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TENTH CONFERENCE

OF

GOVERNORS OF FEDERAL RESERVE BANKS

WASHINGTON, D. C.

SHOREHAM HOTEL

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PROCEEDINGS OF THE  
TENTH CONFERENCE OF GOVERNORS OF  
FEDERAL RESERVE BANKS.

EVENING SESSION.

Shoreham Hotel, Washington, D. C.,

Wednesday, April 4, 1917.

The Conference reassembled, pursuant to recess, at 8:30 o'clock p. m.

The Chairman: The conference will please come to order.

We will meet with the Reserve Board tomorrow morning at 10:30, and I think we had better take up for discussion the matters that are of the greatest interest to the Board. I think the matter in which they are most interested is Topic 6, sub-topic (h).

6-(h) Committee on Federal Reserve Bank drafts.

Governor Treman: A meeting of the Committee for discussion of the plan to make drafts upon Federal Reserve Banks acceptable for immediate availability at par in all Federal reserve banks was held in Washington, D. C., Monday January 22nd, 1917.

At the last Conference of Governors there was a joint session with members of the Federal Reserve Board, at which the above mentioned topic was discussed, and at that time the following vote was adopted:

"That the Chairman be authorized to appoint a committee of five to Confer with the Federal Reserve Board and assist in preparing a plan in connection with the immediate availability of drafts on Federal reserve banks."

After informal discussion of the plan, as outlined by Governor Seay, it was the unanimous opinion of this committee that when the final transfer of reserves becomes effective, in accordance with the amendment which is now before Congress, some machinery should be in readiness to provide for the transfer of such funds for such banks as have been in the habit of using drafts on central reserve cities, and in conformity with this view, the Committee unanimously agreed upon the following plan.

(1) That the privilege of drawing federal reserve exchange drafts should be limited to the country banks, or, in other words, to those banks carrying a 12 per cent reserve.

(2) That the drafts should be limited, as to the amount drawn in any one day by a member bank, to \$10,000.

(3) That the drafts should be drawn by member banks upon their own Federal reserve banks and made receivable for immediate availability at par, ~~at~~ any one Federal reserve bank specified in the draft.

(4) That a special uniform form of draft be adopted by all the Federal Reserve Banks, such drafts when drawn upon this form to be the only ones which are receivable for immediate credit at par.

(5) That the drawing bank be required to give immediate advice to its Federal reserve bank of all Federal ex-

change drafts drawn, and that such drafts be immediately charged to the member banks account on receipt of advice.

(6) That this plan become operative when the final transfer of reserves becomes effective, and be made available to such member banks as may agree to the terms formulated by the Federal reserve banks.

The Committee when discussed whether it would be necessary to immediately formulate daily settlements in the gold settlement fund, and, on motion by Governor Seay, it was moved and carried that, in the opinion of the committee, under existing conditions and the terms above recited, there would be no necessity for daily settlements through the gold settlement fund at the present time.

The Committee next considered the advisability of putting into operation at this time the Gidney plan of a silver and legals fund.

on motion

After discussion by Governor Seay it was moved and carried that, under existing conditions there is no necessity for establishing such a fund at this time.

We sent that report of the Committee to the Federal Reserve Board. They approved all of the recommendations except the first one, and said that instead of limiting it to those banks carrying 12 per cent reserve, that it should be made applicable to all banks. I think that was the only change that they made.

Then we sent copies of the report to all of the other banks not represented on the committee and asked for any suggestions concerning the same. There were suggestions made

by the San Francisco bank, through Mr. Calkins; Minneapolis sent, through Mr. Wold, a recommendation, and Governor Seay's bank sent another paper. A committee appointed by the New York Bank prepared another set of resolutions, all of which came before the committee in New York. A meeting of the committee was held at 11 o'clock on March 19, at the New York bank, at which there were present Mr. Treman, Chairman, Messrs. Rhoads, Fancher, Seay and McDougal of the committee. There was also present Mr. Harding, Governor of the Federal Reserve Board, and Mr. Aiken. You all have copies of those minutes and it is not necessary for me to read them all.

The following resolutions were adopted:

(1) That paragraph No. 1 of the original plan be reaffirmed.

That refers to limiting it to the country banks, those with 12 per cent reserve. After discussion we decided to reaffirm that.

(2) That paragraph No. 2 of the original plan be rescinded.

That paragraph refers to the limitation of \$10,000.

Mr. McDougal desired to be recorded as declining to vote in favor of this resolution except on the understanding that the Federal Reserve Bank of Chicago, if it saw fit to do so, would be permitted to charge the market rates for exchange in connection with such checks as may be issued for the purpose of transferring funds between banks.

Governor Wold: I am opposed to arranging any kind of draft for the purpose of transferring funds.

Governor McDougal: That is the reason I declined to vote for the taking off of the limit in Paragraph 2, because I am sure if we do not place a limit there that we will later on, as the result of experience, be compelled to do so.

Vice Governor Treman: I do not think I said anything in that first paper about the transfer of funds.

Governor Van Zandt: I do not object to taking off the limit, but I do want permission to charge the market rate for exchange in connection with handling these checks.

Vice Governor Treman: (3) That paragraph No. 3 of the original plan be reaffirmed.

That paragraph refers to drafts being drawn by member banks upon their own Federal reserve banks made receivable for immediate availability at par at any bank specified in the draft.

(4) That paragraph No. 4 of the original plan be reaffirmed.

Paragraph 4 referred to a special uniform form of draft to be adopted by all reserve banks, and so forth.

(5) That paragraph No. 5 of the original plan be amended to read as follows:

"That the drawing bank be required to give immediate advice to its Federal reserve bank of all federal reserve exchange drafts drawn, and, in the case of drafts made receivable at another Federal reserve bank, to forward a duplicate advise forthwith to the Federal reserve bank at which such drafts are made receivable; and that all such drafts be

immediately charged to the member bank's account on receipt of advice by the Federal reserve bank on which they are drawn."

(6) Voted to insert a new paragraph No. 6, as follows:

"That the Federal reserve bank on which the draft is drawn shall credit by telegraph in the gold settlement fund the Federal reserve bank at which the draft is to be received each day the total amount of such drafts in round amounts, of \$10,000; such advice to be sent in time to reach the Federal Reserve Board not later than 3 o'clock p.m. of each day."

(7) That paragraph No. 6 of the old plan be renumbered 7 and amended to read as follows:

"That this plan become operative on the \_\_\_\_\_ day of \_\_\_\_\_, 1917 and be made available to such member banks as may agree to terms formulated by their Federal reserve banks."

(8) That the views of the committee as expressed in the last two paragraphs of the original report be reaffirmed, to-wit:

"That under existing conditions and the terms above recited there will be no necessity for daily settlements through the gold settlement fund at the present time, nor any necessity for establishing a silver and legal fund, as suggested in the Gedney plan."

After a brief discussion and conference with Governor Harding, it was on motion, duly made and seconded, voted that the Secretary be requested to call a conference of the

Governors of all the Federal reserve banks to discuss this plan and other matters, to be held at the Shoreham Hotel, Washington, D.C., on April 4, 1917."

There is one thing I did not read, and that is that Mr. Harding suggested a plan of telegraphic advice to be sent by the Federal reserve bank on which the draft is drawn to the reserve bank at which it is to be received, such advice to refer to the advices received by the former from its member banks covering Federal reserve exchange drafts drawn that day, with a code word to check the total footings of each letter of advice received from member banks, which must necessarily correspond with the duplicate advice forwarded by the member bank to the reserve bank at which the drafts are to be received. This plan, while not acted upon formally, was unanimously approved in principle by the committee.

Governor McDougal: On receipt of these minutes from the Secretary, and upon his invitation to criticize and suggest changes that we thought should be made, I called Mr. Curtis' attention to the following words appearing after vote No.5, which I said I believed should be stricken out. Beginning with the next to the last word in the third line, "in the case of drafts made receivable at another Federal reserve bank", I believe should be stricken out, because all Federal reserve exchange would be receivable at some other bank. I wish you would look at that and see if I am not right.

The Chairman: The paragraph would then read, " That the drawing bank be required to give immediate advice to its Federal reserve bank of all Federal reserve exchange drafts drawn, and to forward a duplicate advice forthwith



to the Federal Reserve bank", etc.

Governor McDougal: I think you will find that will clarify the paragraph, those other words being superfluous. I suggest that as a change.

Governor Seay: That is all right. It does not hurt it any.

Governor McDougal: I wish to inquire whether the proposed elimination of those words is agreeable to the other members of our committee. If so, I would like to have them stricken out.

I am sure that the change will be agreeable, because those words are confusing and do not mean anything.

Governor Van Zandt: Your statement is to the effect that the Federal Reserve Exchange draft is a draft that is payable at some other Federal Reserve Bank?

Governor McDougal: That is it exactly.

Governor Seay: I do not support that view, because it circulates within the district.

Governor McDougal: You would not ask the member banks in your district to advise you of all the drafts that they were drawing on you?

Governor Seay: Every time; every one; it is essential.

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

Governor Seay: If the members here have any recollection of it they will remember that the object of this was to bring about the use of one form of exchange only. We believe great confusion will arise if two forms of exchange

are used. They will advise you of the wrong form if you have two, and it gives opportunity to omit to advise. It affords opportunity for confusion, and it is far more desirable to have one form and use that altogether. The object of this was to promote the use of that form of exchange and do away with two forms, as far as possible.

The Chairman: The Chairman of this committee has made his report in this form. Do you move a modification of the report, Governor McDougal?

Governor McDougal: I am only suggesting to the committee that we change our minutes; that is all. I think those words should be stricken out because they are confusing. If, as Governor Seay understands it, the banks are to have only one form of draft, then that form of draft, when it goes into some other district to be receivable at some other bank, can simply have a rubber stamp put on it, stating that it will be receivable at a certain bank.

Vice Governor Treman: Don't you want advice of all drafts that are drawn on you by the member banks?

Governor McDougal: I think not.

Vice Governor Treman: Then you give the member banks the benefit of the float all the time that it is floating around, before it gets back to you.

Governor McDougal: I think we can afford to follow the national bank custom in that regard.

Governor Wold: The First National Bank of Chicago claims that is one of its great sources of profit.

Vice Governor Treman: I am not arguing the matter. I think some other bank can simply have a rubber stamp put on it, stating that it will be receivable at a certain bank.

Vice Governor Treman: Don't you want advice of all

am only trying to arrive at his idea of it.

Governor Seay: I think that the alteration will go very far toward setting us back, from the point of view from which we have looked at it in Richmond. That was put there advisedly, and, to me, it conveys the idea we had when we passed on it. My idea now is very distinct from that of Governor McDougal: I am diametrically opposed to him on that. I believe we could cultivate the use of this one form of exchange, and that to do anything else would breed confusion. It is to the advantage of the Federal reserve banks to have these drafts drawn in this way because it prevents the member banks from drawing against a balance which they haven't got. It obliges them to draw only against the balance they have in the Federal reserve bank, which is what we want. Therefore it accomplishes a two-fold purpose. I think the more we discourage the member banks from kiting and from drawing in that way, the better it will be for the soundness of the system. Moreover, if you will pardon me one minute, the idea has been in our minds, that if the bank does not use this form of exchange; a bank that won't use this form of exchange is not to be given the privilege of drawing on the Federal reserve banks for immediate availability. Therefore if they will use the one form there can be no distinction, no evasion and no opportunity for confusion.

Governor McDougal: I am sure that point was not brought out clearly in any of our conferences. I would like to ask Governor Treman, as Chairman of the Committee, if

he understood that there was to be just one form of draft used?

Governor Seay: I can say that the matter originally before the committee for discussion was a plan I prepared down in Richmond, and that plan was merely put forward as a basis of discussion and for the purpose of getting the idea presented to the committee. It was elaborated, and the effort was to put everything in there to cover the whole situation. Not that it was thought expedient, perhaps, to put the thing in operation to such a complete extent, but if the members of the committee will go back, they will find that the idea is not only elaborated in there, but it is dwelt upon again and again and is referred to in a half a dozen places. Therefore I say this was the subject that was before our committee when it originally took the matter up and that any other conclusion than that would, while being a legitimate conclusion to be arrived at, not be in harmony with the plan that this committee had before it for discussion.

The Chairman: Gentlemen, we must make some progress on this matter.

Vice Governor Calkins: In the interest of progress, why not begin at the beginning of this report and discuss it paragraph by paragraph. We are now discussing the last paragraph of the last proposal of the last committee.

The Chairman: I think that is a good suggestion and the Chair will adopt it. You have the report of the committee before you for consideration. We will consider it paragraph by paragraph. The Committee recommend that the

privilege of drawing Federal exchange drafts should be limited to the country banks, or, in other words, to those banks carrying 12 per cent reserve.

Governor Wold: I move that that be adopted.

The Chairman: Governor Wold moves the adoption of recommendation No. 1 by the committee.

Vice Governor Calkins: My guess is the Federal Reserve Board will take the same position it did before and require that that paragraph be eliminated.

Governor Wold: Are we going to vote our own convictions or the convictions of the Board?

Vice Governor Calkins: It is also my conviction that it should be eliminated; that there should be no limit to the banks that are to use this Federal reserve exchange. I cannot think of any sound basis for eliminating any of them. I think it is improper to recommend it for one class of banks and not extend it to all member banks. To confine this to only the twelve per cent banks will very nearly destroy its usefulness.

Governor Wold: Is there any difficulty on the part of the banks in the cities?

Vice Governor Calkins: Yes; I think there is considerable difficulty.

Governor Wold: We haven't had any difficulty with any bank of any consequence. It is just the little \$25,000 banks, and that is due to the fact that the reserves are all going to be transferred in November, and they will have to close some of their accounts.

Vice Governor Calkins: It is quite natural that those banks should complain, but the complaint will probably be made that they are given a privilege to use the system which the larger banks are not given.

Governor McDougal: Is it not true that this committee was given the responsibility of undertaking to arrange some plan by which the small bank, which could not afford to maintain its exchange account here, there, and every place, could be afforded the privilege we are trying to give them under this plan?

The Chairman: That is the way I understand it.

Vice Governor Calkins: If this plan will be of no use to the city banks and will only be used by the small \$25,000 banks, why object to giving the opportunity to use it to the larger banks, who will never take advantage of it?

Governor Wold: They will use it for transferring funds at our expense.

Vice Governor Calkins: Do you propose to prevent that?

Governor Wold: I do not propose anything. We are simply discussing this report as it is now.

The Chairman: Is there any further discussion?  
Governor Wold has moved, his motion being seconded, the adoption of the recommendation in paragraph 1.

Governor Seay: I was opposed to it, but I was voted down.

(The motion was carried, with Governors McCord, Van Zandt and Calkins voting "NO".)

Governor Beay: I am opposed to it, but I am taking this as a report of a committee submitted to this Conference and I cannot vote against any of the terms with which I disagreed, but which were finally adopted.

The Chairman: We are voting upon the adoption of the report of the committee as a recommendation to the Federal Reserve Board.

We will next consider paragraph (2), that the drafts should be limited, as to the amount drawn in any one day by a member bank, to \$10,000."

The vote of the Committee is that paragraph No. 2 of the original plan be rescinded.

Vice Governor Calkins: I would like to suggest that the votes be recorded.

The Chairman: Will it satisfy you to have the minority vote recorded. We know who are present.

Vice Governor Calkins: That is equal to my suggestion, of course.

The Chairman: The chair will entertain a motion with respect to the recommendation of the committee, to the effect that no limit be placed upon these drafts.

Governor Fancher: I will move its adoption.

Governor Rhoads: I will second it.

The Chairman: Is there any discussion?

Governor Van Zandt: I would like to be on record as agreeing with Governor McDougal in the matter of a charge for exchange.

The Chairman: It seems to me that would not affect

your vote pro or con on this particular resolution.

Governor Van Zandt: I am in favor of rescinding that \$10,000 limit.

(The motion was carried.)

Governor Wold: I wish to be recorded as voting no.

