

MINUTES OF THE
FEDERAL ADVISORY COUNCIL.

SEPT. 18, 1916.

A statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room at the Treasury Department in Washington, D.C., at 10:30 A M, Monday, Sept. 18, 1916.

The full Council was present:

Mr. D. G. Wing, Federal Reserve District No. 1
Mr. J.P. Morgan, Federal Reserve District No. 2.
Mr. L.L. Rue, Federal Reserve District No. 3.
Mr. W. S. Rowe, Federal Reserve District No. 4.
Mr. J. W. Norwood, Federal Reserve District No. 5.
Mr. Charles A. Lyerly, Federal Reserve District No. 6.
Mr. James B. Forgan, Federal Reserve District No. 7.
Mr. F. O. Watts, Federal Reserve District No. 8.
Mr. C. T. Jaffray, Federal Reserve District No. 9.
Mr. E. F. Swinney, Federal Reserve District No. 10.
Mr. T. J. Record, Federal Reserve District No. 11.
Mr. Herbert Fleishhacker, Federal Reserve District No. 12.
Mr. Merritt H. Grim, Secretary.

The President, Mr. James B. Forgan, called the meeting to order.

The minutes of meetings of the Federal Advisory Council of May 16, 1916 and of the Executive Committee of May 15th and 16th, 1916, copies of which had been sent to members, were on motion approved.

The President laid before the Council the topics submitted for its consideration at this meeting by the Federal Reserve Board in Governor Harding's letter of Sept. 2nd, and 5th, 1916, as follows:

"Sept. 2, 1916,

Mr James B. Forgan,
President, Federal Advisory Council,
Chicago, Ill.

Dear Sir:-

Referring again to your letter of August 15th I hand you herewith, with the approval of the Board, a list of suggested topics for consideration at the forthcoming quarterly meeting of the Council.

Very truly yours,
(Signed) W P G Harding,
Governor."

Sept. 18, 1916. Cont.

TOPICS SUGGESTED FOR CONSIDERATION OF FEDERAL
ADVISORY COUNCIL AT ITS MEETING September 18, 1916.

I. THE RESERVE SITUATION.

Reserve conditions in the country at large and in the several districts.

II. DISCOUNT POLICY.

Suggestions or recommendations of any changes in discount rates to be made in the coming months.

III. VAULT RESERVES OF MEMBER BANKS IN FEDERAL RESERVE BANKS.

(a) What use should be made of the permission granted member banks under the Federal Reserve Act, as amended, to carry vault reserve money in Federal Reserve Banks?

(b) Suggestions as to how this provision of the law may be made effective.

(c) How can the use of the 15-day, secured notes of member banks, for the purpose of settling or maintaining balances with their Federal Reserve Banks be developed?

IV. STOCK OWNERSHIP BY MEMBER BANKS IN BANKING CORPORATIONS TO BE ORGANIZED FOR CONDUCTING FOREIGN BUSINESS.

Suggested regulations to be issued by the Board in connection with the recent amendment of the Federal Reserve Act.

V. CHECK CLEARING AND COLLECTION.

(a) Should charges by the Federal Reserve Banks on member banks be made per item or per thousand dollars of checks collected?

(b) Should Federal Reserve Banks be required to receive for immediate credit (funds to be immediately available) checks drawn on member banks maintaining excess balances: in other words, abrogate the time allowance now in force against such checks?

(c) Should the Federal Reserve Board, at this time, proceed to regulate charges to be made against deposits of out-of-town checks with member banks, such checks being collected through Federal Reserve Banks?

(d) Immediate availability in Federal Reserve cities of bank drafts drawn by a member bank upon the Federal Reserve Bank of its own district, and steps which should be taken to protect the Federal Reserve Bank cashing such drafts, as well as the endorsers.

(Suggested Plan: Immediate advice to Federal Reserve Bank upon which drafts is drawn, with instructions to charge to account of drawing bank. Advice by the drawee Federal Reserve Bank to the Federal Reserve Bank requested to cash such draft.

Settlement by Gold Settlement Fund or by means of accounts kept for exchange purposes.)

Sept. 18, 1916. Cont.

"Sept. 5, 1916

My dear Sir:-

At a meeting of the Board's Executive Committee this morning, there was suggested as an additional topic for consideration by the Council at its approaching meeting, the following:

What steps should be taken to further
the entrance of State banks into the Federal
Reserve System?

In this connection, your attention is invited to a letter published under the heading, "Informal Rulings of the Board." on page 393 of the August number of the Federal Reserve Bulletin.

Very truly yours,
(Signed) W P G Harding,
Governor."

Mr. J. B. Forgan,
President, Federal Advisory Council,
Chicago, Ill.
c/o First National Bank."

Mr. Forgan stated that he had asked the members of the Council to individually prepare in writing reports on topics Nos. 1 and 2, as they relate to conditions in their individual districts, to be read at this meeting and later to the Federal Reserve Board and then filed with the Board.

The following are the statements prepared by the members on Topics Nos. 1 (the Reserve Situation) and 2 (the Discount Policy) : -

FEDERAL RESERVE DISTRICT NO. 1. Mr. D. G. Wing.

"TOPIC NO. 1.

There has been no material change in reserve conditions in District No. 1. The Boston banks show a considerable excess of reserves at the present time, some \$27,000,000, and of this amount nearly \$24,000,000 is excess in New York.

There is practically no change in the country bank situation. The New England banks are borrowing only a small amount from the Reserve Bank, and a comparatively small amount from their Reserve agents. I think, however, that they are gradually increasing their holdings in foreign loans and similar securities.

Sept. 18, 1916. Cont.

FEDERAL RESERVE DISTRICT NO. 1. Mr. D. G. Wing. (Cont.)

"TOPIC NO. 2.

The Reserve Bank discount rates are about right at the present time and I see no need of any change in the near future. In the present condition of the money market changes in the Reserve Bank rate would have very little effect one way or the other. Business in this District continues very active and at gradually increasing prices."

FEDERAL RESERVE DISTRICT NO. 2. Mr. J. P. Morgan.

