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Meeting of
Executive Committee vs.
Conference of
Governors

Shoreham Hotel

Washington, D. C.

WALTER S. COX

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TUESDAY DEC 14 1915

WEDNESDAY DEC 15 1915

THURSDAY DEC 16 1915

MEETING OF EXECUTIVE COMMITTEE

of

CONFERENCE OF GOVERNORS

DECEMBER 14 - 16, 1915.

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MEETING OF THE
EXECUTIVE COMMITTEE OF THE CONFERENCE OF GOVERNORS

Shoreham Hotel, Washington, D. C.,
Tuesday, December 14, 1915.

The Executive Committee of the Conference of Governors was called to order at 10 o'clock a. m. at the Shoreham Hotel, Washington, D. C., Tuesday, December 14, 1915.

There were present:

Governor J. B. McDougal, Federal Reserve Bank of Chicago,
(Chairman),

Governor Benjamin Strong, Jr., Federal Reserve Bank of
New York, (Chairman of the Conference of Governors),

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

Governor George J. Seay, Federal Reserve Bank of Richmond.

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

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

Mr. L. H. Hendricks, Assistant Cashier, Federal Reserve
Bank of New York.

Mr. C. R. McKay, Deputy Governor, Federal Reserve Bank of
Chicago.

Mr. J. F. Curtis, Counsel of the Federal Reserve Bank of
New York and Secretary to the Conference of Governors.

P R O C E E D I N G S.

The Chairman: Gentlemen, the meeting will come to order.

The first order of business would be the minutes of the last meeting. You have all seen copies of the minutes. What would be your pleasure with regard to them?

Governor Strong: I move that they be approved without reading.

Governor Aiken: I second that motion.

(The motion was duly carried.)

The Chairman: The second topic on the program is
OPERATION OF GOLD SETTLEMENT FUND.

(a) Administrative expense.

I, as Chairman, was asked to obtain specific figures indicating the expense to date of the operation of the Gold Settlement Fund's administration. I think you have all received a copy of Mr. Sherman Allen's letter giving the definite figures. I believe they were only definite in part, but they were brought up and show that the expense up to November 20th was \$1,037.30.

Mr. Hendricks and Mr. McKay were given that matter to consider, at least Mr. McKay was on my behalf, and his suggestion was that we have the expense up to this time divided into twelve parts. I believe Governor Strong introduced this subject in the first place, and I think his idea was not so much to arrive at a conclusion with regard to the expenses up to date as it was to look forward to future settlement of it. Was that your idea, Governor Strong?

Governor Strong: That was my object, Mr. Chairman, to look ahead a little bit with reference to the division of expense, and I would like to call the attention of this committee to the fact that the Board, in a recent communication to our bank and I think to the other banks, stated that the expense had been so inconsiderable to date that rather than attempt to effect an adjustment along the lines of service that they expected to put this item of \$1,037.30 into the general administration expense of the Board and divide it up among the twelve banks, along with their other expenses. That, as you will observe, puts something like 30 or 40 per cent of the expense on New York when, as a matter of fact, we ought not to stand any of it. It is not a large matter at all, but the principle of dividing the expense of this fund as the expenses of the Federal Reserve Board are divided is entirely erroneous and unsound.

The Chairman: I think if someone would make a motion to permit it to take its course in this case, it would be satisfactory, and that we adopt as a principle for the future that it be divided into twelve parts.

Governor Strong: I like the suggestion made by the committee consisting of Mr. McKay and Mr. Hendricks. Not that it saves \$72, or any such sum, to the bank of New York, because that is of small importance, but because it brings the matter to the attention of the Federal Reserve Board that there is one item of their expense which must be specially dealt with. Let it be divided into twelve parts, if you please, instead of into twelve percentages. Does not that

strike you as a desirable thing, Governor Aiken?

Governor Aiken: I think so, very decidedly.

Governor Strong: I therefore move that the verbal report and recommendations of the committee consisting of Messrs. McKay and Hendricks be adopted by this meeting, and that the recommendation of the meeting to the Federal Reserve Board be that the expense of \$1,037.30 be divided into twelve equal parts and assessed as a special administration expense against the twelve banks.

Governor Fancher: That was not a part of that committee's report, was it, Mr. Chairman?

The Chairman: I do not think it is a part of their formal report, but we will accept it as it has been stated.

Governor Fancher: I will second Governor Strong's motion.

(After informal discussion the motion was duly carried.)

The Chairman: The next topic under Item 2 is:

(b) EXPENSES OF MOVING GOLD, IF ANY, INCURRED BY THE TREASURY DEPARTMENT.

That was a matter that could be handled by Governor Strong, and I think we decided that he should do that.

I remember that you discussed that informally with Mr. Warburg one evening, Governor Strong, and I was wondering if you had any report to make as to whether or not there is any expense involved in favor of the Treasury Department in the matter of moving gold up to the present time.

Governor Strong: They have not reported back to me on the subject at all. I am not sure whether they have made any inquiry of the Treasury Department. From a little

word dropped by Assistant Secretary of the Treasury Malburn yesterday, I gathered that he still has this very actively in mind, because you will recall, Governor Rhoades, that he referred to the transfers in connection with payments into the five per cent redemption fund, which they wanted to have time to carefully consider, because of the drain of gold which was always on New York. I think you will find that the subject of the movement of gold and the causes which bring it about is very active in their minds, because if they had to move fifty or one hundred millions of gold, as they recently did from Denver, they would cast about to see to what extent, if at all, the cost of that movement could be assessed upon the reserve bank system.

(Further informal discussion followed.)

The Chairman: Will there be any further action taken on this topic at present, other than Governor Strong's report?

Governor Aiken: I understand that Governor Strong will continue his inquiries from time to time. The matter has to be handled diplomatically anyway.

Governor Strong: I can offer a motion that will cover this for the time being, if you do not want to devote time to an effort to establish a basis of apportionment of that expense.

The Chairman: We have established a basis for that apportionment. At the last meeting Mr. McKay and Mr. Hendricks were a committee on that matter and they reported finally. Their report was approved. I will read it from

the minutes.

"Mr. Hendricks: The suggestion of Mr. McKay and myself is as follows:

"Whereas, any expense that the Treasury Department might incur in connection with the operation of the Gold Fund would arise from receiving deposits at one sub treasury and paying them out at another, and,

"Whereas, it is apparent that no expense for the transfer of gold from one point to another could arise unless the withdrawals by a federal reserve bank are in excess of the deposits which have been made by such bank in its subtreasury,

"Now, therefore, be it resolved, That any charge imposed by the Treasury Department for transfers of gold caused by the operation of the Gold Settlement Fund shall be paid pro rata by the bank or banks withdrawing gold from the gold settlement fund in excess of the amount of gold such bank or banks have deposited with their subtreasury; provided that when such withdrawal of gold from the Gold Settlement Fund was necessitated by a request for transfer from another Federal Reserve Bank, the Federal Reserve Bank requesting the transfer pay such expense."

That was our finding and recommendation, as I understand it, and it is one of the points that would have been discussed by our Conference if we had a meeting here today.

One objection was raised to the plan, by Governor Van Zandt, and he appeared to be a little disturbed over that. I will read his letter.

"I regret to note that your Committee and the Federal Reserve Board did not agree upon a definite interdistrict clearing plan, with instructions to put same into effect.

"On page 6 of the minutes I see that your resolution relative to expenses of operation of the Gold Settlement Fund, if adopted by the Treasury Department, will probably have the effect of throwing the burden of cost largely upon those banks which are not located in subtreasury cities. In fact, we get no credit for funds deposited directly with the Gold Settlement Fund in Washington, that being the place where nearly all of our deposits are made. In other words, we must not only be placed under the expense of paying for shipments to and from the Gold Settlement Fund, but, in view of the fact that we are not in a subtreasury city, we are required to pay a large portion of the expense of the entire operations. If my understanding of this resolution is incorrect, will you please enlighten me on the same?"

That report was adopted by the Executive Committee, subject to such action as the Conference of Governors might take upon it, and I think it should go over.

I understand now that it is satisfactory to this meeting to permit Governor Strong to continue to take care of Item (b), "Expenses of moving gold, if any, incurred by the Treasury Department"?

Governor Strong: I will try to keep the pressure on and ascertain what, if anything, has been done over there to sound the Treasury Department as to the expense.

The Chairman: The next item under Topic 2 is:

(c) REPORT OF MESSRS MCKAY AND HENDRICKS.

The report referred to was submitted to the committee, read over by each member of the committee, and is as follows:

"December 13, 1915.

Mr. J. B. McDougal, Chairman,
Governors' Executive Committee,
Chicago, Ill.

Dear Sir:-

"At the meeting of the Executive Committee held in Washington, November 18th to 20th, the undersigned were requested to suggest a plan by which the operation of the Gold Settlement Fund may not become the instrument for a considerable loss of gold to the Federal reserve system.

"You will find attached statement showing the amount of gold and gold certificates held by each of the Federal reserve banks, also amounts of legal tender notes and silver certificates held by the Federal reserve banks showing the percentage held by each bank. You will note that the Federal Reserve Bank of New York, at the present time, is the only one that seems to have an excessive amount of legal tender notes and silver certificates. The accumulation of silver certificates and legal tender notes in ^{the} New York bank has been caused by the large amount of New York exchange which has been sent to the Federal Reserve Bank of New York by the other Federal reserve banks, owing to the fact that clearing house balances in New York are not required to be settled in gold and may be settled in lawful money. The New York bank has therefore been obliged to receive legal tender notes and silve

certificates in payment of clearing house balances and to pay gold or gold certificates into the settlement fund at Washington for the credit of the other Federal reserve banks.

"Owing to the fact that New York exchange has been at a discount throughout the country, the Federal reserve banks have been accumulating a very large volume of New York funds.

"In reporting to the Gold Settlement Fund on Wednesday, November 24th, the New York bank withheld \$19,000,000 and still had a debit of over \$4,000,000, the volume of exchange accumulated in New York in one week amounting to about \$25,000,000. As a remedy for this situation, which might also occur in the Chicago, St. Louis, Philadelphia, Boston, and possibly other Federal reserve banks, we offer the following suggestions:

"1. That all Federal reserve banks be permitted to receive checks drawn on clearing house banks located in all the Federal reserve cities. This would provide - at least to some extent - an offset against the accumulation of exchange on these cities, the items to be received in accordance with the schedule of deferred credits now in effect.

"2. (a) Federal reserve banks should establish market rates for exchange which would have the effect of controlling the volume of exchange received. For instance, when exchange is being accumulated to such an extent that the banks are debtors in the gold settlement fund and creditors in their local clearing houses, and are receiving large amounts of legal tender notes and silver certificates in payment of clearing house balances, the Federal reserve banks

which are accumulating the exchange should put a discount rate on such exchange to an amount to equal the cost of shipping the currency. The banks could ship silver certificates and legal tender notes to the Federal reserve banks which created the exchange instead of having to provide payment in gold through the gold settlement fund. The amount of legal tender notes and silver certificates with a Federal reserve bank would be willing to receive will be governed by its ability to dispose of such currency to its member banks.

"(b) By establishing market rates for exchange Federal reserve banks will be able to sell to their member banks against the balances accumulated, thus relieving the Federal reserve banks from being obliged to pay large quantities of gold into the gold settlement fund.

These are the only suggestions that we have to make on the subject at the present time, as it is difficult to predict what conditions may arise in the future. We believe, however, that if the suggestions offered are adopted that such difficulties as have been experienced by the New York bank will be greatly relieved or entirely removed. We also realize that when New York exchange goes to a premium that the conditions probably will be reversed and some further suggestions may then be in order.

"Respectfully submitted,

"C. R. McKay and

"L. H. Hendricks."

STATEMENTS AS AT CLOSE OF BUSINESS DECEMBER 3, 1915.

<u>Federal Reserve Bank of:</u>	<u>Gold Settlement Fund</u>	<u>Gold and Gold Certificates</u>	<u>Silver Ctfs., Silver Coin and Legal Tender Notes</u>	<u>Total</u>
Boston	\$ 5,295,000.00	\$ 14,595,120.00	108,884.16 * .0054**	19,999,004.16
New York	9,415,000.00	147,834,390.00	26,856,333.25 .1458**	184,105,723.25
Philadelphia	5,169,000.00	6,200,370.00	2,794,752.80 .1973**	14,164,122.80
Cleveland	9,269,000.00	10,794,095.00	1,064,767.60 .0504**	21,127,862.60
Richmond	8,705,000.00	6,089,650.00	118,465.55 .008**	14,913,115.55
Atlanta	1,359,000.00	5,413,528.63	277,255.20 .0393**	7,049,783.83
Chicago	6,164,000.00	33,964,427.50	789,501.40 .0193**	40,917,928.90
St. Louis	7,420,000.00	1,772,500.00	134,787.00 .0144**	9,327,287.00
Minneapolis	5,120,000.00	2,519,235.00	17,761.00 .0023**	7,656,996.00
Kansas City	3,835,000.00	6,329,110.00	288,982.00 .0275**	10,453,092.00
Dallas	9,071,000.00	4,107,180.00	288,896.20 .0214**	13,467,076.20
San Francisco	<u>8,873,000.00</u>	<u>4,722,460.00</u>	<u>5,696.10</u> .0004**	<u>13,606,156.10</u>
TOTALS	\$79,700,000.00	\$244,342,066.13	\$32,746,082.26 .0918**	\$356,788,148.39

* As heading reads "Other cash" this total probably includes National Bank notes - no mention being made of said notes.

** Percentage of Silver Ctfs., Silver Coin and Legal Tender Notes to "Total".

The Chairman: What is your wish with regard to this report, gentlemen? Governor Strong, are you willing to express yourself on this report?

Governor Strong: Yes, Mr. Chairman.

(Informal discussion followed.)

The Chairman: If it is satisfactory to this meeting we will adopt the plan submitted by the Committee, or I should be very glad to hear suggestions for changes. It must go back to the Conference, as I understand it.

(Further informal discussion followed.)

Governor Seay: I move that the report be received and referred to the next Conference of Governors.

Governor Aiken: I second that motion.

(The motion was duly carried.)

The Chairman: The next item under Topic 2 is
(d) SEPARATION OF FEDERAL RESERVE AGENTS' FUND.

I think Mr. Hendricks can explain that topic.

Mr. Hendricks: That was brought up by one of the auditors of one of the Federal Reserve Banks, I think. It was his idea that the Federal Reserve Agents' Fund and the Federal Reserve Banks' Fund in the Gold Settlement Fund ought not to be in one fund but ought to be separated. I do not agree with him at all.

Governor Strong: I think they should be separated.

Governor Rhoades: The gold is now in one pot and there is nothing but the book account to show which is which. Of course in our own offices they are kept separate.

(Informal discussion followed.)

Governor Strong: I move that inquiry be directed to the Federal Reserve Board for the purpose of ascertaining whether they have considered how any liability for loss of any part of the Gold Settlement Fund would be placed or adjusted as between the interests of the Federal Reserve Banks and the interests of the Federal Reserve Agents, so long as the fund is kept as at present and not separated in their custody.

Governor Rhoades: I will second that motion.

(The motion was duly carried.)

The Chairman: I would like to take up Topic No. 5,

SHOULD FEDERAL RESERVE BANKS AT THIS TIME BE PERMITTED TO RECEIVE, IN ACCORDANCE WITH THE SCHEDULE FOR DEFERRED CREDITS, CHECKS ON MEMBER BANKS LOCATED IN OTHER FEDERAL RESERVE CITIES.

I think this topic has been disposed of in the discussion of Topic 2-(c). If that is right we can mark it off the program. I think that that is covered in the report.

Mr. McKay: Yes; it is covered in the report.

The Chairman: Then that topic will be marked off.

Governor Strong: Should we not take up Topic 6 in connection with this?

The Chairman: Yes; we will take up Topic No. 6.

CODE FOR TRANSFER OF GOLD FUND BETWEEN FEDERAL RESERVE BANKS AND FEDERAL RESERVE AGENTS.