The Chairman: Governor Van Zandt, I understand you wish to be recorded as reserving your right to charge the current market rate for exchange in connection with transfers of funds under this method?

Governor Van Zandt: Yes, Mr. Chairman.

Governor McCord: I desire to be recorded in the same manner.

Governor McDougal: I think it is important that consideration be given to that matter, because I believe it will become necessary for us to control the situation in some instances, and I think it would be well for the banks to all understand that they have the right to charge the current rate for exchange in case they think it is necessary.

The Chairman: Do you think that if three of the banks reserve their right to make such a charge, that any of the other nine would hesitate to make such a charge as a protective measure?

Governor McDougal: I do not think they would hesitate to do so, but I think it might be well to have some expression from them as to whether or not they might want to exercise that right. How do you feel about it, Mr. Chairman?

The Chairman: I would feel at liberty to do it, and it might be necessary as a protective measure. I do not



understand there is anything in this plan that prevents us from doing it.

The committee recommends that paragraph No. 3 of the original plan be reaffirmed. Paragraph 3 is to the effect that the drafts should be drawn by the member banks upon their own Federal reserve banks, and made receivable for immediate availability at par, etc. The Chair will await a motion.

Governor Rhoads: I move that it be adopted.

Governor Van Zandt: I second it.

Vice Governor Calkins: I would like to hear an explanation of the proposed procedure under that plan, whether it is receivable only upon receipt of confirming advice, or whether it shall be receivable without advice. That is the milk in the cocoanut, so far as we are concerned, because, being located on the extreme edge of nowhere, there is no such thing as getting advice to New York before the drafts from our member banks are received.

Governor Seay: Charge the bank drawing it at the time drawn.

Vice Governor Calkins: Is it to be confirmed by the other Federal reserve banks?

Governor Seay: No.

Vice Governor Calkins: This plan proposed by the New York directors is a little ambiguous.

(Informal discussion followed.)

Vice Governor Calkins: It appears to me that the paragraph should be amplified by a statement to the effect

that advice is not necessary for its receipt for immediate availability at par by any other Federal reserve bank.

The Chairman: If the draft is not payable, or is receivable subject to final payment, is not the advice provided for under paragraph 5 sufficient?

Vice Governor Calkins: I have not looked at No. 5 yet. I am considering this one. This reads "that the draft should be drawn by member banks upon their own reserve bank and made receivable for immediate availability at par at any one Federal reserve bank specified in the draft." It doesn't say that they shall be received for immediate credit subject to final payment by the bank on which they are originally drawn.

The Chairman: Doesn't that imply receipt for immediate availability, instead of reciting that they shall be payable at the bank designated. Am I not right in saying that was the idea; that was the impression meant to be conveyed, Governor Treman?

Vice Governor Treman: Yes.

Vice Governor Calkins: For immediate availability means for immediate credit. I should think the words "subject to final payment" should be added there.

Governor Van Zandt: I think that would clarify it a little bit, if you add the words "subject to final payment."

The Chairman: Why do you not offer that as an amendment to the motion?

Vice Governor Calkins: I am only trying to bring out an expression of opinion. I am not trying to impress my views upon the conference by any means. However, if it meets

with approval, I will be very glad to offer that amendment.

The Chairman: Is there any further discussion of the motion to adopt that paragraph?

Vice Governor Calkins: I move that the paragraph be amended by the addition of the words "subject to final payment."

Governor Fancher: I second it.

The Chairman: If there is no further discussion of the amendment I will put it to vote.

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

The Chairman: The paragraph would then read:

"That the drafts should be drawn by member banks upon their own Federal reserve bank and made receivable for immediate availability at par subject to final payment at any one Federal reserve bank specified in the draft."

The Committee recommended that paragraph No. 4 of the original plan be reaffirmed. Paragraph No. 4 is:

"That a special uniform form of draft be adopted by all the Federal reserve banks, such drafts when drawn upon this form to be the only ones which are receivable for immediate credit at par."

Is there a motion as to the adoption of that paragraph?

Vice Governor Treman: I move its adoption.

Governor Fancher: I second the motion.

The Chairman: It is moved and seconded that that paragraph be adopted as a part of our recommendation to the Board.

Governor Wold: I drew from Governor Seay's remarks that it was contemplated that this should be the only form

of draft that member banks should be permitted to draw.

The Chairman: For immediate credit, Governor Wold.

Governor Wold: I think Governor Seay had another idea in mind.

Governor Seay: I did have another idea, but I did not prevail upon my bretheren.

Governor Wold: I am not so sure that you are not right.

Governor Seay: I am very glad to hear that, Governor Wold.

The Chairman: Is there any further discussion of the motion to adopt paragraph 4?

Governor Seay: The idea that I had, and advanced, was that unless a bank agreed to draw all of its drafts in this way it should not be permitted to draw any drafts on a Federal reserve bank. That was for the purpose of avoiding possible confusion, not to allow the member bank the excuse of not advising, and also to get them out of the habit of drawing against funds which they did not have.

Governor Van Zandt: I think this special uniform form of draft should be obtainable only from the Federal reserve banks.

The Chairman: I think it was contemplated that the Federal reserve banks should furnish them at their expense, that the Federal reserve banks should furnish the form of Federal reserve exchange drafts for use of their member banks. Am I not right, Mr. Treman?

Vice Governor Treman: Yes. That is explained in paragraph 7, that it shall be according to the terms to be agreed upon.

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

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

The Chairman: The committee voted that paragraph 5 of the original plan be amended to read as follows:

"That the drawing bank be required to give immediate advice to its Federal reserve bank of all Federal reserve exchange drafts drawn, and, in the case of drafts made receivable at another Federal reserve bank, to forward a duplicate advice forthwith to the Federal reserve bank at which such drafts are made receivable; and that all such drafts be immediately charged to the member bank's account on receipt of advice by the Federal reserve bank on which they are drawn."

Is there a motion for the adoption of paragraph 5 as amended .

Governor Fancher: I so move, Mr. Chairman.

Governor Seay: I will second that.

The Chairman: Is there any discussion of this paragraph?

Governor McDougal: In the succeeding paragraph, No. 4, I think it is plainly evident that we do contemplate that there are to be two kinds of drafts drawn by member banks. Paragraph 4 says "That a special uniform form of draft be adopted by all the Federal reserve banks, such drafts, when

drawn upon this form to be the only ones receivable for immediate credit at par." Paragraph 5 says, "That the drawing bank be required to give immediate advice to the Federal reserve bank of all Federal reserve exchange drafts drawn," and I think it is all right to that point, but the following words, "in the case of drafts made receivable at another Federal reserve bank" should be cut out.

Governor Seay: I think I can explain clearly what was in my mind, at least. We had several forms before us in New York, and down in the left hand corner, somewhere, there was a space left to designate the name of any special Federal reserve bank which it was desired to receive that draft. Now, if that form of draft was used, whether the name were put in or not, or whether it was intended to circulate within the district and go to the Federal reserve bank on which drawn, then, in the case of that form being used, advice must be sent to the Federal reserve bank, and all other forms of drafts, whether used in the district or outside of the district, and which got into the hands of another Federal reserve bank, would not be received for immediate availability.

Governor McDougal: But would they be advised?

Governor Seay: They would not on the other form.

Governor McDougal: All right; then we are in agreement. That is my idea exactly.

Governor Seay: Coupled with that there was a plan, which I had hoped would be adopted, that the member bank

would not be permitted to use this form unless it agreed to draw all its drafts on it, but that idea was not agreed to.

The Chairman: Is there any further discussion of the motion to adopt paragraph 5?

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

The Chairman: The committee voted to insert a new paragraph numbered 6, as follows:

"That the Federal reserve bank on which the draft is drawn shall credit by telegraph in the Gold Settlement Fund the Federal reserve bank at which the draft is to be received each day the total amount of such draft in round amounts of \$10,000; such advices to be sent in time to reach the Federal reserve Board not later than 3 o'clock p. m. of each day."

Is there any discussion, or is there a motion to adopt that paragraph?

Governor Rhoads: I move the adoption of it.

Vice Governor Calkins: I would like to have some members of the committee elucidate that a little bit for my benefit.

Vice Governor Freeman: "That the Federal reserve bank on which the draft is drawn shall credit by telegraph in the Gold Settlement Fund the Federal reserve bank at which the draft is to be received each day the total amount of such drafts in round amounts of ten thousand dollars."

Governor Seay: That being the day they receive the advice.

Vice Governor Calkins: But it says such advice to reach the Federal Reserve Board not later than 3 o'clock of each day. That could not be done.

Governor Fancher: It was thought, in the actual operation of this, that you would receive, for instance, in the morning from certain of your member banks, notice that they had made a certain volume of drafts, receivable at New York, and those would be totaled up until you found there was \$110,000 in drafts receivable at the Federal reserve bank of New York; or it might be \$115,000, but you would transfer to the Gold settlement fund the round amount of \$110,000 by wire to the Federal reserve Board.

Vice Governor Calkins: (Interrupting) That is perfectly simple, but why could it not be made workable? Why not make it read that the telegram could be dispatched at the close of the day's business. If this plan would work out between New York and San Francisco, the one day's advice would always go over to the next day's business.

Governor Fancher: In view of the fact that four or five days would elapse in almost all cases, you would probably get advice from the drawing bank before the draft would be received in New York?

Vice Governor Calkins: Oh, yes. There is no objection to it from that point of view, but the question is whether we could make the transfer through the Board before three o'clock on the day of the receipt of advice.

Vice Governor Tremen: What would you suggest, Mr. Calkins?



Vice Governor Calkins: I would suggest that the notice of transfer be dispatched at the close of each day's business.

The Chairman: That would result in the paying bank, or the bank that receives the draft for immediate availability, not being put in funds to pay that draft until the following day.

Vice Governor Calkins: I realize that, Mr. Chairman, but I do not see how it can be avoided.

The Chairman: There is a motion before the house for the adoption of that paragraph.

(There were calls for the question, and the motion, having been duly seconded, was carried.)

The Chairman: The committee recommends that paragraph No. 6 of the old plan be renumbered 7 and amended to read as follows:

"That this plan become operative on the \_\_\_\_\_ day of \_\_\_\_\_, 1917, and be made available to such member banks as may agree to terms formulated by their Federal reserve banks."

Is there a motion for the adoption of that paragraph?

Governor Van Zandt: I move the adoption of it.

Governor Fancher: I second the motion.

The Chairman: The Secretary raises the question as to the filling in of that date.

Governor Seay: I suggest we leave it blank until the conference with the Board.

The Chairman: I think if we leave it blank no action

is necessary, because as the paragraph is in that form, its adoption will leave it blank.

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

The Chairman: The committee recommends that the views of the committee, as expressed in the last two paragraphs of the original report be reaffirmed, to wit:

"That under existing conditions and the terms above recited, there will be no necessity for daily settlement through the Gold Settlement Fund at the present time, nor any necessity for establishing a silver and legal fund, as suggested in the Gedney plan."

Is there a motion for the adoption of that paragraph?

Governor Rhoads: I move its adoption.

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

The Chairman: I would like to call the attention of the Conference to the suggestion by Governor Harding, as set forth on the first page of the report of the committee of March 19. Governor Harding suggested confirmatory advice from the parent Federal reserve bank to the Federal reserve bank designated as the point of availability of this check. That was coupled with the suggestion of the committee from the Federal Reserve Bank of New York that these drafts be made payable, instead of receivable.

I would like to be recorded as being in favor of making these drafts payable at designated points subject to telegraphic advice as suggested by Governor Harding.

Vice Governor Calkins: In order to understand a little further the plan proposed, I would like to ask this

question. In view of the fact that one Federal reserve bank only is to be designated at which the draft will be receivable for immediate availability at par, subject to final payment, it is certain that a very large proportion, or practically all of these drafts, will be drawn receivable in New York City at the Federal Reserve Bank of New York. What is proposed in the way of compensation to the Federal Reserve Bank of New York for handling the volume of business that will arise from the operation of this system, if it works?

The Chairman: No compensation.

Vice Governor Calkins: No compensation except the float. The Federal reserve Bank of New York will of course have advantage of the float, running to a very large amount at times, if this restriction confining it to the country banks is removed.

Governor Seay: Is not that a rather gratuitous assumption? It is taken for granted that when a member bank draws a draft of that kind it will have approximate knowledge of where it is to be sent, and that it will always go to the nearest Federal reserve bank. I think that that spirit ought to dominate the use of these drafts, and that efforts should be made to find out the approximate locality to which these drafts will be sent. That the nearest Federal reserve bank should always be designated, the object being to get these things home as quickly as possible, It doesn't appear to me, that being so, unless there is a direct transfer from San Francisco to New York, that New

York will have to be used.

Vice Governor Calkins: Take the case of San Francisco, and I suppose that what I have in mind might apply to some of the others, and there will be very few calls, so small a number as to be negligible, for such drafts payable elsewhere in New York. There will be no calls for such drafts payable in Richmond, Atlanta or Dallas or Minneapolis. Occasionally there may be one for Chicago and occasionally one for Boston; but the number, in proportion, will be so small as to be of no consequence whatever. The same thing, it appears to me, will apply to Chicago. For instance, drafts issued in the Chicago district will be drafts to be receivable in New York in the vast majority of cases. The bulk of the drafts drawn in the whole system will be receivable at the Federal Reserve Bank of New York, both in number and in volume. I cannot see how that will be questioned.

Governor Seay: I do not take that view of it in the least. Take for instance the present plan of remitting. Any checks received, the present plan is to draw a draft on New York. But take our own district, for example. Suppose Baltimore were to send to a member bank in our district collections for remittance. Is it to be supposed that that member bank in our district would draw a draft and designate New York as the receiving bank? Wouldn't it designate its own Federal reserve bank?

Vice Governor Calkins: Yes, but we are not talking about that.

Governor Seay: And again, if you please. Suppose

a member bank sells exchange over its counter to a customer, and the question will be 'Where are you going to send that check? Are you going to send it to Denver or to Omaha? If it should be in your own district the draft would be on you and would come back to you. If it should be in the vicinity of Chicago or Minneapolis those banks would be designated, and it will only be in the case of a direct transfer of funds from one place and another to New York that New York will be specified. I believe New York will take its place as perhaps having the majority of banks designate it, but that New York will be one case out of twelve. The other Federal reserve banks will be designated whenever the draft is to be sent in their vicinity.

Vice Governor Calkins: Of course, Mr. Chairman, the district of the drawing bank may be left out of the discussion. If the draft is to be used in the district of the drawing bank, it will be drawn on the Federal reserve bank of that district, of course, but in case of drafts drawn for other purposes, at least in the Twelfth District, the majority of them will be drawn on New York, the next in proportion being Chicago, probably.

Governor Seay: Unless something is to be paid in New York it wouldn't be.

Vice Governor Calkins: For instance, the volume of Federal reserve notes of the San Francisco bank, returned from New York, is vastly greater than those from all the other banks combined. In my opinion New York would be used almost exclusively.

Governor Van Zandt: That is brought about by reason of the fact that these member banks have sent those Federal Reserve notes to New York to create New York exchange because they are called on for New York exchange. If some man out there wants to pay a bill in Columbus, Ohio, he gets a piece of New York exchange; if he wants to pay a bill for furniture at Grand Rapids, Michigan, he gets New York exchange. It is also very largely done in the west, but I think they will draw exchange on the nearest Federal reserve bank when this is put into operation.

Governor Wold: I am inclined to agree with Governor Seay. You will be surprised by the amount of exchange drawn upon the other banks. New York is going to be disappointed in not having as many drawn upon it, when the system is organized as now anticipated.

Vice Governor Treman: There is another point you must not overlook. In the past, all over the United States, every bank of any size has kept a New York account. In the shifting around of the reserves, it seems to me they are going to keep their money in the reserve bank of their own district, and when a customer comes in and asks for New York exchange, and he hasn't any account in New York on which to draw the exchange, he will say, "What do you want to do with this?" If they tell him they want to pay a draft at Columbus, Ohio, for some haying tools that he has bought, they will say, "I will give you a draft on Cleveland, Ohio", and it will go just the same as the New York draft. I think that is the way it will work out

a great deal more than is anticipated.