"TOPIC NO. 1.

In general, the banks in the Second District have not any very large amount of excess reserve, certain of the larger banks in New York City holding practically the entire excess reserve of the District, though this excess reserve can, of course, be made available, as and when necessary, by the shifting of loans from one bank to another. In view of the very large amount of out of town bank deposits in New York at present, the total excess reserve is not more than is needed to care for the situation should the out-of-town banks withdraw a substantial amount of their deposits. In my opinion, however, this phase of the situation is thoroughly understood and the banks in general are taking very great care to keep themselves in such a liquid condition that, should their deposits be withdrawn, they would be able to meet all requirements.

"I understand that a thorough study of the reserve situation is being undertaken both by the Federal Reserve agents and by the Governors of the Federal Reserve Banks, with a view to having complete data on hand for Congress to study and decide what, if any, changes should be made in the present existing laws in view of the fact that, after November, 1917, no deposits in Reserve or Central Reserve Cities can be counted as reserve by any bank in the system. It is certainly specially desirable that this study should be made and completed as soon as possible, as it is important that if any changes in reserve requirements should be made, they should be made before the final transfer of all reserves to the Federal Reserve Banks.

"TOPIC NO. 2.

The policy at present in force appears to me to call for no change, except that I should recommend that the 10-day rate be changed to 15-days, in order to most advantageously meet the new authority to member banks to borrow upon their own notes upon eligible paper for periods not exceeding 15 days.

FEDERAL RESERVE DISTRICT NO. 3. Mr. L. L. Rue.

"TOPIC NO. 1.

Reserve conditions in District No. 3 are about normal. Rates for money remain comparatively low, the current rate for time collateral loans and commercial paper being $3\frac{1}{2}\%$ to 4% . Surplus reserves of clearing house banks in Philadelphia are now about 32 millions of dollars, which indicates that there is no pressure for money.

SPET. 18, 1916. Cont.

FEDERAL RESERVE DISTRICT NO. 3. Mr. L. L. Rue (Cont.)

"TOPIC NO. 2.

We have no suggestions to make as to change indidcount rates, and certainly would not undertake to name rates for the coming months. Rates must be made from time to time to meet conditions as they prevail. Very few of the member banks of this district are rediscounting at this time, the total amount being less than half a million dollars. The investment operations of the Federal Reserve Bank of Philadelphia are made up largely of purchases in the open market."

FEDERAL RESERVE DISTRICT NO. 4. Mr. W. S. Rowe.

"TOPIC NO. 1.

The conditions in District No. 4 are about normal. The member banks are using their credit with the Federal Reserve Bank very lightly and the country banks are discounting but little paper with their city correspondents. There is less than the usual manufacturing and mercantile demand for credit in the District.

"TOPIC NO. 2

Federal Reserve Bank rates for rediscounts are in accord with present conditions. We have no suggestion to make on future rates, believing that they will be governed by the demand. General business in the District is active and is expanding."

FEDERAL RESERVE DISTRICT NO. 5. Mr. J. W. Norwood.

"TOPIC NO. 1.

It is the opinion of the management of the Federal Reserve Bank of Richmond that reserve conditions in the Fifth District are entirely satisfactory, and stronger than could have been foreseen two months ago. Reserve conditions in the country at large seem favorable.

"TOPIC NO. 2.

There appears to be no reason to change the discount policy of the past, and rates should be watched closely with a view to discouraging speculation and expansion.

FEDERAL RESERVE DISTRICT NO. 6. Mr. Charles A. Lyerly.

"TOPIC NO. 1.

Reserve conditions are above normal, that is, banks have excess reserves. Their balances with correspondents are large; of course their balances with the Federal Reserve Banks are simply to meet the requirements of the law, for they get no interest on balances.

"TOPIC NO. 2.

The change of the law, allowing direct loans to the member banks at a preferential rate and the present commodity rate, with member banks' domestic acceptances which can be bought in the open market, will bring about the adjustment in rates desired. The plethora of gold will
of increase of rate.

Sept. 18, 1916. Cont.

FEDERAL RESERVE DISTRICT NO. 7. Mr. James B. Forgan.

"TOPIC NO. 1.

Between Dec. 31, 1914, and June 30, 1916, the net deposits of all the national banks in the country have been increased by the enormous sum of \$2,033,000,000 or 30%. During the same period their loans and discounts have increased \$1,331,000,000, or 21% and their bond investments other than government bonds have increased over \$400,000,000, or about 40%. During the same period their reserve required increased \$316,630,000 or 33%, while their total reserve increased \$568,143,000 or over 37%. Of the total legal reserve of the national banks, however, \$842,390,000 is still in the hands of their approved reserve agents while their total excess reserves is \$801,243,000, so that \$41,147,000 more than the total of their excess legal reserves is still in the hands of their approved reserve agents. After Nov. 16, 1917 when legal reserve balances can no longer be kept with present approved reserve agents and only balances in the Federal reserve banks and cash in vaults will count as legal reserve the present excess will suddenly disappear and the statements of the member banks in regard to their legal reserves will make a very different showing. By that time it may be anticipated that peace will prevail in Europe. At all events when peace does again prevail there will likely be keen international competition for gold and we will not doubt lose a considerable part of the accumulation we have gained during the war. It therefore behoves the Federal reserve banks to cooperate with their member banks in maintaining strong cash reserves especially gold reserves and to keep the banks in a liquid condition.

The most notable feature in connection with the condition of the legal reserves in District No. Seven is that the percentage of the legal reserves of the national banks in Chicago has now been reduced to practically the new minimum required under the Federal Reserve Act. It shows a reduction between May 1st and June 30th of this year from 20.76% to 18.34%, or 2.42%. Twelve of the largest banks, members of the Chicago Clearing House (six of them national and six state) showed combined legal cash reserves of only 16% in their last published statements of June 30, 1916, against 18.4% a year ago.

