

At a regular meeting of the Federal Reserve Board held in the office of the Board at 11:15 a. m., on Friday, April 21,

PRESENT:

Mr. Hamlin, presiding Mr. Williams

Mr. Delano Mr. Harding

Mr. Miller

Mr. Allen, Secretary.

The minutes of the Board meeting of April 19, and of the informal conference with Governors Strong, Wold and Aiken on April 20, were read and approved.

Governor Hamlin read a letter prepared by Counsel forwarding to the Federal Reserve Banks of Richmond and Cleveland the opinion of the Attorney General on the power of the Board to change the location of Federal reserve cities. An addition was made, and it was directed that a new draft should be submitted to the Board.

Consideration was given to the desirability of publishing in the Federal Reserve Bulletin a statement given to the press by the Comptroller of the Currency on April 13. After discussion, which was general, it was voted not to print the statement. On this motion Mr. Hamlin voted in the affirmative, Mr. Harding, Mr. Miller and Mr. Delano in the negative, Mr. Williams not voting.

After a motion had been made by Mr. Hamlin that a note be printed in the Bulletin stating that the Federal Reserve Board does not necessarily endorse opinions or conclusions contained in matter published therein, the same being published merely as matters of public interest, this matter was referred to Mr. Delano and Mr. Harding as a committee to prepare and submit a suitable note for further consideration by the Board.

On the motion to refer this matter,

Mr. Miller voted in the negative, stating as his reason for doing so his opinion that the matter of publishing speeches and similar matter in the Bulletin, to which he felt there was grave objection, should not be disposed of in the way that it would be in the motion just passed, but should be given definite and formal consideration in order that the status of the Bulletin might be definitely ascertained, and the extent of responsibility for material of any kind published in it be determined.

Attention having been called to the matter, it was voted to reconsider and lay upon the table action by the Board on March 9, 1916, directing that there be published in the Bulletin a table showing the cost of Governors' Conferences to the date of such publication, these figures for the quarter, however, to be contained in the statement of earnings and ex-

penses of Federal reserve banks for each quarter when published.

The application of the National Bank of the Republic, of Chicago, to accept up to 100 per cent of its capital and surplus, recommended by the Federal Reserve Agent and approved by Mr. Harding, was voted by the Board.

No changes were requested in discount rates.

Counsel's opinion on the rediscount by the New Orleans Branch of a note of the City of Canton, Mississippi, reported by the Federal Reserve Agent at Atlanta, was referred to Mr. Harding with power to act.

The Board formally approved the request of the Federal Reserve Agent at San Francisco for the delivery by the Assistant Treasurer at that point of \$800,000 of Federal reserve notes of the \$100 denomination. This had been

informally approved on April 22.

Attention was called to a letter of the First National Bank of Canadian, Texas, asking reconsideration of the Board's decision not to transfer that bank from District No. 11 to District No. 10. Upon motion of Mr. Harding, it was voted to adhere to the original decision.

An opinion of Counsel, prepared upon a letter from the Governor of the Federal Reserve Bank of Cleveland asking whether an assignment of an open book account is rediscountable by a Federal reserve bank, was approved. The opinion held that such an assignment could not be so rediscounted.

Attention was called to a memorandum from the Governor of the Federal Reserve Bank of Minneapolis suggesting that action on increases and decreases of capital stock and surplus covering less than ten shares, be taken semi-annually

instead of quarterly as at present, and the opinion of Counsel thereon. The arrangement suggested was voted subject to the approval of Counsel.

Mr. Harding presented a letter from the Federal Reserve Agent at Richmond asking whether the board of directors of the Richmond Bank were authorized to proceed to obtain a suitable bank building. The matter was referred to the Committee on Operation for the Richmond Bank, Mr. Harding stating that he would be glad to accompany Mr. Williams to Richmond to take up the matter with the bank.

A report on the progress made by the Committee on Clearing in consultation with the Governors of Federal reserve banks, now in Washington, was presented by Mr. Harding and Mr. Delano, and read to the Board. The Committee was, upon vote of the Board, authorized to proceed along the lines indicated in the report.

The report follows:

April 21, 1916.

To the Federal Reserve Board.

Gentlemen:

Your Committee, appointed to meet with the Governors of the Federal reserve banks and work out with them a practical scheme for the clearing and collection of checks in the continental United States, begs to submit the following report of progress:

Your Committee believes that it has arrived at a substantial agreement on all the important principles, and it is proposed to proceed at once, if the Board approves, with the working out of details which will be in consonance with these principles.

The basis of the arrangements upon which we have agreed is substantially that outlined in Mr. Harding's memorandum of April 13, already submitted to the Board. In a general way it may be said to proceed upon the following assumptions:

First:

A Federal reserve bank can not compel an unwilling member bank to send the checks of its patrons to it for col-

lection or clearing;

Second:

It would be inexpedient at the present time, even if legal, upon which no opinion is expressed, to compel an unwilling member bank to pay at the counter of the Federal reserve bank a check drawn against it (i.e., the member bank) before it has even seen it. The member bank may, of course, authorize the Federal reserve bank to redeem at par checks drawn against it, and forward them to it for final settlement; or, it may authorize the Federal reserve bank to charge the checks against its account;

Third:

In view of the conditions hereinabove stated, and because your Committee believes that the best results will be secured by a complete cooperation of the member banks with the reserve bank, it is proposed that the plan to be followed shall be sufficiently attractive to member banks to appear to them as desirable. Hence, in carrying out this idea, it is proposed to follow the lines of development which long experience by member banks in their relations with city correspondents, has established. This, in effect, means that Federal reserve banks shall receive from

their member banks checks, whether drawn against members or non-members, or private bankers, and give immediate credit for them;

