

At a joint conference between the Federal Reserve Board and the Governors of Federal Reserve Banks held in the office of the Board on Thursday, April 5, at 3 p.m.,

PRESENT:

Mr. Harding, presiding,	Mr. Hamlin,
Mr. Delano,	Mr. Willis, Secretary.
Mr. Warburg,	

Present also, Mr. Aiken, Mr. Fancher, Mr. McCord, Mr. McDougal, Mr. Calkins, Mr. Treman, Mr. Van Zandt, Mr. Rhoads, Mr. Seay, Mr. Wold, Mr. Curtis.

Governor Harding opened the meeting by stating that the Board would receive reports from the Governors with reference to their deliberations, and called upon Governor Aiken for a statement. Mr. Aiken said that the Governors had spent most of their time in discussing the subject of Federal reserve drafts. Mr. Harding thereupon made a brief statement with reference to his views on the use of drafts and checks, sketching the prevailing practice on the subject, and emphasizing the development of the personal check. He then called for expressions from members of the Board, and Mr. Delano made a brief state-

ment with reference to the best mode of developing the draft business, explaining that he was in general sympathy with the plan which would be proposed by the Governors, but suggesting as a possible modification the use of a special draft form, perhaps differentiated in color, to be used by depositors in making small drawings. Mr. Aiken said there had been much discussion of the situation among the Governors, and that the report they had agreed upon was the expression of majority conclusions, there being dissent on a number of points. The matter was one that would have to be decided by the Board. He then read a report of conclusions arrived at by the Governors as follows:

"After consideration of the reports of the committee appointed to consider this subject, this Conference recommends the adoption of the following plan:

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

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

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

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

(5) That the Federal reserve bank on which the draft is drawn shall credit by telegraph in the Gold Settlement Fund the Federal reserve bank at which the draft is to be received each day the total amount of such drafts in round amounts of ten thousand dollars; such advices to be sent in time to reach the Federal Reserve Board not later than 3 o'clock p.m. of each day.

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

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

Mr. Treman said his views were the same as those of his own bank officers. He thought the drafts should be made receivable at any Federal reserve bank.

Mr. Rhoads said that he assumed that all of such drafts would come to the reserve bank with a local member bank endorsement. They should be made payable only to the order of a bank.

Mr. Fancher said the plan was an experiment and must

be tried on a modest scale. If the proposed drafts should be made both payable and receivable at any Federal reserve bank, it "would involve a great deal of worry."

A colloquy between Mr. Harding and Mr. Fancher with reference to the various ideas on the proposed drafts ensued, Mr. Harding urging the necessity of popularizing the clearing system and keeping in harmony with the prevailing drift toward the extension of the use of the personal check. General comment was offered by members of the conference, and the idea was expressed that free transfers between Federal reserve banks would result in cutting reserve balances. This idea was rebutted by Mr. Harding and others.

At this point Mr. Harding left the room, and Vice Governor Warburg took the chair.

A general discussion as to methods of remitting and cashing drafts was undertaken, and the statement of views, district by district, was then resumed.

Mr. Calkins said that there should be neither an exchange charge nor a limit to the amount of the proposed draft. No such expedient was necessary in order to protect the bank.

Mr. Seay thought the action taken should be conservative. In the main he agreed with Mr. Fancher.

Mr. Wold thought that reserve banks ought not to furnish exchange when member banks could buy it. It was desirable to move slowly. He thought Mr. Harding was wrong in his belief that the personal check would be extended in the future. He himself believed it would be curtailed. The form of draft proposed by the Governors was satisfactory to him.

At this point Mr. Harding reentered the room and resumed the chair. He then made a supplementary statement of informal character showing that there would be an advantage in getting a definite statement from each member present of his attitude with respect to two of the points which had been under discussion, (1) the question whether daily telegraphic advice sent by the originating bank was desirable, and (2) the question whether it was desirable to make drafts payable only to the order of some bank or banker, as in the case of the English "crossed cheque." On these points expressions of opinion resulted as follows:

Mr. Fancher opposed to telegraphic advice, but not to crossed checks.

Mr. Roads favorable to telegraphic advice and to

crossed cheques.

Mr. Seay opposed to telegraphic advice, but not to crossed checks.

Mr. McCord favorable to telegraphic advice, but not opposed to crossed checks.

Mr. McDougal opposed to telegraphic advice; crossed cheques unnecessary.

Mr. Wold the same.

Mr. Van Zandt opposed to telegraphic advice, favorable to crossed checks.

Mr. Calkins opposed to telegraphic advice, not opposed to crossed checks.

Mr. Curtis of New York favorable to telegraphic advice, crossed check not objectionable. Mr. Curtis further said that the Federal reserve bank of any district could be protected against excessive transfers by the use of a modest exchange charge. He thought the holder of the draft would be best pleased if the draft was made payable rather than receivable at a given reserve bank.

Mr. Harding summarized the discussion in a closing statement, and then said that it was desirable to undertake the consideration of the Government bond question.

In reply Mr. Aiken stated that the subject had been only informally considered, and that no report was as yet ready in writing. Mr. Harding said that the Secretary of the Treasury would probably make a statement as to his policy tomorrow, and that it was desirable to obtain at once the general substance of the Governor's views as to bonds.

Mr. Aiken stated that the Governors believed the issue of bonds should be not less than \$1,000,000,000, whereupon Governor Harding stated that Secretary McAdoo had stated that requirements of \$3,400,000,000, approved by the President, had been transmitted to the Appropriations Committee of Congress. Continuing Mr. Aiken said that working on the \$1,000,000,000 estimate it had been agreed by the Governors that $3\frac{1}{2}\%$ would carry the loan, although perhaps the larger output of bonds would result in modification of the interest rate.

Mr. Harding inquired whether the Government had better purchase the bonds of the Allied Nations or guarantee them, or hold aloof from their finances. Mr. Aiken responded that the Governors thought we had better float our own bonds and make the proceeds payable to the for-

eigners. Upon being questioned, all present agreed to this view, except Mr. Treman, who said that he would prefer not to express an opinion. Mr. Aiken stated that the Governors believed the bonds should be redeemable in five years from issue, with a provision for redemption thereafter. One of the most serious matters in regard to the whole situation would be the mode of sale. It was believed that this should be done through Federal reserve banks. As to payments, he thought they should be certainly made through the reserve banks to the Government.

Mr. Harding said the Secretary of the Treasury was somewhat inclined to keep the funds on deposit with national banks, and Mr. Delano suggested that the Board look carefully into the English rule during the recent loan of five billion which was designed to discourage banks from subscribing, while leaving subscriptions on deposit with the banks which had received them.

At this point discussion of the bond question was suspended, and Mr. Harding called the attention of the Governors to the question of a reserve statement for the use of member banks reporting to Federal reserve banks, suggesting that it

would be well to have the Governors express an opinion on this subject.

On motion at 4.57 p.m. the joint session adjourned to meet on Friday, April 6, at 11.30 a.m.

APPROVED:

[Handwritten Signature]
Chairman.

[Handwritten Signature]
Secretary.