The excess reserves held by all the national banks in District No. Seven, outside of Chicago, amount to \$78,616,000, but \$89,351,000 of their legal reserve are still in the form of balances with approved reserve agents. \$10,735,000 more than their total excess of legal reserves is therefore still in this form. After Nov. 16, 1917, these balances will no longer count as legal reserve and the condition of the banks of the district in regard to their legal reserves will present a very different aspect. The banks should therefore run strong in actual cash reserves or in their balances with the Federal Reserve Bank to provide against contingencies that may arise when peace again prevails in Europe.

Sept. 18, 1916.

FEDERAL RESERVE DISTRICT NO. 7. Mr. James B. Forgan, (Cont.)

"TOPIC NO. 2.

So far as can be seen at present there is nothing pending in the Seventh District calling for any change in the Federal Reserve bank's rates.

Its present rates for short maturities are in accord with the current market rates for money while for the longer maturities they have been slightly above the rates charged by the Chicago banks when rediscounting for country banks. Comparatively little rediscounting has been done in the District and so far very little use has been made of the low rates offered for short maturities. The reserves of the member banks in Chicago, as shown by their last published statements, being practically down to their limit, it is not improbable that as the Fall season advances and the movement of money becomes more active there may be an increased demand for rediscounts on the Federal Reserve Bank of the District, but unless the demand should prove to be much greater than can at present be anticipated there will be no occasion for any change in the discount rates during the balance of this year."

FEDERAL RESERVE DISTRICT NO. 8. Mr. F. O. Watts.

"TOPIC NO. 1.

The Reserve held by the member banks in District No. 8 are probably normal when based on present conditions. The Legal reserves (Lawful money and Federal Reserve Balances) in St. Louis are probably

as low as should be in view of the crop movement now under way.

The banks have adjusted their position to the new reserve requirements and though actual reserves are lower than held at the season prior to the establishment of the Reserve Banks they probably have a greater amount of liquid paper available for rediscount than ever before.

The surplus in St. Louis of legal reserve (which excludes bank balances) is approximately three million dollars. Reliance is mainly in the maturing "bought paper" and the extent to which such short time paper can be made available.

It is probable that New York and Chicago balances are not materially above the normal requirements of trade.

"TOPIC NO. 2.

There seems to be nothing in the situation to cause any change in the discount rates of the Federal Reserve Bank of St. Louis. The bank has recently discounted its 10 day rate and has established a 15 day rate of 3% (subject to the approval of the F.R. Board) to apply alike to rediscounts and to loans made on collateral under the recent amendment to the law."

Sept. 18, 1916.

FEDERAL RESERVE DISTRICT NO. 9.

"TOPIC NO. 1.

Reserve conditions in District No. 9 indicate a better demand for money and an expanding business. The loans of the larger city banks are at high rates mark - even before the heavy crop movement had commenced. It is possible that with the very high price of all kinds of grain - and the necessity for the prompt movement to terminal markets on account of the very poor quality those banks may be forced to use the Federal Reserve Bank facilities. This situation, however, would pass by the first of the year, as by that time the grain will have been very largely marketed.

The small crops of all kinds of grain will undoubtedly affect commercial collections; also bring about a decline in commercial and bank deposits. This situation may bring a stiffening of money rates, and before the next crop season the demands of the Federal Reserve Bank be quite urgent - the policy of the Reserve Bank should be conservative - loans should be closely watched and rates moved up when any signs of expansion beyond what is conservative begins to show.

"TOPIC NO. 2.

The discount policy of the Federal Reserve Bank of the 9th district should be maintained as it is now, so far as the rates are concerned, but they should keep close track of their borrowing customers, and watch their reserve situation, and see that their loans are reasonable, and are liquidated at such times as their loans should naturally run off. The low rates of the Federal Reserve Bank, and the ability to get high rates from their customers, sometimes leads small banks to increase their loans beyond the conservative point. This should be watched closely by the Federal Reserve Bank of our district and rates increased when evidence shows that banks are borrowing rather than liquidating their loans."

FEDERAL RESERVE DISTRICT NO. 10. Mr. E. F. Swinney.

TOPIC NO. 1.

On account of the enormous income derived from the continuous increase in output of oil at a seemingly high price and the influx of capital being invested in purchase of lands and royalties for leases, together with the prices obtained for farm products of all kinds and the large demand for surplus working stock has given the farmer independence in finances and has increased the deposits of the country bank which in turn increases those in reserve city to such an extent - both the small as well as the larger institutions - cannot keep their funds employed in such securities and at such rates as they would feel justified in placing them. As a consequence reserves are high and I do not see any prospect of them being reduced to any great extent soon.

Sept. 18, 1916. Cont.

FEDERAL RESERVE DISTRICT NO. 10. Mr. E. F. Swinney (Cont.)

"TOPIC NO. 2.

With an era of more or less inflation I do not think it wise to lower the rate of interest, thereby giving institutions inclined to expand an outlet for cheap funds which might cause unhealthy expansion."

FEDERAL RESERVE DISTRICT NO. 11. Mr. T. J. Record

"TOPIC NO. 1.

I beg to advise that the reserves of the banks throughout the Eleventh District with narrow exceptions are good.

That the satisfactory prices prevailing for farm products, especially cotton, is causing an active market, with the result that banks' receivables are being reduced and reserves increased.

"TOPIC NO. 2.

The Dallas Bank fixed the rate of discount on 15 day paper at $3\frac{1}{2}\%$. I have no change to suggest for their present rates. I will mention, however, that trade paper is very little known in the Eleventh District as evidenced by the nominal amount now held by the Dallas bank, and I would recommend that an abnormally low rate be continued on this class of paper for the special purpose of encouraging its use."

FEDERAL RESERVE DISTRICT NO. 12. Mr. Herbert Fleishhacker.

"TOPIC NOS. 1 and 2.

There is no reason to consider the change in discount rates in District No. 12 at this time. The reserves are stronger at present than have ever been maintained in the past. In many of the larger institutions in San Francisco, Los Angeles, Portland and Seattle the reserves are running from thirty to forty per cent. The smaller country banks are relatively in the same condition. This is the first year in probably ten years that the coast country banks have not been borrowers to any extent to take care of the growing deciduous and citrus fruit as well as the grain crops."

