

At a joint meeting of the Federal Reserve Board and the Federal Reserve Agents held in the Assembly Room of the Board at 10 a. m., on Friday, March 1, 1918,

PRESENT:

Mr. Harding, presiding,	Mr. Williams,
Mr. Warburg,	Mr. Willis, Secretary
Mr. Delano,	Mr. Broderick, Chief Examiner.
Mr. Miller,	

Present also, Federal Reserve Agents Perrin, Heath, Martin, Wills, Jay, Curtiss, Wellborn, Rich, Ramsey (Kansas City), and Hardy.

Mr. Perrin as presiding officer of the Federal Reserve Agents outlined the method of work that had been pursued by the Federal Reserve Agents and called for the reports of committees.

Federal Reserve Agent Wills, as Secretary of the Federal Reserve Agents, thereupon read a report relating to different types of branches, as follows:

REPORT OF COMMITTEE ON QUESTIONS RELATING  
TO OPERATION OF BRANCH BANKS.

There are three types of branches now in operation, the Atlanta type, the San Francisco type, and the Cleveland type. While the branches operating under the different types seem to be meeting the needs of their communities,

we think it desirable to record a principle that should underlie not only the operation of the branches established, but should determine the policy of any branches to be established hereafter.

First, We do not consider it desirable or necessary to allot capital to branches.

Second, Any operations that would tend to impair or change materially the reserve condition of the parent bank should be absolutely under the control of the parent bank.

Third, In any Federal reserve district where branch points are not further away than a night's train service, the type of branch similar to that now being operated in the Cleveland district is found to work satisfactorily.

A discussion ensued and all who participated agreed that it was not necessary to segregate capital for the branches.

Mr. Delano inquired whether the different types of branches had been in existence long enough to provide reliable figures for cost comparisons. The general opinion was negative.

On motion, it was voted by the members of

the Board present to abolish henceforward the plan of segregating the theoretical capital on the books of branch banks.

It was further voted that henceforward branch discount operations shall be subject to the direct control of the parent bank.

Mr. Perrin then called for discussion on the question of auditing, and Mr. Broderick read a report as follows:

SUPERVISION OF AUDITS AND EXAMINATIONS  
BY THE  
CHAIRMAN OF THE BOARD OF DIRECTORS.

With the exception of the Chairman of the Board and the Auditor, all members of the official staff are connected with the operating department of the bank. The Chairman of the Board is appointed by the Federal Reserve Board and acts as its resident representative. He is also considered as an executive officer of the bank, presides at the meetings of the Board of Directors and is a member of the Executive Committee. The auditor is elected by and is primarily responsible to the Board of Directors. He is in charge of the internal



auditing of the bank, is expected to maintain an adequate check upon the various operating departments, to make examinations of branches, and also to maintain an audit on receipts and disbursements. In addition he periodically audits the accounts of the Federal Reserve Agent. Under the present plan all funds and paper are in the joint custody of the bank and the Federal Reserve Agent, so that to make a proper audit of the bank's accounts it is also necessary for him to check the accounts of the Agent. While the Auditor is elected or appointed by the Board of Directors, he is really chosen by the Governor to whom he looks for advancement in salary and position. In ten instances the Auditors have been elected Assistant Cashiers. With two or three exceptions the present Auditors are considered to be senior clerks occupying positions subordinate to the Assistant Cashiers. Recently attention has been directed to the increased importance of the audit work in the Federal Reserve Banks. In one bank the Auditor has a staff of over forty men. If the work is to be effective the Auditor must be permitted to act independently of the officers of the



bank. It is very desirable that the Chairman of the Board, who is not an operating officer, but who as Chairman of the Board of Directors, is its representative, should exercise active supervision over the auditing department.

There is also another side to this question which it is well to consider. The Chairman, while not an operating officer, is to a certain extent, responsible for the conduct of the affairs of the bank. For instance, as Federal Reserve Agent, it is necessary for him to be thoroughly familiar with the credit standing of payers of notes rediscounted or bought in order that he may intelligently pass on paper that is pledged as collateral security for Federal Reserve Notes. As Chairman of the Board he is a member of the executive committee. In this manner he is enabled to keep informed as to the loan operations of the bank. If the auditing department is placed under his supervision he will also be in touch with the condition of the operating departments.

