At a meeting of the Federal Reserve Board held in the office of the Board Thursday, February 26, 1920, at 11 A.M.,

PRESENT: The Governor
Mr. Strauss
Mr. Miller
Mr. Hamlin
Mr. Moehlenpah
Mr. Chapman, Secretary.

PRESENT ALSO:
Mr. Harrison, General Counsel.

Minutes of meeting of the Board held February 25th were read, and on motion approved as amended.

Business was presented and disposed of as follows:

The Governor reported the reserve positions of the several Federal Reserve banks as at close of business February 24th, and the status of rediscounts between Federal Reserve banks as of the same date.

REPORTS OF COMMITTEE NO. 1:

Dated Feb. 26th, recommending admission of State institutions as set forth in the auxiliary minute book as of this date, subject to the conditions stated in the individual reports attached to each application.
Approved.

Dated Feb. 25th, recommending approval of application of Ph. Freudenthal to serve at the same time as a director of the National Bank of Arizona, Phoenix, Arizona, and the Arizona National Bank, Tucson, Arizona.
Approved.

Dated Feb. 25th, recommending approval of application of E. Avenali to serve at the same time as an officer of the First National Bank of San Francisco, California, and a director of the First National Bank, Redwood, Cal.
Approved.

(At this point the Governor joined the meeting)

Other business was presented and disposed of as follows:

Mr. Strauss stated that in the course of carrying out the policy of regulating exchange between the United States and the East, the Treasury had accumulated a fund of silver dollars which it was disposed to deposit with Federal Reserve banks in anticipation of its expected overdrafts on such banks, and desired an expression of the Board's view as to whether or not the suggestion of the Treasury Department be adopted.

Referred to the Governor with power.

Attention was directed to the possible inexpediency of making effective on March 1st as heretofore authorized, the proposed new method of calculating reserves of Federal Reserve banks, as set forth in the Board's letter to Federal Reserve Agents (X-1766) dated December 20, 1919.

On motion duly seconded, the Governor was authorized to transmit the following telegram to all Federal Reserve Agents;

"Further reference to Board's letter December 20, 1919, (X-1766) and Board's telegrams of December 31st and February 4th, you are advised that the adoption of the new method of determining reserves is deferred until further notice by the Board of which you will have ample previous advice".

Letter dated February 23d from the Governor, Federal Reserve Bank of Chicago, advising of the expected demands upon the resources of that Institution beginning March 1st, and expressing the desire that it be not called upon, in the face of such demands, to rediscount for other Federal Reserve banks.

Referred to the Governor for reply.

Letter dated February 25th from Senator Owen, transmitting telegram addressed to him by the Oklahoma State Federation of Labor, complaining that banks in Tulsa, Oklahoma, have resolved that they will decline to make loans to employers of union labor.

Referred to the Governor, with suggestion that be bring it to the attention of the Comptroller of the Currency.

(At this point Mr. Harrison, General Counsel, joined the meeting)

A general discussion ensued as to the reserve positions of the several Federal Reserve banks, and the method employed by Federal Reserve banks in apportioning their gold reserves as between deposit and note liabilities. Mr. Harrison expressed the opinion that Federal Reserve banks were acting within their statutory rights in allocating gold as reserve against Federal Reserve notes to the extent of 40% of such note issues, and permitting the remainder of their gold holdings to be counted as reserve against deposits of such banks, even though the reserve thus remaining would amount to less than the 35% reserve provided by statute. Mr. Harrison also stated that the second proviso of sub-section (c) of Section 11 of the Federal Reserve Act relates solely to a deficiency in reserves against Federal Reserve notes. It was his opinion, however, that the first proviso of sub-section (c) required the Federal Reserve Board to establish a graduated tax upon the amounts by which all other reserve requirements of the Act fell below specific minima, but that inasmuch as the amount of the tax is not specified in this proviso, the Board could, in its discretion, fix such tax in an infinitesimal amount. So far as this provision relates to deficiencies in reserves against Federal Reserve bank deposits, Mr. Harrison considered it to be ineffectual, in any event, because the law does not designate to whom the tax must be paid. If paid to the Government, as probably contemplated, the payment would amount, in substance, to a payment by the Government to the Government, since in the last analysis it would come out of the Government's equity in the bank's reserves. It was Mr. Harrison's opinion further, that any penalty imposed by the Board against deficiency in reserves against deposits need not be added to the discount rates of the bank so deficient.

Mr. Strauss referred to the action of the Board at its meeting on December 17, 1919, when it authorized him, in his discretion, to modify the arrangements made with the branches of American banks in the Orient, so as to permit the shipment of silver dollars up to an amount not exceeding $10,000,000 without previous melting, or without any obligation on the part of the banks to melt the dollars after arrival in the Orient, and moved

> That the Board remove the limitation of $10,000,000 heretofore fixed, and leave to the discretion of the Governor or Vice-Governor of the Board the fixing of the maximum amount to be permitted under this authority, as well as the fixing of the total amount of silver to be exported under the arrangements made.

Motion carried.

Letter dated February 25th from Acting Governor Case of the Federal Reserve Bank of New York, advising that the directors of that Bank recommend the adoption of a rate of 5-1/4% on paper of all maturities up to ninety days, secured by United States certificates of indebtedness, and a similar rate on acceptances.

The question was discussed but no action taken.

Letter dated February 24th from the Chairman, Federal Reserve Bank of Chicago, enclosing letters addressed by the President and Vice-President of the Indiana National Bank, Indianapolis, Indiana, expressing the desire that the Federal Reserve Bank of Chicago accept drafts on the Indianapolis correspondent of Indiana bankers in payment for remittances to the Federal Reserve bank on the part of such Indiana bankers.

Voted that the Federal Reserve Bank of Chicago be instructed to comply with the request of the Indianapolis bankers.

Memorandum by General Counsel dated February 26th, requesting authority to employ Mr. Montgomery B. Angell as a member of his staff at a salary of $5,000 per annum.

Approved.

Letter dated February 21st from Mr. E. R. Kenzel, Comptroller of Investments, Federal Reserve Bank of New York, in re right of a member bank to accept drafts in excess of 10% of its capital and surplus when secured by wood or wood pulp in Canada. The Governor submitted for approval, draft of reply by him under date of February 25th.

Approved.

At 12-40 P.M., the meeting adjourned.

Secretary.

Approved:

Governor.