Sept. 18, 1916. Cont.

The remaining topics were then considered informally by the Council.

On motion of Mr. Swinney, seconded by Mr. Watts, the Executive Committee was requested, after the Council members had informally expressed their views on the topics submitted, to prepare a report to be made to the Federal Reserve Board, said report to be submitted to the Council for its approval at an adjourned meeting to be held at 10 o'clock tomorrow forenoon.

In connection with Topic No. 4, Mr. Wing suggested that a committee of the Council be appointed to confer with the Federal Reserve Board, or a committee thereof, on the subject of regulations to be issued by the Board when member banks make applications to be permitted to organize corporations to do business in foreign countries and to own stock in such corporations. Mr. Rue moved that a committee of three be appointed by the President for this purpose. Motion duly seconded and unanimously carried.

At 1 o'clock the Council adjourned until 2 P. M.

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At 2 P. M. the Federal Advisory Council resumed its session, all members being present.

The informal consideration of the topics was again taken up and concluded.

Mr. Forgan moved that the Council make the following recommendation to the Federal Reserve Board:

"The operation of the new Federal reserve bank collection system has shown that the general use of the statement now being stamped on bank checks reading "Collectible at par through the Federal Reserve Bank of___," is misleading to the public and results in confusion and considerable friction between the member banks and their customers. Such checks being subject to the Federal reserve bank's handling charge and in many cases to a charge made by the banks receiving them based on the handling charges plus interest for the deferred availability of the funds during the process of collection through the Federal reserve bank they cannot be said to be "collectible at par" under the present system. We would therefore recommend that the words "at par" be stricken out and that the only statement permissible on checks collectible through the Federal reserve banks should be "collectible through the Federal Reserve Bank of___."

The motion was seconded by Mr. Jaffray and unanimously carried.

Mr. Forgan suggested that the Federal Reserve Board's attention should again be drawn to the Council's recommendation of Feb. 15, 1916 to the effect that the Federal Reserve Act should be amended so as to permit member banks more latitude in connection with the issuing of commercial letters of credit and travelers checks. After some discussion further consideration of this matter was, on motion of Mr. Wing, postponed until the next meeting of the Federal Advisory Council. Mr. Rue suggested that enlarged authority should also be granted to member banks to rediscount documentary bills or foreign bills of exchange. Mr. Record moved, seconded by Mr. Morgan, that Mr. Rue be requested to draft an amendment to the Federal Reserve Act covering his motion and submit it to the next meeting of the Council. Mr. Forgan requested to prepare an amendment covering the point raised by him.

Sept. 18, 1916. Cont.

The President read a letter from Governor Harding as follows:

"September 18, 1916.

"Mr. James B. Forgan,
President, Federal Advisory Council,
Washington, D C

My dear Sir:-

"The Federal Reserve Board would appreciate an informal expression of opinion from the Federal Advisory Council as to the propriety of a director of a Federal Reserve Bank retaining his directorship after his removal from the District for which he had been chosen.

"In one of the districts a Class B director, whose term will expire on December 31, 1917, removed to a city located outside of his district, which city, by the way, is itself a Federal Reserve City, about April 1st of the present year. The Board was advised of the removal by the Federal Reserve Agent, but was informed that the director would probably tender his resignation in due course. It now develops that he does not wish to resign but that he contemplates serving out the remainder of the term for which he was elected.

"Several letters have been received from member banks of the district from which he was chosen, stating that in their opinion they should have the right to choose a director from their own district and asking what the Board can do in the matter.

"A letter received from the director in question indicates some disposition to be guided by the wishes of the Board, but is not altogether definite.

"The Board is entirely clear in its opinion as to the action it should take but as this may establish a precedent, it would, as above stated, like to have an informal expression of opinion from the Council as to the general policy that should be adopted in cases where a director having removed from his district actually refuses to resign.

Very truly yours,

(Signed) W P G Harding,
Governor."

It was decided that the President should inform the Federal Reserve Board informally that the Federal Advisory Council is of opinion that a director of a Federal reserve bank should not continue to serve as a director after he has removed from the district for which he was elected or appointed.

On motion of Mr. Watts the Council adjourned until Tuesday, September 19th, at 10 A. M.

Page 1.

Executive Committee.

September 18, 1916.

MINUTES OF MEETING OF
THE EXECUTIVE COMMITTEE OF
THE FEDERAL ADVISORY COUNCIL.

A meeting of the Executive Committee of the Federal Advisory Council was held in the New Willard Hotel, Washington, D.C., at 2 P. M.

Present. Mr. Forgan, Mr. Rue, Mr. Wing, Mr. Morgan and Mr. Rowe, and Merritt H. Grim, Secretary.

The Committee proceeded to prepare a report to be made to the Federal Reserve Board on the topics it had suggested and finally agreed to submit the following to the Council at its meeting to be held at 10 o'clock tomorrow forenoon.

TOPIC NO. 3. VAULT RESERVES OF MEMBER BANKS IN FEDERAL RESERVE BANKS.

(a) What use should be made of the permission granted member banks under the Federal Reserve Act, as amended, to carry vault reserve money in Federal Reserve Banks?

Ans. The permission granted member banks under the Federal Reserve Act, as amended, to carry vault reserve money in Federal Reserve Banks is all right theoretically and some use can be made of it. The member banks, especially those in the larger cities, will, we believe, aim to keep with the Federal Reserve Banks such portion of their legal reserves as they conveniently can. Until, however, the State banks join the system and daily clearing house balances can be settled by checks on the Federal Reserve Banks, the member banks, especially in the larger cities, must keep a sufficient supply of cash on hand for settlement of clearing house balances as well as for counter use. This will necessitate their keeping on hand not only that portion of their legal reserves which the law has heretofore required them to carry in their vaults but a considerable portion of that which the law has made optional. Moreover, for the general strength of the cash reserves of the communities it is not desirable that too great a proportion of the gold reserves of the member banks should be kept in one reservoir. During the past decade this has been considered a weakness in the reserve situation of the London banks which the chartered banks there have been endeavoring to correct by keeping more of their gold reserves in their own vaults and less with the Bank of England.