At the recent conference of Federal Reserve Agents the question of the position of the Auditor

of the Federal Reserve Bank was the subject of a very lengthy discussion and it was the unanimous opinion that the banks interests would best be served by having the auditing department under the supervision of the Chairman of the Board. The following resolution was passed "That the auditing department be placed under the supervision of the Chairman of the Board, representing his Board of Directors, and that duplicate copies of all reports of the Auditor be submitted to the Governor of the bank."

As Federal Reserve Agent the Chairman of the Board receives from member banks copies of reports of condition rendered to the Comptroller of the Currency and to the State Bank Commissioners, and also copies of the reports made upon call of the Federal Reserve Board. He also receives from the National Bank Examiners copies of the reports of examinations made of National Banks and from the State Bank Commissioners copies of the reports of State examinations. These reports are in his custody, and are open to the inspection of the Governor, Deputy Governor, and manager of the Credit Department. In some banks the files of the Federal

Reserve Agent have been consolidated with the bank's files. In such case the credit files are considered to be under the joint control of the Governor and the Federal Reserve Agent. The reports above referred to are received by the Federal Reserve Agent as such and not as Chairman of the Board, and it is necessary for the reports to remain in his possession or in the custody of some one designated by him.

In a recent letter the Board stated that it is believed that in each bank there should be an examiner available at all times to make examinations, if and when necessary, of banks applying for or which have been admitted to membership, to make joint examinations with state or other authorities, and to make any other special investigations. In accordance with this suggestion a number of the Reserve Banks have added an experienced examiner to the staff. The Federal Reserve Bank may, with the approval of the Federal Reserve Agent or the Federal Reserve Board, provide for the examination of member banks within its district. . With respect to State banks the law reads, "as a condition of membership State banks shall likewise be subject to examinations made by direction



of the Federal Reserve Board or of the Federal Reserve Bank by examiners selected or approved by the Federal Reserve Board. It is very desirable that examinations made by representatives of the Federal Reserve Banks shall be under the supervision of the Federal Reserve Agent.

It is respectfully recommended that a letter be addressed to the Chairman of the Board of Directors at each Federal Reserve Bank indicating therein the views of the Board with respect to the resolution passed at the conference of Federal Reserve Agents and to the other points referred to previously in this memorandum.

It is respectfully suggested that the following points be incorporated in the letter:

1. That it is the view of the Board that the Chairman of the Board of Directors shall exercise active supervision over the auditing department and that no changes be made in the personnel or salaries in that department except with the consent of the Chairman of the Board. It is the duty of the Auditor to maintain a check upon all earnings and disbursements and upon the work of every

department of the bank. Full and complete reports should be made to the Chairman of the Board as a representative of his Board of Directors, but duplicate copies of all reports of the Auditor should be submitted to the Governor of the Bank. With the increase in the volume of business handled by Federal Reserve Banks, the position of Auditor has become a very important one and should attract men of standing and ability. It is suggested that in exceptional cases and in each instance subject to the approval of the Federal Reserve Board the title of Comptroller be given to the Auditor, the position to be one equal in importance to that of the Cashier. This change is considered desirable by reason of the increased importance of the work and with the view of securing and retaining the services of men of recognized banking and accounting ability. The name of the Comptroller or Auditor should appear in all lists of officers.

2. All reports of condition received from member banks and all copies of reports of examinations made by state and national examiners should be in the custody of the Federal Reserve

Agent or of a representative designated by him. If such reports are kept with the credit files of the bank, the credit department of the bank should be considered as being under the joint control of the Federal Reserve Agent and officers of the bank.