Mr. McKay has taken that up on behalf of our bank. I believe that matter was left with the Chicago Bank.

Before leaving Washington Mr. McKay took this up with Mr. Willis and we heard nothing from him. I have a letter

here dated December 1, which is addressed to H. Parker Willis Secretary to the Federal Reserve Board:

"You will remember that on November 20th, at the time of the meeting of the Executive Committee of the Conference of Governors of Federal Reserve Banks, I took up with you the matter of arranging telegraphic code words for the use of the Federal Reserve Agents and also the Federal Reserve Banks in making transfers from the accounts of the Federal Reserve Banks in the Gold Settlement Fund to Federal Reserve Agents, and vice versa; owing to the fact that under the present practice it is possible for either the Federal Reserve Agent or the Governor of the Federal Reserve Bank to direct transfers to be made in the Gold Settlement Fund of amounts standing to the credit of the other without the knowledge or consent of the other officer.

"As this matter was left to the Federal Reserve Bank of Chicago to take up with the Board, in view of the approaching meeting of the Conference to be held in Washington the 14th instant, I would appreciate it if you will kindly advise us if any action had been taken in this matter by the board, so that we will be prepared to render a report on this subject to the Governors' Conference."

That letter was signed by me.

As no reply has been received to that letter I asked Mr. McKay to see Dr. Willis yesterday, and I think he can tell us what transpired.

Mr. McKay: I saw Dr. Willis yesterday and he said that there had been so many matters of importance before the Board

he had not had time to present this one; that he would present it today if possible, and had no doubt but what the Board would take favorable action on it, and that such action would be taken very quickly.

The Chairman: If Mr. McKay's report is satisfactory the matter may stand where it is for the present. If it is allowed to stand as it is we will follow it up ourselves and report at the next meeting.

We might take up now Topic No. 7:

OPERATIONS OF PHYSICAL AGENCY FUNCTIONS FOR THE
UNITED STATES GOVERNMENT.

In Chicago we have made some investigations as to the probable requirements in handling Government accounts, and there are some features of the work there that we thought will have to be reconciled. For instance Government officers there are in the habit of throwing their deposits into a bushel basket, so to speak, without sorting them, and then quietly waiting for an officer or two of the Chicago bank to come after the deposits. Also, they are not in the habit of making their deposits during business hours.

Having this matter in mind, in addition to some other features of the work, we decided to take it up with Mr. Malburn and Mr. McKay came down in advance of the meeting to take this matter up with him on yesterday. Fortunately we found that Governor Strong, Governor Aiken and Governor Rhoades were here at that time for this very purpose, and I know it would be interesting to those who were not here to know what has been accomplished.

Governor Strong: I would like to report on that matter

this afternoon, if satisfactory, because I have arranged to have extra copies of a memorandum that was prepared by two of the officers of our bank covering the whole investigation, prepared so that each one here should have a copy. I have notes made on my copy and I can report in a very few minutes the gist of the discussion with Secretary Malburn. The memorandum is quite long and covers the whole subject, and I would rather report this afternoon.

The Chairman: We will be very glad to postpone action on this matter until this afternoon.

CONFERENCE WITH EXECUTIVE COMMITTEE OF NATIONAL
BANK SECTION OF AMERICAN BANKERS' ASSOCIATION.

The matter of inviting the Executive Committee of the National Bank Section of the American Bankers' Association was left to Governor Strong by this Committee. At the time the suggestion was made it was supposed that that meeting would be with the full Conference of Governors and not with the Executive Committee. In view of these facts I think it would be very nice if Governor Strong would consent to take charge of the joint meeting.

Governor Strong: Mr. Chairman, I have had very extensive correspondence with these gentlemen since this matter developed.

(Informal discussion followed as to the meeting of the Executive Committee with the National Bank Section of the American Bankers' Association, and also a meeting of the National Bank Section of the American Bankers' Association and

the Executive Committee of the Conference of Governors with the Federal Reserve Board.)

Governor Fancher: I move that the matter of the meeting of the two committees with the Federal Reserve Board be left in the hands of Mr. Curtis; that he communicate with the Board and ascertain the hour they wish to meet with us.

(The motion was duly carried and Mr. Curtis communicated with the Board in compliance with the motion.)

The Chairman: That practically covers Topic No. 8, which is "Conference with Federal Reserve Board."

Topic No. 3 will now be considered.

CHECK COLLECTION:

(a) Report of Messrs. Hendricks and McKay.

(The report submitted by Messrs. Hendricks and McKay was thereupon read by the individual members of the committee.)

The Chairman: What is the pleasure of the Committee in regard to this report, which has to do with the five questions submitted to us when we were here at our last meeting?

Governor Aiken: I move that the report of the committee consisting of Messrs. McKay and Hendricks, together with exhibits A and B, be adopted and communicated to the Federal Reserve Board; that the Board be advised that this report has not been submitted to or received the approval of the six Federal Reserve Banks which are not represented on this committee; that the Board be advised that if any further statements or details in regard to this matter are desired, it

is requested to indicate upon what particular point it wishes additional information and that if possible a further report be submitted in connection with the plan already recommended or whatever plan may be adopted for the further development of the collection system.

Governor Fancher: I second the motion.

(The motion was duly carried.)

(Upon motion, duly seconded, the committee recessed at 1:30 o'clock p. m. until 2:45 o'clock p. m.)

A F T E R R E C E S S

The committee reassembled at 2:45 o'clock p. m.

(Informal discussion took place with reference to opinions submitted by counsel of several of the reserve banks with reference to the amending of Section 16 of the Federal Reserve Act as affecting the inter-district collection plan.)

Governor Aiken: I move that Mr. Curtis be requested to ask the Federal Reserve Board not to incorporate in their inquiries of the Attorney General the suggestion made by him as to a service charge as a possible offset for an exchange charge made by member banks in remitting checks sent them from Federal reserve banks, in view of the fact that in the opinion of this committee it would not be practicable to put into operation such a plan.

Governor Strong: I second that motion.

(The motion was duly carried.)

The Chairman: Governor Strong, I believe you suggested that we take up this afternoon Topic 7, which is

OPERATIONS OF FISCAL AGENCY FUNCTIONS FOR THE
UNITED STATES GOVERNMENT.

I understand you have a memorandum on this subject and we would be very glad to hear from you.

Governor Strong: Allow me to say that the placing of Item No. 7 on the program was the result of personal effort on the part of our bank in New York, in which effort Philadelphia and Boston joined after some telephonic conversation, to get more light on the whole subject of the fiscal agency matter. We anticipated that the subject would come up at this meeting for discussion and we desired to know something about it. Governor Aiken, Governor Rhoades and myself came over to Washington a day ahead of this meeting, and we spent yesterday with the Assistant Secretary of the Treasury Malburn, Mr. Delano, Mr. Warburg and Mr. Harding in discussing this matter.

The memorandum which I have handed you was prepared by two men in our office after a study of the operations of the Government depositary and fiscal agency functions in New York and after discussions with the collectors of internal revenue, the collectors of customs, or their clerks, in New York. I will suggest that you read it paragraph by paragraph, and after you have read a paragraph I can give you the substance of what Mr. Malburn said on that subject. Or, perhaps, you prefer ^{not} to go through it in detail?

The Chairman: I think we had better go through it in

detail. I should like to do so.

(Governor Strong thereupon submitted to the Committee a memorandum on the subject of items to be discussed in reacting as Government depositary and fiscal agent, prepared by Mr. Sailer and Mr. Kenzel, of the Federal Reserve Bank of New York. The memorandum was considered in detail. Governor Strong stated that the memorandum would be redrafted and again submitted to the Committee at a future meeting.)

Governor Seay: As Governor Strong has signified his willingness to furnish this report to the other Governors who are not members of this committee, I move that the committee express its thanks to Governor Strong for this report and that it request him to give the other Federal reserve banks the benefit of it.

Governor Fancher: I will second that motion.

(The motion was carried.)

Mr. Curtis: Mr. Chairman, I desire to report that I have seen Mr. Delano and that the fourth question in the letter of inquiry to be submitted to the Attorney General has been stricken out.

The Chairman: There are two topics remaining. One is the date of the next Conference of Governors, which is Topic No. 10.

(Upon motion duly made and seconded the date of the next conference of Governors was set for January 19, 1916, at Washington, D. C.)

The Chairman: The next is topic No. 4.

AMENDMENTS TO FEDERAL RESERVE ACT.

(a) Clarifying Section 13.

Mr. Curtis: At the last meeting we had gotten down to the third paragraph of Section 13.

As to Section 13 I have suggested that we omit the whole of the third paragraph of this section.

In the fifth paragraph I have suggested that we strike out the whole of the paragraph and substitute the following:

"Any National bank may accept drafts or bills of exchange drawn upon it, arising out of actual commercial transactions, and having not more than six months' sight to run, and any member bank other than a National Bank may accept such ^{drafts or} bills of exchange provided the making of such acceptances is not in contravention of the law of the state in which such member bank is situated; but no member bank shall accept such bills to an amount equal at any time in the aggregate to more than the capital stock and surplus of such bank."

(Informal discussion followed.)

The Chairman: Without objection we will now proceed to the next one, Mr. Curtis.

Mr. Curtis: With regard to Section 14, first paragraph, I have the suggestion to strike out the words "and bankers", so as to read as follows:

(Mr. Curtis thereupon read the paragraph referred to. After considerable informal discussion Section 14 of the Act was drafted by the Committee as follows:)

"Every Federal reserve bank shall have power

"(a) Under rules and regulations prescribed by the Federal Reserve Board to purchase and sell, with or without its endorsement in the open market at home or abroad either from or to domestic or foreign banks, firms, corporations or individuals acceptances of the kinds and maturities by this act made eligible for rediscount, cable transfers, demand or sight exchange, and other bills of exchange with or without the endorsement of a member bank.

"(b) To deal in gold coin or bullion at home or abroad, to make loans thereon, exchange and re-exchange Federal reserve notes for gold, gold coin or gold certificates, and to contract for loans of gold coin or bullion, giving therefore, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold.

"(c) To buy and sell", and so forth.

Omit the original subsection (c).

"(d) To establish from time to time", etc.

"(e) To establish accounts with other", etc.

The Chairman: Without objection we will proceed to Section 15.

Mr. Curtis: In the fourth line of paragraph 1 of Section 15 I have recommended that we strike out the word "may" and insert instead the word "shall", so that it will read:

"The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of out-

standing National bank notes and the funds provided in this act for the redemption of Federal Reserve notes shall, upon the direction of the Secretary of the Treasury, be deposited in Federal Reserve Banks, which banks, when required by the Secretary of the Treasury", and so forth.

In line 9 of the first paragraph, strike out the word "may" and insert instead the word "shall", so that it will read, "and disbursements shall be made by checks drawn against such deposits."

In the second paragraph of Section 15, strike out the whole of the proviso and substitute therefor the following:

"The provisions of this section shall be carried into effect by the Secretary of the Treasury as soon as practicable, but in no event later than December 31, 1917, after which date it shall be unlawful for any bank other than a Federal Reserve Bank to receive or retain deposits of any Government funds, provided that any portion of the revenues of the United States may be deposited in a member bank when the Secretary of the Treasury shall be satisfied and shall so certify that such action is necessary for the protection of the revenues."

In another part of Section 15 I have suggested that we add the following new matter:

"The Secretary of the Treasury shall cause the functions and operations now exercised or conducted by the Assistant Treasurers of the United States to be transferred to the several Federal reserve banks in such manner as in his judgment may be expedient, and such transfers shall be com-

pleted by December 31, 1917, at which time the office of Assistant Treasurer of the United States and all other subordinate officers to such office, shall cease and determine, and the Secretary of the Treasury is further authorized to transfer the subtreasury buildings of the United States now situated at Boston, New York, Philadelphia, Chicago, St. Louis and San Francisco, to the Federal Reserve Banks of the said cities respectively."

(After considerable informal discussion of this section, at 6:35 o'clock p. m., the committee adjourned until tomorrow, Wednesday, December 15, at 10 o'clock a. m.)

S E C O N D D A Y .

Shoreham Hotel, Washington, D. C.,

Wednesday, December 15, 1915.

The meeting of the Executive Committee of the Conference of Governors reassembled at 10:30 o'clock a. m.

There were present the members of the Committee, as indicated on yesterday.

There were present also members of the Executive Committee of the National Bank Section of the American Bankers' Association, as follows:

Mr. J. E. Cox, President of the Commercial National Bank of High Point, Chairman of the Executive Committee.

Mr. H. E. Otte, Vice President of the National City Bank of Chicago.

Mr. Oliver J. Sands, President of the American National Bank of Richmond.

Mr. W. H. Busholz, Vice President of the Omaha National Bank, Omaha, Nebraska.

Mr. W. M. VanDuesen, National Newark Banking Company, Newark, New Jersey.

Mr. Fred W. Hyde, Cashier of the National Chautauqua County Bank of Jamestown, New York.

Mr. J. S. Calfee, Cashier Mechanics' National Bank of St. Louis.

Mr. F. E. Farnsworth, General Secretary of the American Bankers Association.

Mr. F. R. Wilson, Assistant General Secretary of the
American Bankers' Association.

Mr. T. B. Paton, General Counsel of the American Bankers
Association.

P R O C E E D I N G S.

Governor Strong (Presiding): Gentlemen, the meeting
will please come to order.

This meeting, gentlemen, developed as a result, in the
first instance, of the organization of the National Bank
Section of the American Bankers' Association, and of the cour-
tesy of the Executive Committee of that Section in inviting
the officers of the Reserve Bank of New York to meet with
them when they held their first meeting in New York City.

When the suggestion for a joint meeting was first made
to the Executive Committee of the Conference of Governors
of the Federal Reserve Banks it was very gladly, in fact,
joyously received because it had become quite apparent to
the officers of the reserve banks during the first year of
organization work, which was very engrossing, that the mem-
bership of the Federal reserve system as a whole had not
been brought into sufficiently close contact and harmony
with the actual management of the reserve banks. In the
perfection of your organization and the appointment of a
representative body in the form of an executive committee
the means have been created by which the whole management of
reserve banks and of the system can be brought into imme-
diate touch with the whole body of membership of the Federal

reserve system.

Speaking for myself, I think the time has arrived when we ought to be working together in greater harmony in all of the plans for the development of the reserve banks, and so, in behalf of our organization I take the opportunity to express our appreciation of your being here and of our desire to conduct this work in your interests.

At the meeting in New York it was arranged that there should be submitted to the Chairman of your Executive Committee a list of various topics that had been discussed at our meetings. That was done, and I understand that from those thirty or more subjects you have selected certain matters that you would like to discuss here this morning.

I am sorry that all of our organization is not present today. The Federal Reserve Board was not prepared to hold the conference that we had arranged for the entire membership of the Conference of Governors, and they asked that this meeting be simply a meeting of the Executive Committee, consisting of six governors out of the twelve, and our conference has therefore been deferred until January.

I thought, before this meeting is concluded, that we might decide to hold another joint meeting. If that is your wish, we will take that subject up before adjournment.

Will it be satisfactory to you to undertake at once a discussion of the matters which you have in mind, or would you prefer to have a general discussion before doing that?

Mr. Cox: Governor Strong and gentlemen, we are very much pleased to meet with you this morning; we are glad of

this opportunity to be with you. In a conference yesterday we discussed some matters that were of peculiar interest to us. There are five items that we were particularly interested in and were discussed more than any other items, and if it meets with your approval, sir, we will be willing to take up those items.

The first item is "Bills of Lading", and I will ask Mr. Paton, the attorney for the American Bankers' Association, to say a few words to you upon that subject.

BILLS OF LADING.

