

At a conference between the Federal Reserve Board and the Executive Committee of Governors of Federal reserve banks held in the office of the Board, on Thursday, December 16,

PRESENT:

Mr. Hamlin, presiding Mr. Warburg
Mr. Delano Mr. Harding
Mr. Williams Mr. Willis, Secretary
Mr. Allen, Assistant Secretary.

PRESENT ALSO:

Mr. Strong, New York Mr. Aiken, Boston
Mr. Fancher, Cleveland Mr. Seay, Richmond
Mr. Hendricks, New York Mr. McKay, Chicago
Mr. Curtis, New York.

Mr. Fancher by request of Mr. Strong outlined in detail the amendments which the Executive Committee of Governors had determined to recommend to the Board as follows:

SUGGESTED AMENDMENTS TO SECTIONS 13, 14, 15, 16,
AND 18 OF THE FEDERAL RESERVE ACT.

The following suggestions with respect to Section 13, 14, 15, 16 and 18 have been considered by the Executive Committee of the Governors' Conference, but not by the full conference. They represent informal discussions of tentative suggestions submitted to the committee and are not to be considered as final recommendations.

SECTION 13

Paragraph 1. - At the meeting held in November, 1915, it was voted to suggest changing the first paragraph of Section 13 so that it will read as follows:

"Any Federal reserve bank may receive from any of its member banks, other Federal reserve banks, and from the United States, deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts, and may act as collection agent for the United States, other Federal reserve banks and member banks."

Paragraph 2. - It was voted to suggest

changing the first clause of paragraph 2 so that it will read as follows:

"Upon the indorsement of any of its member banks, any Federal reserve bank may discount notes, drafts and bills of exchange or acceptances arising out of actual commercial transactions;"

Paragraph 3. - It was voted to suggest striking out the whole of this paragraph.

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At a meeting of the Executive Committee held in December, 1915, the following action was taken:

SECTION 13

Paragraph 5. - It was voted to strike out the whole of this paragraph and substitute the following:

"Any national bank may accept drafts or bills of exchange drawn upon it, arising out of actual commercial transactions, and having not more than six months' sight to run, and any member bank other than a national bank may accept such drafts or bills of exchange provided the making of such acceptances is not in contravention of the law of the state in which such member bank is situated; but no

member bank shall accept such bills to an amount equal at any time in the aggregate to more than the capital stock and surplus of such bank."

SECTION 14.

It was voted to recommend certain changes in the structure of this section and other incidental changes, so that it will read as follows:

"Every Federal reserve bank shall have power

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

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

(c) To buy and sell, at home or abroad, bonds and notes of the United States,

and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any state, county, district, political sub-division, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board.

(d) To establish from time to time subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business.

(e) To establish accounts with other Federal reserve banks and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions, which have not more than 90 days to run and which bear the signature of two or more responsible parties."

SECTION 15.

Paragraph 1. - In the fourth and ninth

lines strike out the word "may" and insert instead the word "shall".

Paragraph 2. - Strike out the whole of the proviso and substitute therefor the following:

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

"The Secretary of the Treasury shall cause the functions and operations now exercised or conducted by the Assistant Treasurers of the United States to be transferred to the several Federal reserve banks in such manner as in his judgment may be expedient, and such transfers shall be completed by December 31, 1917, at which time the office of Assistant Treasurer of the United States and all other subordinate officers to such office, shall cease and determine, and the Secretary of the Treasury is further authorized to transfer the subtreasury buildings of the United States now situated at Boston, New York, Philadelphia, Chicago, St. Louis and San Francisco, to the Federal reserve banks of the said cities respectively."

(NOTE: The new matter presented above is presented in the form of a tenta-

tive suggestion only and not as a recommendation.)

SECTION 16.

Paragraph 1. - It was voted to recommend changes in this paragraph so that it will read as follows:

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

SECTION 16.
Cont'd.

Paragraph 2. - It was voted to recommend changes in this paragraph so that it will read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts or bills of exchange accepted for rediscount under the provisions of Section 13 of this Act, or acceptances and bills of exchange bearing the indorsement of a member bank purchased under the provisions of Section 14 of this Act, or gold or gold certificates, and a Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

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At a joint conference between the Federal Reserve Board and the Executive Committee of Gov-

Governors' Conference, the following suggestions were made by Mr. Curtis and were discussed, but no action was had thereon:

Section 16, paragraph 3: Strike out the whole of the two sentences beginning "Whenever Federal reserve notes issued" etc. and ending "face value of notes so paid out."

Section 16, paragraph 5: Change this so as to read as follows:

"Any Federal reserve bank may at any time reduce its liability to maintain its reserves and redemption fund for outstanding Federal reserve notes by depositing with the Federal reserve agent its Federal reserve notes, gold, gold certificates or lawful money of the United States. Upon such deposit, the Federal reserve agent shall return to the Federal reserve bank an amount of collateral security equal in face value to the amount of such deposit. Federal reserve notes so deposited shall not be re-issued except upon compliance with the conditions of an original issue."

Section 16, paragraph 7: In the fourth line, strike out the word "like".

SECTION 18.

Strike out both provisos and substitute the

following:

"The Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks, provided that no Federal reserve bank shall be required to purchase an amount to exceed its proportional allotment of \$25,000,000. of such bonds in any one year, less the par value of United States Bonds with the circulation privilege purchased by such bank during the same year under the provisions of Section 14 of this Act; and provided further, that the aggregate allotment of such bonds during any one year shall not exceed \$25,000,000."

Paragraph 5. - In line 4, strike out the word "four" and substitute therefor the word "fourteen".

Paragraph 6. - Next to last word, - strike out "thirty" and substitute therefor the word "eighteen".

A. P. Kerwillis

Secretary.

APPROVED:

W. H. Austin

Chairman.