MINUTES
EXECUTIVE COMMITTEE
THE FEDERAL ADVISORY COUNCIL

Sept.20, 1915

A meeting of the Executive Committee of the Federal Advisory Council called by the President was held in Mr. J. P. Morgan's library in New York, Monday, Sept. 20, 1915, at 11 A.M.

Present: Messrs. James B. Forgan, in the chair, L.L.Rue, J. P. Morgan, Daniel G. Wing, W. S. Rowe, and Merritt H. Grim, Secretary.

On motion of Mr. Wing the minutes of meeting of the Executive Committee held in Washington, April 20, 1915, were approved.

The Chairman laid before the meeting a letter from Mr. H. Parker Willis, Secretary of the Federal Reserve Board, dated Sept. 2, 1915, suggesting ten subjects for discussion by the Federal Advisory Council, viz.:

"1. Question of a larger differential in rates for trade acceptances to be extended to all maturities.

2. Special rates for 'Commodity paper'.

3. Suggestions and recommendations as to the probable course to be taken in the coming months with reference to discount rates at Federal reserve banks.

4. What steps can and should be taken to encourage the entrance of State banks to the Federal Reserve system?

5. To what extent should the officers of the Federal Reserve banks have access to National bank examiners' reports?

6. The establishment of joint foreign agencies by Federal Reserve banks. To what extent are such agencies thought likely to be of value in meeting the financial requirements of trade between the United States and South America ?

7. Should the National Bank Act be amended so as to permit joint ownership by National banks of foreign branches?

8. Liberalization of the National Bank Act with a view of putting National banks more nearly on a footing of equality with State banks.

9. Should intra-district clearings be made mandatory?

10. Policy to be followed by Federal Reserve Board in establishing rates at which Federal Reserve banks shall be permitted or required to rediscount for one another."

The subjects were considered and tentative statements formulated giving the views of the Committee on them to be submitted to the Federal Advisory Council on Sept. 21st for their consideration.

The meeting then adjourned.

Secretary.

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MINUTES

FEDERAL ADVISORY COUNCIL

Sept. 21, 1915

A statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room in the Treasury Building, Washington, D.C., Tuesday, Sept. 21, 1915, at 10 A.M.

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

Absent: Messrs. J. P. Morgan and E. F. Swinney.

Mr. Forgan explained that important business in New York prevented Mr. Morgan attending and that Mr. Swinney was still in the West having attended the Convention of the American Bankers Association at Seattle.

The minutes of the meetings of the Federal Advisory Council and of the Executive Committee held in Washington, April 21, 1915, copies of which had been sent to members, were approved.

The President laid before the meeting a copy of his letter of May 21, 1915, addressed to Mr. F. A. Delano, Vice-Governor of the Federal Reserve Board, and explained that this letter was in reply to the letter of Mr. Delano of May 7th enclosing draft of a circular on the Admission of State banks to the Federal Reserve System. A Copy of Mr. Delano's letter and of the draft circular had been submitted to each member of the Council asking for their criticisms and suggestions and the President's letter was based on the criticisms and suggestions he had received from the individual members of the Council. On motion of Mr. Seay, seconded by Mr Ardrey, the President's letter was approved.

The President laid before the meeting the letter of Mr. H. Parker Willis, Secretary of the Federal Reserve Board, dated Sept 2, 1915, suggesting ten subjects for discussion by the Federal Advisory Council along with the tentative statements formulated by the Executive Committee at its meeting Sept. 20th. The subjects were then considered seriatim and the following opinions were formulated expressive of the views of the Council on each subject:

"1. Question of a larger differential in rates for trade acceptances to be extended to all maturities.

It is the opinion of this Council that a larger differential in rates for trade acceptances to be extended to all maturities is not advisable.

"2. S pecial rates for 'Commodity paper.'

We do not approve of granting special rates for 'Commodity paper."