3. It is desirable that all examinations made by representatives of the Federal Reserve Bank shall be under the supervision of the Federal Reserve Agent and that examiners shall be subject to his direction. Recently a number of the banks have added an experienced bank examiner to the staff. In addition to special examinations of member banks and banks applying for membership, it would be well to assign to such examiners the duty of scrutinizing the reports of examinations filed with the Federal Reserve Agent, checking the investment values as shown in the report, and making an analysis of the bank's condition. With respect to state banks applying for membership the examiner's analysis should be made in connection with reports of the state bank examiners, which were accepted in lieu of special examinations by examiners of the Federal Reserve Banks. No examination or special investigation should be made



of a member bank or of a bank applying for membership except by examiners who have been approved by the Federal Reserve Board.

Governor Harding having inquired about the auditing practice of each Federal Reserve Bank, statements were made as follows:

Mr. Hardy - At Richmond the audit bureau is independent of the bank and reports to the Federal Reserve Agent.

Mr. Martin - At St. Louis the auditor reports to the Governor and Agent but is under the direction of the Governor.

Mr. Jay - At New York the auditor is an officer of the bank and reports to the Governor and Chairman.

Mr. Curtiss - The practice at Boston is the same as at St. Louis.

Mr. Wellborn - At Atlanta the auditor is under the direction of the Agent and reports to the Agent.

Mr. Ramsey - At Kansas City the practice is the same as at St. Louis.

Mr. Rich - At Minneapolis the auditor re-

ports to the Board of Directors through the Governor.

Mr. Austin - At Philadelphia the auditor is a member of the bank staff and makes monthly reports to the Board of Directors.

Mr. Wills - At Cleveland the plan of original organization charted is followed, the auditor being responsible to the Agent.

Mr. Heath - At Chicago the auditor reports to the Governor and through him to the Board of Directors. The Chicago Board of Directors has, however, never taken a definite position on the matter.

Governor Harding inquired whether there would be any trouble about introducing a new plan wherein the auditor would report to the Federal Reserve Agent and Mr. Wills said that there would be no trouble provided the report were made to the Agent as Chairman of the Board.

General discussion of the mode of addressing the Federal Reserve Agent, whether as such, or as Chairman, or otherwise, was engaged in, and objections were expressed to use of the title of Federal Reserve Agent.

The status of Assistant Federal Reserve Agents

was next taken up for discussion, and it was the consensus of opinion that the Assistant Federal Reserve Agent should not serve in the place of the Federal Reserve Agent as a member of the Executive Committee or the Board of Directors.

With reference to the general question of sending information and instructions from the Board to the Governor and Chairman of the banks simultaneously, Governor Harding said that the matter had often come up and that he had asked Assistant Secretary of the Treasury Leffingwell to inform them simultaneously on Liberty Loan matters. He thought, however, that as a matter of comity, each Board of Directors ought to arrange to have all important communications transmitted from one officer to the other. In this connection Mr. Perrin expressed the opinion that while there might be confidential communications passing between the Board and the Chairman of the Bank, he could not see how anything in the bank could be regarded as confidential as against the Chairman of the Board of Directors. Mr. Wellborn thought that the trouble under the present situation lay in the fact that the different Chairmen were too



timid. Mr. Martin thought that the status of the Chairman was not well defined and that there was a prevailing view that he was not entitled to any more consideration than any other Director with regard to the operations of the bank.

Mr. Ramsey asked how the Assistant Federal Reserve Agent should sign, - whether for himself or on behalf of the Federal Reserve Agent, - and the opinion was expressed that he should in every case sign his own name with his designation.

Mr. Perrin then called for the discussion of the question of joint custody of security for collateral for notes. It was uniformly agreed that in case of loss such loss would, under existing rules, fall upon both parties responsible for joint custody of notes.

Mr. Perrin then took up for discussion the function of Assistant Federal Reserve Agents and said that there had been no unity of view in the Conference and that each Agent should express an opinion. He himself wanted an assistant who should have the same relation to him as that occupied by the vice-president of a bank toward the president.

Mr. Wills said he had three Assistant Federal Reserve Agents, one at each branch of the Federal Reserve Bank at Cleveland, and one at the home office. He expected to have another at the home office who would be a bank examiner.

Discussion ensued with Mr. Perrin relating to the situation at San Francisco.

Mr. Heath thought that it was difficult to lay down any general or uniform opinion on the matter. He himself expected his assistant to be simply a high grade clerk.