Governor Seay: That is my judgment.

Vice Governor Calkins: I seem to be in the minority. It is unimportant, except as bearing on what the proposed plan is to be in regard to compensation. I think, if my views are any where near correct, that the New York Bank will find itself loaded with a very large amount of business in connection with this matter.

Vice Governor Treman: I think we will at first, myself, but it will gradually work out along the other line.

Governor McCord: Mr. Chairman, it seems to me that the question before us has to do with Governor Harding's suggestion as to telegraphic advices. Now, collections come from other districts down into the Atlanta district, say from Philadelphia houses, to be drawn in odd amounts. Is it contemplated that we should be exact in the amount of this advice, or should we say in round sums, so much?

Vice Governor Treman: In round sums.

Governor McCord: All right, because the other way it would be absolutely impracticable.

The Chairman: Mr. Curtis has volunteered to explain somewhat fully Governor Harding's suggestion.

Mr. Curtis: I volunteer this only because, coming down on the train yesterday, so able a mind as that possessed by Governor McDougal, had not grasped exactly all the details of this. As I understand the plan it is this:

"Every member bank has an A. B. A. number. Each member bank that draws a Federal reserve bank drafts is to

send a daily letter, at the end of the day, to its own Federal reserve bank, describing in detail all drafts drawn payable, let us say, at New York. A duplicate of that, with the duplicate signatures of the officers who have signed those drafts, is sent to the Federal reserve bank of New York. It may contain, let us say, ten drafts that have been given out by that bank. On receipt of advice the Federal reserve bank to which that member bank belongs, say Dallas, immediately telegraphs to the reserve bank at New York a telegram identifying the letter, which will be in substance as follows: First the transit A. B. A. number of the member bank; second, an alphabetical indication "A, B, C, D," and so forth, the number of the letter that that bank is sending in to the Federal reserve bank of Dallas, and third a code word indicating that the footings in that letter are not in excess of five thousand, six thousand, ten thousand or fifteen thousand, so that when the Federal reserve bank of New York receives the duplicate letter from the member bank in the Dallas district, plus the telegram, everything on that duplicate letter is identified by a very brief telegram, containing probably not more than ten words. That same telegram would include in it advice of all other member banks that have sent in letters of advice to the Federal reserve bank of Dallas, indicating that they had drawn drafts payable at New York, or receivable in New York, so that the telegram would read something as follows:



"1 dash 31."

That is the member bank's A. B. A. number;

"A", indicating the first letter of advice that that member bank had sent the reserve bank of Dallas; "Drake", indicating that the footings of the letter were not more than \$5,000, but were more than \$3,000, let us say, or any arbitrary amount that you want. That tells the Federal Reserve Bank of New York that when it receives a duplicate advice all of those drafts are good. Then the telegram goes on to say "779 A. B. A.", the number of another member bank "B", meaning its second letter of the member bank; "Duke" as a code word indicating that the footing is between seven and eight thousand dollars, or whatever you choose, and when you get that, plus that duplicate advice, you have the whole story in New York, and they are safe in paying out drafts that come in that are mentioned in the duplicate letter of advice. It seems to me it is a practical and safe way of conducting this exchange. I think it is a good scheme.

Governor McDougal: I would like to say that that very clear statement of the matter did clear it up for me, but I do believe, when you consider the plan all the way through, that that advice is not necessary. Isn't it proposed that you are going to have your drafts payable instead of simply collectible through the bank?

Mr. Curtis: This telegram would make it immaterial whether they were payable or collectible, and the reserve bank where they are to be received is absolutely protected

by the telegram.

Governor Fancher: Suppose I had advice, as I might have, of the drawing of 856 banks on New York, and I would have to identify by telegram this letter of advice, and give all those details, why, it wouldn't be possible.

Vice Governor Calkins: Referring to what Governor Fancher has said, I go a little further. Suppose we have 287 banks permitted to use the system, and they use it; suppose it really becomes an active system. There would be 287 descriptions to send in a telegram.

The Chairman: I would like to ask you, as a practical matter, that you believe that 287 of your member banks would be drawing drafts on New York on any given day, or anything like that number?

Vice Governor Calkins: I am not sure that they would, under the plan, but if the plan appeals to them as a satisfactory plan, of course I don't mean 287, because I could not say offhand how many, but the majority of them will use it.

The Chairman: Do the banks of your district draw New York exchange every day?

Vice Governor Calkins: Yes, a majority of the small banks do; or, nearly every day.

Governor McCord: That would practically be a certification of those drafts, would it not?

Vice Governor Calkins: Yes.

Governor McCord: In spite of the fact that Congress has ruled that the only certification that can be made must

be made in writing or stamping across the face of a paper.

Mr. Curtis: It would be in lieu of certification.

Governor Seay: It would be substitution but not certification. The plan as just explained, which was the plan proposed by Mr. Harding, is opposed to the plan adopted by the committee, and for that reason, when the minutes were received by me and I read "This plan, while not acted upon formally, was unanimously approved in principle by the committee" I objected to it because that was not the case. I think that before this goes before the Board that ought to be altered. The plan we adopted is opposed to the plan suggested by Mr. Harding, and it seems to me that that language should not be in there, because the principle of advice to the receiving bank was not approved unanimously. The principle contained in the explanation just given by Mr. Curtis is opposed to the plan of Governor Harding, and therefore it could not have been unanimously approved. Quite to the contrary, it was unanimously rejected.

The Chairman: Do you make that as a motion, Governor Seay?

Governor Seay: My motion is that this language in the report, the last sentence of the first paragraph, which reads, "This plan, while not acted upon formally, was unanimously approved in principle by the committee," be altered to read "this plan was not acted upon formally but the principle of advice to the receiving bank was unanimously approved"---

Mr. Curtis: Advice from whom?

Governor Seay: From the drawing bank. Clearly it is opposed to what we did adopt, and therefore I say we could not have approved something that we did not adopt, and something contrary to what we did adopt. What was approved unanimously was the principle of advising the receiving bank, and the drawing bank is to do that, not the Federal reserve bank. We rejected that. But the principle of advising the receiving bank <sup>by</sup> the drawing bank was unanimously approved.

Governor Van Zandt: I would like to offer a motion right here.

The Chairman: Governor Seay, do you offer that in the form of a motion to amend the committee report?

Governor Seay: I would like to offer this, that this plan was not acted upon formally but the principle of advice by the drawing bank to the receiving bank was unanimously approved.

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

Governor Van Zandt: As I understand it we are to prepare a report to the Board from this Conference, and we are only taking the report of this committee as the basis upon which to work. We have gone over the report of the committee in full and have approved it with a few slight changes.

I now move you, Mr. Chairman, in substitution, as Mr. Seay's motion did not receive a second, that the report of

the Conference of Governors begin right here, with this paragraph:

"The plan reported by the committee at its meeting of January 22nd, 1917, was taken up for discussion paragraph by paragra<sup>h</sup>", etc.

(There were several seconds.)

Governor Seay: I will accept the substitute.

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

Governor Seay: I move that the closing sentence of the statement by Mr. Harding, to the effect that the plan was not acted upon formally but was unanimously approved in principle by the committee, be stricken from the minutes of the meeting.

Governor Van Zandt: While that meets the situation with regard to cutting that out, it does not quite agree with my motion. My motion was that the report of this Conference to the Federal Reserve Board on this subject begin with the paragraph immediately following that:

"The plan reported by the committee at its meeting of January 22nd, 1917, was taken up for discussion paragraph by paragraph."

Governor Seay: I understand that, but the object is to get this expression out of here if it does not correctly express the facts.

I move the elimination of the closing sentence of the paragraph containing Mr. Harding's suggestion from the report.

The Chairman: Governor Van Zandt, will you allow that to take precedence?

Governor Van Zandt: Yes, Mr. Chairman.

The Chairman: With the consent of Governor Van Zandt Governor Seay moves that the sentence "This plan, while not acted upon formally, was unanimously approved in principle by the committee" be eliminated from the committee's report.

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

The Chairman: Now, Governor Van Zandt, do you wish to renew your motion?

Governor Van Zandt: Yes sir, Mr. Chairman.

Governor Seay: I will second that motion.

The Chairman: Governor Van Zandt's motion is that the report of this Conference to the Federal Reserve Board on this subject beginning with the paragraph, on the first page, which reads, "The plan reported by the Committee at its meeting of January 22nd, 1917, was taken up for discussion, paragraph by paragraph", etc.

Governor Seay: And that the Conference approved the plan submitted by the committee, together with the amendments adopted by this Conference.

Governor Van Zandt: That is satisfactory to me.

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

The Chairman: It is understood that the Secretary will revise this and get it in proper form for presentation to the Board tomorrow. The Conference will convene tomorrow.

row at 9 o'clock. Is there any further business you wish to take up this evening?

Governor Seay: There is a resolution that I would like to have considered. We have tried repeatedly to have the Secretary of the Treasury convert our three per cent notes into bonds. I think the time is very propitious now for us to renew that request. I think the situation presents an entirely different aspect, and I think there is very much stronger reason now for the request, and I think the matter is of such importance to the Federal Reserve System that we ought not to let it go without making another try.

The resolution that I had in mind was somewhat like this:

"Whereas, the Federal Reserve Banks now have a large amount of one year three per cent notes of the Government, which carry an obligation of annual renewal, and

"Whereas, such notes are not available as security for note issues, and under present conditions are not salable to banks, or to the public, and are therefore not convertible into reserve, and

"Whereas, it is eminently desirable that the resources of the reserve banks should be kept in a state of liquidity, and

"Whereas, it is believed that such notes should not be converted into bonds both to the advantage of the Government and the reserve banks,

"Therefore, Be it Resolved, That the Federal Reserve

Board be respectfully requested to lay before the Secretary of the Treasury the application of the Federal reserve banks for the conversion of their three per cent one year notes into thirty year three per cent bonds.

Governor McDougal: I will second that.

Governor Seay: I believe the time is propitious to ask for it. He certainly cannot have the same reason that he had formerly, because conditions are so changed. They are not salable. The Government has no chance of redeeming them because it will have hundreds of millions ahead of them, and it is very important to convert those notes into bonds and into a reserve which we may be able to use, both for the benefit of the Government and for the benefit of our member banks. I hope the Secretary will be willing to consider it under those terms.

The Chairman: Is there any discussion?

Governor Wold: I would like to inquire of those present what character of security they prefer, the thirty year three per cent bonds that they cannot sell, or the one year notes that might be made available for circulation?

Vice Governor Calkins: Might be made available for circulation?

Governor Wold: Yes.

Vice Governor Calkins: What do you mean by that?

Governor Wold: There was an amendment---

Vice Governor Calkins: They withdrew that.

(Informal discussion followed.)



The Chairman: There is a motion before the house. That is Governor Seay's resolution is before us.

Governor Seay: I offered it tentatively, Mr. Chairman. I am not particularly anxious that it should be adopted. I do think it highly desirable, if there is any way for us to get rid of these three per cent notes, that we do so, and I think it is a very important matter.

Governor Wold: I think it is a very important matter and have thought so for a year or more. It seems to me it is a matter that ought to be discussed with the Board, not by way of a resolution, but by bringing it up to see what their thought on the matter is.

Governor Seay: We may not have a conference with the Board tomorrow.

The Chairman: Just a moment. Do you withdraw your motion, Governor Seay?

Governor Seay: I will withdraw the motion and move that it be one of the matters taken up with the Board tomorrow, that is, the question of the conversion of the one year three per cent bonds held by the Federal reserve banks.

Governor Van Zandt: I will second that motion.

Governor Fancher: As we have been asked by the Secretary of the Treasury to prepare a memorandum on the Government bond issues, couldn't that appear in our memorandum in some way?

Governor McCord: I think it could, very nicely.

Governor Seay: I would like to ask if it isn't expected that we will give the Board the results of our delibera-

tions upon that subject tomorrow. Don't they expect us to discuss it and report to them tomorrow?

The Chairman: I assume that matter will be taken up at half past nine in the morning.

Governor Seay: If we are to report it won't we have to consider it tonight and arrive at some conclusion?

Vice Governor Calkins: In the discussion this morning it was not clearly indicated that we were expected to turn in that suggestion or memorandum tomorrow morning. We were asked to discuss several things with the Board tomorrow morning, but there wasn't any request on the part of the Secretary that that memorandum be considered tomorrow, as I remember it. It is a serious matter and ought to have serious consideration. Someone said at the Board meeting this morning that we could have as many conferences as we had time to have.

Governor Seay: I think it would be well to prepare the memorandum. It should be considered by this conference before we have another conference with the Board.

The Chairman: There is a motion before the house, and if you have discussed it thoroughly, why not pass upon it? It is to the effect that tomorrow, at the conference with the Federal Reserve Board, the question of the treatment of these three per cent one year notes be taken up with them.

Governor McCord: I move, as an amendment, that we strike out the word "tomorrow," so that if we do not reach that subject tomorrow we can take it up later.

The Chairman: So that it will read "at a conference with the Federal Reserve Board".

Vice Governor Calkins: I offer an amendment, that we make it read as follows: "In the discussion with the Federal reserve Board regarding Government finance there be included a discussion of the treatment of the one year three per cent notes."

The Chairman: Do you accede to that Governor McCord?

Governor McCord: Yes sir.

Governor Seay: That will suit me, Mr. Chairman.

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

Governor Seay: Have we not sort of left hanging in the air the question of Government Finance, that they expect us to consider.

Vice Governor Treman: (Temporarily in the Chair) My own personal view was that it would perhaps be well, since we have had a long day's work, to take up that question in the morning, when Governor Aiken is here, and we can formulate a plan to present. We can frame up a report that we will feel justified in making, and if we cannot do that, then the question will arise whether we will have another conference with the Board.

Governor Seay: I am entirely willing to put it over until tomorrow, but I think it is regarded by the Secretary and is believed by the Board, to be one of the most important things that we are to consider, both for ourselves and the country. I have some very decided convictions on the matter.

Vice Governor Calkins: I would like to have some one else's opinion as to whether the Secretary indicated that he would attend the conference tomorrow morning for the purpose of getting this memorandum. I do not think he did.

Governor Van Zandt: He did not.

Vice Governor Treman: Do you wish to go on with the program?

Governor McCord: I suggest that we run down the program, as there are some things we can clean up.

Vice Governor Treman: That will be the order, unless objection is made.

Vice Governor Calkins: I have no objection, but as we are to have a conference with the Board tomorrow and they have suggested some things that they wish us to discuss, it seems to me we had better devote ourselves to those things that they expect us to talk about tomorrow. We are to discuss government finance in addition to a number of other things they have asked us to report on. One of those subjects was branches.

Vice Governor Treman: The other subject was amendments. We were all furnished with copies of them.

Suppose we begin with (1) under 6, and run down. If there is anything that we should omit we will do so.

6-(1) Committee to Confer with Federal Reserve Board with respect to introducing daily settlements of the Gold Settlement Fund.

Governor Wold: I am happy to say that the Committee on Federal reserve exchange has made a report for me, when

they say that this makes unnecessary daily settlements in the gold fund. You have adopted their report and I do not see that any further report is necessary.

Governor Seay: If your Committee has reported on that and is willing to furnish me with a copy of the report I would be very happy to receive it. I think it is a matter that we will have to take up and I would therefore like to have the benefit of the conclusions of any Governor on the subject.

Governor Wold: The members of the Committee thought that matter might well await the further development of the check collection system, and at the present time there is no immediate call or need for daily settlements in the Gold Settlement Fund.

Vice Governor Treman: Shall we take that as your report?

Governor Wold: Yes, if you will. You have adopted a report by the Committee on Federal Reserve exchange which reiterates the fact that daily settlements are unnecessary at this time.

Governor Seay: I thought possibly you might have prepared some paper on the subject that you could give me, but I am perfectly satisfied with your statement.

