

MINUTES
FEDERAL ADVISORY COUNCIL JANUARY 19, 1915

Minutes of meeting of the Federal Advisory Council held in the Federal Reserve Board room, in the Treasury building, Washington, D.C., January 19, 1915, at 10 A. M.

Present: Messrs. James B. Forgan, L. L. Rue, J. P. Morgan, D. G. Wing, W. S. Howe, George J. Seay, Charles A. Iyerly, Hella Wells, C. T. Jaffray, J. Howard Ardrey, Archibald Kaine, and Merritt H. Grim, secretary.

Absent, Mr. W. F. Swinney.

Mr. James B. Forgan, President, in the Chair.

Mr. Forgan announced that Mr. E. F. Swinney was prevented from being present by the illness of Mrs. Swinney.

The President announced that in accordance with the authority of the Federal Advisory Council given at their meeting on December 15, 1914, the Executive Committee had appointed Mr. Merritt H. Grim, as secretary of the Council, at a salary of \$1,200 per annum, and had authorized an assessment of \$150 upon each Federal Reserve Bank to provide for the secretary's salary together with his traveling and incidental expenses. The Executive Committee's action was confirmed.

On motion of Mr. Ardrey the minutes of the meeting of the Federal Advisory Council held at Washington, December 15, 1914, copies of which had been sent to each member of the Council, were approved.

The President called for the reading of the minutes of the Executive Committee held in Washington, January 18, 1915, for the information of the Council. The secretary read the minutes and on the suggestion of Mr. Rue he was instructed to insert the names of the members of the Committee present.

On behalf of the Executive Committee Mr. Rue then moved that the minutes of the Committee of January 18, 1915, be approved as corrected. Motion carried.

Mr. Ardrey then moved that the minutes of the Executive Committee held in New York on December 18, 1914, copies of which had been sent to each member of the Council, and the minutes of January 18, 1915, as corrected, be approved by the Council. Motion duly carried.

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Federal Advisory Council - January 19, 1915.

The President submitted the recommendation of the Executive Committee in connection with banker's acceptances and bills of exchange, as same appears in their minutes of January 18, 1915, and after due discussion Mr. Morgan moved that the recommendation be approved and adopted as the action of the Council and be sent to the Federal Reserve Board. Motion unanimously carried.

The President then submitted the recommendation of the Executive Committee in relation to commercial paper eligible for rediscount by Federal Reserve Banks, as same appears in their minutes of January 18, 1915. The circular of the Federal Reserve Board No. 13, dated November 16, 1914, on this subject was read by the President, when Mr. Seay stated that the Federal Reserve Board has another circular on the subject in course of preparation to supersede No. 13. As this tentative circular had not been officially submitted to the Council Mr. Rue moved, seconded by Mr. Jaffray, that the Federal Reserve Board be requested to furnish the Council with copies of it and that the matter under discussion be deferred until receipt of the new circular. Motion unanimously carried.

A short recess was taken while Mr. Forgan called on the Vice-Governor, Mr. F.A. Delano, and requested that the Council be furnished by the Federal Reserve Board with copies of its tentative circular on the subject of commercial paper eligible for rediscount. On Mr. Forgan's return he furnished each member of the Council with a copy of the proposed new circular known as circular No. 3, Series of 1915, and Regulation B., Series of 1915. After the members of the Council had expressed their views on the subject matter of the circular Mr. Morgan moved that a committee consisting of Messrs. Seay, Rue and Wing, be appointed to revise the circular in accordance with the views expressed by members of the Council and report back to the Council at 4 P.M. The motion was passed unanimously.

Mr. Forgan announced that the Federal Reserve Board invited the members of the Council to meet with them at the Metropolitan Club for luncheon where they would be pleased to hear from the members of the Council as to general conditions of business through the country. The Council then went in a body to the Metropolitan Club where each member addressed the Federal Reserve Board as to conditions prevalent in his district.

The Federal Advisory Council then adjourned until 4 P.M.

At 4 P.M. the Federal Advisory Council resumed its session.

