

At a regular meeting of the Federal Reserve Board held in the office of the Board on Thursday, May 10, at 11 a.m.,

PRESENT:

Mr. Harding, presiding,	Mr. Williams,
Mr. Warburg,	Mr. Miller,
Mr. Delano,	Mr. Willis, Secretary.

The minutes of the meetings of the Board held on May 3 and May 5 were read and, on motion, approved.

The minutes of the meeting of the Executive Committee held on May 7 were read and, on motion, approved and the action therein set forth ratified.

A communication from the Federal Reserve Bank of Philadelphia making application for reduction of their rate on all classes of 15 day paper from  $3\frac{1}{2}$  to  $3\%$ , was read and, on motion, the  $3\%$  rate was approved.

A communication from the Federal Reserve Bank of Cleveland proposing a rate of  $3\%$  on 15 day paper of member banks secured by Government certificates and bonds, was read. Discussion ensued, and Mr. Miller moved to authorize a rate of  $3\%$  for 15 day paper of all classes at Cleveland, accompanied by an expression of the opinion of the

Board to the effect that in approving the rate on 15 day paper no preference or discrimination should be based on the kind of collateral protecting the note.

In connection with Mr. Miller's motion, Governor Harding stated that he had this morning had a conversation with the Secretary of the Treasury who had proposed to him a plan for reconstructing the amendment to the Federal Reserve Act relating to note issue now pending in Congress. The Secretary had said that he thought an eventual issue of \$10,000,000,000 in all of Government bonds must be reckoned upon. With this in prospect, war financing would become the chief banking business of the country, and commercial paper would tend to become short in supply. Hence it was desirable to alter the pending amendment so as to permit the use of Government obligations to protect Federal reserve notes instead of commercial paper. The Secretary intended, therefore, to ask the conference committee to alter the amendment in such a way as to permit the protection behind the notes to consist of 40% of gold, 30% of commercial paper, and 30% of Government securities. He intended further to suggest that a discriminating tax of 1% per annum be imposed upon the amount of notes protected by these combined classes of securities, it

being understood that the notes issued on the gold and commercial paper basis, now in effect, would be favored to that extent. The purpose of the whole plan was to avoid a danger of currency stringency.

In discussion of the plan thus suggested by the Secretary of the Treasury and brought to the attention of the Board at his request through Governor Harding, it was the consensus of opinion that the Board could not favor the proposed alteration, the Governor to notify the Secretary to that effect.

Consideration of Mr. Miller's motion recurring, he offered a modification or substitute therefore, and accordingly it was, on motion, voted that the Secretary of the Board reply to the application of the Federal Reserve Bank of Cleveland stating that the Board approved a 3% rate on 15 day member bank notes. Mr. Miller stated that he changed the form of his motion in order not to delay action on the Cleveland rate and in order not to prejudice the question of principle raised in his former motion. This understanding was agreed to.



A letter from Senator Fall inquiring whether State securities could be used as a basis of loans at Federal Reserve Banks, was referred to Counsel with the understanding that the resultant opinion as to the validity of the proposed securities would be returned to the Governor of the Board for action by him.

The Secretary of the Board submitted a resolution relating to the management of the Gold Settlement Fund, as follows:

Resolved, That the action of the Federal Reserve Board of January 25, 1917, relative to the management of the Gold Settlement Fund be modified as follows:

It is directed that the upper combination of the safe in which the gold certificates are kept shall be held by Mr. Allen and Mr. Willis, and the lower combination by Mr. Imlay and Mr. De La Mater.

Transfers, payments and other operations of the Fund shall be handled by Mr. Allen, as Fiscal Agent of the Board, code telegrams to be checked by at least one other person, and duplicate numbered copies, with the translation indicated thereon, be forwarded to the Division of Statistics that the necessary entries on the books of the Gold Settlement Fund may be made, which is understood to include the Federal Reserve Agents' Fund.