Mr. Paton: Mr. Chairman and gentlemen, the subject of bills of lading is a matter of Federal Regulation and is not a matter of amending the Federal Reserve Act; but it is one of the subjects with regard to which the American Bankers' Association felt it would be very desirable, if possible, to have the endorsement of your body and of the Federal Reserve Board of legislation which has been introduced in Congress on the subject. Senator Pomerene has introduced a bill at this session of Congress--- the same bill that passed the 62nd and 63rd Congresses. I believe it is Senate Bill No. 19. That bill, unlike most of the bills which were introduced, is the product of not less than four years of careful thought by the commissioners on uniform state laws, an adjunct of the American Bar Association, aided by the advice of shippers and bankers, recommended by the Commissioners for State enactments, and now enacted as the law of some fifteen states, in order to make uniform the law on

bills of lading. It has been taken up and adopted by Federal enactment; it has been introduced in Congress by Senator Pomerene; it has the endorsement of the American Bar Association and the active support of the American Bankers' Association. As I stated, in two preceding sessions of Congress it went through the Senate and fell in the House. Probably that will be its history in this next Congress unless some administrative recommendation can be made that will hasten its consideration by the House Committee on Interstate and Foreign Commerce.

This bill is of great importance to bankers, because it properly and adequately regulates the subject of the validity of bills of lading. A bill of lading is a document of security which is issued by carriers in the movement of crops, and is loaned on by the banks of the country to the extent of billions of dollars yearly. It is therefore a most important thing that the bill of lading should be an adequate and valid security.

Unfortunately, under the common law, as declared by the Supreme Court of the United States, a carrier whose agent issues a bill of lading without receiving the goods, either through collusion with the shipper, or more often to accommodate a shipper who promises to have his goods delivered at a later date, is not responsible. The carrier whose agent does that is not responsible when he advances^{on} the bill of lading where the goods have never been received. As the result of that rule the bill of lading is not an adequate security. This proposed bill regulates

that subject, as well as many other minor points, but that is the vital point in this particular bill. It makes the carrier responsible upon a bill of lading signed by its authorized agent, although the goods may not have been received. In other words, it makes the bill of lading a valid document as representing the goods stated on its face, the same as a warehouse receipt or the certificate of deposit of a bank.

There have been many losses in the past to banks, on account of this rule of law, and the American Bankers' Association has, for several years, been advocating this measure in Congress, but only with partial success. It would seem that the Federal Reserve Board would be largely interested in the subject of bills of lading as security, because they would form the basis of rediscounts. If it could be made a bill which could be properly endorsed by the Federal Reserve Board, and if it was so endorsed, I think it would have a fair chance of passing at this session.

I think, gentlemen, that I have sufficiently covered that point.

Governor Strong: Is that to be introduced at this session?

Mr. Paton: It is to be reintroduced at this session.

Governor Strong: Is not that substantially the same as the Stevens Bill?

Mr. Paton: The Stevens Bill had the same object in view, but related solely to the point of security, which I

have mentioned. The Pomerene Bill adopts as a basis the uniform bills of lading act, which covers not only the point of security, but codifies, in a way, the whole law with regard to bills of lading. It defines an order bill and a straight bill, and states their essentials. It states how they may be transferred, and defines the right of the shipper in the case of shipper's load and count, and various matters which the shippers desired placed in a bill, which were not contained in the Stevens Bill.

Governor Strong: Is this bill supported by the railroads generally?

Mr. Paton: The railroads have opposed the bill, but not universally so. The eastern carriers have not objected, but there is opposition from some of the southern and western carriers, because it imposes a liability on the railroads, which does not now exist to any considerable extent throughout the country.

Mr. Van Deusen: The railroads make the point, I think, that they cannot afford to hire responsible agents and they therefore do not want to be responsible when an agent signs the bill of lading for goods which he has never received, although he signs for them in his official capacity.

Governor Strong: We discussed the Stevens Bill with some railroad men, and they always raised the point that it did not cover two situations. One was the case where the bill of lading and the entire transaction was fraudulent, and you could not cover that by law---

Mr. Patron: (Interrupting) No; you could not

cover that by law.

Governor Strong: And the other objection that some of them made was that a bale or box of goods delivered to a railroad is absolutely unknown as to contents to the agent either as to quality or character, and it is impossible to fairly fix the liability upon the railroads for the representations contained in the receipt when the agent has no opportunity nor means of gaining knowledge to verify the character of the goods received by the railroad.

Mr. Otte: I think that could probably be covered by having the bill of lading read "said to contain", the same as warehouse receipts. A warehouseman, in taking in a package or bale of goods, or anything that he has not inspected, will issue a warehouse receipt containing the words "Said to contain". That is notice to whoever takes it out that he must make inspection if he is depending on that.

Governor Strong: That is probably in the bill.

Mr. Paton: That is covered by this Act; yes.

Governor Seay: Is that identical with the uniform bills of lading act?

Mr. Paton: No, it is not. It is substantially the same. The Uniform Bills of Lading Act speaks of a negotiable bill and a nonnegotiable bill. This has been changed to "order bill". This covers bills of lading issued in interstate and foreign commerce. The uniform bills of lading act does not cover foreign commerce. The uniform bills of lading act has no provision with regard to shippers' load and count, such as is contained in this bill; but

in the main this bill is the same as the Uniform Bills of Lading Act.

Governor Aiken: Does all the opposition to this come from the railroads?

Mr. Paton: Yes.

Mr. Van Duesen: It started in Georgia, I think.

Mr. Paton: The chief opposition comes from the Chairman of the House Committee on Interstate and Foreign Commerce. They went down there originally and had a very short bill drawn up just covering the liability of the carrier for the act of its agent in issuing a bill of lading without receipt of the goods. The bill came before the House Committee on Interstate and Foreign Commerce, and Chairman Anderson--- he was not then Chairman, was only a minority member of the committee--- from the start evinced a sort of prejudice and opposition, if I may so state. I think this is not a matter of confidence, because everybody knows it, but he was rather sarcastic in his opposition. He said, "Why do you not entitle the measure 'A bill to enable bankers to conduct their business without the same risks as taken by private business.'" He seemed to take the ground that it was a measure simply to enable the bankers to do their business without risk; that a carrier was simply engaged in the business of transporting goods and was not engaged in the business of issuing negotiable paper.

As a matter of fact this paper which the carriers issue has entered the commerce of the country to the extent of billions of dollars, and the commerce of the country could

not be carried on without the loans made by the banks on this paper. The small shipper turns over his capital a hundred times. He has one or two thousand dollars and buys so many bills of lading on so many cars of wheat. He must cash them in immediately in order to make a second purchase, and so on. Unless the bill of lading on which he obtains advances is safe it will only be in cases where ^{the} ship- pers whose responsibility is beyond question that such advances will be made. Where the shipper is of unknown responsibility he will not be given the accommodation. It is therefore a measure in the interests of the small shipper and in the interest of the enlarged commerce of the country, and for the purpose of facilitating that commerce.

Governor Strong: Has this bill been referred to committees of both houses?

Mr. Paton: This same bill passed the Senate last Congress and was referred to the House Committee on Interstate and Foreign Commerce. The same thing is true of the preceding, 62nd Congress. This coming Congress is the 64th Congress. It was passed in the Senate in both the 62nd and 63rd Congresses.

The interest of Senator Pomerene in this measure has come through the shippers' organizations that are behind this bill. It has been passed in the Senate. It was referred to the House Committee on Interstate and Foreign Commerce and the Chairman of that Committee would not arrange for a hearing. That was the history in the last Congress. We hope in this Congress to have a hearing.

The history of this bill of lading legislation in the former congress was this; the Stevens Bill passed the House and fell down in the Senate. That was our measure, too. In order to collaborate with the shippers and cooperate with them, we adopted and got behind the Uniform Bills of Lading Act.

Mr. Curtis: What is the title of the Pomerene Bill?

Mr. Paton: It is Senate Bill 19, a bill relating to bills of lading in interstate and foreign commerce, introduced by Senator Pomerene on December 7th.

Governor Seay: Do the railroads suggest any modification to which they are willing to agree, or is their opposition simply on general principles?

Mr. Paton: The opposition is chiefly to the section which makes the carrier liable for goods although not received. I cannot, without reading through the bill, point definitely to the provision which covers the second objection to the Stevens Bill, but I can say that this measure does not make the carrier liable for the contents of packages. In other words they are simply liable for what they receive, because there are provisions in the bill which will allow a carrier to say, "Condition of contents unknown". It is not given in those words, but it is allowable under the law.

Governor Strong: Then the railroad is not necessarily assuming liability for staple cotton when it receives a bale, which it certifies in its bill of lading is said to contain staple cotton, although it may only contain linters?

Mr. Paton: No. They are liable simply for what they state. It simply makes the railroad liable for the truth of what is stated in the bill of lading. There is nothing to prevent the carrier from putting on the bill of lading, "shipper's load and count; contents unknown", or anything they choose. Where they issue a bill of lading saying they received 100 bales of cotton or two carloads of shingles and have not received the cotton or the shingles, and the bank advances the value on the faith of the bill in cash or draft and the drawee of the draft pays on the faith of the bill for the goods which are supposed to come, and it then develops that there was no cotton or no shingles, and the shipper is irresponsible so there can be no recourse on him, then, under this bill, there would be recourse on the railroad; and it seems no more than right, in our modern commerce, that it should be so. That is the law of New York State and of the leading commercial states. Some of our states have passed the same act, I think perhaps fifteen of them. This act when passed in the states, would only cover intra-state commerce. It is doubtful if it would cover interstate commerce.

Governor Strong: Did the committee take action to indicate just what procedure should be followed to facilitate the passage of this bill?

Mr. Paton: Our committee?

Governor Strong: Yes.

Mr. Paton: No. No procedure has been discussed. We

simply desire from the Federal Reserve Board a recommendation or an endorsement. I presume the procedure would be determined by the course of events in Congress. It would be left in the hands of Senator Pomerene, who will see that it goes through the Senate. When it comes to the House Committee on Interstate and Foreign Commerce then the procedure would be to bring on the hearing as soon as possible before the House Committee. I think there is no question but what the bill will go to that Committee the same as it has in previous congresses. Then the question will come up, "How can we get a hearing and how can we get that bill reported out?"

Governor Strong: Would it be satisfactory to your Committee to furnish us with a brief statement of the purpose of the bill, together with copies of the bill, so that we can submit them at our meeting in January, in the meantime taking the matter up with the Federal Reserve Board at a meeting which will be held before we leave here now. In that way the reserve banks themselves will be familiarizing themselves with the objects of the bill and possibly at our next Conference of Governors we can pass a resolution containing a recommendation. By furnishing the banks in advance with copies of the bill they can familiarize themselves with the objects of the efforts to get the bill passed, and we will be able to discuss it intelligently and not waste time when our next Conference takes place.

Mr. Paton: We will be very glad to do that. To whom shall they be forwarded?

Governor Strong: If they are forwarded to me in New York I will see that they are distributed to the other banks.

Mr. Cox: You want to discuss that matter before you endorse it. You probably would not care to pass on it now.

Governor Strong: It would be rather unusual for us to pass a resolution covering a matter of that sort without giving consideration to it and discussing it.

Mr. Cox: We did not expect that you would.

Another matter that is of interest to us is an amendment to Section 19 of the Federal Reserve Act relating to bank reserves, and Mr. Otte will say a few words on that subject.

AMENDMENTS OF SECTION 19-A, RELATING TO
BANK RESERVES.

Mr. Otte: At the meeting of the Convention of the American Bankers' Association, held in Seattle, last September, and at a meeting of the Executive Committee of the National Bank Section of the American Bankers' Association held here yesterday, a resolution was passed favoring an amendment to the Federal Reserve Act, that is, that portion that relates to reserves, and with your permission I will read the draft of the bill prepared by the counsel of the Association proposing an amendment to Section 19 of the Federal Reserve Act relating to reserves:

" A BILL

PROPOSING AN AMENDMENT AS TO SECTION 19 OF THE
FEDERAL RESERVE ACT RELATING TO RESERVES.

Be it enacted by the Senate and House of Represen-

tatives of the United States of America in Congress assembled that Section 19, subsection (a) of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act be amended and re-enacted so as to read as follows:

"Section 19, (a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to 12 per centum of the aggregate amount of its demand deposits, and five per centum of its time deposits, as follows:

"In its vaults for a period of thirty-six months after said date five twelfths thereof and permanently thereafter four twelfths.

"In the Federal Reserve Bank of its district, for a period of twelve months after said date two twelfths, and for each succeeding six months an additional one twelfth, until five twelfths have been so deposited, which shall be the amount permanently required.

"For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults or in the Federal Reserve Bank, or in National banks, in reserve or central reserve cities as now defined by law.

"After said thirty-six months' period said reserves other than those hereinbefore required to be held in the vaults of the member bank and in the Federal Reserve bank, shall be held in the vault of the member bank, or in the Federal Reserve Bank or in National Banks in reserve or central reserve cities as now or hereafter defined by law

within a radius of three hundred miles of the member bank or within the Federal Reserve District in which the member bank is located, at the option of the member bank."

This draft of a bill was prepared for the benefit of the non-reserve city banks. I want to make this point very clear to you, and that is that it is really going to be a benefit to the country banks, the non-reserve city bank. We have taken this matter up with a number of non-reserve city banks, and we have come to the conclusion that they will have to carry an account with the banks in the commercial centers near them, undoubtedly in the reserve cities nearest them, or one of the central reserve cities, a portion of their present reserves, to get the facilities that at the present time I do not imagine the Federal Reserve Banks will want to give. I do not believe, for example, that the Federal reserve banks will want to be bothered with giving the credit information that we do give, the advice with regard to buying commercial paper, and a whole lot of other things that we do for our customers. This is really a burden on the country banker. It may seem a very small matter, but the country banker has got to figure very close. We figure that this three percent which he will be allowed, if we can put this amendment through, will mean quite a good deal to him. To our mind it is a fair and equitable thing. Under the old system the banker was compelled to carry 15 per cent reserve, and nine per cent of that was in the bank in the reserve or central reserve city. Under the present system he is not allowed to carry any of

that. We would like to get your cooperation along this line.

Governor Strong: The suggestion, as I understand it, Mr. Otte, contemplates that the country bank will have to carry balances with other national banks anyway?

Mr. Otte: Yes, we figure on that.

Governor Strong: And under the provisions of the Federal Reserve Act that balance will not count as reserve, and the consequence of the passage of the amendment is that while nominally his reserve requirements have been reduced yet, as a matter of fact, he must carry a balance in order to get the service performed, and the reduction is only nominal and not actual in the case of the country banks.

I think I express the views of our committee, and in fact, of all of the Governors of the banks, in saying that all of the difficulties that you have mentioned, and some others, in regard to the position of the country banks, have been quite apparent to us in our discussions of this matter. Nothing has given us more concern or uneasiness than the apparent inability to deal with the situation as to the country banks. In the first place, underneath the surface of the language of the Act, there is a requirement as to the reserves of country banks that may prove to be quite safe. They have got to calculate their reserves, after this act takes full effect, by a different method than has heretofore prevailed. They will no longer be permitted to count their cash letters on the way to their reserve

agents, as cash reserves, or at least as reserve on deposit with their reserve agent. That, coupled with what you refer to, and again with other losses, which it is felt will be put upon the country bank, such as the loss of interest on balances, and loss of exchange charges, all seem to have a cumulative effect as to the earnings of the country bank, and the country banker is feeling it. He is protesting about it. We have been a good deal puzzled as to how it should be dealt with. I am not at all sure that the suggestion made will receive very favorable consideration by the Federal Reserve Board. It is, however, well worth considering very seriously. If it were possible for us to recommend that, or some modification of it, or something along that line, I feel sure that we would be very glad to do it and do anything that we could to make the country banker feel more sympathetic toward our work.

Mr. Otte: As the matter stands now the national banker in the small cities is supposed to be at a decided disadvantage in competition with the state banker. I was talking with a banker from Nebraska last night and I think he told me that within the last year 36 national banks have withdrawn from the system. Some of you other gentlemen heard that statement.

Mr. Bucholz: I understood him to say 31 banks.

Mr. Otte: The only reason for that was that they were placed at a decided disadvantage in competition with the state banks.

Governor Strong: I would like to interrupt you at this

point to make a statement with regard to our proceedings that I should have made at first.

