chairman: The bank that sends them for redemption, and that is true of all other forms of currency in circulation in the United States.

Mr. Hoxton: The issuing bank does not stand it?

The Chairman: No.

Governor Seay: There is this difference with regard to Federal Reserve Bank notes: We cannot pay them out again. That is rather a unique situation.

The Chairman: At this stage of the development of our note issue we are performing, at heavy expense to ourselves, what is in fact a public service. We are gradually getting the gold where it belongs, in the control of the Federal Reserve Banks, by a process that is pretty expensive. I think the expense that we incur now in connection with the note issue amounts to \$15,000 a month in New York. It certainly averages \$12,000 or more, I think, including the cost of the notes in the first instance. A comparatively small percentage of them are coming in for redemption. Of course as the volume increases the liability for the expense of redemption, if it were thrown on the bank of issue, could not help but operate as a restraint upon the issuing bank against the continuance of a very

desirable operation. I am somewhat uncertain in my own mind as to whether the hardship on the one hand is not offset by the advantage to the whole system on the other hand. I believe it would be found on inquiry that the redemption expense would be fairly apportioned among the banks if the reserve banks were all of them doing what I believe is their duty in facilitating this process of getting out the notes. To what extent the expense involved has acted as a restraint upon the reserve banks in issuing their notes, I have no means of judging. But there is a great inequality in the volume issued by the different banks. We have nearly \$65,000,000 outstanding now in New York; Richmond has \$15,000,000; Minneapolis \$10,000,000; Chicago only \$2,000,000; Cleveland about \$8,000,000---

Governor Aiken: We have five million in Boston.

Governor Van Zandt: We have \$15,300,000 in Dallas.

The Chairman: If the note issue was substantially ratable among the different reserve banks it is fair to assume that the redemption would work out ratably among them. We, for instance, would get more notes for redemption than probably any other bank, possibly as much as the rest of them put together, at certain times of the year in New York. On the other hand the expense of redemption to the other eleven banks of our notes, which are the largest in volume and in circulation, would be divided up amongst the eleven banks. I think it would work out ratably if all the banks were issuing their notes in fairly ratable proportion. We have a very large send-out of these notes.

I was amazed when I came to look at the figures not long ago to find out the amount we had sent out. About every third day we send shipments of notes to five, six, seven, eight or even ten of the other Federal Reserve Banks. We have averaged twice a week on that, I think, and sometimes it happened two or three days in succession. I do not believe it is going to affect the expense of the reserve banks to any very great extent, except those banks--- and I do not want to be personal about this, gentlemen--- which are inclined now to economize in connection with note issues, because of the considerable expense. The way they can get back at us is by speeding up their own issue.

Governor Rhoads: I would like to say that we have not been deterred by that sort of expense. We have put out all the notes that our market would take. I would not want it to degenerate into a contest to see which bank could flood the market with the most notes, in order to protect itself against expense.

The Chairman: I do not believe it would work out that way. How can you flood the market with notes when you are simply giving a one hundred dollar note for one hundred dollars in gold, any more than the United States Government can flood the country with gold certificates. It is simply the conversion of one form of circulating paper into another. It has the important effect of getting the gold together. Just since this process started in the month of January, when it really started, the reserve banks have tucked away \$135,000,000 in gold; and

according to the last figures that I saw the reserve banks, including the gold held by the reserve agents, held a total of \$428,000,000 in gold. There is an object to be served there that far outweighs any disadvantage to one bank or another bank who, for the time being, may feel themselves under some little expense in redeeming the notes of those banks that have been able to get a large issue out.

Governor Van Zandt: In our district we have no sub-treasury. Our banks at this time of the year are needing worlds of currency to move the cotton crop. They will wire in for us to ship currency and we have got to ship them Federal Reserve notes or nothing. They want their money right now, and that is the way our issue has gotten so large. We have one bank that we shipped a million and a half dollars of currency to already this season.

The Chairman: That is a perfectly legitimate operation and ought to be promoted.

Governor Wold: I feel very much as you do with regard to getting out these notes. We believe it is wise to accumulate this gold and put out the Federal Reserve notes against it, even though it is done at an initial expense to us. If we work from the dollar and cents standpoint and not put them out because of expense, the banks^{to} which we are furnishing these notes can get the currency elsewhere.

Governor Fancher: I would like to say, in speaking

for one of the banks that are making comparatively low earnings that we have not in any way held back in the issuing of our notes. We have paid them out wherever there has been a demand for currency. I presume we have saved our member banks at Cleveland a good many dollars in the matter of charges for the in-shipment of currency. We supply payroll currency very liberally, not only to Cleveland, but to our member banks in Pittsburgh and in Cincinnati. We have not curtailed them in any instance; we have paid them freely whenever called for. We have gone further than that. Sometime ago I arranged with our state banks whereby we exchanged our notes for their gold certificates and gold. The operation is then continued. They have their maturities redeemed, and if they get gold certificates of fairly large denominations, we can exchange our Federal Reserve notes of smaller denominations for their matured notes. We are supplying a number of our banks with their currency in that way.

In connection with what I have said as to the policy of the banks, I think it might be worth while to review the discussion that preceded the adoption of this policy and its approval in Washington. The so-called pump that enabled us to get the notes out in large volumes subjected us to considerable criticism in Washington. Some of the members of the Board held the view that we were in fact violating the law in respect to making substitutions by the process that we are now employing; that it resulted in locking up a lot of gold that ought to be

free in the hands of the banks, and so on. Then one or two members of the board advanced the theory that this was a process of inflation. It is not, as a matter of fact. It is a process of contraction rather than of inflation. After some discussion and further thought they have gradually come to the idea that this is a very desirable operation and that the Reserve Banks should be permitted to do it. It seems to me the feeling, as expressed by Governor Kains and Governor Rhoads, that it is a hardship on some of the banks to pay the cost of redemption, brings us to this proposition, as I view it: That the banks that are willing and able to bear the expense of a very considerable note issue at this time appear to be subjecting other banks to considerable expense in redeeming those notes as they come in.

First, what does the law mean as to expense of redemption? What does the law intend? Second, if the law is ambiguous and permits of two interpretations, what is the fair thing to do in regard to this question? Is not that the way to look at it? We certainly must not stop this process of accumulating gold. We have adopted that process, and I think we are all in absolute agreement that it is the desirable thing to do; but we must consider these two points: What does the law mean as to the redemption? And if the law does not decide that question, what is the fair thing to do?

Governor Seay: Ordinarily, when the demand for currency grows less these reserve notes would be shipped to

you, or rather shipped to New York, and it would impose upon you the expense of sending them to us. To the extent now that drafts on Federal Reserve Banks can be converted into New York exchange at par, I think to that extent the notes could be sent to the Federal Reserve Banks nearest to the point of issue. That would be a haphazard way of distributing the expenses of the redemption of the notes. There is one certain and sure way and that is to have the expense bear the same proportion to the volume of issue. That would fix the expense on the bank of issue.

Governor Van Zandt: Do you take into consideration the fact that the Federal Reserve Bank has to pay for the shipment of these notes to the bank of issue before they have ever been issued?

Governor Seay: To what bank?

Governor Van Zandt: The issuing bank, from Washington?

Governor Seay: Yes, they have to do that, of course; but that is a disadvantage of location which should not be imposed on another bank.

Governor Fancher: Could we not defer this topic until the next meeting of the Board? In the meantime each bank could prepare a statement of expense that they have been put to, showing the proportion of notes sent in for redemption and the amount which they have outstanding, and we can see then if we cannot determine just where this burden rests. We can all make a transcript

from our records and bring here with us a statement of the expense to each bank.

The Chairman: Governor McDougal, what views are held in your bank on this subject?

Governor McDougal: I do not think this question has been discussed by our board at all, but the matter of issuing reserve notes was discussed a long time ago and the decision was reached that there would be no advantage in putting these notes out unless we had a demand which would make it necessary, and we have, therefore, not issued any, except a few, and we have only put them out when they have been especially called for. On the contrary we had accumulated, some time ago, a large amount of silver and legal certificates, and have used those freely. It seems to me that as each of the banks are obliged to redeem these notes as they are presented, they are also obliged to send them back to the issuing bank. The issuing bank does not invite us to do that. They would not care if we didn't do it. They would rather we did not do it. I have been of the opinion that we probably would expect them to pay the charge.

The Chairman: You mean the issuing bank?

Governor McDougal: No, the bank that is sending them.

I do not think it is clear in the minds of most of our board, Mr. Chairman, as to the theory on which you are accumulating the gold as you are accumulating it. I can see how it might be important to know where all that

gold is, but I do not understand what the object is.

The Chairman: There is a very important object. Suppose we had to meet an emergency, a sudden demand, such as arose last August, for discounting, when in one day we got \$65,000,000 of paper discounted at the bank. We were in a position to return \$65,000,000 of commercial paper to the Federal Reserve Agent and take \$65,000,000 of gold and put it in our general reserve---

Governor McDougal: (Interposing) Can you get that gold back directly?

The Chairman: I think we can. That question has never been absolutely and finally disposed of and is on the program for discussion at this meeting.

Governor McDougal: I will say that the matter of expense has never been discussed in our board, as I remember. Of course we know there is an expense involved in issuing the notes, but the policy that we have been following was adopted simply for the reason that, until the time arose necessary to use that kind of currency no advantage would accrue from doing so.

The Chairman: That makes your note issue an emergency issue.

Governor McDougal: Yes.

The Chairman: I do not think that is the intention of the law, although, like a good many other things, the intention of the law is not as clearly disclosed by the text of the law as we would like to have it. But when we get all of the Government bonds in our possession and

have all of the Federal Reserve Bank notes in circulation against those bonds, and ultimately enlarge our note issues very much, the question of note issues by Federal Reserve Banks is going to be an immense problem, a great economic problem in the currency system of the country.

I think we have all agreed in our bank that the foundation for the strength of the bank in its note issues will be to convert them, as the law really permits, we believe, into a real note issue backed by a real gold basis, and the emergency circulation when required will simply be a layer, a superimposed issue secured by commercial paper on top of a very large issue secured almost entirely by gold or by Government bonds, in the case of the Federal Reserve Bank notes.

Governor Seay: It would take a very small volume of notes, based on commercial paper, to lend elasticity to the whole.

The Chairman: Yes; I frankly believe that a note issue which is to be the fundamental note issue of a country, as this is ultimately designed to be, secured simply by commercial paper, is the rankest kind of inflation, particularly if they are permitted to serve as reserves. If it is based primarily upon gold it is not inflation; it is legitimate expansion to the extent that commercial paper is used to extend that issue, particularly in time of heavy demand for accommodation---

Mr. Hoxton: (Interrupting) If you will pardon me, I would like to ask this question, and I ask it simply for

information. If these Federal Reserve notes are payable and redeemable in gold, they must be redeemed in gold at some future time. What is the difference? They are gold. I look upon them, where we are issuing them dollar for dollar, as nothing but gold. They must be redeemed in gold, and how are you conserving the gold except for a short period of time. I am not taking a contrary view, but merely want to have an expression made. I do not understand it.

The Chairman: It seems to me that we have got to consider that the currency of the country serves three different purposes in its use. One refers to the fairly fixed amount that is in general circulation in the people's pockets and tills, and so forth. The other division is that which serves as reserves for national banks. Now we have created what you might call a third purpose, and that is an issue to meet a sudden demand for expansion-- call it a fiduciary issue--- which we expect will come in for redemption very promptly when the demand is over. Now, the process that is taking place at present in the issue of these notes for gold does not affect the bank reserve, that is, the money held by the national and state banks. It affects the substitution of so many federal reserve bank notes in the pockets of everybody who carries currency, for so much gold or gold certificates. It would practically constitute a permanent addition to the gold reserve of the banks. There will be a certain fixed volume of Federal Reserve notes in circulation. It will

vary moderately, but it will consist of a certain proportion always of Federal Reserve notes as long as we have all kinds of currency in circulation. It will be regulated more by the manipulation of the denomination of notes than by anything else. We could count on possibly \$100,000,000 in notes in circulation in place of the small denomination gold certificates.

Mr. Hoxton: We have issued about \$5,000,000 worth of notes, and I should say that 90 per cent of that has been issued to banks in St. Louis that have probably used them for shipping purposes. Neither the national banks or state banks in St. Louis can count Federal Reserve notes in their ^{reserve,} and when they come back they will be brought to us immediately for redemption by either the national or state institutions.

The Chairman: Or they can be paid out again.

Mr. Hoxton: They won't be paid out again, because there won't be the need for it.

The Chairman: We have in circulation \$800,000,000 national bank notes that do not count as reserves.

Mr. Hoxton: They count as reserves in the state institutions.

The Chairman: Yes, but the real circulation of national bank notes is for payroll purposes, pocket money, till money, and so forth. There is a certain amount always on hand in national banks in process of redemption, a certain amount in reserve at the state banks, but the great bulk of them are in circulation in the pockets of

the people. That same thing will remain true of Federal Reserve Bank notes until the issue reaches the point where no more are going out, and they will then come back in for redemption. I do not think the fact that they do not count as reserves will drive them in for redemption, as if they had been issued temporarily, just to meet an emergency. I think it is simply the exchange of one form of currency for another, and I think they will stay on in circulation until they wear out.

Governor Seay: It is true that from year to year, as the population increases the volume of business increases, with a proportionate increase in circulation. During the past few years the circulation has increased at the rate of \$85,000,000 to \$100,000,000 a year.

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

The Chairman: There is another very important reason for taking advantage of the present situation when gold circulates so freely. The day is coming, we do not know when, when it will become necessary for foreign banks generally to restore their gold reserves which are now vastly depleted on account of the expansion of their liabilities, their note circulation and deposit liabilities both. When the time comes to restore this gold reserve there is only one market in the world where they can get the gold, and that is the market in this country. We have got to be prepared for it. We certainly are not going to be in a position to fortify the position of our

banks in this country if we leave six or eight hundred million dollars of gold floating where it will not be available to effect that readjustment which is going to take place after the war is over just as sure as there is going to be a readjustment of reserves; and that we have got to meet it. That is the purpose of getting the gold in behind the note issues now and I regard that as the most important insurance we can effect against the consequences of the war.

Governor Wold: Is there not still one other point? Have we not experienced times when the banks did not want a circulating medium. What they wanted was credit. The capacity of many of these banks to extend credit is based upon the reserves alone. If you haven't any notes out or your member banks did not want notes, you would have to loan them gold. By that process we can reverse the pump,--- and I think we can do it--- and get the gold back from the Federal Reserve Agents.

Governor Kains: Is there any doubt about that?

Governor Wold: I do not think there is. Governor Strong raised the question.

The Chairman: Mr. Curtis and I have not discussed this matter recently, but I know that the view advanced by one of the members of the board, in a discussion of this matter, that we might have difficulty in getting the gold back.

I do not know whether you were there when that came up or not.

Governor Van Zandt: Do you mean getting it back from the Federal Reserve Agents?

The Chairman: Yes; except by a process of redemption at Washington.

Mr. Curtis: It seems to me to be very plain, under section 16.

"The Federal Reserve Agent shall hold such gold, gold certificates or lawful money available exclusively for exchange for the outstanding Federal Reserve notes, when offered by the reserve bank of which he is a director. Upon request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve Agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of these notes."

If we reverse the pump, taking the commercial paper that comes in in time of stress, and you get out notes against it, those notes go back to the Reserve Agent and he has got to give you gold. That is what he is holding the gold for. He has the paper and reserve notes and you have the gold.

Governor Seay: Then two and two do not make four if you can do it one way and not the other.

Mr. Curtis: If the pump is good one way it is good for the reverse way.

Governor Kains: Our Federal Reserve Agent transferred the gold to his credit the other day, in Washington. I was talking to Governor Wold about it and he thought it

was a mistake to have allowed him to do it, if I could have prevented him from doing it.

Governor Wold: Your condition was a little different from ours.

Mr. Curtis: It is still under his control. He is bound to hold it for this very purpose, under the statute.

Governor Wold: The difference between San Francisco and Minneapolis is this. When we want gold it involves a shipment to Washington and a reshipment back to us. In San Francisco they have a sub-treasury and when the Federal Reserve Bank in San Francisco wants gold all they have to do is to go across the street and get it.

Governor Aiken: Yes; San Francisco gets a transfer that you could not have made here.

But, gentlemen, we have jumped from No. 13 to No. 11-(h), which is a topic to be reserved for discussion when the committee from the Federal Reserve Board is here.

This matter is before the meeting in the form of a motion by Governor Aiken, which motion I think was seconded by Governor Rhoads.

Governor Aiken: The motion was made by Governor Rhoads and I seconded it. I would like to withdraw my second to that motion. The magnitude of this problem has been laid before me in such a graphic way that it seems to me that the cost of the redemption of these notes is a very small matter, and I publicly repent. (Laughter)

Governor Rhoads: I had a thought in mind that a great deal more was being made out of this than I had thought; but as the Federal Reserve Board have put their

name opposite this matter I was wondering if it would be proper to ask Mr. Warburg or Mr. Harding something about it. I know that they have considered it because I have spoken to them about it.

The Chairman: They are very anxious to discuss it. I think that when I report these various items verbally, as I probably will, when they come, that they will ask for the result of the discussion of this matter. If you prefer, as I understand you have indicated you might, to defer discussion until they get here, we can of course do that.

Governor Rhoads: With the understanding that not too much time will be given to it.

The Chairman: I really feel that this is a very important matter, that is, getting the gold together, and I would like to have a private session with Mr. McDougal, if possible, before we get away. It has been taken up in a very serious way in Washington, not only by the board, but by the Secretary of the Treasury. He fully understands the situation and has decided to cooperate, in certain measures that the Department can take, towards facilitating this process. I believe the Government is keenly alive to the fact that we have got to get busy and get the gold together as rapidly as possible during a time when gold is not at a premium here, as it is abroad, and thereby get in shape to meet the demands that will have to be met later.

Governor Seay: I think we ought to go further than that. We ought to invoke the aid of our member banks from

one end of this country to the other.

The Chairman: We have also discussed that view of it. It works automatically if all the things that can be done are undertaken. It really comes down to this: We have now four different forms of paper money, national notes, silver certificates, national bank notes and gold certificates. I am leaving out of consideration the Federal Reserve notes. If the denomination of gold certificates is gradually increased; that is, if they discontinue the issuing of ten and twenty dollar certificates, and possibly later the fifty dollar gold certificates, and then the denominations of United States notes and silver certificates are kept at a minimum--- that is, one, two and five dollar bills, which are always in demand for circulation--- and if the shortage created by discontinuing the issuance of ten twenty and fifty dollar gold certificates is supplied by the issuance of Federal Reserve notes, it will be found that the United States notes and the silver certificates will gradually drift out of bank reserves into general circulation and that the gold which was in circulation in ten and twenty dollar notes, no longer being available because the issue has been discontinued and only large bills issued, will all find its way into bank reserves, not only Federal Reserve banks, behind their notes, but in the reserves of all the member banks and state banks. The problem with which the member banks will then be confronted will be how to get small notes for circulation. This country absorbs a tremendous

volume. They cannot make the one and two dollar notes fast enough to supply the demand. To an extent we can supply them with five, ten and twenty dollar notes and take the gold, because it is all the banks have to give us. To show you how that works out in New York: Some of the larger banks -- notably the National City Bank -- have sorted their reserve money, and for some time have had nothing but gold in their reserves. They have had very large calls made upon them to ship currency, and they do not want to let the gold go. In one instance they brought out \$14,000,000 in silver certificates, at one clip, and asked us to give them Federal Reserve notes. They recognize very clearly the advantage to us of getting those gold certificates. I believe that when the whole operation is worked out scientifically and the Treasury Department and the reserve banks are cooperating, that the effect will be to put all of the banks upon a gold reserve basis rather than gold, plus a large amount of United States notes and silver certificates. Just now nothing better than that could happen. Of course the national bank notes would have to take care of themselves through this gradual process of redemption, when we take over the two per cent bonds. I did not mean to make a long discourse on the subject. We feel very strongly about it in New York, and I would not want to see the cost of redemption interfere in any way with the continuation of this work.

