

A joint meeting of the Federal Reserve Board and the Federal Advisory Council was held at 3:00 P. M. Tuesday, February 19, in the Board's Assembly Room at which there were present the following:

Governor Harding, presiding,	Mr. Miller,
Mr. Warburg,	Mr. Hamlin,
Mr. Delano,	Mr. Allen, Assistant Secretary.

The following members of the Advisory Council:

Mr. Rue, Philadelphia,	Mr. Wilmot, Austin, Texas,
Mr. Rowe, Cincinnati,	Mr. Watts, St. Louis,
Mr. Wing, Boston,	Mr. Fleishhacker, San Francisco.
Mr. Lyerly, Chattanooga,	
Mr. Mitchell, Minneapolis,	Mr. Grim, Secretary.

Vice-Chairman Rue read the following recommendations of the Council on matters submitted for consideration by the Federal Reserve Board, stating that the recommendation as to Topic No. 1 was unanimous; that on Topic No. 3 the Council was divided if the term of the next issue of bonds was for five years, but united that the bonds should not be convertible if the term was for ten years; and that the recommendation as to Topic No. 10 was unanimous.

RECOMMENDATIONS OF THE
FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD.

February 19, 1918.

TOPIC NO. 1. Reserves to be carried by member banks in Federal Reserve Banks.

Recommendation: -

While the present system of requiring reserves of 13% in Central Reserve Cities, 10% to be carried by banks in Reserve cities, and 7% to be carried by so-called country banks may not be scientific and may work an injustice to some cities, nevertheless it is the opinion of the Council that during the existence of the war and while the whole banking system of the country is being subjected to unusual strain, it would be unwise to attempt any legislation looking to a change in reserves to be carried by member banks. The subject should have the close attention of the Federal Reserve Board and the Federal Advisory Council, so that when matters become normal the necessary legislation may be obtained to correct any inequalities and inconsistencies.

TOPIC NO. 2. Discount rates.

Recommendation:

There appears to be no immediate necessity to change the discount rates of the Federal Reserve Banks. However, an increasing tendency for rediscounts is likely to develop and it will probably be necessary to increase the rates of discount later on in order to protect the reserves of the Federal Reserve banks. The Council is however of the opinion that a preferential rate should continue to be accorded to loans secured by Liberty Bonds.

TOPIC NO. 3. Interest on Third Liberty Loan.

Recommendation: -

With the outstanding 4% Liberty bonds selling on the market from three to four points below par, it would not seem possible to successfully place a new loan at the same rate. It is the opinion of this Council that the next Liberty Loan should be a short term taxable 4½% bond, as the Government must more nearly approach the market

value of money if it would successfully place new issues of bonds. The Country generally, we believe, expects a bond bearing 4 1/2% interest and the effect of the increase has been discounted.

TOPIC NO. 4. Priorities in Capital and Bond Issues.

Recommendation: -

The Council approves of the supervision of Capital and Bond Issues as it is essential that private and corporate enterprises should not absorb the credit power of the country to the detriment of the Government's necessities, the latter being paramount.

TOPIC NO. 5. What steps, if any, may be properly undertaken in limiting commercial credits?

Recommendation: -

It is the opinion of this Council that the proper limiting of commercial credits would be aided if cautionary communications are sent to the various Federal Reserve Banks by the Federal Reserve Board bringing to their attention the desirability of the member banks curtailing the extension of all credits not necessary to the conduct of the war.

AMENDMENTS TO THE FEDERAL RESERVE ACT.

TOPIC NO. 6. Amending Section 4; Class A and Class B directors of Federal Reserve Banks.

Recommendation: -

The Council approves this amendment.

TOPIC NO. 7. Amending Section 11 (k), National banks acting as Trustee, Executor, etc.

Recommendation: -

The Council approves of both of the proposed amendments.

TOPIC NO. 8. Amending Section 16, ninth paragraph; Providing larger denominations of Federal Reserve notes.

Recommendation: -

The Council approves this amendment.

TOPIC NO. 9. Amending Section 19, paragraphs (b) and (c); affecting reserves of banks in central reserve and reserve cities, outlying districts.

Recommendation: -

The Council does not approve of the proposed amendment at this time, believing that this change should be taken up in connection with the whole subject of the readjustment of reserves at some later date, and would respectfully refer to their recommendation on Topic No. 1 herewith.

TOPIC NO. 10. Amending Section 25; (a) Foreign banking corporations; (b) Branches of member banks.

Recommendation: -

(a) This Council approves of National charters being issued to Foreign banking corporations formed under the Federal Reserve Act instead of State charters.

TOPIC NO. 10. (Cont)

Recommendation:

(b) In reference to the proposed amendment the Council would repeat its recommendation of November 20, 1916 as follows:

"We still adhere to the opinion expressed in our Communication to you of September 21, 1915, to the effect that the National Bank Act should be amended so as to permit the establishment of branches by national banks having an unimpaired capital and surplus of not less than \$1,000,000 in central reserve and reserve cities provided that no branches are placed outside of the limits of the city where the head office of the parent bank is located." We are advised that such a privilege granted to national banks would not be affected by State laws and in our opinion any Federal legislation granting such a privilege should apply to all banks in the national system of adequate capital.

TOPIC NO. 11. War Finance Corporation bill.

Recommendation: -

The Council is of opinion that the assistance contemplated in the War Finance Corporation bill is a public necessity at this time, and that legislation should be enacted granting such relief.

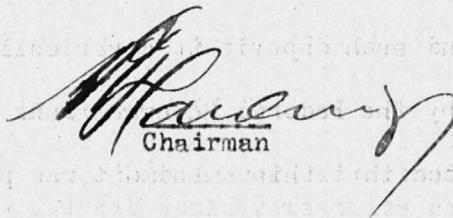
There was discussion on Topic No. 1, Reserves and Reserve Cities but without modification of the Council's recommendation.

There was presented a form of amendment under which State banks where heavy reserves are required by the State banking law may be permitted to join the Federal Reserve System on condition of their maintaining the reserves required by the State law and such deposit to cover collections as may be required by the Federal Reserve Bank of the district. It was stated that this amendment was principally of interest to State banks in California where

the State banking department has held that State banks joining the Federal Reserve System must maintain both the reserves required by the State law and those required by the Federal Reserve Bank. It was estimated by Mr. Fleishhacker that from twenty to thirty millions of gold would be absorbed by the Federal Reserve Bank of San Francisco through entry into the System of State Banks, if the amendment were to be passed by Congress. There being considerable objection to the amendment as drawn, it was agreed to insert the words "such plans as may be required by the Federal Reserve Bank and approved by the Federal Reserve Board", they being intended to cover the amount of balance to be maintained by State Banks with the Federal Reserve Bank in excess of the reserve required by the State law. The amendment as amended was approved by the Council and is attached hereto.

After informal discussion of other matters, the Council, at 4:30 adjourned without date.

APPROVED:



Chairman

Assistant Secretary