Vice Governor Treman: Governor Wold submits that as the report of his committee, and, by unanimous consent, the committee is continued. The next is (m).

6-(m) Committee to inspect vault facilities provided for custody of Gold Settlement Fund.

(Governor Fancher thereupon read the committee report .)

Governor Rhoads: I move the acceptance of the report and that the committee be discharged.

The Chairman: Is there any discussion? It will be so ordered, unless objection is made.

The next is 6-(n).

6-(n) Committee to investigate report upon discrepancies in transit time schedules and the subject of domestic exchanges.

Vice Governor Calkins: I move that that go over for later discussion.

Governor Seay: That is important. It will entail long discussion. I second the motion that it go over until we have more time to consider it.

The Chairman: It is so ordered.

(The motion was duly carried.)

The Chairman: The next is (o),

6-(o) Committee on the establishment of branches and agencies of Federal reserve banks.

Governor Van Zandt: Mr. Chairman, I was the Chairman of that committee. I understood that the report of the committee was to be made to the Federal Reserve Board. I made such a report to the Board and furnished each Governor with a copy. I have not a copy with me.

The Chairman: Perhaps you can give us a general outline of it.

Governor Van Zandt: A general outline of that was that the Committee believed it would be more advantageous to have some plan whereby agencies might be established, which might be developed later into branches; that when you got a branch there was no provision under the law for ever getting rid of the branch, unless you got rid of the bank.

Governor Seay: You did not define what you meant by "agency" did you?

Governor Van Zandt: No.

Mr. Curtis: I think that is one of the points that the Federal Reserve Board is anxious to have elucidated; that is, what the recommendation of the Governors would be as to what functions an agency should have, and what functions a branch should have, .

Governor Seay: Mr. Delano's talk this afternoon was partly along those lines. You will remember he was of the opinion, if I recollect correctly, that the establishment of agencies might quiet this disposition to establish branches, which I thought he intimated he would like a quietus put upon.

(Informal discussion followed.)

The Chairman: For the sake of progress, does the Conference desire to make any recommendation to the Board on the question of branches and agencies? If I remember correctly Governor Harding this morning spoke of that as one of the matters he would like to have us consider. In view of Governor Van Zandt's report, and the feeling expressed by Mr. Calkins, do you wish to formulate your views in

any recommendation to the Board?

Vice Governor Calkins: It would seem to me it would be a good thing if Governor Van Zandt would rewrite his report so that this conference can approve or disapprove it. He could do that all right.

The Chairman: I think the Board will bring the matter up and will ask for our views. It seems to me we ought to formulate them.

Governor Wold: If we approve of agencies we should indicate what the functions of the agencies should be.

Governor McCord: It was the understanding that we were to report to the Board and not to the conference of Governors. The report has gone in. We can refer to that report to the Board, and Governor Harding will probably have it on file.

Governor Van Zandt: That was the way I understood it.

Mr. Curtis: But the report does not define an agency.

Governor McCord: That is a matter for the consideration of this Conference right now.

Mr. Curtis: You will remember at the joint conference held with the Board during the Ninth Conference, the last time we met, Mr. Warburg elaborated somewhat on the question of what functions an agency should perform, and he repeated a variety of views that had been suggested to the Board, and the views that different members of the Board held, and then he wanted to get the views of the Governors as to what their definition of the functions of the agent would be. While your report covers the question of branches and agencies it



does not go into these definitions that Mr. Warburg was speaking of.

Vice Governor Calkins: There wasn't any request for that at the time the report was made. The report was made before the last conference of Governors.

Mr. Curtis: I beg your pardon; I do not think it was. It came as a result of that Conference.

Vice Governor Calkins: Pardon me, Mr. Curtis; I am wrong.

Governor Seay: I would like to ask the Governors if they are in the habit of accepting from reliable member banks their trust receipts for collateral furnished to Federal Reserve Banks?

Governor Fancher: We are not.

Governor Seay: Have you ever had occasion to do that?

Governor Fancher: We never have.

Governor Seay: Would you hesitate to do it?

Governor Fancher: I think it would depend---

Governor Seay: (Interposing) Warehouse receipts, for instance, that need to be substituted, the member bank advising you of the substitution. Take grain elevators, receipts for grain which have to be substituted frequently.

Would you hesitate to take that from a member bank?

Governor Wold: Not a responsible bank.

(Informal discussion followed.)

Governor McCord: With regard to those receipts, we not to draw a line of distinction between banks. We made

it a rule that they should all deposit their collateral.

Governor Seay: We make them deposit, but in cases where the loans are approaching maturity, and where there is a desire to sell a part and to substitute the other part we take their trust receipts.

Governor McCord: We arrange for a custodian.

Governor Seay: How can you do that in a small place, for instance, with cotton warehouse receipts?

Governor McCord: We send them out in trust over night, or for a day or two, but of course we wouldn't do it on a sixty day loan, or anything like that.

Governor Van Zandt: We have a rule that when, in our judgment the board of directors personally guarantee it we will take the personal guarantee of the board and let them give us the trust receipts.

Governor Seay: You do not do it otherwise?

Governor Van Zandt: No.

Governor Seay: Let me ask Governor Treman if he has occasion to do it.

Vice Governor Treman: We don't do it in New York at all, as I understand it.

Governor Seay: The New York bankers have their own form of trust receipts?

Vice Governor Treman: Yes.

Governor Seay: With which they deal with their member banks?

Vice Governor Treman: Yes.

Governor Seay: I have asked those questions because

they have a very important bearing on the question of agencies. If we cannot do that with some member banks it would be necessary to have an agency sometimes or appoint a custodian, as Governor McCord says, at various places over our district.

Vice Governor Calkins: The custodian is an agent, nothing more or less. It seems to me if you can regard the practice of taking trust receipts, with proper discretion, as legitimate, and I believe it is, you can do away with the establishment of agencies, whereas otherwise you would have to establish an agency.

Governor McCord: Let me refer again to that subject. We take the same view that is taken by Governor Van Zandt. When I say a custodian is appointed, I mean a man is designated, and then if there is sufficient financial strength among the directors of that bank, and they are willing to become surety on bonds, we accept that guarantee.

Governor Seay: The practice differs, but we could not do business in our district under that plan.

Governor McCord: We are doing it right along. It is a joint agency with us. Governor Harding was in Atlanta investigating the plan I adopted, and while he did not sanction it officially he did personally. It is a joint custodianship with us, Governor Seay. To give a concrete case, our National Bank of Savings handles a great deal of cotton on order notify bill of lading, warehouse receipts and dock receipts. Now, we have a form for a custodian, bonded by a bonding company, or by responsible

men, to act for us and the bank acts on its own behalf in the matter, holding the master key to the box, and the agent holds the two customers' keys. Three forms are issued, one for the bank, one for us and one for the custodian. Both the custodian and the officers of the bank sign that blank, and therefore it is a joint custodianship, of that bank and our representative.

Governor Wold: I would like to qualify my reply somewhat as to what we do. We have not permitted anyone to take up collateral attached to rediscounts.

The Chairman: Was there any action taken in regard to sub-topic (c)? Shall we leave it to Governor Van Zandt to lead the discussion and answer any questions by the Board tomorrow?

Vice Governor Calkins: That will not constitute a recommendation by the Conference, as the Conference has never passed on that report.

Governor Wold: What would you think would constitute an agency, Governor Van Zandt?

Governor Van Zandt: You might have an agency for various things. An agency need not have a specific power. You might have a collection agency here and a clearing agency here. You might have an agency, as St. Louis had, in Memphis. You might have an agency to pass upon the eligibility of paper, as Mr. Calkins says, before it goes to the parent bank. There are a great number of things. You might give an agency all of those powers.

Governor Wold: What would its functions be as a

clearing agent?

Governor Van Zandt: It would be a clearing house for certain sections of the district---

Governor Wold: (Interrupting) Then you would have funds in his possession?

Governor Van Zandt: Yes, he would have to have funds.

Governor Wold: He would have to have accounts with member banks in that vicinity, and anything incident to a clearing operation. Would he carry reserves?

Governor Van Zandt: I cannot see that he would have to have accounts at all.

Governor Seay: Suppose you were to appoint a member bank your clearing agent in certain territory?

Governor Van Zandt: I think that could be done.

Vice Governor Calkins: It would not be permitted by the Board.

Governor McCord: The other banks would not operate with them.

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

Governor McCord: As there seems to be such a diversion of opinion as to what an agency consists of, or what would be the duties of an agency, I suggest that we report tomorrow that the committee appointed on this subject understood that they were to report to the Board; that they have previously filed a report with the Governor of the Federal Reserve Board, and in that report the definition of an agency was not gone into, and it is a very difficult problem to

say what an agency should be.

Governor Wold: As a substitute I would suggest that we refer this to the committee and ask them if they cannot formulate some kind of a report to make to this conference before we adjourn. We ought to do something with it and have something to say to the Federal Reserve Board in a concrete and definite way.

Governor Van Zandt: How would it be to say that it is the opinion of this Conference that an agency should have all the functions of a branch bank, as defined by law, with the exception of rediscounts and open market purchases, and that it be officered in a manner to be provided for.

(Further informal discussion followed which the reporter was directed not to take.

The Chairman: Do you wish to take any formal action, any more than we have outlined? If it comes up before the Board Governor Van Zandt is to handle it.

Governor Seay: I do not see that we are prepared to handle it in any other way. We could say that a committee was appointed for the purpose of handling the matter, and then let it develop into general discussion, if it will.

Vice Governor Calkins: Then the Conference does not desire to express any approval of that report?

Governor Seay: We have already expressed our view to the effect that in the opinion of this conference it is more desirable to establish agencies than branches.

Governor Van Zandt: That was the report.

The Chairman: Gentlemen, if there is no further business to transact tonight we will adjourn at this time

until 9:30 o'clock tomorrow morning.

(Whereupon, at 11:20 o'clock p. m., the Conference adjourned until tomorrow, Thursday, April 5, 1917, at 9:30 o'clock a. m.)

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PROCEEDINGS OF THE TENTH CONFERENCE  
OF GOVERNORS OF FEDERAL RESERVE BANKS.

SECOND DAY.

Shoreham Hotel, Washington, D. C.,

Thursday, April 5, 1917.

The Conference met, pursuant to Adjournment, at 9:30 o'clock a. m., on Thursday, April 5, 1917.

Appearances as indicated on yesterday.

The Chairman: The meeting will please come to order.

Governor Rhoads (Temporarily in the Chair): The idea has been that the most important question to discuss was Government bonds and general financing, but that will depend a good deal on whether we are to go to the Board this morning or not. I imagine from the words of Governor Aiken, when he left, that his intention is to persuade the Board to let us come later.

(Informal discussion followed.)

Governor Rhoads: In the interest of progress, is it your wish to take up some of the items under topic 7?

Mr. Calkins, you are responsible for 7-(a), Completion or contraction of collection system. Is that a matter that will take up much discussion?

Vice Governor Calkins: We discussed that rather informally yesterday and arrived at the usual point, nowhere. It seems to me that it is a matter that ought to be advanced in some way. However, I am not very anxious to discuss it.



7-(a) Completion or contraction of collection system.

The Chairman: Do you wish that off the program?

Vice Governor Calkins: There was alot of indefinite talk yesterdy, which did not result in any conclusion. Mr. Delano seemed to be very much interested in the subject and it occurred to me that he expected us to make some concrete proposal and have it ready to present to them, or to him at least, although I may be mistaken.

The Chairman: There is a dis tinct conflict of expression between what Governor Harding said at New York the other day and what Mr. Delano said here yesterday. Governor Harding said that the Board did not wish the other Federal reserve banks, at the present time, to push the collection of checks by express; that they wanted New York to try it out; that in view of the bills they had before Congress they wished to go slowly. But yesterday Mr. Delano intimated that he would be willing for all of us to immediately start collecting by the express companies.

Vice Governor Calkins: I understand the Kitchin Bill is not being pressed very hard, and perhaps that is the rest of the story. But if there is no reason for holding off on that account, it seems to me we ought to go ahead or go back, one or the other.

The Chairman: Have you a motion to make, Mr. Calkins?

Vice Governor Calkins: No.

(Informal discussion followed.)

The Chairman: It is the sense of the conference that in the interest of developing the check collection system it

is desirable that all Federal Reserve Banks take such steps, in the near future, as may be possible to extend the par list; that the Conference believes that the most practical method is to use the express companies, and that they request the Federal Reserve Board to authorize the use of the express companies. Is the Conference in favor of such a resolution?

Governor Seay: I would suggest that we leave out the request to the Board and pass the resolution you have suggested.

Vice Governor Calkins: I am again anxious to offer a substitute--- that it is the sense of this meeting that the Governors of the Federal Reserve Banks should take immediate effective steps looking toward adding the names of all banks to their par lists.

Governor McCord: I will second that.

(The motion, having been duly seconded, was carried as amended.)

(At this point Governor Aiken resumed the Chair.)

The Chairman: Gentlemen, I must apologize for being late this morning, but I have had to call upon Governor Harding. This morning, at breakfast, in talking over with some of the men here about our meeting, I suggested that we had not covered the matters that were to be taken up with the Board, and that some of those we had covered we had not gotten into definite shape to discuss with the Board advantageously. I thought it might be desirable, before our meeting with the Board,--and the four members of the Confer-

ence with whom I breakfasted agreed with me--- for me to go over to see Governor Harding and tell him the situation, stating that yesterday morning had been devoted to our meeting with the Board, and that yesterday afternoon had been devoted to a somewhat desultory discussion of check collections with Governor Delano; that we had made small progress on our program. He agreed that it would be better to defer the meeting with the board until we had gotten our conclusions in a little more definite form. I asked him if he would prefer to have a meeting this afternoon or tomorrow morning. He said tomorrow morning was more satisfactory. I am sorry that it involves keeping us all here tonight, but there are a good many things still left on the program to discuss, and I think there is enough here to keep us fully occupied until we meet with the Board again.

Governor McCord: Did you make a specific engagement for a specific hour?

The Chairman: No. I think we had better make it ten o'clock, in the hope that we can get through. However, I will take it up with the Board and I have no doubt that they will accede to our wishes in the matter. As I understand it, after I left last night all of the matters on the first page of the program were discussed and acted upon.

Governor Seay: No, Mr. Chairman.

Vice Governor Calkins: I move, Mr. Chairman, that Items (c), (d) and (e) under Topic 5 be marked off the program. (c), direct interdistrict routing, there is no occasion to discuss. It is ancient history. (d) and (e),

Uniformity of service charges and Audit of Gold Settlement Fund, have been discussed.

Mr. Curtis: (c) and (d) Are matters that the Federal Reserve Board feel are important. They are both Mr. Kains' topics, Mr. Calkins.

The Chairman: In view of the recommendation of the Board, that we give those special consideration, do you withdraw your motion that they be removed from the program, Mr. Calkins?

Vice Governor Calkins: Yes. I did not know there had been any such request.

The Chairman: Have you something to offer on the matter of 5-(c), "Direct interdistrict routing?"

Vice Governor Calkins: I am afraid I haven't anything very definite. It appears at this stage of the game that direct interdistrict routing is essential to the operation of the system. We have tried it out with more or less success and unsuccess. I do not remember what the point was at the time this was put on the program, which was before the last conference at which I appeared.

The Chairman: Does any member of the Conference desire to offer anything bearing on that subject?

Governor Seay: I believe I might be able to throw some light upon it. The Board has been advised of the objection of the banks in some districts to receiving from banks in other districts for remittance to their own Federal reserve bank. The Board, I believe, is desirous of meeting these objections and would like to have the opinion of

the Conference on that subject.

In my judgment, the collection system, to be of the greatest advantage, must embrace direct routing to the fullest extent possible. I think it is the most valuable feature of the whole collection system and I think we want to stand for it to its fullest development and endeavor to bring it about.

