

At a meeting of the Executive Committee of the Federal Reserve Board held in the office of the Board on Thursday, November 15, at 3 p.m.,

PRESENT:

- Mr. Harding, Mr. Hamlin,
- Mr. Warburg, Mr. Willis, Secretary.

Governor Harding submitted an opinion received from Counsel with respect to the warehousing of tobacco, receipts against it to be used as a protection for acceptance paper. The case in question related specifically to a memorandum submitted by Secretary Curtis of New York regarding certain financing of the American Tobacco Company, which is arranging a credit of \$25,000,000 with the Guaranty Trust Company, such credit to take the form of acceptances protected by tobacco in warehouse. The opinion of Counsel was to the effect that acceptances protected in this way, if drawn in technical compliance with the law, would be eligible for rediscount at Federal Reserve banks. The Committee informally accepted the opinion, subject to be set forth in a letter to Federal Reserve Agent Jay as follows:

November 15, 1917.

Mr. Pierre Jay,
 Chairman of the Board,
 Federal Reserve Bank,
 New York.

Dear Sir:

"The letter addressed by Mr. J. F. Curtis, Secretary of the Federal Reserve Bank of New York to Vice-Governor Warburg enclosing copy of a letter addressed to your bank by the Vice President of the American Tobacco Company, has been duly considered by the Board.

"It appears that the tobacco company has now, and will continue to have during the next two years, leaf tobacco valued at a large sum, stored in various localities. It is desired by the company to use this tobacco in the warehouses as security for certain credits to be obtained through the acceptance of drafts secured by warehouse receipts for this tobacco. It is proposed that a custodian be appointed who, although an employe of the company is, as custodian to be entirely independent of and is in no way subject to the orders of the American Tobacco Company. He is, on the contrary, to be the representative of the accepting banks so far as the custody of the tobacco is concerned, and is to be under their control and jurisdiction and is to give a bond with sufficient surety for a stipulated amount, for the faithful discharge of his duties. Although the letter itself does not expressly state the manner in which this custodian is to be given independent control of the warehouses in which the tobacco is held, the Board assumes that proper steps will be taken in each instance to comply with the requirements of the laws of any state in which a warehouse may be located so as to give him complete legal authority as warehouseman under those laws. For instance, in any case where the laws of a state require the warehouseman to have legal possession through lease or otherwise of the premises in which the goods are stored, it has assumed that proper steps will be taken to give this possession, and if necessary to prohibit access to the warehouse, except with the permission of the custodian, who should, of course, have an authorized representative at each warehouse. It is the opinion of the Board that in some respects it might be a better plan to have two custodians appointed, but in this particular case this point will not be insisted upon but will be left to the discretion of the accepting banks.

The Board agrees that if the custodian exercises his functions in that capacity separate and apart from his obligations as an employe of the tobacco company, and is not in any way subject to the control or jurisdiction of the company in his capacity as custodian, a warehouse receipt issued by him would come within the intent and spirit of the Board's ruling that such receipt must be issued by some person or corporation independent of the borrower. The Board is of the opinion further that there is nothing unusual or improper in a bank or a group of banks agreeing with a solvent borrower to accept drafts from time to time over a period of two years, on the security of readily marketable staples, properly warehoused and insured. An acceptance secured by approved warehouse receipts against such commodities, and having not longer than ninety days to run, will be eligible for rediscount by a Federal Reserve bank, but the Board is of the opinion that in a transaction of this kind the accepting banks should not purchase their own acceptances or ask the Federal Reserve bank to rediscount them."

Very truly yours,

Governor.

Governor Harding submitted an opinion of Counsel as to whether certain notes owned by the American Car and Foundry Company, and secured by equipment trusts representing the cars in use by certain oil companies, would be eligible for rediscount at Federal Reserve Banks. It was advised by Counsel that they would be so eligible in view of the fact that when the cars were sold, their sale was a commercial transaction, and it made no difference whether the purchaser of the property intended to use it commercially, or to regard it as a long period investment. It was noted, however, that the notes did not become eligible

for rediscount until within the specified period of maturity. No action was taken, but the matter was referred back to the Committee for inquiry.

A letter from Mr. W. B. Lancaster, addressed to the President, and relative to possible harsh action on the part of the banks in making collections under existing conditions, was read and referred to the Comptroller of the Currency.

Governor Harding stated briefly the views of the Secretary of the Treasury with reference to amendments to the banking law, and called particular attention to the question whether it would be wise to attempt to impose a tax upon interstate checks of nonmember banks. He described the results of a conversation he had had this morning with President Hinsch of the American Bankers Association, and Mr. J. H. Puelicher of Milwaukee, both being members of the Committee on Membership in the Federal Reserve System appointed by the American Bankers Association. Governor Harding stated that these gentlemen thought it would be unwise to attempt any coercive legislation at the present time. He further suggested the desirability of extending the present collection system. Informal discussion occurred, but no action was taken.

The question of the records to be kept at the meeting of November 8 being presented, the matter of providing a complete stenographic report was discussed, and it was agreed that a stenographer be present to act on direction of the Governor; and that if at any time a member of the Board should ask for a stenographic account of anything occurring in the meeting it should be made without taking a vote.

