

FEDERAL
ADVISORY COUNCIL

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MINUTES
AND
RECOMMENDATIONS

1915-1921

This volume was the property of Mr. L. L. Rue of Philadelphia, representative on the Federal Advisory Council from the Third Federal Reserve District from 1914-1929. It was turned over to the Secretary of the Federal Advisory Council by Mr. Howard A. Loeb of Philadelphia, representative on the Federal Advisory Council from the Third Federal Reserve District from 1929 on.

Walter Lichtenstein,
Secretary.

January, 1937

MEMORANDUM OF SUBJECTS TO BE
Submitted to the
ADVISORY COUNCIL.

First:-

Attention is drawn to Circulars 11 and 12 and to Regulations "J" and "K" in respect to Acceptances (12 copies attached). Are there any further suggestions on this subject?

What is the opinion of the Advisory Council as to the policy of allowing the Federal Reserve Banks to buy the acceptances of State banks and private bankers, regardless of the limitations, when National banks are limited by law to one hundred per cent of capital and unimpaired surplus? A ruling, or even a suggestion by the Board that the Federal Reserve Banks should not buy acceptances of banks beyond the limitations fixed for member banks might at this time be taken as an intended "slap" at trust companies and might later be used as an argument against the Board in the future should it ever advocate the removal of this limitation.

What are the views of the Advisory Council on this question?

Second:-

The Federal Reserve Act provides for the discount or purchase of acceptances based upon the importation or exportation of goods. It has been suggested that importation and

exportation should not and cannot properly be limited to importation and exportation to or from the United States and its dependencies. What is the view of the Advisory Council on this question ?

Third:

The Federal Reserve Board has under consideration the preparation of a circular and regulation on the subject of the purchase in the open market (under Section 14) of bills of exchange, foreign or domestic. Recognizing, however, that it was of great importance to safeguard these provisions in every way, yet if safely possible, to provide for the purchase of bills of exchange (E. G. documentary bills or bills secured by staples) accepted either by merchants or manufacturers in good standing against goods actually purchased by them. What are the views of the Advisory Council on this question and is it desirable for Federal Reserve Banks to go into the foreign exchange business at this time ?

Fourth:

The subject of the admission of State banks has been before the Board for several months. On the one hand it is argued that State banks should not be permitted to enter unless they submit to all the conditions that are necessary for National banks; that if more favorable terms are granted to State banks, even if allowable by law, it will be taken as an evidence of weakness or will cause National banks to seek State charters. On the other hand, it is argued that if the rules for admission are drastic, only the smaller and weaker State banks will come in; that strong State banks doing a large commercial business will never come in unless liberal concessions are made, most important among them the privilege of withdrawal from the System on suitable notice. In connection with the whole matter it is suggested by some that an effective clearance system, added to the discount privilege, will be a sufficient attraction to bring in the larger State banks without other concessions. What are the views of the Advisory Council on these questions?

Fifth:-

Section 19, Paragraphs 164 and 165, read as follows:

"The reserve carried by a member bank with a Federal Reserve Bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities:

PROVIDED, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored."

The first part of this paragraph has an important bearing on clearances. Thus far, the Federal Reserve Board has issued no regulations in respect to the proviso. What are the views of the Advisory Council on this subject?

Sixth:-

Does the Advisory Council wish to give any views about the rediscount policy to be followed between Federal Reserve Banks?

FAD/D: 4/8/15

FEDERAL RESERVE BOARD.

WASHINGTON, *April 2, 1915.*

BANKERS' ACCEPTANCES.

An amendment of the Federal Reserve Act, approved March 3, 1915, made an alteration in paragraphs 3 and 5 of section 13, which are quoted at length in Circular No. 12.

