At a special meeting of the Federal Reserve Board held in the office of the Governor on Thursday, June 21, at 11 a.m.,

PRESENT:

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

The minutes of the meetings of the Board held on June 20, morning, and June 20, afternoon, were read and, on motion, approved.

A letter from Governor Strong of the Federal Reserve Bank of New York, officially conveying to the Board a list of allotments in the discount transaction in connection with the British joint stock banks and the Bank of England, aggregating $52,500,000, was presented to the Board and noted, formal action approving the allotments having been taken on June 20. An explanatory minute was ordered entered to the effect that the $52,500,000 authorized represents the $50,000,000 originally authorized, plus interest.

A telegram from Mr. Albert Hart of New Orleans asking relief from the present Spanish exchange situation,
and a request of Mr. Nathan Musher for a hearing before the Board on the same subject, were presented. Discussion ensued and the feeling was expressed that the matter is really one to be disposed of by joint action of the Treasury and State Departments. On motion, the matter was laid on the table for the present.

On motion, it was voted that the Governor of the Board telegraph all Federal reserve banks as soon as the bill amending the Federal Reserve Act had been signed, that, in connection with the letter relating to the new form of consolidated statement, already sent out under date of June 29, it is the opinion of the Board that it would be conducive to the actual and relative strength of the banks that they, as far as possible, endeavor to keep gold reserves behind deposits and notes maintained upon a substantially equal basis, this, however, being merely a suggestion on the part of the Board.

Mr. Miller was recorded in the negative.

On motion of Mr. Hamlin, it was voted that Mr. Miller be asked to spread upon the record his objections to the resolution just adopted. Accordingly Mr. Miller submitted a statement on the subject as follows:
"In explanation of his vote, Mr. Miller expressed the opinion that, in a fair interpretation of the spirit of the Reserve Act as amended, the Board should not do anything by way of advice or suggestion to the Federal Reserve Banks which would unnecessarily disturb the status which the gold had been impounded with the Federal Reserve Agents in exchange for Federal reserve notes had acquired. This impounded gold, he said, had something of the nature of a trust fund. It had been placed there in exchange for the Federal Reserve note, giving to those notes a special quality and protection.

"Under the terms of the Act as amended, Mr. Miller said, it was, of course, true that this impounded gold could be counted as a part of the gold reserve required to be maintained against Federal reserve notes outstanding in actual circulation. The Act does not, however, sanction the counting of such gold as a part of the general gold assets or reserve of the Federal Reserve Banks. It may count only as reserve against notes, not against the banks' general liabilities. It is, no doubt, possible for the banks, by availing themselves of the right conferred by the Act, to "draw down" gold with the Federal Reserve Agents by depositing with them other eligible security. Without raising any question as to whether or not notes secured by Government bonds instead of commercial paper, when used as a basis for the issue of Federal reserve notes to Reserve Banks, are in keeping with the spirit of the note issue theory of the Act, Mr. Miller was definitely of the opinion that the substitution of any form of eligible collateral for the purpose of drawing down gold in order to add it to the gold holdings of the Reserve Banks for the sake of improving the Reserve Banks' statement of condition and giving it a greater appearance of strength, was not in the spirit of the recent amendments. If it was the intent of the law that the gold acquired in exchange for Federal reserve notes should, when in excess of 40% of the notes in actual circulation, be treated as a part of the gold reserve of the Bank, the law would have specified it
instead of restricting the reserve availability of this gold to use as reserve against outstanding notes.

"The proposition, therefore, to substitute eligible collateral for gold, thus transferring from the gold reserves behind the Federal reserve note to the gold reserve held by the Federal Reserve Bank, is, in effect, doing indirectly what the law does not allow to be done directly. Mr. Miller stated that while the gold impounded with the Federal Reserve Agents could be availed of in this indirect manner to strengthen the gold reserves of the Federal Reserve Banks, it could not to be done except under some real necessity for its use by the Reserve Banks in extending accommodation in the form of reserve credits to a greater extent than would otherwise be possible without a serious impairment of their reserves. Such a situation, said he, had not as yet come to pass, and until it did, he was unwilling to vote for the taking down of the note reserve, preferring to treat that as a secondary or emergency reserve to be used only as some real occasion necessitated it."

Mr. Warburg submitted a draft of a letter addressed to Federal reserve banks designed to put into effect the new reserve requirements. The letter was approved, subject to change of date if deemed necessary by the Executive Committee.

Governor Harding read a telegram received from Federal Reserve Agent Ferrin with reference to a proposed dinner to be participated in by those who had assisted in placing the Liberty Loan in the San Francisco District. On motion, it was voted that the Governor send a congratulatory telegram to be read at the dinner expressive of the Board's
appreciation of the work accomplished.

On motion, it was voted that the Committee on Law refer to Mr. J. P. Cotton, through counsel, the question of the actual status of State bank members of the Federal reserve system under the Clayton Act.

Mr. Miller called the attention of the Law Committee to a motion made by him and adopted some time ago, inquiring whether Mr. Cotton's services as consulting counsel were still required. It was informally reported that a new basis of relationship with Mr. Cotton would probably be recommended to the Board in the near future.

On motion, a report of the Committee on Staff recommending the approval of a salary of $110 per month for Mr. D. L. Carmichael, and of $80 per month for Mr. F. B. Childress, both of the Federal Reserve Bank of Atlanta, was approved.

On motion a report of the Committee on Operation of the Federal Reserve Bank of Kansas City disapproving the payment of the proposed dividend of 3½% for the period January 1 to June 30, 1916, was adopted.

A petition from certain farmers of North Dakota
asking for the removal of Governor Cold and Federal Reserve Agent Rich, was referred to the Committee on Operation of the Federal Reserve Bank of Minneapolis.

Governor Harding suggested to the Board that the Committee on Operation of the Minneapolis Bank should, at some convenient date, proceed to Minneapolis and hold a hearing at which all complaints concerning the management of the Bank might be presented, with a view to subsequently making public its findings in the case. After discussion the proposal was laid on the table for the present, with the understanding that the Minneapolis Committee would make a preliminary report on the situation.

On motion at 12.35 p.m. the Board adjourned, to meet on Tuesday, June 26 at 11 a.m.

APPROVED:

Chairman.

Secretary.