

At a regular meeting of the Federal Reserve Board held in the office of the Board on Friday, January 4, at eleven a.m.,

PRESENT:

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

The minutes of the meeting of the Board held on January 2 were read and, on motion, approved.

The minutes of the meetings of the Executive Committee held on January 3 and 4 were presented and, on motion approved and the action therein set forth ratified.

On recommendation of Governor Harding, it was, on motion, voted to send instructions to each Federal Reserve bank in position to pay a dividend to day, to pay over to the Treasury such sum as under the Federal Reserve Act is due the Government as franchise tax. The Governor was further authorized to make public a statement covering the whole matter.

Governor Harding having presented a telegram from Federal Reserve Agent Curtiss of Boston naming a rate of 4 $\frac{1}{2}$ % on trade acceptances, it was, on motion, voted to ap-

prove the proposed rate.

Discount rate sheets (no changes being named) from various Federal Reserve banks were presented and the old rates ordered reapproved.

The Secretary notified the Board of the acceptance of appointments by Messrs. Peabody, Stern and Boehne.

A letter from Mr. A. W. Stone, General Manager of the Hood River Apple Growers Association, relative to the classification of apple paper, was discussed and the Secretary directed to send a suitable reply in accordance with the Board's regulations.

The special order of the day, the report of Committee No. 3 regarding the pledging and endorsement of paper at Federal Reserve banks, was thereupon taken up for consideration. After discussion it was, on motion, voted to adopt recommendations of Chief Examiner Broderick as follows, the Governor to instruct the banks accordingly:

MEMORANDUM:

In re - The Custody of Commercial Paper and other Eligible Securities Pledged with the Federal Reserve Agent as Collateral Security for Federal Reserve Notes.

Considering the tremendous volume of business now being handled by the Reserve Banks it is essential that the plan used for the deposit and custody of commercial paper with the Federal Reserve Agent should be as elastic as pos-

sible and at the same time comply with the provisions of the Federal Reserve Act.

The law provides that funds and reserve notes shall be in joint control of the Agent and the Bank.

In August 1917 the Board sent a memorandum to the Federal Reserve Banks in which it was stated that it is desirable that commercial paper and other eligible securities pledged as security for Federal Reserve Notes should be kept under joint custody. The Board wrote as follows:

"In this case, however, it would be proper, if desired, for the Federal Reserve Agent to designate a senior employee in the discount or credit department as his representative, and for the bank to appoint a similar representative to act as custodians of paper pledged."

The following plan is suggested with a view of simplifying the present method of handling pledged paper:

1. Pledge

All eligible paper may be pledged with the Federal Reserve Agent on the day of discount and placed in the joint custody of the Federal Reserve Bank and the Federal Reserve Agent. If desired, the Federal Reserve Bank may designate an employee in the discount department as its representative, and the Federal Reserve Agent may designate the assistant discount clerk, or an employee of the Federal Reserve Agent's Department, as his representative, to hold in joint custody all paper pledged as collateral security for Federal Reserve Notes.

The Federal Reserve Agent must have title to all paper pledged. Endorsements in blank are acceptable, but notes made payable to or endorsed to the Reserve Bank must be endorsed by the Reserve Bank in blank or specifically to the Agent.

2. Record.

A daily record is made by the Reserve Banks of all

paper discounted or purchased. A copy of this record is sent to the Federal Reserve Board. At the present time a record is also made on a special form giving the number and face amount of each note pledged with the Federal Reserve Agent. If all paper is pledged on the date of discount or purchase the following notation may be made in lieu of the listing of the numbers and amounts of each separate note.

"Notes Nos. - - - to - - - (except Nos. - - -) aggregating \$, more fully described in B. D. 4 and 7, have this day been pledged with the Federal Reserve Agent.

3. Withdrawal.

(a) Items settled for on payment date (including items paid for prior to maturity), and items withdrawn against excess collateral previously deposited.

It is necessary to list the number of the separate notes, drafts and bills of exchange withdrawn in order that the Agent may be in a position to trace or identify the items.

Nos. - - - - -
aggregating \$ - - - - -

(b) Items delivered to Reserve Bank prior to maturity, for collection.

Under the ruling of the Board April 12, 1917, Federal Reserve Agents were authorized to turn over maturing notes and bills to their respective Federal Reserve Banks for collection upon the execution by the bank of a receipt reciting the fact that the notes and bills are taken over for collection only, and provided further that notes so delivered should be endorsed to the Federal Reserve Bank "For collection for the account of the Federal Reserve Agent."