(b) Suggestions as to how this provision of the law may be made effective?

Ans. It would help to make this provision of the law effective if the member banks could feel sure that they could at all times receive from the Federal Reserve Banks gold and currency in the denominations required and if the Federal Reserve Banks could arrange with the Treasury Department to keep on hand a sufficient supply of currency for that purpose. It would aid the Federal Reserve Banks in maintaining such a supply of currency if the functions of the United States sub-treasury were transferred to them.

(c) How can the use of the 15-day secured notes of member banks for the purpose of settling or maintaining balances with their Federal Reserve Banks be developed?

Ans. The new privilege granted the member banks of borrowing on their promissory notes for a period not exceeding fifteen days secured by commercial paper or by United States bonds or notes is a valuable one and will be developed as and when the member banks have occasion to make use of it. The only suggestion we have to make is that the discount rate on such short loans should be the same as that fixed for rediscounting commercial paper maturing within ten days.

TOPIC NO. 4. STOCK OWNERSHIP BY MEMBER BANKS IN BANKING CORPORATIONS
TO BE ORGANIZED FOR CONDUCTING FOREIGN BUSINESS.

Suggested regulations to be issued by the Board in connection with the recent amendment of the Federal Reserve Act.

Ans. Foreign banking is a comparatively new proposition to the bankers of this country. It seems to us that the formulation of regulations in regard to the conditions under which national banks may invest in the stock of corporations organized for the purpose of doing international or foreign banking cannot be intelligently undertaken until applications from banks desiring to avail themselves of the privilege have been received. These applications will indicate where it is proposed to locate such institutions, in what territory they propose to operate, the nature of the business they propose to do and what powers they will want to exercise. The law does not seem to indicate that the Federal Reserve Board should take the initiative in the organization of foreign banking corporations. Banks interested in international business will doubtless attend to this. When such action is taken it will have to be in cooperation with the Federal Reserve Board whose sanction and approval must be secured. As the negotiations proceed the necessary terms and conditions will develop and the Board will then be able intelligently to formulate and prescribe regulations governing and controlling the business proposed. It would seem to us to be impractical to undertake to do this in advance. The Board might let it be known that it is prepared to take up with eligible banks or their representatives the organization by them of banks or corporations to do international or foreign banking such as is contemplated in the amendments to the Federal Reserve Act approved September 7, 1916, and that it will be prepared to formulate its regulations in connection therewith as soon as it is fully informed as to the territory in which such banks propose to operate and the nature of the business they propose to do.

The Council has authorized its President to appoint from its members a Committee of three to confer on this subject with the Federal Reserve Board or a committee thereof when the Board so desires.

TOPIC NO. 5. CHECK CLEARING AND COLLECTION.

(a) Should charges by the Federal Reserve banks on member banks be made per item or per thousand dollars of checks collected?

Ans. As the Federal Reserve banks do not convert the checks they collect into immediately available funds the practice which has been established of making a per item charge to cover cost of handling seems to us to be more nearly correct in principle than it would be to make a charge per thousand on the amount collected.

(b) Should Federal reserve banks be required to receive for immediate credit (funds to be immediately available) checks drawn on member banks maintaining excess balances: In other words, abrogate the time allowance now in force against such checks?

Ans. We understand that in operating the recently abandoned voluntary collection system involving immediate debit and credit it was found to be impractical for member banks, especially those in the reserve cities, to maintain the necessary balances with the Federal reserve banks in excess of their legal reserve requirements for the purpose of protecting the unknowable amount of the checks on them coming into the hands of the Federal reserve banks and that the system proved unsatisfactory because of this and of the involuntary encroachments on the legal reserve balances of the member banks which frequently occurred. If under the very limited operation of the so called voluntary collection system member banks were unable to maintain their reserves in the Federal reserve banks they could hardly be expected to do so with the increased volume of items on them which these banks expect to receive under their new collection system. We are therefore of opinion that the Federal reserve banks should not be required to receive for immediate credit (funds to be immediately available) checks drawn on member banks maintaining excess balances, thus abrogating the time allowance now in force against such checks. At all events we think the present system of deferred credits should be tried out on its merits before even a partial return to the former system is considered.

(c) Should the Federal Reserve Board, at this time, proceed to regulate charges to be made against deposits of out-of-town checks with member banks, such checks being collected through Federal Reserve Banks?

Ans. If the ambiguous language of Section 16 of the Federal Reserve Act, reading "The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve banks and the charge which may be imposed for the service of clearing or collection rendered by the Federal Reserve banks," is to be construed as meaning that the Board can regulate the charges made by member banks against customers for out-of-town checks deposited which are collected through the Federal Reserve bank, it would appear to be the duty of the Board to undertake the regulation of such charges. If the Board will base its regulation on the principle

TOPIC NO. 5. CHECK CLEARING AND COLLECTION (Continued).

(c) Continued.

which we understand it has already recognized as fair and equitable, viz., that the member banks are entitled to charge their customers the cost of handling such items plus interest at a reasonable rate for the period of the deferred availability of the funds on items collected through the Federal Reserve Banks, we are of the opinion that the member banks would be materially helped in their relations to the public if the Federal Reserve Board should formulate a regulation on that basis and would be pleased to have it do so.

(d) Immediate availability in Federal reserve cities of bank drafts drawn by a member bank upon the Federal Reserve Bank of its own district, and steps which should be taken to protect the Federal Reserve Bank cashing such drafts, as well as the endorsers.

(Suggested plan: Immediate advice to Federal Reserve Bank upon which draft is drawn, with instructions to charge to account of drawing bank. Advice by the drawee Federal Reserve Bank to the Federal Reserve Bank requested to cash such drafts.

(Settlement by Gold Settlement Fund or by means of accounts kept for exchange purposes.)