Mr. Martin thought the assistant should be rather superior to a high grade clerk; he should be able to answer all questions about membership and to meet all visitors intelligently.

Mr. Warburg thought that the question was not that of the personality of the man but that it related to the duties to be assigned to him.

Mr. Martin said that his assistant took all the routine of the office, including the keeping of comparative statistics.

Mr. Jay said that the duties of his assistant were to do all that he himself had to do. He

though that eventually there should be one assistant to take charge of note issues and one to look after reports and statistics. It was not necessary to get one who would develop into a possible successor to the Federal Reserve Agent.

Mr. Curtiss said that in Boston the assistant handled all the duties of the department, including the credit files, supervision of examinations, statistics and reports. He did nothing as substitute for the Chairman of the Board, such matters being handled by the Governor when the Federal Reserve Agent was away. The assistant should be a routine or detail man.

Mr. Wellborn said the position was an important one at Atlanta. He now had a capable man. The assistant, however, did not take the place of the Federal Reserve Agent and was not likely to be able to do so.

Mr. Ramsey said that at Kansas City the assistant was a routine man who briefed the secretary's reports, opened the mail (except that from the Board), and was capable of serving on the Executive Committee when desired.



Mr. Rich said that his assistant at Minneapolis was not a member of the Executive Committee but a routine man. He could do anything that Mr. Rich himself would do, except to serve on the Board or Committee.

Mr. Austin said the situation at Philadelphia was the same as at Minneapolis.

Mr. Wills said the Assistant Federal Reserve Agent at Cleveland was a routine man who had charge of reports, examinations, etc.

Mr. Heath said the Assistant Federal Reserve Agent in Chicago was a man of long standing, capable of handling any part of the work, and that he also served as Secretary of the Executive Committee.

Mr. Perrin stated the next topic as "district organization for the sale of certificates of indebtedness" and Mr. Wills read a report on that subject, as follows:

REPORT OF THE COMMITTEE ON DISTRICT ORGANIZATIONS FOR PROPER DISTRIBUTION OF CERTIFICATES OF INDEBTEDNESS.

The recommendation of the Federal Reserve Board that a campaign be inaugurated for the wider

distribution and sale of Treasury certificates of indebtedness and that such campaign be placed directly under some one specially selected and qualified, is not only timely and practical, but experience has already demonstrated that in practice it can successfully be carried out. It is suggested that the manager of such campaign be given large discretion and that by his appointment of a captain in each county, or perhaps district, not too large in extent, with instructions that each captain get in direct and personal touch with each and every bank in his particular territory, exceedingly satisfactory results can be secured. Such captains may well perform additional service also, in spreading the gospel of membership in the Federal Reserve system, in locating gold and suggesting its transfer to the Federal reserve banks, and along other lines also.

There was no discussion of the report.

Mr. Perrin, having announced the next topic as being a plan for the exchange of Federal Reserve notes against gold, there was a general informal interchange of ideas, all stating that they were endeavoring to get in gold from state banks and to stop

the use of gold for pay-rolls. It was the consensus of opinion that the less publicity about the matter, the better.

Mr. Perrin announced the next topic as the bringing about the curtailment of investment credits and the promotion of thrift. He said Mr. Jay had offered a paper which had been adopted as the opinion of the Conference. Thereupon, Mr. Jay read his report as follows:

REPORT OF COMMITTEE ON MEANS OF BRINGING  
ABOUT RESTRICTION OF NON-ESSENTIAL CREDITS AND OF  
PROMOTING GREATER EXERCISE OF THRIFT.

At the request of the Federal Reserve Board, the Conference of Federal reserve agents suggest the following means of bringing about restriction of non-essential credits and of promoting greater exercise of thrift.

The subject divides itself into two parts - one, the restriction of credit through reducing issues of bonds or stocks; two, the restriction of credit through reducing bank loans. As the Capital Issues Committee has prepared a program covering the field of restriction of issues of bonds and stocks



the report of the Conference will confine itself to the restriction of credit through reducing bank loans.

