

VOLUME 2

PROCEEDINGS

OF A

CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS

TREASURY BUILDING  
WASHINGTON, D. C.

OCTOBER 10, 11, 1922

WALTER S. COX  
SHORTHAND REPORTER  
COLUMBIAN BUILDING  
WASHINGTON, D. C.

## SECOND DAY

CONFERENCE OF GOVERNORS  
of  
FEDERAL RESERVE BANKSTreasury Building,  
Washington, D.C.

Wed. October 11, 1922.

The Conference of Governors of the Federal Reserve Banks reconvened in the Treasury Building, Washington, D.C., on Wednesday, October 11, 1922, at 10 o'clock, a.m.

## PROCEEDINGS.

The Chairman. The meeting will come to order.

You have before you, in your folders, the report which we adopted yesterday of the subcommittee on Centralized Execution of Purchases and Sales of Government Securities by Federal Reserve Banks, which was approved, as I say, as well as the minutes of the last meeting of the committee held on October 2nd, which contained various recommendations, which were not submitted, because they had not been finally approved by the committee. The committee has now approved the minutes as submitted, with the exception of

the following changes, because they had not been finally approved by the committee.

(The report of the committee referred to is as follows.)

FIRST REPORT OF COMMITTEE OF GOVERNORS ON CENTRALIZED EXECUTION OF PURCHASES AND SALES OF GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS, SUBMITTED TO THE GOVERNORS' CONFERENCE ON OCTOBER 10, 1922, COVERING PERIOD FROM MAY 17, 1922, TO SEPTEMBER 20, 1922, INCLUSIVE.

The Committee presents herewith a brief survey of its activities and operations since its formation.

**Meetings:** Formal meetings of the Committee were held at the Federal Reserve Bank of New York on May 16, July 12, and October 2, 1922.

**Reports** The Committee has sent to the Governor of each Federal reserve bank, to the Governor of the Federal Reserve Board and to the Under Secretary of the Treasury, a weekly report showing (a) operations for the account of the Treasury, (b) transactions affecting the investment accounts of the reserve banks, (c) advances to dealers in Government securities under sales contract agreements,

and (d) market conditions affecting Government securities in the several districts.

Distribution  
of Treasury

Orders. In handling all transactions covering purchases and sales of Government securities for account of the Treasury Department, it has been the custom of the Committee to transmit by wire such orders to the other reserve banks requesting them to advise the Committee of market conditions existing in their districts so that the Committee may be fully informed and in a position to distribute the orders to the best advantage. In authorizing purchases the Committee follows the plan of having orders completed in one district before authorizing purchases in other districts. The reason for this is obvious. The Government security market is today a very sensitive one; dealers have branches and offices in many of the Federal Reserve cities of the country so that an order to purchase a given security in one Federal reserve city promptly affects the market in other centers.

Except when the Treasury specifically requests that purchases be made in a certain market it is the practice of the Committee, unless unusual conditions prevail in the

New York market which make it imperative to make immediate purchases there, to give other Federal reserve banks the first opportunity of purchasing the securities desired. Frequently, however, the other Federal reserve banks are unable to execute orders for large amounts of Treasury obligations. Up to the present time the Kansas City and Dallas banks have not participated in these transactions at all.

Upon completion of any pending orders notice is sent to all reserve banks.

The ultimate purchases resulting from the distribution of The Treasury orders since the Committee began operations are as follows:

Boston	\$ 30,249,500.
New York	83,900,250.
Philadelphia	17,733,000.
Cleveland	3,300,000
Richmond	199,300.
Atlanta	2,532,200.
Chicago	41,474,000.
St. Louis	6,183,700.
Minneapolis	1,200,000.
San Francisco	<u>12,940,600.</u>
TOTAL	\$199,712,550.

Purchases and  
Sales for Fed-  
eral Reserve  
Banks.

When reserve banks desire to purchase or sell Government securities for their own accounts, it is the practice for such banks to notify the Committee of the contemplated transactions and of the general conditions in their district. If such transactions are not likely to interfere with Treasury orders or pending operations of the Treasury, the Committee promptly so advises the banks.

The exhibits hereto attached show purchases and sales for two different reserve banks during this period. In this connection it is interesting to note that as of September 20, 1922, there was an actual decrease in the amount of Government securities held in the investment accounts of the reserve banks of approximately \$168,000,000. from the high point of June 14, 1922.

During the period under review approximately \$130,000,000 of Treasury certificates and notes held by the Federal reserve banks actually matured. It is therefore evident that the Federal Reserve Board's suggestion, that all banks allow their investments to run off without replacement, has been generally followed.

Statements reflecting the result of the Committee's activities are appended as follows:

Exhibit "A" - Government security Holdings of Federal Reserve Banks as Reported to the Committee of Governors at the Close of Business September 20, 1922.

Exhibit "B" Total United States securities, Exclusive of Pittman Act Certificates, Held by Federal Reserve Banks.

Exhibit "C" Comparison of the Government Security Holdings by Maturities of all Federal Reserve Banks Combined as of May 17, June 30 and September 20, 1922, Showing the Net Changes Between the Last Two Dates.

As the question of investment holdings of Government securities is closely allied to that of earnings and expenses of the Federal reserve banks, the Committee has obtained from each Federal reserve bank a statement of estimated earnings and expenses for the year 1922, as of September 15, 1922, which is shown herewith (Exhibit "D").

Respectfully submitted

GOVERNMENT SECURITY HOLDINGS OF FEDERAL RESERVE BANKS AS RECORDED  
TO THE COMMITTEE OF GOVERNORS AT THE CLOSE OF BUSINESS SEPTEMBER 20, 1922, INCLUDING PITTMAN ACT CERTIFICATES

	<u>Boston</u>	<u>New York</u>	<u>Philadelphia</u>	<u>Cleveland</u>	<u>Richmond</u>	<u>Atlanta</u>	<u>Chicago</u>	<u>St. Louis</u>	<u>Minneapolis</u>	<u>Kansas City</u>	<u>Dallas</u>	<u>San Francisco</u>	<u>T o t a l</u>
Oct. 16, 1922 Cdfs.	\$ 15,000	-0-	\$ 792,000	\$10,330,500	-0-	-0-	-0-	\$ 1,022,500	\$ 547,000	\$ 2,934,500	-0-	\$ 68,500	\$ 15,710,000
Dec. 15, 1922 "	781,500	\$43,517,000	8,000	10,434,000	-0-	-0-	\$ 465,500	938,000	1,366,000	395,000	\$ 250,000	4,040,000	62,195,000
March 15, 1923 "	3,525,000	15,000,000	500	5,838,000	-0-	\$ 30,000	15,500,500	1,591,500	-0-	5,873,500	250,000	203,500	47,812,500
June 15, 1923 "	3,850,000	10,000,000	4,600,000	2,134,500	-0-	2,000,000	100,000	1,736,500	200,000	3,782,500	265,000	7,149,500	35,818,000
Sept. 15, 1923 "	150,000	-0-	228,500	292,000	-0-	-0-	1,500,000	591,500	448,000	1,000	-0-	-0-	3,211,000
Victorys (called)	-0-	-0-	-0-	5,971,800	-0-	-0-	-0-	-0-	-0-	-0-	24,750	-0-	5,996,550
" (uncalled)	5,936,000	5,000,000	150	9,822,500	-0-	-0-	-0-	-0-	-0-	10,850	161,250	10,065,300	30,996,050
Treasury Notes	4,837,000	20,000,000	22,127,600	10,959,000	\$ 50,000	-0-	1,756,500	11,458,100	9,796,600	23,283,600	-0-	17,459,100	121,721,200
Miscellaneous Bonds	535,150	857,750	1,461,100	873,200	1,190,900	159,590	4,425,600	7,303,400	3,140,000	4,442,000	2,629,500	10,157,800	37,175,990
Sales Contracts	<u>2,320,100</u>	<u>21,210,600</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,714,700</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>26,245,400</u>
T O T A L	21,943,450	115,585,350	29,217,850	56,655,500	1,240,900	2,189,590	26,462,800	24,641,500	15,497,600	40,722,950	3,580,500	49,143,700	386,881,690
Pittman Act Certs.	<u>3,250,000</u>	<u>12,500,000</u>	<u>3,500,000</u>	<u>3,500,000</u>	<u>3,460,000</u>	<u>3,999,000</u>	<u>6,667,000</u>	<u>3,571,000</u>	<u>3,000,000</u>	<u>3,821,000</u>	<u>1,900,000</u>	<u>2,832,000</u>	<u>52,000,000</u>
T O T A L	<u>\$25,193,450</u>	<u>\$128,085,350</u>	<u>\$32,717,850</u>	<u>\$60,155,500</u>	<u>\$4,700,900</u>	<u>\$6,188,590</u>	<u>\$33,129,800</u>	<u>\$28,212,500</u>	<u>\$18,497,600</u>	<u>\$44,543,950</u>	<u>\$5,480,500</u>	<u>\$51,975,700</u>	<u>\$438,881,690</u>



TOTAL UNITED STATES SECURITIES, EXCLUSIVE OF PITTMAN ACT CERTIFICATES  
HELD BY FEDERAL RESERVE BANKS.  
(In Millions of Dollars)

<u>Date</u> <u>1922</u>	<u>Boston</u>	<u>New York</u>	<u>Philadelphia</u>	<u>Cleveland</u>	<u>Richmond</u>	<u>Atlanta</u>	<u>Chicago</u>	<u>St. Louis</u>	<u>Minneapolis</u>	<u>Kansas City</u>	<u>Dallas</u>	<u>San Francisco</u>	<u>All Banks</u>
Jan. 4	3.3	62.6	2.4	5.8	1.2	10.3	15.8	1.4	.2	9.0	2.6	3.6	118.1
11	25.8	30.3	2.7	6.1	1.2	10.2	12.2	1.4	.1	8.9	2.6	4.6	106.2
18	26.5	20.6	9.3	6.1	1.2	7.5	24.9	1.3	.1	8.9	2.6	5.0	113.9
25	28.3	28.8	11.7	6.1	1.2	5.8	32.3	1.3	.1	8.9	2.6	9.9	137.1
Feb. 1	29.0	72.4	11.8	15.4	1.2	2.8	34.0	2.0	.6	9.0	2.6	11.4	192.4
8	30.2	98.7	14.0	21.9	1.2	.9	41.7	4.4	.6	14.4	2.6	13.0	243.6
15	30.4	129.4	14.5	22.0	1.2	.1	45.9	8.8	1.0	17.9	2.6	12.2	286.0
21	29.8	92.5	14.7	26.5	1.2	.2	50.1	9.8	1.1	17.4	2.6	12.1	258.0
Mar. 1	29.8	130.3	14.7	32.6	1.2	.1	59.9	10.9	1.4	21.7	2.6	12.3	317.6
8	30.2	143.0	14.7	35.6	1.2	.1	61.8	11.9	3.1	30.5	2.8	14.9	349.9
15	28.3	119.6	14.7	35.6	1.2	.1	63.5	13.4	5.4	30.5	3.1	23.8	339.4
22	29.2	114.8	14.8	36.8	1.2	.1	73.8	16.5	5.7	31.3	3.1	25.4	352.7
29	29.5	102.2	14.8	37.8	1.2	.1	79.3	16.7	6.5	35.2	3.1	25.6	351.8
Apr. 5	27.4	105.7	14.7	41.6	1.2	.1	80.0	18.2	7.3	35.3	3.1	40.8	375.3
12	27.1	134.4	17.8	43.7	1.2	.1	79.4	21.0	8.5	37.4	3.1	51.6	424.5
19	28.0	139.9	18.3	45.7	1.2	.1	86.7	21.4	9.8	40.3	3.1	51.7	446.2
26	41.9	161.8	20.3	45.7	1.2	.2	86.7	21.4	9.3	39.4	3.1	51.7	482.6
May 3	42.9	187.2	24.3	55.8	1.2	.2	85.7	21.4	10.2	39.4	3.1	54.7	526.2
10	44.0	190.1	24.4	57.4	1.2	.1	88.7	24.1	10.5	37.7	3.1	54.7	536.0
17	42.6	166.3	24.4	59.4	1.2	.3	90.6	24.7	10.7	37.2	3.1	54.7	515.0
24	42.7	164.3	24.4	65.9	1.2	.2	87.9	25.7	10.6	37.2	3.1	54.7	517.7
31	42.6	171.8	24.4	66.5	1.2	.3	88.3	25.6	10.9	37.2	3.1	54.7	526.4
June 7	52.5	170.8	25.7	69.5	1.2	.2	87.2	27.1	11.2	37.5	3.3	54.7	540.9
14	54.1	184.4	26.2	70.1	1.2	1.1	81.2	28.1	12.3	37.5	3.3	54.7	554.2
21	38.7	119.7	24.9	66.5	1.2	.4	63.1	22.5	8.9	40.3	3.6	54.8	444.6
28	43.1	159.0	27.4	70.2	1.2	2.2	48.5	21.6	9.3	41.3	3.6	55.3	482.6
July 5	41.5	151.2	29.0	70.3	1.2	2.2	46.9	22.0	9.5	41.3	4.6	56.8	476.5
12	40.5	179.8	29.0	70.8	1.2	2.2	25.2	22.2	9.0	41.5	4.6	56.8	482.7
19	43.0	168.0	29.0	70.8	1.2	2.3	23.9	22.5	8.0	41.4	4.6	53.2	467.8
26	43.2	168.7	29.0	70.9	1.2	2.1	24.2	22.7	7.8	41.4	4.6	53.2	468.8
Aug. 2	37.9	139.1	29.6	62.9	1.2	2.6	25.6	21.6	7.5	41.4	4.6	53.2	426.9
9	37.2	138.9	29.2	63.6	1.2	2.2	23.7	21.1	7.1	41.2	4.1	53.2	422.7
16	38.2	137.1	29.2	63.7	1.2	2.2	27.3	21.6	6.2	41.2	4.1	49.2	421.1
23	40.4	133.6	29.0	65.7	1.2	2.3	23.5	22.7	6.1	40.9	4.1	49.2	418.7
30	44.8	135.0	30.1	67.7	1.2	2.2	27.9	24.0	6.8	40.9	4.1	50.2	435.0
Sept. 6	45.8	147.6	30.1	67.8	1.2	2.1	29.9	25.2	6.7	40.9	4.1	50.2	451.6
13	46.3	138.0	30.5	67.8	1.2	2.2	28.9	25.1	7.2	40.3	4.1	50.2	441.8
20	21.9	115.6	29.2	56.6	1.2	2.2	26.5	24.7	15.5	40.7	3.6	49.2	386.9

## EXHIBIT "C"

COMPARISON OF THE GOVERNMENT SECURITY  
(EXCLUDING PITTMAN ACT CERTIFICATES)  
HOLDINGS BY MATURITIES OF ALL RESERVE BANKS  
COMBINED AS OF MAY 17, JUNE 30, and  
SEPTEMBER 20, 1922 SHOWING THE NET CHANGES  
BETWEEN THE LAST TWO DATES

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	Holdings When Committee was Formed May 17, 1922	Holdings on June 30, 1922	Holdings on September 20, 1922	Net Change Between June 30 and Sept. 20, 1922	
Victory 3 $\frac{3}{4}$ % Notes	\$ 1,065,100	-0-	-0-	-0-	
Victory 4 $\frac{3}{4}$ % Notes	94,301,650	\$ 54,497,900	\$ 36,992,600	\$ 17,505,300	Decrease
June 15, 1922	73,552,700	-0-	-0-	-0-	
August 1, 1922	28,166,500	20,384,500	-0-	20,384,500	Decrease
September 15, 1922	33,191,000	34,908,500	-0-	34,908,500	Decrease
October 16, 1922	44,466,000	26,502,500	15,710,000	10,792,500	Decrease
December 15, 1922	46,879,500	82,161,500	62,195,000	19,966,500	Decrease
March 15, 1923	46,131,500	48,635,500	47,812,500	823,000	Decrease
June 15, 1923	-0-	29,896,500	35,818,000	5,921,500	Increase
September 15, 1923	-0-	-0-	3,211,000	3,211,000	Increase
Treasury Notes	87,542,600	123,816,900	121,721,200	2,095,700	Decrease
Sales Contracts	-0-	-0-	26,245,400	26,245,400	Increase
	\$455,296,550	\$420,803,800	\$349,705,700	\$71,098,100	Decrease
Other Miscellaneous Government Bonds	53,681,010	39,201,566	37,175,990	2,025,576	Decrease
	<u>\$508,977,560</u>	<u>\$460,005,366</u>	<u>\$386,881,690</u>	<u>\$73,123,676</u>	DECREASE

## STATEMENT OF EARNINGS AND EXPENSES ESTIMATED BY THE TWELVE FEDERAL RESERVE BANKS

FOR THE YEAR 1922

## AMOUNTS TO BE MET OUT OF EARNINGS

	<u>Boston</u>	<u>New York</u>	<u>Philadelphia</u>	<u>Cleveland</u>	<u>Richmond</u>	<u>Atlanta</u>	<u>Chicago</u>	<u>St. Louis</u>	<u>Minneapolis</u>	<u>Kansas City</u>	<u>Dallas</u>	<u>San Francisco</u>
Expenses	2,000,687.33	6,925,000	2,112,000	2,516,338	1,681,455.15	1,293,600	4,336,363.35	1,850,000	1,125,000	2,122,000	1,500,000	3,300,000
Reserves for depreciation and losses	316,705.67	576,000	-0-	450,000	273,000.00	100,000	522,267.00	200,000	220,000	300,000	250,000	607,000
Dividends	<u>482,607.00</u>	<u>1,645,588</u>	<u>548,000</u>	<u>693,388</u>	<u>336,104.97</u>	<u>256,200</u>	<u>875,600.00</u>	<u>285,000</u>	<u>215,000</u>	<u>275,000</u>	<u>250,000</u>	<u>452,000</u>
Total to be net out of Earnings	<u>2,800,000.00</u>	<u>9,146,588</u>	<u>2,660,000</u>	<u>3,659,726</u>	<u>2,290,560.12</u>	<u>1,649,800</u>	<u>5,734,230.35</u>	<u>2,335,000</u>	<u>1,560,000</u>	<u>2,697,000</u>	<u>2,000,000</u>	<u>4,359,000</u>

## ESTIMATED EARNINGS

From Investments in U.S. securities	1,448,333.67	5,143,821	1,072,000	2,037,043	95,362.43	205,600	1,932,106.21	856,000	350,000	1,415,000	125,000	1,891,000
From Loans	1,255,676.90	3,015,067	2,244,000	2,027,730	2,440,593.48	2,025,200	3,395,340.01	1,137,000	1,455,000	1,369,000	1,680,000	2,154,000
From Acceptances	430,424.02	1,219,155	710,000	522,859	59,376.29	67,100	490,278.47	178,000	-0-	5,000	55,000	512,000
Miscellaneous	<u>23,132.90</u>	<u>472,293</u>	<u>24,000</u>	<u>49,596</u>	<u>82,197.81</u>	<u>47,900</u>	<u>256,347.89</u>	<u>202,000</u>	<u>115,000</u>	<u>191,000</u>	<u>335,000</u>	<u>153,000</u>
Total Earnings	<u>3,157,567.49</u>	<u>9,850,336</u>	<u>4,050,000</u>	<u>4,637,328</u>	<u>2,677,530.01</u>	<u>2,345,800</u>	<u>6,074,072.58</u>	<u>2,373,000</u>	<u>1,920,000</u>	<u>2,980,000</u>	<u>2,195,000</u>	<u>4,710,000</u>

BALANCE OF EARNINGS  
AFTER DIVIDENDS

	<u>357,567.49</u>	<u>703,748</u>	<u>1,390,000</u>	<u>977,602</u>	<u>386,969.89</u>	<u>696,000</u>	<u>339,842.23</u>	<u>38,000</u>	<u>362,000</u>	<u>283,000</u>	<u>195,000</u>	<u>351,000</u>
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The Chairman: The Committee, gentlemen, has now approved the minutes, as submitted, with the exception of the following changes, and I will read, if you will permit me, from the changed copy on the second page of the minutes that you have, so that you can compare that with the one submitted, together with the addition that we propose to submit for your action.

Upon reviewing the investment operations of the Federal reserve banks during the year 1922, the Committee believes that there will be no dissent over -- that is changed now to read "dissent to"--- the proposition that in purchasing Government securities too much attention must not be given to the consideration of earnings and dividends, and so forth. That is the only change in the first paragraph. Now, in the second paragraph it is made to read as follows:

"At the present time indications point to increasing demand", instead of "pressure", and the next sentence in the paragraph is made to read "The Committee is therefore of the opinion, in view of present condition", instead of "the changed conditions"; and at the end of the sentence it reads "both directly and indirectly, which open

market operations in Government securities have upon the condition and the course of the money market, and the volume of credit."

Governor Morss. Was there not another change to make it read "at least for the present" instead of "some time to come"?

The Chairman: Yes, that now reads "at least for the present." These were not distributed, except to members of the Committee, and I will ask Mr. Harrison to read them.

Pursuant to call of the Chairman, a meeting of the Committee was held at the Federal Reserve Bank of New York on October 2, 1922, at 10.30 a. m. The following were present:

Messrs. Strong, McCougal, Morss, Norris and Dr. Miller of the Federal Reserve Board, and others in attendance during the course of the meeting were.