We have always had a record taken of the discussions at these meetings because they are frequently long, and if we preserves no record of them the value of them would largely be lost. It is understood, however, that our records are confidential. They are not submitted to the Reserve Board. They are not submitted to anyone else; not even are they submitted to our own directors. We have an understanding that our discussions will be frank, even to the point of criticism. When anyone feels justified in indulging in criticism he is at liberty to do so. I think we should have it understood at this meeting, and at any simplar meetings, that anybody is at liberty to say anything, even to the point of giving offense, if he feels that it means progress. I am going to ask my colleagues if they will facilitate a discussion by telling you frankly if they feel that they can favor or cannot favor an amendment to the Act of this character, and I will ask them to give their reasons.

Mr. Hyde: We have understood that, Mr. Chairman. On yesterday the reporters came from the newspapers to see us and wanted to know just what we were going to discuss. We had an understanding that we would not even give out the topics for discussion.

Governor Strong: Mr. Curtis calls my attention to the fact that it will be necessary to lay out our program for

a meeting with the Federal Reserve Board as the Federal Reserve Board is now awaiting word from us as to when we shall meet with them. We had received word last week that the Board would be unable to hold a meeting until tomorrow. I learned this morning that if you gentlemen feel disposed to devote this afternoon or a part of it, to a joint meeting with the Federal Reserve Board, that it could probably be arranged. I might say there is some advantage in doing that, because the Board is liable to interruption tomorrow and I do not think it will be interrupted today. If you care to push the discussion along this morning, giving a general outline of what you have in mind, it may save going over the same ground twice and economize our time. I think we can arrange for a meeting with the Board this afternoon.

Mr. Cox: I think all the members of our committee have engaged reservations for tonight and expect to leave this evening or tonight. It will certainly suit us to meet with the Federal Reserve Board this afternoon. In view of that fact we will hurry along with the other questions that we have to submit.

Another matter that we have on our list for discussion is "Interlocking directors." Mr. Calfee will say something on that subject.

Governor Strong: If there is no objection I will endeavor at this time to arrange for our meeting this afternoon with the Federal Reserve Board, as soon as it can be arranged after lunch.

Mr. Cox: That is entirely satisfactory to us.

Governor Strong: Before leaving the matter we have just discussed I would like to ask if some of the Governors of the reserve banks here feel disposed to express their views on such an amendment.

Governor McDougal, what is your opinion?

Governor McDougal: Mr. Chairman, I feel that I have not given the matter sufficient consideration. It seems to me at the moment that such an amendment would be in such direct contrast with the purpose and intent of the Act itself that I would like to give some study to it before I expressed an opinion. I would not like to express an opinion at this time.

Governor Strong: Governor Aiken, will you express your opinion?

Governor Aiken: I have felt that the remedy lay in a reduction of the reserve requirement of the country bank rather than in a change in the fundamental arrangement of the law. Heretofore a part of the reserve has been fictitious because of the carrying of float. If we could reduce the reserve requirements so that they would represent practically the equivalent of the actual reserves now it would afford relief to the country bank and would not be in conflict with the purposes of the Federal Reserve Act.

Governor Strong: Governor Seay?

Governor Seay: The danger, as it seems to me, Mr. Chairman, is in an invasion of the reserve principle of the present Act. I think it has always been demonstrated, in times of trouble, that that portion of the reserves of the

country that were deposited with other banks, did not have the real quality of reserves. It was a withdrawal of that portion of the reserve which always occasioned the trouble and contraction. In view of the fact that, by the Act itself the reserves have been diminished--- in the case of the country banks practically three per cent of deposits--- and on top of that that these balances in other banks would be pyramided just to that extent, of course it would insidiously invade the reserve principle of the Federal Reserve Act and would have to be very carefully considered. It is three-twelfths now and you propose that the optional reserve shall be kept at three twelfths. If you once invade that principle I think there is danger of further invading and undoing the work the Federal Reserve Act was intended to perform. That is the way it strikes me.

Of course this should be considered also, that the resources of the Federal reserve banks will probably be diminished by that sum, and the aggregate reserves held by the banks, although optional, would be lowered, and the ability of the system to meet the exigencies of any situation of stress that might arise would be just so much diminished. I am a very firm believer in the concentration of reserves and in the use of such reserves, so concentrated, wherever a condition of strain arises. At the present time I am very much afraid of any invasion of that principle.

Mr. Paton: The provision as it now stands allows a bank to keep three per cent in its vaults, and they need not go to the Federal Reserve Bank at all.

Governor Seay: As a matter of fact they may be kept in one or the other. The chances are overwhelmingly large that a certain proportion will be kept in the Federal reserve bank. I think the optional reserve of the country banks would amount to about \$125,000,000, according to recent reports of the Comptroller.

Mr. Otte: With regard to the statement you made about scattering the reserves, I would like to say I believe that a sufficient reserve, or a large enough balance would be carried with the Federal Reserve Bank under this amendment to give the bank all of the rediscounting facilities it would require, in fact, give the bank as much as it could take advantage of, or that it had available paper for, because I think you will find that a great many of these country banks do not have all of their paper, or a large part of their paper, available for rediscount. For instance it is quite common in the country to make loans on real estate, farm loans and so forth, long time paper that is not available. In the larger cities they might make loans on local stocks and bonds of local concerns. They have heretofore been able to put up such securities with the banks in the reserve or central reserve cities. That is probably due to the personal equation to a certain extent, and you are going to eliminate all of that sort of thing if you are trying to get the banks to do business entirely with the Federal Reserve Banks. You will find that these banks have not all the paper that they require at cer-

tain seasons of the year for rediscounting purposes.

Governor Seay: The Federal reserve bank of Richmond has had very active relations with a very large proportion of its member banks, something more than two-fifths of them. The demands of these country banks upon us bear no relation to the amount of their reserves. Probably it would surprise you to find the proportion of eligible paper that all of those banks have. It is true that they have not kept with us but a small proportion of their reserves and their demands upon us are very greatly in excess of their reserves. I refer to the borrowing banks, and in the borrowing regions that would always be the case. .

Governor Strong: Governor Fancher, have you anything to say?

Governor Fancher: I think this proposed amendment to the Act of course strikes at the foundation of the reserve requirement of the Federal Reserve Act. I cannot help but feel that there is something in the position which the country bank must occupy in the matter of its relation to its correspondents if the reserve requirements of the Federal Reserve Act are met. There is quite a question whether the Federal Reserve Bank can afford to offer the things that these small banks have been receiving. I wonder whether it will not be necessary to continue in some way the relations with some of their reserve correspondents. The matter of some collection service is going to enter into it. I think it is a matter in which the small country banks are very interested, that is, just how their needs and

requirements in a number of ways are going to be met and taken care of after the reserves have all been transferred. As to whether there is some method with regard to reserve transfers that can meet the situation is a question that I would like to give more thought to before expressing myself. However, I do believe there is considerable in the thought that the small country banks might be given some option as to where their additional reserve should be carried.

Governor Strong. Governor Rhoades?

Governor Rhoades: The problem of the country bank is such a real one that I have some sympathy with the thoughts that have been expressed. As a matter of practical politics I doubt whether an amendment such as has been proposed would pass the present administration's scrutiny. It might possibly be obtained by a reduction in the reserves not counted as reserves. That is the only compromise I see at the present time that is practical.

Governor Strong: This proposed amendment accomplishes two things. It does afford some relief to the country bank, which is a thing we want to bring about. It does result in the continuance of certain deposit accounts with reserve city banks which Congress has decided to have discontinued.

One of the defects in this proposed amendment is undoubtedly the difficulty that would be encountered in persuading Congress that it is proposed in the interest of the country banks. If the balance is to count as reserve it means that the reserve city bank has got a cinch on that

business. If the reserve requirement is reduced, why it means that the country banks will have greater facility in doing business without loss, but it will not give an advantage to banks in reserve and central reserve cities.

Mr. Van Deusen: There is one point in the proposed amendment, and that is that the additional three per cent must be carried within a radius of 300 miles of the bank or within the Federal reserve district in which it is located, which I think would meet, to a certain extent your objection and also Governor Seay's objection in regard to the old system of pyramiding. Under that old system of pyramiding a country bank in Iowa would carry reserves in St. Louis and St. Louis in turn would put part of that in New York. That is not just the proper comparison, but in Ohio a bank would carry the reserve in Cleveland, and Cleveland in turn would put it in Chicago and New York and eventually get it all in New York or Chicago, the central reserve city. It would to a large extent obviate the objection of pyramiding. With the reserve cities not reduced, and with the added facilities of the Federal reserve system to the reserve city bank, it would to a certain extent, and I think entirely, overcome the objection under the old system that the central reserve system had no final source of supply or of aid except in importing gold from Europe.

Governor Strong: Of course it is necessary that any suggestions for an amendment to the Act be made under such auspices and be so framed as to encounter the least opposition. I think everybody here who has expressed his views

realizes the difficulty of getting an amendment to the act which reaches to the very heart of the whole scheme of the Federal Reserve Act in the elimination of the scattered and pyramided reserve arrangement under the old system, the old national bank act. Then there is another very important point to be considered, and that is that you want to get action, you want to get something done, and I fear very serious opposition to this program in the Federal Reserve Board itself.

Mr. Buchholz: The thought occurs to me, in connection with this proposed amendment, that it would be a very distinct benefit to the country banks. I believe any public official would say that if they looked into the matter carefully. Take, for instance, our bank located in Fremont, Nebraska, which is about 70 miles from Omaha. If it would keep three per cent of its reserve in Omaha--- and we have to keep an account at Omaha anyway--- three per cent of the balance there would probably be a really liquid balance and would not be float. They would have the added facility in time of stress of discounting such paper as is eligible with the Federal reserve bank, and certain other paper which the local correspondent would know all about. It would add to the facilities for doing business, and meet any crisis and take care of any proper business expansion. Anything you can do to show to the country banker that he has an advantage by belonging to the system makes him satisfied and also makes him the envy of the state bank, his competitor, and

makes the state bank also anxious to come in. I understand the purpose of the bill is to have the Federal Reserve System the only banking system of the country when it is fully developed. You cannot make the state banker believe that when he finds every national bank groaning under the burdens of it and can see no advantage in it.

Governor Strong: We are encountering difficulties with the country bankers in getting their cooperation in certain of our plans, and the question is how effective would such an amendment be in getting them into line?

Mr. Bucholz: I think it would be very effective, myself; I think it would be of great help.

Governor Strong: In other words, would an amendment of this character bring with it such an endorsement of the system as to give us a chance to develop our collection plan?

Mr. Bucholz: Of course the collection plan, speaking personally, now, according to my judgment should be deferred for a little while. I think it should be developed in course of time. I think the Federal reserve banks give undue importance to that matter right at this time.

Mr. Otte: I believe there is a decided advantage in a plan of this kind over a reduction in reserves. With reference to the point you make in regard to probably not being able to convince Congress that it would be a help to the country banks and not for the direct benefit of the national banks in reserve and central reserve cities, I think is one that could be developed by a canvass of the

country bankers either by your body or the Federal Reserve Board, or the American Bankers' Association, and I believe we would find a very large percentage of the country bankers would be in favor of a move of this kind. If you give the country banker relief by reducing his reserve requirements, he has got to carry a balance somewhere anyway and he would carry it with a state bank. That gives the state bank a strong advantage and provides them with a good reason for not coming into the system.

Governor Aiken: But why should he carry it with a state bank?

Governor Strong: If it did not count as reserve he could carry it anywhere.

Mr. Otte: There is no reserve requirement in Illinois, but they carry 15 or 18 per cent cash means.

Governor Fancher: May I inquire if your committee has discussed the matter of not permitting the small country banks to count as reserve the items which they round up and charge in on the day they round them up? The reserve requirement has been lessened from fifteen to twelve per cent. The point I am making is this: Assuming that something of this sort might be brought about, that this optional three per cent, if the country bank chooses to carry it with its nearby reserve agent, would be reserve. It would not be reserve until the reserve agent received the items and gave him credit. That would do away with this item of float in reserves which has been going on and which

has added very much to the pyramiding of the reserves. Has that point ever been discussed, Mr. Otte?

Mr. Otte: No. I do not know that that was under consideration at all. I did not look into it personally.

Governor Strong: The effect of the present law is to ultimately eliminate that type of float from the reserve of the country bank, because the act provides that these reserves of certain percentages must be established and maintained either in the vault of the bank or on deposit in the Federal reserve bank.

Mr. Otte: We did not consider that.

Governor Seay: Is not this to be considered also? Whether or not the maintenance of that small proportion of reserve, three twelfths, would be of sufficient value to the reserve city banks to entitle the country bank to much privilege?

Mr. Otte: No. As a matter of fact I believe in a great many cases the country banker will have to carry more than that, but it gives him just that much relief.

I am interested in a little national bank that comes under that class, that is, a non-reserve city national bank on the outskirts of the City of Chicago. We used to carry about 15 or 16 per cent reserve under the old law. Now we have to carry about 17 or 18 per cent for the simple reason that we have got to carry an account in Chicago to give us the facilities we want. That reserve will probably be increased later.

Governor Strong: It will be increased by the amount

of subsequent reserve transfers.

Mr. Otte: Yes. That is a practical illustration right there. The bank I am interested in right now carries about 18 per cent.

Governor Seay: That is due to the fact that no collection system has yet been developed?

Mr. Otte: You are only offering collection facilities to national banks. We have a great many state banks in that section of the country whose checks have got to be collected.

Mr. Calfee: Then the reserve money in excess of the legal requirements would find its way into the National and state banks.

Mr. Van Deusen: Governor Aiken asked you why that excess should be kept in state institutions if the reserve requirements are reduced?

Governor Aiken: I asked why that should be done?

Mr. Van Deusen:

A case came to my attention a day or so ago in which a large trust company in St. Louis recently engaged a very competent man to go out after just that business. They feel that when the reserve requirements are met they will have a much better chance to get that business than in the past. That is the attitude that is being taken by a good many of the city institutions in the larger cities, I think. They are going after that business as a practical proposition, and they feel that they can get it.

Governor Seay: They will be on an equal footing, then.

Mr. Van Deusen: Yes.

Mr. Otte: Then another thing. These so-called reserves would be in banks over which the Federal Reserve Board had control. There is another advantage in that.

Governor Strong: This matter has been discussed in some of our meetings. It has not been discussed very exhaustively, but it has been discussed as one of the various means that might be employed to bring some relief to the country banker. There was not much hope of anything of that sort being done on account of our knowledge of the general legislative situation over here in regard to this Act. This is a matter that ought to be discussed very fully with the Reserve Board. After getting a full record of our views, we can follow it up with them frequently and have constant meetings with them to see what can be developed.

Mr. Van Deusen: One of the principal objections presented by my state banking friends to coming into the system is the additional expense they would be under in tying up their reserves without interest. When you ask their reasons for not joining the system they hem and haw and finally get down to that.

Governor Seay: That is due to the fact that they are not required, in many states, to keep a big percentage of reserve.

Mr. Van Deusen: I was speaking especially of state banks around New Jersey. They have a fixed reserve. Their

reserve is 15 per cent on demand deposits and no reserve on time deposits.

Governor Seay: They have had no reduction in reserves they are required to keep?

Mr. Otte: Actual cash reserve.

Mr. Van Deusen: It is three per cent cash and the other twelve per cent they can keep practically in any bank.

Governor Seay: That is the load that the national bank system has had to carry in times past.

Governor Aiken: I would like to ask, Governor Strong, for information and not as a criticism, if a broader amendment with regard to the place where these optional reserves would be carried would be more popular with the country banks than a reduction of the reserve requirement. Which do you think the country bank would rather have, Mr. Otte?

Mr. Otte: I do not know. I have not considered that. I have always gone on the theory that the Federal Reserve Board would prefer to have these optional reserves carried in banks over which they had control. That seems quite natural. Some of the states have framed laws and some have passed laws--- I believe South Dakota and North Dakota have laws to that effect--- that state banks must carry a portion of their reserve in the state banks in the state. I believe if the law were amended in that way that it would afford relief to the country banker. It is true it would give the national banker in reserve centers an advantage over the state banker, but why not?