Vice Governor Calkins: The Board's circular is as clear on that point as on any other. We do not need any more authority. The only question is whether that authority is to be withdrawn or not. The regulations of the Board as they exist now provide for direct routing and require the member banks to cover at par items so routed.

Governor Wold: There are two sides to this question, as there are to most other questions. I think it would be very unfortunate for the Federal Reserve banks to intimate to their members generally that they might route their checks direct. Imagine, if you please, any member bank receiving remittances from 500 banks every day, and having to account to them. One of the advantages of the collection system that we lay before the member bank is that they can get all checks from one source; that it is one transactions one accounting. If you propose to let Tom, Dick and Harry route their checks direct, with instructions to remit to the Federal reserve bank of that district, you will drive them absolutely crazy. That privilege should be permitted only when the bank has sufficient volume of business to justify it, and only under such conditions.

Governor Seay: Exactly. That is in every collection circular issued by the Federal Reserve Banks.

Governor Wold: We had a bank send us an item direct of \$1.10, asking credit at the Federal Reserve Bank of their district.

Governor Seay: That is not contemplated.

The Chairman: That is a matter that can only be handled, it seems to me, by mutual agreement. I do not believe it is permissible to force a bank to remit for its checks received indiscriminately from other member banks in other districts at the discretion of the sending bank. I think we have got to take that up with the banks in each district and develop it as fast as we can on a business basis, where conditions justify such an arrangement, but I do not believe that it can be made mandatory upon all the banks to make such remittances at the discretion of the sending bank.

Vice Governor Calkins : It is mandatory so far as the regulations of the Board go. The circular makes it perfectly straight.

Governor Seay: If you will permit me I was, as you probably will recall, the Chairman of the Committee left here on one occasion to collaborate with the Board in framing these regulations. I know the travail we had over that clause, and I am responsible for it. I know what the purport of that clause was. We endeavored to express it in language, as nearly as possible, that would admit of no misconception, and if taken according to its verbiage, it

does not admit of any misconception. The way in which it was to be applied by the Federal Reserve Banks in dealing with the member banks was provided for in the circular of each bank in that clause which said that when the amount or the number of checks justified it it should be done. But it wasn't intended to leave it to the discretion of the bank to which they were sent, because you would never get anywhere if that was done. We have done a great deal of it in our district and we have prepared our member banks to receive from another bank which might send direct to it for our credit, and they have arrived at that understanding, although we have had some difficulty in explaining the matter to them.

The Chairman: Do you think there is any power either in the Federal Reserve Board or the Federal Reserve Banks to compel all member banks to remit under those circumstances?

Governor Seay: Beyond all question, Mr. Chairman.

Governor McDougal: We have had considerable experience along that line. There have been some complaints made by member banks where they have received direct from other member banks items to be handled and the returns sent to us, and of late we have been requesting the banks that were likely to want direct relations to take the matter up in advance with the member bank and ask; or, on the other hand, we have taken it up for them. We believe that is the way it should be carried on. I think Mr. Seay is undoubtedly right, that we could compel them to do it, but I believe

the voluntary method is preferable if you can arrange it.

Governor Fancher: Such has been the procedure followed in our district. In a number of cases we have made arrangements for some of the banks desiring to send items direct. In no case has it been refused when we have taken it up with them, and it has worked very nicely. It has prevented confusion, the accounting has been simplified and it has worked out very satisfactorily to all concerned.

The Chairman: In the Boston District, in the Federal Reserve Bank of Boston, we have a young man who travels a good deal among the member banks, and one of his duties has been to develop this direct routing. While we haven't done it on a large scale, we have done it wherever the banks were desirous of doing it and the volume justified it. We have had no complaint, either as to its being a hardship upon anybody, or that it was not being developed.

Governor Fancher: We have done this: Where we have been receiving a very substantial volume of items from some of our member banks, we have very carefully analyzed the letters and where we found the volume in certain districts, both in number and amount, would justify direct routing, we have suggested it and suggested that we would endeavor to arrange for it. In that way we have been encouraging the matter of direct routing where the items have been of any consequence.

The Chairman: Has anyone a motion to offer on this matter?



Governor Seay: I would like to say in explanation to Governor Wold, although I take it for granted he is aware of this, that we have certain forms and if one bank should be the recipient of fifteen or twenty or more letters from as many banks, for the credit of the Federal reserve bank, they will make one total of those, and one entry is made.

The Chairman: Has anyone a motion to offer on 5-(c)?

Governor Seay: I would like to offer a motion that it is the sense of this Conference that the regulation of the Board on this subject be sustained.

Governor Wold: I will amend that motion to the effect that it be left where it is, subject to arrangement with the Federal reserve bank of the district.

Governor McCord: I rise to a point of order. That motion was not seconded, and therefore the amendment could not be considered.

The Chairman: Is there any second to Governor Seay's motion?

Governor Van Zandt: I will second it.

Governor Seay: If it is the sense of the Conference here that the matter be left where it is, I am perfectly satisfied, because that is what I would like to see--- that it be left where it is right now.

Governor McCord: I will second the amendment to the motion. That can be done if the regulation of the Board is sufficiently strong. We won't be able to do anything either by arrangement or otherwise without a forceful regulation of the Board behind it.

The Chairman: May I inquire as to the necessity for any action, if the matter is to be left where it is?

Governor Seay: The Board has asked us to discuss it, and the purport of the resolution was that it was the sense of the conference that the matter is covered by the regulation of the Board.

Governor Rhoads: There is, I believe, some necessity for informing the Board about this question. We have had one specific case within our district where an item was routed to a bank in Bradford direct by a member bank in Philadelphia. It was a large item, received after our closing hour. The Bradford Bank objected to that. It was with our consent and the Federal Reserve Board ruled that the language "for account of" was never meant to cover transactions within the district unless it was mutually agreeable to the two banks. They even went so far as to suggest to the bank that they could take an extra day in which to cover it. That was the advice to the Bradford Bank, and it practically breaks down the force of that language. Then they went further and said that when that regulation was drawn it was only meant to cover transactions without the district and never within the district.

The Chairman: You have heard Governor Seay's motion, gentlemen. What action do you desire to take?

Governor Seay: May I say just one word there. We were advised of this situation. We had a visit from the transit expert now collaborating with the Board and he ex-

plained the matter to us. He was one of the committee that was left behind here to help frame that regulation of the Board. I am sure he sustains it and it is his opinion that the direct routing, as provided for, ought to stand.

The Chairman: As to interdistrict operations?

Governor Seay: As to both. It is broad enough to cover both. Whatever may be the practice of the Federal reserve banks with respect to their members there ought to be a broad supporting resolution behind that which will cover almost any situation.

The Chairman: Governor Wold, will you repeat your amendment to Governor Seay's motion?

Governor Wold: I presume my motion should have been to table his motion. All of the collection circulars of the Federal reserve banks provide for this very thing now. We have had no difficulty in our district. We want this done by arrangement. We do not want to burden every little bank in our district by having another bank do that because it happens to want to. It will break down the whole system worse than anything else you can inaugurate.

The Chairman: You will leave the practice we have now in force by the adoption of Governor Seay's motion.

Governor Wold: Governor Seay's motion is with regard to the regulation of the Board, but without reference to the will or desire of the Federal reserve bank of our district. All the banks in Governor Seay's district can route items direct to them if they desire. I do not want it that way.

I want the arrangement made with us.

Vice Governor Calkins: This Conference is on record to the effect that direct routing should be permitted only when it was justified by the volume and amount. That resolution has been passed twice by this conference, as I remember it.

Governor Seay: Also one to the effect that interdistrict routings be not undertaken until some experience has been derived from the intradistrict routings.

The Chairman: Has enough experience been derived from it to warrant any change in the present practice?

Governor Seay: I do not think so, but I am of the confirmed opinion, and entertain the deepest convictions, that only with that broad resolution behind us can we have protection. I do not know anything which is going to be more important in its development, as gradual as it may be, than the system of direct routings. It is folly to have a bank 150 miles off yonder send up to a bank certain matters which have to go 125 miles and back to the place upon which they are drawn, when the two banks sending them are 25 miles apart. That is a very unsound method of doing it.

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

Vice Governor Calkins: I move that this Conference reaffirm its resolution on this subject.

The Chairman: There is a motion already before the Conference.

Governor Seay: I will accept the substitute. It is the same thing. I said, "sustain" and he says "reaffirm". I will accept that substitute.

The Chairman: You have heard the substitute motion offered by Governor Calkins. Is there a second?

Governor Seay: I will second it.

(The motion was duly carried.)

Mr. Curtis: If I may inject an acid tone into this discussion, I think it is very important that the Federal Reserve Board be requested to conduct its correspondence with member banks through the Federal reserve banks. Then we will avoid having such an upset as Mr. Rhoads speaks of. That is not the first time it has happened, that the Board has written direct to a member bank something of which the Federal reserve bank has not been advised for weeks afterwards, and the bank has found itself in the position of being overruled without knowing it. It ought not to conduct that type of correspondence with a member bank until after consultation with the Federal Reserve Bank in question. It proper administration, to my mind.

Governor Wold: Did not they adopt that policy some time ago, declining to communicate direct with a member bank, and sent their reply to the Federal reserve bank of the district.

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

Mr. Curtis: I have prepared a form of report to the Federal Reserve Board on the subject of bank drafts, which

does not include any votes in the negative, or any addition, but is just straight and plain. If any Governor wants to have his negative vote recorded, please let me know and I will have some additions made to this.

The Chairman: I suggest that members of the Conference who desire to be recorded as voting in the negative, on these paragraphs let Mr. Curtis know so that I may have a copy with the proper record to use when the matter is presented to the Board tomorrow morning.

Mr. Curtis: The form reads "After consideration of the report of the committee appointed to consider the subject, this Conference recommends the adoption of the following plan.

(1) That the privilege of drawing Federal reserve exchange drafts be limited to the country banks, or in other words, to those banks carrying a twelve per cent reserve.

Governor Van Zandt: I desire to be recorded as voting in the negative on the first one.

Vice Governor Calkins: I desire to be recorded as voting in the negative on the first one.

Governor McCord: I likewise desire to be recorded as voting in the negative.

Governor Seay: I entertain the same opinion that has been expressed, but I do not regard it as proper to be recorded in the negative, because a report of our committee went before this body and the report was considered as it was, that is, as a whole, and I do not think it is proper for me to vote in the negative. I would like to make that

explanation, although my sentiments are opposed to it.

The Chairman: I understand you do not dissent to that paragraph, Governor Seay?

Governor Seay: No, but that my opinions are to the contrary.

The Chairman: I understand that the following gentlemen dissent on No. 1, Governors Van Zandt, McCord and Calkins.

Vice Governor Calkins: I see the somewhat delicate position in which Governor Seay finds himself, but it appears to me that if it is his wish that his position be stated in the matter, that that is proper.

Governor Seay: If the Conference considers it no impropriety I will be recorded among those dissenting.

Governor Van Zandt: This is the report of the Conference, not of the committee.

Mr. Curtis: No. 2 is "that the drafts should be drawn by member banks upon their own Federal reserve banks and made receivable for immediate availability at par subject to final payment at any one Federal reserve bank specified in the draft."

The Chairman: Are there any dissenting votes on No. 2?  
(There were none.)

Mr. Curtis: No. 3 is "That a special uniform form of draft be adopted by all the Federal reserve banks, such drafts when drawn upon the form to be the only ones which are receivable for immediate credit at par."

The Chairman: Are there any dissenting votes on No. 3?

(There were none.)

Mr. Curtis: No. 4 is "That the drawing bank be required to give immediate advice to its Federal reserve bank of all Federal Reserve exchange drafts drawn, and, in the case of drafts made receivable at another Federal reserve bank to forward a duplicate advice forthwith to the Federal Reserve Bank at which such drafts are made receivable, and that all such drafts be immediately charged to the member bank's account on receipt of advice by the Federal reserve bank on which they are drawn."

The Chairman: Are there any dissenting votes upon No. 4?

(There were none.)

Mr. Curtis: Nos. 4, 5, 6, and 7 were all approved unanimously, I think. No. 5, 6 and 7 are as follows:

No. 5. "That the Federal reserve bank on which the draft is drawn shall credit by telegraph in the Gold Settlement Fund the Federal reserve bank at which the draft is to be received each day the total amount of the drafts in round amounts of ten thousand dollars; such advices to be sent in time to reach the Federal reserve Board not later than three o'clock p. m. of each day.

No. 6, "That this plan become operative on the \_\_\_ day of \_\_\_\_\_, 1917, and be made available to such member banks as may agree to terms formulated by the Federal reserve banks.

No. 7. "That under existing conditions and the terms recited, there will be no necessity for daily settlements in



the Gold Settlement Fund at the present time, nor any necessity for establishing a silver and legals fund, as suggested in the Gedney plan.

The Chairman: Governor Wold, do you wish to be recorded as being in favor of limiting it to \$10,000 each day?

Governor Wold: No.

The Chairman: I understand three governors want to have the statement added that they vote for No. 2 with the understanding that they can buy exchange whenever it is necessary. I would like to say I had a long talk with Governor Harding this morning, in this connection, and he told me he thought it was entirely within the rights under this plan for any bank to charge exchange for transfers to protect itself; that they expected, or he would expect, the banks to do that.

Governor McDougal: That would be your understanding of the matter. I think it would be well to so state it, right in this paragraph, as I suggested last evening.

The Chairman: Is it not inferential? Is there any reason for stating it? Doesn't it go without stating? There is no prohibition.

Governor McDougal: If it goes without saying, that will be sufficient.

The Chairman: There is no prohibition upon it in this report, of any sort.

Governor McDougal: I would like to hear from some of the other banks, yourself, for instance. You, I believe,

have declared this was satisfactory to you.

The Chairman: At the meeting yesterday all the Governors stated they were prepared to do the same thing if necessary.

Governor McDougal: Yes. There were two governors at least who asked to be recorded as favoring such a statement being made in the plan, as I remember it. I am satisfied if they are all satisfied.

The Chairman: I would like to get this cleaned up so that we can go on with our program.

Governor McDougal: I understand there is nothing in the plan to prohibit us from protecting ourselves by the application of the current rates for exchange, and I have no further objection.

The Chairman: Do you wish to offer a motion that the statement be amended.

Governor Seay: Granting that, should not this first paragraph be altered, or modified. I do want to call attention to the fact that if this is taken for granted there would be no strict reason for confining this to the country banks.

Governor Wold: It seems to me we should take one step at a time. By limiting it to the 12 per cent banks, if we see later it is practical and works without hardship to the Federal reserve banks, we could extend it.

The Chairman: In the interest of progress let us proceed to 5-(d).

## 5-(d) Uniformity of Service Charges.

Governor Calkins, what have you to say with respect to that?

Vice Governor Calkins: That is in the same category with the other one. It is ancient history. I do not remember what the point was. I do not think there was any.

The Chairman: Do you move that it be passed?

Vice Governor Calkins: Yes.

The Chairman: And removed from the program?

Vice Governor Calkins: I do not see why it should not be removed. It can be put on again, if necessary.

Governor Wold: Inasmuch as the Board asked that especial consideration be given to the subject I move it is the sense of this meeting that until the collection system is further developed it would be quite impossible to have uniform service charges.

Vice Governor Calkins: If they requested special consideration I withdraw my request that it be removed from the program.

The Chairman: You have heard Governor Wold's motion that until the system is further developed it will be impossible to have uniform service charges. Is that seconded?

(The motion was duly seconded and carried.)

The Chairman: We will now take up 6-(n).

6-(n) Committee to investigate and report upon discrepancies in transit time schedules and the subject of domestic exchanges.

Governor Fancher: We had to go into this subject at considerable length, and if it is desired the report can be

read and then we can proceed to discuss it.

Governor Seay: I move that the report be read by the Chairman of the Committee.

(The motion was duly carried.)

(Governor Fancher thereupon read his report for the Committee to investigate and report upon discrepancies in transit time schedules and the subject of domestic exchanges.)

The Chairman: Gentlemen, you have heard Governor Fancher's admirable report for his committee. What action will the Conference take upon it?