Messrs. Fancher and Mills of the Federal Reserve Bank of Cleveland,  
Governor Wellborn of the Federal Reserve Bank of Atlanta.

Deputy Governor Case of the Federal Reserve Bank of New York who acted as secretary of the meeting.

The Chairman offered for the consideration of the Committee a suggested report to be submitted at the coming Governors' Conference on October 10, 1922. The report was read and on motion was unanimously approved.

Consideration was given to the recommendation of the Federal Advisory Council at its meeting on September 26, 1922, in respect to the subject covered by Topic #8, as follows:

"Should there be any change in the earlier recommendations made by the Council in this regard, and reference is made to recommendation No. 9 of the Proceedings of the Council, April 28, 1922." and the Council's reply.

"The Council reiterates its recommendation that the Federal Reserve Banks in their purchases of government obligations should not be governed by the necessity of covering their fixed charges and earning their dividends. The Council is strongly of the view that open market operations, particularly in so far as they touch investment in

government securities, should be carried on under a uniform policy by the system as a whole. Council has learned with great satisfaction of the organization of a committee of Governors having supervision of transactions in government securities by the Federal Reserve banks.

In the Council's opinion, the policy of the Federal Reserve system as a whole should be at this time not to increase any further its investments in Government securities."

A full discussion of this recommendation followed and it was voted to report to the Governors' Conference that the Committee concurred in the recommendation of the Advisory Council.

In continuing the discussion of this subject, the Chairman was requested to express to the Governors' conference the further views of the members of the Committee, which were substantially as follows:

"Upon reviewing the investment operations of the Federal Reserve Banks during the year 1922 the Committee believes that there will be no dissent to the proposition that in purchasing Government securities too much atten-

must not be given to the consideration of earnings and dividends. Due to the fact that liquidation was still in process and that the money market was easy, with low rates, apparently no particular harm has resulted from these operations during the first half of the year.

During the second half of the year the situation has changed and with that change there has arisen a need for a different policy, the belief being that increased attention must be paid by the system to the bearing of the investment operations of the Federal Reserve Banks upon the money market.

"At the present time indications point to increasing demand for loan funds which has been most in evidence in the New York market during recent weeks. The Committee is therefore of the opinion, in view of present conditions, that the investment policy of the Federal Reserve Banks, at least for the present, should give but minor consideration to the question of earnings and constant consideration to the effects, both directly and indirectly, which open market operations in Government securities have upon the condition and the course of the money market and the volume of credit. Looking at things from this stand-



point, the committee, without wishing to lay down any invariable course of action, is nevertheless unanimously of the opinion that, with the heavy Treasury operations impending during the next eight months, there should be a well considered policy of systematically regulating the dealings in United States securities, with particular reference to the course of the money market and to the operations of the Treasury as one of the most important factors of the money situation, and recommends to the Federal Reserve Board the approval of such a policy."

The Chairman: Right after that, and this is a combination of your memorandum and mine, Governor Norris, will come the following:

"The Committee recommends to the Conference that the Federal Reserve Banks continue at regular intervals to make necessary reports of earnings and investments to the Committee, which the Committee will, in turn, distribute to all Federal Reserve Banks.

In view of the foregoing, the Committee further requests the Conference to add to the duties of the Committee the making of recommendations from time to time to each Federal Reserve Bank as to the advisability of purchases

or sales of Government securities, which recommendations will in every case receive serious consideration by the officers or directors of the several banks."

Mr. Harrison: And then it concludes:

"It was further voted that a recommendation be made to the Governors' Conference that the Committee be continued until the Spring Conference, and that the name of E. R. Fancher, Governor of the Federal Reserve Bank of Cleveland, be added to membership."

The Chairman: Now, gentlemen, the question is upon the report and recommendations which are embodied in these minutes of the meeting of the committee, which the committee has approved and submits to you for your final action.

Governor Young: If you do not mind, Mr. Chairman, I would like to have that section which you read repeated.

The Chairman: "The committee recommends to the Conference that the Federal Reserve Banks continue at regular intervals to make necessary reports of earnings and investments to the committee, which the committee will, in turn, distribute to all Federal Reserve Banks.

"In view of the foregoing, the committee further requests the Conference to add to the duties of the committee

the making of recommendations from time to time to each Federal Reserve Bank as to the advisability of purchases or sales of Government Securities, which recommendations will, in every case, receive serious consideration by the officers or directors of the several banks."

Governor Young: It does not say so in so many words, but does that mean that if the directors of the Federal Reserve Bank of Minneapolis decide to purchase Government securities, that it should be referred to the committee?

The Chairman: Under the procedure which we have had heretofore, the execution of orders are all reported to the committee, as you know, with the exception of counter transactions with your members. I should suppose that under this recommendation, if it is adopted, when you report to the committee the action of your bank requesting the purchase of some securities, that it may bring back a recommendation from the committee.

Governor Young: But it would be nothing binding?

The Chairman: Nothing binding whatever. We have no power to control the actions of the directors of these banks, and if the Conference is ready to confer that power upon the committee I would not want to act on it. I do

not think they should.

Governor Fancher: To refresh the minds of the Governors, I would like to have Mr. Harrison read the action taken by the Conference in creating this committee, that particular part which touches on their duties and the authority given them by the last conference.

Mr. Harrison: There were three or four different votes taken by the Conference that related directly to this same subject.

The first vote was that each bank would prepare an estimate of earnings and expenses.

The second that each bank would stay out of the market whenever the treasury is in the market for its own account, / either for the purchase or sale of

securities, until advice is given of the completion of the Treasury's orders, it being understood that notice of the execution of orders will be given in the same manner as original notice.

Another vote was that each Governor should recommend to his directors that it be the policy of the bank to invest in Government securities only to the extent that it may be necessary from time to time to maintain earnings in amounts sufficient to meet expenses, including divi-

dends and necessary reserves.

Governor Wellborn: How was that voted on, Mr. Harrison?

Mr. Harrison: Just as I read it, Governor.

Another vote was that the principle should be adopted that nothing should prevent Federal Reserve Banks from buying Government securities from or selling them to their own member banks, provided there is no violation of the principles defined in the previous votes.

The last vote was the one which provided for the appointment of the Governors of the Federal Reserve Banks of Boston, New York, Philadelphia and Chicago to act as a committee for the purpose of studying this question and working out an orderly program for handling the buying and selling of Government securities by Federal Reserve Banks through some centralized control.

That was the only official action taken by the Conference itself looking toward the organization of this Committee, and conferring upon the committee full authority to work out a program for handling investments in Government securities through "centralized control".

In pursuance to that action the Governors, specified

in the vote of the Conference, met in New York and the committee established its own organization and procedure in minutes, which were subsequently distributed to each Federal reserve bank, to the Federal Reserve Board and the Treasury.

The Chairman: At this point I would like to ask a question about the work of the committee. Of course I do not actually handle these orders myself in the bank. The whole transactions in Government securities for the Treasury account, for our own account and for the committee are handled by Mr. Case, and a large department. We have made a very determined effort to stimulate the market in every other Federal reserve city to the extent possible. We are telegraphing every day. Whenever there are orders every reserve bank gets the information; we sound out the market; and I am anxious to know whether the effect of the operations of the committee, in the first place, is good, as to the local market, whether it has been an effective procedure in preserving the local markets; second, whether the operations of the committee have been conducted in a way that is satisfactory to the reserve banks, or whether there is any objection to the methods by which the orders have been handled by the committee, and any-

thing of the sort. This is the opportunity to find that out, and I will talk those things over with Mr. Case and see what the trouble is.

Governor McDougal: We have gone further than that. We have used not only the telegraph wires, but we have conferred very frequently by long distance phone back and forth, which, I think, has been very helpful.

Governor Young: I would say that it is very satisfactory all the way through, Mr. Chairman.

The Chairman: I suppose there has been a large amount of actual dealing, both for account of the Treasury and on account of orders for the reserve banks, which has been diverted to other markets, more than ordinarily would have been the case. All orders that are executed in New York are those that were necessarily executed there after the other markets had been exhausted in one way or another. Mr. Case's principle has been, the minute we get a Treasury order or any order from the reserve banks to execute for any of these special funds that we handle, like foreign banks, to sound out the other reserve banks and to see what the condition of the market is and what we can do there. You may be bothered with too many

telegrams of that kind, but after we have exhausted the possibilities in the other markets, then we go to the New York market.

Governor McDougal: As I remember it, Mr. Chairman, this committee was appointed largely because of the conditions of the Treasury itself. The matter was brought up because the Treasury believed that the Federal Reserve Banks had been working at cross purposes, not only with themselves, but with the Treasury Department, and that there should be some action taken which would protect all; and my understanding is that the operations of this committee have been entirely satisfactory to the Treasury Department.

The Chairman: Oh, I think so. I think they are greatly pleased with what has been done.

Governor Young: Now, Mr. Chairman, I move that the report, and the recommendation contained in the minutes, be approved, my understanding being that that includes the appointment of Mr. Fancher as a member of the committee.

The Chairman: That was done yesterday, so that he could attend the meeting this morning.

Governor Young: I make that as a motion, Mr. Chair-



men.

Governor Calkins: I will second the motion.

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

The Chairman: You are so familiar with the report of the operations of the committee, and with their minutes, that it is unnecessary to refresh your minds with that.

Before going further with section 1 of the program I am going to ask Governor Norris to report the result of the Committee's meeting with the Comptroller of the Currency on Yesterday afternoon.

Governor Norris: Mr. Chairman, we met the Comptroller about half past five and found him in a very affable and reasonable mood. He admitted that he had his examinations brought up to date, his deficit wiped out and a surplus on hand.

He said, however, that without any contribution by the Federal reserve banks he would be short about \$50,000 a year on his present budget. We put it up to him that the present arrangement, as we all knew, was a temporary one which had been entered into for the purpose of taking care of an emergency, which had now passed, and that if the arrangement was to be continued at all it should be

continued on a permanent and reasonable and defensible basis, and not on the present basis that had been hastily entered into to take care of an emergency.

We represented further to him that, in our judgment both he and we might be subject to criticism if the facts were developed, that the law contemplated that the expenses of his examinations should be borne by assessment on the national banks, that all of the expenses were not being borne in that way, and that the deficit was being taken care of by a contribution from the reserve banks of funds which otherwise would go into the United States Treasury.

He professed his willingness to defend that practice, and we intimated to him that we would rather he would make the defense than we. He admitted, practically admitted, that his present schedule of charges no doubt needed revision, that perhaps it is too high, and that he would be very glad to consider a revision of it.

It was then past six o'clock. It did not seem likely that we would get a decision on the question at any reasonable hour that day, I did not know how the rest of the Committee felt about it, but I personally was anxious

to get away, so the suggestion was made to him that he think it over overnight and get his subordinates, perhaps, to do a little figuring on it, that we would think it over again, after discussion with our associates, and meet him again sometime around noon today.

Now, Mr. Chairman, the committee has not had any subsequent meeting, so I state this subject to correction by Governor Seay and in ignorance of the feeling of the other two members of the committee; but it seems to me that all he is entitled to ask or expect of us is that we shall take care of this deficit of approximately \$50,000, which would take place without any contribution from us, or, in other words, that we relieve him of the necessity of revising upward his scale of assessments on National banks which, of course, is a thing that he is anxious to avoid.

Mr. Willis suggested to him that, with the increase in the resources of the national banks that was going on now, his assessments for the next year would yield him more than they had yielded this year. As against that, however, he stated that his scale of payments to his examiners was still low; that he had lost twenty to twentyfive men this year, who have been taken away from him by offers

of better pay elsewhere, that he ought to make still further increases in salaries, that he thought the Federal reserve banks were interested, as he was, in adding to the strength of the entire banking structure, and that he was of the decided opinion that a reserve bank had a perfect right to contract to make payment for any information that was of value to it, that this information was undoubtedly of value to the reserve banks and that he thought the only question was what was a fair price to pay for it.

Now, Mr. Chairman, there were, of course, a number of arguments, considerations and views thrown out in the course of the meeting, but I think when we meet again, unless the members of the Conference here have a contrary view and want to make some other suggestion to the committee, that we will take the matter up with him on the basis of coming to an agreement on a revised scale that will yield him approximately that \$50,000 a year as against the \$140,000 odd that he has been collecting from us under the present basis.

Governor McDougal: Does that \$50,000, in your opinion, reasonably cover the expenses involved, or does it go beyond that?

Governor Norris: You mean the expense to him?

Governor McDougal: The expense to him, yes.

Governor Norris: It is grossly in excess. I do not believe the expense to him would be \$5,000.

Governor Calkins: There is one suggestion that I think might be made; that is, that while we might prefer to have the Comptroller make the defense, it will be incumbent on us to defend the expenditure because the Comptroller could not defend it. We are the ones who make it; he is the one who receives it.

The Chairman: I am very much impressed by the success that this committee seems to be reaching in these negotiations and, so far as I am concerned, I would be willing to authorize them to continue the negotiations along the general lines indicated in Governor Norris' report, and authorize the committee to conclude them.

Governor Norris: I do not want to convey the impression that he agreed or intimated that he would agree, or expressed any assent, to a total contribution of approximately \$50,000. I only mean to say that that is the idea of your committee, and whether it will be satisfactory to

him or not I do not know. But I stated to the other members of the committee, as we walked up the street, that I thought we ought to oppose anytime over that \$50,000.

Governor Wellborn: In case you agree to make up the deficit of \$50,000, how would it do to do that as a temporary trade with him, not a permanent one, so that later on we could arrange it on the principle involved, that is, just the actual cost?

Governor Morris: I think that is a fair question. If you will make an arrangement with him such as you propose, you settle no principle, and while you may settle on the basis of \$50,000 this year, there is no reason why he should not charge you \$250,000 next year. That is the fundamental trouble with the thing. It may be the easiest way to settle it on a temporary basis at this time, but that is no settlement. The only settlement I can see would be where he would charge you the additional cost to him or to his office of preparing the report, and that he should not charge another cent.

Governor Norris: When I put that argument to him his reply was that we wanted them for nothing.

Governor Morss: That may be true, that he would reply in that way, but that does not change the facts at all.

Governor Norris: I put this argument to him, which seemed to me to be a fair one. That the basis on which we were paying him at present was an utterly unsound basis, which could not be defended on any rule of principle that his assessment against the banks represented the cost of making the examination and was not at all applicable to furnishing copies of reports of those examinations to us, because the cost of those examinations to him was just exactly the same, whether he furnished a copy of the report to us or whether he did not; but the basis of his price to us for furnishing a copy ought to be,--- that the only scientific principle on which to base it was--- the number of pages that he furnished to us, and his reply to that was that he did not like to sell them to us by weight. Of course there had been no suggestion of selling them by weight. I do not know what the basis I have suggested would work out, whether a quarter of a cent a page or five cents a page, because I haven't any idea of the number of pages furnished, but it seems to me that it

ought to be on the basis of a price per page which, at the present time, will yield him approximately \$50,000.

Governor Morss: He has to make additional copies, we will assume, when he furnishes these copies to the Federal Reserve Banks, and that is really all the cost there is to it. If you settle with him on that basis, which may be desirable at this time, still you have no basis for a permanent arrangement of the whole difficulty.

The Chairman: How do you feel about giving the arrangement the appearance of permanency, or making it definitely for a period?

Governor Fancher: Mr. Chairman, I feel that it ought to be a temporary matter.

Governor Morss: Yes, just as temporary as can be.

Governor Calkins: If this matter is settled on the basis of the deficit in his budget, no principle has been approached at all; it is a mere compromise.

Governor Norris: While settlement on the basis of principle is desirable, I do not think that we could make any settlement on any principle that would be binding on any subsequent Comptroller. If we made the most scientific, permanent settlement that you could think of today,



and Mr. Crissinger were to go out of office tomorrow, a new Comptroller could upset the whole thing when he came in the day after.

Governor Morss: That is the difficulty, Governor Norris. If you settle with him on \$50,000 for this year, next year another Comptroller might charge you \$250,000.

Governor Norris: That is equally true if settled on any basis.

Governor Morss: We should not pay anything except actual cost.

Governor Norris: But actual cost is equivalent to saying that we won't pay him at all, because it would be such a trivial amount it would not mean anything.

Governor Morss: I believe myself that it is a very doubtful scheme, our paying him anything, both from the Conference point of view and from our point of view, and if the matter were made public, I do not believe any one of us would have any basis on which to stand for doing it.

The Chairman: Suppose I go around the table and get an expression of views from the members of the Conference.

Governor Seay: Mr. Chairman, I would like to add one

word to the statement which Governor Norris has made, which was so comprehensive that there remains little if anything to say. But in answer to Governor Morris I would like to make the comment that we began the interview with a statement which Governor Norris has made to you, that we thought the matter ought to be settled upon a principle, and we ended the conversation with the same remark. We made the statement to him that the law contemplated, as we believed, that the expense of examination should be reflected against the National banks, and called his attention to the fact that at present the United States Treasury was paying the deficiency in his office.

We also called his attention to the fact that if it was settled upon any arbitrary basis that any subsequent Comptroller might come in and upset it, and therefore we took the ground that it ought to be settled upon some principle. He took the ground that he did not see that any principle was involved; that he had something to sell to us which was of value, and that it was for us to agree on a price, which we did not admit.

Governor McDougal: As I understand it, the Comptroller's office is supported from two sources, one assessment

made against national banks for examination, and the other appropriations from Congress for the general expenses and conduct of the office. If I am wrong in that I would like to be corrected.

Governor Norris: That means the Washington office.

Governor McDougal: I am not positive, but I think the banks in Chicago pay as high as \$16,000 for examination. The banks in New York probably pay as high as \$30,000 for an examination, and it cannot be said that the amount assessed against the banks of this country does not produce a fund large enough to employ efficient examiners in order to take care of their salaries. If that is true, then the difficulty comes from his not securing an adequate appropriation from Congress. Consequently, anything that we might pay for these reports, over and above the actual cost to the department for preparing them, for preparing that carbon copy, would be for the purpose of taking care of the expenses of the operation of what you term the Washington office, and not for purpose of enabling him to pay the reasonable salaries to his examiners, or for the purpose of aiding him in making more efficient examinations. Formerly the bank examiners were paid, I

think until comparatively a short time ago, at least in New York and Chicago, the entire amount of the fee that was charged to these banks for examination, and you will remember when it was a wonderfully productive office in that City of New York.

The Chairman: But that was some years ago, Governor McDougal.

Governor McDougal: The cost has been increased by increasing the fractional percentage, based on the resources of the bank, and there is ample income from that Department to support the corps of examiners, and I do not quite see how the Comptroller can contend that the fees charged for examination of the banks are not adequate for the purpose. Maybe I am wrong about that.

The Chairman: Gentlemen, we ought to be moving along. We perhaps will have to get at this matter again.

Governor Norris: Mr. Chairman, I would like to say a word in closing, with regard to what Governor McDougal has said. I have never had occasion to examine the appropriations for the Comptroller's office, but I have no doubt that the appropriation is specified, that is to say, so much for the salary of the Comptroller, so much

for the Deputy Comptroller, so much for salaries of clerks, stenographers and so forth, and that the appropriation does take care of the cost of the Washington Office. That is all that the Government undertakes to pay or does pay, and I imagine that those expenses are fully met out of the Congressional appropriation; but the reason he is short in the expense of the field force, or examining force, according to his statement, is that while the fee is paid in the large cities where the large banks are fully cover the expense of examining them, and probably more, the fees charged to the great mass of small banks do not cover, in many cases, the cost of the examination. He admitted that the collections made in New York, Cleveland and Chicago, and other large cities, were partly used in defraying the cost of examination of country banks.

The Chairman: We will have to discuss this question once more. It seems to me that we understand the problem. It has been discussed now for over a year. What instructions do you wish to give your committee, gentlemen?

Governor Bailey: I am very much impressed with the trading qualities of the Chairman of this Committee, and

I move that they be given power to make a contract the best they can.

Governor Young: I will second that.

The Chairman: A resolution has been made and seconded conferring power upon the committee to conclude arrangements with the Comptroller.

Governor Morss: Let me ask how long this present basis would continue.

Governor Bailey: I think it should be for one year. I am convinced of that.

Governor McDougal: I should like to go on record as being entirely willing to pay the Comptroller a fee which will fully cover the expense of the preparation and delivery of these reports, and as being opposed to paying a charge which would be entirely used for the purpose of making up a deficit in the operating expenses of his department.

Governor Seay: Are you willing to assume for the present that the expense of furnishing the report is about \$3 a report?

Governor McDougal: I am.

Governor Seay: I think we would be justified in con-

cluding an arrangement on that basis, without undertaking to go into the matter of the deficit in his office. Personally I would like to see the arrangement cover the current year.

Governor Norris: There is this to be said about making it a permanent arrangement. The Comptroller has an option on this. If we make a long term contract and the situation changes in such a way as to make that an inadvisable contract for us, either this Comptroller or any subsequent Comptroller will attempt to hold us to that contract and claim that there is a moral obligation, at least, on our part to live up to it.

The Chairman: That is to say, if it is an advantageous contract for us a subsequent Comptroller could cancel it, and if it is a disadvantageous contract for us he can hold us to it.