Governor Van Zandt: Mr. Chairman, as Governor Rhoads' motion did not receive a second, I move you it is the sense of this Conference that the cost of returning

Federal Reserve bank notes to the bank of issue should be borne by the sending bank.

Governor Kains: I second that motion.

The Chairman: Is there any further discussion of this matter?

Governor Seay: As I substitute I move that the matter be deferred for further experience. Of course the present practice would prevail in the meantime.

The Chairman: Your substitute motion in effect is that you amend Governor Van Zandt's motion by providing that the cost of redemption should be borne by the sending bank for the present at least, or until experience determines that some other course is justified?

Governor Seay: I simply desire not to commit ourselves to the opinion that that is the permanent basis on which it should equitable be settled.

Governor Aiken: Would it not be better to defer the whole matter until we hear the opinion of the Federal Reserve Board on it.

Governor Seay: Do you mean at this discussion?

Governor Aiken: At this discussion; yes.

The Chairman: Is that motion of Governor Seay seconded? I did not hear one.

Governor Seay: I did not hear one either, Mr. Chairman.

The Chairman: It will be necessary for me to put Governor Van Zandt's motion.

Governor Rhoads: If by seconding Governor Van Zandt's motion I can defer final action on this matter, I

would like to do that.

The Chairman: The substitute motion is simply on the program for action after the motion that has the right of way is disposed of. We have to vote upon the amendment first. If the proposed of the motion and his second both accept the amendment, then we can vote on the amendment and the motion at the same time.

Governor Seay: It was so antagonistic to the motion that I did not think it could properly be placed thereon as an amendment.

Mr. Foote: Would you not have to vote on the substitute first, Governor Strong?

The Chairman: I do not think so. Mr. Secretary, is not that simply a---

Mr. Curtis: I really do not know the answer. I was under the impression that you voted on all amendments first.

Mr. Hoxton: Governor Van Zandt's motion definitely commits this body, does it not?

The Chairman: Yes, it does; and that is the reason I suggested that Governor Seay might be able to persuade somebody to accept his motion as a substitute, which would have the effect of continuing the process of having the sending bank pay the cost of redemption, for the time being.

Mr. Hoxton: We are doing that now.

The Chairman: Yes.

Mr. Hoxton: Why is it necessary to make any motion

at all?

Governor Van Zandt: Why would it not be an answer to both questions to add to my motion the words "until experience has shown the practice to be incorrect?"

Mr. Hoxton: Then suppose the Federal Reserve Board should rule definitely to the contrary, before we have had the experience?

Governor Van Zandt: Of course whatever they say goes. This was just to show the sense of the meeting.

Mr. Foote: We have been in this work a year now and it seems to me we ought to be able to express ourselves decisively. I fully agree with the sentiment expressed by Governor Strong, which is to the effect that mobilization of the gold reserve of this country is of the first importance. I do not think we ought to make any uncertain sounds on the question. I think we ought to take a position--- I think we ought to speed the mobilization of the gold reserve with all possible rapidity.

The Chairman: It hardly seems to me that the topic we are discussing justifies a record being made on that particular point, Mr. Foote. The real question on our program for discussion is who shall bear the expense of redemption.

Mr. Foote: I was just looking towards the effect.

The Chairman: That will come up under Item 11-(h), "Reversing the pump", which was what I had hoped the meeting would discuss; and the reason I put it on was to bring out discussion and get some positive statement of

the position of the members of this conference as to the accumulation of gold; to have an understanding of this process of reversing the pump and removing any doubt from the minds of the officers of the banks that there would be any difficulty of any kind in getting possession of the gold to augment our reserves.

I am going to suggest that Governor Van Zandt and Governor Seay act as a committee to frame a motion that they will offer jointly, if possible, to meet the situation. In the meantime we will go ahead with our program.

Governor Van Zandt: I would be willing to add the word "present" before the word "sense"--- "that it is the present sense of this Conference that the cost of returning Federal Reserve notes to the bank of issue should be borne by the issuing bank."

The Chairman: I will have to put Governor Van Zandt's motion, which was seconded?

Governor Van Zandt: I will submit my original motion.

The Chairman: Which was that it is the sense of this meeting that the expense of redeeming Federal Reserve notes should be borne by the sending bank without qualification. That motion was seconded.

Governor Seay: That would mean to imply that that is the opinion the Conference holds as to not only the meaning of the law, but as to the equity of the charge.

The Chairman: Well, it comprehends everything--- the law and the equities and the gospels and so forth.

Mr. Curtis: How would it be to add the words "for the present", on the end of that, as Governor Kains suggested?

Governor McDougal: My idea is this: I am perfectly willing to have the present plan go along until we have found out, through experience, the proper thing to guide us.

Governor Seay: That was the subject of my substitute motion, Mr. McDougal.

Governor McDougal: But I think it would be wrong at this moment to undertake to fix a definite policy where there are so many varying opinions here.

The Chairman: Here sit thirteen men, anyone of whom is competent to suggest an amendment to this motion, and that amendment would require the Chairman to put the motion as amended to a vote. As all of you seem so reluctant to take advantage of your opportunities and rights here, I will be forced pretty soon to put Governor Van Zandt's motion as it stands.

Governor Seay: I offered an amendment, Mr. Chairman, which met with a very chilly reception. I thought I had done my duty in that respect.

Governor Rhoads: Mr. Chairman, I move you that we lay the subject on the table.

Governor McDougal: I second that motion.

The Chairman: Do you offer that as an amendment?

Mr. Curtis: That last motion has the right of way.

The Chairman: Very well, we will vote on the motion

to lay this subject on the table.

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

Governor Van Zandt: I presume there should be a motion to pass No. 13. We have not disposed of it.

Governor Wold: I thought it was tabled.

Governor Van Zandt: No. You put my motion on the table. The subject itself was not tabled.

The Chairman: What are you going to do with No. 13, gentlemen?

Governor Seay: I move that it be passed.

Governor Wold: Let it come up again during the discussion with the Board on Friday.

The Chairman: I won't do that unless you want it up.

Governor Seay: When we have passed subjects heretofore they have generally been brought up in some subsequent conference.

The Chairman: We have a certain organic law---- I would not call it a constitutional law, but just an organic law, that those items that are tabled or passed automatically appear on the program for the next meeting. This meeting cannot escape a subject by just laying it on the table. We have either got to definitely conclude with it or throw it off the program.

Mr. Hoxton: I move that the matter be discussed with the members of the Federal Reserve Board present.

The President: The motion just passed would leave that in order; that is, when a subject is passed it can

be called up at any other time. The only effect that the tabling has had so far has been to put Governor Van Zandt's motion on the shelf.

Mr. Hoxton: Will it be postponed to the next meeting of the body?

The Chairman: No; it can be called up at any time. It is in front of every man at the table, as a part of the program.

The motion now before us is to pass item 13 on the program. Was that motion seconded?

Governor Wold: Yes sir.

(The motion was duly carried.)

The Chairman: Now Mr. Hoxton's motion is in order if he cares to put it.

Mr. Hoxton: I will withdraw my motion, as it can be called up at any time.

The Chairman: The next item was suggested by Governor Fancher.

14. SHOULD FEDERAL RESERVE BANKS PAY EXPRESS CHARGES ON CURRENCY FOR RESERVE PAYMENT DUE ON AND AFTER NOVEMBER 16th?

Governor Fancher: After submitting that subject I think we had a communication from the Board bearing on that, which communication cleared the matter up.

The Chairman: That was a circular letter, as I recall, which intimated that the member banks should themselves pay all the charges on these transfers. Are you satisfied to drop this item from the program as having been fully disposed of?

Governor Fancher: Yes.

(As stated by the Chairman, this matter had been disposed of by ruling of the Federal Reserve Board made after the program for the Conference had been prepared.)

The Chairman: The next subject was suggested by Governor Seay.

15. POLICY OF RESERVE BANKS IN RECEIVING NATIONAL BANK NOTES.

Governor Seay: Mr. Chairman, I of course recall the provision of the Act which says that we may receive on deposit. I put this on the program not to call for discussion as a matter of policy, but to become acquainted with the practice the various banks are now following among themselves in receiving national bank notes. Up to quite a recent time national bank notes had accumulated to quite an extent in Richmond and the banks desired to put them off on us. Without making any absolute refusal we did, as the Federal Reserve Board recommended in its recent circular, endeavor to handle the matter tactfully.

I desire to exchange experiences with the other banks; I would like to know if they receive these notes in volume, if they accept them freely, or if they interpose any diplomatic objections?

The Chairman: That is one of the subjects where we go around the table, Governor Seay, and give each member a limited time in which to state his experience.

Governor Kains, what is your policy?

Governor Kains: We never take them; we tactfully re-

fuse them.

The Chairman: Mr. Hoxton?

Mr. Hoxton: We take them in St. Louis. We are a member of the clearing house and the clearing house rules provide that national bank notes are payable for balances; and inasmuch as we take them through the clearing house balances, we take them for deposit.

Governor Seay: Mr. Chairman, may I speak out of order right here?

The Chairman: Yes.

Governor Seay: That was partly the reason they were offered to us in Richmond. We entered the clearing house but had the understanding that balances would be payable in lawful money. The banks there settle at their convenience, sometimes by interchange of national bank notes. They wish to give them to us, but we decline to take them.

Governor Kains: We are also a member of the clearing house, but inasmuch as national bank notes are not good with us we cannot take them. We settle in gold.

The Chairman: Do you get a large volume, Mr. Hoxton?

Mr. Hoxton: No, we do not. We had quite a volume up to three months ago, but they disappeared. I think they will come back pretty strong about the first of January; in fact, I am certain they will.

The Chairman: Governor McDougal?

Governor McDougal: We have been accepting them from the country banks, but declining them from the city banks.

The Chairman: What is your position, Governor Rhoads?

Governor Rhoads: We have been accepting them; during the early months of the year we got a substantial volume. We have had to send quite a lot to Washington for redemption. At the present time we have them all cleaned up.

The Chairman: Governor Aiken?

Governor Aiken: We have taken them without any restrictions. We have never had any more than approximately \$800,000. We very seldom have more than \$200,000. We have had no trouble at all.

The Chairman: Mr. Foote?

Mr. Foote: We have taken them without restriction and they have not embarrassed us as yet.

The Chairman: Have you had any difficulty with the expense of redemption? Have you sent very many through for redemption?

Mr. Foote: Not a great many. We have used them down there in the cotton movement and have been right successful in getting rid of them.

Governor Seay: Do you recall that last spring you had a very large volume of them? Did it occur to you at that time to make any ruling against them?

Mr. Foote: We have not made any ruling on the subject. Our board has never passed on it.

The Chairman: How about you, Governor Wold?

Governor Wold: We do not take them.

The Chairman: Governor Fancher?

Governor Fancher: We take them without restriction

except in the matter of transfers against currency deposits, and in cases of that sort we do not take national bank notes.

The Chairman: Governor Sawyer?

Governor Sawyer: We have only had to take them in a very small way, and we have been taking them.

The Chairman: In New York we have not taken them generally on deposit. We have a few thousand just now, but I guess we never had more than five thousand on hand.

Governor Seay: They do not offer them to us.

The Chairman: I think they have been offered to us from time to time, but I think they realize that it would be the worst sort of proposition for us to handle the volume that would come through for redemption. The clearing house does not use national bank notes in its settlements. They do not do it now. They did, for a while, I think up to last August, but they have discontinued it.

Governor Van Zandt, what is your position?

Governor Van Zandt: We accept without restriction.

The Chairman: Do you get a large volume?

Governor Van Zandt: No. We have about \$40,000 on hand. We will take any kind of currency now. We are hard up for money.

Governor Fancher: I might add that our bank is not a member of the clearing house association. Our needs for payroll currency are such that we do not accumulate national bank notes. They come in and are paid right out.

The Chairman: Governor Seay, would you like action

on this matter?

Governor Seay: No sir. I am fully satisfied. It is like the tariff; it is a local problem.

The Chairman: Do you wish this item to be continued on the program?

Governor Seay: I think this disposes of it, Mr. Chairman.

The Chairman: Item 16 was also suggested by you, Governor Seay.

16. RETIREMENT OF NATIONAL BANK NOTES AND PURCHASE OF GOVERNMENT BONDS.

Governor Seay: That is perhaps a larger question than I thought it would be when I brought the matter up. The time is approaching when we shall have to purchase national bonds. We know what we have to do when that time comes. There is a point that I thought, looking ahead, might possibly be discussed with advantage here, and that is an interchange of opinion as to whether it would be desirable or feasible to undertake the purchase of bonds to a greater extent than is provided in the Act, and to undertake the redemption of national bank notes to a greater extent than is provided in the Act.

The Chairman: You recall the provision of the statute which says that the Secretary of the Treasury shall not permit the Federal Reserve Banks to buy more than twenty-five million?

Governor Seay: I do, yes. I know now that that would come under the head of amendments to the Federal Reserve Act; but it was with a view of exchanging opinions

on it and looking a long time ahead that I brought the subject up. I had in mind the great diversity of currency that exists in this country and the desirability of simplifying it if possible. It occurred to me that the question existed whether or not Federal Reserve banks could take over the government bonds that are now in circulation, become responsible for national bank notes outstanding, and get their own notes out as rapidly as possible in place thereof.

The Chairman: The expense of that process would of course be considerable, but it probably would be more than met by the income from the Government bonds.

Do you wish for an expression of views from the gentlemen around the table, or do you just offer that for general discussion?

Governor Seay: I would like an expression of views, if you do not think it will occupy too much time. If you consider it worth while to consider whether or not redemption of national bank notes might not be more expeditiously undertaken, you might get an expression of opinion. I am sure, whether we tackle the problem now or not, that it will be a very few years before we will have to tackle it in a different way. Possibly it is a little premature, when we have other things to discuss of greater importance, but the matter came into my mind and I therefore proposed it.

The Chairman: Have you any thought on the subject, Governor Sawyer?

Governor Sawyer: I have not given the matter any particular consideration, Mr. Chairman. My impression would be that the sooner we get into that problem the better. It would seem to be to be very desirable to substitute our federal reserve notes for national currency as soon as it can be accomplished.

Governor Fancher: I think possibly that matter should be deferred for a little while, possibly a year, and some other more important matters taken up. Just now there are some matters of more importance than the solution of that question as to retiring national bank notes. I quite agree with Governor Seay in his position; I think it is a situation that we have got to meet, but it appears to me that it is several years ahead of us yet.

Governor Wold: I agree with Governor Seay as to the desirability of substituting our federal reserve notes for national bank notes. However, I am of the opinion that we have other matters more pressing at this time than the solving of that problem. It might be well to defer that for some time.

The Chairman: Mr. Foote?

Mr. Foote: I agree with Governor Seay in his views. Just as to when the work ought to commence, or how soon we ought to press the matter actively, is something I do not feel prepared to express an opinion upon. Just as soon as it is practicable we ought to begin the reduction of the volume of national bank notes and substitute the notes of the Federal Reserve System.

The Chairman: Governor Aiken?

Governor Aiken: I do not think I am prepared to undertake at the present time to substitute another bond secured note in place of the national bank note. I cannot see sufficient advantage in it to make us undertake it at the present time. I think we will come to it in time, however.

The Chairman: And you, Governor Rhoads?

Governor Rhoads: I am very glad that Governor Seay brought the subject up, but I should like to have more time in which to consider it.

The Chairman: What is your view, Governor McDougal?

Governor McDougal: It seems to me that we had better let this matter wait a while. We have twenty-five millions, probably, to take care of next year. That will give our bank a few million more bonds to take care of, perhaps, and I believe it would be the part of prudence to wait a year or two and see how things look. We will know then a little better what the demands are going to be upon us, and it might be wise not to pledge too much of our resources in that direction at present.

The Chairman: And you, Mr. Hoxton?

Mr. Hoxton: I do not think I can do better than re-echo exactly what Governor McDougal has said. He expressed my view on the matter exactly.

The Chairman: Governor Kains, what is your opinion?

Governor Kains: I agree with Governor Aiken. I do not see any advantage in changing the national bank notes

into federal reserve bank notes. I think it is time enough to bid the devil good morning when you meet him, in regard to the other feature of it.

The Chairman: What do you think, Governor Van Zandt?

Governor Van Zandt: I do not think the time is ripe for us to really consider the taking over of more than twenty-five million a year that the law requires us to take. Of course it would involve an amendment to the Federal Reserve Act before we could do it, and I do not think that an amendment of that character is due right now.

The Chairman: There is another feature of this matter that has not been brought out in the discussion, but which I think ought to be borne in mind.

Governor Kains: May I interrupt right there, Mr. Chairman?

The Chairman: Yes.

Governor Kains. When Governor Seay brought up this question I recalled that our bank bought a million dollars of these two per cent bonds. We were advised by the Federal Reserve Board they would not be imputed to us for righteousness --- (laughter)

The Chairman: We know what you mean.

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

The Chairman: There is one point which has not been brought out in this discussion, which it seems to me is very important. The Federal Reserve bank notes which would be issued against Government bonds would be obliga-

tions of the Federal Reserve Banks and not of the United States Government at all. Assuming that we could get rid of the whole national bank note currency by an amendment to the Act, the purchase of two per cent bonds, and one conversion operation, We would be assuming \$750,000,000 in round figures of net obligations payable in gold on demand at our counter, and against that we would have \$750,000,000 of obligations of the Government which we might or might not be able to convert into gold. We would not even get the five per cent redemption fund which is now the real reserve behind the national bank notes.

Then there is this difference: The Revised Statutes provide that the United States is absolutely obligated to pay national bank notes out of the general fund. I do not think that provision applies to Federal Reserve bank notes. We would be assuming a gold obligation, or at any rate an obligation that would be demanded of us in gold--- and they would possibly force us to refuse payment in gold--- for an amount that I do not think the Federal Reserve banks would be justified in assuming, or even assuming a fraction of the amount at the present time. The fact is that the Federal Reserve bank notes, which are an obligation of the United States Government, and which they would have to help us maintain upon a gold basis, require at least a forty per cent gold reserve. That is what the Act considers to be a minimum safe reserve. If we should take on \$750,000,000 of notes, or half of that amount, or a quarter of it, we certainly would not be justified in doing

it without maintaining an equal gold reserve upon it. It strikes me that that would be a big undertaking for these banks to shoulder at the present time. Let us suppose that we got \$800,000,000 of gold behind our Federal Reserve notes. Why, that very operation would immensely facilitate the retirement of national bank notes. The fund that we could convert into reserves would have to be immensely augmented. In time of very heavy demand, always accompanied by discounting, we could take down the volume of gold behind the notes and our reserves would be just so much the stronger. I would like to see it work a little faster, when we are strong enough.