Governor Van Zandt: I move that we thank Governor Fancher, first.

Governor McCord: I second the motion.

Vice Governor Calkins: I offer an amendment, that the report be received and approved, and that the Conference express its admiration and appreciation.

The Chairman: You have heard Governor Calkins' motion. Is that seconded?

(There were several seconds.)

Governor McCord: The report is now debatable?

The Chairman: Is there any discussion of it?

Governor McCord: I want to discuss this last clause.

Our conditions are such that if we do not do what that last clause says, we would carry a much larger float than we do carry. If we refuse to receive from our member banks checks on the other Federal reserve cities east of the Missouri River, we find ourselves in the position of paying express charges on currency to cover checks, and they avail

themselves of that. Furthermore, if we refuse to take that exchange for immediate credit the member banks may utilize that exchange in other directions, and will allow the state banks to unload currency on them, and then they unload it on us, and it has proved in our district that we would pay for the remittance of the currency of state banks that were not remitting at par.

A further reason is that these shipments of currency in to us necessitate our employing help to sort currency, even if we were to decline to take national bank notes, and that is an expense of about 20 cents a thousand. The expense of bringing money in to us is something on an average of 20 cents to a thousand, and it would cost about 20 cents a thousand to ship that redemption money to Washington. So there is, at the least calculation, even if the money was brought to our counter free of express charges, 40 cents a thousand for the redemption of currency that we would have to take if we did <sup>not</sup> give immediate credit for this exchange on other cities.

Those are not all the difficulties in the way. If we refuse to take these checks for immediate credit, we will receive the currency, and having no subtreasury, it is for redemption in Washington. The estimates made up by my auditor show that we are from eight to nine days before we get the transfer checks of that currency, and therefore there is eight or nine days' float on the currency that we are continually redeeming.

Governor Seay: National bank notes?

Governor McCord: No; silver certificates and treasury notes.

Governor Seay: Unfit notes?

Governor McCord: No. Unfit and fit both, because we cannot hold in our vault all the currency we get and meet you gentlemen in the Gold fund. We cannot do that. We will swamp our gold fund. We have got to arrange in some way. Now, when we get a transfer, we have to depend on our good friends at such cities where the subtreasurer will permit the transfer to be issued, to take that into account and put it in their clearings on the subtreasury, and allow us to have credit in the gold fund for it. For instance, St. Louis has been very kind to us in that respect. The Treasury Department refuses to give us transfer checks on New York or Philadelphia and gives it to us on St. Louis. Then we have got to depend upon the Federal reserve bank in St. Louis to accept that transfer check and allow us to charge it to the Gold Fund, by reason of the fact that they can settle it against the subtreasury. That is the only way, gentlemen, we can get the money into the Gold Fund for checks that you send on us.

Now, if you pass this as it is and force me to defer, then you force me to pay this expense of redemption, in addition to the nine or ten days' float and make me depend upon the good services of the other Federal reserve banks to take into account the transfer checks that I cannot turn into the Gold Fund. For that reason I am opposed to that part of the resolution and I shall so vote.

Governor Fancher: As I understand the geographical location of the Federal Reserve Bank of Atlanta, with the exception of the San Francisco Bank, they are practically one to two days removed from the other Federal reserve banks. I would like to ask Governor McCord if he could not take such exchange at ten, twelve or thirteen cents discount?

Governor McCord: Which exchange?

Governor Fancher: The exchange on the Federal reserve cities where it is two days removed? If you would receive that exchange at a slight discount, would you get it?

Governor McCord: I would not.

Governor Fancher: Wouldn't you get it in place of shipments of currency?

Governor McCord: No, for this reason, Governor Fancher. We might do it along in the spring of the year, in May, June and July; but the time of redemption of currency in great volume by us, in January, February and March, would completely put that out of joint.

Governor Fancher: For instance, just for information, let us take one of your banks in Macon, Georgia.

Governor McCord: All right.

Governor Fancher: That bank is covering in its balance to make its reserve good, and that bank ships currency to you to make the balance good. That would be at its expense.

Governor McCord: No, at our expense.

Governor Fancher: Why at your expense?

Governor McCord: Because if we have turned in all the exchange we have and they still have more on them than they

have on us, then we have got to pay the express charges.

Governor Fancher: Is it to be supposed that for any continuous time the Macon Bank would have nothing but currency and no exchange?

Governor McCord: Yes. Very little exchange. That happens by reason of the products of the country. For certain months of the year it would be the other way, of course.

Governor Fancher: Does that condition exist in your district, Governor Van Zandt?

Governor Van Zandt: Very largely, yes.

Governor Seay: It would in our district if we permitted it. We do not allow them to send currency at our expense to offset items unless they agree to do it continuously. If they will ship us currency every day we will take it and pay for it, but they cannot ship us currency only when it suits their convenience.

Governor Wold: We would be swamped if we let them suit their own convenience.

Governor Seay: I would like to offer a correction. In the case of the Richmond Bank it is said that the Richmond bank allows immediate credit for checks on New York City banks. That should read "allows country banks immediate credit for items on New York City banks". I would like to inquire if that is not true of New York and Philadelphia both.

Governor Fancher: I think that is right.

Governor Seay: Richmond allows country banks immediate



credit for checks on New York City banks. I would like it to be stated that Philadelphia and Boston do the same thing, because that was agreed on at a conference in New York. I would like to suggest that correction in the case of Boston, Richmond, New York and Philadelphia, because I have had the matter up with the Board and have been put on the defensive and I think I have succeeded in defending it.

The Chairman: Do you accede to the correction in the report, Governor Fancher?

Governor Fancher: Yes, I do.

Governor Seay: And it is noted that that would be true in the case of Philadelphia and Boston also. That was by mutual understanding between the three banks in consultation in New York before the schedule was adopted.

Governor Wold: In any amount?

Governor Seay: From country banks, yes.

The Chairman: Governor Calkins' amendment to Governor Van Zandt's motion was that the report be received and approved and that the Conference express its admiration and appreciation.

Is there any further discussion?

(There was no further discussion and the motion, as amended, having been duly seconded, was carried.)

Governor McCord: I wish to be recorded as agreeing thoroughly with that report except the one objection that I have referred to, to which I cannot agree.

The Chairman: It is understood the adoption of this report commits the banks to the suggestion made in the report that, beginning April 10, they record the times of receipt.

Vice Governor Calkins: I would ask if it wouldn't be better to defer that date. April 10 is not very far away, and some of us will not be home.

Governor Van Zandt: I wish to be recorded as not voting on this question.

The Chairman: Do you wish to offer a motion changing the date, Mr. Calkins?

Vice Governor Calkins: I do not wish to offer a motion in opposition to the rest of the Governors. I can send a telegram from San Francisco if necessary.

Governor Seay: I think it would be advisable to make it from April 15th to 25th.

Governor Fancher: Or it can be made from April 20th.

The Chairman: I understand that you move that the date for the recording of the receipt of mail be changed from April 10 to April 15, and that the observation extend from April 15 to April 25th. Is there a second to that motion?

(The motion was seconded and duly carried.)

Governor Old: I do not care to delay the Conference on this matter. Minneapolis can take it up with the banks direct if there is any discrepancy.

Governor Seay: I take it the approval of this report

does not necessarily involve more than an adjustment by each Federal reserve bank to the fullest extent possible.

Governor Fancher: That is all.

Governor McCord: I want to say this. You have approved this report. I have always tried to be willing to serve the Governors and have abided by the majority vote. This is going to be a tremendous burden on us, and before acceding to it I shall appeal to you to let me explain to you my position.

The Chairman: I do not understand that the adoption of this report binds you to change your practice. This Conference cannot adopt a report which is mandatory upon the other banks.

Governor McCord: I do not want to be in the attitude of going against this body, but this is a vital point to me.

The Chairman: This is simply an expression of opinion by the Governors in Conference as to the proper method to be pursued. But we have no power to compel a governor of any bank to do anything.

I understand that the report of mail time will be made to Governor Fancher as Chairman of this committee. It is understood that Governor Fancher, as Chairman of the Committee, will advise all the banks of the change in this date and the period of time in which the mail is to be noted, and ask them to advise him of the result of their experience. Governor Fancher will provide each bank with a copy of the report.

The Chairman: Topic (o) under Item 6 not having been disposed of, we will take that up.

6-(o) Committee on the establishment of branches and agencies of Federal reserve banks.

The Chairman: What is the status of the discussion of that topic?

Vice Governor Calkins: The status of the discussion is uncertain and unsatisfactory. A report has gone to the Board, which should have come to this Conference, expressing the opinion that agencies were desirable, but there is a general impression that the Board wishes this conference to define the functions of an agency as opposed to the functions of a branch. That is where the discussion ended last night.

Governor McCord: Governor Treman, who was presiding, made a suggestion to the Conference and I would be glad to have him state that again. He suggested that the statement be made that a report had been filed and if the matter was taken up further that certain other replies should be made.

Vice Governor Treman: Governor Van Zandt, as Chairman of that Committee, stated he understood his committee was to report direct to the Federal Reserve Board; that he had prepared a report and sent it direct to the Federal Reserve Board. The suggestion was made that if the matter came up, as one of the subjects in which they were interested, that Governor Van Zandt should make that statement to the

Board. Then, as an addition to that report, as I remember it, the expression of the Governors was to the effect that they favored the establishment of agencies rather than branches.

Vice Governor Calkins: That is simply a confirmation of Governor Van Zandt's report.

The Chairman: I am quite sure that the Board wishes recommendations as to what the functions of an agency shall be and the general purpose of the establishment of the agency. I would like to ask if anyone has any suggestion to make. I think the Conference will strengthen its position very much with the Board if they will have some constructive suggestion to make about these things, and not rest upon any such general recommendation that we are in favor of agencies instead of branches.

Governor Van Zandt: I would like to state that I was appointed on that committee against a telegraphic argument in favor of my being placed on the committee, after I left here. It was simply a committee on agencies and branches. I did not know that the Committee was supposed to define agencies or define branches, and I do not think either of my associates on the committee so understood it. I was told that as Chairman of the Committee I was to report to the Federal Reserve Board. I made a report to the Federal Reserve Board and sent a copy of it to the other Governors. That report simply elaborated the vote that was cast at the last Conference to the effect that the Governors were in favor of agencies instead of branches.

The Chairman: I would like to ask if it would not be practicable for you, together with the other members of your committee, to meet at luncheon and formulate some definite recommendations that we can transmit to the Board as to the purpose of an agency organization. I think it is quite important.

Vice Governor Calkins: I think it is important, and the Board expects it. We discussed this matter for a considerable time last night. Governor Rhoads at the breakfast table this morning, said that the ideas of the Conference had not crystalized. I think if other members of the Conference, besides Governor Van Zandt, Governor McCord and myself would express their opinions on the subject it would be of great assistance.

The Chairman: This matter was brought up for discussion and Governor Treman moves that the Committee on the Establishment of branches or agencies be asked to formulate a statement of the functions of an agency, and that Mr. Curtis be asked to confer with the committee, the committee to report at the afternoon session.

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

The Chairman: The next topic is 7, collections and clearances.

7-(a) Completion or contraction of collection system.

Governor Rhoads: That was disposed of, Mr. Chairman.

7-(b) Problem of collection.

Governor Wold: That has not been disposed of, but I

think we have discussed it sufficiently.

The Chairman: Do I understand that you withdraw that subject from the program, Governor Wold?

Governor Wold: I do.

The Chairman: The next is (c).

7-(c) Reinstatement of the Postmaster order.

Governor Van Zandt: That has been disposed of.

7-(d) Situation resulting from Seattle Bank failure.

Governor Fancher: That topic was put on at my suggestion with the idea of learning a little about the situation of those banks up there. I thought we might learn something from Mr. Calkins as to the situation in Seattle.

Vice Governor Calkins: It is difficult to give any authentic information with regard to the situation of those banks. It is a complicated situation. So far as I know no one has formed any opinion as to what the result of their liquidation will be. There are defalcations in two banks, I believe, which have somewhat complicated the situation. The State bank examiner is in charge of all of that, and under the laws of Washington he is receiver. We have not received any satisfactory information from him as to what he expects to do or what he will undertake to do, except he says in effect that all matters that are reported to him in connection with the closing of those banks will be reported to his legal department for an opinion. That is as far as we have been able to get with him at this

time.

Governor Fancher: May I inquire as to what steps, if you have taken any steps in filing claims to protect the banks to whom the checks were returned, have been taken?

Vice Governor Calkins: We have filed no claims and are advised by our counsel that we should not file any claims unless by consent of or with the approval of the endorsing bank; that we should file no claims on our own behalf. We took the position, of course, that the check was not finally paid and therefore should be charged back to the endorsing bank.

Governor Fancher: You held for those checks the drafts of the remitting banks either on New York or on some other bank?

Vice Governor Calkins: In some cases.

Governor Fancher: And that covers a number of items to whom the checks were returned, have been taken in some cases.

Vice Governor Calkins: We have filed no claims and

Governor Fancher: What is your attitude there? Have you taken it up at the advice of your attorney? I am making these inquiries because we are interested to the extent of \$153.42 on an item which was paid and a remittance in some form was made to your bank. We have got the matter adjusted as between our member banks so that your bank has

Governor Fancher: You held for those checks the drafts of the remitting banks either on New York or on some other bank? as to who is going to protect his interests? Is his claim

Vice Governor Calkins: In some cases.

Governor Fancher: And that covers a number of items in some cases.



the assets of those banks are liquidated?

Vice Governor Calkins: I think our position will finally be that we will file claims when authorized, by power of attorney or otherwise, by the interested party, whoever that may be, and not otherwise.

Governor McCord: We are interested in the same way, but we have declined to file claims on the same grounds stated by Mr. Calkins. But here comes the State bank department. They have received from us in our letter certain checks. Those checks possibly have been paid, so far as the local customer is concerned, and charged to his account. Remittance has been made to us, but not paid. Now, the State Department will take the position, I believe, or the receiver appointed by the Comptroller of the Currency will take the position that that indebtedness, if collectible at all is collectible through the last endorser. We have requested the state banking departments in our district to give us a separate certificate of indebtedness for each item, in order that we might, acting only as agents, pass it back to the proper party. I think we have gotten one of the state departments to see the justice of our position and they will be willing to accede to our wishes. I hope to get the other department to do so. There are six states in my district. Take the case down at Live Oak, Florida, where there were a dozen checks in one letter, coming from four or five other Federal Reserve Banks and some member banks. The State Department insists that if that claim is ever settled at all it will be on the basis of the last

endorser. I have been endeavoring to get the State Department to hold that each check involved shall have a separate certificate, and then we can pass that separate certificate back to the original owner.

Vice Governor Calkins: It is impossible to give any satisfactory information as to what the status is. In some cases the banks had remitted by draft to New York and other places. In other places they had received checks, charged them to the customers' accounts, and had not remitted at all. In the case of checks that were received and dropped in a basket or left on somebody's desk until the bank had closed, nothing was done with them at all. We have been unable to get any of those items back. The State Superintendent of Banking takes the position that he won't do anything.

Vice Governor Treman: For instance, you sent checks to Seattle for collection. What did they remit to you?

Vice Governor Calkins: You have touched the sore spot at once, of course. We are perfectly free to say that what we did was absolutely indefensible in some cases. However, it does not change the situation as between the Federal reserve bank of San Francisco and the depositing bank, in this situation, because it makes no difference. Our position would have been no better had we pursued a sound instead of an unsound policy. In some cases these banks in Seattle remitted a draft on other banks in Seattle and they were received by the Federal Reserve Bank of San

Francisco. They should not have been received. They were received without knowledge of any responsible officer of the bank; that is, they were received inadvertently by clerks, but that is entirely indefensible. It is very clearly set forth in the regulations of the Board that in handling items for member banks the Federal reserve bank will act as agent only.

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

The Chairman: The Secretary has some ideas on this subject which I will be glad to have him develop, if he will.