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"3. Suggestions and recommendations as to the probable course to be taken in the coming months with reference to discount rates at Federal Reserve Banks.

In our opinion suggestions and recommendations as to the discount rates at Federal Reserve Banks should be initiated by the directors of these banks as provided in the Federal Reserve Act.

"4. What steps can and should be taken to encourage the entrance of State banks to the Federal Reserve System.

The terms already provided under which State banks may become members of the Federal Reserve system appear to be fair and liberal and we have no further suggestions to make at this time.

"5. To what extent should the officers of the Federal Reserve Banks have access to National bank examiners' reports?

In the opinion of this Council the arrangement made by the Comptroller of the Currency as indicated in his circular letter of August 23, 1915, to the chief National bank examiners provides for the situation as it exists at present.

"6. The establishment of joint foreign agencies by Federal Reserve Banks. To what extent are such agencies thought likely to be of value in meeting the financial requirements of trade between the United States and South America?

In our opinion it is not advisable at this time for the Federal Reserve banks to establish joint agencies in foreign countries. As the custodians of the reserves of the member banks their resources should be kept for the protection of the member banks and not become involved in the financial or trade transactions in foreign countries. The financing of foreign trade transactions belongs legitimately to the member banks, state banks and private bankers and should not be a function of the Federal Reserve banks.

" 7 Should the National bank Act be amended so as to permit joint ownership by National banks of foreign branches?

In the opinion of this Council the National Bank Act should be amended so as to permit joint ownership by National banks of foreign branches.

" 8.Liberalization of the National Bank Act with a view of putting National banks more nearly on a footing of equality with State banks.

The National Bank Act should be amended so as to permit of the establishment of branches by National banks having an unimpaired capital and surplus of not less than $1,000,000 in central reserve and reserve cities, provided that no branches are placed outside of the limits of the City where the head office of the parent bank is located./ Amend the Clayton Act making an officer or director of a National bank eligible as a director in one State bank or Trust Company and a private banker eligible as a director in one National bank and a State bank or trust company.

"9. Should intra-district clearings be made mandatory?

The Council's answer to this question is "No."

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"10. Policy to be followed by Federal Reserve Board in establishing rates at which Federal Reserve Banks shall be permitted or required to rediscount for one another.

The views of the Council on this question were expressed in the President's letter to Mr. F. A. Delano, Vice-Governor of the Federal Reserve Board, dated March 7, 1915, which views we reaffirm. "

(Note: In connection with Opinion No 2. Mr. Seay requested to be recorded as voting against the opinion expressed by the Council; and in connection with Opinion No. 9. Mr. Wells requested that he be excused from voting.)

During consideration of Subject No. 10, Mr. Forgan asked Mr. Rue to take the chair as he desired to arrange with Governor Hamlin for a joint meeting with the Federal Reserve Board. On Mr. Forgan's return he brought with him Mr. John Skelton Williams, the Comptroller of the Currency, whose views the Council desired to ascertain in connection with Subject No. 5. Mr. Williams furnished the Council with his circular addressed to the Chief National Bank Examiners dated August 23, 1915, which was read to the meeting. The Comptroller then expressed his views on the subject and withdrew, whereupon the Council adopted the resolution as above recorded.

The President stated that the Federal Reserve Board would meet with the Council at 3 P.M. this afternoon. The Council then adjourned until 2:15 P.M.

Secretary.

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MINUTES
ADJOURNED MEETING OF THE
FEDERAL ADVISORY COUNCIL

Sept. 21, 1915
At 2:15 P. M.

At 2:15 the Federal Advisory Council reconvened. Mr. Wells was called out of the City and did not attend.

The President laid before the Council Mr. George J. Seay's argument in favor of putting into immediate operation the complete reserve provisions of the Federal Reserve Act. Mr. Seay made a general statement concerning the plan and the members discussed it at length.

On motion of Mr. Rue it was decided that action on the Plan be deferred until the next meeting of the Council in order that all members could have full opportunity to study this most important problem.