The object to be obtained is the reduction of credits not essential to the prosecution of the war and to the maintenance of the health and efficiency of our civil population. In the absence of any government classification of essential and non-essential things and enterprises it will be necessary for each banker in approaching the subject to exercise his own discretion in this respect. There seems to be, however, two clearly defined groups.

A. Loans for productive or distributive purposes.

B. Loans for non-productive or non-distributive purposes.

With regard to the latter class, it may be said generally that loans for non-productive or non-distributive purposes are usually loans for non-essential purposes. A substantial volume of the loans of most banks consist of,

Loans for purchasing or carrying property, whether real or personal,

Loans for additions to or improvements of

property not used in production or distribution.

Loans to States or municipalities for non-productive or non-distributive purposes.

These classes of loans are the easiest to deal with. By inquiring from his customers the purpose for which each loan is required and declining wherever practicable to grant new loans of the above nature and by gradually causing existing loans of the above character to be reduced or eliminated, credit would be conserved and many people would be compelled to save at a time when saving is of vital importance to the nation. But discretion must be used in not forcing borrowers to reduce loans to an extent that is unreasonable or would cause undue hardship or embarrassment.

With regard to the first classification, loans for productive or distributive purposes. The three main groups of borrowers for these purposes are farmers, manufacturers and merchants.

1. Farmers - We are asking our farmers to produce more than ever before and wherever the loans requested are for machinery, seed, fertilizer or working capital, they should certainly have the right

of way. But the kind of loans which should be discouraged are loans for the acquisition of additional property, unless such loans will increase the area under production, loans for any construction not absolutely necessary to the productiveness of the farm and loans for the purchase of things of a merely comfortable and luxurious nature.

In sections where farming profits have been large an endeavor should be made to get farmers instead of spending these profits for articles of comfort and luxury, to apply them to the reduction of long standing loans or to the financing of their seasonal requirements, thereby conserving bank credit.

2. Manufacturers - Manufacturers who are making large profits should be urged to reduce or clean up their debts rather than increase capacity and output unless the industry is one which is clearly essential to the prosecution of the war. All manufacturers should be urged to carry as small inventories as practicable to eliminate from their product elements which add to its intrinsic value and serviceability, or which are introduced simply for fashion or appearance; and to avoid as far as



practicable introducing new styles during the period of the war.

Manufacturers whose product is not clearly required either for the prosecution of the war or to maintain the health and efficiency of our civilian population, should be urged to assist the Government by adapting at least a part of their plants to the manufacture of articles clearly required for these purposes. Bankers would do well to scrutinize carefully the credits of those not engaged in industries clearly essential since these industries are likely to be the first ones to suffer interruption from transportation, fuel or power embargoes.

3. Merchants - Almost the same suggestions that have been made with regard to the production of goods by manufacturers may be applied to the distribution of goods by merchants; namely, Reduction of stock of goods representing articles merely of fashion or luxury and the substitution therefor of plainer and more serviceable articles, and the avoidance of the introduction of new styles in clothing, articles of personal comfort, and so forth.

England's experience of the increasing vol-

ume of business done by merchants during the war, especially by those dealing with a large number of articles such as department stores, seems likely to be duplicated in the United States, through the increased buying power which the war is bringing to the wage earning class. Already our merchants are noting the substitution of new customers for old, and the adjustment of business above suggested could probably be effected without diminution in volume and probably without reduction of profits.

#### PUTTING THE MOVEMENT INTO EFFECT.

In many parts of the country bankers are thoroughly awake to the necessity of curtailing non-essential credits in order to make room in their own institutions for Government financing and in order to prevent undue strain on the credit resources of the country. It is the view of this Conference that it is the duty of the Federal reserve banks acting under the guidance and authority of the Federal Reserve Board, to bring home to every banker in the country the important responsibility which rests upon him, as an essential factor in the financial organization of the United States Govern-

ment, to conserve for the Government such credit as may be practicable for its immense financial requirements, and the duty which devolves upon him in turn may educate his borrowers and the people of his community to the necessity of saving credit as well as food and other materials.