Ans. We would regard as impractical for domestic exchange purposes the general use of drafts drawn by member banks upon the Federal Reserve Banks of their own districts with the proviso that such drafts be charged by the Federal Reserve Bank to the drawing member immediately on advice of their having been drawn and that the drawee Federal Reserve Bank should advise the Federal Reserve Bank requested to cash such drafts.

The reasons for this opinion are:

1st. The proposed system of double advice would be cumbersome, inconvenient and impractical in operation except possibly under some special circumstances. Except in instances where drafts are drawn by member banks located in Federal Reserve cities, advice would have to be by wire. Otherwise drafts would reach the place of payment at least one day before the advice sent by the drawee Federal Reserve Bank.

2nd. There being no profit to the issuing banks on such drafts while there would be considerable expense connected with the supplying of them to the public; we believe that the member banks would only avail themselves of the privileges of issuing them to a very limited extent.

3rd. Under the present system the member banks can offset their daily remittances to New York of checks collectible through the New York clearing house against their daily drawings on New York, which practically makes checks on New York immediately available for their use. If the member banks in the larger cities, including the two central reserve cities, Chicago and St. Louis, should adopt the proposed system of supplying their patrons for domestic exchange purposes with drafts on the

TOPIC NO. 5. CHECK CLEARING AND COLLECTION (Continued)

(d) Cont.

Federal Reserve Banks of their districts, instead of drafts on New York as at present, and were they required simultaneously with drawing such drafts to furnish the Federal Reserve Bank with funds to pay them, it would be necessary that the member banks should have the privilege of depositing with the Federal Reserve Banks at par free of the service charge and for immediate availability the checks on New York which they receive on deposit from their patrons, otherwise there would be two days' deferred availability on the New York items thus deposited, while all their drafts drawn on the Federal Reserve Banks for domestic exchange purposes would have to be covered with immediately available funds.

To a very considerable extent the member banks through the country can similarly offset their daily remittances to their correspondents at the two other central reserve cities, Chicago and St Louis, against their daily drawings on these cities, and to a lesser extent the same legitimate practice exists in connection with the accounts of country banks with their correspondents in the reserve cities.

4th. The profit to member banks (which is an important item to them) other than the commission they may charge on drafts issued for exchange purposes, is derived from the interest earned on the balances against which they are drawn during the time they are outstanding. As the Federal Reserve Banks pay no interest they are not in a position to compete and we do not think they should undertake to compete with their member banks at the large financial centers for this legitimate branch of the banking business. In practice the member banks must keep balances with their correspondents for exchange purposes in excess of their legal reserve requirements. The balances maintained for such purposes, especially in the case of the banks in the larger centers outside of New York, usually equal and sometimes exceed the amount of their legal reserve requirements. When all reserve balances have been transferred to the Federal Reserve Banks and the member banks cease to receive interest on them, more than ever will there be good reason why they should earn a profit on the large balances they must maintain for use in the domestic exchange branch of their business over and above the interest paid them on such balances. The principle of a reasonable remuneration being paid for supplying the public with drafts for use in domestic remittances is recognized by the Government in its schedule of charges for Post Office money orders and should not be denied the banks doing the same business at an equal ratio of expense.

TOPIC NO. 6. WHAT STEPS SHOULD BE TAKEN TO FURTHER THE ENTRANCE
OF STATE BANKS INTO THE FEDERAL RESERVE SYSTEM?

Ans. While State banks are slow to join the Federal Reserve system there are indications that their interest in it is increasing. As the terms upon which they may enter the system have been made as reasonable and attractive as possible we know of nothing that can be done to hasten their action beyond the educational propaganda now being carried on. They will probably gradually join the system as its usefulness is demonstrated.

MINUTES OF MEETING OF
THE FEDERAL ADVISORY COUNCIL SEPT. 19, 1916.

An adjourned meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Sept. 19, 1916, at 10 A. M.

Present:

Mr. D. G. Wing,
Mr. J. P. Morgan,
Mr. L. L. Rue,
Mr. W. S. Rowe,
Mr. J. W. Norwood,
Mr. Charles A. Lyerly,
Mr. James B. Forgan,
Mr. F. O. Watts,
Mr. C. T. Jaffrey,
Mr. E. F. Swinney,
Mr. T. J. Record,
Mr. Herbert Fleishhacker,
Mr. Herritt H. Grim, Secretary.

Mr. Forgan informed the members that he had arranged a joint meeting with the Federal Reserve Board at 11 A. M.

Mr. Forgan stated that the Executive Committee had met and prepared a tentative report which he proceeded to read to the Council.

The following is the report as amended by the Council.

TOPIC NO. 3. - VAULT RESERVES OF MEMBER BANKS IN FEDERAL RESERVE BANKS.

(a). What use should be made of the permission granted member banks under the Federal Reserve Act, as amended, to carry vault reserve money in Federal Reserve Banks?

Ans. The permission granted member banks under the Federal Reserve Act, as amended, to carry vault reserve money in Federal Reserve Banks is all right theoretically and some use can be made of it. The member banks, especially those in the larger cities, will, we believe, aim to keep with the Federal Reserve Banks such portion of their legal reserves as they conveniently can. Until, however, the State banks join the system and daily clearing house balances can be settled by checks on the Federal Reserve Banks, the member banks, especially in the larger cities, must keep a sufficient supply of cash on hand for settlement of clearing house balances as well as for counter use. This will necessitate their keeping on hand not only that portion of their legal reserves which the law has heretofore required them to carry in their vaults but a considerable portion of that which the law has made optional.

(b). Suggestions as to how this provision of the law may be made effective.

Ans. It would help to make this provision of the law effective if the member banks could feel sure that they could at all times receive from the Federal Reserve Banks gold and currency in the denominations required and if the Federal Reserve Banks could arrange with the Treasury department to keep on hand a sufficient supply of currency for that purpose. It would aid the Federal Reserve Banks in maintaining such a supply of currency if the functions of the United States sub-treasury were transferred to them.

(c) How can the use of the 15-day, secured notes of member banks, for the purpose of settling or maintaining balances with their Federal Reserve Banks be developed?