This amendment granting the right to Federal Reserve Banks to discount acceptances of member banks based upon importation or exportation of goods beyond 50 per cent up to 100 per cent of their unimpaired capital stock and surplus, with the authority of the Federal Reserve Board, has made it necessary to issue a new regulation on the subject of Bankers' Acceptances. The Federal Reserve Board, therefore, issues this circular which is a reprint of and is to supersede Circular No. 5, Series of 1915. A new regulation is hereto appended which is to supersede Regulation D, Series of 1915, and which contains some alterations that experience has proved desirable.

"Acceptances" are dealt with in the Federal Reserve Act in two different sections—sections 13 and 14. Section 13 deals with the "acceptance" as one of the forms of paper in the discount of which Federal Reserve Banks may engage, restricting the discount of acceptances to such as bear the indorsement of a member bank. Section 14 invests the Federal Reserve Banks, under regulations to be prepared by the Federal Reserve Board, with power to engage in open-market operations, of which the "banker's acceptance" is one of the most important.

Careful study has led the Federal Reserve Board to the conclusion that, at any rate in the first stages, so far as practicable, priority should be given to operations under section 13. The acceptance is still in its infancy in the field of American banking. How rapid its development will be can not be foretold; but the development itself is certain. Opportunity is given by the Federal Reserve Act to assist the movement in this new direction; the present regulations are to be regarded as a first step and will be extended as circumstances and a reasonable regard for the other uses and needs of the credit facilities of the Federal Reserve System may warrant.

It is believed that it would unduly restrict the development of the acceptance business to keep it altogether confined within the provisions of section 13, which require that acceptances, in order to be eligible for rediscount at a Federal Reserve Bank, must bear the indorsement of a member bank. Having found it necessary to extend the scope of dealings in acceptances beyond these limits, the Board has exercised the authority conferred upon it by section 14, and has formulated regulations covering the purchase of acceptances without invariably requiring the indorsement of a member bank.

The acceptance is the standard form of paper in the world discount market, and both on this account and because of its acknowledged liquidity universally commands a preferential rate. By reason of its being readily marketable it is widely regarded as a most desirable paper in the secondary reserves of banks and will help to provide an effective substitute for

the "call loan." Its growth, however, will depend upon the ability of the American market to adjust its rates effectively to those prevailing in other markets for paper of this class.

Recognizing these facts, the Federal Reserve Board has determined to allow the Federal Reserve Banks latitude in fixing rates for acceptances: Federal Reserve Banks may, from time to time, submit for the approval of the Board maximum and minimum rates within which they desire to be authorized to deal in acceptances; within such limits, and subject to such modifications as may be imposed by the Board, Federal Reserve Banks will be allowed to establish the rates at which they will deal in acceptances.

The Board believes it to be in accordance with the spirit of the Act to accord preferential treatment to acceptances bearing the indorsement of member banks, offered for rediscount under section 13—even to the point of allowing lower rates for such acceptances, inasmuch as, under the terms of this section, such acceptances are available as collateral against the issue of Federal reserve notes; and the Board will sanction a slight preferential in favor of acceptances bearing the indorsement of member banks.

When acceptances bearing the indorsement of member banks are not obtainable in adequate amount or upon satisfactory terms, Federal Reserve Banks desiring to purchase acceptances should restrict themselves, as far as possible, to such acceptances as bear some other responsible signature (other than that of the drawer and the acceptor), and preferably that of a bank or banker.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

FEDERAL RESERVE BOARD.

WASHINGTON, *April 2, 1915.*

BANKERS' ACCEPTANCES.

I.

DEFINITION.

In this regulation the term "acceptance" is defined as a draft or bill of exchange drawn to order, having a definite maturity, and payable in dollars, in the United States, the obligation to pay which has been accepted by an acknowledgment written or stamped and signed across the face of the instrument by the party on whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity according to the tenor of such draft or bill without qualifying conditions.

II.

STATUTORY REQUIREMENTS UNDER SECTIONS 13 AND 14.