Present: Messrs. James B. Forgan, L. L. Rue, J. P. Morgan, D. G. Wing, W. S. Rowe, George J. Seay, Charles A. Lyerly, Rolla Wells, C. T. Jaffray, J. Howard Ardrey, Archibald Kains and Merritt H. Grim, Secretary.

President Forgan in the Chair:

Mr. Seay on behalf of the Committee appointed at the morning session to revise tentative circular No. 3 and Regulation B., both of Series 1915, reported by furnishing the Council with a copy of circular No. 3, in which no change was suggested and a copy of Regulation B., altered to meet the views expressed by members of the Council as per copy filed herewith and made part of these minutes.

The circular and Regulation B., as amended by the Committee were on motion unanimously approved by the Council, and the President was requested to turn them over to the Federal Reserve Board as its recommendation of the changes which should be made in tentative regulation B.

At five o'clock the members of the Federal Reserve Board entered for a joint session with the Federal Advisory Council, Governor Hamlin presiding at the joint meeting. The members of the Federal Reserve Board who were present were, Governor Hamlin, Vice-Governor Delano, Messrs. W.P. G. Harding, A. C. Miller, Paul M. Warburg, John S. Williams, also Secretary H. Parker Willis.

Mr. Forgan then presented to the Federal Reserve Board the Council's opinion in regard to the discounting of bankers' acceptances and bills of exchange under section 13 of the Federal Reserve Act and the purchasing on the open market of similar obligations under Section 14. He also handed to the Board a copy of tentative regulation B, series of 1915, on the subject of commercial paper eligible for rediscount by the Federal Reserve Banks as it had been amended by the Council. Then followed a general discussion between members of the Federal Reserve Board and the Federal Advisory Council relative to the Council's opinion given in regard to acceptances and bills of exchange and its reasons for the changes suggested in the Board's regulations in regard to the eligibility of commercial paper for rediscount.

Mr. Harding handed Mr. Forgan some copies of a tentative circular to be issued by the Federal Reserve Board on the subject of national banks acting as Executor, Trustee, etc. with the request that the members of the Council should give it their consideration. Copies were then handed to the members of the Council for this purpose. Governor Hamlin informed the Council that the Board would be glad to have the Council's recommendations either individually or collectively in regard to the conditions under which State Banks should be admitted to membership in the Federal Reserve System and further that the Board would be glad at any time to have the Council's recommendations on any subject connected with the operation of the Federal reserve banking system. The joint session adjourned at 6:10 P.M.

FEDERAL RESERVE BOARD.

WASHINGTON, *January 15, 1915.*

COMMERCIAL PAPER.

When Circular No. 13, bearing date of November 10, 1914, and the accompanying regulations were issued it was believed that a period of two months would suffice to enable member banks to familiarize their customers with the requirements of Regulation No. 4 of 1914. It appears, however, that in many districts the needed readjustments of banking and business practice can not be effected in so short a period. An extension of time has therefore been asked by both member banks and their customers for the purpose of adjusting their methods to the new requirements.

To meet these requests the Board has by Regulation A, accompanying Circular No. 2, Series of 1915, extended Regulation No. 3, Series of 1914, for a period of six months, or until July 15, 1915, subject to the modifications contained in the accompanying regulation (B-1915) which supersedes Regulations Nos. 2 and 4 (1914).

The Board includes in this regulation (paragraph III) a new method for certifying to the eligibility of bills for rediscount. While banks will not be required to comply with the provisions of this paragraph until after July 15, the new method prescribed is made a part of this regulation in order that advance notice may be given to all banks so that those which are equipped to do so may begin to operate under its provisions as soon as possible. The Board suggests, furthermore, that Federal reserve banks insist that the accompanying regulation be applied as promptly as possible to all so-called "purchased paper" (that is, paper bought through brokers or otherwise from customers with whom the purchasing bank has no direct business relation). Where such direct connections do not exist the requirement that statements, both as to business conditions and methods of borrowing, be furnished appears to be a matter of prudence and should not be delayed. Some borrowers may not be able to give a statement in the required form until after the close of their business year. In such cases statements for the previous year may be accepted, even though they may not contain all the desired data.