Governor Norris: Exactly, and therefore the shorter the term of the agreement we make the better.

Governor Morris: Wouldn't it have to be for the fiscal year of the Government, say the first of July, 1923, or something of that sort?

Governor Norris: I think we had better make it for

the fiscal year, say from July 1, 1922 to July 1, 1923.

Governor Morss: That would make it retroactive, with regard to payments that have already been made.

Governor Calkins: I would like to go on record as expressing the view that we are justified in paying the cost of the report that we receive, but that we can find no justification for contributing for the purpose of making up a deficit in the Comptroller's office, no matter how that deficit is created.

Governor Seay: That is exactly what I was about to propose to this conference, so that we might be in a position to say to the Comptroller that it is the unanimous opinion of the Conference that it would be indefensible on the part of the reserve banks to undertake to make up any deficit in the revenues of his office, but they recognize that they might justly bear the expense of furnishing the reports, and then let us say that the expense of the reports is \$3 per report.

The Chairman: The committee has now been authorized or vested with power to conclude an arrangement with the Comptroller. The committee has gained, in a general way, the views of the Conference, and now the question is are



you willing to entrust that committee with this job. The motion has been seconded.

Governor Calkins: I think for the purpose of supporting the hands of the committee, and not because of any distrust of the committee, that we should add some such declaration as has been made by several of the Governors here, that is, that we are not justified, and can find no justification for meeting a deficit of the Comptroller's office. I think that should go to the committee as the expression of this conference.

The Chairman: Do you offer that as an addition to Governor Bailey's resolution?

Governor Calkins: Yes sir.

Governor Bailey: I will accept it.

The Chairman: Gentlemen, I would hesitate to assent to the proposal that this arrangement be made retroactive. I think that weakens our position as a matter of principle, because we have already paid for the report under an arrangement upon which we relied and upon which the Comptroller relied, and I think we are going too far in attempting to make it retroactive. If we made it from the current date down to July 1, next, for the balance of the fiscal

year, I think we would be in much better position, based on the general ground of fairness.

Governor Seay: There is one other point to which we have not alluded. At the close of the interview the question of the custody and access to these reports was alluded to, and we stated that the banks, we believed, were in agreement with the position of the Comptroller as recently taken, and set forth, I think, in a communication to New York, and that that was the practice in our bank, but that in the operation of our branches there was an equal responsibility upon the executives of the branches as upon the executives of the home office, and that it was very important in our opinion that in some cases, at least--- not in all cases--- the executives of the branches should have as full information in dealing with banks in their territory as had the officials at the head office; but whereas we might call the manager down and lay these reports before him, or we might take these reports to the manager and discuss them in full, that that was an expensive procedure, inconvenient, and required a lot of time, and that therefore if he would consider extending the same liberty to the managers of branch banks that he extended to the

executives of the parent bank, that it would be advantageous. He said he would take that matter under consideration.

Governor Norris: And I think he rather intimated that he would not object to that.

The Chairman: Let us act on the question of the cost of the report first. You have a motion which authorizes the committee to conclude negotiations and to express clearly the view of this conference as to payment made, whatever it is decided to be, would be for the cost of preparing and delivering the reports, and not simply to make good a deficit in the Comptroller's office, that the arrangement shall take effect at once and continue until the first of next July, when it would be subject to revision. I think I would be inclined to suggest that it might be until the next Conference of Governors in the fall of next year, because otherwise we are all up in the air, if it should either continue or discontinue on the first of July--there would be an inconvenient interval between July 1st and the making of some new arrangement.

Governor Morris: Why not make it subject to revision at each Governors Conference?

Governor Bailey: I will accept that.

The Chairman: Then the motion would be to authorize the committee to conclude an arrangement with the Comptroller, setting the price, and that the arrangement be subject to revision at each Governors' Conference of the Federal Reserve Banks.

Governor McDougal: Before you act on that I would like to refer to a statement that was made yesterday, that this is a matter in which the Chairmen of the Boards are also interested, and if left in this way it possibly might be construed as neglecting to consider their wishes, if we leave it entirely to the Governors' Conferences. It is being considered in both branches of the Conference at present.

The Chairman: That would make it until the next fall conference of the Governors and Reserve Agents.

Governor Fancher: That would be around the first of October.

Governor Norris: I imagine the Comptroller would like to know that the arrangement, whatever it is, is going to continue to the end of the fiscal year, at least.

The Chairman: I think so.

Governor Norris: I think with regard to the feeling of this body as to not wanting to make up a deficit in his office, if that is suggested to him I think he will say that he did not ask us to put it on that basis, but would say, "The basis on which I want to put it is the value of the information to you." He repeated that several times, that he had something to sell to us which was of great value to us, and that we ought to pay him what it was worth to us.

The Chairman: What do you want to do with this resolution, gentlemen?

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

The Chairman: That disposes of Topic A-1, under the heading of Credit Transactions and policies. Topic 2 is covered by the report of the committee, which has been adopted, and the next is

### 3. Investments for Earnings.

That is suggested by Governor Calkins.

Governor Calkins: I do not think there is any necessity to discuss it further. It is probably fully covered by the report of the committee. We suggested it anticipating that it would be suggested by many other banks for dis-

cussion, but inasmuch as it is covered by the report of the Committee on Centralized operations I do not know that there is any further discussion necessary.

The Chairman: It will be passed, then?

Governor Calkins: It may be.

The Chairman: The next is

4. Policy in relation to gold imports and money market.

I simply want to report to the Conference that some time ago we got advice of a large impending movement of gold to New York from London and other parts of the world, some coming from Holland, some indirectly from Scandinavia and some from Greece, and there was a suggestion at one time that we might get some German gold. Therefore we have undertaken, as a matter of policy, in the New York Bank, to endeavor to continue liquidation of our own investments, of course having before us the picture of the entire investment account, at a rate which would at least offset the effects of these further gold imports, the idea being that we had no power to arrest an expansion of bank loans and deposits caused by gold imports, except by offsetting that gold by liquidation of our own investments. That is one of the factors that I think should enter into

the deliberations of this Committee in making recommendations about the investment policy of the reserve banks, and not only that, but in order that we may avoid the constant recurrence, week after week, of an increase in the gold holdings, we have been gradually distributing gold and gold certificates in New York, and we have not been able to keep pace with the additions to our gold reserve, but we have prevented a rather spectacular increase in the amount of gold which we hold in our reserves, and which results in quite a good many gold certificates being in circulation in New York. I think the net result of it has been rather satisfactory, because it has eliminated the feeling that there is any difference between one and another kind of paper money.

Governor Morss: Would it be proper for you to tell us the reasons why this flow of gold comes here at the present time?

The Chairman: Well, there are a variety of reasons. There have been some special transactions, as you know, in gold, the exact nature and detail of which I am not aware of, which have caused some shipments. The gold coming from Greece was furnished by the Bank of England, and I

gether that it was a part of the operation to pay interest on the British debt to our government. Then a considerable amount of gold came in that was directly shipped from London in order to make these payments, and if you will watch the Bank of England statements, you will see that it has been taken partly from the currency note reserve, and partly from the reserve of the Bank of England. They take an equal amount from both reserves when these shipments are made. The other gold shipments are those which we get intermittently from South Africa, when India is not able to buy that gold in competition with the exchange houses that are handling it for New York, that is, the London and New York bankers. But there has been quite a large movement already, and it shows every evidence of continuing.

Governor Fancher: Is there any indication that some of the gold is for investment; the gold from Holland, for instance? Is there some investment gold coming here?

The Chairman: As a matter of fact, the gold that is coming from Holland originally came from Austria, and I strongly suspect, although I do not know, that it was gold received in connection with some temporary relief loans which were probably made by the banks of the Netherlands,



through Dutch bankers, at a time when Austria was in a very demoralized condition. There were two considerable shipments of Austrian crowns, which came from Amsterdam. Those, by the way, were shipped direct to us. Had they arrived when you left, Mr. Harrison?

Mr. Harrison: They had not come in when I left New York.

Governor Fancher: Gold in the form of Austrian crowns?

The Chairman: Yes. There is no action necessary to be taken on this matter. I merely wanted to report what was going on because it had an effect upon our investment policy.

The next topic under Credit Transactions and Relations is No. 5.

#### 5. Purchase of exchange.

That was submitted by San Francisco.

Governor Calkins: The only point is as to what is being done by some of the other banks. None of the eastern banks, New York, Boston and Philadelphia, are interested, but the result of some fragmentary inquiries which were made indicated that some of the banks were buying exchange.

The Chairman: Foreign exchange?

Governor Calkins: No, domestic exchange, exchange on New York, both telegraphic and mail. We were being importuned all the time, and if there has been any relaxing in that respect, I would like to know what is being done, with regard to Cleveland, Minneapolis, Chicago, St. Louis and Kansas City.

Governor Fancher: Speaking for Cleveland, we are not buying transfers at all, either mail or wire.

Governor Calkins: You have recently discontinued?

Governor Fancher: Yes.

Governor Young: Minneapolis stopped purchasing mail transfers in February, 1921.

Governor Calkins: How about telegraphic transfers?

Governor Young: The banks wire their New York correspondents to put funds into us, but we do not buy them at all.

The Chairman: There is no quotation in exchange?

Governor Young: No.

Governor Calkins: Do you give credit for wire transfers before you are advised?

Governor Young: No, we do not.

Governor Calkins: We have a situation that is not

comperable to that in any other bank, owing to the difference in time.

Governor McDougal: We do not make any purchases of mail exchange. We handle wire transfers, but not for profit.

The Chairman: Is that sufficient, Governor Calkins?

Governor Calkins: Yes. San Francisco does not buy wire or mail transfers. It has discontinued it absolutely, but will probably relax its severity in the near future with regard to wire transfers. The banks in San Francisco, owing to the fact that San Francisco makes settlement for the entire coast, find it difficult to make adjustments, owing to the difference in time between New York and San Francisco, and they therefore desire us to give credit today for a transfer that will be effective tomorrow.

The Chairman: Are you going to charge them for it?

Governor Calkins: We certainly will charge them for it, an interest rate or a reserve penalty rate. It doesn't make any difference which it is.

Governor McDougal: Then you are buying?

Governor Calkins: We are not. We haven't done it for two years, but we are going to begin to do it again.

The Chairman: Then, are you ready to proceed with the next topic?

Governor Calkins: I am, Mr. Chairman.

The Chairman: You do not desire any action on this topic?

Governor Calkins: No.

The Chairman: The next item under Credit Transactions and Policy is Topic B.

B - Interpretation of "borrower" section 13, Federal Reserve Act, Limiting amount which Federal Reserve banks may rediscount for any one bank.

That topic is suggested by Richmond, for discussion.

Governor Seay: Mr. Chairman, this is quite an important matter, from our point of view, and, judging from the allusion by Vice Governor Platt to the matter on the program, it is quite an important matter from the Board's Point of view.

The Chairman: Did Governor Platt put that on the program?

Governor Seay: No, but he alluded, in referring to our own program, to the fact that there were some important matters before the Conference for discussion, one of which

was this subject. Therefore I am quite confident that the Board views it as an important matter, and we therefore may have to deal with it in some detail.

I will state that our purpose in bringing the matter up is to find the practice of the other Federal Reserve banks in this particular, and to get their construction, or the construction of their own counsel, as to the meaning of the word "borrower" as used.

It is therefore necessary, Mr. Chairman, to say how the subject arose. We have a little bank in the Valley which sends us certain cattle paper, that is, cattle paper discounted by that bank for a cattle dealer, various notes endorsed by the cattle dealer. They send us an amount, bearing the endorsement of the cattle dealer, equal to ten per cent of their capital and surplus. We took the view that we could not, under the Federal Reserve Act as we interpreted it, discount an account bearing the endorsement of a cattle dealer, who obtained the funds from a member bank, greater than ten per cent of the capital and surplus of the member bank. The President of that bank made a visit to Washington to get the opinion or construction of the Federal Reserve Board with reference to the action of

the Richmond bank, and as a result of a very lengthy correspondence, in which the matter was thoroughly gone into, Vice Governor Platt wrote a letter to the Richmond Bank, the concluding paragraph of which is as follows:

"You are advised, also, that in determining the amount of notes, drafts and bills bearing the signature or endorsement of any one borrower which the Federal reserve bank may legally rediscount for any one member bank, the maker of the note should be considered the borrower unless it appears that he is accommodation maker, in which event the endorser who receives the benefit of the loan should be considered the borrower".

That is precisely opposite to the construction which we have placed upon Section 5200 of the Statute and section 13 of the Federal Reserve Act. That, therefore, raises a very important question, which was necessary to be pursued by correspondence, and we called the attention of the Board to certain of its rulings which we thought were contrary to this paragraph in Governor Platt's letter. The matter is now before the Board, and I was handed by ex Governor Hamlin a conclusion he had reached, but I do not know that I am at liberty to present that conclusion to the conference,

since it is marked confidential. I therefore will have to present it upon the correspondence which has taken place between the Board and our bank.

I would like to ask whether the other Federal reserve banks interpret the word "borrower" according to the facts in the case; that is, whether the endorser may not in fact be the borrower from the bank, or whether, in point of fact, in business paper, the maker of the note is regarded as the borrower. This matter was discussed somewhat at the Boston Group Conference, and those members who were present at that group conference were requested to obtain the opinions of their counsel with reference to the interpretation of the word "borrower" under Section 13 of the Act. I do not know whether I have made it entirely clear in this brief presentation, but I wanted to make it as brief as possible, because I feel that it will be necessary to take it up later in detail, unless there is some unanimity of opinion among the Federal reserve banks with respect to the proper interpretation of the word.

The Chairman: Governor Seay, is it not really a question of the legal interpretation of the statute?

Governor Seay: I think it is.

The Chairman: I would not want to express any opinion on it without asking my counsel to advise me.

Governor Seay: While it is, I assume we can all perhaps state the practice of our banks in dealing with matters of this character, and I presume the practice of the banks in dealing with them is based upon either their own construction, the construction of their executive officers, or the opinion of their counsel. Therefore, if we find out what the practice of the banks is in dealing with the matter will we not get a good idea of what the interpretation of the matter is in the respective banks. What I would like particularly to know is what the other banks are doing in this matter.

The Chairman: Our counsel in New York concurs with the Board's position in the matter, and I think the interpretation of the law by the counsel for the Board is correct.

Governor Seay: Have you been following that practice?

The Chairman: I do not think the question has been before us in New York.

Governor McDougal: I can say that in the case cited by Governor Seay, that our bank would be governed by the maker and not by the endorser.



The Chairman: That is our practice.

Governor Wellborn: I was a member of the Boston Conference, but I did not express an opinion. I have here the opinion of our counsel. He says, "My opinion is based upon the fact that I do not regard the payee who discounts the same with the member bank as being, in law, a borrower from said bank." That he is not legally regarded as the borrower, in which event the paper in question would not be within the terms of the restriction, even though the aggregate of the paper bearing his endorsement and offered to you for rediscount upon the endorsement of the member bank, might be ten per cent of the unimpaired capital and surplus of the bank. I regard the maker of the note as the borrower. I would like to have this opinion go into the record.

(The opinion referred to is as follows:)

"You have asked my opinion concerning the following question, namely: Whether or not the restriction embodied in Section 13 of the Federal Reserve Act, to the effect that the various Federal Reserve Banks are prohibited from discounting notes, drafts, bills, etc., where the aggregate of such notes, drafts and bills bearing the signature or

endorsement of any one borrower, whether a person, firm, company or corporation, re-discounted for any one bank, shall at any one time exceed 10% of the unimpaired capital and surplus of such bank, etc., is applicable to certain notes submitted by a member bank having different makers but endorsed by one person. I understand that all of the notes are made by different parties but to the order of the same person, and are all endorsed by the payee and discounted by him with the member bank submitting the same for re-discount to the Federal Reserve Bank of Atlanta.

In my opinion, these notes, described as above, would not be within the inhibition of that portion of section 13 above referred to. The restriction embodied in that section forbids, in terms, the discount by the Federal Reserve Bank of notes upon the endorsement of member banks where the aggregate of such notes, drafts and bills, bearing the signature or endorsement of any one borrower, etc., may exceed 10% of the unimpaired capital and surplus of said bank, etc. My opinion is based upon the fact that I do not regard the payee who discounts the same with the member bank as being, in law, a borrower from said bank. If he be not legally regarded as a borrower, then the paper

in question would not be within the terms of the restriction, even though the aggregate of the paper bearing his endorsement and offered to you for re-discount upon the endorsement of the member bank, might exceed 10% of the unimpaired capital and surplus of said bank.

The above is the logical construction of the paragraph referred to, giving to the term "borrower" its usual and customary meaning. The fact that the restriction was intended to apply to the paper of borrowers only is indicated, furthermore, by the legislative history of the section in question. Originally this portion of the Act read as follows:

"The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank", etc.

The section as originally enacted has been amended by striking the phrase "any one person" and substituting in lieu thereof the phrase "any one borrower". This amendment, in my opinion, indicates a legislative intent to limit the restriction only to paper owned by the member.

bank and made by one who borrows money from said bank. I do not regard a man who discounts paper with a bank, passing title thereto by endorsement, as being a borrower. In legal effect he is selling something to the discounting bank, although, of course, unless the endorsement be without recourse, he becomes liable by virtue of his endorsement to the discounting bank for the full amount of the paper so discounted.

In arriving at the above decision I have considered your letter of June 25th to Mr. Harding, asking for a construction of the portion of the section quoted, with particular reference to the case where separate and distinct borrowers make notes running directly to a member bank, which said notes bear the same individual endorsements, together with Mr. Harding's reply of June 28th to you. I think that unquestionably the decision reached by Mr. Harding, as embodied in his letter of June 28th is sound, and believe, furthermore, that the principle upon which he based his decision, logically developed, would sustain the conclusions which I have reached upon the particular question presented herein."

Governor Seay: I would like to say that we have the opinion of the former counsel of the Board, which appears to us to be exactly contrary. At one time, in 1918, we submitted the matter to Mr. Elliott, then counsel for the Board, and he replied with his opinion, which is exactly contrary to that of the present counsel of the Board, and that of the counsel of your bank. He says:

"The provision to which you call attention in Section 5200, that such paper 'shall not be considered as money borrowed' can only be interpreted to mean that it shall not be considered as money borrowed within the meaning of that particular section, and can have no reference to the limitations imposed by an entirely separate Act. In other words, we cannot read into Section 13 any part of section 5200. Section 5200 deals exclusively with the liabilities of persons to national banks, whereas, that part of section 13 under consideration refers expressly to liabilities of member banks to Federal reserve banks. The two statutes must necessarily be considered independently."

Then he says further that he agrees entirely with the construction and position taken by the Richmond Bank in the matter.

The Chairman: Mr. Harrison, who has been counsel for the Board in the past, and is a member of the Eligibility Committee of the New York Bank, has been all over this, I think, with the Board's counsel and with our own counsel in New York, and he is very clearly of the opinion that the provisions of section 5200 apply to the maker of the note except in the case of accommodation maker. and not to the endorser, not the payee/ There is another very practical consideration involved in this, and that is that the interpretation given by the Board is a broader one, apparently, than the one which your counsel gives, and on the whole I am in favor of broad interpretations of the statute.

Governor Morss: Was that decision given you by the Board distributed to the reserve banks?

Governor Seay: No. The Board has not promulgated it.

The Chairman: What is the objection to adopting the Board's ruling, which is certainly favorable to the borrowing bank?

Governor Seay: I do not know that it is favorable to the borrowing bank, or that it will work out in practice as well as it will the other way. For instance, let us

take the case of a cattle dealer; we will take it that there is one buyer of cattle who will buy from two different cattle dealers and from each cattle dealer he will buy to an amount that does not equal the ten per cent of the capital and surplus of the member bank, but the combined purchases from the two will be in excess of it. One cattle dealer may offer us the paper, and we can rediscount it for him, but if the other cattle dealer offers us the paper we would not be able to touch it; whereas if they were separated, we might discount for one cattle dealer \$5,000 worth of paper and for the other cattle dealer \$5,000 worth of paper. But if you take the endorser, he could not discount the second paper at all; I mean to say, if you take into account the maker; but if you take into account the endorser, the endorser being two separate and distinct persons, we could discount both pieces of paper. But if the maker is to be regarded as the borrower, we cannot take it.

I would like to ask if those members of the group conference who were requested to ask their counsel to report on this matter, have secured a report, and if so that they be permitted to give it to this meeting, and also that you

ask what the practice of the other banks is in this particular?

Governor Bailey: We take the signer of the note.

Governor Young: We do the same thing.

Governor Norris: Our practice has always been to regard the party who obtained the loan or advance from the bank as the borrower, whether he was the endorser or maker, and while I have not the written opinion of our counsel, he told me just before he left Philadelphia that his opinion was that that was the correct interpretation of the word "borrower".

Governor Seay: That is exactly our ground and exactly the opinion of our counsel., or otherwise we could not understand why the words were used in the statute as they are used. There would be no occasion to use them.

Governor Norris: It seems to me it is the only reasonable interpretation you can give to the word "borrower".

Governor Seay: It is a question of fact as to who is the borrower, and there is no other reasonable interpretation to place on section 5200 of the statutes in our judgment.