He should also understand that the need for credit conservation at the present time is necessary not only to enable the Government to finance the war, but also, for the protection and preservation of the banker himself.

It is suggested that the importance of the matter should be brought to the attention of the bankers not only by individual correspondence and conversations, but at group and association meetings, and, wherever practicable, by effecting a more intensive organization of bankers in small local units so that there may be both community of understanding and community of action. It is of vital importance, of course, that those bringing the necessity for credit conservation to the bankers should emphasize the equal necessity that the work should be undertaken gradually with reasonable discretion and carried on



with the least possible embarrassment and interference with the ordinary business of individuals and industries. Proper education of borrowers and customers to the needs of the situation, will accomplish far more than any arbitrary discrimination against or pressure upon borrowers.

By securing the cooperation of national and local trade organizations, asking them to study the problem and make such definite recommendations to their members as experience may show to be practicable.

Federal reserve banks and organizations of bankers could assist greatly in the conservation of credit, and the conversion of less essential production and distribution to more essential production and distribution.

It would be well for local banking organizations to consider what definite steps their members might take to conserve credit; also to use their influence with their cities and towns to reduce public expenditure, especially for improvements, to the minimum during the period of the war. Postponement of every expenditure which can be put off until the war is over should become a national policy.

In the discussion with bankers the conservation of credit by them and the saving of money by their customers, emphasis should be laid upon the larger deposits which such savings will inevitably bring to the banks; and in presenting the matter to the merchants and manufacturers, emphasis should be laid upon the increased income which present day saving is laying up for the future constituting an important reserve purchasing power which merchants and manufacturers may count on during any period of uncertainty and readjustment which may occur after the war is over.

Mr. Heath said that Mr. J. H. Puelicher who is active in the membership campaign of the American Bankers Association, wished to have a conference with the Federal Reserve Agents; and it was informally agreed that 2:30 be set as the time for such conference.

The next topic, - that of capital issues, - was laid on the table because of the fact that it had already been fully discussed by the Conference and the Capital Issues Committee.

Mr. Perrin said that the Conference had adopt-

ed resolutions of condolence to be wired to Federal Reserve Agent Ramsey of Dallas with regard to the recent death of his son.

Mr. Perrin said that the Federal Reserve Agents wished to be informed regarding the question of how far banks and the public should be encouraged to buy bonds and then use them as a basis of borrowing from Federal Reserve Banks. There was a desultory general discussion on the subject in which some held that the differential in favor of bonds should be abolished. Mr. Heath said that the whole question would shortly be dealt with in conference with the Secretary of the Treasury.

Mr. Perrin reminded the meeting that no answer had been given to the question of the Board's attitude as to the degree of liberality to be shown in making advances against bonds. No conclusion was reached.

Mr. Jay called attention to the fact that several topics had not been included in the formal program and suggested among these the method of treating New York and other exchange. Mr. Perrin replied that the general feeling was that no float



should be carried, but that exchange should be taken at a 15-day rate or higher.

Mr. Perrin then called attention to the following topics, reports of which were ordered circulated.

Promotion activities of Federal Reserve Banks.

Development of the par list.

Educating member banks.

Assistance to members in getting benefits through publicity.

The next topic discussed was that of examination of member banks. Mr. Delano expressed his views as to the importance of taking the larger banks upon a rather liberal basis on the theory that we could control them better if they were in than if they were out. In the case of the smaller banks, examinations should be more rigid. The Federal Reserve Agents present expressed substantial agreement with this view.

The next topic was that of advances to member banks, and Mr. Wills read a report on the subject as follows, it being noted however that the

Conference had taken no action on the subject.

REPORT OF COMMITTEE ON ADVANCES TO  
MEMBER BANKS - LINES OF DISCOUNT.

Loans on Government Bonds:

Considering the last item first, we beg leave to report that we believe that the free loaning by Federal reserve banks on Government securities is absolutely necessary to the successful placing of the Liberty Loan. That all applications for the rediscounting of notes secured by such bonds and for loans on such bonds be granted, and that the rate of discount on such should be uniform in all the Federal Reserve banks.