Section 13 of the Federal Reserve Act as amended provides that—

- (a) Any Federal Reserve Bank may discount acceptances—
 - (1) Which are based on the importation or exportation of goods;
 - (2) Which have a maturity at time of discount of not more than three months; and
 - (3) Which are indorsed by at least one member bank.
- (b) The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board and of such general regulations as said Board may prescribe, but not to exceed the capital stock and surplus of such bank.
- (c) The aggregate of notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed 10 per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Section 14 of the Federal Reserve Act permits Federal Reserve Banks, under regulations to be prescribed by the Federal Reserve Board, to purchase and sell in the open market bankers' acceptances, with or without the indorsement of a member bank.

III.

RULING.

The Federal Reserve Board, exercising its power of regulation with reference to paragraph II (b) hereof, rules as follows:

Any Federal Reserve Bank shall be permitted to discount for any member bank "bankers' acceptances" as hereinafter defined up to an amount not to exceed the capital stock and surplus of the bank for which the rediscounts are made.

IV.

ELIGIBILITY.

The Federal Reserve Board has determined that, until further order, to be eligible for discount under section 13, by Federal Reserve Banks, at the rates to be established for bankers' acceptances:

- (a) Acceptances must comply with the provisions of Paragraph II (a), (b), (c) hereof;
- (b) Acceptances must have been made by a member bank, nonmember bank, trust company, or by some private banking firm, person, company, or corporation engaged in the business of accepting or discounting. Such acceptances will hereafter be referred to as "bankers'" acceptances;¹

¹ Drafts and bills of exchange eligible for rediscount under section 13, other than "bankers'" acceptances, have been dealt with by Regulation B, series of 1915.

- (c) A banker's acceptance must be drawn by a commercial, industrial, or agricultural concern (that is, some person, firm, company, or corporation) directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated, or by a "banker." In the latter case the goods, the importation or exportation of which is to be financed by the acceptance, must be clearly specified in the agreement with or the letter of advice to the acceptor. The bill must not be drawn or renewed after the goods have been surrendered to the purchaser or consignee.
- (d) A banker's acceptance must bear on its face or be accompanied by evidence in form satisfactory to a Federal Reserve Bank that it originated in an actual bona fide sale or consignment involving the importation or exportation of goods. Such evidence may consist of a certificate on or accompanying the acceptance to the following effect:

This acceptance is based upon a transaction involving the importation or exportation of goods.
Reference No. ———. Name of acceptor ———.

- (e) Bankers' acceptances, other than those of member banks, shall be eligible only after the acceptors shall have agreed in writing to furnish to the Federal Reserve Banks of their respective districts, upon request, information concerning the nature of the transactions against which acceptances (certified or bearing evidence under IV (d) hereof) have been made.
- (f) A bill of exchange accepted by a "banker" may be considered as drawn in good faith against "actually existing values," under II (c) hereof, when the acceptor is secured by a lien on or by transfer of title to the goods to be transported; or, in case of release of the goods before payment of the acceptance, by the substitution of other adequate security;
- (g) Except in so far as they may be secured by a lien on or by transfer of the title to the goods to be transported, as under (f), the bills of any person, firm, company, or corporation, drawn on and accepted by any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting and accepting, and discounted by a Federal Reserve Bank, shall at no time exceed in the aggregate a sum equal to 5 per centum of the paid-in capital of such Federal Reserve Bank;
- (h) The aggregate of acceptances of any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, discounted or purchased by a Federal Reserve Bank, shall at no time exceed a sum equal to 25 per centum of the paid-in capital of such Federal Reserve Bank.

To be eligible for purchase by Federal Reserve Banks under section 14, bankers' acceptances must comply with all requirements and be subject to all limitations hereinbefore stated, except that they need not be indorsed by a member bank: *Provided, however,* That no Federal Reserve Bank shall purchase the acceptance of a "banker" other than a member bank which does not bear the indorsement of a member bank, unless a Federal Reserve Bank has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board.

V.

POLICY AS TO PURCHASES.