Governor Morris: I was a member of the Group Confer-



ence referred to, and I have here quite a long opinion from our counsel on this question, which came yesterday. He begins by saying that it is a very difficult question and very easy to have a difference of opinion. I have run over it here rather hastily and I judge that his opinion is that the actual borrower is the one to be considered, whether he be the endorser or the maker.

Governor Wellborn: I have already placed the opinion of my counsel in the record. It is dated September 1919 and we have been acting on it ever since.

Governor Seay: It is a fact, however, that the opinion holds that the maker of the note is the borrower.

Governor Wellborn: Yes. He says the payee cannot be considered as the borrower.

The Chairman: There seems to be a difference of opinion among the various members of the bar on this matter.

Governor Seay: Let me quote half a dozen lines from a ruling of the Board in respect to this matter, as published in the Bulletin for 1919, Volume 5, page 1157, which winds up by saying, "In the case assumed, therefore, the Federal Reserve Bank might lawfully rediscount all of the bills of exchange drawn against actually existing values and

an amount of the straight loans and commercial or business paper aggregating not more than ten per cent of the capital and surplus of the member bank. Had the straight loans in the case described above exceeded the ten per cent limit, the Federal Reserve Bank could not have rediscounted for that member bank any of the paper of that customer, whether straight loans, bills of exchange drawn against actual existing values, or commercial or business paper."

This is diametrically opposed to the opinion---

The Chairman: But what action do you want taken on it. We cannot render a legal opinion and the legal opinions appear to be divided?

Governor Seay: If you would go around the table on it it would satisfy us.

Governor Biggs: I have no opinion from our counsel, but we look on the maker of the note as the borrower.

Governor Fancher: We have not referred the matter to our attorney but it has been our practice to look on the maker as the borrower.

Governor Calkins: We have had a long continued discussion and there will be made more discussions about this matter, because it will arise in connection with operations

of cooperative market associations, but it seems to me there is no escape, the opinions of counsel to the contrary, from the conclusion that "borrower" means borrower, and that the borrower may either be the signer of the note or the endorser of the note, and that if we are to be held to a strict interpretation of the law we will have to be held to that interpretation of it. I think this is one of the things upon which we should have a definite ruling from the Federal Reserve Board. It is a difficult question and the counsel of the various banks do disagree in regard to it. The question is too difficult for a layman to interpret. The question recently arose in our district in transactions in which the Northwest wheat Growers Association was involved. I think the Board should be requested to rule upon it.

Governor Wellborn: There are two sentences in the opinion of our counsel which are as follows. "I do not regard a man who discounts paper with a bank, passing title thereto by endorsement, as being a borrower. In legal effect he is selling something to the discounting bank, although, of course, unless the endorsement be without recourse, he becomes liable by virtue of his endorsement to

the discounting bank for the full amount of the paper so discounted."

Governor Seay: Is it not the practice of banks universally to grant certain lines of credit to their customers who offer them their own bills, notes and so forth? Don't they count, and don't the examiners of the Comptroller's office count the line extended to the endorser as the limit to which that bank is permitted to go?

Governor McDougal: They do not.

Governor Calkins: No, this is commercial paper actually owned.

Governor Morss: I do not see anything to it except to follow the suggestion made by Governor Calkins that the Board be requested to rule upon it.

Governor Seay: I would like to call attention to another ruling of the Board, to which our counsel calls attention, published in Volume 4, page 520 of the Bulletin, in which he contends that the Board adopted the view that the word "borrower" means "customer of the member bank".

Governor McDougal: That is pretty definite.

The Chairman: As I understand it, Governor, Seay, you ask that no action be taken on this topic?

Governor Seay: The opinion has been expressed by some of the governors that as the matter is of such importance it would require an opinion by the Board to settle it, and it probably will, and I presume that after our correspondence is concluded, the Board will publish its ruling in the matter, and I think we will ask them to do so, because I think the opinion of counsel seems to be just about divided. There is a great deal that can be said on both sides. We feel that we are right about the matter and other counsel feel that they are right about the matter, and the Board will have to come in and decide it.

The Chairman: In previous similar cases they have asked the Board, in effect, to make a tentative ruling for submission to the reserve banks in order that they may have the ruling and the opinion of counsel of the Board looked over by their own counsel, papers being submitted in support of their different positions taken by the banks. You will recall we had that before us in an important matter connected with the Collection system, as I recall it.

Governor Seay: I think that would be desirable, rather than to pass it on with simply a discussion.

Governor Calkins: This is a very important matter,

a very vital matter, and while it is very desirable, and perhaps will be necessary, to have a formal ruling by the Board on it, I think it would be very undesirable to have snap judgment by the Board or anybody else. The matter should be fully reviewed and no determination reached until it has been fully reviewed. If the procedure is to ask the board for a tentative opinion, to be submitted to counsel of the various banks and discussed on the basis of a tentative opinion, I can see no objection to that.

The Chairman: That is the idea I had in mind.

Governor Calkins: But unless we are going to follow that suggestion I think the matter should be submitted by each bank to its counsel, and discussed at the next conference of Governors, because it is submitted to the Board.

Governor Day: I will agree to that. If the Board takes the position that it will be necessary, in view of the fact that the matter is so open to differences of opinion, it appears to me that before the Board reaches a final conclusion to promulgate the ruling, it might take into consideration the opinions of counsel for the several banks.

The Chairman: Will you submit a resolution that will

embody your ideas?

Governor Seay: I make a motion that the Governors here present request their own counsel to write an opinion upon this matter and transmit it to the Board.

The Chairman: But in the meantime you may have the Board's ruling, and had better address a request to the Board to hold up their ruling. They have already given an opinion on it and that opinion may be distributed in the next Bulletin.

Governor Seay: I would like to request the Board not to make a ruling upon this subject until counsel for the various banks have had opportunity to examine into it and submit their opinions on the matter.

The Chairman: You offer that as a resolution?

Governor Seay: Yes.

The Chairman: Gentlemen, you have heard the resolution, which is that the Conference request the Federal Reserve Board to make no ruling defining the word "borrower", which appears in Topic 1-B of the program, until counsel for the reserve banks have had opportunity to submit their views in writing to the Federal Reserve Board. What is your pleasure?

Governor Young: I will second that.

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

The Chairman: We have one or two reports to submit.

The first is the report of the Chairman of the General Committee on Bankers Acceptances, which committee is composed of officers of the Federal reserve banks. This report may be received without action. It is simply a report of the proceedings of a committee of officers of the reserve banks, which is a subcommittee, really, of this meeting.

(The report referred to will be found at the end of this record, beginning at page .)

The Chairman: The next report is that of the standing Committee on Open Bill Market Conditions and Operations, which is submitted by Governor Fancher. Do you wish any action on this report, Governor Fancher?

Governor Fancher: Only that it be received and made a part of the record.

The Chairman: It is moved and seconded that this report be made a part of the record.

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

(The report referred to is as follows:)



REPORT OF THE STANDING COMMITTEE ON OPEN BILL  
MARKET CONDITIONS AND OPERATIONS TO THE CONFER-  
ENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS.

Since its last report to the conference in May, 1922, your committee has continued to receive weekly summaries of reports made to the committee by most of the Federal reserve banks, some banks not reporting, and monthly summaries of such reports have continued to be issued by your committee to the governor of each Federal reserve bank and to the division of Analysis and Research of the Federal Reserve Board.

In its last report the committee referred to the decrease in the volume of bills outstanding to an amount estimated in February, 1922, at \$565,000,000 and your committee believes that substantially this volume has continued to remain outstanding since that date but the character of bills composing that volume has continued to reflect the reversion to bank loans from acceptance credits by more users of credit in domestic lines and it is believed by your committee that the volume of bills now outstanding conforms more generally with the traditional uses of bankers acceptance credit than at any time since 1915. Some quickening of trade with South America,

substantial increase of imports from the orient and heavier movements of sugar imports have provided the principal bases for the increased proportion of overseas bills that has substantially offset the decreased domestic use of acceptance credit.

The new regulations have been particularly helpful in this regard and your committee believes are operating with satisfaction to bankers and users of credit alike.

The volume of dollar exchange bills has decreased with the improved condition of South American exchanges and the resumption of larger exports of commodities from those countries.

within the period covered by this report, open market rates for bills declined to 3% in June and July, with exceptional sales at 2-7/8%. The 3% rate obtained quite generally throughout the months of July and August and was permitted principally by the continued demand of foreign purchasers and the relative low rates of short dated Treasury Certificates. During the latter half of August, however, rates of Treasury certificates advanced to higher levels and some changes in the employment of foreign monies were noticed which resulted in decreased

Demand from foreign investors for acceptances. Under these circumstances the bill market received more bills than it could dispose of at the established rate and an advance in rates was indicated as necessary to preserve a distribution of bills to investors. Federal reserve banks, in assisting the market to higher levels acquired substantial increased in their bill portfolios but operated in such a way as to avoid making drastic advances necessary at any one time, permitting the dealers and discount houses to continue to accommodate the new bills coming to the market at gradually advancing rates without unwieldy increases in their own portfolios. Some private buying was encountered at  $3\frac{1}{4}$ , more at  $3\text{-}3/8$  and at  $3\text{-}1/2$ , the rate at the time of writing this report. There appears a likelihood of a rather effective demand, especially as short dated Treasury certificates are now selling at or about that level and foreign buying is again assuming more substantial volume.

During the entire period covered by this report the bill market in London has been quoted substantially at  $2\frac{1}{2}\%$  for 90-day bills. The committee is advised that the supply of bankers bills in the London market is very limited and at a low ebb, accompanied by an almost entire absence

of commercial bills. It does not apprehend that the rates now obtaining in this country, say 1% above the London discount rate, will materially or adversely affect the use of American dollar credit in our overseas trade, particularly in view of the uncertainties regarding the rates of foreign exchange at this season and in view of conditions in Europe.

Your committee, therefore, recommends that the policy of Federal reserve banks at the present time should not be to depress the rates established in the American discount market either by seeking to increase their investments through the bill market or supporting a rate artificially low, but on the other hand that their policy should be to continue to assist and support the market to and at such reasonable levels of rates as will cause a wider distribution of new bills among banks and other investors but not to allow the rates to advance disproportionately to rates for commercial paper and Treasury certificates.

C. A. Mores  
E. R. Kenzel  
E. R. Fencher, Chairman.

The Chairman: Now, gentlemen, we have one or two matters submitted to us which are not on the program.

The Secretary of the Conference of Federal Reserve Agents advises me that their conference has referred to us for action a topic which was submitted by the Federal Reserve Board, which is

Reimbursement of expenses incurred as fiscal agents for the War Finance Corporation.

I imagine they consider that as an operating matter that should be disposed of by this body.

Governor Calkins: May I ask whether we are going to have a discussion with Mr. Gilbert?

The Chairman: I have arranged to have Mr. Gilbert meet with us this afternoon about four o'clock, if that is convenient to the meeting. I also want to apologize to Governor Calkins for skipping his topic C, Discount Rate, although it will come up under the discussion of the Board's program on credit.

Governor Calkins: You need not apologize, it may be skipped.

The Chairman: Would you like to take that up now?

Governor Calkins: No; we will call it passed.

The Chairman: Has anyone any suggestions to make with regard to the topic submitted by the Board, Reimbursement of expenses incurred as fiscal agents for the War Finance Corporation?

Governor Seay: Did not Vice Governor Platt state that one of the Federal reserve banks has contended that some overhead should be included in those expenses.

Governor Bailey: We made a claim at Kansas City and we made it as a test claim, as to whether we would be entitled to reimbursement for furnishing help. They made a partial allowance for three months and cut out six months. We contend if we are entitled to three months that we are entitled to the full six months.

Governor McDougal: I would like to inquire whether any members of the Conference know exactly what we are to be reimbursed for.

The Chairman: When a topic comes onto the program without previous notice to us and we have no opportunity to investigate it in detail, I am frank to say that we cannot give an answer as to exactly what the reimbursement basis is.

Governor Calkins: The original position taken by the Director of the War Finance Corporation, as I recall it, was that they would reimburse us for actual out of pocket expense and nothing more. As to how much they may have varied that in some cases I do not know, but I am quite

sure that was the original proposition.

Governor Seay: I would like to ask if Governor Calkins thinks they can sustain that position, if the Federal reserve banks hold to the contrary and desire to put in charges for overhead. It has been our practice to charge only for the actual expense.

Governor McDougal: What would you include in overhead?

Governor Seay: Part time of officers who have to supervise.

Governor McDougal: And rent?

Governor Seay: You might have certain allowance for office and rent.

Governor Young: I think I can state positively that our cashier at Minneapolis, who is doing that work has his entire salary paid by the War Finance Corporation. I am quite sure that they are paying for the rent and space they occupy. I know that they pay for alterations and repairs on the old vault, in connection with burglar alarms. I know they are paying for the stationery they are using and they are paying for every employe that is working down there and paying some of our people for part time. We

had some difficulties about it last October and it was settled very quickly. I invited them to send a man out there to check up the expenses.

Governor Seay: I will move, Mr. Chairman, that each bank which transacts business with the corporation advise every other Federal reserve bank of the basis on which they handle the business for the corporation.

Governor Bailey: That includes War Finance and fiscal agency?

Governor Seay: No, just the war finance.

Governor Bailey: And how about the Federal Land Bank?

Governor Seay: We have none of that, sir.

The Chairman: We pay their coupons for them but I don't think we do much else.

Governor Bailey: They send bonds up to us to have them signed. The head office of the Land Bank is at Wichita, and the local bank is at Kansas City, and they send bonds up to us by the millions and tens of millions to be signed, with instructions to forward them somewhere else, with nothing to pay for it.

Governor Seay: We transact a large volume of business



with the War Finance Corporation. I think we have employed 13 or 14 men in the department. We have been compelled to take certain men from our official force and transfer them to that department, and they give their time exclusively to it. They handle some 15,000 to 20,000 items in the department, and it is quite a big department in our bank. We have been conducting it at the present time on the basis of charging such expense as we are actually subjected to, including salaries, but we have included no overhead, no rent, or anything of that character. I think if the banks that are transacting the business will exchange information with each other we could arrive at a conclusion as to the basis to be charged.

The Chairman: Governor Beay's motion is to the effect that inasmuch as this topic is not on the program and we are not prepared with full details of what each bank is doing, that each Federal Reserve Bank shall make out a statement of its practices with regard to reimbursement of expenses incurred on account of the War Finance Corporation and send that statement to every other Reserve Bank, so that each Federal Reserve Bank will be in possession of full information as to what each other Reserve Bank is

doing on this question of reimbursement of these expenses.

Governor Mellborn: I will second that motion.

Governor Bailey: The same principle would be involved if they were doing a lot of business for the farm land banks. They send a lot of bonds up there and register them.

The Chairman: As I understand it, Governor Bailey would like to have included in the motion similar information in regard to the farm loan system.

Governor Bailey: Yes sir.

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

The Chairman: The next topic is No. 4 on the supplemental list.

#### Bond investments by member banks.

The discussion of this was suggested by Atlanta, Richmond and Philadelphia at the Boston Group Conference, and Governors Norris and Seay were requested to prepare a memorandum.

Governor Norris: At a recent Group Conference of the Boston, Richmond, Atlanta, and Philadelphia Banks, there was a discussion of the recent large increases in the investment holdings of banks, and a consideration of the

question whether it might not be advisable that the approaching Governors Conference should make some recommendation on this subject to the Comptroller of the Currency, and perhaps to the various state Superintendents of Banking. Recent reports of the Comptroller of the Currency show large increases in the investment holdings of national banks, and there is reason to believe that there has been a similar increase in such holdings by state banks. The increases shown in the Comptroller's statements are both in holdings of government obligations and of other securities, and apply alike to reserve cities, Federal reserve Bank, or branch cities, and "countrybanks."

It may be presumed that the banks in the larger cities are intelligently managed and can take care of themselves - that their investments are made after proper examination and are in reasonably marketable securities. It appeared, however, from the reports made by the Governors of the Richmond and Philadelphia banks that this is not generally true of the investments of the country banks, which have been made largely in foreign and industrial bonds, as to which the officers and directors could have had very little personal knowledge, and evidently relied upon the state-

ments of a bond salesman. It was felt that the practice under any circumstances was a dangerous one - that country banks invested in bonds when there was not sufficient local demand to absorb their funds - a condition usually prevailing at a time when interest rates were low and bond prices high. These banks are in the habit of realizing at least 6% on their local investments, and therefore bought only bonds netting them 6% or more, which are not ordinarily high-grade marketable bonds. The bonds so purchased they hold until the local demand for funds again becomes good, which is ordinarily at a time of higher rates and lower bond prices. They are therefore confronted at that time with the two alternatives of either selling their bonds at a loss, or borrowing from the Federal Reserve Bank to meet their local demands.

While the practice is objectionable because of these general considerations, it is still more objectionable because of the way in which it is ordinarily done. The directors of these banks are generally farmers or small merchants, almost entirely ignorant of the principles of investment, and the buying of bonds is almost entirely within the discretion of the president or cashier. He

ordinarily buys from some bond salesman, who may occasionally be a man with a conscience, realizing the responsibility attached to his recommendations, but is, unfortunately, more often interested in selling those bonds upon which he realizes the largest profit or commission. While no Governor present was prepared to submit any evidence to substantiate any such charge, there was a general suspicion that in many cases purchases of bonds were made either on the basis of a division of the commission, or as a matter of personal friendship or good fellowship. The feeling was so general that this practice represents a real menace to the interests of country banks, and of the local communities which they serve, that it was voted that the matter be referred to the Conference, and that the Governors of the Richmond and Philadelphia banks be requested to prepare a memorandum on the subject.

Governor Seay alluded to particular conditions existing in his district which we had not noted, and doubtless he has prepared his memorandum.

Governor Seay: As I understood the purpose of the inquiry, it was to aid in formation of opinion or aid in determining as to whether it is desirable that any restric-

tion should be placed upon the investment by banking institutions of their funds in promiscuous bonds. I confess I am unable to arrive at a conclusion that any effective control can be exercised, and I am very dubious as to the wisdom of attempting to exercise any control, although it is very flagrantly abused.

We know that a few years ago the Comptroller determined that national banks should not invest anything in stocks, but that they might invest in bonds, and no limit was placed upon the investment in bonds.

Now, I can give some illustrations. There was one bank in the city which was a very heavy borrower from us with a capital of a million dollars and a surplus of \$800,000, and it has \$1,044,000 invested in bonds other than United States bonds. Another bank in the same place, with a capital of \$200,000 and a surplus of \$300,000 has \$746,000 invested in bonds other than United States bonds.

Governor Young: Are they borrowers from you now?

Governor Seay: Not at the moment, but they have been borrowers, and the point is that these investments are the occasion for their having to borrow from us from time to time very heavily.

Governor Young: Do they borrow from you in order to buy bonds?

Governor Seay: No, but having bought bonds and having such a large proportion of their resources in bonds it becomes necessary for them to borrow from us later.

Governor Young: Or sell their bonds?

Governor Seay: Or sell their bonds, one or the other. With respect to our entire district, I would say that banks with a capital of \$95,000,000 and surplus of \$66,000,000, making \$161,000,000, have invested in bonds other than United States bonds \$76,000,000 or 47 per cent of their capital and surplus.

Governor Fancher: May I inquire whether that has shown a very marked increase in the last six months or a year?

Governor Seay: I have no comparative figures. These figures that I have were made up during my absence and were made on the strength of a telegram that I dispatched from Boston to Richmond.

Governor Fancher: These special banks that you have in mind, were those bonds acquired some years ago or have they been acquired since they paid off their borrowings at

the Federal Reserve Bank of Richmond?

Governor Seay: They have been acquired in conformity to the general practice of the banks to make investments of this character.

Governor Fancher: And they have been accumulated over some period of time?

Governor Seay: They constantly have these investments on hand.

The Chairman: May I interrupt this discussion just a moment to make an inquiry?

(The inquiry of the Chair was with reference to a dinner engagement of the Conference with the Board.)

Was it proposed at the Boston Conference that this meeting should pass some resolution or take some action looking to intervening in this matter of banks investing in bonds?

Governor Morss: That was not proposed in the vote. The vote was that the matter be referred to both the Governors' and Chairmen's Conferences, and that Governors Norris and Seay be requested to prepare memoranda on the subject.

Governor Bailey: Are these borrowings a continuous thing or just for a short time?



Governor Seay: In the case of the banks I have mentioned they were borrowers for two or three years continuously, and have just paid out. They did not sell their bonds. They held onto their bonds and just recently paid off their borrowings in the Federal Reserve Bank. As I recall it both Boston and Philadelphia thought the matter quite important.

Governor Morss: One or both of us brought it up.

Governor Seay: I did not initiate the subject, but as it was brought up I expressed the opinion that it was a matter of some consequence as to whether a bank should have unlimited power to invest in securities, a bank, particularly, or banks, which were accustomed to borrow at times very heavily from the reserve bank, and have reached the conclusion that it is injudicious to attempt to place any control over them from the Federal reserve bank standpoint.

Governor Wellborn: It is a very important matter, I think. I have found recently that a good many of our banks have gotten out of debt, have had surplus money and have bought bonds. I have always discouraged it but they would go ahead and buy them because they yielded a revenue.