Governor Seay: I would not have you gentlemen think that this was a vital or pressing question, but I think there is something more in it than appears on the surface. I had hoped that there would be a ruling by the Comptroller that he would issue no more national bank notes. But no such ruling has been made, although a bank is not required now to buy Government bonds to issue notes. That is the practice, and I think it is done for the purpose of sustaining the Government bonds--- but, nevertheless they are issued. The idea that occurred to me was that if a more wholesale redemption of national bank notes were entered into; if the policy were adopted by the Comptroller of not allowing any additional bank notes to be issued, and if the Federal Reserve banks were to become the sole banks of issue of this country, it would tend to throw our member banks upon us in a responsible way, which could not be

done in any other way in the near future. But as long as they themselves can become banks of issue, and under the rulings of the Comptroller are, day after day, banks of issue, I thought it might turn our minds to thinking on this subject and to see if we could not devise some practical way in which it would be desirable to retire national bank notes in a more wholesale way and put a stop to the issuing of them.

The Chairman: I think myself the Comptroller ought to discontinue the bank note issues. Certainly it was the general purpose of the Act, if it was not specifically so provided, that the issue of national bank notes secured by Government bonds would be discontinued as a result of the passage of this Act.

Governor McDougal: Are new organizations taking circulations now?

Governor Seay: Yes. One organization bought \$150,000 in bonds the other day---

Governor McDougal: New organizations are doing that?

Governor Seay: They are permitted to do so; yes. They are not discouraged from doing it.

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

The Chairman: Governor Seay, do you wish to offer a resolution with regard to this matter?

Governor Seay: No sir. My purpose is fully served by the discussion which you have very kindly brought forth.

The Chairman: It has occasionally developed that the

Federal Reserve Board in Washington, possibly through not being acquainted with local situations in some of the banks, has sent out circulars bearing on various matters which have arrived a little too late for some of the more remote banks to take action upon promptly with their member banks. Inasmuch as the time is approaching when Section 18 of the Federal Reserve Act becomes operative in regard to purchases of Government bonds, we have been anxious to have the Board prepare for that by approving a form of circular which might be uniform and which we all might send to our member banks at one time. Mr. Curtis has prepared a draft of a circular. He has made sufficient copies so that each Governor may have one, and I would like very much to have comment upon that circular. If possible you may all read it over tonight and the comment may be made upon it Friday morning, or tomorrow. Then we can conclude our discussion on the subject before the meeting finally adjourns, and then send the draft to the Federal Reserve Board for final action.

(The draft of circular above referred to is as follows:)

"DRAFT OF CIRCULAR RELATING TO APPLICATIONS TO SELL
U. S. BONDS.

To the Cashier:

S i r :

Section 18 of the Federal Reserve Act provides that any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account

at par and accrued interest, United States Bonds securing circulation to be retired.

"This section of the Act takes effect December 23, 1915, and the Federal Reserve Board has announced that the first quarterly period for which they will consider such applications will be the period ending March 31, 1916. In accordance with the terms of the Act, all applications to sell such bonds, in order to be considered by the Board at that time, must have been filed with the Treasurer of the United States at least ten days before the end of the quarter, i. e., on or before March 21, 1916.

"It seems appropriate at this time to issue blank forms for the use of member banks of this district, together with suggestions concerning the procedure to be followed: In making application, member banks should bear in mind the following points:

"1st: The only bonds that are eligible for sale in this manner are United States Bonds which at the time of application are actually securing circulation of national bank notes to be retired.

"2nd: The applications should be forwarded directly to the Treasurer of the United States, Washington, D. C.

"3rd. The applications must be received by the Treasurer of the United States at least ten days before the end of the quarterly period at which the sale is desired to be made.

"4th: It is optional with the Federal Reserve Board whether or not to require the Federal reserve banks to

purchase the bonds offered for sale.

"5th: If the Federal reserve banks are required by the Federal Reserve Board to purchase the bonds, the price will necessarily be par and accrued interest.

"6th: The aggregate amount of such bonds which the Federal Reserve banks can be required to purchase is limited to \$25,000,000 in any one year.

"7th: This aggregate amount may furthermore be reduced by the amount of such bonds purchased during the same year by the Federal reserve banks in the open market.

"APPLICATION

(Date)

To the Treasurer of the United States,
Washington, D. C.

S i r :

In behalf of the _____ National Bank of _____, I hereby make application to you to sell for its account at par and accrued interest, United States Bonds securing circulation of the said bank to be retired, as follows:

DESCRIPTION OF BONDS

:	<u>Nos.</u>	:	<u>Rate of Interest</u>	:	<u>Maturity</u>	:	<u>Amount</u>	:
:	:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:	:

Respectfully,

Cashier

National Bank of _____

"

With your permission we will pass topic No. 16 until this circular has been read and discussed on either tomorrow or Friday.

The next item is No. 17:

17. COMMITTEE TO AUDIT GOLD SETTLEMENT FUND.

You will recall the regulation of the Board in regard to the gold settlement fund provides that the fund shall be audited at least once in three months by an auditor appointed by the twelve banks, or by the Governors, at this meeting, and an auditor appointed by the Federal Reserve Board. Governor McDougal has reported the completion of the first audit which was made at the time the auditors met in Washington. The time is approaching when another audit will be necessary. I have been requested by Mr. Broderick to arrange, if possible, to have just one man act as the auditing committee rather than a number, as was the case at the last audit. You will recall in the report submitted by the auditors they determined it would be inadvisable to have just one representative present at that audit, but inasmuch as the regulation provides for just one man, and Mr. Broderick, in whom we all have confidence, has expressed the wish that one man be appointed, I think we would be justified in complying with his wishes and in following out the regulations of the Board.

What is your pleasure in regard to the appointment of a representative to make this audit?

Mr. Hoxton: I made some comments, which I have written down, to this effect: The regulation of the

Federal Reserve Board provides that the audit be made by a representative of the Federal Reserve banks together with a representative of the Federal Reserve Board. The Committee of Auditors and Accountants suggested that the responsibility for this audit should not rest upon a single man representing the twelve banks. I think that we should give that matter consideration, as that is the reason why the committee suggested it.

The Chairman: Our Committee of Auditors suggested it?

Mr. Hoxton: Yes.

Governor McDougal: It was suggested that the regulation be changed so that two representatives from our organization might be in attendance at the time, instead of one.

The Chairman: The statement I made was made without full consideration. I have not discussed this matter particularly with our auditor, who was one of that committee. If you feel that there should be more than one man appointed, and that we should make such a recommendation here today we can put that on the program, and when Messrs. Warburg and Harding are here on Friday, we can explain our views to them and ask them if they cannot modify the regulation.

Governor McDougal: The fact is that the committee of Auditors appointed a sub-committee consisting of two members. When they called upon the Board for permission to begin this audit they were informed that they could pro-

ceed, but they would only be allowed one representative. That plan was followed, our representative reporting back, however, that it would be more satisfactory if he had someone there; that is, some other individual to represent the Governors' Conference, or the banks.

The Chairman: What do you suggest, Governor McDougal?

Governor McDougal: It would necessitate the modification of the regulation under which the audits are made and permitted.

The Chairman: This matter can be disposed of very promptly if someone will make a motion.

Governor McDougal: Under the circumstances I would move that the regulation governing the audit of the gold fund be amended so that it will provide for two representatives from our body to be present at that audit instead of one.

The Chairman: Is there a second to that motion?

Governor Rhoads: I second that motion.

The Chairman: Is there any further discussion?

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

The Chairman: That still leaves the question of the appointment of the representative open, Governor McDougal. What are your wishes in regard to the appointment of either one or two representatives, as the case may be, after the Federal Reserve Board has acted upon this recommendation?

Governor McDougal: My recommendation was that we appoint two representatives.

The Chairman: If they say that they will only receive one it will be embarrassing to appoint two. Should not the appointment be subject to any action the Federal Reserve Board may take in regard to this motion which we have adopted?

Governor McDougal: I would recommend that you now appoint the committee, the number to be governed by the finding of the Board.

The Chairman: Do you wish me to make the appointment, or do you want the appointment of the representative to be made at this meeting?

Governor Wold: I move that the chair be authorized to appoint the committee.

Governor Kains: I second the motion.

Governor McDougal: I would recommend that the committee be alternated so that the various banks would be represented at different times in examination of the fund.

The Chairman: I was going to suggest that it would be entirely satisfactory, in making these appointments, for me to go through the banks so that each bank will have a representative, unless a very remote bank should find it inconvenient, or too expensive. They could be appointed in rotation. To meet that situation I would take advantage of a time when the reserve bank of San Francisco, say, had a representative in the east, to make an appointment for him to be on the Committee of Audit at that time.

Governor McDougal: That would be entirely satisfac-

tory, and I think a very proper way to proceed.

The Chairman: As I understand the motion it authorizes the Chairman to appoint a committee of one or two, as the case may be, and it is the sense of this meeting that these appointments should rotate through the banks. That motion has been seconded. Is there any further discussion?

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

The Chairman: Topic No. 18 was suggested by Governor Fancher:

18. ADVICE OF ASSESSMENT ON MEMBER BANKS TO COVER CAPITAL STOCK IMPAIRMENT, IF SHOWN BY ANY OF THE FEDERAL RESERVE BANKS AT CLOSE OF OPERATIONS FOR THE CURRENT YEAR.

Governor McDougal: That question came up a few weeks ago.

The Chairman: I am afraid I must call you to order. Mr. Fancher should open this discussion.

Governor Fancher: I will be very glad to defer to Governor McDougal. I do defer to him.

The Chairman: You have the floor, Mr. McDougal.

Governor McDougal: I wish to beg your pardon. Will you proceed, Governor Fancher? Inasmuch as you got into the fight thicker than I did I will be very glad to let you have the floor.

Governor Fancher: Mr. Chairman, this refers to a discussion that Governor McDougal and myself had with some members of the Board, in fact at a meeting of the Board.

The question was asked by the Secretary of the Treasury, who was presiding at that meeting, as to what we thought of assessments being made on those banks where they did not show sufficient earnings to meet expenses. It had never occurred to me seriously that that contingency would arise. We thought that with a return to fairly normal conditions the banks would be able to show sufficient earnings to at least take care of their expenses. It had occurred to both Governor McDougal and myself that that had been in the minds of some of the members of the Board and probably had been discussed; and we have simply suggested the topic here to bring out in the minds of the other Governors some thought with respect to this matter.

The Chairman: Governor McDougal has the floor now.

Governor McDougal: Governor Fancher has said in part, perhaps in full, what I intended to say. The question arose there, and, in response to Mr. McAdoo's inquiry, I told him that I thought that no thought of such an assessment had occurred to any of the banks at present, and that I hoped there was no such thought in the minds of any of the Board or of the Board as a whole. National banks and other banks, in the regular course of business, struggle along very often for a year, and sometimes for two years before their income or earnings are sufficient to offset their heavy expenses incurred at the outset.

I think it would be very ill advised to permit the matter to even be considered here at this time.

Governor Seay: I can say that the matter has been

talked of by the Board, and that it was discussed at a meeting of the Federal Advisory Council. The opinion of each member was asked as to the necessity or advisability of making these assessments. There are one or two on that board who are banking men and who said that they thought it ought to be done if the capital is impaired. But that was not the majority opinion. The majority thought it would be extremely unfortunate and that they did not believe the necessity existed for it. But that question was propounded to the Council by the Federal Reserve Board.

The Chairman: Yes, I know it was.

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Governor McDougal: I should like to inquire whether any of the Governors here as the representatives of their banks would be in favor of any such procedure at this time?

The Chairman: Without going around the table, could we just ask if there is such a view entertained by those here as suggested by Governor McDougal that a discount should be made at the end of the current year to pay up deficiencies of operating expenses? I do not hear any suggestions.

Mr. Hoxton: You mean, if there is anyone here of all districts that entertains that view that a discount should be made? I very positively think that it should not be made. These banks are not expected to be in full operation for a period of three years, anyway.

The Chairman: It seems as though that would be asking the member banks to pay the cost of advertising our failure by any such operation. I certainly am very posi-

tive that every member of our board in New York would resist that to the utmost.

Governor Fancher: Oh, I think so too.

Governor Aiken: There is no question about that as to the bank in Boston. They would be very much opposed to it.

The Chairman: Have you gentlemen seen what the Federal Reserve Board had to say in a recent issue of the bulletin? Not the last one, but an earlier one. The statement is made as to the earnings of the Reserve banks which would make it very difficult for them to levy an assessment just now. They have made a statement which would indicate that in the future, and the not distant future, the banks will substantially all be earning their expenses. They have verified that by a statement recently indicating how much must be invested in order to enable them to earn their expenses and their dividends, and intelligent bankers who read the bulletins and who have gained from these two copies the impression that the earning situation has taken care of itself pretty well, would be very much shocked by the suggestion that the Board is now going to make an assessment. In the first place, there is nothing in the Federal Reserve Act that provides for an assessment. It probably would require an amendment to the Act, and the debate on that topic in Congress I believe would open the door to disastrous results.

Governor Seay: Mr. Chairman, do you not think they are looking at it purely from the legal aspect, the

technical legal aspect of the case?

The Chairman: That may be, yes. I think Governor Hamlin asked me some time ago to prepare a memorandum on that subject as to what they ought to do at the end of this year, when it might be ascertained that capital of some of the reserve banks was impaired, and I sent over a very carefully prepared statement of the method of accounting that would enable the banks at the end of the current year to set up on their books an account, and we suggested some titles to that account which would be a fair and frank statement to the public that this bank in the first year of its operation has used so much capital for organization and expense of operation; and if the banks do that, and state it squarely in their balance sheets and do not attempt any subterfuge or evasion of any kind, there is not going to be any criticism, and the subject can then be dropped, I believe; but if the Board thinks that they are justified in having the law amended so that they can levy an assessment on all the member banks, it is going to start up a wasps nest with about 7600 wasps in it. What is the use of that?

Governor Seay: Are you convinced that that would require an amendment?

The Chairman: I am not absolutely convinced of it, no, Governor Seay; but I think it is possible that it would be tested.

Governor Seay: It is too ill-advised to consider.

The Chairman: It is almost inevitable that some bank

will lay down and will not pay, and you would have litigation that would make it necessary to make clear that they have the power, and as a practical matter it would come down to an amendment of the statute, probably.

Governor Fancher, this being your topic, I will ask you the stereotyped question as to whether you have a motion or desire any action.

Governor Fancher: I have not. I simply suggested the topic to bring out the discussion we have had here.

The Chairman: Do you consider that it would be desirable or undesirable to have a recommendation on our record in regard to this matter?

Governor Fancher: That question, to my mind, is whether it is desirable to make any recommendation, whether favorable or adverse. My thought was what had come into my mind from what had inspired the Board. Our showing would not be so bad but what we could, with a fair time given to us, return to fair conditions and we could possibly take care of the expense item.

The Chairman: Would it not be a good idea to get some little information, roughly, as we are sitting around the table, as to what our position is going to be? I do not mind stating frankly what our position is in New York, to start the subject going.

Of course our expense is heavy in New York. We have got the resources for a very large earning power when the time arrives. But rents are high, salaries are high; everything costs a great deal more in New York than it

does in almost any other city in which there is a Federal Reserve Bank; and beyond that, they are handling a very large amount of money in that Federal Reserve Bank, and our clearings are heavy, and the whole clerical force, the whole clerical operation, is very expensive, when you come to consider that we have no earning power. So our expenses are really more out of proportion on account of the size of the institution than in any other bank.

Up to July 1st, by the method of accounting which then was employed in the bank, we had earned all of our expenses and \$43,000 on which we carried undivided profits. During that period, however, we did not attempt to amortize organization expenses or the cost of the initial issue of Federal Reserve notes. Commencing with July 1st we set up the accounts in which to extinguish all of the items of organization expense and all of the original cost of the note issue, and we started then to charge in the actual cost of all Federal Reserve notes currently used. So that the charges for the current issues of Federal Reserve notes, and the charges for amortizing our organization expenses I think amount to 15 or 18 thousand dollars a month. One month I think it was more than that.

Up to the time I left the office we were about \$15,000 behind in our current expenses, including this amortizing charge. Since the first of July, I might say, we have ^{had} \$28,000 to the good since the bank was organized on our expense account. We may run behind a little if we are unable to keep our investment account going, but from what little I know the banks are all in

about the same position that we are in, and all run their accounts about the same way.

Governor Wold: We have set up our amortization account. We thought it would be better to do that. How much did you charge on Federal Reserve notes, do you say?

The Chairman: Up to July 1st we put the entire cost of Federal Reserve notes in the organization expense account. Commencing with July 1st we divided the cost of Federal reserve notes which had been used up to that date.

Governor Wold: You mean, those that had been put into circulation?

The Chairman: Those that had been put into circulation. We divided them into twelve equalparts, as I recall, and each month we charged one-twelfth of the cost of all notes issued up to July 1st to current expenses. And commencing with July 1st we charged the cost,—it amounts to about \$10 ^{a thousand ---} of issuing Federal Reserve notes, new

notes issued each month for our current expenses; so we are paying the entire cost of the current note issue and one twelfth up to the 1st of every month.

Governor Wold: Do you believe your notes will not be good and useful except for one year?

The Chairman: We have not any experience upon which to base that. All we can do is to charge the cost of issuing new notes as they are paid. Many of them come back in such condition that we can send them out again, and we do send them out; and as to those, of course there

is no expense charged, but every time we take a new note out from the Federal Reserve Agent and put it into circulation we charge the cost of that to our current expense.

Governor Wold: At \$10 a thousand?

The Chairman: Yes.

Governor Aiken: We charge \$10 a thousand.

Governor Wold: I thought the estimate was eight dollars and something.

Governor Aiken: We charge \$9.56.

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

Governor Fancher: I might say, Mr. Chairman, that we set up these accounts on July 1st; first, the organization expenses, and then the expenses connected with the issuing of Federal Reserve notes, and then up to that time we had charged into expenses the cost of the notes we had issued, although our figures were not quite as large as they should be. We are adjusting that now. We show a deficit in current earnings to meet current expenses of something like \$33,000. Since the first of July, or, rather, recently, we are showing a better earning, and I think that as the result of the current year's operations in the thirteen and one-half months we will probably have a deficit in current expenses of something like \$20,000. We are charging into our current operations the assessment made by the Federal Reserve Board each month, and also the cost of issuing the Federal Reserve notes. That will

probably be our situation, as we view it now. Looking ahead to the first of January, our expenses were about \$10,000 a month, and our earnings something in that neighborhood--- somewhere in the neighborhood of \$16,000.

The Chairman: Just look at this subject with actual figures, and see how absurd an assessment would be. I do not believe that the deficiency at the end of the first year's operations of all the reserve banks together, that have deficiencies, leaving out those that have surpluses which would not apply, would amount to more than two or three hundred thousand dollars. Suppose it amounts to two or three hundred thousand dollars. In order that we might eliminate three hundred thousand dollars of deficiencies, or impaired capital from our statement, an average assessment of \$50 a bank, say, of the 7600 national banks of the United States would be levied. What an absurd thing that would be! The little bank might pay \$1.50; the big bank might pay \$500; and such a procedure, it seems to me, would be the most unwise thing possible.

Governor Seay: Grotesque!