Ans. The new privilege granted the member banks of borrowing on their promissory notes for a period not exceeding fifteen days secured by commercial paper or by United States bonds or notes is a valuable one and will be developed as and when the member banks have occasion to make use of it. The only suggestion we have to make is that the rate on such short loans should be the same as that fixed for rediscounting commercial paper maturing within 10 days.

Sept. 19, 1916.

TOPIC NO. 4. STOCK OWNERSHIP BY MEMBER BANKS IN BANKING CORPORATIONS
TO BE ORGANIZED FOR CONDUCTING FOREIGN BUSINESS.

Suggested regulations to be issued by the Board in connection
with the recent amendment of the Federal Reserve Act.

Ans. Foreign banking is a comparatively new proposition to the bankers of this country. It seems to us that the formulation of regulations in regard to the conditions under which national banks may invest in the stock of corporations organized for the purpose of doing international or foreign banking cannot be intelligently undertaken until applications from banks desiring to avail themselves of the privilege have been received. These applications will indicate where it is proposed to locate such institutions, in what territory they propose to operate, the nature of the business they propose to do and what powers they will want to exercise. The law does not seem to indicate that the Federal Reserve Board should take the initiative in the organization of foreign banking corporations. Banks interested in international business will doubtless attend to this. When such action is taken it will have to be in cooperation with the Federal Reserve Board whose sanction and approval must be secured. As the negotiations proceed the necessary terms and conditions will develop and the Board will then be able intelligently to formulate and prescribe regulations governing and controlling the business proposed. It would seem to us to be impractical to undertake to do this in advance. The Board might let it be known that it is prepared to take up with eligible banks or their representatives the organization by them of banks or corporations to do international or foreign banking such as is contemplated in the amendments to the Federal Reserve Act approved September 7, 1916, and that it will be prepared to formulate its regulations in connection therewith as soon as it is fully informed as to the territory in which such banks propose to operate and the nature of the business they propose to do.

The Council has authorized its President to appoint from its members a Committee of three to confer on this subject with the Federal Reserve Board or a committee thereof when the Board so desires.

Sept. 19, 1916

TOPIC NO. 5. CHECK CLEARING AND COLLECTION.

(a) Should charges by the Federal Reserve banks on member banks be made per item or per thousand dollars of checks collected?

Ans. As the Federal Reserve banks do not convert the checks they collect into immediately available funds the practice which has been established of making a per item charge to cover cost of handling seems to us to be more nearly correct in principle than it would be to make a charge per thousand on the amount collected.

(b) Should Federal Reserve banks be required to receive for immediate credit (funds to be immediately available) checks drawn on member banks maintaining excess balances: In other words, abrogate the time allowance now in force against such checks?

Ans. We understand that in operating the recently abandoned voluntary collection system involving immediate debit and credit it was found to be impractical for member banks, especially those in the reserve cities, to maintain the necessary balances with the Federal reserve banks in excess of their legal reserve requirements for the purpose of protecting the unknowable amount of the checks on them coming into the hands of the Federal reserve banks and that the system proved unsatisfactory because of this and of the involuntary encroachments on the legal reserve balances of the member banks which frequently occurred. If under the very limited operation of the voluntary collection system member banks were unable to maintain their reserves in the Federal reserve banks they could hardly be expected to do so with the increased volume of items on them which these banks expect to receive under their new collection system. We are therefore of opinion that the Federal reserve banks should not be required to receive for immediate credit (funds to be immediately available) checks drawn on member banks maintaining excess balances, thus abrogating the time allowance now in force against such checks. At all events we think the present system of deferred credits should be tried out on its merits before even a partial return to the former system is considered.

(c) Should the Federal Reserve Board, at this time, proceed to regulate charges to be made against deposits of out-of-town checks with member banks, such checks being collected through Federal Reserve banks?

Ans. If the ambiguous language of Section 16 of the Federal Reserve Act, reading "The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal Reserve banks and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve banks," is to be construed as meaning that the Board can regulate the charges made by member banks against customers for out-of-town checks deposited which are collected through the Federal Reserve bank, it would appear to be the duty of the Board to undertake the regulation of such charges. If the Board will base its regulation of the principle

Sept. 19, 1916.

TOPIC NO. 5. CHECK CLEARING AND COLLECTION.

(c) Cont.

which we understand it has already recognized as fair and equitable, viz., that the member banks are entitled to charge their customers the cost of handling such items plus interest at a reasonable rate for the period of the deferred availability of the funds on items collected through the Federal Reserve Banks, we are of the opinion that the member banks would be materially helped in their relations to the public if the Federal Reserve Board should formulate a regulation on that basis.

(d) Immediate availability in Federal reserve cities of banks drafts drawn by a member bank upon the Federal Reserve Bank of its own district, and steps which should be taken to protect the Federal Reserve Bank cashing such drafts, as well as the endorsers.

(Suggested Plan: Immediate advice to Federal Reserve Bank upon which draft is drawn, with instructions to charge to account of drawing bank. Advice by the drawee Federal Reserve Bank to the Federal Reserve Bank requested to cash such drafts.

(Settlement by Gold Settlement Fund or by means of accounts kept for exchange purposes.)

Ans. We would regard as impractical for domestic exchange purposes the general use of drafts drawn by member banks upon the Federal Reserve Banks of their own districts with the proviso that such drafts be charged by the Federal Reserve Bank to the drawing member immediately on advice of their having been drawn and that the drawee Federal Reserve Bank should advise the Federal Reserve Bank requested to cash such drafts.

The reasons for this opinion are:

1st. The proposed system of double advice would be cumbersome, inconvenient and impractical in operation except possibly under some special circumstances. Except in instances where drafts are drawn by member banks located in Federal Reserve cities, advice would have to be by wire. Otherwise drafts would reach the place of payment at least one day before the advice sent by the drawee Federal Reserve Bank.

2nd. There being no profit to the issuing banks on such drafts while there would be considerable expense connected with the supplying of them to the public; we believe that the member banks would only avail themselves of the privilege of issuing them to a very limited extent.