They feel that they can always get money so easily from the Federal reserve bank when they need it.

The Chairman: I would like to ask the members of the Conference if any of you feel you would be justified, when a member bank comes to you to borrow money, in looking over the statement of that bank and finding that they own some government bonds or any other kind of bonds, in saying to them, well, we won't let you have this money, but you will have to sell your bonds.

Governor Bailey: I would not do that.

Governor Young: Nor would I.

The Chairman: This is a matter on which I feel very strongly. We have spent a little over half an hour this morning discussing the interpretation of this word "borrower" and that is an outgrowth of an attempt in our banking system to regulate banking by law. In the case of the word "Borrower" the Richmond District raised the point as to whether the endorser of the paper goes into the bank and sticks it through the window, or whether the maker does, and it is dependent upon the interpretation of who is the "borrower", as to whether it is the man who puts the paper under the window or whether it is the fellow that signs the note, and we are going to decide whether a bank can lend

ten per cent of its capital and surplus in one case or the other as a matter of law. No discretion enters into it. Now, I think there is too much regulation of banking by law and by mandate and by the rulings of Comptrollers, state Superintendents and so on. It makes for weakkneed bankers. They are always tryin to find out whether they are violating the law and not thinking so much as to whether it is good business or not. There is a constant temptation on the part of Government bureaus or commissions, Comptrollers and state superintendents, and maybe Fed ral reserve banks, to think that it is a part of their jobs to tell bankers how to run their business. Now, possibly I am expressing this with a little too much force, but it is because I feel it very strongly.

Now, if the Federal Reserve Banks get into the attitude of mind towards their members where they feel calle d upon to go to them and tell them that they should not buy bonds or should not buy this or should do that, and that they won't lend them money unless they behave or do this or that or the other thing, they are going to shortly get into a position where we are running every bank in the system, and my personal view is that we have got to leave those things to the banks and to the regulatng authorities

already established by law, which are the Comptroller of the Currency and the superintendents of the state banks, and that our wisest course would be to keep our hands off. There will be resentment, and growing resentment, and that is the reason why I have always argued on the other side of the proposition, that it is <sup>not</sup> possible to control credit transactions with these member banks by some rule of superhuman discretion rather than by the cost of credit which you extend to them. I would hate to see this conference go to the Comptroller or the state authorities and say that the banks of the country are buying too many bonds, and the Federal reserve banks would like to have you stop it for them. We would be in a nice fix if our members thought we were undertaking to do that. If we should undertake to do that in the case of bond investments, and then undertake to do it in the case of automobile paper or some other kind of paper, the first thing you know we would have a nest of hornets around our heads.

Governor Calkins: Your view, as expressed, is quite comprehensive, or at least it is capable of interpretation that would make it quite comprehensive, and I am wondering if you are intending to express the view that we should not

regard the condition of the bank which is borrowing or rediscounting with the Federal Reserve bank.

The Chairman. Yes, we should.

Governor Calkins: How can we do it if we do not review the investments of that bank and ascertain whether they are sound, liquid and convertible. We have encountered this fact, that some of the most serious difficulties in the relation between the federal reserve banks and member banks have arisen in cases of banks which previously had never borrowed or rediscounted a cent, but which had gotten into an absolutely solid condition before they came to the Federal reserve bank at all.

The Chairman: Frozen solid, you mean?

Governor Calkins: Frozen solid, yes.

The Chairman: Do you think the responsibility is placed upon us by law, to tell these banks how they should run their business?

Governor Calkins: I think the responsibility is placed upon us to tell them what we will do for them.

The Chairman: That is all right; that is a different matter.

Governor McDougal: I should like to express myself

as heartily in accord with the views of the Chairman as expressed on this matter, but I do not think it was the intention of the Chairman to suggest that we deprive the Richmond bank or any other bank of the right, which of course is theirs, to consider such extreme cases as that to which Governor Seay has referred. Of course we all do that.

The Chairman: Oh, in an individual case where they come to borrow money, not at all.

Governor McDougal: And in further response to your inquiry as to whether any Federal reserve bank has seen fit or would see fit to ask a bank to dispose of its investments, there are extreme cases where it is their duty to state that before they would lend any more money they would have to liquidate some of those investments. Those are cases which do arise.

The Chairman: Yes; but those are individual cases.

Governor McDougal: Individual cases. I think as a matter of policy that the views expressed by you are the safe and sound ones for us to proceed upon.

The Chairman: We have had frequent occasion, during the past few years, to examine state banks and trust com-

panies applying for membership, and especially with the trust companies in our districts there has always been a tendency to buy bonds. I think it a very ~~mm~~ unwise tendency and far from good banking. We have frequently had occasion to point out to them that their bond investment account was too large and that we did not want to be called upon later on, when they became members, to lend them a lot of money, in order that they might invest it or even continue to hold investments, and we kept one important trust company pending as an applicant for admission for over two years. Then we made them increase their capital before we would take them in. But those are individual cases.

Now, a situation developed, as a result of liquidation in this country, where reserves accumulated, excess reserves accumulated which enabled the member banks which were borrowing from us, and non-member banks which were borrowing from their correspondents, who were in turn borrowing from us, to pay their loans off, and they very generally paid them. At one time in New York we were only lending our member banks \$30,000,000, from a peak of a billion ~~and~~ thirty million. When they had a surplus of

money and no loans to be paid they went out and bought something, particularly Government bonds. How can you stop that? Ho can you intervene and tell every one of 799 member banks in our district that they must not do that, because some day they may be an applicant for loans from the Federal reserve bank?

Governor Seay: There is one point which has not been touched upon here and which presented itself to our minds, and I emphasize my remark by reiterating what I stated at the beginning, and that was that I have come to the conclusion that it would be injudicious for Federal Reserve banks to initiate any steps to place control over member banks in investments, and therefore I feel at liberty to say what I do without any misunderstanding. The law limited the amount which member banks may loan to any one person. It does not limit the amount which member banks may invest in any one security.

Governor Calkins: Your interpretation of the Comptroller's ruling is that the law does limit it?

Governor Seay: I am under the impression that there is no limit by the Comptroller's office as to what amount



may be invested by a bank in any particular security.

The Chairman: I think there is. There is a state banking law in New York and New Jersey and Connecticut and New Jersey, and I thought there was in the Federal statute, limiting the amount of any one issue of bonds, except municipal bonds and government bonds.

Governor McDougal: A strict interpretation of the law would require the Comptroller of the Currency in case a bank had \$100,000 capital, to limit the loan to \$10,000. It would prevent their carrying \$5,000 in bonds in addition to a \$10,000 line of credit. I do not know what the tendency of the present Comptroller is, but I do know that for a long period of years those things were passed along without any comment or without any criticism except in very extreme cases. I do not believe, during my knowledge of this particular matter, that the Comptroller ever ruled formally that the two classes of loans should be combined in determining whether or not they had reached the limit.

Governor Seay: That was my own point of view and the question was whether any little bank that wanted to take the entire issue of county bonds, let us say, could

Governor McFougal: If there is nothing in the law which discriminates in favor of one class of bonds as against another--- I think the law itself, strictly interpreted, would make a distinction, but the Comptroller, in previous years, at least, has not paid much attention to the bond holdings of a bank. My observation has been that at least for the last twenty years, and probably long before that, the banks, particularly in the state of Pennsylvania, and I think there were outstanding cases to illustrate the point, during the greater part of the year usually have had a large amount of loanable funds over and above the amount necessary to take care of the requirements of their community, and that was true at the same time in New York and possibly in New England, and they formed a habit of investing, and properly so, I think, their available funds in bonds of various kinds, long before they got into the habit of buying commercial paper. That custom gradually extended to the west, and I presume to the far west, until now it is customary for banks in the Central West, at least, banks that have no other use for their funds, to invest them in bonds or commercial paper, and I think it is right that they should do it.

Governor Seay: To illustrate the point I make, we recently received an inquiry from a member bank asking if we would purchase all or any part of an issue of \$300,000 of county bonds---

The Chairman: Mr. Harrison calls my attention to the fact that Section 5200 has been interpreted to apply, as to limitations, to any bonds owned by a national bank, with the exception of United States bonds and bonds of <sup>some</sup> municipalities, which have been held not to be corporations within the application of Section 5200, and if the Comptroller's rulings have permitted violations of that interpretation, it is his matter, and the responsibility is his and not ours.

Governor Seay: That was the aspect of the case which presented itself in the most forceful way to us. I still maintain the conclusion which I have expressed, that it is injudicious for Federal reserve banks to attempt to exercise any control over the investment accounts of the member banks, except in the ordinary way in their dealings with member banks which come to them to borrow. If the bank's investment accounts are entirely too heavy and are evidently the occasion for heavy borrowing from the reserve banks, I think

that is a question of discretion in the reserve banks, further than that, according to my examination of the case, I would not like to go.

The Chairman: Gentlemen, my thought is, and I feel it strongly, as you have heard me say, that we do not want to heckle and harass the member banks any more than we absolutely have to in the conduct of our part of the business, which is to loan them money. If we get into the attitude of mind that we have got to go poking into their policies and affairs all the time we will make enemies of them and we will never make progress in getting a good spir/<sup>it</sup> into the system. I do not believe in doing it.

Governor Seay: I had expressed the same opinion, only in a different way. Conditions that surround institutions like yours, Mr. Chairman, are quite different from those which surround banks in other Federal reserve districts, and I cannot see how the matter can be dealt with other than by the use of discretion.

Governor Norris. The discussion seemsto have brought out the unanimous opinion that we should not ignore the investment holdings of member banks and the question is whether we should treat them in a broad way through another

authority, or whether we shall wait until the question comes up to us and then take upon ourselves the onus of saying to the member bank "You must sell those bonds that you have bought, without anybody ever having called your attention to the possible risk or danger or injudiciousness of your buying them--- you must sell them before we will lend you money.

Governor Bailey: But you will lend them money on eligible paper. What risk does the bank take when it comes to that, when a bank comes to you with a well secured piece of paper, what difference does it make if it has got a lot of bonds. When I look at his paper and find his paper secured and eligible, I would not ask how many bonds he had.

Governor McDougal: But that does not work in all cases. I am reminded of the case of an institution that was borrowing very heavily from us.

Governor Bailey: Oh, if it is overborrowing, that is another question.

Governor McDougal: No. The information received disclosed not only that conditions were not as they should be, but they were such as to give rise to the question as

to whether we were justified in extending the amount of credit we had already extended. The President of this bank came in and said that he wanted to borrow a large amount for the purpose of permitting his customers to buy lambs for feeding purposes, and demanded that we accept that paper for rediscount. He had, among other papers in his assets, a large amount of government bonds, bonds that were in amount far in excess of what he could ever expect actually to carry permanently in his institution, and we recommended to him that before he should seek further credit that he dispose of these government bonds, and that in any event, under the circumstances, we would not increase his line, even if the paper was prime and eligible.

Governor Bailey: That is an extended proposition. I had in mind a man who had bonds, we will assume, but did not owe you anything and came in with that lamb paper.

Governor McDougal: Then take it.

Governor Norris. Certainly. That isn't a case where the question arises. A bank in our district that has a seasonal demand for money in the summer got up about five times its basic line and we asked them to come in and explain the reason why they needed so much more than they

had ever been in the habit of borrowing before in that season, and their reply was that as a general rule they anticipated this demand and prepared themselves for it, but that last year, believing that the bond market was going up, when they were flush they put all their money in bonds, that the market was still going up and they didn't want to sell those bonds. But the cashier said to me, "If you say we should sell those bonds we will sell them."

The Chairman: Had he eligible paper?

Governor Norris: The paper was eligible, yes.

The Chairman: Do you think you were justified in taking the responsibility of telling him what he must do?

Governor Norris: That is just it. I wasn't going to take the responsibility. I said, "No, he would have to decide for himself whether he ought to sell the bonds or not; but I urged him, in another year, to follow his old practice and prepare himself for that demand and not tie himself up so that he would not be able to meet it when it came. That man had never had his attention called by any authority to the inadvisability of tying up, in permanent investments, funds that he was going to need within a few months, and my thought in bringing this matter

up was to avoid the necessity for our having to say to a bank, "You must do this or you must not do the other", by having their attention called by some other authority in a general way to the general practice of controlling that sort of thing.

The Chairman: Don't you think, Governor Norris, that it is going to lead us into very dangerous waters? This does not only apply to bonds. It applies to any business in a member bank to which we might reasonably raise objection.

Suppose for instance a man is running an illicit liquor manufacturing concern and you discover it? That principle of interference with direction of the affairs of member banks can be carried to any limit. I would like to refresh the memory of some of the people in this room by recalling the fact that many of the difficulties that we encountered last year grew out of these very attempts to tell the member banks what they should or should not do. Complaint was made that we were trying to direct their affairs. My theory is that as 50 to 75, or possibly a larger, percentage of all the credit transactions that we have had with our member banks, and as to the great mass of



member bank assets, so to speak, what they borrow from us, has been controlled and would be controlled by what we charge them for what they borrow, and as to the exceptions-- and there will be many of them--- the principal number of them will be in those sections where the disparity between the general level of rates in the district and the discount rate is so great that you cannot handle them by any other method except personal methods; but to attempt to introduce a policy of seeking to control the policy of every member bank when it comes to borrow by telling it what it must do or must not do is going to make a most bureaucratic institution out of the Federal reserve system; it will develop a lot of autocrats and the first thing you know we will have some retaliation of some kind, possibly in the form of legislation.

Governor Seay: For the record, I would venture to express the opinion that the investments of national banks in securities ought to be governed by law. I would like to give two or three instances of extravagant administration.

A bank with \$75,000 capital, with \$398,000 in promiscuous investments.

A bank with \$50,000 capital with \$324,000 in promiscuous investments.

A bank with \$50,000 capital with \$356,000 in promiscuous investments.

A bank with \$75,000 capital and \$221,000 in promiscuous investments.

A bank with \$50,000 capital and \$496,000 in promiscuous investments.

Now, whether in each individual case those conform to the requirements of Section 5200 I do not know. It seems to me, without intending any criticism, that the Comptroller's office is the place where such control as would make the banks conform to the statute should be exercised.

The Chairman: <sup>you</sup> Do you hope to have the Comptroller notify the national banks and have the examiners notify the national banks that he is going to make a new ruling in regard to these investments, and that he was doing so at the request of the Federal reserve banks? You know that you can cite instances in support of any argument. I can cite the case of the First National Bank in New York which, including Government securities, is carrying between \$180,000,000 and \$200,000,000 in investments. It is a pretty successful

bank and makes more money than any other bank in the United States, and at times it borrows as much as any bank in the United States, if it is profitable to them. If it is unprofitable and <sup>they</sup> don't make a break on the right side of their borrowings, they liquidate and pay us off pretty promptly. We have had occasion to say a great deal about this in New York in the last year, having been raked over the coals for not clubbing some of the banks more than we did. But I would like to continue the argument along a little different lines.

Picture the position of the average bank two or three years ago, say three years ago or longer, when this was taking place, and every two weeks we asked these banks to loan the United States <sup>000</sup> \$500,000, and for two of those weeks we asked them to loan \$750,000,000, and under a system by which they came to us to borrow money when the Government withdrew the deposits. Now, they had to borrow that money or immediately sell their certificates. Let us assume that they could sell their certificates in one way or another and gradually wriggle out of them in time. How about the bank that received a deposit from some private customer, when the government drew the deposits out from

the banks and they had to purchase the securities, why he gets the deposit and he is going to use it. He goes out and lends it or he may buy securities with it. What kind of control can the Federal Reserve Bank exercise there, except in the last analysis, and tell the first bank not to buy government securities--- you see, that is the only way we could reach them, and that is where we split with some of the people in the Treasury Department, because they did not recognize that.

There is one other topic, of rather minor importance, that has just come in. The suggestion has been made that a change be made in the form of weekly report which is published by the Federal Reserve Board and by the separate Federal reserve banks, so as to separate the non-reserve cash from the other items that now go into that particular item, which I believe include at the present time uncollected items and some other matters, the idea being that if those two are separated to show non-reserve cash as one item and uncollected items as another, it will give us a better understanding of the cash position of the reserve banks and of the amount of float that is being carried by the Reserve system. This seems to have been referred to

us by the other Conference--after they had approved of the change.

Governor Calkins: Mr. Chairman, I would like to give notice that I propose to bring up for discussion a topic not on the program--- pensions.

The Chairman: That will come up later. Shall we not dispose of this? What is your view about it.

Governor Young: I make a motion that we approve of this suggestion.

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

The Chairman: The Chair will now entertain a motion to adjourn.

(Whereupon, at 1:30 o'clock p. m., on motion duly seconded, the conference adjourned until 2:30 o'clock p.m. of the same day.)

#### AFTER RECESS.

The Conference of Federal Reserve Governors reconvened, pursuant to the taking of recess, at 2:30 o'clock p. m.

The Chairman: The meeting will come to order.

I am asked to announce that the hour for the joint meeting

tomorrow morning is ten o'clock, in the Board Room.

Governor Calkins, you have announced a topic which you desire to bring up, that of pensions. The topic is not on our program.

Pensions.

Governor Calkins: As to whether it will be necessary to give much time to the discussion of this matter will depend on whether there is any interest in the question. I do not know whether there is or not.

My own view is, now that we are talking so seriously about economy and efficiency, that we should adopt all of the best means to promote efficiency and economy, and that there is no single item that would be more effective than the establishment of a pension system for the Federal Reserve banks. I think the inevitable consequences of a decline in the activities in all the banks, the decrease in the forces of all the banks, has been an inevitable demoralization. I know it is true with us, and I believe there is nothing that we could do that would go further to promote efficiency and economy than to offer some assurance to our employes of the security of their employment, such as will be brought about by a proper pension system.

Now, I suppose the answer will be that while that is

all very well, we cannot have it, and I suppose if it is true that we cannot have it, that we might as well stop talking about it or considering it. But I believe that the proposal to adopt a pension system can be supported on absolutely good business judgment and that it should be heard.

I would like very much, Mr. Chairman, to hear whether anyone else here has any interest in this matter or not.

Governor Fancher: Mr. Calkins, this pension matter was discussed rather briefly with Mr. Kenzel, who, as you know, is the Chairman of the Pension committee. I guess the Governors are pretty well advised as to how far that plan was developed and just where the matter rests at the present time. It got to a point where it was necessary to get a bill through Congress, and it never has seemed to be an opportune time to have the bill introduced. Of course, as time goes on it becomes a great question whether the amount which the banks would be required to put up under the plan proposed is not such a large amount that it might not be necessary to devise some other scheme than the one we have been working on.

Governor McDougal: As a member of the Pension Commit-

tee, I will say that Mr. Kenzel discussed this matter with me and called attention to one fact, that because of this delay entry into the plan as devised was becoming more and more expensive if it was to be retroactive, and that that was a problem that would have to be considered when the matter came up again if it ever did come up.

Governor Fencher: I am afraid it would be almost prohibitive.

Governor McDougal: The pension Committee has not been asleep at all, but for the reasons stated by Mr. Fencher it has been inactive, because of the time not being opportune.

Governor Calkins: The fact that Governor McDougal has just mentioned is one of the things I had in mind when I proposed this discussion. Every day that passes makes it more difficult to establish any adequate pension system, and the more opposition will be encountered.

Governor McDougal: It will be more difficult to enlist employe membership because they have a big bill to pay, which some of them cannot pay.

Governor Calkins: It will be more difficult to get the bill through Congress because of the large amount that



the banks will have to put. It seems to me, not speaking too closely, that we might as well say now or never, or something to that effect.

The Chairman: I would like to ask if my recollection is correct, Governor McDougal, as you are on the committee; that is, that when the matter was investigated by Mr. Curtis and others it was found that legislation was absolutely essential to the establishment of the plan.

Governor McDougal: There was no question about that.

The Chairman: And a written opinion was given to that effect?

Governor Fencher: Yes. It was gone into very carefully, Mr. Chairman, and it was decided that it was absolutely necessary to the scheme.

Governor Calkins: The matter was never passed upon by the Federal Reserve Board.

The Chairman: No; it was a legal opinion, that we haven't the power to do it under the law.

Governor McDougal: The point involved was this, that a pension fund, to be made permanent or dependable, would of necessity involve contribution on the part of the bank itself, and for that part of the contribution we would have

to ask special authority.

The Chairman: My recollection is that a bill was prepared and very carefully examined by Senator Smoot; that after changes were made to meet his views, he was ready to introduce it; that then he suddenly advised that the time was inopportune, that the bill would certainly not go through and advised abandoning it at that time. Mr. Curtiss told me some time ago that he had seen Senator Smoot --- it wasn't very recently, but possibly six months ago--- and had asked him for an expression of his views as to whether the time had arrived to take it up, and he said no, that he did not think it had.

Governor Calkins: The opinion, as I recall it, was applicable to the proposal that the pension system be made retroactive, which involved contribution of a large sum by the banks. As to whether any other scheme was considered or not I do not know. Some other scheme might be considered.

Governor Day: I think the reasons which existed for the organization of the pension fund at the beginning are just as cogent now as they were then, and I think the idea ought not to be abandoned. It is, of course, probable that

we would have to abandon the retroactive feature of it and start afresh. It may be, and I believe it is, perhaps an inopportune time to do it. I have no idea, if it required legislative action, that we could get it through.