Under this ruling in the case of paper released by the Agent to the bank prior to maturity and for which cash settlement is not received, paper must be endorsed "For

Collection for the account of the Federal Reserve Agent", if the bank is to consider such paper as collateral security up to the date of maturity. The Agent must be given a receipt for all notes so released.

Endorsement stamp suggested:

Pay to the order of Federal Reserve
Bank of
for collection for account of
Federal Reserve Agent

Pay to the order of any bank or banker
for collection
Federal Reserve Bank

Cashier.

The point has been raised that some banks object to Federal Reserve Bank endorsements on customers' notes. In such cases a printed rider with a gummed edge could be attached to the notes when sent for collection. It is believed, however, that if the stamped endorsement is placed on all notes that there will be few objections.

4. Computation of Reserve and Equalization of Reserves against Notes and Deposits.

Under date of December 11, 1917, in answer to an inquiry from the Federal Reserve Agent at San Francisco, it was stated:

"Gold held in the vaults of the banks may be counted as reserve against Federal Reserve notes, consequently if the ratio which the gold held by the Agents plus the banks redemption fund bears to the notes in circulation in less than the ratio which the total cash held by the banks bears to their net deposit liabilities, then the bank may easily equalize reserves without actual transfer of gold, by reckoning as part of the note reserve a sufficient amount of gold held by it."

Note.

As a matter of policy it would be well for Federal Reserve Agents to retain, as part of the collateral security to Federal Reserve notes an amount of gold which, together with the Gold Redemption Fund, will be equal at all times to 40% of the Federal Reserve notes in actual circulation.

Mr. Hamlin was recorded as voting in the negative.

Reports of Committee No. 1 were approved and the action therein recommended accordingly ordered, as follows:

- Dated Dec. 31 Salaries at Federal Reserve Bank of Atlanta
- " " 3 " " " " " " "
- " " 3 Salary of R. B. Locke, Detroit.

Reports of the Special Committee on Reserve Cities recommending that the action taken as to the designation of Oakland, California, and Peoria, Illinois, as reserve cities be reaffirmed, were adopted, a reply accordingly to be sent by the Secretary.

Upon recommendation of Committee No. 2 the following named institutions were approved for admission to the Federal Reserve system upon conditions named by the Committee in each case:

- Hadley Falls Trust Co., Holyoke, Mass.
- Peoples Bank & Trust Company, Passaic, N.J.
- Kanawha Valley Bank, Charleston, W. Va.
- State Bank of Thompson, Thompson, Ia.

The resignation of Mr. W. S. Finch of the Board's staff was presented and, on motion, referred to Committee No.1.

The Governor presented the resignation of Mr. W. S. Cox in a memorandum from Counsel, which was referred to Committee No. 1; also a memorandum from Counsel as to a successor to Mrs. Croghan, and a report from Mr. Delano on the same subject, which was referred to the Committee with power to act, Counsel to be so advised.

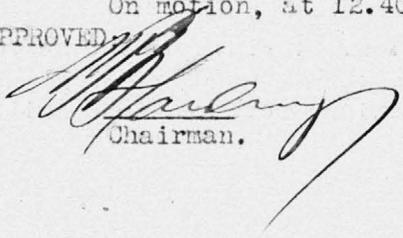
Mr. Miller presented a telegram from Federal Reserve Agent Perrin regarding the membership of California State banks in the Federal Reserve system.

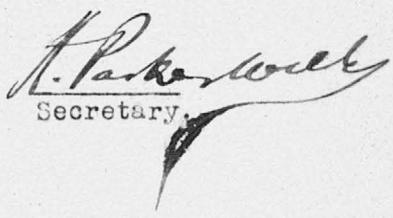
Discussion ensued and, on motion, it was voted that the Governor consult with the Secretary of the Treasury and, with his assent, prepare for the Board a letter to be sent to Governor Stevens and the other State executives concerned, regarding sessions of State legislatures looking to the adoption of acts providing for the membership of State banks.

Upon recommendation of Committee No. 3, it was, on motion, voted to grant to the First National Bank of Greenville, Mississippi, power to act as trustee, executor, administrator, and registrar of stocks and bonds.

On motion, at 12.40 p.m. the Board adjourned.

APPROVED


Chairman.


Secretary.