Governor Aiken: I think we ought to have a vote on that question, Mr. Chairman.

Governor Rhoads: So do I.

The Chairman: I think we ought to call the attention of Mr. Foote and Governor Hoxton to one thing; that is, the record of these proceedings is considered to be the confidential record of those that attend the meetings. The discussion is not submitted to the Board at Washington,

and in response to one request that we do so, we declined to do so, politely, and they thoroughly understand that in order to get value out of these meetings the discussion, must be free, even ^{if} it involves a criticism of the procedure of the Board. That matter has been so safe-guarded that we can get the benefit of the real views entertained by the men that attend the meetings.

So I hope there will be no hesitancy in speaking out in meeting on these matters.

Mr. Foote: I think your position is well taken, Governor.

The Chairman: Governor Aiken, I think you are the one who suggested that we should have an expression of views on the subject of assessment. Or was it Governor Rhoads?

Governor Rhoads: I move, Mr. Chairman, that it is the sense of this Conference that it would be most inexpedient to levy an assessment to cover the deficiency in earnings for the current year, or the year ending December 31.

Governor Fancher: I s onc the motion.

The Chairman: Is there any further discussion?

Governor Kains: Mr. Seay referred to the action of the Federal Advisory Council, and we were asked a question there regarding this assessment, as to whether we thought our constituencies would rather have an assessment or have the Board take action to empower the Federal Reserve Banks to enter the open market in competition with their member

banks, and they asked me to state the sentiment of our constituents, and I said the sentiment of our constituents would be that they would rather have an assessment.

The Chairman: It is something like the inn keeper suggesting to his guests, "Would you rather stay up all night, or sleep in the guest room and be visited by ghosts?" Ghosts do not exist. I think the deficiency does not really exist in sufficient quantity to be considered.

Governor McDougal: I think, Mr. Chairman, your suggestion that the statements of the banks be prepared and placed before the public in such way that they would state squarely and truthfully the real condition is the solution of the thing; and with that understanding in the minds of the Board I do not believe that they would seriously consider going further.

The Chairman: I was going to suggest that if Governor Rhoads were willing to add that as a part of his resolution it would make his resolution more effective. That leaves the matter really in the air. With that addition it states the consensus of views as to what ought to be done---

Governor Rhoads: I accept that amendment, and the Secretary may do what is necessary to straighten up the motion.

The Chairman: Then the motion is that it is the sense of this meeting that it would be inadvisable to attempt to assess member banks an amount to cover the deficiency in earnings for the year ending December 31, and that this

meeting recommends that the Federal Reserve banks set up an account in their balance sheets which would clearly state their condition as to earnings at the close of the year.

Governor Wold: The fiscal year or the calendar year?

The Chairman: It would make December 31 the time.

Governor McDougal: The matter of setting up an account might possibly not be necessary. It is the integrity of the statement that we want to protect, and if the statement shows that clearly, I think that ought to be enough.

The Chairman: I think you have got to have an account for the deficiency when you close your books, an asset account.

Governor McDougal: That, of course, would apply to the less fortunate banks; that is all.

The Chairman: Just as to those banks which had a deficiency?

Governor McDougal: Yes, that is the idea.

Governor Aiken: I second the motion.

(The motion was duly carried.)

19. RESERVES OF MEMBER BANKS.

The Chairman: Topic 19 has been already partly discussed under the heading of "2-(c)", under unfinished business.

Governor Seay, this is your topic. Will you start the discussion?

Governor Seay: Mr. Chairman, these two topics are so closely related to the development of the collection problem, and it was in connection with that particularly, item (a), that I advanced this subject for consideration and discussion, that I wish to say that the collection system of the Federal Reserve Banks is being damned for some pernicious practices that have grown up in this country by the ruling of the Comptroller's office. I think, sir, if they had been corrected, it would not have left us with such a difficult collection problem to handle. I believe that if any unpopularity has come upon us because of our having introduced a collection system, that is practically the real onus and it ought to be laid where it belongs. The country banks everywhere have been allowed to send their reserve agents items on the Reserve Cities and everywhere else in the country, and they have been allowed to count as reserves anything that the Agent would ^{be} pleased to have counted. It might be in the process of collection involving, as we all know, anywhere from two to six or eight days. The problem is up for us to settle so that another's burden may not be placed upon our shoulders. We all believe, I am quite sure, that it is incorrect in principle and unsound in practice and everything else for these things to go around the country in the process of collection, counting as reserves; and I wonder if we could not put ourselves on record as saying that the present practice of allowing such items to count in the bank reserves is unsound and should not be continued.

The Chairman: The subject is open for discussion.

Governor Seay: Mr. Chairman, this is a time of super-abundant bank reserves, and I think we all do recognize that there is more or less danger in it, and it might be reached in one of two ways. One way is offered for discussion in another topic here, and that is putting the Federal Reserve provision into complete operation; and then another way that it might be reached is that if the float were eliminated from the member bank reserves at the present time it would curtail the reserves in this country to a very large degree, and this is the time when it might very safely be done, no doubt to very great public advantage. If this meeting can put itself on record as declaring that the present practice permitted by the Comptroller of permitting the floating checks to count as bank reserves is wrong and should be corrected, then we can start out to solve the collection problem.

The Chairman: When I saw that suggestion on the program, Governor Seay, with your further suggestion in regard to making the reserve provisions of the Act effective at once, I took the liberty of suggesting as a topic Item 11-(b), in order that we might consider the reduction of the required reserves of the country banks.

Governor Seay: I also wrote you a letter because I was curious to know what you had in mind.

The Chairman: If you are going to make the country bank assume the float, you are going to put a burden on the country banks that is going to make them squeal.

Governor Seay: Of course he is the originator of it, though, is he not?

The Chairman: Yes; but on the other hand, if you require him to keep the present proportion of reserve on deposit, that is, the same portion that is now required, in cash in his vault, the result will be an increase of the reserve requirements of the country banks. It will not affect the central reserve banks so much, but it will add to the reserve requirements of the country banks very materially.

Governor Seay: Just as we are required to keep the matter on our books, and we are getting a "cussing" now, and it does not belong to us.

The Chairman: Then you want to "pass the buck" to the Comptroller.

Governor Seay: Such was in my mind.

Governor Aiken: Mr. Chairman, if the float were eliminated, and the country bank obliged to carry it, it would make such a huge increase in the actual reserve requirements of our country banks that I am sure there would be a very large exodus from the Federal Reserve System to the State bank system.

The Chairman: I think there would, possibly. I am not sure of that. There is a great deal of threat and talk of that, but not much performance.

Mr. Foote: Mr. Seay, I presume you have made a close study of the problem. What percentage of the de-

posits of the country banks are now represented by what you understand to be the float?

The Chairman: You mean, what percentage of the reserves?

Mr. Foote: Well, the deposits. Say a country bank chose to deposit \$250,000. What percentage of those deposits is absorbed or represented by the float?

Governor Seay: There is only one general way, perhaps, of arriving at that. We will say that the deposits of the country are about seven and one-half billions.

Mr. Foote: Are those the country banks?

Governor Seay: The deposits of the banks of the country are about eight billions. The float has been variously estimated at from two to four hundred millions, and even more.

The Chairman: It is estimated at six hundred millions.

Governor Seay: Suppose it is eight billions and six hundred millions. That would be about ten per cent. The country bank is responsible for the float, really. He originates it, and the deposits of the country banks are about three and a half billions. If he is responsible for four hundred million dollars of the float, you will see that there is about fifteen per cent of deposits for reserves. I am just answering your question roughly, Mr. Foote.

Mr. Foote: Yes, I understood that it would be an estimate.

The Chairman: We are approaching this question: We are approaching the method of clearing which has been recommended by our transit committee; that is, that the Federal Reserve banks shall check everything on a time allowance, and if all the clearing is done through the Federal Reserve System, that will have the effect of making each bank buy its float, if I am not mistaken. Would it not, Mr. McKay?

Governor McKay: Yes.

The Chairman: We know that those transit buncaneers are the most courageous robbers in the world, and they have just gone after the country banks. They have said, "Soak them!" They are smart men, too, Mr. Foote.

Mr. Foote: Yes, they are very brilliant.

The Chairman: I am afraid of that procedure, although I would like mighty well to see it undertaken.

Governor Seay: This thing goes forward and backward both ways. The country bank is the one that is raising the howl now about putting in force the collection system, and yet it is the one that is the cause of the whole problem. Perhaps it is not so much to blame for it as it might be, because the practice has gradually grown up in this country and been indulged in, which never was intended from the beginning, and perhaps is illegal in its last analysis. I do not want to throw a hand grenade in here with a short fuse on it.

Mr. McKay: I would like to say that at the end of three years' time, when the reserves are all in, each of

the country banks and the ordinary Reserve city banks will then be in exactly the same position as the central reserve city banks have always been. The central reserve city banks have had to carry 25 per cent reserves. In addition to that they have had to carry the float, not only of their own local depositors, but of all of their country correspondents. After the reserves are paid in and the central reserve city banks no longer are connected with reserve agents, then each country bank will have to carry its own float represented by the checks deposited by its own local customers only. The Chairman: Because they must count the reserves as they are calculated on their books. We will count only as reserves those checks which have gone through the bank and on which credit has been received after payment. This thing is going to work automatically in the end, there is no doubt.

Governor Seay: That is one reason I said at the beginning that it was reached in two ways. One is that it will be corrected when the reserve act is put into full force, and as a preparatory way it might save us from the "cussing" that we are certainly going to get, I believe.

Mr. Foote: Mr. Seay, another question, if you please. Do not the country banks generally show about forty per cent time deposits or savings deposits on an average?

The Chairman: It is not as much as that.

Governor Seay: I do not think so; no.

The Chairman: The total time deposits reported in a

comparatively recent report of the Comptroller are about \$650,000,000.

Governor Seay: And that is more than it was.

The Chairman: If that was all held by the country banks, as distinguished from the reserve city banks and central banks, it would be about twenty per cent; but I do not think it would all classify as reserve deposits.

Governor Seay: No. I remember a proportion that I made in an analysis before the Act went into operation, and at that time the deposits were about seven billion of dollars, and the total time deposits only \$450,000,000, but a very much larger proportion, and that was made by the country banks.

Governor Wold: As to the country bank in this section, the time deposits are anywhere from sixty to seventy-five per cent of its total deposits.

Governor Seay: I am telling you about where it stood at that time. I think the country bank deposits were about three billion, and the time deposits of the country banks as they were calculated then were something more than three hundred millions. That is the proportion it bore at that time.

Mr. Footo: I have gained the impression that the time deposits in the South run about forty per cent. The idea was running through my mind that led me to assume that it would only require ten per cent to absorb the float; that that ten per cent ought to be reckoned on the current business rather than on the total deposit account.

You see there is a tax on business, on the active business of today. That is where the burden will rest; not on the deposit of the farmer or the capitalist who ~~has~~ has a time certificate, who has no current transaction with the bank; but the burden would go against the people who are having active transactions with the banks, and the percentage of investment that will be necessary to take care of the float ought to be figured against the current account and not against the deposit accounts as a whole. Whatever burden is placed on these transit officers of course will have to be followed to the place it originates, which is the depositor. I think in considering this matter that you will have to reckon it as regards the current business rather than the gross deposits. In that event the percentage will run very much higher.

Governor Seay: Mr. Chairman, that would have reference merely to the method of getting at what the time deposits were, and it would not have any bearing on the method adopted for solution, because they have to be considered independently of each other. I think you may be correct in apportioning the time deposits in certain localities, but you are not correct in doing so with relation to the country banks at large, because I am quite sure that the bank deposits do not occupy such a large proportion of the deposits--- about ten per cent of the whole.

Mr. Foote: Do you know how they run in Texas?

Governor Van Zandt: I would roughly guess about one per cent.

Governor Seay: And only about ten per cent for the country at large?

Mr. Foote: It runs very much higher in our district.

Governor Weld: It runs as high as sixty, here.

Mr. Foote: Do you not think in considering this matter that you have to reckon as regards the active accounts--

Governor Seay: We are looking at it from a little different point of view, I think, Mr. Foote. We are not considering it with reference to any policy that will be adopted in settling the collection problem at all. It is just one of the interesting incidental things that come in in considering the collection problem.

Mr. Foote: It brings up the question of expediency. It is going to hinge very largely on expediency, I should imagine.

The Chairman: This question of percentage that you have been discussing I think can be cleared up by calling your attention to one fact that is undoubtedly necessary. Certain of the eastern states, that is, New England, New York, Pennsylvania, Ohio and Illinois, too, have got state laws which have vastly stimulated the creation of extensions. There are charitable cooperative banks or state trust companies which make a specialty of savings accounts, and I have no doubt that in those sections where the great volume of bank deposits are held the time deposit has gone into the State bank, which is able to pay a higher rate of interest, because it involves a very small reserve; and in those sections of the country where the state law has not

developed the savings bank, that business has been going naturally more to the commercial bank, and it will be found, as in Texas and the Southern States, that the percentage of time deposits in the National banks is pretty large, but when you get to a state like New York it will be very small indeed compared to the total volume of National bank deposits. The more you get away from the big money centers the higher the proportion of savings accounts.

Mr. Foote: As a further matter of information, is it known what the value of a dollar of deposits is in the way of net returns? Have we any statistics to show the value of the deposits, the net value?

Governor Wold: Governor Kains has such a department, I understand.

The Chairman: We have the report already completed in New York of a method of ascertaining that, which I guess is as good as anything that has been done to date. It is not ready for publication yet. It has been the subject of some months of study; and I think that if the average bank analyzed its books it would find that one-third of its business is carrying at a loss the other two-thirds.

Governor Seay: You are getting at it from the bank point of view?

The Chairman: Yes.

Mr. Foote: Is it not less than one per cent?

Governor Seay: Oh, no.

Mr. Foote: After all expenses and losses and everything?

The Chairman: In New York it is less; yes.

Governor Seay: It would not be in the entire county.

Mr. Foote: I think it is the country over. As I said, I have not any books to base that on. It is just hearsay, and I asked for information. I thought maybe some expert had developed the real truth.

The Chairman: It has been done in individual institutions, and I can tell you of at least one case about a year ago of one bank that so analyzed its accounts. But most banks do not do so, except the big city banks, and the result is a great deal of confusion and misunderstanding as to what the bank's earnings are.

We are going to correct that in our district by giving out a method, and, if necessary, instructing the country banks how to operate this method of ascertaining what they are making or losing.

Mr. Foote: That would be a wonderful addition to the information of the country. I know one bank in our district, a large country bank, that is making seven tenths of one per cent on its entire deposit account. They are paying eight per cent dividends. The stock is worth well above par, and they are charging the business with the eight per cent dividends, and are fixing the amount that is left as what they make out of the deposit accounts, on the theory that the capital and surplus which is provided by the shareholders pays to the shareholders the dividend they receive; the money in possession of the shareholders would be worth to them as much as the bank pays them. ^{In} this

particular bank the eight per cent dividend amounts to about six per cent on the book value of the stock; and in estimating the worth of ~~mm~~ their deposit accounts they charge the net earnings with eight per cent dividends. That bank has an expense account of three and a half per cent on its loans. The average expense account of the banks in Mississippi is five per cent. There are some very small banks in that State, banks with \$50,000 deposits or \$75,000, that have expenses of six per cent involved on loans. That feature is a very important one in the districts where the banks are poor, where the proportion of deposits is small as to capital.

The Chairman: Governor Seay, we are facing this problem of yours with great courage.

Governor Seay: Mr. Chairman, as Governor Aiken has come to the conclusion that we have found what the problem is, I presume we may mark that item satisfied. It is a good deal to know what the problem is, and as the matter will come up in another form later, I move we take that off. It will ^{be} covered, I think, in 11-(a), to a great extent, or it will be covered by the result which would proceed from immediate transfer of reserve, just as Mr. McKay has explained.

The Chairman: I am making a note to bring that up at that time, Governor Seay.

Governor Seay: The two things are related.

The Chairman: What treatment do you wish meted out to Item 19 on the program?

Governor Seay: Item (a) I would check off as having been discussed to my satisfaction; and Item (b) would come up for discussion then.

The Chairman: That would come up under Item 11-(a) or did you wish to take it up now?

Governor Seay: Penalty of impairment of balances?

The Chairman: Yes.

Governor Seay: It will come up in another form.

The Chairman: 2 (c), Weekly reports of reserve by member banks.

2 (c) Weekly Reports of Reserve.

Governor Seay: I think that might come up very well now, be faced and be disposed of. The matter was discussed under these two headings and was passed over.

The Chairman: Yes, it was to be brought up when we reached No. 19. Will you open the discussion?

Governor Seay: I believe, sir, that the penalty for impairment of balance, at least by the books of a member bank, should be fixed by the Federal Reserve Board. It is provided in the Federal Reserve Act, and I believe it is desirable that the Federal Reserve Board should consider placing a penalty upon the wilful violation of a reserve balance, so that it will apply only to those banks which do violate it.

The Chairman: You would make the penalty dependent upon the disclosure of the intention of the member bank?

Governor Seay: Just the fact---

The Chairman: In other words, the bank that used its reserve to meet an emergency would still be subject to a

penalty as well as one which wilfully violated the statute?

Governor Seay: That is the only contingency that is provided for in the act, that the bank may use it under certain restrictions---

Governor Wold: Does not the law provide that these reserves shall be maintained inviolate?

Governor Seay: Yes. I think we are cutting our own throats by allowing the banks to check out against those deposits which they are required by law to maintain.

Governor McDougal: Governor Seay, would the penalty which is provided in the National Bank Act, if it were enforced, have some good results in this direction?

Governor Seay: Will you tell me what that penalty is? About the payment of dividends and making of loans?

Governor McDougal: My recollection is that when the reserve is impaired they shall discontinue lending and that the penalty following is the winding up of the institution if they do not make good.

Governor Seay: I do not think that would deter them at all. I do not think there is a bank in the whole system that would refrain from making a loan on a deferred dividend.

Governor McDougal: It does not deter them?

Governor Seay: It is of very small money consequence to the Reserve System, at this time, to have any bank violate its reserve. The principle is absolutely destructive, of course, of the theory and the law upon which the Reserve System is founded. I do not believe that

they' ought to be encouraged by acquiescence in their use of reserve balances, even if it is done at a time when the Federal Reserve Banks have no use for the funds. I think that that matter ought to be regulated by the Federal Reserve Board imposing a penalty that is provided for in the law and which was clearly intended that the Federal Reserve Board should impose. The Federal Advisory Council took that up about two months ago, I think, at the instigation of the Board, and they passed a very strong resolution to the effect that I have just explained.

Governor McDougal: Would you think that that applied to the matter of reserves, or simply the reserve of the Federal Reserve banks?

Governor Seay: That is one way in which we can reach it--- the reserve deposits of the Federal Reserve Banks.

Governor Wold: That is the only way it is provided for.

Governor Seay: And I would approach the subject, Mr. Chairman, by moving that it is the sense of the conference that the Federal Reserve Board should consider the imposition of the penalty for violation of reserve balances as provided in the Act.

Governor Wold: Do you offer that as a motion?

Governor Seay: Yes.

Governor Wold: I second it.

The Chairman: Is there any discussion?