The Chairman: Don't we all recognize that it would be almost hopeless to expect Congress to give us legislation that was contemplated by the former plan? If so, must we not then refer the matter back to the old committee for the purpose of ascertaining whether some plan cannot be substituted that would not require legislation?

Governor Calkins: That is a part of what I had in mind. It seems to me that if it is determined that we cannot establish the system plan devised without legislation, and that we cannot get legislation, that we ought not to abandon the idea of an adequate pension system, but ought to endeavor to devise something that can be put into operation.

Governor Mellborn: Have you ever had a legal opinion as to whether or not the banks could do that under the present authority, under the general powers of legislation, and so forth. Other banks have systems of that kind.

The Chairman: Yes, but they do not pay this tax to

the Treasury that we do.

Governor Wellborn: But they have general power to do things that are not inconsistent with banking.

The Chairman: Certainly the previous plan, the plan in the form in which it was developed by the committee, as we have been advised, required legislation. Now, whether some plan that did not require an appropriation by the banks for lapse of time in the service, can be devised is another question. I do not know. I expect we would have to get the committee and their advisers together to review the matter.

Governor Calkins: It seems to me that a plan, not retroactive, to be sure, might be devised, by which the contributions to establish a pension fund might plainly be a part of the compensation of employees for whose benefit the fund was established, and that it might not require any special legislation. If we cannot have a good compensation system we should have one less good. That is the net opinion that I have. I am, of course, entirely unable to say as to whether it would be possible to get legislation through Congress now or in the near future. That is a mere matter of opinion on the part of everybody. Senator

Shoot, I think, was fully convinced of the soundness of the idea at least and was willing to support it. What his view would be now, of course I do not know.

Governor Seay: I move that the question of pensions be referred back to the Pension Committee with a view of making a study of the matter and reporting whether or not a practical plan can be devised and put into execution.

Governor Wellborn: Without action by Congress?

Governor Seay: Leaving it up to them.

The Chairman: Does that meet your point, Governor Calkins?

Governor Calkins: I suppose so. It seems to me that the Committee should not be advised by resolution to dismiss the proposition of getting an act through Congress if necessary.

The Chairman: This resolution will not do so.

Governor Calkins: That is all I am after.

Governor Young: I second the motion.

Governor Calkins: We should not pass resolutions on the subject, unless there is an active interest in the matter on the part of the Governors of the Federal Reserve banks. We won't get anywhere unless we are all very desir-

ous of seeing it get somewhere.

Governor McDougal: There has been plenty of active interest on the part of the committee, Governor Calkins. This plan that was worked out was worked out after very careful and long study of the whole situation and it involved considerable expense. I think a lot of matter they have would still be helpful, even though conditions have changed. The Committee's efforts, when once they were well started and had secured expert advice, were devoted entirely to the object of developing a plan which would be retroactive and would date back to the time when the banks were started. It may be possible, at least, if they had had a desire to do so, that they might have found some plan by which we could have started a pension plan at the time they began negotiations, without encountering the difficulties that were encountered in asking the banks to contribute seven million dollars.

Governor Calkins: There is one insignificant reason that is sufficient reason for continued interest in it, and that is that we have expended some \$30,000 in the matter, and to simply let it drop without any further action is utterly without justification.

The Chairman: We have a very good committee. I have had opportunity to discuss the merits of the plan with some people who have had experience with those matters in New York, and they tell me that it is the most complete study and the best plan that has been produced, in their opinion, and that it was something of a national service if the organization would promulgate that plan, because it would be universally copied by other large institutions adopting pension systems.

Governor Calkins: It will not be universally copied if it goes into the wastebasket.

The Chairman: Suppose we ask that committee to take it up. I think that motion was seconded.

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

The Chairman: We will now again listen, for the benefit of the record, to the report of the Committee that waited on the Comptroller.

But before taking that up, let me say that since we discussed this question of a sustaining membership in the American Acceptance Council, Mr. Harrison has ascertained from Mr. Kenzel that every Federal Reserve Bank is now paying an annual membership fee of \$100. The proposal is

simply to make this a special arrangement for a sustaining membership by the reserve banks for this year only, with a proposed fee of \$500.

Now, Governor Norris, we have waited for your return to hear your report of the committee's visit to the Comptroller, in order that the record might be complete, and that those who were not with us at luncheon today might hear the story.

Governor Norris: Mr. Chairman, your committee begs to report that it met the Comptroller and advised him that while the committee had been empowered to conclude an arrangement with him on behalf of all the Federal Reserve Banks, that the sentiment had been unanimously expressed in this Conference of Governors, and also in the Conference of agents, each acting separately and without knowledge of the other's action, that we could not agree to make any payment on the basis of taking care of the deficiency in the expenses of his department, that we could only consent to pay for the reports on the basis of the cost to him of furnishing the extra copies of the reports, that we felt the cost should be calculated on the basis of the number of sheets or pages furnished, and that in order to avoid



detailed calculation we were willing to assume that the reports would average thirty pages and that we felt ten cents a page or \$3 a report, would compensate his department for the extra expense. The Comptroller stated he doubted whether ten cents a page would compensate him, considering the general slowing up in his process incident to making the copy of tabulated matter, where it was important that figures should be put in on the exact line, and so forth, and suggested that a figure of 15 cents a page, or \$4.50 a report would compensate for the cost, and your committee agreed to that basis of compensation.

He further stated that he would not object to the managers of the branches being furnished with these reports where it was necessary for the proper management of the banks.

The new arrangement is to date from this date, settlements up to this date to be made on the old basis, and the arrangement is to be subject to the discussion or revision at each semi-annual conference.

Governor Calkins: May I inquire whether the payment is to be \$4.50 for each report?

Governor Norris: Yes.

Governor Norris: Regardless of the number of pages?

Governor Norris: Yes.

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

Governor Norris: Yes, unless I have omitted something, Governor Seay?

Governor Seay: I think the report is quite complete, sir.

The Chairman: Gentlemen, we gave carte blanche to these gentlemen and they have reported what they have done, but I suppose it will be comforting to them to have it ratified by the Conference. What is your pleasure?

Governor Young: I move that their action be ratified.

Governor Bailey: I second the motion.

The Chairman: Is there any discussion? If not, the motion is that the action of the committee on behalf of the conference be ratified.

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

The Chairman: Governor Norris, will you and Governor Seay be willing to make a written report to go into the record, in case you find that what you have reported is in any respect incomplete, so that we may have something to

refer back to?

Governor Norris: Certainly, Mr. Chairman.

The Chairman: Now, gentlemen, I think Mr. Gilbert will be here a little earlier than we anticipated and possibly we might make some progress by a preliminary discussion of the topic under No. 5, fiscal agency operations. We have already disposed of No. 2 on the supplemental list, and the first topic under fiscal agency operations is

A Payment of savings stamps and certificates due January 1, 1923.

This topic was suggested by Boston and we would like to hear from you, Governor Morss.

Governor Morss: Mr. Chairman, we got to thinking about the machinery that would be necessary to set up to pay off these savings certificates coming due January 1, five or six hundred million dollars in all, and \$44,500,000 estimated in our district. Looking the matter up we found that the circulars issued on these certificates stated that they would be paid primarily at the Post Offices. It did not appear to be, under the rules laid down at that time, that there would be very much for the Federal Reserve banks to do, but at the same time we could not but believe that the Federal Reserve banks would have to take a hand

in it, if for no other reason than if payment for such a large amount would be demanded in cash, it would take a great deal of money in cash, and that the reserve banks would have to do something in the way of furnishing that cash to the post offices. It seems to us to be quite a job to furnish a sufficient amount of cash to some 3,000 post offices, more or less, in New England alone.

The Chairman: They are only cashable at money order post offices.

Governor Norris: Yes; it isn't as bad as I stated, but it is bad enough. I talked to Mr. Gilbert about this once or twice, and he got interested in the subject and wrote me some time ago that the Treasury Department was in consultation with the Post Office Department as to just what was to be done and how the arrangements were to be made, and that probably the reserve banks would be called in to play some part in it, and I think he stated in that letter that when the arrangements with the Post Office were completed he would let us know what they were.

Since then I have of course said nothing to him about it and I do not think there is very much to say now, unless he feels that he would like to report what he has done

and what he proposes to do about it. I would not want to do more than ask him if he wished to do that. Doubtless we shall hear something before January 1, anyway.

The Chairman: We feel a good deal of concern in New York about the way the thing is to be handled. I would estimate, roughly, that a million and a half people in New York have these certificates and stamps, in New York City alone, and I would not be surprised if it ran over that; but at the very minimum it must be a million people. Every family, all the children in all these families have them. We cannot ask anyone that hasn't got them, and I have taken the trouble to ask right and left and I find that everyone owns some of them. How they would handle any such crowd of people as that, if not more than ten per cent of them turn up at any place in one day, is a problem beyond anything of the sort that has ever been attempted before.

Governor Morss: I believe they have the right to ten days' notice at the post office, that they would have ten days within which to pay them, even if demand is made on January 1.

The Chairman: That only multiplies the difficulties. If you have proper facilities and organization to get them

in and get them away in one day you cut the work in half.

Governor Seay: That is ten days before maturity, is it not?

Governor Young: Would it not be possible to have the secretary of the Treasury issue some sort of announcement that any bank or trust company in the United States would be prepared to cash these?

The Chairman: They are working on that now, I understand.

Governor McDougal: The department is trying to work out a plan now whereby these can be presented at any bank or trust company, but that would have to do with those that are not registered. The registered certificates, the number of which I do not know, would have to be handled in some other way, I suppose.

Governor Young: Aren't they all registered. On the stamps the owner's name is registered on the card. It isn't registered in Washington, but these stamps have got to be placed on a card, and the outside of the card has the name on it.

Governor McDougal: There are two classes of certificates, those that are registered and those that are not

registered.

Governor Young: All certificates are registered, but the stamps are not registered, except in the way that I have described.

The Chairman: They are registered so that they will only be paid to the registered holder, and they may be only paid at the post office where they are registered.

Governor Morss: All certificates issued under the regulations are supposed to have the owner's name right on the face, written on there by the issuing agent. This regulation precludes any change or comparing the signature appearing on the receipt with that on the face of the certificate. There are all sorts of difficulties, so innumerable, both as to the payments and the people to be dealt with, that an ordinary run on a savings bank or any other kind of bank that was ever heard of wouldn't compare to it.

The Chairman: We had a part payment scheme on the last three loans in New York, where they made weekly payments with stamps. We rented part of a building up on 44th Street, with windows placed as close together as we could conveniently place them, and they made a line probably as long as one side of the Treasury building. We had two

floors, and running at full capacity, with all these windows going, the maximum that they were able to handle in a day was 35,000 people, and they had it down so fine that it only took 15 seconds to make a transaction at a window per person. They had men with stop watches timing them and speeding them up. Now, if we had to have an organization like that to handle a maximum load of 35,000 people per day--- and we had to have interpreters; many of them do not speak English; we had men up there speaking all kinds of languages--- how are we going to be able to handle all these people at once when they come in? I do not know how it is going to be done in New York city. It is a colossal problem.

Governor Fencher: These certificates, if not registered, are payable at any money order post office, and on January 1, 1923, at the Treasury Department at Washington, and if registered are payable only at the post office where registered. No post office, however, is required to make payment either on January 1, 1923, or at any other date until ten days after receiving written demand therefor.

Governor Morss: That prevents them from becoming actually overdue, if they are not paid on that date.



Governor Seay: I would like to ask if we have been asked by the Department to work out a plan, or if we are anticipating calling the attention of the Department to the fact that it is necessary to work out a plan?

Governor Morss: Mr. Gilbert says that the Treasury Department is in consultation with the Post Office Department.

Governor Seay: The point I make is that it is primarily the concern of that department to work this plan out.

Governor Morss: Oh, certainly.

The Chairman: Governor Seay, this provision that they are only payable at the Treasury is only a technical provision and never was intended to be enforced. It is of equal significance with the fact that every check drawn against the United States is payable at the Treasury in Washington. We do not make final payment at the Federal reserve banks. We are the fiscal agents but we simply take the money out of the account and get final payment in Washington. The fact is we have been in correspondence with the Department for the last three or four months and have had many talks about it, and we were led to do so by our concern lest, at the last minute, the Treasury Depart-

ment, without perhaps full consideration, might ask us to undertake some plan for which we did not have adequate facilities prepared. Of course as fiscal agents for the Treasury it is natural that they should ask us, and we certainly have got to go so far as to furnish the post offices with the money required. I do not know from what other source of supply the Post offices could get the funds. The New York post office now deposits its principal revenues with us and we would be their principal source of supply of cash.

Governor Norris: I think one danger of the situation is that if the Postmaster General, for example, reports to the Treasury that the Post Office Department will cooperate in every possible way, the Treasury may rely upon that, and war savings organization reports that very little cooperation can be expected from a great many of the post offices; that the postmasters seem to take the attitude that this is something that never has given them anything but a lot of trouble and that their regular duties are more than they can handle. Therefore even instructions that come from the Postmaster General probably will not be generally heartily observed.

The Chairman: That should be brought up when we are discussing this with Mr. Gilbert, Governor Norris. Are there any further suggestions for the discussion of this topic? If not, we will take up B.

Allotments on subscriptions to new issues of Government securities to banks and others.

It is recommended that the Treasury be requested not to make allotments to reserve banks until subscriptions are closed and the total amount known, and then to make allotments on the basis of the total subscriptions received by each reserve bank on an exact percentage basis, in order that the Federal reserve banks may in turn make allotments on a sliding scale, allotting the smaller subscriptions in full.

Governor Norris: You are proposing a change?

The Chairman: I think the change has already taken effect, officially.

Governor Young: In order to get this started I will move that the Treasury be requested not to make allotments to Federal reserve banks until the subscriptions are closed and the total amount known, and then to make allotments on the basis of the total subscriptions received by each Federal

reserve bank on an exact percentage basis, in order that the Federal reserve banks may in turn make allotments on a sliding scale, allotting to smaller subscriptions in full.

The Chairman: Or on some other basis. I do not think it is intended to be too specific, but that the allotments be made after subscriptions are closed.

Governor Fancher: That would not admit of the reserve banks making allotments to subscribers after the subscriptions were closed?

The Chairman: That is right.

Governor Fancher: It would hold the whole thing in abeyance?

Governor Norris: would not this put a premium on padding?

Gov. Fancher: Absolutely.

The Chairman: Haven't we had that anyway?

Governor McDougal: That padding has been cut out.

Governor Morss: wouldn't it encourage it if we did this?

Governor Seay. would it not result in concentration of certificates in this districts which made the largest subscriptions, and would it not interfere with the more

general distribution of the certificates? The way we feel about it is this. After much tribulation we have come to an understanding with the subscribing banks in our district which is satisfactory and they are prepared now to accept our conclusion or dictum and we would not like to see the present plan disturbed.

The Chairman: The difficulty encountered in New York, which led to this suggestion, which I think was originally the proposal of some other reserve bank, is something like this: On the recent issue of certificates, as I recall, we had something like 300 subscribers who were not banks and who were not allotted one certificate simply because the banks got there first. That means we do not get as good a distribution as we would like to have of these certificates, and we were derating the primary method of offering government securities, which was that they shall be popular loans; and we managed to work out a scheme under which on that particular allotment they got ten per cent of what they had applied for. But it does seem unfortunate that when an issue of certificates is made that we have some hundreds of subscribers who cannot get them at par because of this method, but when they go to their

banks to get them they must pay a premium for them.

Governor Morss: We got tabulated results on 20 or 30 banks, and they did not any of them sell them to their customers at a profit, at least at the time they were issued, and when they were going issues, popular issues, attractive, I think about two-thirds of those were delivered to customers at the par price, and when the issues were not so attractive the banks kept some of them.

The Chairman: They had to.

Governor Morss: They did not distribute as well. But our banks, especially the biggest banks, when they are attractive have such demand for them from their own customers, many of which are renewals or those which have matured, that if they could not get them and sell them to those customers at a profit they would not stand for it.

Governor Norris: That is the situation in our district. In fact some of the individual subscribers will put in subscriptions at several banks where they have accounts; they make careful note of the proportion they get from each bank and make a terrible kick to the bank from which they get the smaller proportion. I do not know whether it is true or not, but some of our banks claim that they pay

a premium for certificates to give them to their customers at par, to hold their accounts.

Governor Fancher: In the last three or four months, maybe longer than that, we have made tentative allotments--- we have the trouble that Governor Norris speaks of, where one subscriber would make subscriptions in several banks and get a different percentage. Then we adopted the plan of taking the resources of the banks, we set up a percentage of the total resources of the banks and make a preliminary allotment, and then we make a second allotment when we get the certificates all in.

The Chairman: Does that work?

Governor Fancher: It worked then. We allotted in full to the fellows up to \$10,000, and we have had no complaint because we can defend that.

Governor Beay: That is our identical plan.

Governor Fancher: It is giving good satisfaction now.

Governor Morss: You do that in New York, do you not?

The Chairman: Yes.

Governor Morss: We have always done it and we have got our banks now so that they will subscribe as much as we tell them they can have, because we have told them that

the Treasury did not want a padding of subscriptions, but wanted to keep them down because of the bad effect, and because sometimes they were not a true measure of the demand.

The Chairman: Pardon me for interrupting, but if we are all satisfied with the present basis, I will be glad to withdraw this from the program, because we can wriggle along in New York all right. There was quite an urgent request for this a year ago at the meeting, and a number of the Governors urged it quite strongly.

Governor Fancher: Our present plan is most satisfactory. It has removed the incentive for padding.

Governor McDougal: You did have a little difficulty in Pittsburgh once?

Governor Fancher: Yes, but we had this scheme in effect and could defend it. They claimed they were being discriminated against and that is where they were wrong. Everybody is getting the same deal.

Governor McDougal: I would like to read one paragraph relating to this subject:

"Under the present system of allotting subscriptions of Government securities, which is based on the total re-



sources of all banks in each of the Federal Reserve Districts, each bank knows definitely in advance that it will receive a certain amount of certificates being offered, and has therefore been able to prevent padding of subscriptions. On the other hand should each Federal Reserve Bank be allotted an amount of certificates based on the ratio <sup>that</sup> their total subscriptions bears to the total subscription for the United States there would be every incentive to pad subscriptions in order to secure a larger amount."

Our experience has been quite the same as that reported by Governor Fancher and we are sure that we have avoided this padding of subscriptions. It is working well with us, and we also have a plan by which the small subscribers are protected in full. Whether it is \$10,000 I am not so sure.

The Chairman: We had the idea that it was working beautifully, but they swamped us on some of these new issues.

Governor Morris: The minimum amount for each issue may be fixed at \$10,000 or it may be \$25,000, depending on one or two things, like the size of the issuance--- if you have an issue of \$150,000,000 or \$200,000,000 the minimum amount is smaller than it is if it is \$500,000,000. And

it depends on the popularity of the issue. It is a matter of judgment that varies from time to time.

Governor Norris. If we have a moment more to devote to this matter there is one question I would like to raise. The system we are following is the same as that which is described in several other districts and is perfectly satisfactory, but in the last few issues we have had a new element to deal with. A number of the banks received complaints from pretty large customers, customers who are large subscribers, and they said to those customers, "Well, if you are not satisfied with what we can give you, put your subscription indirect and see how you fare them. We have had subscriptions of \$200,000 or \$300,000 from quite a number of large corporations, as individual subscriptions.

The Chairman. We have had many millions coming in that way.

Governor Norris. We have not had millions, but we have had quite a number. We have had very few up to the last few issues. But owing to the condition I have described we have had quite a number of these subscriptions from \$100,000 to \$500,000 each, and you have no resources to guide you in making an allotment there, and your minimum

of \$10,000 or \$25,000 does not apply to them, because they are way up above it.

Governor Morss. But it discourages them terribly.

Governor Norris: It is a hard question to know what is the fair thing to do with a steel company or locomotive company or some other concern that puts in a subscription for \$250,000. If a bank subscribed to \$250,000 and is allotted \$60,000, for example, another bank of larger size puts in a subscription for \$250,000 and is allotted \$100,000. Then what should the individual who subscribes to \$250,000 be allotted?

Governor Morss: The minimum amount.

Governor Norris: That is treating him unfairly, because as Governor Strong has just stated, the Treasury desires to get a wide distribution of these certificates among bona fide investors, and I think a bona fide investor, when you know that he is one, is entitled, if anything, to a preference.

Governor Morss: As I say, the examination which we made tended to show that the bona fide investor got those at par.

Governor Norris: But he didn't get anything like what

he wanted.

Governor Morss: If we have only \$17,000,000 to divide, and they would take two or three times that, they couldn't get it.

Governor Norris: Then you discourage individual subscriptions?

Governor Morss: Yes. If we do not we cannot do anything with our banks.

Governor Norris: In the case of the concerns that I have referred to, which subscribe for \$250,000, they would get \$25,000, whereas if they put the subscriptions in through the banks they would probably get a hundred or a hundred and thirty thousand?

Governor Morss: We do not know that they do not do that anyway. They may put it in two or three banks, for all we know.

Governor Norris: That may be true, except that the cases I speak of arose principally at Wilmington, and we notice that when these large individual subscriptions from Wilmington came in, that the subscriptions of the Wilmington banks went way down.

