At a joint session of the Federal Reserve Board and the Governors of Federal reserve banks held in the office of the Board on Friday, April 6, at 11.30 a.m.,

PRESENT:

Mr. Delano, presiding, Mr. Hamlin,

Mr. Williams, Mr. Willis, Secretary.

Mr. Harding present during the latter part of the session.

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

Mr. Aiken said that the minds of the Governors had been disturbed upon seeing in the newspapers statements with reference to the conference of the preceding day with respect to the sale of Government bonds. Nothing whatever had been made known concerning the conference by any Governor present. In order to call the matter formally to the attention of the Board, the following resolution had consequently been adopted:

WHEREAS there appears in two afternoon papers a statement of certain matters under discussion by the conference of governors from which it might appear that some one connected with the conference has been giving out information concerning its deliberations,

BE IT RESOLVED that the chairman of this conference be requested to assure the Secretary of the Treasury and the Federal Reserve Board that no one connected with this conference has given to any one any information on this or any other subject on our programme or being discussed by the conference.

Mr. Aiken then reviewed the work done by the conference since the last joint session with the Board. He outlined the substance of a conversation had by the Governors with Statistician Jacobson with reference to reports of condition of member banks to be sent to the Statistical Division of the Board by reserve banks. He stated that the Statistician desired to have these reports transmitted direct to him, and that the reserve banks would act accordingly.

With reference to branches, Mr. Aiken stated that the following resolution favorable to the creation of agencies, which had been adopted by the conference, represented the position of the Governors present:

RESOLVED that it is the sense of the Conference that agencies of the Federal reserve banks instead of branches be established.

In our opinion an agency as distinguished from a branch is under the absolute direction of the reserve bank and the management of an agency shall be selected by the reserve bank.

The functions of an agency should be

(a) To do all things necessary in connection with the clearing and collection of items.

(b) To act as custodian for collaterals, etc., relating to the section served.

(c) To pass on eligibility of items which are offered for rediscount, or as collateral for advances.

(d) To make credit investigations in the section served.

(e) To perform such other duties as may be prescribed by the management of the reserve bank not inconsistent with the laws governing agents and principals, except that in no event shall an agency be delegated the power to rediscount for or make loans to a member bank nor to make open market purchases of investments except on specific instructions from the reserve bank."

As to collection, Mr. Aiken stated generally that he thought every effort should be made to enlarge the existing system, and that this was the general opinion of all participating.

Mr. Aiken then took up the question of amendments, and said that the Governors desired to recommend some minor changes in the Board's draft of amendments substantially as follows:

1. Specification of number of calls to be made each year for condition of member banks.

2. Alteration of wording as to the limitation upon loans so as to make it slightly more liberal.

3. On page 8, line 9, of the Board's suggested bill, omit the word "so".

4. On page 9, line 7, of the bill omit the word "maturing."

5. On page 9, lines 11 to 21, as to acceptances, make clear whether the language includes acceptance of finance bills.

6. On page 11, collateral notes of member banks have not been included in the classes of security which may be offered against Federal reserve notes. The Governors believe that they should be included.

7. On page 12, line 11, the meaning of the word "retire" should be made clear.

8. On page 13, line 21, the word "if" should be omitted.

9. On page 16, the conference was of opinion that gold, notes, etc., should be held by reserve banks and carried on the books of the bank, not in joint custody with the agent or subject to joint liability. The idea of joint liability was not sound, and the reserve banks were opposed

to it.

10. On page 17, line 17, the word "necessarily" was obscure in meaning and might result in placing undue expense upon reserve banks.

11. On page 11, line 13, the word "net" was unsatisfactory, and the word "collected" should be substituted for it both there and wherever the same language occurred elsewhere.

Mr. Harding resumed the chair during the discussion of the amendments, and informed the Governors of the substance of the conversation he had this morning had with the Senate Committee on Banking and Currency.

With reference to the so-called Kitchin Bill, Mr. Aiken stated that the Governors had adopted a resolution as follows:

> WHEREAS it is stated that there is to be reintroduced in the present Congress for enactment the so-called Kitchin Bill, the purpose of which is to so amend the Federal Reserve Act as to permit National banks to impose exchange charges contrary to the basic principles of the Federal reserve collection system, and
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> WHEREAS it is understood that under the direction of a committee of the American Bankers' Association, known as the "Committee of Twenty-five", a vigorous and far-reaching campaign is being conducted to bring influence upon the Congress to secure the enactment of the Kitchin Bill, and
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> Whereas it is the belief of the Governors of the several Federal reserve banks that should the Kitchin Bill become law it would not only serve to nullify the great bene-

fits which would accrue to the business interests of the country under the operation of a scientific, direct and efficient collection system, but its enactment would seriously affect and seriously injure the best and broadest development of the Federal reserve system, therefore,

BE IT RESOLVED that the Governors in Conference earnestly urge the Federal Reserve Board to use every legitimate means possible to prevent the enactment of the Kitchin Bill when introduced into Congress, and to promptly develop and put into the fullest operation the Federal reserve collection system

The reading of this resolution was succeeded by general discussion of the Kitchin Bill and the clearing system as a whole.