It is directed that the books of record of the Gold Settlement Fund be transferred to the Division of Statistics and that all entries in such books be made by persons assigned to the work by the Chief of that Division. It will be the duty of that Div-

ision to conduct and be responsible for the weekly clearing, including the making of the necessary entries on the books and the preparation of telegrams of advice. No entry shall be made upon the books except in connection with the weekly settlement unless signed authorization is received.

Continuous audit will be maintained by the Division of Audit and Examination, one of the two representatives of which Division is to be present whenever the safe is opened.

In the absence of the Fiscal Agent, Mr. Allen, the Secretary of the Board, Mr. Willis, will assume custody of the certificates and the management of the Fund.

Also the following:

RESOLVED, That Sherman Allen, Settling Agent, Gold Settlement Fund, be authorized to turn over the combination for the safe and custody of the certificates making up the fund, together with the management thereof, to H. Parker Willis, Secretary of the Board, from and including May 7, and that Mr. Allen be authorized to accompany Mr. Hamlin in connection with the entertainment of Lord Cunliffe by various Federal reserve banks.

On motion the resolutions thus offered were approved.

The Secretary of the Board having reported that the Mississippi Valley Trust Company had accepted the conditions relating to its application, previously fixed by the Board, its application for stock in the Federal Reserve Bank of St. Louis, amounting to 3900 shares, was, on motion, approved.

A recommendation of the Comptroller of the Currency in favor of the reduction of the capital stock of the National Bank of Waterville, New York, from \$150,000 to \$50,000, was, on motion, approved.

The question of admission of the Bank of Colville, of Colville, Washington, to the Federal Reserve System, and an opinion of Counsel relating to the status of this bank with reference to its branches, was, on motion, referred to the Federal Reserve Bank of San Francisco.

A letter from Federal Reserve Agent Sawyer with reference to the question of the issue of currency on 15 day notes of member banks, was referred to the Governor for reply.

A letter from Hon. Swagar Shirley with reference to action regarding a branch bank at Louisville, was read and noted.

A letter from Mr. Jas. E. Zunts recommending the appointment of Mr. Edwards of New Orleans as manager of the Federal Reserve Branch at that point, was read and noted.

A letter from Governor Seay recommending that the date when the new Federal reserve exchange system becomes effective be deferred, also a letter from Deputy Governor



Treman to the same effect, were read and, on motion, referred to the Executive Committee with power to act.

A letter from the Simmons Hardware Company of St. Louis urging that no compromise on the question of check collection be entered into, was ordered circulated.

A letter from Governor Seay with reference to the duty of the Reserve Bank of Richmond in respect to making very short term loans to the Government, was read and, on motion, referred to Governor Harding for reply.

A letter from Governor Seay with reference to the question of the form in which payment of internal revenue duties should be made, was read and, on motion, referred to the Secretary of the Board with instructions to bring it to the attention of the Assistant Secretary of the Treasury in charge of fiscal affairs, and to make proper reply.

A letter from Governor Seay with reference to the use of gold by the Treasury in making payments to non-member banks, was read, and ordered circulated.

A letter from Hon. Carter Glass relative to the admission of the Merchants Loan & Trust Company of Chicago to the Federal Reserve System, was read and, on

motion, referred to the Committee on the Clayton Act.

A letter from Federal Reserve Agent Perrin with reference to the admission of Coffman, Dodson & Company to the Federal reserve system, was read and noted.

Letters from Mr. J. M. Witherow addressed to the Board and to the President of the United States, also from Mr. C. F. Lowrie, regarding the financing of the wheat crop, were read and, on motion, referred to the Committee on Operation of the Federal Reserve Bank of Minneapolis.

An opinion of Counsel with reference to deposits of public funds in member banks, and the release of reserve against them, under existing law, was read, and, on motion, approved and ordered released for publication in the Federal Reserve Bulletin.