Mr. Curtis: We have \$450 worth in our bank, and we have felt, speaking very frankly, that it was negligence on the part of the Reserve Bank of San Francisco in receiving in lieu of payment a draft on another bank in Seattle, as is the case with one of our checks, and a draft on New York in another. That leaves them still unpaid, to my mind, and I do not see just where the San Francisco Bank gets off.

Vice Governor Calkins: As to the negligence on the part of the bank, I agree, but if it had no effect on the situation I think Mr. Curtis will agree that it is not worth discussing.

Mr. Curtis: But I think it did have effect. To my mind the loss was caused not by your sending it to the Seattle Bank, but because you received from the Seattle Bank

something that wasn't good money.

Vice Governor Calkins: You mean it wasn't good money at the time we received it. But how could we determine whether it was or not?

Mr. Curtis: It seems to me you had your choice of receiving currency or San Francisco exchange, but not exchange on Honolulu; New York, Atlanta or some other place---

Vice Governor Calkins: I agree with that, except, if you stick to Seattle and say we had no business to accept Seattle exchange, but not with respect to the exchange on New York, as I think we would have a right to accept that, because the other banks are doing it. It is a common practice among the banks.

Mr. Curtis: It may be a common practice to receive New York exchange, but isn't that a liability of the banks that receive it? Don't they take what you call a business risk?

Vice Governor Calkins: As to final payment?

Mr. Curtis: It seems so to me.

(Informal discussion followed.)

The Chairman: Governor Calkins, for my information, I would like to ask for light on our own case. If I remember correctly, we sent two or three checks to you on the Northern Banking & Trust Company on the 10th of January. They should have gotten to San Francisco on the 15th of January and to Seattle not later than the 18th of January.

Vice Governor Calkins: The 19th.

The Chairman: We were advised by telegraph of their

nonpayment on the 31st. What happened between the 19th and the 31st?

Vice Governor Calkins: I presume that was a case in which remittance was made by draft on New York or possibly draft on Seattle, and we were not advised that those drafts were not paid.

The Chairman: I think we were advised that remittance was made by draft on Seattle.

Vice Governor Calkins: I think that is very likely.

The Chairman: On another non-member bank in Seattle.

Vice Governor Calkins: Yes.

The Chairman: That draft would have reached you on the 23rd or 24th, would it not?

Vice Governor Calkins: The 23rd, it should have reached us, or say the 24th.

The Chairman: It would have taken four days to get to Seattle and back.

Vice Governor Calkins: Yes, the 28th. These advices were sent as promptly as they could be under the circumstances. As I said before the situation was inexcusable, but it is also my opinion that these circumstances did not change the situation, so that as far as the Federal Reserve Bank of San Francisco is concerned it does right to charge them back, because nothing we could have done, after the checks were deposited to the drawing bank would have changed the status of those checks. The moment any one of us sends checks to the drawing bank we give up the control of those checks. Unless they are finally paid you have the right to charge them back.

Governor Wold: I would like to make an inquiry. The Secretary has just raised an interesting question. We are not involved in this Seattle matter at all, but in case we receive from a New York Bank a volume of checks upon a state bank, and our policy is to take payment only in Twin Cities exchange that is immediately available, and they arbitrarily send us a draft upon some other point, what is our position?

Mr. Curtis: I think unless you return it at once or wire them that you take that in payment.

Vice Governor Calkins: If we had returned these checks that we are discussing at this time, in what way would that have changed the situation? We would not have received final payment and would have been obliged to charge them back---

Governor Wold: I would like to have the Secretary answer my question.

Mr. Curtis: I think you ought to return them at once, or, better still, wire them that that is not payment.

Governor Wold: Well, suppose we wire---

Mr. Curtis: Wire the bank that sends them to you.

Governor Wold: Yes, but that won't protect us with you.

Mr. Curtis: But it prevents you from being guilty of any negligence.

Governor Wold: Not with you. We haven't advised you. They return the draft and send us a draft on some other point, upon Timbuctoo, or some other place.

Vice Governor Calkins: In the case of the Northern Bank and Trust Company of Seattle there were defalcations and they were not discovered until some time after it was closed. They were discovered by the Superintendent of Banking and the examiners. If we had sent the checks, as we did, direct to that bank, and had received a draft on New York and had returned that draft to the Seattle Bank, the probability is they would have held it and said nothing, and done nothing, and we would have been in no better position to protect the endorsers on those checks than we are now. Our situation would not have been changed at all.

Mr. Curtis: It does not seem quite that way to me. Suppose you had telegraphed to the Seattle Bank that you could not accept New York Exchange in payment of those checks, but to kindly send you San Francisco exchange. Now, to my mind that certainly would have relieved you of any charge of negligence with respect to those drafts that came from New York, Chicago, or anywhere else.

Vice Governor Calkins: Not unless at the same time we had advised the endorsing banks that the checks were not paid. If there was anything that we might have done that we didn't do, that was the thing. When we received the drafts on Seattle, New York, or wherever they were, we should have advised the endorsing banks that those items were unpaid. In some cases we did so. While that would have <sup>not</sup> saved the situation so far as the endorsers were concerned, it would have put us in a more desirable situation, of course.

Governor Wold: That is the question I wished to raise, as to what our action should be in a case where a state bank arbitrarily does send us exchange that is not available. How are we going to protect ourselves? Under Mr. Curtis' view we would be liable to the endorsing bank to the amount of the check.

Mr. Curtis: Let me ask a counter question. Suppose the Germania Bank of Seattle, on which one of those drafts was drawn by the Northwestern Trust Company had, in return for that, given a draft on another Seattle bank. When would the original check have been paid?

Governor Wold: I am not attempting to justify the action of the San Francisco Bank. They admit they were wrong.

But suppose the Seattle Bank had arbitrarily sent them drafts upon some other point, such as Spokane, or a point in New York---

Mr. Curtis: My view is they should telegraph them that they could not receive those drafts in payment.

Governor Wold: Telegraph the bank upon which the item is drawn?

Mr. Curtis: Yes.

Governor Wold: But you have had no notice as endorser.

Mr. Curtis: You would get notice pretty soon if you failed to get a reply saying that they were sending something else. Then it would be up to the San Francisco bank to immediately notify the prior endorser as to what had happened.



Governor Wold: It seems to me we ought to have a definite policy that the banks should pursue under such circumstances in order to protect themselves.

Mr. Curtis: I agree with you. The thing ought to be settled among the reserve banks.

Governor Seay: Isn't it true, acting as agent, that if the remitting bank sends exchange other than that which is immediately available, but the Minneapolis bank, for instance, believes that is the best that can be done, and as agent for the owner of the check, attempts to collect the thing sent him, he is not negligent? He has exercised his discretion in the matter for the benefit of the principal for whom he is acting. I do not believe he would be negligent. He has some discretion as an agent. If he cannot do any better, and believes, in his judgment, that it is to the best interests of his principal to endeavor to collect the check sent in payment of the original check, it isn't clear to me that he would be responsible for any negligence.

Governor Wold: It doesn't seem to me that he would be, but Mr. Curtis says that he is.

Mr. Curtis: I should be inclined to think that he was.

Governor Seay: In a number of cases we could not deal with our non member banks if there wasn't some degree of latitude in taking what they are able to send us. Notwithstanding the fact that we prescribe what they shall send us, they might say that they couldn't do it that day because they didn't have it.

Governor Wold: I wish to make my position a little

clearer, Mr. Chairman. It seems to me that where a Federal reserve bank deliberately and willingly takes from a state bank or a member bank, in payment of items sent to it, a draft that is not immediately available, that it should be liable. It assumes the responsibility. When it is done repeatedly by the bank to whom items are sent, it seems to me we ought to have some way to protect ourselves by holding the bank from whom we receive it. But if we deliberately take Sioux City Exchange from a bank out in South Dakota, we ought not to expect the Federal Reserve Bank of San Francisco or the Federal Reserve Bank of New York to stand any loss.

Mr. Curtis: Let us take this particular case. The San Francisco bank received in payment, or in lieu of payment, a draft on another bank in Seattle. It is perfectly possible that when they sent that to the Germania Bank in Seattle the Germania Bank would, in return, send another draft on still a third bank in Seattle. To my mind the sending bank, the Chicago or New York Bank in this case, is entitled <sup>at</sup> sometime to have a definite point where that check is paid, and not have twenty-two days elapse, as it did in some of our cases, and at the end of that time have word come back that the draft has not been paid. I think we ought to agree on a policy, and it does seem to me that not to agree on a policy would be a mistake.

Vice Governor Calkins: I agree with Mr. Curtis entirely in that statement, and I would like to have him answer the question as to whether the negligence, which did not

affect the final payment of the checks involved, would place liability on the Bank of San Francisco in those instances? In other words, the negligence, of which we will admit we are guilty, did not change the situation as between the Federal Reserve Bank of San Francisco and its endorser, and therefore would that negligence have any effect?

Mr. Curtis: I would agree with you as a legal proposition it has no effect, but I do not agree with you on the statement of facts, because there was a seven days lapse in the case of one check, and I believe if you had telegraphed the NorthwesternTrust Company you very likely would have gotten San Francisco exchange in payment of that item.

Vice Governor Calkins: You believe that, but that is a hypothetical statement of facts. I agree that when we received a draft on another Seattle bank we should have advised the Federal Reserve Bank of New York that that item was unpaid, but it wouldn't have changed the situation except in so far as it gave notice to the Federal Reserve Bank of New York. The one fact that stands out is that when we adopt the practice of sending direct to a drawee non-member bank we are cutting the ground from under our feet and taking our chances. Somebody is taking chances. Who it is is a question, perhaps. But you have no protection; you have no recourse; you have no method of insuring payment. When you have given up control of those checks and sent them to the bank on which they are drawn there is nothing you can do except take whatever the consequences may

be. If you have a dishonest bank official he may destroy the check and deny that he ever signed it, and you would have a correspondence lasting six months before you would find out what had become of them. In the meantime the bank would probably fail. I don't know but what that actually happened.

Governor Wold: It would be incumbent upon the Federal reserve bank to notify endorsers of loss in transit.

Vice Governor Calkins: That is what I have said, that the only negligence we find in this case was failure to advise endorsing banks that the checks were unpaid.

Governor Wold: But the point we ought to determine is whether or not there is any negligence in this situation. If the Minneapolis bank sends an item to New York on a state bank in the interior, and that draft is sent back to the state bank, and they arbitrarily remit in some other funds than New York funds, and the draft turns out to be bad, and the bank fails in the meantime, what notice ought we to have and how far is the New York bank going to be held negligent?

Mr. Curtis: I think the Governors ought to agree on a policy, because if you do not we will have a recurrence of this very thing.

The Chairman: In order to get some tangible result of this discussion, will you prepare such a motion governing such a policy, Mr. Curtis?

Vice Governor Calkins: I want to say that we are the goat in this case. I am entirely in agreement with Mr. Curtis in regard to this matter as to what should be done as to adopting a policy. The situation out there is a complicated one and we have only touched the edges of it. The same situation may arise somewhere else, and we ought to settle on a policy in regard to it.

Governor Fancher: I think it is going to have some considerable bearing when we get into the matter of sending collection items into other Federal reserve districts and getting remittance in various forms of exchange. The question is a very broad one and we ought to settle it.

The Chairman: Unless there is some objection I am going to ask the Secretary to draft a resolution embodying his views as to the policy which shall be pursued, for submission to the Conference this afternoon.

Governor Seay: I would like to have him take into consideration that he is located in a district with practically one state, which is one exchange center, and that there are other districts where conditions are very much different and diametrically opposed to those existing in his district.

(Informal discussion followed.)

The Chairman: If there is no further discussion of this, although it has only been touched upon, we will pass to a matter that is not on the program.

Statement of State Department that funds and property of aliens are not subject to seizure in the event of war.

Governor Rhoads has asked for an expression of opinion of the Conference as to the policy that should be pursued in connection with the telegram sent out by the Federal Reserve Board calling their attention to the statement made by the State Department that funds and property of aliens in this country should not be subject to seizure in event of war, and he suggests that we might advise our member banks of the fact so they could make it public and allay any possible fears that might arise in the minds of such aliens as to the safety of their property.

That matter was discussed by some of us on Tuesday, and an investigation was made in New York and in Boston as to the state of minds of aliens, and in both districts we found that there was no disturbance of mind apparent, and that no one seemed disposed to withdraw balances in the state banks, the savings banks and the national banks, because of any fear of the international situation. In view of that fact it seemed to us wise that nothing be done; that we should not take any formal public action in the matter. I believe Governor Treman consulted Mr. Richards, the Commissioner of Banking in New York, and our bank consulted Mr. Thorndyke, the Banking Commissioner of Massachusetts, and they both agreed that the situation was not such as called for any action on the part of the banks at present.

Governor Fancher: I would like to inquire if a week or

ten days before that the banks received a communication from the Board asking for an expression of what might occur and inquiring whether there was likely to be a recurrence of the disturbance that broke out in some quarters in February, in the event of a declaration of war. We had such a letter in our bank and we canvassed the situation, because in our state we have large industrial centers, particularly Youngstown, which has a large foreign population and where, during the first week of February, the largest savings bank was subject to a very severe withdrawal, covering a period of about four days. During that time they paid out upwards of a million dollars. Then this announcement was made by the State Department that the Government would not confiscate their funds, and the trouble was immediately allayed. We took it up with the President of that bank after we got this communication from the Board, and got his opinion as to what might occur in view of the experience in February, in the event of a declaration of war. He expressed the opinion that there probably would be some further withdrawals and some further disturbance. He expressed the opinion that he did not think it would be as violent, but he thought it advisable that that statement be reiterated, to the effect that by no possible chance would the funds on deposit in the banks be disturbed. I also looked into the situation in Cleveland and found that a half a dozen of the principal banks had experienced some withdrawals. In several cases the opinion was expressed that there should be some announcement. After this sugges-

tion from the Board, the announcement would only be to the member banks from the Federal reserve banks, and the member banks should have the suggestion from the Federal reserve banks that they give some publicity and prominence to this previous announcement from the State Department.

Governor Seay: I would like to say that we also received such a letter and the Board suggested that we make inquiries among our member banks. We replied that we thought to make such an inquiry indiscriminately might possibly bring about the trouble it was desired to avoid. In lieu thereof we suggested to the Board that they make an announcement and repeat in that announcement the statement of the President. Then we received a telegram the other day suggesting that we communicate with all of our member banks by letter, sending them a copy of the President's announcement, with the suggestion that wherever advisable they post it conspicuously in their banks.

Governor Fancher: That is what we did in our bank.

Governor Seay: And we have communicated with our member banks to that effect.

The Chairman: Speaking for our bank we have decided not to take any action at the present time. We have advised the Board that we do not think the situation in our district makes it necessary at present, and that as the situation arose we would deal with it in our discretion.

Governor McDougal: I was one of those who discussed the matter on Tuesday, and, as you have stated, the conclusion we reached was that it was inadvisable to undertake at



this time to circularize the banks generally.

The Chairman: It seems to me that the statement to which you have just referred, if it is to be given publicity, should not be given it through the Federal Reserve Banks, but it should be done through the Department here in Washington. I think that would be more satisfactory. Have I stated the views of your bank correctly in the matter, Governor Treman?

Vice Governor Treman: Yes. Before I came away it was thought wiser not to make any announcement at present. I have had confirmation of the report that was prevalent at the time I left, that there was no disturbance at all. In fact, Superintendent Richards told me that one of the banks having large German deposits gained in deposits after the announcement. I have here the reports from three different banks.

(Vice Governor Treman thereupon read the papers referred to, which are made a part of this record.)

Governor Seay: It is generally the case that these occurrences come without anticipation. Moreover, if they break out in one place, they spread to others. They cannot be anticipated, from the very nature of the occurrences. I am of the opinion it would have been wise for the Board, as the financial head of this country, to have repeated that utterance to the country. It is prevention that we want, not cure.

The Chairman: Do you wish to make a motion that we request the Board to make such an announcement?