The time having arrived for the joint meeting with the Federal Reserve Board the Council adjourned.

Secretary.

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MINUTES
JOINT MEETING OF THE FEDERAL RESERVE BOARD
AND THE FEDERAL ADVISORY COUNCIL.

Sept. 21, 1915

A joint meeting of the Federal Reserve Board and the Federal Advisory Council was held in the Federal Reserve Board room in the Treasury Building, Washington, D.C., at 3:15 P M

Present: Governor C. S. Hamlin, presiding, Messrs. John Skelton Williams, W. P. G. Harding, Paul M. Warburg, and H. Parker Willis, Secretary, of the Federal Reserve Board; and Messrs. James B. Forgan, L. L. Rue, Daniel G. Wing, W. C. Rowe, George J. Seay, Charles A. Lyerly, C. T. Jaffray, H. Howard Ardrey, A. Kaine and Merritt H. Grim, Secretary, of the Federal Advisory Council.

Governor Hamlin asked Mr. Forgan if he would give the Federal Reserve Board the views of the Federal Advisory Council on the ten subjects submitted by the Board for consideration.

Mr. Forgan then read the opinions formulated by the Council and gave the Board copies of them.

A general discussion was then had between the members of the Board and the Council on the questions involved, wherein the opinions of the Council were more fully explained and their reasons therefor given.

Various other subjects relating to the operation of the Federal Reserve System were discussed, after which the joint session adjourned.

Secretary.

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FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

Chicago, Nov. 2, 1915

Hon. Charles S. Hamlin,
Governor Federal Reserve Board,
Washington, D C

Dear Governor Hamlin:--

I now beg to enclose copies of the letters I have so far received from the members of the Federal Advisory Council giving their individual views as to the advisability of furnishing each bank when examined with a copy of the national bank examiner's report on it.

A perusal of these communications will show a unanimity of opinion in favor of furnishing banks with a copy of the examiner's report for the use and benefit of their officers and directors.

I am heartily in accord with this opinion.

Some slight variance of opinion is expressed as to whether the banks should be furnished with complete copies of the examiner's reports as made to the Comptroller, including criticisms of the management, reports on the personal habits of the officers, on any infractions of the law, or on other irregularities.

Such matters are of course of an ultra-confidential nature and require either delicate handling for their correction or legal prosecution for the punishment of the guilty parties. They might well be submitted to the Comptroller for action in his discretion. They would in all probability however form the most important part of the examiners' reports as they would disclose the vital matters demanding for their correction the immediate attention of the directors. If the banks are to reap the full benefit of the examinations such matters should be promptly brought to the attention of the directors and the question is as to how this can be done most effectively. It would seem to me that the examiners should be required, as I believe they are now required, to report promptly to the Comptroller any penal infractions of the law. Any irregularities discovered on the books or in the habits or practices of any of the officers should also be reported. The Comptroller would then be in a position to take such matters up with the directors through the president or in such other effective way as his discretion might dictate.

All this could be done through correspondence with the Comptroller outside of the examiner's regular report, the important thing being that such matters should under no circumstances be ignored, but it would seem better that the comptroller should take them up directly with the management of the bank involved rather than that the bank should get its information in regard to them through the examiners.

Very truly yours,

(Signed) Jas. B. Forgan

President

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Answers received by J. B. Forgan, President, of the Federal Advisory Council, to letters addressed by him to the members of the Council, dated October 22nd, 1915, enclosing a copy of a letter addressed by the Comptroller of the Currency to the Chief examiner of each district, with blanks for examination reports on national banks therein referred to, and asking for their views in regard to the same:

Mr. E. F. Swinney's answer, October 23, 1915

"I beg to acknowledge receipt of yours of October 22nd and in reply will s tate that our directors and officers have found the reports which are filed with us by our Clearing House Examiner of very great value and, in my opinion, a like report, or so much as could consistently be given out from the Comptroller's officer after each National bank examination, would be of like value to banks where they do not have Clearing House Auditors.