Governor McDougal: I should say that this should be tempered somewhat. I do not think that an overnight im-

pairment ought to be punished, because if it is, of what use are the reserves? They are certainly of no use if they are put in there to remain intact and not to be used; but if they were rebuilt quickly I do not believe they should be fined heavily for dipping under them a dollar or two.

Governor Aiken: Under our system it is impossible for a bank to know where the charges are to be paid. It happens all the time in our district, where country banks on the reserve basis are really in large manufacturing centers, and it is a common thing in the Worcester bank to be drawn against for \$100,000 at a clip.

Governor Kains: There is a bank up in our country that is required to keep about \$600,000 with us, and we had a check come through and they took \$360,000 more.

Governor Wold: That can be taken care of by having the penalty apply where the deficiency of reserve is shown on their own books.

Governor Seay: I had reference to that, and I think I so mentioned.

Governor Wold: As far as Governor McDougal's criticism is concerned, I do not agree with him at all. These are not reserves in the ordinary sense that reserves have been known heretofore. They have been placed as a basis for extending credit. They have been materially lessened on account of the fact that those banks can extend credit using reserves as a basis. If they are going to use the

reserves and ask credit in addition, you are worse off than you were under the old system. They must be maintained, and if you are going to permit them to use them without any penalty, they probably will continue to use them.

The Chairman: That is mixed up with the question of float---

Governor Wold: If the penalty is based upon the impairment of the reserves as shown upon the member bank's books, the float does not enter it at all.

Mr. Hoxton: How are we going to ascertain?

Governor Wold: The examiner is there twice a year.

Mr. Hoxton: I had a case the other day, if I may mention it, Mr. Chairman. A bank had a reserve requirement that is of about \$13,000. They had on our books \$15,000. I got a telegram asking for a shipment of ten thousand dollars in currency. I wrote them that they had only five thousand left, and they were short on their reserves. The next morning my letter crossed a letter coming from them with \$75,000 in it. I felt rather cheap.

Governor Wold: Their reserves would not have been impaired upon their own books.

Mr. Hoxton: How do we know that?

Governor Wold: Their books disclose it.

Mr. Hoxton: But only once or twice a year, when the examiner goes there.

Governor Wold: He is supposed to say whether they are maintaining their reserves or not. The examiners in

district are so strict,---

Governor Van Zandt: That is the reason I wanted it exactly, Mr. Chairman.

Governor Seay: The imposition of a specific fine would have the tendency to deter, but I realize every time this is brought up that it is connected so intimately with a lot of other subjects that you can hardly separate one from the other. I do not see how we are going to approach a solution of any of them unless we take the things up by section, and if we agree that it is desirable to fix this penalty, since they may not check against them except in that way, they might not be checked against except under penalty, and according to requirements prescribed by the Federal Reserve Board. If they go ahead and do that, I think that any other provision of the law of that character will be violated with impunity if it is treated in a slighting manner. It was there, and it was thought that it should be there, and it ought to be provided for. The very fact that the penalty is imposed will make them remember the sacredness of the reserves. If it was in a time of emergency indulged in it would destroy the Federal Reserve System.

The Chairman: Our counsel has a question to propound to you.

Mr. Curtis: Do you consider, in view of the language of the Act, that they have any right to check against these accounts at all, in the absence of regulations?

Governor Seay: Not to violate their reserves; I

would not think they have.

Governor Wold: Judging from Judge Elliott's last decision, I think you can do most anything.

Governor Van Zandt: Yes; until the regulations have been issued.

Governor Seay: With reference to foreign exchange.

Governor Wold: You cannot buy warrants, but you can buy bills of exchange.

Mr. Hoxton: If the law is there, certainly somebody ought to be charged with the task of enforcing it.

The Chairman: The Federal Reserve Bank may, under the regulations, and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawals are permitted by member banks for the purpose of meeting existing liabilities?.

Governor Seay: Yes; it gives them the privilege of doing that subject to a penalty.

(At this point further discussion followed which the stenographer was directed not to report.)

Governor Fancher: There is one thing that seems to me rather to establish a precedent if we in any way recognize that the bank reserves can be computed and carried on their own books. That is a very dangerous precedent.

The Chairman: I am afraid of that.

Governor Seay: Do not let us do it. Let the board determine that, then.

Governor Van Zandt: Would it not be a little bit better to put it in the shape of a request of the Federal

Reserve Board to, at the earliest possible moment, promulgate regulations and fix the penalties prescribed under Section 19 of the Federal Reserve Act?

Governor Seay: That was my resolution, except the addition of the words "At the earliest possible moment."

The Chairman: This discussion has been proceeding in a very disorderly fashion since the resolution has been introduced. Your resolution is before the House and was seconded by Governor Wold. Are you gentlemen preparing yourselves to vote on Governor Seay's resolution that we request the Federal Reserve Board to proceed with the promulgation of the regulations with a provision for the penalties provided by paragraph 164, being a portion of Section 19 of the Federal Reserve Act?

(The question was called for and the motion was duly carried.)

The Chairman: There is no power vested in anybody to collect that penalty, and no provision is made as to where it shall be paid. I think we might be confronted with a bit of litigation about collecting it. That probably would raise the question as to whether the act is effective at all where the provision is so indefinite as it is, and we would never collect anything.

Governor Van Zandt: The regulations would cover that.

Governor Aiken: I would like to be recorded as opposed to that resolution, if I may. I did not vote at the time the motion was put.

The Chairman: I did not vote on that or on any of these motions, but I would be inclined to take the same position, Governor Aiken.

Governor Aiken: Thank you, sir.

The Chairman: Governor Rhoads, you suggested Item 20.

20. Cooperation with National Bank Examiners.

Governor Rhoads: That has been covered by the "Hold-over", has it not?

The Chairman: That matter was in one of the unfinished items in the report of the proceedings of the last Conference of the Federal Reserve Board. We have not recommitted that recommendation to the Federal Reserve Board. We can do it probably without much debate. If this matter is to be dealt with again, I should like to urge that it be made in the way of a separate recommendation renewing the old one.

Governor Rhoads: I would like to make it as forceful as possible.

(At this point informal discussion arose which the stenographer was directed not to report.)

The Chairman: In our discussion this morning of the unfinished business between this Conference and the Federal Reserve Board a resolution was passed renewing the recommendation made at the last meeting that the reports made to the Comptroller five times a year, and a copy of that report, at least, which comes to the Federal Reserve Banks,

should hereafter include a statement of the liabilities of directors and officers of member banks to their own banks. We did not specifically refer to the general recommendation made in a carefully prepared resolution that the Federal Reserve Banks should have access to the reports of national bank examiners, and that copies should be furnished to the Federal Reserve Banks, and complete information with regard to the condition of affairs of the member banks should be furnished to the Federal Reserve Banks by the Comptroller's examiners.

In reply to the report made to the Federal Reserve Board on that subject the Board stated that the matter was under consideration with the Comptroller, and Governor Rhoads now suggests that some action be taken as to that matter. It has not finally been disposed of to his satisfaction in Philadelphia, with respect to the way in which they get access to this information. I do not think the resolution passed this morning would include a renewal of that recommendation to the Federal Reserve Board.

What is your wish about Item 20, Governor Rhoads?

Governor Rhoads: Mr. Chairman, I believe that the resolution passed last time covers our requirements. Whether it would be good policy just to reaffirm it or to adopt something new, I do not know.

The Chairman: Governor Rhoads, you are aware of the fact, I presume, having listened to the statements that have been made here, that some of the Federal Reserve banks now have complete access to all of that information,

particularly some of the banks where the chief examiner of the district makes his office in the same building with the Federal Reserve Bank. That is not the case with us. Our chief examiner, who is also deputy Federal Reserve Agent, has his office half a mile or three quarters of a mile from our office, and his instructions from the Comptroller only authorize him to exhibit the reports of the examiners to Mr. Jay or myself or to some competent person whom we shall select to examine them in his office.

Governor Rhoads: Only if they apply for loans?

The Chairman: Only in case application is made for credit, or a situation arises under the collection system that makes it necessary to investigate a bank.

We are not satisfied with that situation, and have so advised the Board in Washington, and the matter is in about the same shape as it was when we last discussed it here, and we would like to see recommendations go to Washington on this subject and from this meeting. But it seems to me that the recommendation will be very much stronger if the attention of the Board is directed to the fact that those banks that have immediate access to the examiner's office by reason of its being in their building are getting all the information asked for from the Comptroller, and some of the banks that are not so situated are not getting it.

Governor McDougal: In Chicago, Mr. Chairman, we are one of the banks where the examiner is located in the same building, and the procedure that has been followed with

us has been that the Reserve Agent, or the deputy, upon our request has made a formal application to the National bank examiner asking him to permit us to see the reports; and we have been doing that in cases where a bank has actually called for the extension of credit and rediscounting of paper, but we are not permitted to make any memorandum. We are only permitted, or have been until recently, at least, to carry away such information as our representative may be able to bring in his own mind. It is very difficult for him to bring what we need.

I had a talk with Mr. Smith, who recently arrived on the scene. He has not been in Chicago heretofore. He stated that I could depend upon a more liberal attitude being shown now that he was present; but of course he could not give us a copy of the report, but we probably--- he did not state this as a fact--- would be able to take such information away as we might desire, which had been denied heretofore. So we are probably in a stronger position than you, at least, and perhaps than many of the other banks. It is not exactly what we have asked for--- a copy of the report.

The Chairman: They are incorrect in stating that you were getting all you have asked for, but you are getting access to the original report?

Governor McDougal: There is one thing we do not get, or have not succeeded in getting so far, and that is advance information. We would like, of course, to have the permission to review these reports in anticipation of their

results, and it would be very helpful and would expedite action. It seems to me if we could have it after the act we ought to be permitted to have it before. We are evidently getting more than most of you, but we are not getting everything we would like.

Governor Van Zandt: I want to correct my statement. We can get that only where we have an application, but we can take any data that we want to, even so far as making a complete copy of the Examiner's report and taking it to our office.

Governor Wold: I think it might be unfortunate if any mention were made that some of the banks were getting information and others were not. Might it not lead to the Comptroller of the Currency cutting off some of the privileges that some of the banks have, and tightening things up?

The Chairman: I should think it would be put a temporary inconvenience to those banks.

Governor McDougal: I do not want anything done as far as this body is concerned. You can do what you please with it. That is what we are getting, and of course you are entitled to the same privilege.

Governor Rhoads: Our situation is most unsatisfactory, because the chief examiner of our district is generally away from his office the greater part of the week, and there is nobody there until he comes in, and then we send somebody up there and the agent or his assistant can give us an hour, and then we can take away what we can get in an hour. We may have an application on Mon-

day and not get any information until the following Tuesday a week.

Governor Kains: Our chief examiner was instructed by the Comptroller if he was not there to keep a man there, and if we wanted to go over he could see what we wanted. As a matter of principle I would like to see these reports sent into us, and I think they will be ultimately, but it is a question of degrees.

The Chairman: Governor Kains, am I correct in this information, that the Advisory Council unanimously recommended that these reports should not be given to the Reserve Banks or to certain officers of the Reserve Banks?

Governor Kains: Oh, no; that is not so.

(At this point informal discussion was had which the stenographer was directed not to report.)

Governor Seay: What the Advisory Council endeavored to do is this: Each individual expresses his own opinion, and if they can act together on any measure that is not violently in conflict with the views held by any member, they vote as a body, just as we do here. That question was referred to them by the Board, and both Governor Kains and myself explained--- I am sure I did--- that the view of the Governors on this matter was that they should have copies of these reports as a regular thing, to be taken for granted; that these reports should, in their judgment, be sent to the reserve banks.

The Chairman: Automatically?

Governor Seay: Automatically; and that the Govern-

ors would never be contented with any other view.

Governor Kains: We are sound on that point.

Governor Seay: It was explained there that the question was between the Comptroller and the Federal Reserve Board, and it is not thoroughly threshed out yet. The Comptroller was asked to come down to explain what he had done up to the present time, and the Council, with those statements before it, gave the opinion that the information which the Comptroller had requested the examiners to give was sufficient for the present. He must bear in mind that perhaps a majority of the members of the Council are national bankers themselves, and they might take a different view, and we emphasized that fact. We said, "We understand your view, gentlemen, and we want you to understand the views of the Governors, and the Governors will never be satisfied with anything less."

Governor Kains: I know that they must have had some very strong urging on the part of the Comptroller, because the attitude of the examiners is that they would do anything now for us.

Governor Seay: We are on most amicable terms with ours, and he evinces the most friendly disposition.

Governor McDougal: You are speaking individually, not collectively.

Governor Seay: I suppose the same letter was received by all of them.

Governor McDougal: But you cannot get anything from any examiner in the District, can you?

Governor Seay: Our chief examiner brought in the examiners the other day and they all said that anything they could do they would do very gladly and work with me.

(An informal discussion followed which the stenographer was directed not to report.)

Governor Rhoads: Mr. Chairman, will you submit a resolution covering your ideas on this subject?

The Chairman: I will withdraw the suggestion that some of the banks are getting information and some are not so favored, in view of this discussion. If you are willing to pass a resolution simply renewing the recommendation made at the last conference asking the Federal Reserve Board to endeavor to facilitate a conclusion in the matter as promptly as possible, why, that will cover everything that I have in mind.

Governor McDougal: I will second that motion.

(The motion was duly carried.)

(Whereupon, at 6:25 o'clock p. m., the Conference took a recess until 8:15 o'clock p. m.)

EVENING SESSION

The Conference reassembled at 8:15 o'clock.

The Chairman: The meeting will come to order.

The next item on the program is suggested by the Federal Reserve Board and has to do with the method of accounting, in the matter of investments, that has been employed by nine of the twelve reserve banks in handling investments in warrants and acceptances.

21. ADDING COMMISSIONS TO COST OF INVESTMENTS.

Quite recently we received a communication from the Board suggesting that we add the commissions paid on investments to the cost and consider the interest basis as correspondingly reduced. That gave rise to some objection among the accountants in our bank, and the subject was put on the program for discussion to see what the consensus of views here might be.

Governor Kains: I should think that the commission is a part of the cost. The commission is always a part of the cost on everything.

The Chairman: Under the present arrangement it has been treated as a service charge. These bills have been rendered once a month. It makes an easier computation for everyone at the end of each month, to simply pay a bill for so much service rendered by a correspondent.

Governor Kains: Do you mean the commissions that one bank charges another?

The Chairman: Yes; that one bank charges another

bank.

Governor Fancher: I had our loan clerk write me a communication the other day bearing on acceptances purchased and allotted us by each bank and the manner of accounting, in getting down and figuring the earnings and so forth, and showing the complications in the matter of putting it through the books. It is not very long and I will read it.

"Since October 1st we have been handling our warrants and acceptances in the manner suggested by the Federal Reserve Board in their letter of September 21st. Although the commissions due on these warrants and acceptances have not been billed to us by the Federal Reserve Bank of New York, we have nevertheless opened an account on our books under the caption 'COMMISSIONS DUE OTHERS ON WARRANTS AND ACCEPTANCES' and have made the proper credits thereto on our warrants and acceptances purchased since October 1st, the difference between the discount at the rate purchased and the commission has been credited to UNEARNED INTEREST (in the case of warrants) and UNEARNED DISCOUNT (in the case of acceptances).

"To show the impracticability of handling acceptances at the actual earning rate with the commissions deducted, I cite the following instance: Under date of October 14th the Federal Reserve Bank of New York purchased for us an acceptance of \$10,000 at 2-1/16% for 83 days.

The discount on this item at the rate purchased \$47.55

Commission at 5 per cent (to be credited to (commissions due to others on warrants and acceptances)	\$2.38
Our actual earnings on this item	45.17

The question now arises at what rate must this acceptance be carried on our books according to our system in order to make the proper daily earning entry.

2-1/16%	2.0625
Less 5%	<u>.103125</u>
Actual rate.	1.959375

This is approximately 1.96 or 1-24/25%; figuring the discount at 1-24/25% the approximate rate for 83 days gives us only \$44.27 while the actual earnings on this item is \$45.17, a difference therefor, of \$.90, which difference should be adjusted in some way.

It appears to me that the charge for commissions is a charge for service and consequently an expense, and should be handled as such and not deducted from the earnings rate on the warrant or acceptance. It does not show the true condition; we, carrying warrants and acceptances purchased via the Federal Reserve Bank of New York at one rate and they, not having commissions to pay, at the actual rate. It must be remembered that our system for computing the interest on warrants and acceptances is two distinct propositions. In the case of warrants ~~and acceptances~~ we take the total amount of unearned interest and divide it by the number of days to run to ascertain the daily earnings; while acceptances are handled by us in the manner

previously stated."

That shows something of the complications that arise in handling that matter. That letter that I have read is the one which I had our young man prepare, showing the entry carried through on our books.

Governor Aiken: I wrote at some length to the Federal Reserve Board about three weeks ago, explaining the fact that in our opinion it was a service charge and should be charged as such, and was not a deduction from the income. We have not received a reply from the Board as yet.

Governor Fancher: I will just quote from the letter we got on September 21st---

Governor Aiken: (Interposing) I got that letter. My letter was in reply to their letter instructing us to make the reduction from the income and adjust it to net.

The Chairman: The bank of New York has so many of these items going through that the boys estimate it will mean a very considerable increase in the amount of work involved, because every time you have a transaction you have got to bill the commission through to the net account and put it through on the books from one end to the other, whereas, if you will put them all together and put them through for the month, just taking the items and making up a bill at the end of the month for the commissions, one entry covers thirty days' transactions. We are very much opposed to the system submitted by the accountants of the Federal Reserve Board, who are dealing with the matter in a highly theoretical manner.

Governor Aiken: Are you ready for a motion, Mr. Chairman?

The Chairman: Yes.

Governor Aiken: I move it is the sense of this meeting that commissions charged for handling investments for other reserve banks be charged as a service charge and not a deduction from the income derived from the investment.

The Chairman: Is that motion seconded?

Governor Fancher: I will second that motion.

The Chairman: Is there any further discussion of that motion?

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

The Chairman: The next item on the program--- and by the way it does not appear on your copies--- has been added as a result of a conversation with Governor McDougal on this subject of compensation to be charged by banks that make these purchases, as to whether the recommendation which was made by the Executive Committee should be continued.

COMPENSATION TO BE CHARGED BY BANKS WHO MAKE PURCHASES.

You will recall that our last meeting referred to the Executive Committee the subject of charges to be made by the banks that make the purchases. The Committee held a meeting in New York shortly after the last meeting of Governors and determined, after considerable discussion, that a charge of five per cent of the amount of interest

earned on each investment should be adopted, and that was adopted and applied to substantially all of the investments that had been made up to that date. Governor McDougal is under the impression--- and you will correct me, Governor, if I am not right in what I state--- that some of the banks for whom these investments have been made felt that the charge was somewhat larger than it should be. This is the time to discuss that matter and agree upon what is a fair charge, if the one made is not satisfactory. We only want to charge what is right and fair, and it is rather an arbitrary matter to deal with anyway. The question is really for you to decide as to what is a proper charge, and we will agree to it.

Governor Aiken: I should like to say for our bank that our feeling is just the same as that of the New York Bank in regard to the charge which is to be made.

Governor Kains: I do not think it is a very important matter. I mean that it is an important matter, of course, to ascertain what the proper charge is. This five per cent charge, while it might be all right at the present time, might be all wrong if interest went up to five or six per cent. The question I am concerned in is that of our being practically out of the market. Could you tell us what the proportion of acceptances and warrants that you buy is to the amount available in New York?