It was further agreed that no votes be called for from Board members during the open sessions at which the Governors of banks are to be present.

The question of directors for the Cincinnati Branch was then taken up, and it was, on motion, voted to elect the nominees named at the meeting of October 10, and accordingly the following were declared elected as Government directors at the branch:

Honorable Judson Harmon,

Mr. Charles A. Hinsch.

On motion, the following nominees named by the Federal Reserve Bank of Cleveland as directors of the Cincinnati Branch were confirmed:

Mr. W. S. Rowe,

Mr. L. W. Manning,

Mr. W. C. Proctor.

The Secretary of the Board was directed to give to the newspapers for use in the issues of Wednesday, November 7, (morning) the names of the new directors of the Cincinnati Branch.

Governor Harding presented a revised draft of proposed by-laws for use at the new Branches at Cincinnati and Pittsburgh, which was modified and informally accepted.

A memorandum of Chief Examiner Broderick regarding the method of custody of paper at the Federal Reserve Bank of San Francisco, was read and referred to Committee No. 3 for report as to the legality of the plan.

The resignation of Mr. A. J. Peters as director of the Federal Reserve Bank of Boston, was read and, on motion, accepted, the Governor to reply.

Governor Harding presented business as follows:

A letter from the Stockton Savings Bank relative to its proposed membership - noted and filed.

A letter from the Banque de Paris de des Pays-Bas to the Secretary of the Treasury, offering its services in exchange operations, was read and noted.

A letter from the Auburn, Me., Savings Bank, addressed to the Secretary of the Treasury and protesting

against the publication of the names of subscribers to Liberty bonds, was read and noted.

A letter from Federal Reserve Agent Heath relative to the German-American Bank of Saginaw, Michigan, and its desire to join the Federal Reserve System, was read and noted.

A letter from the President of the Washington Loan & Trust Company of Washington, D. C., asking for a conference on time deposits and reserve requirements as affecting the institution, was read and a conference with the Governor and Vice Governor of the Board was set for Wednesday, November 7, at 11 a.m.

A letter from Federal Reserve Agent Wellborn relative to the plans for the proposed vault at the Federal Reserve Bank of Atlanta, was read and noted.

Correspondence passing between Chief Examiner Gatch of San Francisco, President A. L. Mills of the First National Bank of Portland, Oregon, Federal Reserve Agent Perrin, and Mr. A. C. Miller, as to the part played by the First National Bank in connection with the Liberty Loan, was read in full. Governor Harding stated that a telegram sent by Mr. Gatch to the First National Bank was one which was transmitted at the request of the Comptroller of the Currency, who had asked all examiners to send out such a message to certain banks. The telegram

was sent without consultation with the Governor or any member of the Board. As soon as Mr. Harding heard of it on the day it was originally sent out, he got into touch with the Comptroller on the matter, and expressed doubt of the propriety of the Federal Reserve Banks giving information requested by the Comptroller as to what member banks had or had not subscribed for Liberty Bonds. He (Mr. Harding) had expressed regret at the sending of the message, and had himself sent the following message to all Federal Reserve Banks:

Comptroller has shown me telegram which he sent chief examiners regarding list of nonsubscribing national banks with proposed telegram to be sent them by examiner. This matter has not been brought before the Board, and I am uncertain as to the advisability of the action. Would suggest that you exercise your discretion in the matter.

This message had been stated in very moderate language so as not to embarrass the Comptroller. However he had learned next day that the telegrams arrived too late to have any effect.

The matter was referred to the Committee on the San Francisco Bank and the Governor.

A telegram from Federal Reserve Agent Perrin regarding clearing house examinations, was read and referred to

Mr. Miller for an interim reply.

Mr. Delano said the Post Office Department thought the war savings problem would be greatly simplified if it could be so arranged that any postmaster might deposit funds with any member bank in his town. Methods and difficulties in the way of attaining this end were discussed, but no action taken.

At this point the Comptroller of the Currency entered the meeting.

The report of Committee No. 3, dated November 2, relative to the acceptance of redeemed Federal Reserve notes at New Orleans, was read and, on motion, approved.

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The report of Committee No. 3 relative to interlocking directorships at the Union National Bank of Austin, Texas, dated November 1, was read and, on motion, approved.

The report of the Committee on Staff recommending the granting of permission to accept drafts and bills of exchange up to the amount of capital and surplus by the Mechanics National Bank of New Bedford, Massachusetts, was read and, on

motion, approved.

Upon recommendation of Committee No. 2, it was, on motion, voted to admit to the Federal Reserve system the following named applicant banks, upon conditions named in each case by the Committee:

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|----------------------------------|-------------------|
| Baltimore Commercial Bank | Baltimore, Md. |
| Peoples Trust Company, | Brooklyn, N.Y. |
| Farmers Banking Company | Prairie Depot, O. |
| Wayne County & Home Savings Bank | Detroit, Mich. |

Members of the Board informally explained to the Comptroller of the Currency the facts with reference to the correspondence between Messrs. Mills, Perrin, Gatch and Miller, already presented to the Board before the Comptroller entered the room. Discussion ensued but no action was taken.

On motion, at 6 p.m. the Board adjourned.

APPROVED:

Chairman.

A. P. [Signature]

Secretary.