"It is the duty of directors to keep in touch with the affairs of their banks and in this way they would have no excuse for not being familiar with all matters pertaining to the good of the institution."

Mr. C. T. Jaffray's answer, October 25, 1915

"Your favor of the 22nd received. I have gone over the forms as furnished you by the Federal Reserve Board, made by the examiners of the various national banks.

"I see no reason why a copy of the report such as is furnished the Comptroller's office should not be also furnished the bank, in fact, I think it would be very desirable indeed to have this full report furnished the bank so that not only the president but all the officers of the bank should have access to the information showing the conditions which he finds in the bank and also knowledge of the points which he criticises. I am sure it would be an excellent thing to have this done and I can see no possible harm in doing it, after reading over the forms provided. If a bank examiner desires to criticise the personnel or the ability of any of the active officers of a bank, this he might do in a personal letter to the Comptroller, but beyong this I believe the information would be of service to the bank and could not possibly do any harm to the examiner himself.

"In the letter of Mr. Hamlin to you, part of the first paragraph, he speaks of reports being confidential between the examiners and the Comptroller of the Currency in reference to any infractions of the law. I think this is really one of the chief reasons why any infractions of the law should be made very plain to the banks themselves, and if necessary to have the examiner's report go to the Board of Directors just as our Clearing House Examiner's report is now treated."

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Mr. J. Howard Ardrey's answer, October 27, 1915.

"I have your letter of October 22nd with enclosures.

"I have carefully examined the forms you enclose on which the National Bank Examiners make their report to the Comptroller of the Currency. In my opinion all the information called for by these blanks should be furnished the bank under examination. The last item in the report, classified as "List all items of criticism," if referring to the personality, personal habits or infractions of the law of the officers or directors of the bank, could very well be contained in the letter of transmittal of the report from the examiner; and such letter could very well constitute Part 2 of the report to be retained for the confidential information of the Comptroller. But a copy of the complete report itself, should in my opinion, be furnished to the bank under examination; and the Comptroller should require that the minutes of the Directors' Meeting of such bank show that the report was read in the open meeting of the Directors.

"The expense of the examinations will be cheerfully borne by the member banks when such examinations in the eyes of the Officers of the bank approximate in dignity and importance the independent audits to be had by Certified Public Accountants. The Directors of many banks remain ignorant of unfavorable conditions of their banks because they assume that a national bank examiner having been through the institution, it is all right in every way except for such criticisms as are sometimes embodied in the letter to them from the Comptroller's office. If all of the impartial information and criticism contained in the examiner's report is given to the officers and directors of the banks, the examinations will begin to have a value to the banks themselves, many loose practices will be strengthened and the increased expense of examinations will be cheerfully borne."

Mr. Rolla Wells' answer, October 28, 1915

"Replying to your communication of 22d instant, asking for expression of an opinion relative to National Bank examinations, it seems to me that a copy of the complete report furnished the Comptroller should be given to the officers of the examined bank. If the Bank Examiner has any communication of a confidential nature that he desires to transmit to the Comptroller, same could be made independently of the regular report."

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Mr. L. L. Rue's answer, October 29, 1915

"Referring to your letter of 22nd inst., I have examined the blank forms which the National Bank Examiners use in making their reports to the Comptroller of the Currency. Personally I see no objection but would rather favor a duplicate of the Bank Examiner's report being sent to the bank which has been examined, so that its Officers and Directors might have the benefit of any suggestions or criticisms made to the Comptroller. Of course I can appreciate that there might be some parts of the report which should be considered confidential. Such portions could be omitted when sending the copy to the bank. Otherwise I fear the Examiner would hesitate to make criticisms which he should do, fearing it would come to the knowledge of the Bank. This would impair his usefulness to the Department and lessen the value of his examinations to the Comptroller."

Mr. D. G. Wing's answer, October 29, 1915.