The Chairman: Of course the reports of all the state banks and national banks, whose acceptances are eligible under the regulations of the Board, Governor Kains, those

reports include, in the case of a state institution, quite a large amount of acceptances which have not been eligible up to the present time. But we can arrive at a calculation without much difficulty at the present time. All the reserve banks held, roughly, about \$12,000,000 of acceptances. The maximum that they have held has been something over twenty millions, I believe. I would say that that was from twenty to thirty per cent of the available acceptances. The rest are purchased by the banks--- and I might say that certain institutions in New York have made a practice of buying all of the bills that they accept themselves. They negotiate with the holder and go right after them and buy them. We never have a chance to buy those acceptances. What we do get come, in a few cases, from memberbanks who are willing to deal with us, from state institutions or larger trust companies that are willing to deal with us; also from the brokers who get them from their clients and are willing to negotiate them.

Governor Kains: I have a feeling that some of our banks, whose requirements are not very large, could fill their requirements by shading the rate a little bit. I can remember representing a bank in New Orleans where I had to buy exchange. For the first year I had one correspondent who was a good buyer on the market. He kept in touch with the market and gave me rates. I found I could do a certain amount of business, but I was beaten a good deal in competition. I went up to New York and made arrangements with a firm of brokers there who were in

touch with the market, and I could just go out and clean up the market almost, for several years.

We feel that if we could get into the market without hurting you (New York) we would like to do it; but if it is going to hurt the system in any way we do not want to do it.

The Chairman: It is a difficult matter to arrange, Governor Kains. Of course if you buy bills in New York through your connections, why, the same thing must be done by the other banks.

Governor Kains: Yes.

The Chairman: And there will be nine buyers there at one time. It will result in each endeavoring to do the best he can for himself. I have always felt that as we are on the ground, if those rates are going to break, that we can beat you to it, because we are there. We do not want to see that situation develop. I think it would be rather demoralizing. It would cause a great deal of antagonism among the banks in New York.

Governor McDougal: I think if we can continue to have the New York bank represent us in this matter of buying acceptances and warrants in the same way that they have been doing, that it is to our best interest. I think we should continue to have it done that way. We realize our responsibility in Chicago that there is an element of ^{responsibility} there for which the New York Bank does not receive compensation, because it cannot be measured. It seems to me that you are in the same position, only to a greater extent, as the

Corn Exchange Bank in Chicago, for instance, in connection with the matter of buying commercial paper. They very much prefer not to buy commercial paper for their customers and correspondents, because notwithstanding their efforts to have it definitely understood in advance that they can only use their own judgment; that they cannot be responsible in case of trouble, nevertheless when trouble comes it breaks ties here and there; there is a feeling on the part of the customers that that bank is responsible, although not legally so. That condition is not fair. It does exist to some extent, and it should not exist.

When this matter came up at the meeting of the Executive Committee all the members of the Committee were there, I believe, during the discussion of the matter. It was brought before the meeting at night and I recommended, myself, that the service charge be fixed at a rate equal to one-eighth of one per cent of the amount invested for the length of time the investment ran. That opened the discussion and some figuring ensued. It was then figured out on the basis of five per cent on the actual earnings, and that is where the matter was left. The next morning two of the members of the Committee had gone home. Those that remained took action and decided to recommend to the Governors the five per cent arrangement. The Chairman of the Committee was instructed to communicate with each of the banks and place the plan before them for their consideration. That was done and some opposition did develop.

It was not general, but it was sufficient at least to warrant me in suggesting that the matter be returned to this Conference for discussion.

In reconsidering the matter, it seemed to me that our committee did not go quite far enough--- not that we have paid too much. We believe in Chicago that the charge we have paid is a very reasonable charge and that we could well afford to pay it because of the fact that we get a large amount of business that we probably would not have gotten on equal terms. Nevertheless there was one phase of the matter which I do not think the committee got under. That was the question that Governor Kains has just raised, i. e., the effect of the five per cent charge in connection with fluctuating rates. In a month from now, or six months from now, if this arrangement continues, the warrants or acceptances might be going on a four per cent basis. I believe, myself, that that is a matter that ought to be given further consideration and definitely adjusted.

I had our boys make some figures bearing upon one phase of this matter to submit if we were to change the charge. This change is only considered for the reason that we believe that probably the work and responsibility--- I doubt as to the latter, but probably the work entailed in connection with acceptances was not so great as it would be with warrants, and we figured it on this basis: Basis one-eighth of one per cent on the par value of the investments for the length of time the investments were to run. That is in connection with warrants. We figured $1/16$ th

charge on acceptances along the same lines. That method of calculation would do away with any fluctuation in the charge occasioned by a change in rates. That was the object of it. I think this was up to September 1st and it shows that we have paid \$1,925, for which we received \$3,101,000 in warrants and \$3,100,000 in acceptances. Those amounts happened to be about even.

I think these figures must be wrong because of the fact that the commission doesn't figure out that way.

Yes; this is the memorandum prepared prior, I mean, to September 1.

The Federal Reserve Bank of New York purchased for us warrants amounting to \$3,101,000 and acceptances amounting to \$3,100,000.

The charge under warrants was \$1,148.02, and on the acceptances \$777.16. If these same securities had been bought on the basis I have outlined, one-eighth on warrants and one-sixteenth on acceptances, the charge would have been \$,538 as against \$1,925, which is the amount paid on the current plan.

I mention that as one suggestion of a plan by which we could dispose of the uncertainty that now exists in connection with the five per cent of income basis.

The Chairman: You mean as a means of preventing the charge from automatically increasing with the rate of interest.

Governor McDougal: Yes.

The Chairman: I see no objection to that. It makes no particular difference to us. We have no desire to make a profit out of the increase in rates that these investments might bear in times of high money. What we do want to accomplish is to see that the minimum charge, on whatever basis it may be fixed, is sufficient to reasonably compensate the bank for the work. Whether that figure would do it or not I do not know. I would have to have the figures prepared in New York. I think the point that the charge is a service charge and a service charge does not increase with the increase of the rate, is well taken. But at the present time rates are at a minimum and we want to be sure that the basic rate that is now fixed is a fair rate. I would very much prefer to talk to the men in the office before expressing a final opinion.

Governor McDougal: I think the only point you would care to discuss, Mr. Strong, would be perhaps in connection with the suggested reduction in the charge on acceptances, because the one-eighth basis would give you fully as much---

The Chairman: The way we arrived at this, by a very rough calculation, was this. I do not think we pencilled it out, but an investment running for three months bearing two and a half per cent interest would pay identically the same commission if the charge was five per cent on the income or one-eighth of one per cent per annum. They are identical. On \$100,000, at 2-1/2 per cent, the charge would be \$31.25. If that is a proper charge for doing the

work it ought not to increase simply because the interest increases to five per cent, because it is a service charge. It is not the lending of our money, where we are making an added profit at a high rate of interest. The real point is whether the Federal Reserve Bank of New York is justified in continuing an arrangement which makes it necessary for them to effect a division of everything they buy and practically give fifty-eight per cent of these purchases to the member banks and keep forty-two per cent themselves. Frankly, if we abandon that arrangement we will make a great deal more money than we make out of these commissions. I do not want to see the arrangement abandoned, but I do want to see it justified by being properly paid for the work that is done in the bank. Whether we are properly paid or not is a matter of judgment. I hardly think we have had sufficient experience to know finally how much work will be imposed upon the bank.

Mr. Hendricks: As to the difference in rate between warrants and acceptances, I would like to say that there is just as much work, if not more, on acceptances as there is on warrants, in most instances.

The Chairman: As a matter of fact there is more work on acceptances, because of the difficulty of dividing them---

Mr. Hendricks: (Interrupting) They are of odd amounts and result in increased figuring.

Governor Wold: So far as we are concerned I do not

care so much about the commission or service charge as I do about increasing the proportion. Our proportion seems so very small that it hardly seems worth while for you or for us. I think there is some justice in Governor Kains' contention that when the rates advance it might make a five per cent service charge seem rather large.

The Chairman: Frankly, I have never thought of that. I can see that it would be so.

Governor Sawyer: In Kansas City, Mr. Strong, we very much appreciate the service you have given us and we feel that the charge has been very reasonable; but I have felt that the basis was wrong. You should get enough to compensate you.

The Chairman: We would not want to increase the commission just because the rate went up.

Governor Sawyer: I think the basis ought to be made now.

Governor Fancher: Governor McDougal has suggested a basis. It appears to me that in the purchase of warrants we are being benefited by the service that Mr. Curtis renders us in passing on the legality of the issues and examining the papers. That saves us the work of the necessity of having it reviewed by our attorneys. That impresses me as being a service that is valuable to us and possibly entitles the bank of New York to a greater charge than the charge for purchasing acceptances, although there is possibly more actual ^{detail} work in connection with the allotment of acceptances than there is with the allotment of warrants.

The Chairman: Whatever charge you gentlemen agree is wise will never pay the bank for the work that we have done upon this question. It is a question of how much we are willing to contribute to the welfare of the system by continuing this arrangement. Looking at it from a selfish standpoint it ought to be discontinued at once.

Governor Fancher: We feel that the service rendered to us has been valuable and that the charge which has been made for it has been a very nominal charge. Whether or not you have any way of determining whether you are compensated or not I do not know. I presume it is hard for you to determine that.

The Chairman: I thought we would get our clerk hire back and that sort of work covered, and I think we have done that, but we can never be paid for the work of one clerk who have taken six or eight months in doping this stuff out and wrestling with it in Washington and elsewhere. The real consideration with us is this: If we should act in the New York market, through the New York brokers, quite independently of each other, and make all of our investments under Section 14 without regard to the interests of each other, why the result would be that we would get a much larger proportion of the total in the New York market than we now do. We are willing to surrender that and are glad to do it; but I would not feel justified in recommending that it be done continuously in this way unless I could tell our board that

we were being reasonably compensated for our work. What is reasonable or what is not reasonable we are quite willing to leave to you gentlemen to decide.

Governor McDougal: May I make a motion, Mr. Chairman?

The Chairman: Please do.

Governor McDougal: I think we have gone far enough to understand the situation. I believe we are agreed on one matter and that is that the committee did not get under this question far enough to provide for the change in interest rate which will come some time. That being the particular point we want to provide for, I move, if it is in order, that the basis for the service charge as recommended by the Executive Committee be discontinued, and that in the future the charge for this service be one-eighth of one per cent per annum of the face value of the warrants and acceptances purchased for the length of time the investments have to run, putting both classes of investments on the same basis, providing for increase or decrease in the interest rate. As to the interest matter I would like to say that it so happens that if we calculated today the purchases on the new suggested basis the results would have been almost identical.

The Chairman: I think the results would have been the same.

Governor McDougal: So far as we are concerned at Chicago, we not only appreciate what the New York bank has done for us, but we feel that the service charge has been reasonable in consideration of the amount of work

involved and also the responsibility involved. We hope this arrangement can continue. Moreover we believe that if we do not work together Chicago would probably be in just as good a position as any of the other twelve banks, New York alone excepted.

The Chairman: I think so; yes.

Governor McDougal: It is certainly better for us to work along these lines than it would be for each bank to go in and work for itself. I make the suggestion and offer the motion partly for the reason that I believe it is quite true, as Mr. Strong says, that we have not gone far enough yet to know what may be involved in the question. The proposition I make will be entirely satisfactory to the Chicago bank.

The Chairman: Some day you may be discounting so much for your member banks and at such good rates that it will be up to use to buy all this stuff in New York and we would not want it.

Governor McDougal: If in the future we should want to reopen this question, of course we could do so.

The Chairman: You put the question, Governor McDougal, and whatever you decide is going to be accepted by New York without question.

Mr. Hoxton: We have nothing but gratitude for the Federal Reserve Bank of New York and the Federal Reserve Bank of Boston. We want to handle it in the way in which they want us to handle it. Not only do we want to pay a commission that they think is a fair commission, but we

want to handle it on our books in the way that they want us to, provided we are not overruled by some method promulgated by the Federal Reserve Board. I should like to know if Mr. McDougal's suggestion is entirely acceptable to you gentlemen, Mr. Chairman?

The Chairman: It is entirely, Mr. Hoxton. As I have said, anything that you gentlemen agree upon will be acceptable to us. Aside from the statement that anything would be acceptable, this particular arrangement is acceptable. You do not need to have any hesitation in making this rate or any other rate.

Mr. Hoxton: May I ask Governor Aiken how he feels about it?

Governor Aiken: Our business is so small, compared with New York--- I do not think we have had more than four or five millions in all for the banks--- that it is hardly worth considering. It would be entirely satisfactory, though.

(Informal discussion followed.)

Governor McDougal: There is one phase of this question that has been discussed informally that I made no mention of, and that was the suggestion that it might be well to consider the matter of putting a ^{maximum} charge on any unusually large purchase that you might make. For instance, if you should come along some day and get five or six million dollars of warrants, why a maximum charge should be made.

The Chairman: We would be delighted to do that if

you will relieve us of the burden of making the little ones.

Governor McDougal: I mentioned that because it was brought up informally.

The Chairman: We can try it out anyway. Some day we may find out that it doesn't work and we can discontinue it. We would a great deal rather be free of any doubt as to situation of the New York bank. I will take a walk around the block and allow you gentlemen to discuss it if you want to settle it in that way.

Governor Kains: I feel personally that I would like to see you discontinue acting as agent for the rest of us; but that is only so far as my bank is concerned. Whatever the majority does I will follow in with cheerfully.

The Chairman: We will let it go that way if the rest of you prefer it, Governor Kains.

Governor Kains: It is up to the rest of them.

Governor Aiken: Is there not a motion before the house now?

The Chairman: Yes; Governor McDougal made a motion.

Governor McDougal: I made a motion, but I heard no second to it.

Governor Kains: I will second Mr. McDougal's motion very gladly, as far as that matter goes. I was only speaking for my bank. I would like to see all of the banks go into the market. I do not think that the New

York bank buys enough--- you say that you buy twenty per cent of those warrants--- and I think you would find it to your interest to let us go in, and the rest of the buyers and fill up our little wants and leave the market open to you all. I think it would work out better that way.

The Chairman: Have you any idea of the volume of that stuff in New York, Governor Kains?

Governor Kains: You say you get twenty per cent of it.

The Chairman: We get twenty per cent of what is reported as being outstanding. We get fifty per cent, or a larger percentage, of everything that is sold or dealt in that is eligible.

Governor Kains: I think it is the fair way, even if we do not get as much.

Governor McDougal: You mean it is the fair way to all concerned?

Governor Kains: Yes.

Governor Aiken: It is a fair way.

Governor McDougal: To have the New York Bank represent us?

Governor Kains: No. I did not mean that.

Governor McDougal: Then I do not understand what you said.

Governor Kains: I said it would be fairer for all the banks to go into the market.

Governor McDougal: If we all went into the market we would be bidding against each other, and the results

might be injurious to all concerned.

The Chairman: Is there not a motion before the house.

Governor McDougal: I have made a motion.

Governor Kains: I have seconded it.

Governor McDougal: You all understand plainly that this is only a temporary plan; that it is a matter of getting along in this way until we find what the volume is going to be, what work is involved, and so forth. It is my impression that the rate that has been named, under all the circumstances, is a fair rate.

Governor Kains: I second Mr. McDougal's motion.

Governor McDougal: Am I presiding at this moment, Mr. Chairman?

The Chairman: Yes.

Governor McDougal: (Who is the presiding officer for the purpose of presenting this motion): This motion has been made and seconded. Is there any further discussion.

(There was no further discussion.)

Governor McDougal: Are you ready for the question?

(There were calls for the question. The motion was duly carried.)

Governor Rhoads: I would like to say that I voted aye on that with the understanding that the New York Bank and the Boston Bank can reopen the question if it is not satisfactory.

Governor McDougal: This is a question that does not involve the Boston Bank.

Governor Rhoads: Yes, it does.

Governor McDougal: Not on the same terms.

Governor Aiken: Yes, Governor McDougal on exactly the same terms.

Governor McDougal: Are we getting from Boston a part of every purchase that is made?

Governor Aiken: No sir; we are not.

Governor McDougal: Are we not getting that from New York?

The Chairman: Yes, you are.

Governor McDougal: Then there is a difference, is there not. I mention that for the reason that this is something we have got to take up, because I think we are working under a very different arrangement between Boston and Chicago or Cleveland and Chicago, for instance, from the arrangement we are working under with New York. That is the reason I said that I thought New York has been very liberal in that they are giving us 55 per cent of their purchases.

The Chairman: The real difficulty in this situation is not the rate of commission on the percentage of division, which is a small matter, but it is the volume. Governor Kains, who has been acquainted with this business over a long experience, has been in New York and has looked over some of the lists and has seen a lot of acceptances that he knows and would buy hot right off the griddle. But I happen to know that two-thirds of them are ineligible and that the Board would chop his head off for buying them.

Governor McDougal: When you spoke of picking up twenty per cent you referred to those that you found held by banks---

The Chairman: (Interposing) Taking the total amount reported by all of the member banks and the state banks, whose acceptances are eligible for purchase, and taking the total amount reported as the amount of their liability, that would indicate that we got in the neighborhood of 20 per cent. When the banks in New York reported that they had \$109,000,000 of acceptances outstanding, as I recall it we had something like \$21,000,000. That was our high water mark. It has been going off within the last few months. I do not believe the total amount of acceptances reported in New York today exceeds \$50,000,000 for national and state banks. Of the \$50,000,000 total amount reported outstanding acceptances at a given date a considerable amount may be of state banks which are not eligible and have not been eligible up to the present time because they related to domestic transactions. That might amount to another eight or ten or twelve million. Of the remainder a very large amount is purchased by the institutions that accept. For instance those accepted by the National City Bank, the National City Bank buys all of them that they can get their hands on. The Bankers' Trust Company tries to buy all the acceptances that come to their window for acceptance. If you figure the percentage of acceptances that go into the market that are available to buy, I should say that we get a very

large proportion of all that are eligible. We have now in New York a little less than five millions of acceptances. If that is 42 per cent of all of them, it would bring about eleven or twelve millions in the hands of all the banks, and that is a very large proportion of the bills that come into the New York market just now.

Governor Wold: May I inquire whether or not under this new ruling of the Board, which relates to open market transactions, you may purchase these state bank domestic acceptances?

The Chairman: That subject comes up immediately after this one, Governor Wold.

Mr. Foote: Would you buy acceptances the Guaranty Trust Company issued to a New Orleans rice house?

The Chairman: On rice in warehouse?

Mr. Foote: Yes.

The Chairman: We have not been able to. We feel that we have not been able to at the present time, because that is a domestic transaction, and the board, up to about a week ago, had made a regulation which limited our transactions to bills which were based upon importation and exportation of goods. We could buy the acceptances of the Guaranty Trust Company based upon import and export transactions, but not those issued in connection with goods in warehouse.

Mr. Foote: The reason I asked is this: There is quite a nice volume of business of that kind in New Orleans

and they are paying good rates for the accommodation. I think that business could be controlled very easily.

Governor Wold: You may get commodity rates on it.

The Chairman: We can only get that with the endorsement of the member bank, and in order to get the endorsement of the member bank we would have to take the bills out of their portfolio. They are not selling now. They are keeping everything they can lay their hands on.