While it has been thought best not to insist, as a mandatory requirement, upon a written statement in the case of limited borrowings by depositors, when officers of member banks, from their own personal knowledge, certify to the eligibility of the paper for discount, it is urged, nevertheless, that member banks do their utmost to accustom their borrowers to furnishing such statements.

In order to facilitate operations, particularly during the initial period, the mandatory requirements as to the contents of borrowers' statements have been modified, but banking prudence requires that whenever possible the observance of the rules originally prescribed should be encouraged.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

FEDERAL RESERVE BOARD.

WASHINGTON, *January 15, 1915.*

COMMERCIAL PAPER.

The word "bill," when used in this regulation, shall be construed to include notes, drafts, or bills of exchange, and the word "goods" shall be construed to include goods, wares, merchandise, or staple agricultural products, including live stock.

I.

STATUTORY REQUIREMENTS.

The Federal Reserve Act provides that a bill (other than an acceptance covered by the regulation accompanying Circular No. —), to be eligible for rediscount by a member bank with a Federal reserve bank, must comply with the following statutory requirements:

- (a) It must be indorsed by a member bank, accompanied by a waiver of demand notice and protest.
- (b) It must have a maturity at the time of discount of not more than 90 days, except as provided by Regulation C, accompanying Circular No. 4, Series of 1915.
- (c) It must have arisen out of actual commercial transactions; that is, be a bill which has been issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been or are to be used for such purposes.
- (d) It must not have been issued for carrying or trading in stocks, bonds, or other investment securities except bonds and notes of the Government of the United States, but the pledge of "goods" as security for a bill is not prohibited.

II.

CHARACTER OF PAPER ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to define the character of a bill eligible for rediscount by Federal reserve banks, has determined:

- (a) That it must be a bill the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing "goods" in one or more of the steps of the process of production, manufacture, and distribution;
- (b) That no bill is "eligible" the proceeds of which have been used or are to be used,
 - (1) For permanent or fixed investments of any kind, such as land, buildings, machinery (including therein additions, alterations, or other permanent improvements, except such as are properly to be regarded as costs of operation). It may be considered as sufficient evidence of compliance with this requirement if the borrower shows, by statement or otherwise, that he has a reasonable excess of quick assets over his current liabilities on open accounts, short term notes, or otherwise;
 - (2) For investments, whether made in "goods" or otherwise, of a merely speculative nature.

III.

METHOD OF CERTIFYING ELIGIBILITY.

The Federal Reserve Board has adopted the following method by which member banks, after **July 15, 1915**, shall certify that a bill is eligible for rediscount when applying for rediscount thereof:

(3)

(a) In the case of a bill which has been discounted for one of its own depositors, provided either

(1) such bill bears the signatures of the purchaser and the seller of the goods, and contains a statement on its face that it was issued for goods actually purchased or sold, or

(2) the aggregate amount of obligations of such depositor rediscounted and offered for rediscount does not exceed \$5,000, but in no event a sum in excess of ten per cent of the paid-in capital of the member bank,

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the member bank will be required to certify in the letter of application, over the signature of a duly authorized officer, that, to the best of his knowledge and belief, the bill was issued for one of the purposes mentioned in paragraphs I (c) and II (a) hereof and that it conforms to the provisions of the act and the requirements of this regulation.

(b) In the case of a bill which does not conform to the conditions described under III (a) (1) and (2) hereof or of a bill purchased otherwise than from one of its own depositors, the member bank shall place a certificate upon the bill substantially to the following effect:

Eligible for rediscount with Federal reserve banks
under Federal Reserve Board Regulation B (Series of 1915).
Credit file _____
Name of member bank, _____ of _____

which certificate shall be deemed a representation by the member bank that, to the best of the knowledge and belief of its duly authorized officers, the bill conforms to the provisions of the act and the requirements of this regulation.

For the purpose of enabling it to affix the above certificate, every member bank shall maintain a credit file, bearing an identification number or name, which shall contain a statement of the financial condition of the borrower, either signed by the borrower or duly certified by a member bank or notary public, to be a copy of a signed statement. Such statement should contain all the information essential to a clear and correct knowledge of the borrower's credit and of his methods of borrowing. A schedule specifying certain information which such statement should include and the main points to be observed is hereto appended.