"Your favor of the 22nd, with enclosures, is received.

"I think it would be a good plan to have some part of the Bank Examiner's report of examination returned to the bank examined and in such a way that it will come to the attention of the Board of Directors. In order to have this receive their attention it should not be encumbered with too much detail. Such matters as interest paid upon various deposits, rates charged upon loans, salaries, etc., are matters of administration which in the larger banks especially ought not to be placed in detail before the full Board.

"I should think that a statement of the condition of the bank as determined by the Examiner, a schedule of the liability of directors, officers and clerks, a schedule of bad debts and overdue paper, one of excessive loans and large lines, a list of the bonds, securities, etc., and a complete schedule of overdrafts, together with such remarks and criticisms as the Examiner sees fit to make could properly be submitted to the bank for the attention of its directors.

"My idea would be to place before the directors the condition of the bank, as set forth by the Bank Examiner, in such condensed form that it would receive real attention. A lot of schedules and long lists I think would be passed over without much real attention paid to them."

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Mr. W. S. Rowe's answer, November 2, 1915

"My reply to your letter of the 22nd inst. was delayed because of my absence from the City.

"I see no objection to having the Examiner give the Bank any information which is called for on the forms which you enclosed.

"It is probable, of course, that the Department at Washington might desire to exclude some of the comments made by the Examiner on the various items; otherwise I see no objection to the forms, as they are, going to the Bank."

Mr. George J. Seay's answer, November 4, 1915

"Absence from the City has prevented an earlier reply to your letter of the 22nd enclosing a letter from the Governor of the Federal Reserve Board, accompanied by a form of statement from the Comptroller's office.

"I have carefully gone over this statement with our Vice-Governor, who is a man of much experience and ability in this particular class of work. We have discussed the matter together, and I am sending you the enclosed as the result:

"Page 1. Omit nothing.
2. Omit estimated worth of officers and directors and answer seven and nine.
3. Omit question ten.
4. Omit nothing.
5. Omit nothing.
6. Omit question twelve.
7. Omit nothing.
8. Omit nothing.
9. Omit nothing.
10. Omit nothing.
11. Omit questions with reference to affiliated banks, 1, 2, 3, 4, 5.
12. Omit nothing.
13. Omit question one, under rediscounts and money borrowed.
14. Omit general remarks as to condition of bank and questions which follow.

"As a matter of fact, I am of the opinion that no ascertained fact with reference to the condition of a bank should be withheld from the directors. Inasmuch as it is the duty of the examiner to call a meeting of the Board and discuss the affairs of the bank with the directors, during or at the close of an examination, it is to be presumed that every case of infraction of the banking law and every tendency to improper methods, will be brought to their attention at the meeting.

"In suggesting the above mentioned omissions, I am guided solely by the following considerations. In one or two cases the answer might indicate a lack of complete

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"knowledge on the part of the examiner, with which it might be inadvisable to acquaint the directors. For instance, see question seven on page two.

"In all cases of omitted questions, except these, the examiner is expressing his opinion to the Comptroller of the Currency, and it seems to me, that if he (the examiner) knew that these opinions were to be communicated to the directors of the bank, he would naturally be inclined to express himself less freely than he would in the case of a confidential opinion, intended solely for the Comptroller's office.

He might even feel, in certain circumstances, that it would be inadvisable, if not unsafe, to express himself freely, especially if he could not produce sufficient evidence to demonstrate clearly and beyond question the truth of his surmise, and I cannot help feeling that anything that would hamper the examiner in this direction would be unfortunate, and not at all conducive to thorough and efficient work.

"On page 14 I would omit the following questions: "'Were all matters subject to criticism considered by them?" and "' List all items of criticism,'" and substitute the following:

"'What matters subject to criticism were brought to the attention of the Board?'" This I would include in the copy of the report delivered to the Board.

"'List all items of criticism, not included in the above."' This I would include only in the copy for the Comptroller's office."

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