Governor Aiken: He should have it.

Governor Strong: Yes; he should have an advantage.

Mr. Otte: Why not? We are members of the system and we are paying for it. We are paying for the stabilizing of the financial structure of the country. The outsiders, as I call them, the state banks, are criticising us and telling us how to run this thing, but they are not helping to pay for it.

Governor Strong: Our critics, the state banks, over whom we have no control whatever, are sometimes a thorn in the flesh; at least we have found it so in New York occasionally, even though some of us were state bankers before we got into the system. (Laughter)

May I ask what course of procedure your committee would like to have us take in connection with this proposed amendment?

Mr. Otte: We were in hopes that you would approve of an amendment of this kind and if you did approve of it recommend it to the Federal Reserve Board. We assumed that would be the procedure; that you would recommend these things to the Board and that the Board would favor an amendment of this kind, provided we decided later to present a bill asking for it.

Governor Strong: I do not want you gentlemen to misunderstand what I am going to say, because it is not proposing a bargain, but I would like to ask you to think about this feature of the matter, Mr. Otte, one of the difficulties that we are encountering in carrying out the expressed injunction of the law as to the management of these banks

is to find a way by which the country banks can be persuaded—not forced necessarily— but persuaded to abandon charges, or possibly only excessive charges, for exchange. The country bankers all claim that they depend upon the revenue thus derived and that it is a necessary and essential revenue to their banks; that they could not afford to give it up, and if they did they would have to go out of the system. We do not all of us believe that it is quite as important as that to the country banks.

I would be hopeful that any amendment to the Act of a character designed to give relief to the country banks would be coupled in some way with a better understanding with the country banks— by possibly an amendment to the statute— that would put the reserve banks in a position to collect checks without the deductions and exactions that are now imposed by many country banks. I do not mean it is imposed by all of them, but it is by many of them, and such an arrangement would put the reserve system as a whole in a position to perform a service which some day it must perform for the members, after the reserves are all transferred.

Mr. Ott:

I agree with you on the question of exchange, and I agree with you that the charges of a great many of the country banks are exorbitant; but I do not believe that they all try to pay their entire running expenses out of the exchange accounts. Of course we all realize that the real basis for that is the cost of the transportation of currency to the center on which they draw. I have not

given this much thought, but I think you might look into that feature of it. Your body here might be able to formulate some rule, or law, in regard to a charge of that kind, based on the cost of the shipment of currency. It would hardly be fair to assume that if the cost of shipping currency from, we will say, Colorado to Chicago, is 25 cents a thousand, that the exchange charge ought to be 25 cents a thousand. Other things enter into it. But that might be used as a basis.

Governor Strong: I would like to say that we have been trying for over a year to penetrate the darkness that surrounds that whole subject. We have arrived, I think, at a conclusion on the subject under certain interpretations of the law as to what ought to be done.

I would like to suggest, without suggesting this in the way of a bargain at all, because that is not what is in my mind, that any effort made to bring about relief to the country banks should be made the basis of a better understanding of how that subject will be dealt with. They claim that their losses of interest and exchange are serious. We propose now to go to Congress possibly with a scheme for amending this Act, by which their condition will be ameliorated, and why should that be undertaken unless we accomplish the purpose of the Act as to this other matter?

You speak of bringing about, by investigation, a better understanding as to the cost of remitting exchange, and so on. We have investigated that pretty fully and discussed it at great length. To deal with the subject on that theory, I believe, means that a charge for the collection

of checks--- that is, a charge by the bank to its customer for collecting checks deposited and a charge by the bank which collects the check in the country or remits it for its own check, instead of being abolished by the terms of the Federal Reserve Act, will be made universal. Everybody will pay on all country checks. The condition of the country, resulting from any such effort as that will be one of turmoil. This provision in the statute was originally intended to relieve the merchants and manufacturers from the annoyance and expense of exchange deductions. As we pointed out to the Reserve Board, if we undertook to put into operation a system of universal charge, why, the whole purpose of the legislation will have been defeated. Everybody will have to pay on checks. We are really now at this point in connection with that matter: We believe the checks should be collected, and not cashed, by a clearing system. We believe the intention of the Act was that these checks which we receive on deposit should be received without any deduction by us for exchange or collection, but that we should be authorized to say to our depositor, "We are performing a service for you for which we are justified in making a charge, a service charge", and that every member bank that makes the deposit with us in turn is justified in putting that expense upon its customer and making the customer pay a service charge; likewise the country bank on whom this check is drawn is entitled to the cost of "collecting and remitting", as the statute described it; and we are justified in collecting what we do collect from a member

bank and the country bank is entitled to get from us the actual cost of furnishing the exchange and covering its checks. That is a very pretty theory, but in actual practice, as we say, ^{if} it is attempted to be enforced and made general, it means that the depositing bank will absorb all the expense or will make the collection charges universal by charging everybody that deposits country checks. Inasmuch as the the principal charge, and the most difficult charge to deal with and adjust in most cases, is the charge of exchange imposed by the bank upon which the check is drawn, we are confronted with the difficulty of dealing with that bank. The actual administrative expense of collecting checks is a small matter compared to that, and we feel that it might be practically absorbed by the depositing bank and no charge be made to the customer.

If the country bank can be compensated in some way by some such amendment as you have suggested and be willing to forego exchange charges, and we are able to make it up to them in some way--- and I advance this suggestion very diffidently--- it might be that you would find a more welcome reception for your suggestion than you would when you offer nothing in exchange.

Mr. Otte: I really think that is another matter. I think you will find in certain sections of the country that the banks do not get enough exchange, or do not get enough checks on centers to create exchange for them. They frequently have to deal among themselves and buy it. Take the small country town of Chicago, for example. We occasionally have to buy New York exchange from other banks. (Laughter)

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Wilf.

Mr. Bucholz: I can give you an idea of the attitude of the country banks. I do not believe any state in the Union has given more trouble than the State of Nebraska in the charge business. We are able to make out fairly well, or practically so, in every state in the Union except our own state, and we live right there. That is a peculiar thing. We have exerted every effort to stop this petty larceny. I have an old friend who is a director in the Federal Reserve Bank of Kansas City, and he is one of the biggest offenders. I spent about an hour with him in his private office until I simply beat it out of his head. We use all sorts of arguments. For instance, we tell the state correspondent that a national bank check can be cleared through the Federal reserve bank; that we will have to send his paper to a Federal reserve bank to get it parred. He does not want to do that, so he comes across. His argument, however, is this. He has many accounts, you know, in the little towns, with some little meat market or grocery store man that will carry his money to Omaha or Kansas City or St. Joe, to the central market, and he does not have a cent on deposit when he sends that check out. He expects to rustle and get the money in due time. The check is presented, and possibly a charge of 25 cents is made for a \$15 check. He goes on the theory that he makes a profit on it in the hope that sometime perhaps that account may be

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worth more in the regular way. He claims that the check is payable at his counter; the check is drawn on his bank, and if anyone gets hold of it and wants to handle the check he is entitled to pay for it. Otherwise he will be money out and pay cash at his counter.

That is the country banker's argument in a nutshell. There is no doubt about that.

Governor Seay: There is one very important consideration that we found we had to reckon with. I do not know whether these gentlemen have come in contact with it yet. I think I am not mistaken in saying that there is a very pronounced feeling that as few amendments as possible of this Act should be asked for at this Congress; and without expressing any opinion of the relative importance of anything I think there is a feeling that before asking for anything there will be a necessity of doing in this as we have to do in all legislation; that is ascertaining what opposition is entertained in high quarters. To ask for one thing when there might be a pronounced opposition would have a tendency toward defeating something else we might want to ask for also. Both in respect to this proposed amendment and others that is one of the most important considerations we have to weigh. I think that amendments are felt to be desirable in different quarters, and if you put them all together they make rather a formidable showing; and yet among all those a few have to be selected in order to be reasonably assured of getting any legislation.

Whether you gentlemen have encountered that I do not

3 know, but I am very sure that we have.

Mr. Bucholz: We feel, Mr. Seay, that this Federal Reserve Law of course has not been operating under normal conditions, and we are mindful of that all the time in suggesting any change to the law itself, because it really has not had a chance to operate under normal conditions. War has been on ever since it has been started, so I think that we ought to bear that in mind. I can see the reluctance of the Administration toward having this bill tampered with before it has been given a fair show.

Governor Strong: I would like to state in connection with this subject that you gentlemen will find in discussing it with the Federal Reserve Board that the subject of reserves and the amendment which you suggest are hopelessly intermingled with the subject of collections in their minds.

Mr. Bucholz: Collection of checks, you mean?

Governor Strong: Yes, the collection of checks and the reserve balances are largely going to be treated in discussion with the Board as one subject, I think you will find, and in our discussions of these two subjects with the Board at different times their attitude has generally been one of sympathy, I think, for the position of the country banks in this whole matter, and an effort to introduce a system of collections which will impose the least hardship upon the country banks as distinguished from the City Banks. We know perfectly well that if the present intra-district system could be forthwith extended to make it universal throughout the country it would be a benefit to such banks as those which

4 most of you represent, which are located in reserve and central reserve cities. It would be a fine thing to be able to convert all your checks into cash by sending them to the reserve bank and have no more worry about collections. I think it is fair to say that the effort that we will make and are making will be directed towards making that system bear as lightly as possible upon the country banks. In that respect our feelings are in entire sympathy, I believe, with this suggestion that has been made that it tends to the relief of the country bankers, and if you feel that we have discussed the subject as fully as you care to at this meeting I would like to conclude it with the suggestion that you likewise discuss it with no reservation whatever with the members of the Federal Reserve Board and get your own impressions from what they say as to this specific amendment and their feelings toward the country banks and how the country bank is going to be affected by this problem.

Mr. Hyde: May I ask one question? Is the aim of the Federal Reserve Board and the Federal Reserve Agents, is the crux of this matter of collections, to use as a whip that is to bring us into the collection system? You asked us to be entirely frank. That question has come up. Is that the whip that is to be used to bring us into the collection system?

Governor Strong: No. I think you misunderstand, possibly, what we have said.

Mr. Hyde: You said it was intermingled so closely with the collection system---

5 Governor Strong: Our discussion of the matter of collections has laid great emphasis upon the fact that the law in providing or suggesting a scheme for collecting checks and in the arrangements of the reserves has in fact increased the reserve requirements of the country banks rather than reduced them. That has been brought out repeatedly in our discussions. If we should introduce this system which we describe as the immediate debit and credit system, the effect upon the reserves of country banks remote from the reserve banks would be very severe indeed. Of course reserve requirements in the case of a bank three or four days from the reserve bank would be equal to six or eight days cash letter in the mail.

What I intended to suggest, Mr. Hyde, was that the subject of collections is just now a very active and pressing one with us and with the Reserve Board, because--- and I want to make this statement with the utmost frankness--- the men who framed this act had been advancing a lot of rather vague, ill-defined theories in regard to what a check was, and that some way or another a check might circulate throughout the veins and arteries of our commerce as a bank note, and that whenever a man happened to become possessed of a check he ought to be able to go to a bank and get cash for it, without regard to who drew it, or on whom it was drawn or how it was drawn, and we had to make an assault upon some of these theories, with some little success, trying to persuade them that a check is a piece of paper to be collected if it is good, and not to be treated as cash. In the

6 course of these debates on the subject of collections we have brought out the fact that the theory that Congress had in mind, or their advisers had in mind, about checks, would impose very serious hardships upon the reserve system and upon some of the member banks. So when you come to debate this matter with the reserve board you will find that they are going to consider that the requirements and the collection plans and the necessities of the country banks are all pretty much intermingled and it is one subject. You will have difficulty in separating it, I think, possibly, in discussion.

There is one desire just now, I think originating directly in Congress, to make more rapid strides in the development of this collection matter, and naturally the Federal Reserve Board feels that if your proposals are in the direction of making progress in that matter, or can be so treated that they will facilitate progress in that matter, it would give you a better opportunity and give us a better opportunity of cooperating.

Mr. Bucholz. It seems to me they will bring that about by allowing the country bank to be in touch with its nearby city bank and let him use his influence to make these collections or at least bring them down to a reasonable basis. You will have more results.

Mr. Cox: The next question that claims our attention is interlocking directors.

Mr. Calfee: Mr. Chairman, that section of the Clayton Act.---

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Governor Strong: Excuse me one minute. Mr. Curtis calls my attention to a matter that may have been left in an uncertain status in your minds in discussing this previous subject, and that is that at no time has the reserve board, or have the reserve banks considered the use of the reserve situation as a club in influencing or driving the banks into a system for handling checks. Personally I have never heard the subject suggested. Possibly that answers that question, Mr. Hyde.

Mr. Hyde: That is what I had in mind.

Mr. Calfee: The question of interlocking directors as it refers to national banks in the Clayton Act is a matter of serious concern to quite a number of our members. In almost every city directors of national banks have become interested in trust companies. This line of business in a measure does not compete. The Clayton Act, which will go into effect next October, will prevent quite a number of directors acting in the two capacities.

We feel that this law will work an injury to the National banks inasmuch as it will take from them in quite a number of cases experienced and trained bankers, men who have been in the banking business for many years, and we believe at this time it is a matter that we need to cover, to use all the strength possible in handling banks and bank business.

A number of national bank officers in large banks are interested in smaller banks, some in their own city, and some outside of the city. This law will sever that connection and make it impossible for an officer or director of a

8 national bank of resources of \$5,000,000 or over to become a director in a smaller national bank. But it does not prevent his becoming a director in a state bank outside of the city in which he is located.

We feel that it would be to the interest of all national banks if this part of the Clayton Act could be repealed and not affect national banks. We should like to have you gentlemen discuss that and give us your advice with reference to this matter. We feel this, that if it is found that it is impossible to have this section repealed, we should like to take up the suggestion which was made by the legislative committee of the American Bankers' Association when the bill was being considered, and enact in its place the following:

"Whenever an officer or director of a bank or trust company, member of a Federal reserve bank, shall also be an officer or director of one or more banks or trust companies located in the same city, whether or not members of a federal reserve bank, and which institutions are doing a substantially competing business, and it shall appear to the Federal Reserve Board upon satisfactory proof, after due notice of hearing, that such officer or director is abusing his position in the way of destroying competition between such institutions or exercises an undue control over such institutions in the granting or refusing of credit, the Federal Reserve Board shall have power to compel the discontinuance of such practices or to require the resignation of such officer or director from one or all of

9 the banks or trust companies which are members of the Federal reserve bank."

In other words, leave this entire matter to the discretion of the Federal Reserve Board. We would be glad to have you consider this, and if later on it is found advisable to introduce a bill repealing this, to give it your support.

Governor Strong: Mr. Calfee, there has been a great deal of discussion of that matter at our meetings, and other meetings of those connected with the reserve banks. Possibly I might state what has so far transpired.

The Federal Advisory Council has made a recommendation for amendment to the Clayton Act which possibly does not go as far as your suggested amendment. They did not recommend repealing that section of the Clayton Law, but they recommended a change which would permit a man to serve as a director in both a national bank and a state bank in the same city. An effort has also been made by some other banks independent of the reserve system, to secure an amendment to the Clayton Act, and their representative was here in Washington recently and discussed it at length with the Reserve Board, and I think made considerable impression upon them.

The difficulty that has been experienced in New York, as you may imagine, has been the feeling that New York is regarded with distrust in connection with these matters, and any recommendation emanating from that source would probably not promote a change in the law, but might even defeat it.

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Your first suggestion for repeal of that section of the statute I personally believe is hopeless to expect. The other recommendation, that that section of the Clayton Act should be taken out of the Clayton Act and made a part of the Federal Reserve Act, where it belongs, and be dealt with by the Federal Reserve Board, is just what has been in the minds of a good many men. It ought to be brought about, and if you are able to impress your views upon the Federal Reserve Board and get their cooperation, I believe you will find a great many banks willing to support you who would not be willing to take the initiative for fear that it would have a bad effect.