Regulations Nos. 2 and 4 of 1914 are hereby revoked.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

APPENDIX.

INFORMATION TO BE INCLUDED IN CREDIT FILES OF MEMBER BANKS.

The credit files of member banks, referred to in the above regulation, should include information concerning the following matters:

- (a) The nature of the business or occupation of the borrower;
- (b) If an individual, information as to his indebtedness and his financial responsibility;
- (c) If a firm or corporation, a balance sheet showing quick assets, slow assets, permanent or fixed assets, current liabilities and accounts, short term loans, long term loans, capital (and surplus);
- (d) The maximum and minimum amount of short term loans during the preceding year and the anticipated maximum during the present year;
- (e) A statement evidencing the purpose of such short term loans and the policy of the borrower in financing slow, permanent, or fixed assets;
- (f) All contingent liabilities, such as indorsements, guaranties, etc.;
- (g) Particulars respecting any mortgage debt and whether the mortgage is a lien on current assets;
- (h) Such other information as may be necessary to determine whether the borrower is entitled to credit in the form of short term loans.

MINUTES
EXECUTIVE COMMITTEE

JANUARY 18, 1915

A meeting of the Executive Committee of the Federal Advisory Council was held in the Federal Reserve Board Room in the Treasury Building, Washington, D.C., January 18, 1915, at 11 A.M.

Present: James B. Forgan, L. L. Rue, J. P. Morgan, Daniel G. Wing, and W. S. Rowe. The President, Mr. James B. Forgan, presided.

The President reported that under the authority given him at the meeting of the Executive Committee on December 18, 1914, he had appointed Mr. Merritt H. Grim of Chicago, secretary of the Federal Advisory Council, and had fixed his salary at \$1,200 per annum. Mr. Forgan recommended that \$1,600 be raised by assessing each Federal Reserve Bank \$150 to provide for the secretary's salary, Traveling expenses and incidentals for the ensuing year; an account to be rendered to the Council at the end of the year and any balance remaining to be carried forward to the year following. On motion of Mr. Morgan, seconded by Mr. Rue, the President's action and recommendation were approved and adopted.

Mr. Grim being present took up his duties at once

The President stated that the minutes of the meeting of the Executive Committee held in New York December 18, 1914, had been sent to each member of the Council. On motion of Mr. Morgan they were unanimously approved.

The President reported that he had as requested at the previous meeting prepared a letter to the Federal Reserve Board reporting the findings of the Committee on the five questions submitted to it by the Federal Reserve Board, which had been submitted by mail to the members of the Council and unanimously approved by them and that it had been forwarded to the Secretary of the Federal Reserve Board on December 24, 1914.

The letter follows:

"Mr. H. Parker Willis, Secretary,
Federal Reserve Board,
Washington, D C

Dear Sir:--

At a meeting of the Executive Committee of the Federal Advisory Council held in New York December 18, 1914, the various matters referred to it by the Federal Reserve Board as stated in your letter of the 17th inst. were duly considered.

The Executive Committee met at 2:30 P. M. Present: Messrs. James B. Forgan, L. L. Rue, J. P. Morgan, Daniel G. Wing and W. S. Rowe.

On motion of Mr. Rue the Committee unanimously agreed to submit the following statement to the Federal Advisory Council at its meeting tomorrow with the recommendation that it be sent to the Federal Reserve Board:

"That for the present at least we deem it wise for the Federal reserve banks to buy in the open market under Section 14, bankers' acceptances and bills of exchange only when such bankers' acceptances or bills of exchange are the acceptances or bear the endorsement of member banks. Such purchases should also be subject to the following limitations provided for acceptances under Section 13 when offered for discount 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. 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."

The subject of commercial paper eligible for rediscount at the Federal Reserve banks was then taken up and after discussion it was decided to recommend to the Council at its meeting tomorrow that the following statement should be sent to the Federal Reserve Board:

"In the opinion of this Council many of the requirements in connection with commercial paper eligible for rediscount under circular No. 13, dated Nov. 10, 1914, which was deferred until July 15, 1915, under Regulation A, Series of 1915, dated January 12, 1915, impose inconvenience upon the business public, the Federal reserve and member banks and cannot successfully be carried out in practice.