Mr. Van Zandt called attention to the status of those reserve banks which are situated in non-subtreasury cities, suggesting that they are subjected to considerable difficulty in getting small coin, and Mr. Aiken read the following resolution expressive of the views of the Governors on that subject:

WHEREAS it appears that some of the Federal Reserve banks located in non-subtreasury cities are called upon by their member banks for supplies of currency of small denominations, silver and minor coins, the furnishing of which relieves the Treasury Department from these demands, and

WHEREAS the furnishing of these forms of money is a matter of public benefit, now therefore, be it

RESOLVED that the Federal Reserve Board be requested to use its efforts toward making arrangements with the Treasury Department whereby a Federal reserve bank, in exchange for gold, may have deposited in its vaults, without expense to the Federal reserve bank, such amounts of currency of small denominations, silver and minor coins, as said Federal Reserve Bank may apply for in order to be able to meet the demands of its member banks for such moneys.

Generally speaking the Governors expressed the opinion that the Treasury should keep constantly on deposit with Federal reserve banks a certain supply of coin of all kinds.

Mr. Aiken next referred to the question of abrasion of coin, saying that it was desired to have the outstanding gold coinage reminted, the Government to absorb and pay for the loss resulting from abrasion.

Mr. Harding then called attention to a suggested form of inter-district draft which he submitted to them for expression of opinion as to its suitability.

Mr. Aiken then took up the question of an issue of Government bonds, and said that a sub-committee of three governors had last night considered the problem of bond issues, and had prepared and submitted to the others at this morning's meeting a memorandum relating to the question, which he submitted as follows as the joint opinion of the conference:

Amount.

$1,000,000,000 or more without maximum limit, free from all taxes (except inheritance taxes) with privilege of conversion into subsequent issue of higher rate bonds issued during the period of the war or within some specified time, we would suggest that a provision should also be made for the conversion of United States 30-year 3% Conversion Bonds acquired by the Federal Reserve Banks under the provisions of Section 18 of the Federal Reserve Act. This seems only fair to the purchasers of such bonds. The new issue of bonds should not be available for circulation privileges.

Rate.

3% minimum. Rate should be sufficiently high to insure the absorption of the issue by ultimate investors, so that the funds of the banking institutions should not be absorbed.

Price.

Par and accrued interest.

Terms.

Redeemable at par and interest five years from date of issue; to be retired annually thereafter at the rate of five per cent of the total loan per year - retiring the whole issue in twenty-five years. Bonds to be drawn by lot for retirement; provision to be made by taxation for the payment of bonds so retired.

Denomination.

Coupon or registered, $100., $500., $1000.
Registered only in excess of $1000.

Subscription:

To be handled by Federal Reserve Banks as fiscal agents of the Government; subscriptions to be received by all national banks, state banks, trust companies, savings banks, and designated private bankers, and post offices, acting for the account of the Federal Reserve Bank of the district in which such subscription agencies are located. Methods of publicity to be worked out. We would suggest that a publicity campaign should be started at once, and that a committee of first class publicity men be assembled who shall be assigned to the work of handling the whole question of material and distribution. The actual expenses to be paid by the government. We feel that this is a question of the utmost importance, and should be developed as fast and to as wide an extent as possible.

Method of Payment.

As the full proceeds of the issue will not be needed at once it is proposed to issue to subscribers:

(a) For amounts of $1000. or less in negotiable receipts or bonds, the full amount of their subscriptions.

(b) For subscribers for amounts in excess of $1000. negotiable receipts calling for quarterly payments, date of such payments to correspond with interest date of such bonds, receipts to carry interest on the payments as made, final delivery of bonds to be made on delivery of full-paid receipts.

Interim needs of the Government between payments to financed by issue of short time Treasury bills.

Disposition of proceeds of subscriptions.

In order that there may be as little disturbance as possible of the money market at the time of payment of subscrip-

tion, it is essential that so far as possible payments be left on deposit in institutions receiving subscriptions. It is suggested that legislation be obtained authorizing the Federal Reserve Banks for the purpose of assisting such financing, to maintain balances in member banks to an amount not to exceed the capital of such member bank, or perhaps it would be more consistent with various sections of the Federal Reserve Act to limit such deposit balance to 100% of the capital and surplus of member banks. Such a credit to the Treasurer of the United States upon the books of the Federal Reserve Banks will seriously affect the reserve situation of the Federal Reserve Banks and exemption from reserve requirements applicable to Government special deposits should be made. Failing such a provision, the reserve position of the Federal Reserve Banks will be seriously affected, a matter that should have most serious serious consideration because of its relations to the commercial interests of the country.

FEDERAL ADVISORY COUNCIL.

It is suggested that the services of the Federal Advisory Council should be availed of to get as definite information as possible to the local conditions in the different sections of the country represented by the Federal Reserve Banks, and probably the opinions of the members of the Advisory Council would accurately reflect such conditions both as to the general public's attitude, and more essentially the effect upon the money situation in each district.

Mr. Harding suggested the appointment of a committee of three governors to visit the Secretary of the Treasury this afternoon, and inform him generally of the views of the Governor with relation to bonds. The suggestion was accepted, Mr. Aiken stating that he would appoint such a committee.

Mr. Seay brought up the matter of the old 3% bonds, still held by the reserve banks, inquiring how they would be affected by the issue of the new bonds now contemplated. Some discussion of this subject ensued, but no action was taken.

On motion at 1.45 p. m. the joint session adjourned.

Secretary.

APPROVED:

Chairman.