Mr. VanDeusen: When the Clayton Bill was in Congress the Senate struck out the entire section regarding interlocking directors, and it was put back in conference. I know at that time there were several members of the House Judiciary Committee, several of the Democratic members, who were opposed to having this section put in. This proposed amendment to leave it to the Federal Reserve Board had the support of a number of the Democratic members of the House Committee at that time. It was proposed to them then.

Governor Strong: There are a number of plans that have been suggested and discussed. One is that Congress now be asked only to pass a statute which will extend the time for the operation of this part of the Clayton Act for a period of years, possibly until something more scientific can be devised; because it is highly unscientific. It does not strike at the root of the evil at all. It is just one of the

11 evidences of the possible existence of an evil. A number of different suggestions have been made for a modification of the statute. This one that you make is a new variety that I have not heard before. We have at our Conference made a recommendation somewhat similar to that made by the Federal Advisory Council already, and that is before the Federal Reserve Board. I do not know how my associates feel about this, but speaking from the standpoint of a New York banker I think you have got very much better chances of success possibly than some of the men on this committee would have in urging that amendment.

Mr. Paton: Do you suggest that such an amendment be introduced independently by our association?

Governor Strong: No; I would suggest your taking it up with the Federal Reserve Board first.

Mr. Paton: The amendment suggested by the Advisory Council simply relates to the big cities.

Governor Strong: That is all.

There is a manifest unfairness in prohibiting directors in a National Bank in a big city from holding a directorship in a bank elsewhere, a national bank, although he may hold a directorship in eight or ten or any number of state banks. There is absolutely no competition between those two banks.

Mr. Van Deusen: You are familiar with the situation in New York?

Governor Strong: Yes.

Mr. Van Deusen: And in the suburbs of New Jersey and Long Island, and those communities?

Mr. Van Deusen: With respect to many of the small banks in New Jersey they have several of their directors who will be men who are connected with competing New York banks, men who live in that locality. Westfield is an example. A great many of the bankers there are connected with New York banks. They live in that town, so that they naturally become connected with the local banks, and the Advisory Council's amendment, or proposed amendment, would not go far enough to permit that.

Governor Strong: No, it would not.

Mr. Van Deusen: Because that covers two banks in the same city.

Governor Strong: This is a particularly fortunate time to take this matter up with the Reserve Board, because the Board rather leans to the view, I think, that the privileges of national banks must in some way be enlarged and developed so that they may be able to meet competition of state institutions. You have already observed that that has been evidenced in the treatment that the Comptroller has decided to extend to National banks that want to consolidate with State banks and maintain branches that the state banks have established.

The Clayton Act is inconsistent with what undoubtedly will be attempted in the near future; that is, the extension of the powers of National banks so that they can establish branches directly. The present relationship between a large bank and a number of small banks in the same city grows

13 out of the natural desire to establish branch relationships which are not permitted directly by law. I think you may receive some encouragement in this matter in debating it with the Federal Reserve Board, and when you arrive at an understanding you may find it desirable to go ahead as an organization of the National banks with proposed legislation and endeavor, if possible, to get the cooperation of the Board and of the reserve banks in bringing it about. It is a matter, though, in which you had much better take the initiative yourselves, I believe.

Mr. Curtis: I think you said men in the small banks and in competing New York banks. You meant noncompeting?

Mr. Van Deusen: No. What I meant was one of the small country banks would have maybe three or four directors who were officers in New York banks, which New York banks are competing banks. For instance, I know of a case where they have a man connected with the Chase Bank and with the Irving and Park, maybe. Those three banks would be competing banks.

Mr. Curtis: I thought you meant that the New York bank was a competitor of the small country bank.

Mr. Van Deusen: No; but men from these competing New York banks will be on the board of one bank in the country which is not a competitor of the New York bank.

Mr. Curtis: I was afraid that a wrong impression would get into the record there.

Mr. Otte: The same condition prevails in practically every large city in the country. We have the same condition

14 in Chicago and in a large area in different parts of the city. Business centers have sprung up and banks have been established there to meet the local requirements. Those banks are strictly local. The first thing that they do in that locality is to consult some banker in the downtown district in Chicago and get his advice in regard to it, and probably ask him to serve on the Board. They want his advice on the board in regard to making investments. He is a real help to that bank in that way, and that is a condition that probably prevails elsewhere. The real evil, if there was an evil, or if there is an evil, is not remedied by the Clayton Act at all, because there is nothing to prevent a man from putting in a lot of dummies, and controlling them if he wants to.

Governor Seay: In the event that you should not think it desirable to ask for the repeal of that, you have a definite, clean cut recommendation to submit to the Board, have you?

Mr. Calfee: We have decided to ask the Board to support the amendment which was suggested two years ago when the Clayton Act was first enacted.

Governor Seay: The one that you read?

Mr. Calfee: Yes.

Governor Strong: I should like to state that it has been arranged to hold a meeting with the Reserve Board at three o'clock this afternoon, and it is now ten minutes past twelve. I should like also to extend an invitation to you gentlemen to take lunch with us here at the hotel, if

15 that is agreeable, so that we can go right to the meeting from lunch.

Mr. Hyde: That will be agreeable to the committee.

Governor Strong: Before going ahead with the program of discussion which you have laid out, I should like to ask what the view of this committee is with regard to the relations between your committee and our meetings and the Federal Legislative Committee of the American Bankers' Association? Mr. Hinch, the Chairman of that Committee, has suggested that it was desirable in legislative matters to have some cooperation between the two organizations.

Mr. Cox: I think Mr. Hyde can make that clear, Governor.

Governor Strong: We naturally did not want to get in between the two organizations and suggested your working that out between yourselves, and if you desired a meeting over here it might be arranged for January, when we meet again, although it could not very well have been done this time, as I advised him.

Mr. Hyde: Governor, our idea is that we have peculiar problems, that is, problems that are peculiar to the national banks, and the Federal Legislative Committee represents the entire association composed of state banks as well as national banks, savings banks, and if we desire to cooperate we have to work along the same lines with you and lay emphasis on those matters that affect us vitally; that is, our national banks. The request that the meeting of the legislative committee be held simultaneously with our own came

16 from them. We did not ask that we be included, but when they asked to come, we could not very well refuse. It would have been an ungracious thing to do; at least we felt so; and yet we were merely to present and press our own claims.

Governor Strong: May I say to Mr. Hinch, then, that it will be desirable to arrange for further meetings, after you and he have reached an understanding as to the character of the meeting that is desired, and when it shall be held, and so forth?

Mr. Hyde: If a further understanding is necessary, the Constitution of the American Bankers' Association makes all our work submitted to the Legislative Committee; but at your request, giving us the opportunity to be heard, we felt that it was a great opportunity for us to present our own particular claims, and we believed that they are in entire consonance with the views of the Legislative Committee, that is, of the American Bankers' Association.

Mr. Farnsworth: I think I can throw a little light on that subject, at least on the rules of the Federal Legislative Committee and all of the Section of the Association, and I think perhaps your remarks when you first met with this committee applied particularly to that. The Section of the Association, all of the Sections of the Association, are not in a position to take any radical action on matters of legislation. The Constitution provides that these very sections, in case they believe that there is certain Federal legislation which is needed, can get together and discuss those questions and then draw their conclusions,

17 and if, in their judgment, certain legislation is required, or certain amendments to this Act, then suggestions must be submitted to the Federal Legislative Committee, and the Federal Legislative Committee, with the approval of the American Bankers' Association or its Executive Council, or its Administrative Committee, can authorize that action.

Your suggestion made in New York was that it was very desirable for this section or a section to get together with the Conference of Governors, or, as it happens in this case, the Executive Committee, for the purpose of discussing these various subjects. After this session is over if, in the judgment of the Executive Committee of the National Bank Section, there are certain matters of legislation which it is believed the Federal Legislative Committee should take hold of, they probably will submit those suggestions to the Federal Legislative Committee; but it seems the wisest course has been taken, which was taken on that suggestion, that the committee get together with you in conference and exchange ideas about these features of legislation and amendments.

After adjournment this committee probably will meet again, and if in their judgment it has gone far enough or they have had enough information from you, or the suggestions that come out from this meeting seem desirable to submit to the Federal Legislative Committee--- these suggestions which they desire to be taken hold of by the Federal Legislative Committee in the shape of amendments--- then the Federal Legislative Committee will be in a position to act.

Governor Strong: Our position will be, I presume, Colonel Farnsworth, that we will proceed upon the assumption that you will meet with us from time to time and discuss these matters, and so far as the organization of the American Bankers' Association is concerned, you will take necessary action directly with the Legislative Committee to see that they are informed and have opportunity to deal with the matter, according to the rules of your association.

Mr. Farnsworth: That is my judgment on that.

Mr. Paton: The Constitution provides that subjects of legislation originating in any section shall not be urged independently by the section, but shall be presented when decided upon and urged by the committee on Federal Legislation.

In regard to the subjects already discussed here, the subject of bills of lading and the amendment of the interlocking director provision, both subjects are in the hands of the Committee on Federal Legislation. That is to say, we go ahead without any further authorization or sanction. These things have already been decided, so far as the Committee on Federal Legislation is concerned.

On this matter of the reserve, the Committee on Federal Legislation takes the view that they do not want to urge anything unless the National Bank Section which it affects so desires; and this meeting here is simply for consideration and discussion. When we say we propose to urge legislation, that is really saying that the Federal Legislative

19 Committee proposes to urge the legislation. That is the status.

Governor Strong: I guess you can leave it that way, and if I hear from Mr. Hinch again I will write to Mr. Hyde to bring about such an arrangement as seems in your interests.

Mr. Hyde: We will communicate with the Chairman of the Federal Legislative Committee.

Mr. Cox: I had some correspondence with Mr. Hinch.

Mr. Farnsworth: I think Mr. Hinch's idea all along has been this, that had he attended this meeting he would be present with his committee for the purpose of hearing the arguments. Of course they would not be in a position to take any action. It was the plan of this committee, the executive committee of the National Bank Section, ^{that} if the Federal Legislative Committee had met at this time, the two committees would hold a meeting and discuss the matters again. The Federal Legislative Committee would not be in a position to act except upon matters which Mr. Paton has brought up here, matters which are outside of the Federal Legislative Committee.

Governor Strong: It is rather important that our efforts, whatever they may be, shall not be confused and no conflict of interest may be introduced by the appearance of state bank men who may have interests quite contrary to those that you are seeking to protect. Frankly, I was a little fearful of the possibility of the Federal Legislative Committee, which was a mixed body, representing both classes of institutions, now being able to put itself squarely in

20 the shoes of the National Bank Section.

Mr. Farnsworth: I took just exactly that position with our correspondent, Mr. Hinch. When I found it seemed to you that it was not desirable for both committees to meet, I wrote him along this line, that it was an entirely different problem; the national bank section is really a part now of your system, and the Federal Legislative Committee represents various banking interests, and I have no doubt but what the conclusions were drawn on that account.

Mr. Van Deusen: The purpose of the provision of the Constitution of the American Bankers' Association is of course to prevent any one section from urging legislation which would be injurious to any other considerable body of the members of the American Bankers' Association. That is, in the name of the Association this section would be prevented from urging legislation which would be injurious to trust companies, in the name of the American Bankers' Association. It would in like manner prevent the trust companies or state banks using the name of the American Bankers' Association to urge legislation which would be injurious to the national banks. The purpose is to bring a harmony of interest, and that would be obtained in this case.

Governor Seay: Should this body, then, meet with the Legislative Committee after having met with this, that would be going over exactly the same ground?

Mr. Van Deusen: Yes.

Governor Fancher: It seems to me that our contact should be with this committee, and your mutual problems should

3 be taken up with the Legislative Committee, and that it is not necessary for our committee or the Conference of Governors to have contact with the Legislative Committee.

Governor Strong: We must be very certain, as officers of the reserve banks that we know that we are acting in the interests of our own members, and of course occasions may arise when the interests of state banks will be quite contrary to plans that may be developed. It would be most unfortunate to have our efforts at harmony destroyed by the introduction of the interests of state banks even through the Federal Legislative Committee and its membership. We have adopted the national banks and their interests in such a whole-souled fashion into our program that we do not want to have any trouble arise that would cause a split of interests. I think with Mr. Hyde's cooperation we can work that matter out, however.

Mr. Otte: It seems to me that that matter could be handled very easily if the Federal Legislative Committee wants to take up any subject with you, if they notify you in advance, and if the subject had already been discussed by the national bank section, you would simply advise them that it had already been discussed in detail, and we could work in that way.

Mr. Cox: The fourth matter we had under discussion was domestic acceptances. Mr. Van Deusen.

Mr. Van Deusen: Possibly that is a matter to which there will not be as much opposition as to some of these others. I know at the time the Federal Reserve Act was pre-

sented in Congress the Senate incorporated in it a proviso for domestic acceptances. I believe that was taken out very largely on Mr. Glass' insistence, he feeling that there would be a certain expansion--- "a saturnalia of expansion", I think he expressed it. Since the Federal Reserve Act was passed a number of states, including New York and New Jersey, have given the privilege of domestic acceptances to their state institutions, and there are a considerable number of states throughout the Union which have given that permission to their own institutions. It has not resulted in any great over expansion or any abuse of that privilege, and we feel that if that permission were extended to the national banks it would do no more than put them on an equality with so many of the state institutions and would give them an additional source of service and of profit. It would not only do that, but it would tend toward the development of a class of paper which the Federal Reserve Board and the Federal Reserve Banks have been seeking to encourage; that is, the foreign acceptance and the trade acceptance. It would encourage the development of a specially good class of paper and would also tend to develop along safe lines the commercial interests of the country in the financing of them.

Governor Strong: We have already made such a recommendation to the Board, and I think the Board as a whole would favor it, from what we have gathered from our meetings with them, and so far I do not think the matter is open to discussion. The views are all well known. It would be

well to submit that to the Board as the opinion of your body. I think the Board would regard it as an advantage to have that expression from this Committee so that they could say that the body that represented the National banks of the country had recommended it.

Mr. Glass, by the way, has been, I think, in frequent consultation with the Board on this subject, and I think his views are well known to the Board.

Mr. Van Deusen: Has he changed his views in that regard?

Governor Strong: I have heard it suggested that he had changed his views somewhat; in fact, I think you will find that the whole temper of the Board is to encourage legislation ~~mm~~that will put national banks on a parity with state banks. Mr. Glass' position was certainly based upon what an a misconception of ~~the~~ acceptance was and what inflation was, also, I think.

Mr. Cox: There was another matter that claimed our attention, and that was the question of the capital of the Federal Reserve Banks.

Mr. Bucholz: Before proceeding to the main subject I would like to say briefly, having been chairman of the Committee on Federal Legislation last year, that this committee comes to you as particular friends. We come in the spirit of cooperation. We feel that if there is anything that we can suggest that would better our business condition, that would appeal to you as fair and would solicit your co-

24 operation and your endorsement and that of the Federal Reserve Board, it would be much better to have those things rectified than to do it through the Federal Legislative Committee, who do not operate so much through your Committee or through the Federal Reserve Board.

They have questions that affect the banking business as a business in all lines and would proceed through the members of Congress to get legislation which they would desire. So that our position is quite distinct in this. We feel we have a personal interest here, that we are talking to our friends, and we want to cooperate with them to make this system a success eventually, and satisfactory to all.

One of the things that this committee feels would help to do that is this matter of capital stock. Some of the reserve banks have made a profit; a great many have not, a majority, I understand, have not. You put a burden upon the reserve bank that has that stock to make earnings in order to satisfy the stockholders, and if that question were removed from it, if the Governor and the Directors who manage that bank were not compelled to make a profit on the capital stock, it seems to me that it would take a tax off them and off their members.