Governor Seay: I would make that motion, yes.

Governor Fancher: I will second the motion.

Governor Van Zandt: Not through the banks?

Governor Rhoads: That the Board request the Secretary of State to make it.

Governor Seay: I believe it would come with greater force if it came through the banking head of the country.

Vice Governor Treman: I would like to raise the question, if you pass the resolution, whether it would not be more advisable to put it in this way: That if any announcement is to be made in that connection we think it would be wiser to have it come from Washington. There is another question here. The President made a certain statement, that under no conditions would they absorb any of this property. I might conceive that in six months or a year, if things go on, the opinion on that point might possibly change.

Governor Seay: I believe, with respect to bank deposits, that the thing ought to be settled absolutely, because it is a source from which we might experience great trouble. If it is feared that property may be taken and sequestered, because of illegal action of any German subjects or any of our foreign born population, that question ought to be settled conclusively, and it ought not to reach bank deposits. An absolutely unqualified statement ought to be made with respect to those deposits. I suggested that the Board make the announcement and that in making the announcement they quote the President. I believe it would

have more effect among the banks if the banking Board of the country should make it. That is immaterial, however. It is my idea that somebody ought to repeat it.

Governor Wold: It should be the Secretary of State. Any announcement by the Board would have no legal effect and would not carry very much weight as to what the policy of the Government would be, but a statement by the Secretary of State and the President would have.

Vice Governor Calkins : The Board has no authority in the matter whatever. It can only repeat the promise of the Secretary of State.

Governor Seay: That is my judgment of what ought to be done.

(Informal discussion followed.)

The Chairman: I do not want to interrupt, but Mr. Harding has called me up and said that he has been asked to appear before the Senate committee on Banking and Currency tomorrow morning at ten o'clock; that Mr. Warburg would be out of town, too, and asked if it would suit our convenience to meet with the Board this afternoon. I told him we would be glad to meet them at half past two in the Board room. I also asked him if he and the other members of the Board would join us at luncheon. He said that he and Mr. Warburg and Mr. Delano would be here.

Governor Rhoads, would you like to have formal action on this matter.

Governor Rhoads: There is a motion before the house, Mr. Chairman.

Governor Seay: The motion was that the Federal Reserve Board be requested to either announce the previously expressed decision of the State Department in regard to bank deposits of aliens, or that it procure the reannouncement of it. It is to be taken into account, Mr. Chairman, that it is not only the natural apprehension that might arise in the minds of the alien population, but it is the worked-up apprehension that must be feared. From our previous experience I judge that we may expect some effort of that nature.

The Chairman: Is there any further discussion?

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

Vice Governor Treman: Don't you think we had better take up the question of amendments, Mr. Chairman?

The Chairman: If the Conference so desires.

Governor Seay: There was one verbal intimation made to me yesterday, which disturbed my equanimity a great deal, and that was that the appointive members of the boards of directors of Federal reserve banks might be increased from three to four. I feel confident that would disturb the member banks in our district and I believe of the whole country.

Vice Governor Calkins: It would disturb the confidence that people have in the system now very much.

Governor Van Zandt: There has been a great deal said in our district already about the member banks not having more voice in the operation of the banks. They say it is

the only corporation they know of that never has a meeting of stockholders. Quite a number of the banks object to even three members being appointed by the Federal Reserve Board, which members, so appointed, are not the representatives of the banking interests of the country, or at least they are not selected by the banking interests.

The Chairman: I suggest that we take up the matter of amendments after we have all had time to read them.

Vice Governor Calkins: Are we not expected to take some action in regard to this Government financing? I guess that is a short title for it.

The Chairman: Yes. We are expected to present a formal expression of our views on the matter. I do not know whether we can get it reduced to writing, or whether we can come to any agreement between now and 2:30.

Vice Governor Calkins: We had better come to an agreement on it.

The Chairman: If it meets with the approval of the Conference we will take that up for discussion at this time.

Governor Seay: I suggest that we take it up, Mr. Chairman.

The Chairman: As a basis for discussion I would like to submit the substance of a memorandum which I submitted some time ago to the Federal Reserve Board bearing on this matter, and which they in turn passed on to the Secretary of the Treasury. The essential points in the memorandum are as follows:

That the issue should be for probably a billion dollars. The reasons for suggesting so large an amount were, first, that it seemed to me that the market for Government obligations would be better served by one large issue than by piecemeal financing; second, that because of the popular enthusiasm and patriotic impulses with which the country is stirred, that it is the psychological moment to put out and offer a large amount of bonds; third, because an issue of an amount as large as one billion dollars would inspire people with confidence that the Government was going to deal with the situation in a large way; that they were not going to pursue a small and picayune policy, but were going into it wholesale. I suggested that the issue be made at a rate of 3-1/2 per cent. I consulted with bond dealers in New York and in Boston, houses that handle various grades of securities, and those dealing largely in the most conservative savings bank investments, and those that are large distributors of public service securities commanding a higher rate, and without exception they felt that it would be wise to make the initial issue that would not be a burden in the way of foregoing of income and an imposition upon the patriotic impulses of the people; that they were entitled to a fair run for their money so far as the return on the investment was concerned. They agreed that a three and a half per cent rate would float a loan of a billion, certainly, and probably considerably more. I consulted them as to a three per cent rate, and without exception they felt that a three per cent rate might float a

five hundred million dollars, but most of them were agreed that it would not float a loan of a larger amount than that.

They felt that it was of the greatest importance that this loan should go with enthusiasm, and that it should be a great success. They felt that a three per cent loan, even for an amount no larger than \$500,000,000 would probably not go easily, and it would be taken up to a considerable extent by the banks, and they would find great difficulty in the distribution of a three per cent loan.

From the viewpoint of the Federal Reserve Banks, it seems to me most desirable that the rate should be high enough to promptly place these bonds into the boxes of investors, and that the distribution should be made as rapidly as possible. If they go slowly, in view of the fact that the banks will undoubtedly be very heavy original subscribers, the Federal Reserve Banks indirectly are going to bear a part of the burden of it, because the buying up of those bonds in the banks will throw a heavy amount of rediscounting into the Federal reserve banks, and inability to move these bonds promptly at three per cent would necessitate a pretty long carry on the part of the member banks, and consequently chronic discounting for a considerable amount at a time when our resources should be as free as possible for the commercial needs of the country.

I would suggest that the bonds be made redeemable at the option of the Government after five years, enabling the Government to avail itself of a favorable money market, if such state of affairs existed at the time; that the bonds

should be definitely payable in amounts of \$40,000,000 a year, beginning with the sixth year, and annually thereafter, retiring the total issue in thirty years from date.

I would make the bonds coupon bonds in denominations of \$100, \$500, and \$1,000, and the registered bonds in denominations of \$1,000, \$5,000, \$10,000 and \$50,000. I would have the subscriptions received through Federal Reserve banks, both the member and non member banks in the districts acting as subagents for the Federal reserve banks, but the whole transaction going through the Federal reserve banks. I should require a deposit of perhaps two per cent as evidence of good faith on all bids in excess of \$1,000.

The matter of the accumulation of the proceeds for the benefit of the Government is a matter of great importance and should have the most careful consideration. My present judgment is that the payments made on these bonds should be accumulated in the Federal reserve banks and, as Mr. Warburg suggested yesterday, as a temporary assistance to the banks and to relieve the contraction that would result from this heavy payment into the reserve banks, that a very favorable discount rate be made for short dates to the member banks. It seems to me it is of the greatest importance that the payments should be handled in such a way as to avoid covering into the Treasury this enormous amount of money and taking it out of the available commercial resources of the country.

Governor Wold: Would it not be possible to have it paid in installments, to take up the slack in case of con-



traction which would follow the floating of a billion dollars in bonds?

Governor Seay: If you concentrate a billion dollars in the Federal Reserve Banks in gold, and it will have to be gold or its equivalent, it would disorganize the banking business of the whole country. It should not be done. And least of all should it be concentrated in the Treasury.

Vice Governor Calkins: It could be done in the banks because the banks will loan a large part of it back, but it could not be done in the Treasury.

Mr. Wold: Has England, in selling her bonds, required payment of the full amount at once?

The Chairman: On some she had and on some she has not. The later issues have been paid for in installments.

Governor Wold: Why is not that a practical way to avoid contraction?

Governor Seay: In the last loan I have seen a statement by an English authority to the effect that of the five billion three or four billions were paid back into the market. That was by the retirement of previous loans, exchequer bills or borrowing from the banks on the part of the Government.

The Chairman: That brings out a marked point of difference from the situation here as compared with over there. The English Government has pursued the policy of financing Treasury notes or treasury bills, and when they have put out a bond issue, to a very considerable extent the proceeds of that bond issue have been used to pay matured Treas-

ury bills, and so they have put it immediately back in the market. There has been no contraction because of that. That is a matter that some experts have got to take up and work out. It is obviously impossible to have a billion dollars taken out of the banks of the country and turned into the Federal reserve banks.

Governor Seay: The entire cash reserves held by all the National banks in the country would not at this time be much over three or four hundred million dollars.

The Chairman: That is so plainly impossible that a plan would have to be worked out to cover it. Perhaps installment payments could be made.

Governor Wold: It involves more work, but it will be a great shock absorber.

The Chairman: I would like an expression of opinion, in criticism or objection to the plan that I suggested, so that when we discuss the matter with the Board I can report an agreement as to the fundamentals of the proposition.

Governor Rhoads: That plan obviously contemplates a system of taxation to meet interest and principal.

The Chairman: Yes. To be retired within a period of thirty years.

Governor Rhoads: That is inevitable, in a serial bond plan.

Governor Seay: Mr. Chairman, I suggest that you go around the table in the usual way and ascertain the opinion of those who are here.

The Chairman: I will do that. Governor Fancher?

Governor Fancher: I concur in it, Mr. Chairman.

The Chairman: I do not intend to impose my views; I do not wish to impose the views that I have expressed in any way on this Conference. I would like a perfectly free discussion and suggestions.

Governor Fancher: I agree in a general sort of way with the plan you have outlined. I am led to inquire, with regard to the investigation you made as to the flotation of \$500,000,000 of three per cent bonds, whether the matter of conversion into the higher rate was brought out?

The Chairman: That was looked upon as being essential in the treatment of any low rate bonds.

Governor Fancher: That should be a feature of low rate bonds. In other words, if \$500,000,000 were issued at three per cent there should be the conversion privilege into a higher rate.

The Chairman: That was immediately suggested by everybody. My feeling about an issue of \$500,000,000 is this: I think that is a piecemeal way of doing it. In a few months we would have to issue \$500,000,000 more, and it seems to me that the first bond issue would take the cream off the market for these securities, and also off the enthusiasm.

Governor Fancher: I concur in the recommendation that this be gone into on the larger plan, and not as a piecemeal matter; that a billion dollars be issued.

The Chairman: Then you concur generally in what I have said?

Governor Fancher: Yes.

The Chairman: Governor Wold?

Governor Wold: I concur generally with the ideas advanced by you. I believe the issue should be not less than a billion dollars. I rather feel it should provide if bonds of a higher rate are put out by the Government at a later date that they should have the privilege of conversion. Otherwise there might be some holding back, in view of the fact that the bonds of some of the other belligerents are selling at a very much higher rate. Patriotism of course will enter into it very largely.

The Chairman: It seems to me you could depend on the good faith of the Government and that that is not essential in a three and a half per cent issue.

Governor Wold: I think we should emphasize the effect that the floatation of a billion dollar loan will have upon the finances of the country and upon the banks. I know a good many of them are now exercised over that question, and it is influencing their actions. I cannot see how it is going to be possible to float an issue as large as the one suggested without making it payable in installments, without causing a contraction here that will put the rates so high as to cause embarrassment in the way of rediscounts.

The Chairman: Governor Seay?

Governor Seay: Mr. Chairman, as intimated by the Secretary, it is essential to correct the public mind, and by that I mean the Congressional mind, as to rates of interest which have heretofore prevailed on Government bonds.

There is a very widespread misapprehension as to the ability of this country to float two per cent, two and a half per cent and three per cent bonds. There have been special reasons why we were able to do that, and they should be emphasized. I think there are three things that we should guard in this. The first is that the issue should not be too small; the second is that the rate should not be too low, and the third is that some provision must be made for leaving the money on deposit in the country at large. I believe the issue should exceed a billion dollars and that the rate should not be under three and a half per cent. In the first place we ought to put out a bond that will float at par and we ought to appeal to the ten or fifteen billions of dollars of savings deposits in this country that ought to be reached, so as to affect the reserves of the banks to the least possible extent. I think it is essential that this loan should go with great enthusiasm; that we should take advantage of the ebullition of feeling which now exists. Those things flare up and they die down. I believe it is essential that we should assure subscribers that when subsequent issues are made this issue will be put upon a parity. We might have to raise five or ten billions in bonds. I read an article to the effect that Germany has a million more men in the field at this time than she has had at any time. Our mistake, if we make any, is going to be that of under estimation of conditions, simply because we cannot grasp the magnitude of it. I feel that the rate should be under no condition

less than 3-1/2 per cent; that precautions should be taken that the money is paid in installments, in order not to disturb conditions, and that it be distributed through the country in depositaries. It cannot be taken into the Federal reserve banks or into the Government. I think assurance must be given investors that if bonds are issued at a higher rate this initial issue will be raised to that rate.

The Chairman: Governor Rhoads?

Governor Rhoads: Granting the argument in favor of a billion dollar issue or more, it is obvious that we cannot spend that billion dollars in the first few months. Therefore I suggest the payment be made half now and half payable six months hence. That would be one way of relieving the market of the strain. You would hold the subscriber in that event.

The Chairman: Governor McDougal?

Governor McDougal: I am in agreement with the plan which you have outlined, and also with the statements that have been made by other Governors. There is one point I think that we should remember, and that is it is quite likely that this body will not be permitted to determine the interest rate, and in the event that it should be decided to put these bonds out on the three per cent basis I think we should use our best endeavors to secure for the purchasers of this issue the advantage of any increased rate that may be applied to further issues of bonds.

I believe it would be well to protect the present investors in our own securities by giving them the advantage

of the conversion feature, particularly the holders of those bonds that do not have the circulation privilege.

The Chairman: You refer to the conversion threes primarily.

Governor McDougal: I do not mean them primarily. I mean that this body of Governors has been instrumental, and I have been on a committee which has given much time and hard work to it, in undertaking to put these conversion bonds into the hands of the individual investors, and I would certainly include those in this recommendation.

(Informal discussion followed.)

The Chairman: Mr. Calkins, what is your opinion?

Vice Governor Calkins: I will be brief, Mr. Chairman. I agree with the statement of the Chairman, and I think that emphasis should be placed on two or three points. First the rate should be 3-1/2 per cent. Failing that, 3 per cent, and that the conversion privilege should be included. Second, that arrangements must be made to prevent violent contraction due to the subscription to this loan. It is not a question of rate. It is a question of seriously upsetting the financial condition of the country and of seriously embarrassing the Federal reserve banks, if such steps are not taken.

The Chairman: Governor McCord?

Governor McCord: I concur thoroughly in the views of the Chairman. There should be at least a billion dollar issue. We should not go at it piecemeal. If the rate is 3 per cent the privilege ought to be included of

conversion into a higher rate. Possibly if it is 3-1/2 per cent it ought not to be included. Distribution of payments over a period of time as the Government might need to absorb the money for expenditures, and equitable distribution according to subscription.

The Chairman: Governor Van Zandt?

Governor Van Zandt: I concur in the views of the Chairman in general. I feel that in order for the loan to be successful that it must have the conversion privilege in the event of later issues. I think it should undoubtedly have a rate at the present time large enough to attract savings bank deposits throughout the country.

The Chairman: Do I understand that you say it must have the conversion privilege?

Governor Van Zandt: Yes. It must be payable on an installment plan, or some such plan, which will prevent immediate contraction.

(Whereupon, at 1 o'clock p. m., the Conference recessed until 2:30 o'clock p. m.)