While it would appear impracticable to fix a maximum sum or percentage up to which Federal Reserve Banks may invest in bankers' acceptances, both under section 13 and section 14, it will be necessary to watch carefully the aggregate amount to be held from time to time. In framing their policy with respect to transactions in acceptances, Federal Reserve Banks will have to consider not only the local demands to be expected from their own members, but also requirements to be met in other districts. The plan to be followed must in each case adapt itself to the constantly varying needs of the country.

H. PARKER WILLIS,
Secretary.

CHARLES S. HAMLIN,
Governor.

FEDERAL RESERVE BOARD.

WASHINGTON, *April 2, 1915.*

ACCEPTANCE BY MEMBER BANKS.

By act of Congress approved March 3, 1915, section 13 (paragraphs 3, 4, and 5 of the Federal Reserve Act) was amended and reenacted so as to read as follows:

Any Federal Reserve Bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up and unimpaired capital stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months' sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulations shall apply to all banks alike, regardless of the amount of capital stock and surplus.

In order to give effect to the above amendment of the law, the Federal Reserve Board issues the appended Regulation K, series of 1915, stating the conditions under which member banks may accept, up to 100 per cent of their capital and surplus, drafts or bills of exchange growing out of transactions involving the importation or exportation of goods and having not more than six months' sight to run.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

FEDERAL RESERVE BOARD.

WASHINGTON, *April 2, 1915.*

ACCEPTANCE BY MEMBER BANKS.

Any member bank may accept drafts or bills of exchange drawn upon it, having not more than six months' sight to run and growing out of transactions involving the importation or exportation of goods up to an amount not exceeding the capital and surplus of such bank, provided that—

(1) Every such bank shall possess an unimpaired surplus of not less than 20 per cent of its paid-in capital;

(2) Every such bank shall file formal application with the Federal Reserve Bank of its district, which shall report to the Federal Reserve Board upon the standing of such applicant, stating also whether the business and banking conditions prevailing in the district warrant the granting of such applications in said district.

(3) Every such application shall first have been approved by the Federal Reserve Board.

Approval of any such application may be rescinded, and modifications of this regulation may be made, by the Federal Reserve Board upon notice of 90 days to the bank or banks thereby affected.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

(3)

FEDERAL ADVISORY COUNCIL

MINUTES MEETING DECEMBER 15, 1914.

The first meeting of the Federal Advisory Council was held in the Federal Reserve Board room at the Treasury Building in the City of Washington on Tuesday, December 15, 1914.

Present:

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|-------------------------|------------------|
| Messrs. Daniel G. Wing, | District No. 1, |
| J. P. Morgan, | District No. 2, |
| L. L. Rue, | District No. 3, |
| W. S. Rowe, | District No. 4, |
| George J. Seay, | District No. 5, |
| Charles A. Lyerly, | District No. 6, |
| James B. Forgan, | District No. 7, |
| Rolla Wells, | District No. 8, |
| C. T. Jaffray, | District No. 9, |
| E. F. Swinney, | District No. 10, |
| J. Howard Ardrey, | District No. 11. |

Absent:

| | |
|----------------------|------------------|
| Mr. Archibald Kains, | District No. 12. |
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The first session was held at 9:30 A. M. for the organization of the Federal Advisory Council and the election of officers. After the members of the Council had met each other informally, L. L. Rue asked for the attention of those present and suggested the name of James B. Forgan as Temporary Chairman. He was thereupon duly elected; and on motion of Daniel G. Wing, J. Howard Ardrey was made Secretary pro tem.

Informal discussion was had as to the number of officers the Council would require, and on motion of Charles A. Lyerly, it was decided that the offices consist of a President, Vice-President and Secretary, and an Executive Committee of five (5), of which the President and Vice-President should be ex-officio members.

These preliminaries being determined, J. P. Morgan nominated James B. Forgan as President of the Council, whereupon he was unanimously elected.

Charles A. Lyerly nominated L. L. Rue for Vice-President, whereupon he was unanimously elected.