Speaking more directly for the tenth district, with which I am the most familiar, they have made good there. Times have been exceptionally good since this Federal Reserve Law has been in force. They have had good crops, and, owing to the war, exceptionally high prices. They have been filled up with money and have a surplus. Personally, I

mentioned this to one of the directors, a very high class man, ^{who} came to us and said, "We would like to have you rediscount a hundred thousand dollars." The president of the bank, a nice gentlemanly old chap, who loved this fellow, was going to do it, and told him so. I said, "Why, Senator, here is our reserve from 50 to 55 per cent. Why should we discount any paper? We do not need the money. We would not buy commercial paper at the rate that we have to pay down there. I am perfectly willing to join you in an assessment or a contribution if they need that to make a dividend." So I talked it over with him and he said, "It is simply to help us make good. They will abolish this bank if we do not make a dividend here, and the country banks are all clamoring for earnings on capital stock. We have promised them last year that we were going to make six per cent dividends, and a lot more, and we cannot do it, and therefore I am calling on our friends to try to help us out."

The reason was that they had to make a dividend on the capital stock, or at least make their expense account. We believe that some of that would be eliminated. I remember distinctly when this bill was under consideration I was asked to appear before the Senate Committee as to certain amendments and certain things that they were wrangling about, and quite accidentally I was backed into a corner where I had to declare that I was not in favor of having any capital stock. I had not fully considered it, but that was my off-hand judgment on the thing, and I had quite a row on my hands. I did the best I could and managed to keep up my end

of it. It seems to me that the experience of most of the bankers has shown that you do not need that capital stock paid in at all.

Governor Strong: We needed a little of it at the time. We had to spend it.

Mr. Bucholz: I think in that case an assessment would have been very cheerfully paid.

The average country banker is a close figurer. He has \$3,000 invested in stock in the Federal Reserve Bank and naturally he has to pay for its support anyhow, and he can get money cheap there. He sees no way of profit, and he gets no return on his capital stock, and he puts up an awful loud holler which permeates through the district where he lives and makes the stock unpopular.

We feel that this capital stock that has been discussed might be returned to the subscribing banks, to be handled as the Federal Reserve Board may request.

That embraces our position on that, and we are asking for cooperation and assistance on that score.

Governor Strong: We have already recommended to the Federal Reserve Board that that be done.

Mr. Bucholz: I am very glad to know it.

Governor Strong: At our meeting in Minneapolis that matter was acted upon, and such a recommendation made, and as a matter of fact the suggestion I think in that instance was made by some members of the Reserve Board themselves. They are just as conscious of the difficulty of the matter as we are. Of course conditions in the different districts

are different.

Mr. Bucholz: Yes, I understand that.

Governor Strong: And whereas in Atlanta and Dallas and Richmond their earnings are now considerable and they might even be able to pay a dividend, so far as earnings alone are concerned, and their capital probably is what it should be, no smaller than it should be, in New York we have a rather unusual situation: Our deposits are in the neighborhood of \$200,000,000, but we have only \$11,000,000 of capital paid in, and to reduce that three or three and a quarter millions would make a rather grotesque condition of it.

I think you will find the reserve banks all sympathetic with your idea. Our recommendation at Minneapolis was unanimous to effect a reduction in paid-in capital, in other words, to return a part of the capital temporarily at least to the banks.

Mr. Bucholz: Our requirement when the capital is all paid in would be \$90,000 on a million dollars capital. Say at five per cent, which we get sometimes out our way, that would be \$4,500. We lose that earning power and get nothing back and put it in a place where they do not need it.

Governor Strong: I think ultimately there will be no doubt of reserve banks returning dividends on capital stock.

Mr. Bucholz: We believe that; but at the same time we have had no dividends. We would be very glad to pay an annual assessment for the safety and the sheltering care that the system provides for national banks if they do not make

our hardships too strong.

Mr. Curtis: Do not forget that the Attorney General has protected you against abolition.

Mr. Van Deusen: The reserve banks could build up a surplus which in time would eliminate any chance of the banks being called on for payment of the capital stock subscription in order to make up losses. There is another feature, too: If the Richmond Bank earned and paid a dividend, and the Philadelphia bank did not, it would make member banks up in the Philadelphia district even more sore than they otherwise would be.

Governor Rhoades: I hate to be picked out.

Governor Fancher: There is this feature of it that comes in in connection with capital stock payments. The Act provides a matter of liability which is of course a claim upon the paid-in capital stock, and in dealing with the small member banks and discounting, as we have, some weak paper that we could not find out a whole lot about, a matter of having a little "velvet" rather appeals to us at our bank. Whether in the return of a large part of this capital, the subscription or the amount of the subscribed capital that the member banks were entitled to would be a preferred claim---

Mr. Otte: I think, however, if you look into that matter you will find that the percentage of losses is comparatively small. It has been my experience and the experience of other men I have talked with in the banking business that even a little country bank whose paper it is very

29 hard to investigate, if it gets into difficulty, you realize something on your paper, and your bank, if it is a national or a state bank, is never in such bad shape but what you can easily come out one hundred cents on the dolla r.

Governor Fancher: But we deal in a little different manner. Our dealings with national banks, or loaning to banks has been on their miscellaneous bills receivable, with a very considerable margin. We are in a little different position from the position that you are in with a liberal margin of collateral.

Mr. Otter Possibly you will be in a position to know more about national banks when you get a little closer to them and examine them yourself.

Governor Fancher: I have been some 25 years.

Governor Seay: There is this to say, that the amount of such possible losses is very small in proportion to the liability of the 6 per cent unearned dividend, but I will say that there is such a thing as a reserve bank taking extra collateral in order to meet the exigencies of a particular bank that is in need. There is no reason why it should not, and I have known such things to be done--- I will not say where.

Mr. Hyde: Governor, you have listened very patiently to us in regard to the problems that we have presented. I feel it would be of a great deal more value to us if you and your associates would now indicate to us where we could most profitably aid our friends and in what direction. Is it the purpose to combat the exchange proposition? We are

30 members of the same family, and I think the purpose of the National Bank Section is to help make this a success. These propositions that we submitted this morning had occurred to us and we discussed them and voted to present them to you. Now, can you not with your associates be of great value to us in indicating from the ripeness of your consideration what line we should best follow out now? What can we do to be of service to the Federal Reserve System? I think that we would all be interested in and will profit by your views on that.

Governor Strong: I think each of those present might state his own feelings in that regard, Mr. Hyde. I attempted at the outset of our meeting to state what our great problem was. It is the exchange and collection problem. Nothing that we have had to deal with has presented the complications and difficulties that that does. I think we have all come to the conclusion that all the various features of the Federal Reserve Act are largely administrative now, and problems of organization are being worked out with a considerable degree of success, except that one difficulty of dealing with 7600 national banks where each one has his own view of how checks should be handled and what he should be entitled to make on a collection charge or an exchange charge. Our difficulties are complicated by the fact that the gentlemen who drew this statute did not use language that made it perfectly clear.

Mr. Hyde: In the latest circular sent out from the New York district I notice there is one addition to the for-

mer list of the national banks who have come into the collection system. May I ask what is being done by the different districts to induce the banks to come in. Is there any missionary work being done?

Governor Strong: It varies in each district. Conditions are different in each district, Mr. Hyde. In Boston Mr. Aiken can explain the condition that is peculiar to that section and which does not prevail in any other. Possibly Mr. Aiken will make a statement with regard to collections in the Boston district.

Governor Aiken: The situation with us is a little peculiar in that we have, as you gentlemen know, and have had in operation for almost twenty years a system of collections through the Boston clearing house and their foreign department. There are something over 600 members, are there not, Mr. McKay?

Mr. McKay: Yes.

Governor Aiken: Something over 600 members who remit through the Boston country clearing and all but about 100 remit on receipt of checks at par in Boston. That covers the State banks as well as national banks with us. The result has been that we in our district have not had anything to offer to our banks by way of collection facilities. They need not only the same facilities, but facilities for handling state bank checks as well through their Boston correspondents. That has arisen through competitive conditions. We have not done any missionary work at all. I am perfectly sure that with the personal acquaintance I have among our

bankers that if I had gone out I could have gotten a great many banks in New England to come in on the present plan, but it seemed to me that the development of the plan was problematical. It seemed to me obvious that we had to make some changes in it, so I was not disposed to bring any pressure to bear on the banks. The feeling in New England has grown considerably stronger since the Federal reserve bank was in operation, in favor of par remittances, and I do not think I am violating any confidence in saying that matter of cajoling or coercing the banks who are not remitting at par is under serious consideration. Our situation for working out a remittance basis is peculiarly favorable, because if our system is adopted I think we can take over the Boston Country clearing system and put it in the hands of the Boston Clearing House and do it through the Federal reserve bank.

Mr. Van Deusen: Both state institutions and national?

Governor Aiken: Yes. There is no reason why we could not handle checks of state institutions as well as national banks. We have to take all the checks.

Cox

Mr. Hyde: When the question of changing the collection system is brought up with the country banks in the locality from which I come the question is asked: "What advantage do we get? What advantage is it to me to change my present system? I am entirely satisfied with the existing condition. Why should I change? We desire to be patriotic and support the Federal reserve system, but these correspondents of ours have collected our checks for so many

years and have performed so many other services for us that we do not see why we should desert them when there is nothing else that gives us any greater advantage." That is the argument I have had to meet a number of times in urging this.

Governor Strong: The country banker has been able to collect his country checks upon a favorable basis by using his reserve balance with the reserve agents, but when these balances no longer count as reserves and are transferred to the reserve banks, what is he going to do about collecting his checks? Is he going to maintain a reserve balance with us and maintain a big balance with his correspondent in order to compensate the correspondent for making collections?

Mr. Hyde: Mr. Hinch's resolution is in that direction, is it not?

Governor Strong: Exactly, and for that reason I say it will be impossible to separate these two subjects when they are discussed.

Mr. Hyde: That is a point I wanted to bring out.

Mr. Otte: It is just one of the services performed; that is all.

Governor Strong: It is one of a number of services. There are others that we can perform undoubtedly, and probably will perform. I have no doubt that a scheme will be put into operation in time by which we can collect their coupons and drafts, and also collect items on state banks, in time; but we may not be able to buy commercial paper and securities for them. If we do, it may take some time to

develop our organization to a point where we can perform that service as well as it has been performed in the past. But the country banker does not today realize that in order to maintain the existing relations he has got to maintain a considerable balance, which will be a source of great expense to him, after this transfer of reserves takes place. He does not connect the two propositions as he should.

Mr. Hyde: He can either do that or go into the state system.

Governor Strong: We have been reminded of that fact by the state banks quite frequently. While a few of them have given up their national charters, yet it is a fact that that development has not taken place in a large way. One very significant thing has occurred. When the Federal Reserve Banks were first organized the Federal Reserve Bank of Kansas City and the Federal Reserve Bank of St. Louis, as you know, both undertook a plan for clearing checks within the district that was mandatory; that is, they received deposits of checks at once drawn on all their member banks and undertook to collect them free of exchange. About six months ago we adopted a plan for all of the Federal Reserve Banks, a voluntary plan, for clearing checks by the method of immediate charge and credit. In St. Louis they felt that they should put their operations upon a voluntary basis and give their members there an opportunity to withdraw from the mandatory plan if they desired to do so. I think there were seven or eight hundred members in the St. Louis District and only 96 of them withdrew.

Mr. Calfee: 95 of them withdrew.

Mr. Curtis: In other words, 80 per cent of them stayed in.

Governor Strong: As a matter of fact the opposition to this plan now in operation is not necessarily based upon the exchange charges or balances. It is based upon a certain amount of inertia due to the realization that unless they all come in it is an unbalanced operation and that they are not able to send as many checks for collection as are charged against them.

Mr. Otte: How are you going to be able to take care of the state banks, when you have checks drawn on state banks at different points? In our district I believe we have nine hundred odd banks members in the system, and while I may be off in these figures, I believe only 110 or 115 of those banks have come in. Is that right?

Mr. McKay: 116 have come in.

Mr. Otte: That is a very small percentage. Before this collection scheme was put into effect we were benefited more--- and I am talking about our own bank--- by the Federal reserve system than we are at present, for the simple reason that we were able to deposit with the Federal reserve bank checks on cities like Detroit and Indianapolis--- I do not know whether they have come into the system now or not, but they were not in a short time ago, when I made the comparison.

Mr. McKay: Detroit has come in but Indianapolis has not.

Mr. Otte: They are big cities, anyway, where we had a large volume of business. We were able to send those over then and we are not able to do it now. We could send them over and have them collected immediately, but we cannot do it now. In exchange for that we are given that privilege in small towns like Monmouth, Illinois, where we have about two checks a day, the total amount not exceeding \$150; and therefore the real benefit to us is less than it was before.

The Chairman: You would be benefited if a system was adopted which was universal and complete throughout the entire country?

Mr. Otte: Yes.

Governor Strong: How would you feel if the reserve banks undertook to collect checks on a system of deferred debit and credit; that is, cut down the present transit time by a considerable amount, which would be made possible on account of the relations between the reserve banks, and abandon the immediate debit and credit plan in favor of a deferred collection plan?

Mr. Otte: That is a pretty big subject. I really have not given it any thought and I would not want to go on record here as favoring it or not favoring it, or anything of that kind, until I have had time to digest it and make a study of it.

Governor Aiken: I have been very much interested to have an expression from the gentlemen here of how they think a universal plan on a collection remittance basis, with defer-

red credit— & mandatory plan— would operate? I am interested to know if they think it would be successful and satisfactory as compared to the present methods of collection?

Governor Strong: In other words, suppose the reserve banks say to their member banks, "We will receive on deposit from you any check drawn on any member bank in the United States and give you credit for it after the lapse of a sufficient number of days for that check to reach its destination and come back to the reserve bank of that district— not to us— but to the reserve bank of that particular district". The minute we say we will receive any check of that character naturally we open the door to the deposit of checks drawn on banks which make a practice of charging exchange, and in some cases excessive exchange. Would that be a facility to the member banks that they would take advantage of as distinguished from the present plan of clearing within the district? How do you feel about that, Mr. Bucholz?

Mr. Bucholz: There are some things about it that appear to me to be a little difficult. For instance, court decisions have held that a check cannot be sent "around Robin Hood's barn" but must be sent directly to the place where payable within the shortest time possible. If you could be supported by a decision to the effect that sending it through the Federal Reserve Bank to which it belongs is the direct and proper way to handle the check, perhaps you might overcome that.

I would like to make this suggestion. Why could not the Federal Reserve Board rule on a proper exchange charge just as well as they can rule on a proper interest charge? There would be very little cost involved in this thing if you allowed the small country bank, for instance, ten cents a hundred on letter footings. Our main objection has been that the banks in the country do not charge on letter footings, but they have checks of different amounts and they take a chunk out of each check, and sometimes you are in the position of paying 25 per cent exchange on the total. I do not see why you could not bring about a plan where the clearing would be compulsory.

Governor Strong: Your idea would be that the Board would fix by rule the charge which the country bank shall impose for "collecting and remitting", as the statute reads?

Mr. Bucholz: Yes.

Governor Strong: And that the reserve bank, in turn, would levy an assessment on the depositing bank for reimbursement.

Mr. Bucholz: I do not believe you would find one complaint in a hundred if that was done. That is my judgment of it.

Governor Strong: Do you feel that the banks in the reserve cities would be satisfied with such an arrangement and pay the assessment?

Mr. Bucholz: We would. I am speaking for myself, of course. I know our transit department is the most expensive department in the bank; it takes a whole lot of people to

handle it. We have got to check up the checks that are charged on and those that are not, and it is an interminable process and very expensive.

Governor Strong: You spoke of ten cents a hundred on letter footings?

Mr. Bucholz: Yes.

Governor Strong: What would that amount to?

Mr. McKay: That would do away with all par lists.

Mr. Bucholz: Yes. The country bank could not object because you would be conceding him a decent profit.

Mr. Van Deusen: You would have to make it universal because you would run up against a district like New England where the checks are practically at par now, or New Jersey, or a good many other sections of the country where we have been able to collect practically at par, and you would put those sections on an exchange basis. The ultimate result of that would be that the country as a whole would be subject to more expense in collecting checks than it has been in the past. It would average much higher, even at one tenth of one per cent.