3rd. Under the present system the member banks can offset their daily remittances to New York of checks collectible through the New York clearing house against their daily drawings on New York, which practically makes checks on New York immediately available for their use. If the member banks in the larger cities, including the two central reserve cities, Chicago and St. Louis, should adopt the proposed system of supplying their patrons for domestic exchange purposes with drafts on the

Sept. 19, 1916.

TOPIC NO. 5. CHECK CLEARING AND COLLECTION (continued)

(d) Cont.

Federal Reserve Banks of their districts, instead of drafts on New York as at present, and were they required simultaneously with drawing such drafts to furnish the Federal Reserve Bank with funds to pay them, it would necessary that the member banks should have the privilege of depositing with the Federal Reserve Banks at par free of the service charge and for immediate availability the checks on New York which they receive on deposit from their patrons, otherwise there would be two days' deferred availability on the New York items, thus deposited, while all their drafts drawn on the Federal Reserve Banks for domestic exchange purposes would have to be covered with immediately available funds.

To a very considerable extent the member banks through the country can similarly offset their daily remittances to their correspondents at the two other central reserve cities, Chicago and St. Louis, against their daily drawings on these cities, and to a lesser extent the same legitimate practice exists in connection with the accounts of country banks with their correspondents in the reserve cities.

4th. The profit to member banks (which is an important item to them) other than the commission they may charge on drafts issued for exchange purposes, is derived from the interest earned on the balances against which they are drawn during the time they are outstanding. As the Federal Reserve Banks pay no interest they are not in a position to compete and we do not think they should undertake to compete with their member banks at the large financial centers for this legitimate branch of the banking business. In practice the member banks must keep balances with their correspondents for exchange purposes in excess of their legal reserve requirements. The balances maintained for such purposes, especially in the case of the banks in the larger centers outside of New York, usually equal and sometimes exceed the amount of their legal reserve requirements. When all reserve balances have been transferred to the Federal Reserve Banks and the member banks cease to receive interest on them, more than ever will there be good reason why they should earn a profit on the large balances they must maintain for use in the domestic exchange branch of their business over and above the interest paid them on such balances. The principle of a reasonable remuneration being paid for supplying the public with drafts for use in domestic remittances is recognized by the Government in its schedule of charges for Post Office money orders and should not be denied the banks doing a similar business.

Sept. 19, 1916

TOPIC NO. 6. WHAT STEPS SHOULD BE TAKEN TO FURTHER THE ENTRANCE
OF STATE BANKS INTO THE FEDERAL RESERVE SYSTEM?

Ans. While State banks are slow to join the Federal Reserve system there are indications that their interest in it is increasing. As the terms upon which they may enter the system have been made as reasonable and attractive as possible we know of nothing that can be done to hasten their action beyond the educational propaganda now being carried on. They will probably gradually join the system as its usefulness is demonstrated.

In connection with the subject (d) of Topic 5, Mr. T. J. Record asked that he be allowed to submit to the Federal Reserve Board a minority report on this subject. His request was granted. Mr. Record accordingly read his statement, as follows:

"We think the usefulness of the Federal Reserve System would be extended if drafts drawn by member banks against funds to their credit in the Federal Reserve Bank of their District were made acceptable and immediately available upon presentation at any other Federal Reserve Bank. And we approve the purpose of the Federal Reserve Board in seeking to make such availability effective and we hereby tender to the Federal Reserve Board our cooperation to the extent that the President of this Council will be pleased to appoint a committee at the request of the Federal Reserve Board to consider with them plans and details of procedure."

On motion of Mr. Rue, seconded by Mr. Watts, the final report as above written was approved, Mr. Record voting in the negative as to Subject (d), Topic 5.

Mr. Lysterly moved a vote of thanks to the Executive Committee for its work in preparing the report. Motion unanimously carried.

The Council adjourned at 10:50 pending the arrival of the Federal Reserve Board.

Sept. 19, 1916.

MINUTES OF JOINT MEETING OF THE
FEDERAL RESERVE BOARD
AND
FEDERAL ADVISORY COUNCIL. September 19, 1916.

A joint session of the Federal Reserve Board and the Federal Advisory Council was held as arranged in the Board room at 11 A. M., September 19, 1916.

Present: Governor W P G Harding, presiding, Vice-Governor P.M. Warburg, Messrs. A. C. Miller, J. S. Williams, and Sherman P. Allen, Assistant Secretary of the Federal Reserve Board; and Mr. D. C. Wing, J. P. Morgan, L. L. Hue, W. S. Rowe, J. W. Norwood, Charles A. Lyerly, James B. Forgan, F. O. Watts, G. T. Jaffray, E. F. Swinney, T J Record, Herbert Fleischhacker, and Merritt H. Grim, Secretary, of the Federal Advisory Council.

Governor Harding called the meeting to order and asked Mr. Forgan to report on behalf of the Federal Advisory Council.

Mr. Forgan read to the meeting the report of the Council on Topics Nos. 3, 4, 5, 6 submitted by the Federal Reserve Board, together with the additional recommendation adopted by the Council. Mr. Record also read his report on subject (d) Topic 5. (See minutes of meeting of Federal Advisory Council of Sept. 19th for these reports.)

The members of the Council then read to the meeting their individual reports on Topics Nos. 1 and 2, concerning the reserve situation and the discount policy in their various districts. (For these reports see minutes of meeting of the Council of September 18th.)

Mr. Forgan then informally reported to the Federal Reserve Board the Council's opinion that Federal reserve bank directors should not continue in office after they have removed from the district for which they were elected or appointed.

Governor Harding stated that the Federal Reserve Board would be very glad, when the matter comes before them, to have their special committee confer with the committee of the Federal Advisory Council on the subject of regulations in connection with banks owning stock in corporations organized to do a foreign banking business.

After some time spent in general discussion on the various topics, participated in by the members of the Federal Reserve Board and the Federal Advisory Council the meeting adjourned at 12:45 A. M.

Secretary.