It was agreed that the Secretary should be a salaried officer and not a member of the official Council; and on motion of Charles A. Lyerly, the Executive Committee above provided for was authorized to make the selection of a Secretary and to fix his duties and compensation.

In the selection of three (3) elective members of the Executive Committee: E. F. Swinney nominated J. P. Morgan; Charles A. Lyerly nominated W. S. Rowe; and L. L. Rue nomin-

ated Daniel G. Wing. There being no further nominations, on motion, the three gentlemen named were unanimously elected.

On motion of George J. Seay, the President appointed a Committee of three, consisting of George J. Seay, C. T. Jaffray, and Daniel G. Wing, to prepare By-laws for consideration at a later session.

Thereupon the Organization meeting adjourned until 2:00 P.M. and the members of the Federal Advisory Council went into joint session with the Federal Reserve Board at 11:00 A. M., Governor Charles S. Hamlin presiding.

Governor Hamlin expressed the pleasure of himself and the members of the Federal Reserve Board in welcoming the members of the Federal Advisory Council at this their first joint session; and explained that the attention of the Federal Reserve Board at this time was being occupied particularly with the consideration of the following questions:

1. The purchase of warrants and acceptances,
2. The regulations under which national banks may act as trustee, executor, etc.,
3. The regulations under which state banks are to be admitted to the system,
4. The clearing of checks through Federal reserve banks,
5. The definitions of time deposits and savings accounts.

The discussion of these matters was very informal, and turned primarily to the question of the regulations under which state banks were to be admitted to the system. A rather free expression was given of the individual opinions of the members of the Federal Advisory Council, but as it was obvious that the Federal Advisory Council, as such, had not considered these matters in any manner as would warrant a joint and official recommendation thereon, further consideration of the matter was deferred, and each member of the Federal Advisory Council was asked to report on the business and financial conditions in their respective districts.

Thereupon the joint session was adjourned until 4:00 P.M.

ARTICLE VII. AMENDMENTS.

These By-laws may be changed or amended at any reg-

At 2:00 P M the second session of the Organization meeting of the Federal Advisory Council was held and George J. Seay, Chairman of the Committee on By-laws by way of a report read the following:

"BY-LAWS OF THE FEDERAL ADVISORY COUNCIL:

ARTICLE I. OFFICERS.

Officers of this Council shall be a president, vice-president and secretary.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the president shall be such as usually pertain to the office; and in his absence the vice-president shall serve.

ARTICLE III. SECRETARY.

The secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE.

There shall be an Executive Committee of five (5) members of the Council, of which the President and Vice-president of the Council shall be ex-officio members.

ARTICLE V. DUTIES OF EXECUTIVE COMMITTEE.

It shall be the duty of the Executive Committee to keep in close touch with the Federal Reserve Board and with their regulations and promulgations, and communicate the same to the members of the Council and to suggest to the Council from time to time special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding their regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum and action of the Committee shall be by a majority of those present at any meeting.

ARTICLE VI. MEETINGS.

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Monday of the months of February, May, September and November of each year.

Special meetings may be called at any time and place by the President or the Executive Committee and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. AMENDMENTS.

These By-laws may be changed or amended at any regular meeting by a vote of a majority of the members of the Federal Advisory Council. "

On motion of L. L. Rue the above report and By-Laws were unanimously adopted.

The members thereupon entered into a discussion in detail of the admission of state banks into the Federal system, and Rolla Wells read a letter written by Hon. Breck- enridge Jones of St. Louis in connection with the matter. The discussion was continued up to 4:00 o'clock, when the members of the Federal Reserve Board entered for the adjourned joint session with the Federal Advisory Council.

At this joint session the Hon. Secretary of the Treasury presided, and as the Federal Advisory Council was not even then prepared to make a final and official recom- mension with reference to the matter discussed at the morning session, a further joint discussion of these matters proceeded, each member of the Federal Reserve Board express- ing his individual opinion as to the relative importance of the matters above enumerated and the necessity for immediate action thereon; and each member of the Federal Advisory Council expressing an individual opinion as to the terms on which state banks should be admitted to the system.