Mr. Bucholz: If you can show the country banker where he can make some money, I do not think you will offend him.

Governor Strong: Who will pay the bill?

Mr. Bucholz: Ultimately the customer who deposits the checks.

Governor Strong: Then let me refresh your memory as to the history of this legislation. When this Act was first

drawn it provided that all checks would be parred, That was the effect of the statute; that there would be no exchange charge. Following that famous meeting in Boston, an army of country bankers marched down here to Washington and told Congress that they were going to drive them out of business or out of the system. Congress then put a proviso into the bill to the effect that nothing should prohibit a bank from charging the actual cost of collecting and remitting funds. As someone has aptly said the statute provides now that you shall receive on deposit at par checks upon which exchange is not charged. That is what it means.

Mr. Bucholz: That would be the subject of an amendment, Mr. Strong, an amendment to change the law if necessary in order to make it a reasonable thing.

Governor Strong: Then you come right bump against our difficulty here, that if we attempt to carry out the statute and put it into effect we make universal the charge of exchange. The statute provides that the Reserve Board shall say what the member bank shall charge its customer, and there is imposed upon the customers of the banks the necessity of paying some exchange on all country checks. Some people hold, and particularly the country banker, that where there is a state bank in the same town, if they endeavor to reimburse themselves for that service charge they will drive their customers to the state bank as they do not want to be annoyed by these little charges.

Governor Seay: Do you contemplate that the country

bank would pay for having the checks which it received on deposit on other country banks---

Mr. Bucholz: Yes; a reasonable charge. That would drive them to send them to the Federal Reserve Banks in place of their correspondents.

Governor Stacy: Then the question would be whether they paid more than they received.

Mr. Bucholz: Yes; that would be the question.

(Informal discussion followed.)

Governor Strong: I would like to ask another question with regard to this matter, one that has puzzled us a good deal. What would be the effect of our undertaking to put into operation a plan which would be mandatory--- that is to say one that we would endeavor to make mandatory--- by which every member bank would be required to remit every day at par for checks which we sent them direct to the bank on which drawn?

Mr. Bucholz: I think there would be pretty strenuous objection to that. A banker is like any other human being; he does not like to be forced into anything. When you try to force him he shows fight at once. If you submit a proposition to him that is fair from his standpoint and fair from the standpoint of the business world in general, you would be very likely taken up and your proposition accepted.

Governor Strong: Then I understand you think that whatever plan is adopted should be undertaken on the voluntary basis with a view of gradually working the system in and

developing advantages which will ultimately make it universal?

Mr. Bucholz: We would like to see that done. If the Federal Reserve Board would establish a uniform rate of exchange---

Governor Strong: You mean a uniform service charge?

Mr. Bucholz: Call it that if you will. Perhaps it sounds better.

Governor Strong: If you say, "a uniform rate of exchange" the Federal reserve bank of Chicago will withdraw from the system. (Laughter)

Mr. Van Deusen: Does not the experience of Kansas City and St. Louis banks tend to demonstrate that if you adopt a compulsory system of immediate remittance, that while there would be some objections, possibly the benefits of it would very soon be seen and the objections would die out before very long? If that was extended to the interdistrict proposition they would not only be able to get checks on their locality, but practically all of their checks, collected free, and that would offset in most cases--- in some entirely--- any expense that they might be under in making immediate remittance. They would not be under the expense of maintaining additional reserves to take care of the immediate charge of those items to their accounts, and that would offset the cost of the transfer of cash. I think that cost of the transfer of cash is an element that is not always considered. It is not always necessary to make exchange by remitting currency. That is a seasonal proposition

almost always. At times the flow of exchange is against them so that they have to remit currency to cover the exchange that they draw. At other times it is the opposite way. The necessity of remitting currency to cover exchange is not a day by day proposition, and if you base an exchange charge or service charge on the cost of remitting currency from the local point to the center it would be unfair. It would not be fair to take it for the entire year and yet simply put that charge on during the time when it is necessary to make the exchange.

Governor Strong: A charge of a dollar a thousand, such as you suggested, Mr. Bucholz, would operate quite unevenly, if that were considered to be the equivalent of a charge for shipping currency, because that varies considerably according to the distance of the member bank from the reserve bank, the denomination of the bills shipped, and so forth.

Mr. Van Deusen: Under present conditions the local bank does not have to ship currency unless it has a surplus of currency. They can make exchange or rediscount.

Governor Seay: The plan at present used by Kansas City may not be moving as smoothly as you might think it is, unless you are familiar with it.

Mr. Van Deusen: I have not been in touch with it.

Governor Seay: It has developed conditions to which all of our members would not be willing to assent. This immediate credit and debit system has produced overdrafts to a very large extent.

Mr. Bucholz: I have had some experience with that. One day we received a letter containing \$160,000. None of that had been endorsed by the Federal Reserve Bank. Our account was charged with that amount of money. A \$40,000 item was not even signed by the official of the bank that drew the draft on us. Of course our account was charged with that, and we sent the letter back for correction. In the meantime we "stood in the red" if anything had happened. Another institution was overdrawn the minute their letter was sent out and they were wired that their account was overdrawn \$30,000 and they must make good at once by wire. So you see the difficulty you have. In addition to that you do not know whether the man who draws the check has the money on deposit, whether the signatures are genuine and so forth. I object most strenuously to having the account of our bank charged with items until they are received.

The Chairman: If you have "stood in the red" in this business I will tell you that we have also. But yours is just ink and ours is blood. (Laughter)

Mr. Bucholz: You know Mr. McHugh, who was a director of a Chicago bank. I happened to meet him on the train and he told me that he had maintained with the Federal Reserve Bank of Chicago, to which he belongs, \$150,000 more than the law required him to keep there, and yet he said there had not been a moment when he was in the black on the books there.

Governor Strong: That is undoubtedly due to the practice that has been permitted under the old law, which is going

to be discontinued, of permitting a bank to count its cash letter as reserve. But the red ink would be eliminated from the account by deferring the charge until the item had reached its destination and return had been made. The reserve requirement of the bank would be increased by the fact that the cash letter would have reached the bank before you would be permitted to count it as reserve.

Mr. Bucholz: I believe that this collection matter by Federal Reserve Banks is getting undue prominence at the present time. In the first place the country bank has been accustomed for years and years, in fact ever since the bank was organized, to send its correspondent a job lot of items, charging it to them on the books and drawing against it the next minute. The country banker is pretty apt to consider that the same thing when he sends his items to the Federal reserve bank. While it may take two days for those items to get there, so far as he is concerned, they are there, and I think that is a matter that can only be corrected by gradual education.

Governor Strong: The difficulty arises that this law is mandatory in its provisions. It says that Federal reserve banks shall receive on deposit at par, and then it attempts to afford certain relief by permitting them to charge their member banks for the service, and to allow the expense of remitting and collecting to the members that collect and remit.

Mr. Bucholz: The only thing I can say there is that the Federal Reserve Act was framed and passed by men who did

not fully understand banking practice.

Governor Strong: We agree with you there.

Mr. Bucholz: As we get better acquainted here we should make such amendments to the law as will help the business interests of this country.

Mr. Otte: Along that line, would it not probably be wise, or at least would it not be a fair proposition for the Federal Reserve Banks to make, to ask that this part of the Federal reserve Act be suspended for some time in order to give them a chance to work it out. My private opinion is that this whole thing is a mistake. I believe that you can probably succeed in the course of time, but you have got to bring it about by a slow process of evolution. It is really unfair to you gentlemen here to expect you to work this out in a very short time. You cannot do it and that is all there is to that.

Governor Strong: Yet they claim we have been malingering with it.

That suggestion has been frequently made, and again we are confronted with this difficulty; we are going to get these reserve balances that have been the basis of the collection arrangement of the country banks. Take a typical country bank that sends \$2,000 a day to its reserve correspondent. How is it going to make arrangements to collect that cash letter after the reserves are transferred to us and the compensating balance with its correspondent bank no longer counts as reserve? Evidently the country bank is going to be in a hole.

Mr. Otte: By having the law amended as I proposed a minute ago---

Governor Strong: If you gentlemen will develop that with the Reserve Board I will say that we will not interfere with any effort that will relieve us of this problem for a while.. (Laughter)

But this emphasizes the point that was made before, that we cannot separate the problem of the country bank's reserve from the problem of the country bank's collections. They are one and the same thing, as this statute is now drawn.

Mr. Cox: Mr. Strong, I presume we will adjourn very shortly, and some of us are not quite clear as to just what you would like to have our committee do. We will be glad to cooperate with you in any way we can to assist you, and any time we can be of service all you have to do is to indicate it and we will be glad to meet you. If you desire to have us meet with you again in January on the 19th, when I understand you will have your full Board of Governors, I am sure that this Committee will be very glad to do so.

Governor Strong: I do not hesitate to say that I believe personally, and I think the other members of the Committee will agree with me, that your interests and our interests would be promoted if you would meet with us whenever we have a meeting of the Governors. That does not necessarily mean that it would interfere with our devoting a portion of the time which is necessary to the discussion of problems of organization and administration in which you are not particularly interested; but we have problems before us

that must be worked out in cooperation. We cannot assume what your attitude will be without an interchange of views, and I think we would all welcome such a meeting next month if it can be arranged.

Mr. Cox: That expression from you means that we will be only too glad to meet with you.

Governor Strong: The chances are the whole problem of amendments will be actively under consideration and it may be that you can be of considerable service in that matter.

Mr. Cox: If you have any suggestions to make as to topics that you would like us to consider, we will be glad to take them up.

Governor Strong: We certainly will do that, Mr. Cox.

Before we go over to meet with the Board this afternoon I would like to say that we are going to uphold your hands and your arguments in any way that we can. Our belief is that you are our clients, our stockholders and that we are responsible to you; that we have no interests to serve that are not yours, and we are anxious to get you to verify the conservative expressions that we have made to the Board about collections and some other matters. I think it will help us in our work very much. We are not at all keen about some of these theoretical banking ideas that have been introduced into the law. We would like to have you express your own views about them just as frankly as we do. We need endorsements occasionally from practical bankers. (laughter.)

I think you will find that some of the members of the Board are just as much perplexed about these problems as we are, and that they will want help. They are all sensible men and are very much interested in making this system a success.

Mr. Cox: If you have anything of a private nature that your Committee would like to take up, we will be very glad to retire.

Governor Strong: I do not think we have anything, unless some members of our committee have suggestions to make.

(No further business was transacted, and at 1:20 o'clock p. m. the Committee adjourned until tomorrow, Thursday, December 16, 1915, at 9:30 o'clock a. m., and the Executive Committee of the National Bank Section of the American Bankers Association and the Executive Committee of the Governors of the Federal Reserve Banks called upon the Federal Reserve Board, at 3 o'clock p. m., for the purpose of having a joint meeting.)

T H I R D D A Y.

Shoreham Hotel, Washington, D. C.,

Thursday, December 16, 1915.

The Executive Committee of the Conference of Governors reassembled at 9:30 o'clock a. m.

Appearances as indicated on first day of meeting.

Governor J. B. McDougal, chairman of the committee, resumed the Chair.

P R O C E E D I N G S.

The Chairman: Mr. Curtis, we will proceed with the discussion of the amendments to the Act.

Mr. Curtis: I had just put into the record some suggestions with regard to Section 15, about what the Secretary of the Treasury might be required to do, and that matter really had not been discussed when we adjourned.

The Chairman: Gentlemen, what shall we do with these suggested changes?

Governor Strong: I move that we recommend the first change with regard to paragraph 1 of Section 15, and suggest the second.

(The motion was duly seconded and carried.)

Mr. Curtis: The next suggestion is with regard to section 16.

(After considerable information discussion with regard to paragraph 1 of Section 16, it was moved, seconded, and the motion carried, that the following suggestions of

changes in paragraph 1 of Section 16 to be made:)

"Federal reserve notes, to be issued at the discretion of the Federal Reserve Board, through the Federal Reserve agents as hereinafter set forth, are hereby authorized and shall be issued from time to time for the purpose of making advances to Federal Reserve Banks and for the other purposes set forth in this Act. Said notes shall be obligations of the United States and shall be receivable by all National and member banks and Federal reserve banks, for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the City of Washington, District of Columbia, or at any subtreasury of the United States, or in gold or lawful money at any Federal reserve bank. Notes so redeemed which are unfit for further circulation may be cancelled and destroyed at the point of redemption and reimbursement of the amount paid in redemption therefor shall be effected by the filing of a certificate to be made under rules and regulations of the Federal Reserve Board, which certificate shall be filed with the bank through the notes which were originally issued."

(Further informal discussion followed.)

The Chairman: I am going to interrupt this discussion to inquire whether we will have to have another meeting with the Federal Reserve Board. I understand that we are entirely through with the Board, and if that is the case I would like to suggest that we appoint a committee now, on which committee I would be very glad to serve, to wait upon

the Governor, or some member of the Board, and ascertain from them the present status of this proposed collection system, asking for permission to notify all the Governors that are not present here. We have had no advice from the Federal Reserve Board; we came here for the purpose of ascertaining that, and I think it would be well to make the inquiry.

(Following the statement made by the Chairman, he (Governor McDougal), retired from the hearing room to confer with the Federal Reserve Board.)

Governor Seay: (Presiding as chairman) Shall we not proceed?

Mr. Curtis: The next suggestion is in reference to paragraph 2 of Section 16.

(Informal discussion followed on paragraph 2 of Section 16, and the following was decided upon as the recommendation to be made:)

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts or bills of exchange accepted for rediscount under the provisions of Section 13 of this Act, or acceptances and bills of exchange bearing the endorsement of a member bank purchased under the provi-

sions of Section 14 of this Act, or gold or gold certificates, and a Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The Federal Reserve Board may at any time call upon a Federal Reserve Bank for additional security to protect the Federal reserve notes issued to it."

(Governor McDougal entered the hearing room and resumed the chair.)

The Chairman: Gentlemen, I did not get what I went after. I refer to definite word from the Federal Reserve Board with regard to the present status of the collection plan. I tried to get their sanction of a notice that I should send to the other banks, and Governor Hamlin stated that we had better let it rest until this afternoon. He stated that he would be very glad to meet those members of the committee who would be here this afternoon at three o'clock; that they would be glad to hear what we had to say about the proposed amendments, and that at that time he would undertake to give us some word which we could send to the member banks with reference to the collection plan.

It will be understood that those of you who have not left Washington at that time will meet with the Federal Reserve Board at three o'clock this afternoon.

(Further informal discussion of paragraph 2 of Section 16 followed.)

The Chairman: If there is no objection we will proceed to the next paragraph.

Mr. Curtis: The next suggestion is to strike out the whole of the two sentences in paragraph three, beginning "Whenever Federal reserve notes issued", etc., and ending "face value of notes so paid out."

(Informal discussion of paragraph 3 of Section 16 followed, at the conclusion of which, at 1 o'clock p. m., the Committee recessed until 2:25 o'clock p. m.)

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

The Committee reassembled at 2:15 o'clock p. m.

The Chairman: We will proceed with these amendments.

(Further informal discussion of paragraph 3 of Section 16 followed:)

The Chairman: I do not think it is possible for us to go any further with the discussion of these amendments today. I think we should decide now whether or not we are going to report back to the Governors' Conference covering the amendments as far as we have gone, and also what we shall do with the balance of the proposed changes.

(After further informal discussion the following agreement was made.)

The Chairman: It is understood that the record made in regard to amendments to the Federal Reserve Act, up to this point, represents simply an informal discussion of the tentative suggestions submitted to the committee; and it is understood that the changes offered in the suggestions submitted are to be embodied in a redraft of these suggestions to

be furnished to the Executive Committee for further study and consideration before the next Conference of Governors.

(Whereupon, at 2:45 o'clock p. m., the meeting of the Executive Committee adjourned, subject to the call of the Chairman, and with the understanding that those members of the committee who were in Washington at three o'clock this afternoon should call upon the Federal Reserve Board.)

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