Mr. Foote: There is a concern down there that handles directly the entire Louisiana output of rice. Their drafts have been accepted by the Guaranty Trust Company and they are paying pretty good rates for the accommodation.

The Chairman: Do those bills sell locally in the Atlanta district?

Mr. Foote: They are sold principally in the east.

The Chairman: Yes, but the bills are purchased by some of the banks in the district and sent to New York for acceptance, are they not?

Mr. Foote: The Louisiana Rice Milling Company has an arrangement direct with the Guaranty Trust Company for acceptance of these items, and they go into the market and sell them.

The Chairman: How do they get the bill accepted by the Trust Company?

Mr. Foote: It is based on the commodity stored, properly warehoused, and so forth.

The Chairman: The Rice Company draws a bill on the Guaranty Trust Company?

Mr. Foote: Sure.

The Chairman: That bill has got to be sent to New York for acceptance. It must be negotiated either locally or in New York,---

Mr. Foote: They sell them principally in the east. I think they have found quite a market for them in Philadelphia.

The Chairman: As an illustration of how that business is handled, and how difficult it is sometimes for us to get the acceptances, I wish to say that they called me up on Friday from the Bankers' Trust Company, while our Executive Committee was in session, to say that they were just accepting from a million to a million and a half of bills covering importations of rubber and that they might sell them to us if we could agree on the rate; that they had called me up to let me know about it. Well, with the committee sitting there in my room, I did not want to buy those bills without saying something to the committee. I told them I would call them up in a few minutes. We spent fifteen minutes discussing the matter and other matters, and I called them up to say that we would take them at our minimum rate. In the meantime they had had a lot of money come piling in and they said that they did not want to sell them. Those will appear in the statement of the company as a million and a half acceptances that apparently have been out sometime in the market; but, as a matter of fact, we never have had a chance to buy them.

Governor Wold: Will they show on the statement?

The Chairman: Yes.

Governor Wold: Has the State Banking Board made any rule that those held in their own portfolio need not show?

The Chairman: The State Banking Department does not permit that in New York. I do not think that the Bankers' Trust Company would take advantage of that anyway.

Governor Wold: National banks are required to show only those outstanding.

The Chairman: It is a mistake to have any such ruling, because when they go to sell them they have got to make the entries in both sides of their books.

Governor McDougal, I was talking to Mr. Hendricks when you took action. I do not know what the decision was, but whatever it is it is satisfactory to us. However, I do not want to see this matter dropped before Governor Kains has had a chance to take a shot at the arrangement.

Governor Kains: I have taken all the shots that I care to take.

Governor McDougal: Governor Kains seconded my motion.

Governor Kains: Yes.

The Chairman: But I see you would prefer to go it alone?

Governor Kains: Oh, no, not unless it is wide open and we all go in.

Governor McDougal: I think Governor Kains made his

position quite plain on that, Mr. Strong. He has explained his willingness to go along with the majority, and that it was entirely satisfactory to him.

Governor Kains: Yes. I was only expressing my personal opinion.

25. STATEMENTS OF PRIVATE BANKERS WHO ACCEPT BILLS OF EXCHANGE.

The Chairman: I will introduce another subject here, which is already on the program in another place, but I think this is the place to take it up, and that is in connection with our acting for the other reserve banks. The situation in New York with regard to acceptances is a little complicated on account of the private bankers' position. We have not yet worked out a plan by which we can make their acceptances eligible by getting statements in accordance with the board regulations. That reduces the volume that we can purchase very materially, because they are accepting an increasing amount right along. I presume you have all seen the letter from the Board advising the twelve banks that they did not propose to make regulations governing the extension of operations under Section 14, but that under the opinion of counsel for the Board we are at liberty to go ahead and develop these open market transactions in bills of exchange, and not in notes or drafts. It may be that some of the other reserve banks will take the view that this is an opportunity to be taken advantage of, that we could buy this paper ^{which} is eligible for us to buy under this new rul-

ing by the Board, and if they do take that view it means we are simply able to buy acceptances growing out of domestic transactions that are made by such institutions. We cannot buy the acceptances of private bankers, with one exception. We cannot buy any additional acceptances of national banks because we are not authorized by statute to accept any domestic transactions. It simply means the State banks will get a certain amount of additional benefit from our operations. There is quite a volume of these acceptances. There are quite a number of acceptances handled by the brokers in New York. They come into the office right along. We never have been able to buy them heretofore because they did not comply with the Bankers' acceptance regulation. This is the only opportunity we will have to discuss this matter in meeting together. I want to explain the view that is held by our board, and then each bank can decide for itself what they want to do. We feel that it would be a mistake to extend our transactions under Section 14. It would result in the further reduction of rates possibly, and it might create the impression that the state banks are the only beneficiaries of this system. If it were left to us alone we would probably not take advantage of this opportunity to buy those bills, but on the other hand if the other banks do want to buy them, and to continue the existing arrangements for the division of purchases, we would act for them anyway, and we would suffer all the odium of buying them although they were not for our account and we would not get the income. We are

going to be governed very much by the wishes of the other banks. It is really up to this meeting, to the other Federal Reserve Banks for whom we act, to decide whether we will go into the market and buy the bills of state institutions growing out of domestic transactions.

Governor Sawyer: Is there a large volume of them?

The Chairman: Roughly I should judge 25, 30 or 40 per cent of the acceptances are domestic in character.

Governor Wold: You say "accepted by state banks." Are we confined to acceptances of state banks? If it is a firm or corporation we can buy the acceptances of private bankers, if we feel justified to.

The Chairman: We can if we get a statement.

Governor Wold: Regardless of a statement. There is no regulation on it.

The Chairman: We might buy some bills for ourselves without a statement, from some private bankers, but we certainly could not act as agent for the other banks to buy bills where we had not seen the figures.

Governor Wold: I raised the question because you said it was confined to state bank acceptances. My impression was that we were not confined to state bank acceptances, but could accept either individual, firm or corporation.

Governor Fancher: What has been the attitude of the large private banking firms toward rendering statements?

The Chairman: I think they have been attempting to

do it if they can safeguard the figures to their own satisfaction. They know perfectly well that our boards of directors will change from time to time and that our committees will change from time to time. Some of these directors are their competitors in New York. While some of the more important private banking houses might be willing to trust the officers of the bank with statements, they would want to do it under arrangements that would safeguard the figures so that the directors would not have access to them. I am under the impression that such an arrangement would be satisfactory to the Board in Washington. I am sure it would be satisfactory to our board, to delegate entirely to the officers of the bank not only the purchasing of bills, but the authority to pass on statements. The statements of member banks and state institutions are available to all of our directors. In the case of private bankers the statements would have to be locked up in the vault; the directors could not see them and they would be "going it entirely blind." It is a matter that has not been settled by our board as yet.

Governor Fancher: As I recall one of the acceptances we had purchased was the acceptance of Goldman, Sox & Company. They filed a statement. Some of the other houses have not filed any.

The Chairman: We discussed the matter with some of the more important private bankers.

Governor Seay: We had this sort of a proposition put up to us by one of our member banks that had been ac-

customed to discounting foreign exchanges. The bank wished to know if we could handle a foreign acceptance under a guarantee of rate and allow them to take it up a short time before maturity---

The Chairman: One of your member banks?

Governor Seay: One of our member banks.

The Chairman: Who would guarantee the rate?

Governor Seay: The bank itself would guarantee the rate. Take it at the stipulated rate of exchange, guarantee the rate and pay it at the same rate.

The Chairman: So far as these domestic acceptances are concerned, I hope you will understand that we are not going to do anything voluntarily. If the other banks express the wish that something should be done, we will take it up with them.

ilf 6 Governor McDougal: Governor Strong, have you decided, in New York, whether you would buy that class of acceptances for your bank or not? Has that been determined?

The Chairman: I should say we have decided, Governor McDougal: Were it left to us alone at the present time we probably would not buy them. If the other reserve banks think they want to take advantage of this opportunity to increase their earnings by having that class of acceptances, our board will undoubtedly not stand in their way. Our executive committee has taken that position, and we would act for them, and in case the others wanted to buy them we doubtless would buy them ourselves and simply add them to the bills we buy now of that class.

Governor Fancher: If it assumed rather large proportions, would it result in advantage to the larger state banks? Would it make their paper more salable, more popular, in better demand?

The Chairman: This would put the bills on about the same level. That is an indication of the market under which this arrangement ^{was made} for a credit of twenty million dollars to a group of French banks, seven or eight French banks and banking houses. When we left New York there had been fifteen millions of bills drawn and accepted. Under the terms of that plan each acceptance bank or banker was to have the privilege of withdrawing his own acceptances from sale, and the balances which were not drawn have been offered once a week to brokers in New York, and they have named competitive rates, and the lowest bidder gets them. On some of those sales they never have had a chance to buy them at all.

(Informal discussion followed which the stenographer was directed not to report.)

The Chairman: Of the total amount of acceptances reported by the New York banks we would count them about fifteen millions, and out of the fifteen millions we have only been able to buy about two and a half millions. Those acceptances have sold at two per cent and two and one-sixteenth, and acceptances of the private banks, like Morggn, Seligma n & Brown Brothers, which we have left or have not been able to buy, the brokers have had no difficulty in turning around and selling at the same rate.

Governor Wold. Those that are not eligible for re-discount under the Federal Reserve Act and under the regulations of the Board--- what rate have they been selling at?

The Chairman: The domestic acceptances? There is a difference of $1/8$, or possibly a little more--- maybe a quarter. It is very slight, but they have done ^{what} and what has made it difficult for us to get these bills in many cases is that they take a lot with fifty or sixty or seventy-five per cent eligible, and the balance ineligible, and they lump them all in one large lump rate and the good ones carry those that are less desirable. The brokers know when they buy a block of bills that they can only sell those that are eligible to us, and they might be hung up with the others, and they do not always come to us. You gentlemen encounter all of those things, only you do it at longer range.

Governor Wold: Can you not have them offered direct and cut out that lump amount?

The Chairman: No. There are reasons why we have not been able to do it, really good reasons; and the way we have been able to get them is that some of the brokers with whom we are in touch have been willing to go in and bid. We have given them certain assurance that we would take all the eligible bills in case they did get them.

Governor McDougal: Cannot this be left in such a way that the individual bank can take this matter up with you

by correspondence?

The Chairman: Yes.

Governor Wold: It would have to be left that way.

The Chairman: It would have to be left that way.

It is a matter of policy.

Governor McDougal: Instead of taking action here?

The Chairman: Yes.

Governor McDougal: As I understand it, the plan would be that if the banks wanted to go into the market, you would be willing to deal with them individually but not collectively. Is that the idea?

The Chairman: We would act in any way that they wanted us to. We would fix up another percentage based upon the present percentage, which would not be difficult.

Governor Wold: If we wrote you and said we would be glad to participate with you in the purchase of acceptances, we would not get any?

The Chairman: Oh, yes, you would.

Governor Wold: You would not buy them yourself?

The Chairman: If we attempted to say that our policy in not caring to buy these bills is binding upon all the banks, we are acting for, we might just as well give up that arrangement.

Governor Wold: You do not catch the drift of my remark. We are trying to throw the responsibility on you. You are buying \$100,000 or a million dollars worth of those acceptances; we are participating with you in the purchase up to a certain amount so that you

are passing upon your own investment first.

The Chairman: They are all much the same bills. You do not have to consider a lot of new names in this matter at all.

Governor Wold: Under this you do.

The Chairman: Well, we might. There are a few mercantile houses that accept bills, that accept drafts drawn on them by various mills that they finance, and I have no doubt that those are now eligible for us to buy. It is really another form of promissory note, but it is a bill of exchange and not a note of hand. So we can go further. There are other firms that do that same business whose bills we can buy. They are not bankers' bills at all; but before we do that we would want to submit to your own judgment the figures we got and get your instructions as to whether you wanted to buy them at all, and, if so, up to what minimum.

(At this point informal discussion was had which the stenographer was directed not to report.)

Governor Fancher: May I inquire, Mr. Fancher, if a member of the Federal Reserve System entered into that operation, would the New York banks be accusing the Federal Reserve Bank of competition?

The Chairman: Well, they might. They have accused us of about everything in the Decalogue.

Governor McDougal: But there would be direct competition in that connection. Frederick Viator and Achelis, if they can be financed in that way, are getting the benefit

of extremely low rates, and if they are putting out financial paper the tendency would be to submit this form and eliminate the straight promissory note, would it not?

The Chairman: Yes. Frederick Vieter and Achelis have got, I suppose, at least a dozen bank accounts in New York, and they sell paper to the brokers and sell these other bills in addition. I suppose today that is one of the best notes in the market. If we bought that paper and the brokers got onto it it would get back to the member banks and they undoubtedly would growl about it, and we would be then for the first time in real, direct competition with the member banks, outside of our dealings in warrants, which brings us somewhat in competition with them. There are responsibilities that enter into this matter of acting as agent for the other banks that we are not a bit keen about. I am not keen about sitting here and influencing you gentlemen one iota one way or the other as to whether you should start in now and raise Cain in the New York market, which you have got the right to do if you want to, and we do not want to restrain your doing so.

Governor Kains: We would not raise very much cain there, because our demands are so big.

The Chairman: If you got the modest amount that each one of you wants, and make an investment, you might not raise cain, but you would raise dust around our door step.

Governor Wold: That was to be discussed Friday be-

fore the members of the Board, I believe.

The Chairman: I thought I would have a little preliminary canter on that.

Governor Fancher: Has this matter been before your board?

The Chairman: Our Executive Committee is to submit a report to it.

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

The Chairman: I want to make clear at this meeting that whatever policy may be adopted individually is really subject to the wishes of the other banks, as far as our agency arrangement is concerned, and if we hear you want to buy some of these bills, we are going to find a way for you to buy them.

Governor Wold: I move that it be left to the discretion of each individual bank.

(The motion was seconded and duly carried.)

22. STANDARD FORM OF TRADE ACCEPTANCE.

The Chairman: The next topic is No. 22, standard form of trade acceptance.

Governor Seay: Mr. Chairman, I do not know that that matter is of paramount importance, but since the trade acceptance rate was promulgated we have been discounting a number of small trade acceptances, many of them given by cotton mills for the purchase of cotton for

spinning.

The Chairman: Drawn by them, you mean?

Governor Seay: No; drawn by the broker handles it,
 and the mill accepts. Notwithstanding the formula that
 was suggested by the Board, we find that the banks do not
 use it.

We also handle some lumber paper drawn in some cases
 by one lumber company upon another, and I think there is
 a tendency to abuse the trade acceptance in order to get
 advantage of the lower rate on it, and that an acceptance
 which does not differ in its essence from a note will
 gradually creep in. I do not know that that could be pre-
 vented by adopting a standard form of trade acceptance,
 but since such a special effort is being made to cultivate
 that class of paper, it occurred to me that a standard form
 in use for the purpose might tend to develop the use of
 the thing, and I proposed it to see whether it commends
 itself to the Governors at this time. We had the idea
 at the beginning--- some of us did, at least--- that in
 adopting commercial paper we would use a distinct form,
 but we found in practice it was not needed or practicable,
 and it may be that we may find the same thing about the
 trade acceptance.

Governor Van Zandt: I had a form prepared and sent
 a copy out to each one of our member banks suggesting that
 they use that form. (Governor Van Zandt here exhibited
 the form referred to to the members of the Conference). I

suggested to them that a blank line be left just above that line (indicating), the obligation of the acceptor of this bill, showing the purpose for which the bill was drawn, covering invoice of such and such a date, or so many bales of cotton, or whatever it was drawn for.

Governor Seay: There is one other item that enters into it, too. In many of our states the homestead waiver laws are at variance, and when a note is given it usually has the homestead waiver in it. When a bill of exchange is drawn it very rarely indeed has a homestead waiver in it, and there are many people who think that it might be added with advantage, and who believe that the acceptance would be more readily accepted if it had the waiver in it. I observe that you do not have it in yours.

Governor Van Zandt: We have no use for it.

The Chairman: What is your suggestion in this matter, Governor Seay?

Governor Seay: My suggestion is, sir, that the adoption of a form as I see many of the districts have already thought about, would tend to popularize that form of paper and facilitate our efforts in bringing it into general use.

The Chairman: It is, however, a fact that owing to variation in State laws it might be necessary to have a different form of instrument in the place where the bill was to be accepted.

Governor Seay: And the object of the discussion was to bring it to the attention of those here with a view of

doing what we could to develop it and adopting such forms in our several states as to meet the emergency, because I believe they will have to be different in different states.

Governor Fancher: Ever since we have named a rate on acceptances we have had several inquiries for a form, an accepted form for acceptances.

Governor Seay: I feel a good deal of confidence that it will facilitate the making of that class of paper, and we may eliminate abuses that creep in at other times.

Mr. Foote: Have you prepared a form, Governor Seay?

Governor Seay: No; we have not yet. It is apparent, Mr. Chairman, that the idea has taken hold elsewhere, and that was my only object in bringing it up.

The Chairman: There is not any reason why we should not consider this as a matter of uniform policy, Governor Seay, and put a recommendation on our record that will facilitate the preparation of forms throughout the whole country, in all the districts.

Governor Seay: I believe it is worth it, sir, from a practical point of view.

Governor Fancher: I might relate what was told me by the president of one of our large banks in Cincinnati. He is interested, I judge, in some mercantile business, and he prepared a form of acceptance and suggested that they give it a test; that is, that they mail the invoice and write a letter enclosing draft in draft form and filling in the time, suggesting that they are sold on

certain time and seeing what the effect would be. He sent those to two or three concerns and they have already rounded up about \$400,000 of that sort of paper.

The Chairman: That is very interesting.

Mr. Foote: That is very interesting. That is a very fine thing for us in the State of Mississippi. How would a provision for attorneys' fees affect the negotiability of it in Virginia?

Governor Seay: It would not affect the negotiability of it in Virginia. There is an implication when you put it in that the commercial transaction is not everything that it should be, and that there may be some other considerations involved than those which relate merely to the purchase and sale of commodities. The idea might not be acceptable in all districts. I do not think it would be.

Mr. Foote: Do not some of the provisions in other states render it non-negotiable?

Governor Seay: Not in those states where the negotiable instrument law is adopted--- and that is in a majority of them, perhaps. But you would have to consider it and have to act under advice of counsel in your several states.

Governor Aiken: In the interest of progress, Mr. Chairman, what is the next subject?

The Chairman: I think we ought to have a motion on this matter, Governor Seay, to wind up the discussion.

Governor Seay: I move, Mr. Chairman, that each re-

serve bank take into consideration the advisability of adopting uniform trade acceptance within its own district.

Governor Aikon: I second the motion.

(The motion was duly carried.)

Governor McDougal: The resolution does not approach any definite date as to when the new arrangement is to go into effect with regard to fees, and unless we settle that here it will have to be settled by correspondence. I would suggest that someone indicate the date upon which the new instrument is to go into effect.

Governor Wold: November 1st.

Governor McDougal: It is only a matter of having it understood, because the question will arise when we go back home.

The Chairman: Mr. Curtis will put that motion in the proper language, then.

The next topic on the program is No. 25.

Before taking up Topic No. 25, Mr. Curtis calls my attention to a practice which might have developed in our district in Philadelphia and Boston in the matter of accepting bills. Some of the Philadelphia banks, and, I think, the Boston bank, as well, accepted bills from time to time which were drawn and payable by their terms at their own offices in Philadelphia or Boston, as the case might be, at the office of their New York correspondent.