In connection with loans on Government bonds, we would like to suggest, however, that banks never should lose sight of the necessity of using every effort to have the makers of such obligations retire them at the earliest possible moment, so that there may be speedy liquidation of such loans.

Lines of Discount:

The question has been asked, when is a member bank's line of discount on commercial paper full at its Federal reserve bank? That is, when has

the amount of paper discounted for a bank at any one time reached such an amount that to increase it should be regarded as unsound banking.

There seems to be a wide difference of opinion about this question; some of the banks do not seem to have considered it at all, and we are informed that it has not yet come before the Federal Reserve Board.

It is difficult to come to a conclusion about the matter as it is affected by special circumstances, such as the crop condition in the agricultural states, the conditions of certain industries in sections depending upon those industries, etc.

Member banks are supposed to rediscount their paper of the longer maturities when their available resources have become exhausted, and it is necessary for them to obtain funds with which to continue loaning to their customers.

A bank's loanable funds decline because of decreases in deposits or increased demands for loans, and to enable them to continue their loaning operations in the face of reasonable fluctuations in either



or both of these accounts seems to be a proper function of the Federal reserve banks.

What are reasonable fluctuations in these accounts?

There does not seem to be any way of positively determining this question, so we would suggest that a sum equal to 10 per cent of a bank's deposits to be considered as a reasonable fluctuation in its loans or deposits and that a line of discounts equal to 10 per cent of its deposits a proper one. We feel we should say, however, that in considering a bank's line of discounts the paper of a maturity of 15 days or less should not be counted, as we understand that the discounting of such paper should not be regarded as evidence of a need of funds on the part of the borrowing bank.

The committee feels that when under ordinary circumstances a bank's line of discounts of paper of a maturity of over 15 days, and exclusive of loans secured by Government bonds, has reached an amount equal to 10 per cent of its deposits, a Federal reserve bank is justified in making a special inquiry into the condition and operations of

such bank before rediscounting further for it, and in making any recommendation and taking such action as the condition of that bank would indicate as necessary.

That, under ordinary circumstances a line of discount of commercial paper, exclusive of paper of a maturity of 15 days or less, equal to 10 per cent of a bank's deposits is a reasonable one and consistent with the principles of sound banking.

The subject of rediscounting between Federal Reserve Banks, and the next Liberty Loan were passed over.

Under the head of currency discussion there were ordered circulated reports on the following topics:

Issue of one and two dollar Federal Reserve notes (position adverse).

The effect of proposed new methods of issuing national bank notes, (opposition to the proposed act as drawn, but not to the idea of a standardized bank note.)

The effect of Government bond issues upon Federal Reserve notes.

The issue of ten and twenty dollar gold certificates (passed over).

Question whether issues of notes should be acted upon by Executive Committees (passed over.)

Federal Reserve exchange, (laid on the table).

Rotation of membership in the Federal Advisory Council.

Question of relations between the Federal Reserve Agent and the credit department being taken up for discussion, Mr. Perrin stated the consensus of opinion of the Conference, which was that if the reports of national banks are put into the credit files, the latter should be under the control of the Federal Reserve Agent; while if not put into these files, they should be under the control of the bank.

A committee was named to take up with Counsel the preparation of a measure to be passed by state legislatures for the purpose of permitting state banks to become members of the System.

General discussion was engaged in with relation to the question as to whether the Chairman of the Board shall be the channel of connection be-




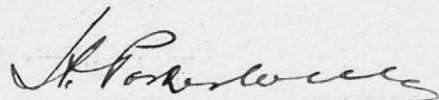
tween the Federal Reserve Board and his bank, special inquiry being made concerning the handling of telegrams. No definite decision was arrived at, but it was informally agreed that Governor Harding should write a letter to the Federal Reserve Agent and the Governor of the bank fully advised of what was going on in the two departments.

Mr. Jay raised a question with reference to the method of conducting Conferences like the present one, stating that better results would be obtained if a definite policy regarding the organization of the Conference could be worked out, with notice given in advance to the participants and an indication of the Board's views. No action was taken.

At 1:15 p. m., the Conference adjourned.

APPROVED:

  
Chairman

  
Secretary