A letter from Federal Reserve Agent Jay with respect to the postponement of the date of the proposed conference of Federal Reserve Agents, was read and, on motion, laid on the table pending further advices.

A letter from the Pompeian Oil Company addressed to the Secretary of the Treasury, was brought to the attention of the Board and noted.



Changes in capital stock, duly recommended by the Committee on Member and State Banks, were approved as follows:

<u>District No. 5.</u>		Shares.
Farmers & Merchants Natl Bank	Stanley, Va.	18 18
<u>District No. 9.</u>		
First National Bank	Joplin, Mont.	17
First National Bank	Van Hook, N.D.	<u>17</u> 34
<u>District No. 10.</u>		
First National Bank	Butler, Okla.	17
First National Bank	Pocasset, Okla.	<u>15</u>
<u>District No. 11.</u>		
First National Bank	Carrizozo, N.M.	15
Border National Bank	El Paso, Tex.	<u>135</u> <u>150</u>
		Total..... 234

A letter from Governor Strong with reference to the question of discontinuing the issue of small gold certificates, also a letter from the same stating reasons why the power of savings banks to subscribe to the new loan is limited, and recommending an amendment permitting reserve banks to make loans to savings banks on collateral under specified conditions, were read and noted, both being left in the hands of the Governor for such action as he might deem best.

A report of the Committee on Staff recommending an

increase in the salary of National Bank Examiner Burrell from \$3000 to \$3300 per annum, effective May 1 or later, was read and, on motion, approved.

A letter from Hon. Miles Poindexter with reference to the selection of a director for the branch of the Federal Reserve Bank of San Francisco at Spokane, and also a telegram from the Davenport National Bank addressed to the Secretary of the Treasury on the same subject, were read and, on motion, referred to the Committee on Operation of the Federal Reserve Bank of San Francisco.

A letter from Governor Rhoads of Philadelphia with reference to the question of exempting employees of Federal Reserve Banks from military service, was read and it was agreed that Mr. Rhoads be informed that the matter is already under advisement.

A letter from Senator Hale offering to the Board the services of trained accountants if needed, was read and noted.

A dispatch from the Department of State announcing the coming of Mr. Knut Bachke was read and noted.

A memorandum of Counsel with reference to certain additional amendments to the Federal Reserve Act, was presented and laid on the table for the time being.

An opinion of Counsel with reference to classification of certain loans secured by real estate bonds, and a memorandum of the office of the Comptroller of the Currency relating thereto, were presented and, on motion, referred to the Governor to reply in accordance with the substance of the opinion.

The Secretary of the Board reported the status of the proposed official Government Bulletin.

A letter from Governor Wold with reference to the use of gold coin by postmasters in paying employees, was read and, on motion, referred to the Governor for suitable action.

Discussion of the question raised by the proposed changes in the Federal reserve note amendment now pending in Congress, recurred, the Comptroller of the Currency having entered the room since the previous discussion of the subject. The Comptroller was called upon to state his views with respect to the matter and did so. It was agreed to defer further discussion of the situation to an informal meeting to be held at 3 p.m. this day in the office of the Governor, at which time the whole question

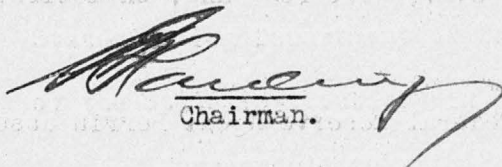


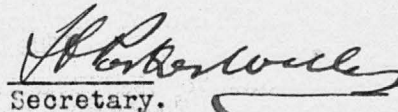
of pending amendments should be considered.

A report of the Committee on Member and State Banks recommending the admission of the Winchester Trust Company of Winchester, Mass., was presented to the Board and, on motion, approved.

On motion at 1 p.m. the Board adjourned, to meet on Friday, May 11, at 11 a.m.

APPROVED:

  
Chairman.

  
Secretary.