In one case the Philadelphia National Bank accepted

bills drawn on it making them payable by the terms of the acceptance at the Hanover National Bank, in New York.

Mr. Curtis has looked up the law and is of opinion that that is an attempt to alter the terms of the bill which is not binding upon the drawer or the prior endorsers of the bill; that is, any endorser whose endorsements are affixed prior to the acceptance, and who did not receive notice of the apparent change in place of payment at the time he put his endorsement on it. So we have not been buying any bills which were accepted payable in some other place than the place where they were made payable by the face of the bill, but have cautioned some of the banks that it was an unsafe thing to do. We do not want to run the risk of a refusal of payment at the new place of payment fixed by the terms of the acceptance and then find that we have lost an endorser or drawer as an obligor. The banks that we have corresponded with I think understand that, but it is a precaution that should be observed in our purchase of bills, and I think somewhat the same thing applies to money and acceptances at the clearing house. It does in New York, at any rate. Where an item goes through the clearing house the day after maturity, and you cannot observe the terms of the acceptance in collecting those bills because we have got to present them at the place of payment on the day on which the terms actually mature on the face of the bill itself.

While we are on this subject, I think I ought to repeat the caution, probably unnecessary, about purchase of

any bills unless there are substantial guarantees of the endorsements or endorsements that are known to the purchaser, because the question of title is involved in them.

If you buy a bill with a forged endorsement, and the person or firm or corporation from which you buy the bill is not able to respond and to make good, in case your title is defective you are liable to lose the recourse upon the acceptor of the bill. The acceptor of the bill is not bound to pay a bill which it has accepted if the same holder has purchased it from a person that sold it and forged an endorsement on it. The obligation of the acceptor of the bill is conveyed to the bona fide holder, and not to one who acquires title by a pure forged endorsement.

So we have had to be very careful in buying bills in New York, particularly acting for the other banks, to make sure that there is not any possibility of a failure of title arising by reason of some proper endorsement having been forged. That is a matter that will be of very much greater importance to any reserve bank that feels willing to buy these bills at the market where the acceptance is actually made and where there is less difficulty in getting satisfactory evidence of the goodness and the correctness of the banks.

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

Mr. Curtis: I asked Governor Strong to bring this up, because we had a form of trade acceptance by one of our member banks, and they have written across it "Payable at----" another place than the place the business of the drawee was conducted, and I wrote a rather elaborate letter to them.

Governor Kains: I put that in not to have the paper payable at another place, but to have it payable at some place. We would not take anything drawn on a man in Philadelphia and have it paid in New York, but we want to have it set out where we may expect him to pay it, if it is not at the town named.

Mr. Curtis: That is all right if it is not in the same town.

Governor Kains: But we want him to say where he wants that paid, whether at his office or at his bank.

Mr. Curtis: My only fear was that if you left it blank in the standard form some fellow who is in the trade acceptance business might make it payable in the next town, and that would very likely spoil your bill.

Governor Kains: Yes, I know it would.

The Chairman: This is threshing out old straw. We have been over this once before, but it is going to be well to exercise the utmost care at the outset, because the banks themselves are not acquainted with this business and they are making mistakes in the bills now. We are watching them, and wherever those mistakes occur we are endeavoring to have them corrected right away and get the

practice sound.

25. STATEMENTS OF PRIVATE BANKS WHO ACCEPT BILLS OF EXCHANGE.

The Chairman: The next item is No. 25, statements of private banks who accept bills of exchange.

I have covered that story in connection with the subject of domestic acceptances. We have not yet succeeded in getting those statements, but I think there is a possibility that within some weeks or months we may succeed in doing so.

The question arises to what extent will the banks for which we are acting require those statements to be filed in detail with them, and if they are filed with them, to what extent would they be willing to observe the same rules and the same arrangement that we are obliged to make with the private banks that file statements? The chances are that in time we will persuade our directors and the private banks as well that the most satisfactory arrangement will be to have those statements sent to the Federal Reserve Agent and the Governor of the Bank; and any change in those offices may give the private bank the right to take the figures that he has filed, if he is satisfied that he can trust his successor in office.

Governor Kains: That would be quite satisfactory to our office?

Governor Fancher: And for ours.

The Chairman: That is probably the course we would follow, and we would endeavor to make an arrangement that

would be of equal benefit to all the reserve banks. If our directors should object to that, as there is some possibility, although it is not finally decided, we thought in endeavoring to make this arrangement that we would ask our board to consider what line they would give to such houses as Morgan, Brown, Seligman and others, and assuming that we had no statement at all on file, with the understanding that we would not buy those bills until Mr. Jay and I had received figures and were satisfied that the line which the Board had fixed was satisfactory. That would enable us to dispose of the statement without really imposing on the board the necessity of going absolutely blind, because they would fix a limit on the line. I think that is probably the way in which we will handle it.

Governor Fancher: Make it subject to the approval of yourself and Mr. Jay?

The Chairman: Yes. It is reversing the natural order of things, but I think they will be willing to do that. That would mean if we had the arrangement completed and in effect that we would likely want to submit to each of the banks for which we were acting a statement of what line our board had established by that method, and subsequently and confidentially what if any modification Mr. Jay and I had felt that we were required to make.

Mr. Hoxton: This is our acceptance involving exportation and importation ^{of} goods. They are not domestic acceptances (Exhibiting form of acceptance to the Conference).

The Chairman: If we found it became necessary, by reason of the action of the other Federal Reserve Banks, for us to buy those domestic acceptances, we will have no difficulty whatever in having the banks undertake to extend every bill that grows out of an import or export transaction. We can buy them as long as they have the endorsement of a member bank on them.

Mr. Hoxton: We would be glad to take anything that the Federal Reserve Bank is buying, but I understand you are not going to buy the domestic acceptances, and in that case we might like to see the statement.

The Chairman: We probably will not buy the domestic acceptances unless the other banks want them.

Mr. Hoxton: But you would not buy them for your own account?

The Chairman: Yes, we probably would buy them for our own account. There would be no point whatever in buying millions of these bills and being charged with all the odium.

Governor McDougal: If I correctly understand this matter, in the event that you and Mr. Jay, for instance, are permitted to see or to secure the figures of the financial statement of these private concerns, the confidential information is to be divulged to the Governor or the Federal Reserve Agent for each of the banks for their confidential use.

The Chairman: We would endeavor to so arrange it, and if we were not able to so arrange it that we could give

you the figures we would not want to buy the bills on our account unless you instructed us to do so without seeing the figures. As the volume of bills did not get very large, it probably would mean that we were buying these private bank acceptances. If the volume became very large it might be difficult to handle it that way, but then this whole question would have to be revised.

Governor Kains: Perhaps this whole question may be revised later on. We may not need to lean on the services of New York so much.

The Chairman: We may be pretty busy some day earning our dividends. There are some very interesting figures that I want to report to this meeting inasmuch as there is a moral attached.

An analysis of the operation of the gold settlement fund since it was established May 19, down to October 15, shows that the Federal Reserve Bank in New York has received in settlement of the due from account \$127,785,000, and we have paid in settlement of the due-to account \$158,129,000, making a total loss of \$30,344,000, which, however, is subject to certain adjustments. Taking into account the operations outside of the Gold Settlement Fund, which is principally investment accounts, as I understand these figures in settlement of these losses, we have deposited out of our vaults, \$28,000,000 in gold for transfer to the Fund through the Sub-Treasury, and on the date these balances were made up we had these figures which

showed a balance in the fund of \$6,274,000, and our real net loss of gold was about twenty-one and three quarter millions. I would like to make sure that the other reserve banks appreciate just how this gold fund would operate with the Federal Reserve Bank of New York if the doors were thrown wide open to the creation of balances in New York which would be settled automatically once a week, or, ultimately, once a day, and not checked against and disposed of by that method. It would mean that the credit balances which would be created in favor of the reserve bank at the clearing house would be settled in accordance with the custom of the clearing house in the various forms of money that are permitted to be used by members in settling balances. At the present time these are principally silver certificates and legal tender notes of a clearing house depository, silver certificates and United States notes of small denomination. When we settle these balances which we collect through the clearing house we settle them in gold through the sub-treasury and the Gold Settlement Fund, so that there is a possibility by reason of the method of settling balances in the clearing house in New York of gradually reversing the process of accumulating gold in our reserves and converting our reserves in New York very largely into silver and United States notes.

We have to be reasonably careful, without imposing burdensome restrictions upon the exchange accounts of the other reserve banks. We ought to have it understood that

if you are receiving New York Exchange in large volume instead of requiring a settlement from us, simply telegraph us to withhold from settlement the major part of the balance, which would indicate to us that you are checking against it, and then, through the clearing house, when that check comes in we would have a day at the clearing house and we would get rid of the silver and United States notes.

I do not see any other way in which we can deal with that matter except that some day we might be able to persuade the clearing house in New York to settle all balances with us in gold, we to pay in gold and receive gold only. That would enable us to get rid of all our silver and United States notes, and there would be very few occasions when we would receive it by direct transaction with the member banks.

As indicating how important this matter is, shortly after the Gold Fund was established, by reason of the accumulation of New York exchange, our silver certificates and United States notes went up from I think a minimum of twelve million dollars to forty-four million dollars in a very few weeks, and the one means that we have been able to employ to get rid of that silver, as stated, has been by direct exchange of silver and United States notes with member banks that were shipping currency out, and gold was left to effect an exchange with us.

Governor Kains: That is very valuable information,

Mr. Chairman.

The Chairman: It is a warning that if we saw those exchange accounts pile up too heavily we would have to telegraph you to withhold balances?

Governor Wold: We would much prefer to keep the balance in New York instead of in the Gold Fund, but they will not permit that.

The Chairman: I do not think they have anything to do about that. These accounts would be used for exchange purposes, and it is certainly an exchange purpose. The statute may use the word "may", but that does not mean that our operations can be interfered with. It is a perfectly reasonable arrangement to protect our gold holdings.

What happens in connection with those transfers is that the bank which has received a New York exchange is paying out at the other end the very gold we transferred to them in the Gold Settlement Fund, and we are simply putting gold at one end of the line in exchange for the silver at the other end of the line.

That process might be continued indefinitely as long as exchange was moving that way.

(At this point informal discussion took place which the stenographer was directed not to report.)

Mr. Curtis: This matter was brought up at the last Conference in the presence of Mr. Miller, and it was sort of left that if we did not register a protest it would be granted.

The Chairman: With all due respect to Dr. Miller, he did not understand that situation, and the objection that he made was not to the exchange, which he recognized was permitted by the statute, but he said he thought we were possibly not authorized to maintain accounts for investment purposes where those balances were withheld from the settlement. It is practically impossible to distinguish between exchange which is sent to New York for the purpose of making investments and to put into an account an exchange which is sent to New York for the purpose of having an exchange account. They are one and the same things. He seemed disposed to distinguish, and I did not think his objection applied to the exchange account, but the account which we were considering withholding in order to pay for investments we were making.

Governor Seay: Have you taken into account the operation of that process through a long period? Would it be different if you were to take it when exchanges were working one way and when they are working another?

The Chairman: Yes; we have thought of that. It does not save the gold during the period when it is working against us.

Governor Wold: We have accumulated \$25,000,000 in gold fund. We are moving currency now to the interior. When the crop is moved the exchanges will move the other way, and eastern exchange will be in demand. We sell five millions of exchange by drafts on you, or drafts drawn upon us that come through you. You get this money back

from the gold fund again.

The Chairman: Yes, we do if you get gold for it. You undoubtedly will as long as you are able to require your member banks to give you gold in payment for the drafts you give them individually; and when you are unable to get any more gold you are unable to draw any more exchange.

Mr. Wold: We could sell four millions of exchange and drafts upon you and let them draw upon us and

get these four million out of the gold fund. This four million would come back to you when the pendulum swings in the other direction again.

The Chairman: If all of our money in this country were gold and bank reserves it would not be a matter of any consequence at all; but while the proportion is working against us you are paying out the gold in the West. You want us to run the risk of getting it back. You say the exchanges are bound some day to turn, and what you draw in New York will be turned over to us in gold. It is a question whether you will get it.

Governor Wold: I do not see where you are not going to get this gold back when the pendulum swings. Had you put up this entire five millions in gold, when the pendulum swings and we draw that gold fund down, it comes back to you. As the gold comes from the Gold Fund it comes out of the Federal Reserve Banks.

The Chairman: What have you got in your reserves in Minneapolis?

Governor Wold: Gold.

The Chairman: And consequently, as you send us New York exchange now, you are paying that gold out.

Governor Wold: We are paying out Federal Reserve notes and getting in gold.

The Chairman: But so far as your reserves are concerned, you are paying it out.

Governor Wold: No; we do not pay out any gold.

The Chairman: The gold goes out at one end--

Governor Wold: Not a nickel.

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

The Chairman: Personally, I would not be willing to see the New York bank run the risk of having the greatest portion of its reserves converted into silver certificates and United States notes upon the general hypothesis that when the ^{ex}changes some day turn we are bound to get them back. We do not want to see our statement reduced to a silver basis inside of a period of six months, and then possibly come back again. That will be a new method of handling our reserves. We would not do it.

Governor Seay: Is not the whole difficulty in the method of settlement in the New York clearing house?

The Chairman: No, it is not, unfortunately, for this reason, that back in the eighties, when this country was debating the unlimited coinage of silver, its quality as legal tender, Congress passed a law which is still on

the statute books, which prohibits any national bank from being a member of any clearing house association which prohibited the settlement of balances in silver. As a matter of courtesy, no bank is in a position to go to any clearing house association and tender silver.

Governor Wold: When the rules of such associations require gold settlements.

Governor Seay: If we were to adopt a voluntary agreement to settle in gold, some banks might apply it. If you have that method of settlement, this thing would not work that you are now explaining to us.

The Chairman: Oh, no. There would be no question about our position if we settled in gold. We would simply be receiving gold for what we paid out through the Gold Settlement Fund.

Governor Seay: Has the question been discussed recently at all?

The Chairman: Not very recently. We did discuss it once when some of the Federal Reserve Board were in New York, and we had a luncheon that was attended by members of the clearing house committee, or some of the members, and Mr. Malburn and Mr. Vanderlip at that time said that they would personally be quite willing to see the clearing house agree to have their settlements in gold. But we have thirty-five state banks in the New York Clearing House, and twenty-nine national banks, and at the time we discussed it I think there was a good deal of hesitation

in the minds of some of the Clearing House Committee about proposing any novel things to the state banks.

Governor Aiken: In our session with you, Mr. Strong, what you cite could easily be demonstrated. We are members of the clearing house, but settlements are made in checks on us, and the banks deposit all sorts of things with us in order to maintain their balances. We may get silver certificates or bank notes or legal tender or anything else.

The Chairman: This is not an academic proposition. There are six or eight hundred millions of exchange in New York. I saw the figures some time ago. When the exchanges are swinging all one way there is not any question as to what the effect would be. It would take all of our gold, and we would be speculating as to whether you gentlemen would draw on us to a sufficient extent to give us back our gold. I made up the figures a little while ago, before some of these recent importations of gold took place, and there was \$525,000,000 of gold in the hands of the clearing house banks and Federal Reserve banks. Deducting what we have today--- we hold \$200,000,000--- that would leave about \$325,000,000 in the hands of the clearing house banks. I think that has been increased to at least \$400,000,000; and deducting \$400,000,000 from the total, it leaves, as I recall, between eleven and twelve hundred millions. It is over a thousand millions now, I believe, and it would leave about six or seven hundred millions.

Governor Seay: In cash reserves?

The Chairman: I think it is.

Governor Seay: Surely not.

The Chairman: I think it is. You see, the deposits of the New York Clearing House banks run to about three thousand and one or two million, and they show a surplus of nearly two hundred millions of reserves. These figures have mounted up very considerably.

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

Governor McKay: I have the Chicago figures, Governor Strong. \$87,000,000 cleared for us by other banks; cleared by us for other banks, \$81,000,000. That is since the beginning of the gold settlement fund.

The Chairman: There are \$168,000,000 in and out.

Mr. Hendricks: There are \$189,000,000, Mr. McKay.

Mr. McKay: Cleared for us by New York \$27,000,000; cleared by us for New York \$8,000,000.

The Chairman: We have received from you in settlement of due from accounts \$8,672,000 of gold since the settlement fund started, and we have paid \$27,000,000.

Mr. McKay: That agrees with our figures.

The Chairman: These figures are all exchange transactions, gross, including the settlement of the balances through the Gold Settlement Fund.

It is not necessary to take any action on this matter, but I wanted to give that word of warning, that the New York Bank could not stand a conversion of its gold by the operation of these exchange accounts, and the best

way to handle them is to keep the accounts there until you are ready to take them out, or we would have to hold up on them.

Topic No. 27 on the program has been reported already at the outset of this meeting.

28. DAILY CIRCULARS BY THE FEDERAL RESERVE BOARD.

The Chairman: No. 28 is the subject of mailing circulars by the Federal Reserve Board which they have asked us to discuss. Some doubt has arisen in the minds of the members of the Board as to whether they are pursuing a correct course now in shipping circulars that are to go to member banks to the Federal Reserve Banks and then having them remailed. They thought it was rather expensive by the present process, because if they sent them out they could be franked. We do not enjoy the privilege of franking our mail. Furthermore, it involves some delay.

The matter was discussed in New York by the officers, and we are of the opinion that it would be a mistake to change the present practice of having the circulars sent out by the Reserve Banks. It is a method of contact with the member banks, one means by which we seem to reach them directly. Occasionally we have been able to check up some matter that it did not seem advisable to send out, and, furthermore, we endeavored to make use of the occasion of sending out a page of circulars about some of our own mail in the same envelope, and we would not like to see that practice changed.

This is a subject that we should discuss and arrive

at a consensus on.

Governor Fancher: We prefer to continue with the present method, because we have furnished our member banks with information. While all of them do not use it, yet we like to send those circulars out with literature of our own, and we see that it is properly cut for the binder.

Governor Seay: It seems to me that that is the proper way. The requirements of the Federal Reserve Board govern the operations of the Federal Reserve Banks in their dealings with the members, and it would seem to me a proper thing for the Board to send its circulars to the Federal Reserve Bank and for the bank to make its member banks familiar with the rules by which it is governed.

The Chairman: Some of them call for further information from the member banks themselves.

Does anyone feel disposed to make a motion, so as to have a record and a report to make on Friday?

Governor Fancher: I will offer the resolution, that it be the sense of this meeting that the present practice of mailing circulars of the Federal Reserve Board to the banks be continued; that is, to the Federal Reserve Banks.

Mr. Hoxton: I second the motion.

(The motion was duly carried.)

The Chairman: Gentlemen, that disposes of almost one half of all of the subjects on the program. The remaining one-half, however, are the tougher nuts to crack. It seems to me we would be justified in taking things a little easy for the rest of the day, particularly as we have all

been traveling last night. We can get a fresh hitch tonight and tomorrow we will make a big dent in the balance of the program.

Governor Fancher: I move we adjourn until 9:30 o'clock tomorrow morning.

Governor Van Zandt: I second the motion.

(The motion was carried.)

(Whereupon, at 11:15 o'clock p. m., the Conference adjourned until tomorrow, Thursday, October 21, 1915, at 9:30 o'clock a. m.)