Fourth:

Your Committee regards it important that the Federal reserve banks shall strictly guard their reserves, and that member banks which do not maintain the reserves required by law shall be penalized for deficiencies. In this connection, the Federal reserve bank will not class as reserve any checks which it has received from its members and credited to them, but which have not been collected;

Fifth:

While it is proposed that every Federal reserve bank shall render this service of collection for all those member banks who choose to avail themselves of it, it is not contemplated that the service shall be rendered gratis, or without expense to the depositing bank, which is the beneficiary. Therefore, as explained in Mr. Harding's memorandum, every Federal reserve bank shall keep adequate analyses of its clearing and collection expense, and charge the depositing bank for the service rendered the actual cost of that service, as nearly as it can be

determined, including interest at a rate to be determined upon and approved by the Federal Reserve Board, upon all cash advances. On the face of it this means that a member bank might deposit checks on far distant banks and secure immediate credit at par for these items, and, at the same time, draw against them before the Federal reserve bank has been able to collect the funds, but, as a practical matter, a member bank could not afford to do this for the reason that it is proposed to charge the member bank, as a part of the expense of handling its checks, the cost of advancing funds; the rate to be charged to be slightly higher than the lowest discount rate established;

Sixth:

Every Federal reserve bank is authorized to receive checks from other Federal reserve banks, or, under such rules as may be prescribed, from member banks in other districts, where such routing will save time, but in all cases only for the credit of the reserve district represented by the sending bank, upon terms similar to those upon which it receives checks from its own member banks;

Seventh:

It is proposed, under this plan, that every Federal reserve bank shall be authorized to pay its own member banks a fee for acting as its agent in the collection of checks drawn against non-member banks;

Eighth:

It is quite likely that it will be found necessary to create collection agencies at various points, especially in districts of large area. The working out of this system of collection agencies and their establishment is a matter of detail which will follow in due course, and will undoubtedly greatly reduce the so-called "float";

Ninth:

Your Committee is not unmindful of the subject of exchange charges. We believe that automatically, and as the result of competition and the creation of the new facilities, that exchange charges will rapidly diminish, and the number of par points in the country will greatly increase. Your Committee recognizes that the fixing of exchange charges is something which the Board is authorized to do, but it believes that if it undertook to do it now, before having worked out and put into effect a successful

clearing plan, the result would be to drive small national banks now benefitting by exchange charges, into the State system where they would be outside the jurisdiction of the Board. It seems very clear to your Committee, therefore, that the proper method of procedure is to adopt as speedily as possible a clearing and collection plan which will be so attractive that every member bank will be glad to avail itself of it to a very wide extent. Such an accomplishment would, in itself, be a strong inducement for State banks to become members. But even this would leave a large number of State banks which are ineligible for want of capital or some other reason. To a considerable extent these State non-member banks will be compelled to meet the competition of member banks, and, in any event, are beyond the reach of the Board's mandate. Hence, it should be sufficiently obvious that the Board is in no position to undertake the regulation of exchange charges until it has put into operation an effective clearing system, and has secured the widest possible adherence to it. If it then appears that the cost of collecting checks, by reason of the new facilities through Federal reserve banks, shall have been greatly reduced, the

Federal Reserve Board will be in a position to fix the charges which member banks may assess against their patrons (i. e., depositors).

For these reasons, and others which might be cited, your Committee is strongly of the opinion that any action by the Board at this time in fixing "charges to be collected by member banks from its (sic. their) patrons whose checks are cleared through the Federal Reserve Bank," should be deferred until after the proposed system of clearing is in thorough working order, and the Federal reserve banks shall have determined with some degree of accuracy the cost of clearing and collecting checks.

Respectfully submitted,

W. P. G. HARDING,  
F. A. DALANO.

Governor Hamlin presented three letters asking an amendment to the Act to permit banks to loan in all cases ten per cent of their capital and surplus to any one person or corporation, and it was voted that the reply sent to a previous communication be mailed.

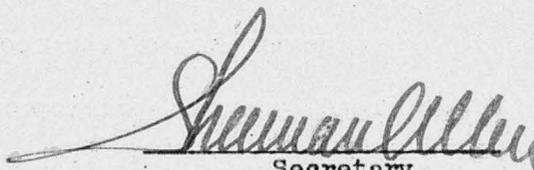
The report of the Committee on Staff in connection with salaries of bank examiners was again read. After discussion the report was referred back to the Committee to obtain an opinion of Counsel upon the contested points. Mr. Williams requested that he be permitted to examine the questions prepared for submission. In this connection there was read a memorandum disagreeing with the report of the Committee on Staff prepared by Governor Hamlin.

An opinion of Counsel on the question of liability of private bankers under the Clayton Act, submitted by the Federal Reserve Agent at St. Louis, was presented, and Governor Hamlin requested to obtain the opinion of Mr. J. P. Cotton thereon.

Governor Hamlin was requested to submit to Mr. J. P. Cotton the opinion of Counsel on Advisory Committees, and the additional ques-

tion as to whether it was good policy for the Federal Reserve Board to give the substance of such an opinion to the New York attorneys who raised the question.

At 1:15 p. m., the Board adjourned to meet at 11 a. m., on Monday, April 24.

  
Secretary.

APPROVED:

  
Chairman.