The members-elect of the Executive Committee announced that they would hold the first session of their Committee on Friday, December 18th, and would at that meet- ing formally and definitely express an opinion and recommen- dation concerning the matters submitted by the Federal Re- serve Board.

Thereupon the meeting finally adjourned.

(Signed) J. Howard Ardrey,
Secretary pro tem.

MINUTES MEETING DECEMBER 18, 1914.

A meeting of the Executive Committee of the FEDERAL ADVISORY COUNCIL was held at the Morgan Library in New York City on Friday, December 18, 1914.

All members of the Committee being present the first question considered was the appointment of a Secretary. It became evident from the expressions of opinions of all present based on discussions and conversations in Washington that it would not be useful or practicable to have a secretary resident in Washington. On motion it was then voted unanimously that the secretary be under the direction of the President of the Council and that he be authorized to appoint a secretary and fix his salary.

The question of furnishing statements to the press in regard to the acts or findings of the Federal Advisory Council or of the Executive Committee was then discussed and on motion it was unanimously agreed that as the relation of the Council is to the Federal Reserve Board and not to the public the making of such statements should be left to the discretion of the Federal Reserve Board in Washington.

The President then submitted the following letter from the Federal Reserve Board:

"December 17, 1914.

"Mr. James B. Forgan, President,
Federal Advisory Council,
C/o First National Bank,
New York City.

Sir:-

At a meeting of the Federal Reserve Board held on Wednesday, December 16th, consideration was given to the order in which matters of importance now pending before the Board should be dealt with. It was desired that the Advisory Council afford to the Board such suggestions as it may think best to offer. As the outcome of this consideration I was instructed to inform you that the Board desires to take up the following matters in the order indicated and would be glad to have your suggestions with reference thereto in a similar sequence:

1. The purchase of warrants and acceptances.
2. The regulations under which national banks may act as trustee, executor, etc.
3. The definition of time deposits and savings accounts.
4. Check clearings.
5. The regulations under which State banks are to be admitted to the system.

I have the honor to be,

Respectfully yours,

H Parker Willis, Secretary. "

December 18, 1914, continued.

The Committee then proceeded to consider and discuss seriatim the five matters mentioned in the letter on which the Council's suggestions were invited:

1. The purchase of Warrants and Acceptances.

There was submitted to the Committee a proposed regulation concerning the purchase of warrants under Section 14, Clause B, of the Federal Reserve Act, as prepared by the Federal Reserve Board. On motion it was unanimously voted that the Committee approve said regulation covering the purchase of warrants.

In regard to the purchase of Acceptances the following motion was unanimously adopted:

"The Council advises that for the present Federal Reserve Banks should confine their purchases of acceptances to those of member banks of any of the twelve districts or acceptances endorsed by member banks, and that it is not desirable that there should be upon the face of such acceptances any statement of detail connected with the transaction originating the bill which might affect its negotiability."

2. The Regulations under which National Banks may act as Trustee, executor, etc.

After discussion of this question it was resolved that the Board be advised that since under the law this is to be done by special permit it is the opinion of the Council that each application should be decided on its merits and with due regard to the State laws under which each bank shall operate.

3. The definition of Time deposits and Savings accounts.

On this question the following was on motion unanimously adopted:

"This Committee has considered Regulation No. 7A, fifth draft, and recommends but one change in Section 1, headed "Time Deposits - Open Accounts," consisting of striking out the words "checked upon or," in the second line. This Committee is of the opinion that, with this change, the proposed Regulation satisfactorily defines the character of deposits upon which a 5 per cent reserve is permitted, in view of the terms of Section 19 of the Federal Reserve Act. This Committee is, however, of the opinion that the definition of savings accounts contemplated by this Regulation will permit the conversion of a large volume of deposit liability into

A class of deposits requiring only 5 per cent reserves, which nevertheless are virtually demand deposits and subject to withdrawal at any time without notice.