The Chairman: The Treasury of the United States

today is offering large amounts of securities which are desirable investments and which subsequently sell at a premium. Through the twelve reserve banks and their branches, there are twelve different methods of arbitrary allotment, or more or less arbitrary; and the principle is wrong and would be difficult to defend in case attack were made upon it.

Governor Norris: I think the only alternative is for the Treasury to make the allotments itself, and I suppose that is mechanically impossible.

The Chairman: Of course, during the war on all bond issues we had an exact mathematical rule applying on all subscriptions, which was scrupulously observed; but there we were taking all the subscriptions that we could lay our hands on and we were very glad to get them. Now we are simply swamped with subscriptions for some of these issues, and what I fear is the possibility of some kicker making an attack upon this rather arbitrary method of allotment.

Governor Norris: That, of course, is a danger. It has been discussed several times in the group conferences. I remember a very full discussion in the New York bank, when you were away. Mr. Gilbert was over there and we discussed it and all these difficulties were presented and

threshed over, and after the little incident which my charity prevented me from alluding to, which happened in a contiguous district to ours---

The Chairman: I didn't allude to it if I wasn't there. Do you mean that I alluded to it here?

Governor Norris: We called a meeting of all of our large subscribers and told them what our system of distribution was and invited and urged them to give us the benefit of any criticism that they had to make or to suggest any alternative method of doing it or any improvement that they could in the existing method, and after about an hour they adopted a resolution saying that they were perfectly satisfied with our present system, and that if we adopted any new system they pledged themselves in advance to be perfectly satisfied with that.

The Chairman: Now, gentlemen, I am quite willing to withdraw this topic from the program, as we have discussed it pretty thoroughly.

Governor Young: I will withdraw my motion, Mr. Chairman.

The Chairman: Very well; without objection that action will be taken.

The next topic on the program under fiscal agency operations is C.

Permanent records of source of all Government securities.

The recommendation under that is. That the Treasury be requested to reconsider its instructions regarding reserve banks keeping a permanent record of the source from which all Government securities are received and to waive this requirement.

Governor Young: I should say that we should continue to keep these records, and I am not in favor of that recommendation.

Governor Wellborn: Our bank is in favor of the recommendation, Mr. Chairman, and also in favor of your allotment proposition.

The Chairman: What do your people say about this, Governor Seay?

Governor Seay: About keeping the records?

The Chairman: Yes.

Governor Seay: We are afraid not to, and we believe the Department will not give us permission not to keep them.

The Chairman: Do you keep these records, Governor

MORSS?

Governor MORSS: Yes, we do. We had some correspondence with Mr. Gilbert about it. I think he rather insisted that we should keep them, or at least that we should be prepared to do certain things or give certain information, which we could not do if we abandoned keeping them.

Governor Biggs: We have found comparatively little need for the records they ask us to maintain and we dislike very much to keep them. It would mean an additional expense and burden.

Governor Fancher: We do not keep them as fully as the Treasury would like to have us. If we do it the way they would like to have us do it, we estimate it would be an additional expense of about \$6,000 a year.

Governor MORSS: Let me read this paragraph from the letter from Mr. Gilbert.

"Accordingly, hereafter, in handling fiscal agency transactions for the Treasury, Federal reserve banks will maintain such records as will show, with respect to any United States coupon bonds or certificates of indebtedness received or delivered by them in fiscal agency transactions,



the source from which any such security is received and the bank or other person to whom any such security is delivered. The exact form of such records will not be prescribed by the Treasury, but record must be established on such a basis that the information in question may be furnished upon request of the Treasury or upon request of any person entitled to receive it, provided a description of the security is given, and in case of surrendered securities reference is made to schedule transmitting such securities to the Treasury. In other words, Federal Reserve Bank records must be adequate for this purpose without further reference to identifying notations, marks or symbols placed on the securities presented, and that in due course such securities will be destroyed."

We have always had the records and we do not want to be without them.

Governor Calkins: We are not keeping a record that would meet the requirements of the Treasury as stated in that letter and we agree with New York that we should not be required to keep such a record. We have a kind of record, as everybody has.

Governor McDougal: We are not keeping them, and on

receipt of this letter from the Treasury Department we gave consideration to the matter and advised the Treasury that it would be very expensive, and asked them to reconsider this order, stating the reasons why we thought they should do it. I believe we have heard nothing more from it.

Governor Norris. We keep the record chronologically but there is no index to it, so that it is of very little value unless, upon subsequent inquiry, they can give us the date or approximately the date of the transaction that they want inquired into.

Governor Young: We do keep them.

Governor Bailey: We keep them.

Governor McDougal: I should like to endorse the recommendation of the New York bank with respect to this.

The Chairman: The reasons for the recommendation submitted by the Department in New York are that at present all securities received bear an identifying number from which the source of receipt can be ascertained at any time before the security has been destroyed. The Treasury holds canceled securities for at least two years before destroying them, and the matter is open to inquiry in the case of loss of Government securities before the expiration of two

years. If the record is kept just as specified, it will mean double the amount of work in listing and checking and the very slight use to be made of such a record would not seem to justify the cost.

Governor Seay: We would like to be relieved of the responsibility of keeping that, and we think that they should leave the decision with us as to whether we should keep them or not for our own protection. We would like to be relieved from being required to keep them.

The Chairman: We will discuss this matter with Mr. Gilbert. It seems to be a matter more for discussion than action.

Governor Norris: What is the practice with regard to keeping all papers and records. I am not speaking of fiscal agency functions now. For example, cash letters, are they kept now indefinitely in the other banks?

The Chairman: We have a regular schedule, Governor Norris, and the length of time that each various class of records is kept depends entirely upon the schedule, but I cannot tell you from memory what it is as to any particular item. All those matters are regulated by a schedule.

Governor Norris: And after a certain time they are

destroyed?

The Chairman: Those pertaining only to the bank's business are destroyed after a certain time, but all records relating to fiscal agency matters are preserved.

Governor Seay: we have classified all of our records. We keep some of them a specified time and another class we keep a different length of time and another class and so on. we have made up a schedule, in consultation with our counsel, and we destroy records according to the schedule.

Governor Fancher: That is what we do.

Governor Morss: I do not think we have destroyed any yet. We have plenty of room to store them.

Governor Norris: we haven't destroyed any yet, but our present storage facilities are nearing their end.

Governor Morss: we have plenty of room, and when it is used up we will have to provide other means.

The Chairman: The last topic is on the question of payment on presentation of coupons attached on called Victory notes.

D Payment on presentation of all matured Victory coupons regardless of whether the notes from which detached have been paid or not.

New York recommends that the Treasury be requested to

reconsider its instructions with regard to the handling of coupons from called Victory notes, and to authorize Federal reserve banks to pay all matured coupons on presentation.

Governor Beay: We concur in the recommendation here set forth.

Governor Fancher: So do we.

Governor Young: We do also.

The Chairman: There are six separate and distinct arguments in favor of this recommendation if you care to hear them. I do not know whether they are of sufficient interest or not. Does anyone care to express their views as to this topic?

Governor Walkins: I would like to have an answer to this suggestion. The Victory Loan coupons maturing <sup>which</sup> may 20th bear symbols A, B, C, D, and E, may not be redeemed but must be forwarded to the Treasury of the United States. A ruling is necessary because these Victory notes were called for redemption on December 15th, and in case the May, 1922, coupon is not attached to the note the Federal Reserve Bank must deduct the amount of the coupon from the face of the note in redeeming it and credit the Treasury for that amount. In this manner a fund for redeeming such detached

coupons is established and the Treasury will only redeem such coupons from that fund. It is difficult to see how any other procedure from that suggested by the Treasury Department could be set up.

The Chairman: Is that the result of some correspondence with the Department?

Governor Calkins: No, that is obiter dictum.

Governor Fancher: That is in the Treasury Circular 277?

Governor Morss: The notes, when paid, if the coupon is detached, the amount of the coupon is deducted; but the fund is accumulated with which to pay the coupons, and therefore they can be paid when presented.

The Chairman: We will take this matter up when Mr. Gilbert is here and get an expression from him about it.

You will recall that we passed one topic, submitted by Governor McKinney, on account of his absence. I have a telegram from which which I will ask Mr. Harrison to read.

"Subject two topic D endorsements on checks received for collection are uniform in all twelve Districts except New York and Minneapolis. Do not guarantee prior endorsements and St. Louis uses restricted endorsement containing

the words for collection remittance although St. Louis does guarantee prior endorsements. The importance of having uniform endorsement and uniform liability throughout the system is manifest. In view of fact that regulation J of the Federal Reserve Board clearly makes ~~the~~ us only an agent for handling checks for collection and we acquire no property rights or ownership in checks so handled, should we use an unqualified endorsement guaranteeing prior endorsements and warranting the other things referred to in the negotiable instruments act?

"My opinion is we would have difficulty in getting our member banks to accept checks drawn on them unless we used unqualified endorsement guaranteeing all previous endorsements. In view of that fact and further one that our liability is more or less negligible and apparently would only represent loss in cases where we did not have solvent or going bank to fall back on I think we should continue to use the form of endorsement now used by majority of the banks and am only bringing this point up in order that we can have discussion of our legal position.

McKinney."

The Chairman: I would also like to place in the record another telegram received from Governor McKinney with reference to Subject 2, Topic B.

"Subject two topic B approximately eighty per cent of collections handled by us are received from reserve city members and balance are divided between other Federals and country members of this district. In 1920 Dallas handled 18,000 items Houston 6,000 and El Paso 4,000 Total 28,000.

1921 Dallas 55,000 Houston 20,000 and El Paso 8,000 total 83,000.

1922 estimate for entire year based on number items handled to date Dallas 80,000, Houston 27,000 and El Paso 12,000, total 119,000.

Estimated cost for 1922; Dallas \$18,812.64, Houston \$5,098.08 and El Paso 3,783.84. Total 27,694.56; approximate cost per item 23 cents.

McKinney."

Governor Watkins: The telegram with regard to Subject 2, Topic D, should be referred to the collections committee, should it not?

The Chairman: Yes, and it will be so referred.



Governor Young: Mr. Chairman, I would like to have you go around the table and discover what the Federal Reserve banks are going with regard to employing collection agents.

The Chairman: Governor Bailey, are you employing collection agents?

Governor Bailey: Kansas City is not employing them.

Governor McDougal: I think we have a very few.

Governor Calkins: We are at present employing none.

Governor Norris: We are not employing any, Mr.

Chairman.

Governor Pencher: We have one at a remote point in Kentucky.

Governor Biggs: We have discontinued them. ✓

Governor Morris: We have none.

Governor Wellborn: We have none.

Governor Deay: We have no field agents at the present time, but we occasionally have to send to a bank that is not satisfactorily accounting for its checks, to collect them.

Governor Calkins: I might say that Mr. Davis was in San Francisco and we discussed the matter with him after

this case, to which I have made reference, had been decided. And he expressed the opinion, not very strongly, because he didn't seem to think it was a matter of much importance, that it would probably be advisable for us to forget the matter until the cases now before the court were decided. That is the course we are now following. Otherwise we would collect by agents wherever necessary.

The Chairman: We have no agents at all.

Governor Young: We have no agents at all.

I would like to put this other question, Mr. Chairman. If a state bank or non-member bank, the only bank in the community that would not remit at par, would you take them off the par list, or put an agent there? I would like to go around the table on that?

The Chairman: The question is would you take them off the par list or would you send an agent. We might have a hand vote on that.

(On a hand vote five voted in favor of sending an agent out and five voted to take them off the par list.)

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(At 4:30 o'clock p. m. Under Secretary Gilbert of the Treasury Department entered into conference with the

Governors of the Federal Reserve banks.)

The Chairman: Gentlemen, Mr. Gilbert is here and I have asked him to tell us something about the subscriptions and the program that he has in mind, if he will be good enough to do so.

Mr. Gilbert: The total subscriptions received, that I have definite word of, are about 850,000,000. The way that they are coming in, based on last night's report, I think they will be pretty close to a billion, five hundred million in New York and about five hundred million to the rest of the country. The reports indicate that distribution is exceptionally good, as far as we can gather from the reports of allotments on small subscriptions, and from the reports from outside sources that we are getting there is also apparently a substantial number of exchanges, which have increased in the last day or two. The Steel Corporation today turned in sixteen million of their Victory notes on exchange.

The Chairman: Has the Metropolitan Life Company come in?

Mr. Gilbert: They are going to, I think. As announced when the offer was put out on Monday morning, we are offering

one offer of five hundred millions or thereabouts on the usual terms of cash subscription and payment by credit. The plan is to hold it down to \$500,000,000. It may run \$10,000,000, \$15,000,000 or \$20,000,000 over the \$500,000,000 in order to make the necessary adjustments and allotments, but that will be the limit.

We are putting out a statement tonight that the subscriptions for the \$500,000,000 offer will close at noon on Saturday, and we are hoping--- not only hoping, but we want to get the reports of subscriptions here by early enough on Sunday at least so that we can make the allotments and send out definite allotment instructions to the Federal reserve banks, so that those allotments can go out Monday morning or Sunday night. The exchange offer we will keep open for about another week. The allotments on that are relatively small, and they are being made in the order of receipt.

I would be particularly interested to know what the Governors think about the handling of these allotments, whether or not their banks will be able to make reports in good season, by Sunday--- we may have to take a few chances-- and give us a little leeway on the small subscriptions. We

would like to have fairly definite information so that we would be safe in making allotments. It is fairly simple in New York, Philadelphia and Boston, but I suppose in some of the more remote districts it may be a little difficult. We are prepared here to be open all Saturday night and all day Sunday in order to receive reports.

The Chairman: Is there anything in your notice of closing with regard to subscriptions received by mail bearing the postmark?

Mr. Gilbert: It is not in, but we can put that in on the final notice of closing, if necessary. I would rather not do it.

The Chairman: It makes a big difference in getting the figures to you.

Mr. Gilbert: We prefer to have the subscriptions actually closed at noon without regard to what is in the mail. We hope that any stragglers in small amounts that come in afterwards can be taken care of by arrangement with some bank, and it might be worth while for the Federal Reserve banks to protect them and make a few exchanges on their own account in order to take care of the little relays that drift in. I think it is very important to get

the allotment notices out early Monday morning.

Governor Norris: Can you send that notice out about the closing of subscriptions on Saturday early this afternoon? Tomorrow, you see, is a holiday in most of the districts.

Mr. Gilbert: It hasn't gone out early; it is just about going out now. I am afraid you won't have it before you close for the holiday. It is a holiday in seven or eight districts, isn't it?

Governor McDougal: Will that information be released to the Associated Press tonight?

Mr. Gilbert: Yes.

The Chairman: How is the market for Liberties today, Mr. Gilbert?

Mr. Gilbert: The market for Liberties closed a shade above par with no buying on our part. There was none at one o'clock and I do not think there has been any since.

The Chairman: Payment is to be made on October 16th?

Mr. Gilbert: Yes; I think that is next Monday. Of course the banks will pay by credit and there is always a little leeway there.

Governor Fancher: Not getting the allotment notices

out until Sunday night or Monday, of course the banks won't know what amounts they are allotted, to make their entries?

Mr. Gilbert: Not unless you telegraph.

The Chairman: It is going to be closed up on time?

Mr. Gilbert: The banks that pay by credit will have no difficulty. It is the usual practice to permit them to send a wire the day after they credit you, as of that date, and that takes care of the great bulk of it.

Governor Fancher: Yes, that is usually done.

The Chairman: Is there anything further on this subject, Mr. Gilbert?

Mr. Gilbert: Not unless someone desires to ask me a question or two.

The Chairman: We have one or two matters that we would like to discuss with you. One was to ask you if you were ready and willing to make a little statement that will throw some light upon the extent, if at all, to which the reserve banks will be asked to handle the payment of the War Savings and Thrift stamps the first of January?

Mr. Gilbert: The Federal Reserve banks are already acting, as I understand it, as depository banks for the

Postmasters in the principal cities; that is, the Federal reserve banks and branches. These postmasters particularly will be planning to come to the reserve banks with the certificates that they have redeemed and get immediate cash reimbursement. That will fall very directly on the reserve banks, and the postmasters will depend a good deal on the facility with which they can present the certificates to get credit in the Federal reserve banks. I am not sure offhand whether all of the reserve banks now do that for the postmasters, but I think most of them do, and a good many of the branches. There are depositary postmasters in each city and the depositary office coincides with the Federal reserve bank in probably not over half of the cities. We are also preparing to put out an announcement, probably around the first of November, offering special facilities for exchanging the matured War Savings Certificates for new Treasury saving Certificates of date January 1, 1923, which will be made available on consignment to the Federal Reserve banks and to agents who want to hold them on consignment, and they will be exchanged in advance of January 1 for the new certificates. That will throw some burden on the reserve banks. We are also



planning to receive the certificates before January 1, for redemption on January 1 by Treasury check, and we would like to have those come in through the reserve banks to some extent. The bulk of the detail work in that will fall on the post offices, I think.

The Chairman: Is it expected to make the reserve bank a place of redemption of these certificates at all?

Mr. Gilbert: I should like to do that and also to have it understood that the un-registered certificates may be presented direct to the reserve banks for redemption in the same manner as Treasury certificates, interest coupons and Victory notes are presented. Under the terms of the certificate, all certificates, except registered certificates, are payable either at the post office or at the Treasury, and in accordance with our usual practice we would like to make whatever is payable at the Treasury in Washington payable also at the reserve banks and probably also at the reserve bank branches.

The Chairman: One of the members of the Conference stated that in his district he had information which indicated that cooperation by the postmasters was not very active and sympathetic in handling this job of either issuing the

stamps or their payment, and the question was whether the Postmaster General could get his organization at the eighty odd thousand post offices to buck up.

Mr. Gilbert: He can't get a lot of them. The fourth class postmasters are very hard to handle. There are a good many thousands of them too, but there ought to be no difficulty in getting the cooperation of the first class offices. The greatest difficulty may be that it will be at the worst time of the year for the post office department. They are working night and day at that time on the Christmas rush and they are going to be all played out just at the time when this matter will be at its worst. But we will have no trouble in getting the Postmaster General to send any sort of instructions we want to the post offices. I am satisfied about that. Whether they will cooperate after that is another question.

Governor Fancher: It may be necessary in some of the reserve banks to make special arrangements, because if the Federal reserve banks are to be a source of redemption there isn't any doubt but what we are going to be flooded with a lot of people.

Mr. Gilbert: In a good many of the banks it may be

necessary to establish a branch redemption office or something of that kind.

The Chairman: We are thinking of our limited facilities for it.

Mr. Gilbert: In New York that up town office that you used during the Liberty Loans may be very necessary.

Governor Fancher: It is necessary that we should have fairly advance information of what the plans are in order that we may make arrangements.

Mr. Gilbert: Is October 31, or November 1, or somewhere along that time sufficient advance notice?

Governor Fancher: Yes.

Mr. Gilbert: We may be able to give it to you sometime before then, but not later than that.

Governor Seay: Isn't it probable that we will have to invoke the aid of the banks in each city?

Mr. Gilbert: We would like to do that. We want the banks to assist both on the redemption and on exchange. The savings bank division of the American Bar Association adopted a resolution pledging some sort of cooperation. That is quite a change from the more critical attitude that they have heretofore had. That is the first sign of co-

operation we have ever had from that division of the American Bar Association.

Governor Seay: They think, perhaps, that there is a good chance that they will get some of the money.

Mr. Gilbert: That is what they are after particularly; but they say they will help on exchanges.

Governor Fancher: I can see where we can enlist their aid as to redemption, but I am wondering as to the exchanges.

Mr. Gilbert: They are extremely anxious to freeze onto some of the money when it goes through, and they might as well have it as to have it go into wild cat stock or something of that sort. There is quite a bit of danger that a lot of it will go into speculative securities.

The Chairman: The savings banks could be induced to help very largely because this money will be dumped right into them in a considerable amount, and if they could get these people to open accounts right there it would be a good thing because it would be a bad thing to have a few hundred million dollars turned loose in the hands of poor people or people of moderate means just to

be blown in.

Mr. Gilbert: I feel we should not be at all worried by the fact that the banks may get the money on deposit as it goes by, or some of it. I think a lot of these people will know what they want, and if the bank tries too hard to get the deposit they will be all the more anxious to get an exchange, and they will probably have their own ideas about what they want to do with the money; but if the savings banks do get some of those savings accounts, so much the better.

The Chairman: I understand you are getting out a poster which will explain in simple terms exactly what it all means. Can that be printed in the various languages, because we have some seventeen languages in New York.

Mr. Gilbert: It may be printed in some of them, especially Yiddish. We will have German, Italian and Yiddish anyway; we have to do that.

The Chairman: How about the expense of handling this, Mr. Gilbert? There is no fund out of which this can be paid, is there?

Mr. Gilbert: We can usually find a little money if we have to. By that time the federal reserve banks will

all know that they have a surplus, probably.

Governor Geay: However small it may be.

The Chairman: Are there any further questions on this topic?

Governor Calkins: I would like to ask Mr. Gilbert to give us some information as to what proportion of the outstanding securities which will mature January 1 are registered and what proportion not registered?