"It is our opinion that the regulations of the Federal Reserve Board should provide that the management of the various Federal reserve banks should determine the acceptability of commercial paper offered for rediscount by their member banks. Each application for rediscount should be considered upon its own merits.

"We would therefore respectfully recommend that the requirements in circular No. 13, commencing with the words (in the middle of the second paragraph on page 3 thereof) "It is however thought advisable by the Board to require that on and after January 15, 1915, etc." should be permanently eliminated."

There being no further business the Committee then adjourned.

JOINT MEETING OF THE
FEDERAL ADVISORY COUNCIL AND THE GOVERNORS
OF THE FEDERAL RESERVE BANKS

January 20, 1915

As arranged the Federal Advisory Council met in joint conference with the Governors of the Federal Reserve Banks at the New Willard Hotel, Washington, D. C., January 20, 1915.

Present: Messrs. James B. Forgan, D. G. Wing, J. P. Morgan, W. S. Rowe, George J. Seay, Charles A. Lyerly, Rolla Wells, C. T. Jaffray, J. Howard Ardrey, Archibald Kains and Merritt H. Grim, Secretary; and the following Governors of the Federal Reserve Banks: Messrs. Alfred L. Aiken of Boston, Benjamin Strong, Jr. of New York, Charles J. Rhoads of Philadelphia, E. R. Fancher of Cleveland, George J. Seay of Richmond, Joseph McCord of Atlanta, James B. McDougal of Chicago, Rolla Wells of St. Louis, Theodore Wold of Minneapolis, Oscar Wells of Dallas, Archibald Kains of San Francisco, and J. F. Curtis, Secretary; also Charles R. McKay, Deputy Governor of Chicago and Mr. Henricks of New York.

Absent: E. F. Swinney and L. L. Rue of the Council, and Governor Charles M. Sawyer of Kansas City.

It was stated that Mr. Sawyer's absence was occasioned by a death in his family, and that Mr. Swinney was prevented from being present by the illness of Mrs. Swinney:

Mr. James B. Forgan, President of the Council, called the meeting to order at 10:30 A.M.

The Chairman, Mr. Forgan, stated that the purpose of this joint meeting was to enable the members of the Council to become better informed as to conditions existing in the various districts and on the problems confronting the governors of the Federal reserve banks and to give the governors an opportunity of discussing with the members of the Council matters of mutual interest in connection with the conduct of the Federal Reserve Banks.

Mr. Forgan then laid before the meeting the Federal Reserve Bank's tentative regulation B, Series of 1915, on commercial paper eligible for rediscount by the Federal reserve banks as revised by the Federal Advisory Council. Mr. Strong, Chairman of the Board of Governors, said that the governors would consider these recommendations of the Council at a subsequent meeting.

Then followed an informal discussion between the members of the Federal Advisory Council and the Governors relative to the settlement of balances between Federal Reserve Banks and the clearing of country bank checks through the Federal reserve banks. Informal statements were made by Governors Strong, Seay, McDougal, Wold and others, relating to conditions in this connection in their respective districts.

Several of the governors suggested that if the Federal Advisory Council would recommend to the Federal Reserve Board that action in regard to putting in operation any general plan for clearing checks should be postponed it would materially aid them as the Board was then to formulate some such plan at once but they did not

JOINT MEETING OF THE
FEDERAL ADVISORY COUNCIL AND THE GOVERNORS
OF THE FEDERAL RESERVE BANKS

January 20, 1915

feel that a workable plan could be formulated and put in operation for some time to come. Mr. Forgan stated that the Council not having had the matter under consideration was not prepared to make such a recommendation at this time. No formal action therefore was taken but Mr. Forgan on behalf of the Federal Advisory Council stated that if the Governors should decide upon a plan for settling balances between the Federal reserve banks or for clearing checks either inter-district or intra-district or both and would send him a copy of their findings he would submit same by mail to the members of the council, secure their recommendations in regard to it and forward same to the Federal Reserve Board, the strong probability being that the Council would endorse the plans formulated by the Governors.

At 1 P.M. the joint conference adjourned sine die.