"This Committee considers that bona fide savings deposits upon which the 5 per cent reserve is justified are those which are limited in the amount which may be deposited by any one depositor. The unrestricted permission for national banks to receive deposits, without limit as to amount, upon which the bank may exact notice of 30 days, but customarily will not do so, will result in the conversion of so large a volume of demand deposits into this class of account as to prove a menace. This Committee, therefore, recommends that steps be taken to secure an amendment to the statute by which some limit may be placed upon the amount of a savings account which may be maintained by any one depositor, on which only 5 per cent reserve is required."

4. Check Clearings.

During the discussion of this question the following telegram from the Federal Reserve Board was communicated to the Committee by Governor Strong of the Federal Reserve Bank of New York:

"Board, after consideration of Section 16, Federal Reserve Act, providing that every Federal Reserve Bank shall receive on deposit at par from member banks or from Federal Reserve Banks cheques and drafts drawn upon any of its depositors, is of opinion that words "on deposit at par" as there used, mean credit at face value and without fixed collection charge per item, but that words do not necessarily require immediate crediting of such items without allowance of necessary time for actual collection.

H. P. Willis, Secretary."

after which on motion the following statement was unanimously adopted:

"Cheque Clearances: The Federal Advisory Council is unable as yet to consider this subject fully, and would like, as a preliminary, a determination by the Federal Reserve Board or its Council whether, under the reading of section 13 and 16, there is any permission for a Federal Reserve Bank to receive on deposit from its depositors cheques drawn upon member banks or Federal Reserve Banks of other districts.

"It seems, as the Council reads it, that such cheques can only be received on deposit by a Federal Reserve Bank from another Federal Reserve Bank, and then solely for exchange purposes.

"The Council must also advise that it seems to it unsound in principle that a cheque drawn on a member bank should be charged to its Federal Reserve account by the Federal Reserve Bank without the authority of the bank upon which it is drawn

and without that bank having had the opportunity of passing upon the cheque.

"It also seems to the Council that there is a serious danger that the attempt to disregard the elements of time and distance will so involve the funds of the Federal Reserve Banks as to seriously impair their usefulness as banks of issue and discount."

5. The Regulation under which State banks are to be admitted to the system.

After a long discussion of this subject the Committee on motion unanimously agreed to the following statement:

"In regard to the question of the admission of State banks, the Council advises that the suggestions submitted to it in Washington in Draft No. 78 seem to us on the whole substantially on right lines. We would call attention to the fact, however, that the chief inducement to the State banks to come in must be in connection with the clearing of cheques, and, until this matter is settled to such a point that a State Bank may know what advantages it is going to receive on these lines, there seems to us little inducement for them to come in. There also seems to us the great obstacle to their coming in is that they may be unable to withdraw. We should advise, therefore, that the Federal Reserve Board get advice of counsel whether they are able by regulation to establish a method whereby state banks entering the system may, upon sufficient and reasonable notice, withdraw from it."

On motion the president was requested to prepare an answer to the letter of the Federal Reserve Board along the lines of the findings of the Committee as stated in the various resolutions and statements adopted and to send a copy of same to the members of the Council for their approval or criticism.

The Committee then adjourned to meet again on Monday, January 18th, 1915, in Washington, D. C., at eleven o'clock A. M.

FEDERAL ADVISORY COUNCIL

Minutes of meeting of the Executive Committee of the Federal Advisory Council held at the Morgan Library in New York City on Friday, December 18, 1914:

The question of furnishing statements to the press in regard to the acts or findings of the Federal Advisory Council or of the Executive Committee was then discussed and on motion it was unanimously agreed that as the relation of the Council is to the Federal Reserve Board and not to the public the making of such statements should be left to the discretion of the Federal Reserve Board in Washington.

February 18, 1935.