Mr. Gilbert: I do not believe anybody can tell that. That has been one of the troubles with the registration system. They were registered in probably 15,000 post offices, and we have no consolidated statement of the amounts that were registered. We can make a guess at it and that is about all. I gather that there are more than 100,000,000 registered out of the 600,000,000, maybe not that much.

Governor Fancher: And the amount outstanding is about 600,000,000 now?

Mr. Gilbert: The value of what is outstanding and maturing January 1 is 630,000,000.

Governor Calkins: Theoretically we will be called upon to redeem all those that are not registered, or in

other words, \$500,000,000?

Mr. Gilbert: Theoretically, but I think they will be rather slow in coming in. On the rerunding of them we have not worked out very definite plans beyond the exchange. Our feeling is that we ought to do everything possible during December to encourage exchanges in advance. Then we will have enough cash as a result of the December sales of securities to meet the cash payments that fall immediately after January 1. But if the conditions are favorable we may come out at the opening of business January 2, with an offering of long time bonds that would be immediately available for exchange for these certificates on a more preferred basis.

The Chairman: Can we not start the exchange earlier than December?

Mr. Gilbert: I think we can very well.

The Chairman: There is no cash involved in that.

Governor Fancher: I should think it would be very desirable to start it sixty days in advance.

Mr. Gilbert: We will announce it November 1, and I think there is no reason why it could not begin substantially as soon as it is announced. It is very helpful to

know how many are going to be exchanged, too.

Governor Fancher: And it is very helpful to have the time in which to make the exchanges, when they are piling in in hordes.

Governor McDougal: I should like to ask if there is anything in the terms under which the certificates not registered are issued, which would prevent a bank from cashing those if they wanted to end in turn depositing them in the Federal Reserve Bank?

Mr. Gilbert: The certificates are not transferable, but at the same time banks could cash them for account of their customers and turn them in at the reserve banks. That will be done. They may have to fill out a form or two, but it won't be very serious.

Governor Norris: I don't like to bring up a disagreeable question of expense, but if we have to run a place for an agency to attend to this, equip it and run it for a couple of months, you would have to have a ground floor location in a convenient place, of fair size, and it would be considerable of an expense.

Mr. Gilbert: I think we can listen to reasonable claims for expense. We have sufficient funds.



Governor Calkins: We should have all the information possible to enable us to judge as to what we are going to be called upon to do, or how far we will have to go in providing quarters and staff to do it.

Mr. Gilbert: For instance, if we made an announcement on November 1, providing for operations to begin about November 15th, would that give time enough in which to make arrangements?

Governor Calkins: It is pretty short.

The Chairman: It is a question of clerks more than anything else with us.

Mr. Gilbert: It will be a very considerable mechanical problem, because there are millions of them.

The Chairman: I estimate there are a million and a half separate individuals in New York City, at a minimum, that hold these certificates.

Mr. Gilbert: If the banks will canvass that a little now, do you think you have sufficient information to canvass the possibilities of what you may need in clerks and so forth?

Governor Calkins: The banks, very generally, will be disposed to push the matter off on the Federal reserve

banks if there is any opportunity to do it. We are not going to get that ready assistance and cooperation that we have gotten---

Mr. Gilbert: The only thing working for you in that is that they hope to get some of the money.

Governor Calkins: But that will apply only to the savings banks.

The Chairman: And to those that have savings departments.

Mr. Gilbert: Do not a good share of the banks run rather large savings departments?

The Chairman: There are not so many in New York City.

Mr. Gilbert: We get very little help from the downtown New York banks.

The Chairman: They are rather remote anyway. The clerks in the banks and in the offices will turn in their stamps at convenient places where they have bank accounts, or probably, but it is the great east and west side, the big residence areas up town that we have to think about, and when you consider the magnitude of it the problem of transportation has got to be settled of how we are going to get

these people to convenient places and get them away again. There are a good many mechanical things that have got to be worked out very carefully.

Governor Calkins: I understand you expect us to redeem at the banks and the branches.

Mr. Gilbert: We would like to have you do it.

Governor Calkins: I think we can if we can get the information out at an early enough date. The branches, several of them, are located in second floor quarters, which will be entirely unsuitable for the purpose, and it will be necessary to find temporary quarters.

Mr. Gilbert: I think I can arrange that the Federal reserve banks can get advance information of what we will announce on November 1, say somewhere around the 18th or 19th of October.

Governor Calkins: The transactions in the branches will be more expensive in proportion than they will be elsewhere.

The Chairman: We would need to be authorized to start negotiations with the banks themselves. For instance the Federal Reserve Bank of New York will have a big job to do in New York City, and it has also got to make arrangements throughout the entire district. Therefore, the

quicker we get those instructions the better it will be.

Governor Seay: If you could make a total waiver of the non-transferable feature it would greatly facilitate matters.

Governor Calkins: What objection would there be to doing that?

Mr. Gilbert: I do not recall the non-transferable provision as having any bearing on redemption. If it comes through the bank I would like to have a statement from the bank that it has paid the people whose names are on the certificate.

The Chairman: I would just pay them and get them out of the way.

Governor Fancher: That could not be done, Mr. Gilbert.

The Chairman: The burden that would impose on the banks would be very serious.

Governor Fancher: And I do not think you could get them to cooperate.

Mr. Gilbert: I would not ask for a list of names, but if they would send them in to the reserve bank with the statement that they have cashed the certificates for

the holders named thereon, without any list, I think we would be happy.

Governor Fancher: But that will require identification.

Mr. Gilbert: They have to identify the holder of a check.

Governor Morss: But you could not identify these because they do not have the signatures on them. The names are written on by the postmasters.

Governor Fancher: And therefore the people could not be identified.

The Chairman: The scheme is this, that the Government owes \$630,000,000 represented by slips of paper payable to the holder thereof. I would just pay them.

Mr. Gilbert: We have an express clause in our certificate which we can fall back on, that we are not liable for payment of an unregistered certificate to a person other than the owner.

Governor Calkins: It seems to me it will be done eventually, and it might as well be done openly and generally.

Governor Seay: I do not think there is any one other

thing that would produce so much facility in redemption.

Mr. Gilbert: We realize we will have to do that.

Governor Fancher: The simpler you could make the operation the more readily you can enlist the cooperation of the banks, and that is a very desirable thing.

The Chairman: We have got to have a supply of certificates for those people who have never attached the stamps to the certificates, because they can only be paid when accompanied by the certificate.

Mr. Gilbert: We will need a lot of those, I think.

The Chairman: Are there any further questions on this topic, gentlemen? If not, Mr. Gilbert, there are two or three other little matters of detail that we have been discussing, on which no action has been taken, but with regard to which some little expression of view has been had. One of the matters is the question of these permanent records of source of government securities. We find that some of us think they should be kept fully and others think that it is a needless responsibility. It does prove expensive to the banks. I rather hastily gathered that there were five or six here who felt that the records should be kept and six or seven who felt that

it was needless. We are out for economy and efficiency and reduced costs. How do you feel about that matter? Is it essential to preserve the record of the source?

Mr. Gilbert: I haven't regarded the records as absolutely essential, but it happens to be very convenient to have them in some cases. Some of the banks have maintained such records, I think, ever since beginning operations. I think Kansas City and several others have kept a continuous record. We had thought from the schedules that were used in these operations and from the fact that the operations themselves have been much reduced, that the records could be kept by adding one additional column to the schedule. I do not know whether it has proved feasible or not, but I understand it has proved so. We had supposed that it could be done without seriously increasing the expense. If it is a great deal of extra expense we would like to know it and would be glad to reexamine the matter, but the record is of considerable convenience to the Treasury. We have had a loss of three million dollars in bonds in a mail robbery, which we are particularly anxious to keep track of, and they have been of assistance in tracing other irregular cases that have been presented

from various sources. Then we have had a rather unusual interest in irregular cases on account of some of these stories which you may have seen about duplicate numbers of bonds and other irregularities. The stories are unfounded, but they nevertheless made us rather more anxious than usual to maintain as complete a record as possible. It seems to me that it is better to err on the side of keeping more records than necessary than it is to err on the side of keeping too little. But I do not regard it as absolutely essential, if it is causing trouble.

Governor Seay: What some of us would like to be relieved of is the requirement that we should keep it. I think we have kept them and perhaps we would prefer to continue to keep them, but we would like to feel that it is not a requirement that we should do so.

Mr. Gilbert: But that would leave a rather haphazard situation. We would never know whether the bank was keeping them or not. It seems to me it ought to be uniform one way or the other.

Governor Seay: What I mean is that if the bank wants to keep it for its own use and not for the Treasury Department.



Mr. Gilbert: We never have prohibited keeping records. Kansas City kept records all along and we have never objected to it, and it has been useful in some cases to have it in that district.

The Chairman: Suppose we look into this question of expense, see what it amounts to, and advise you.

Mr. Gilbert: I think I would like to have it done in that way, if possible. We had it up with one or two banks. I think Mr. Jones, of Chicago, was here, and as I understood it at the time it could be covered by simply using one of the parallel columns of the existing schedule.

The Chairman: If there is no objection we will leave it in that way. Inquiry will be made and you will be advised of what the cost is.

There is also a question as to whether this ruling with regard to coupons on called Victories is not going to impose a good deal of work, but also whether it was not going to create a very bad impression to have any of the coupons sent back?

Mr. Gilbert: The regulation which the Treasury put out about coupons from called Victories, maturing after the

called date, represents a very old practice of the Treasury which goes back fifty or sixty years, and maybe more than that. Experience has been that there have been very few cases arise, so few that the Treasurer's office hardly knew what it was, although there has been a uniform practice on all loans. The regulations as we put them out would require the Federal reserve banks to refuse to pay coupons on called notes maturing after the called date, and to send those in to Washington for payment out of deductions made upon notes presented with these coupons missing. The coupons themselves bear the express provision that they are payable on the due date unless called for previous redemption. The Treasury has not felt that it was desirable to proceed to pay these coupons as if nothing had happened, and while if there were many cases arising it might cause some inconvenience, we felt the probabilities were that there would be so few cases that we could handle them better than by issuing sweeping instructions to pay the coupons notwithstanding the call. I agree that there would not be much loss to the government, even if we followed the other theory, because it would probably wash out, but it goes against the grain on account of a practice of

fifty years or more to pay a coupon that has matured after the call date. We do not like to do it.

The Chairman: It was done in the case of the 3 $\frac{1}{4}$ 's, was it not?

Mr. Gilbert: No.

Governor Seay: The situation at present is that there is such a tremendous volume of outstanding obligations that conditions are not analogous to what they were forty or fifty years ago.

Mr. Gilbert: There is this difference. The coupons from called Victories presented this December will all be covered by this regulation. If you pay them the chances are we would already have made the deduction here for the missing coupon on the redemption of the note. We would make it in the ordinary course of business, and it would wash out in that way.

Governor Seay: It would be a very complicated account.

Mr. Gilbert: They keep it rather simply, though. It is all set up here.

The Chairman: Are there any other questions on this topic?

Mr. Gilbert: What we would prefer to do, unless you anticipate an unusual call, is to leave it alone now. If you have much trouble on December 15th, on the relatively small operation with the 3-3/4's, we could change it in time to catch the next payment on the larger operation of the 4-3/4's on May 20th.

The Chairman: How many of the 3-3/4's were there?

Mr. Gilbert: Originally there were nearly a billion dollars.

The Chairman: How many are left?

Mr. Gilbert: Less than ten million outstanding, and if you have difficulty with that small issue you certainly will have difficulty with the 4-3/4's.

The Chairman: If there are no further questions on this, the last question is, what progress is being made with that autocrat of the Treasury, known as the general Comptroller, with regard to the cancelling of paid certificates?

Mr. Gilbert: I shall have to say that he is no longer the autocrat of the Treasury. He is not in the Treasury at all and not amenable to any sort of influence or discipline. I have talked with him at intervals of a day or

two or I think three weeks. He assured me the ruling was on his desk and I would get it in a day or two; but I haven't got it yet.

The Chairman: What sort of a ruling is he going to give?

Mr. Gilbert: I do not know. He said he realized the difficulties and would try to meet the matter. That is the most that I have gotten out of him.

The Chairman: Now, if the practical difficulties are so serious, couldn't they be at least cut in half by slicing these certificates, just as we do bills and shipping upper and lower halves? They have all the machinery to do it. It is just a case of making the straps and binding them properly.

Mr. Gilbert: It can be done, but it is rather disturbing to the Registrar's records, because he will have to match them up. If you make two pieces instead of one it will double the work in the Registrar's office.

Governor Fancher: Would it not be possible, by a system of numbers to readily match the halves, so that they could be assembled together and very readily matched up. They would all be sorted numerically and I should

think that the matching of them would be an easy process.

The Chairman: Don't you use the numerical system on money packages, and couldn't they do the same thing here, so that they would match up automatically.

Mr. Gilbert: But he would still have two pieces, unless you pasted them together. What happens in this. When these things go to his office there are about a thousand clerks who examine them and trace them back numerically and register and record them. Then they are examined again before final destruction. Of course it can be done if it has to be, but I would rather wait a week or so on the Comptroller General. I have the fire under him all the time; I have one man doing practically nothing else but that.

Governor Fancher: It is going to be a pretty expensive operation to insure them.

Mr. Gilbert: I think it is ridiculous to insure them and I do not think it ought to be done.

The Chairman: Who is going to pay the insurance bills?

Governor McDougal: Mr. Gilbert, a discussion of this matter brought out the fact that since it had been

derinitely decided that the risk in delivery of these cancelled securities rested with the Federal Reserve Banks, some of the Federal Reserve Banks have been carrying insurance--- Chicago being one of them--- and we estimate that paying the insurance and making the shipments will cost about thirty thousand dollars a year. Other banks are withholding their shipments. I believe that since it has been determined that we have an insurable value, and because of the necessity of insuring them, that the Treasury should find some way to reimburse the Federal Reserve banks for the cost of that insurance. I presume that that is being given consideration.

Mr. Gilbert: We have considered that off and on for four or five years. The Comptroller General is in the way there. We have no insurable interest in them and therefore cannot reimburse. They are so much retired paper to us.

Governor McDougal: We only have an insurable interest because of the determination on the part of the Treasury that we cannot get credit in our account until those have been delivered. There is where the trouble is.

Mr. Gilbert: I think the Treasury might have an in-

sureable interest on almost the same theory, but the Treasurer cannot get credit, cannot get the account passed until he shows the security. I do not see much to it except to wait a little while longer for the Comptroller General. I do not like the situation any better than you do, but we are in exactly the same position that you are. The Treasurer cannot get credit in his account until he has presented them; he has tried.

Governor McDougal: In considering this matter we thought possibly some arrangement might be made under which the Federal Reserve Banks, as your agents, might be permitted to act for you and retain these instruments until the two years limit has expired and then destroy them; or that possibly you might have someone out there yourself.

Mr. Gilbert: That is even less feasible because under the law they have to come here. Our own attitude on it is expressed by what we do with the fiscal agency securities. We are perfectly happy to have them come here cancelled and to give credit to the fiscal agent's account in case they get lost, and we have done it. But we have no more control over this than you have.



If the Treasurer proceeded on the theory that he might get credit, without having a definite assurance, and gave you credit in his account with you he would run the risk of disallowance of the amount of the shipment, which would ultimately result in a big loss, and he would probably have to go to Congress to get relief. We do not like to leave it on that basis.

Governor Calkins: Doesn't it seem improbable that the Comptroller will change his position?

Mr. Gilbert: On the contrary, I think he will allow it on the same proof of shipment and loss that we require with fiscal agency transactions.

The Chairman: Then it is a question of maintaining a suitable record, which we do anyhow.

Mr. Gilbert: Coupon shipments are relatively unimportant. The insurance costs something, but it costs much less than it would cost to attempt to record them.

The Chairman: Would you be interested in hearing a report of the action taken by this conference in the matter of reserve bank investments, and to discuss that a bit, if we invited you to?

Mr. Gilbert: I am very much interested in hearing

the report, but I thought the discussion was over.

The Chairman: No, I do not think it is over, but I would like to hear you express your views about it.

The action that was taken was first to concur in the recommendation or statement by the Federal Advisory Council, with which you are familiar, to express the view that particular regard must now be given in the matter of these investments to money market conditions and especially the interest of the Treasury, and that the reports which we heretofore had been receiving should be continued and exchanged, that is, of earnings and investments; and finally that the additional duty should be delegated to this committee to make recommendations as to purchases and sales which would receive the earnest consideration of the management of the reserve banks. That is, of course, reaching into the policy of the banks which, heretofore, the committee has not attempted to do, but it does not mean that the committee is going to interfere in any way with the decision of the directors. The committee will, however, be expected to make recommendations, and the committee will meet from time to time and we will agree amongst ourselves, I hope, as to what are the wise things

to do according to the money market and the Treasury's interest; and even if the other reserve banks do not consider it wise to accept the recommendations of the committee, the five banks that are represented on the committee, would be, in point of fact, such a large preponderant proportion of the whole system that it would have considerable influence alone, just those five banks.

Mr. Gilbert: I think that that action is very helpful and will help to clear up the investment situation even more than it has already been cleared up. The situation now is much better than it was at the time of the last Conference. We feel a good deal better about it in the Treasury. We felt then and feel a little now that the Federal reserve banks did not realize, as much as they might have, what a bearing those investments had, both ways on Treasury operations, both purchases and sales. The Centralizing Committee appointed at the last Conference has been of the greatest assistance in keeping the situation steady, and has accomplished a considerable liquidation. The tightening of money that comes every time there is a little further liquidation, was particularly in evidence after the September 15th maturities, and it

had a good deal to do with the tightening of money in the latter half of September, as we see it here in the Treasury.

I am hopeful that the success of this long time offer of bonds will help to clear up the short term market and put it in so much better shape that it will be possible to accomplish gradually further liquidation of Federal reserve bank investments without disturbing Treasury operations in the next few months. The next few months, of course, will involve as heavy operations as we have had since the period following the Victory Loan, and we are going to look more to the committee than ever to keep purchases and sales of Federal reserve banks from giving us a false market either way, and I have every reason to believe that the Committee will succeed in doing that, as it has done for the last few months.

The Chairman: We were disturbed in New York on quietly canvassing the situation, to find that there was an accumulation in the hands of dealers in New York at one time recently of probably a hundred million dollars of short time Government securities of various kinds, and with the Treasury coming into the market from time to time, as it does, for large amounts, that is too much to have in

competition there, and it isn't all bailed out yet. At the close of last week we were carrying for dealers, just those that were carried under purchase and sale contracts with us, over fifty-three millions, and there was fifty million more, I am pretty sure, carried in other places, from what Mr. Case tells me. I think the dealers were a little bit fooled by the enthusiastic subscriptions to the last issue, which was very heavily oversubscribed. As we fully realize in New York, one of the great inducements for the subscription was the deposit. The job ahead of us now is to take care of the accumulation that is taking place in the hands of the dealers. If we develop an easier market as a result of this loan, which I hope will be temporarily the case, we ought to be able to get these dealers pretty well cleaned up.

Governor Seay: May I ask, Mr. Secretary, if you have considered abolishing the deposit feature?

Mr. Gilbert: We have considered it but we have not been able to see what it would accomplish. For instance on this offer, if made without the deposit privilege, it would mean that \$500,000,000 paid in cash to the reserve

banks would be of no use to us. It would simply force borrowing to pay the money to us and tie up that much money in the reserve banks.

The Chairman: When we see twenty-five or thirty million going out of New York through the gold settlement fund in a week, and the account is analyzed every week to see just what is transpiring, you can depend upon it that money rates are going to harden in New York. When we have \$60,000,000 of certificates that were owned by the reserve banks run off and paid, and the funds not reinvested on the 15th of September, we have had a high money market ever since in New York. The money market is very sensitive to the reduction in the investment account of the reserve banks, and if it affects in any considerable degree any one reserve bank it is felt elsewhere, because we immediately have these balances shifting throughout the country. When payments are made in New York, as you have doubtless observed, when withdrawals are made by the Treasury, we have these withdrawals chasing back and forth throughout the whole country over the wires. They are offset by Mr. Gilbert's transfers. They draw on their New York balances and call stock exchange loans. Some

day I think the mechanism with which this is all handled can be perfected so that these troubles won't develop, but it takes a good deal of adroitness to prevent money running up six per cent and above, which we do not want to happen.

Mr. Gilbert: The Treasury looks on these holdings by the reserve banks necessarily as a whole. It is not a question of ten million here or fifty million there, but merely a question of having three or four hundred million;--- at one time over five hundred million--- in substantially one lot on an overhanging market, or in a position to overhang the market, because the transactions of both purchases and sales are immediately reflected in the central market in New York. We have always felt that the Federal Reserve banks were perhaps a little unduly nervous about earnings when they invested, particularly for the reason that in the ordinary course of business there will be a certain amount of actual business, transactions of purchase and sale, during a temporary period of tightening of money, or otherwise they will result in a temporary investment which will be cleaned out automatically.

(Further informal discussion followed, which the Chair directed should not be reported, at the conclusion of which, at 5:40 o'clock p.m., the Conference adjourned until 10 o'clock Thursday, October 12, 1922, at which time they were to go into joint conference with the Chairmen of the Federal Reserve Banks and the Federal Reserve Board.)

