

MINUTES OF JOINT MEETING  
FEDERAL RESERVE BOARD & FEDERAL ADVISORY COUNCIL

As arranged a joint meeting of the Federal Reserve Board and the Federal Advisory Council was held in the Board room in the Treasury building on Monday, November 20, 1916, at 10:30 A. M.

Present: Governor, W. P. G. Harding, Vice Governor P.M. Warburg, Messrs. A. C. Miller, J. S. Williams, C. S. Hamlin, F. A. Delano and Secretary H. Parker Willis of the Federal Reserve Board; and President, James B. Forgan, Vice President, L. L. Rue, Messrs. W. S. Rowe, D. G. Wing, J. W. Norwood, C. A. Lyerly F. O. Watts, C. T. Jaffray, T. J. Record, Herbert Fleishhacker, and Secretary Merritt H. Grim of the Federal Advisory Council.

Governor Harding called the meeting to order, and more fully explained the four topics submitted by the Board for the consideration of the Council in his letter of Nov. 3, 1916, reading as follows:

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

Dear Sir:

Referring to your letter of October 27th I submit, in behalf of the Board, the following topics for the consideration of the Federal Advisory Council at its next meeting.

1. In view of the amendment which permits member banks to use their option as to vault reserves, provided the excess reserve with the Federal Reserve Bank offsets the diminished reserve in vault, would it be advisable for Federal Reserve Banks to allow member banks interest on reserves in excess of the legal minimum of reserve?

2. A discussion of the subject of acceptances and acceptance credits in general, and in particular so-called "revolving credits", with a renewal agreement on the part of the accepting banks".

In this connection your attention is called to an address made recently by the writer, in which this subject is discussed, (pages 8 to 19). The Board invites comment upon or criticisms of its policy regarding such credits, as well as suggestions as to the course it should adopt in the future.

3. The establishment of branches of national banks where state laws are not in contravention of such policy. The proposed amendment allowing this went over by agreement until the short session of Congress this winter, and in view of the resolu-

tion adopted at the Convention of the American Bankers Ass'n

at Kansas City, (upon which resolution state bankers were allowed to vote), it is evident that some hard work will be necessary to secure the passage of the proposed amendment.

4. In connection with the clearing system for the collection of country checks the suggestion has been made that Federal Reserve Banks allow member banks in the smaller cities and towns having no clearing house, a moderate fee for the collection of checks drawn on state banks; the theory being that while a bank may be obligated to remit without charge to the Reserve Bank for checks drawn upon itself, it has no such duty in the case of items which it has first to collect before remitting.

Yours very truly,

(signed) W.P.G. Harding  
Governor.

Governor Harding asked the Council to ignore the reference to Federal reserve banks paying interest on reserve balances mentioned in the first topic, making it read as follows:

"In view of the amendment which permits member banks to use their option as to vault reserves, provided the excess reserve with the Federal Reserve Banks offsets the diminished reserve in vault, what would it be advisable for the Federal Reserve Banks to do to induce member banks to deposit their excess reserves with them?"

Governor Harding also asked the Council to consider the following subject:

"The suggestion that the law be amended so as to change the time when bank balances with reserve agent will cease to count as legal reserve from Nov. 16, 1917, to February or March 1917".

Mr. Forgan then thanked the Board for meeting with the Council and expressed the Council's appreciation of having ~~at~~ first hand the information and explanation given by Governor Harding. The Board members then withdrew.

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MINUTES OF MEETING  
FEDERAL ADVISORY COUNCIL

A regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room in the United States Treasury department, Washington, D. C., Monday, November 20th, 1916, at 11:30 A. M.

Present: Messrs. James B. Forgan, President, L. L. Rue, Vice President, D. G. Wing, W. S. Rowe, J. W. Norwood, C. A. Lysterly, F. O. Watts, C. T. Jaffray, T. J. Record, Herbert Fleishhacker and Merritt H. Grim, Secretary.

The President called the meeting to order. He read a letter from E. F. Swinney saying that he would be unable to attend the meeting on account of illness. Mr. Forgan also stated that Mr. Morgan would not be present as he was in Europe.

On motion of Mr. Fleishhacker, seconded by Mr. Rue, the minutes of the Federal Advisory Council and of the Executive Committee of September 18th and 19th, 1916, copies of which had been sent members, were approved.

The unfinished business was taken up.

Mr. Forgan presented a proposed amendment prepared by him as requested at the September meeting of the Council in the nature of a substitute for the fifth paragraph of Section 13, of the Federal Reserve Act as amended, as follows:

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PROPOSED SUBSTITUTE FOR  
FIFTH PARAGRAPH OF SECTION THIRTEEN OF THE  
FEDERAL RESERVE ACT

Any member bank may accept or agree to accept or pay drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. Any member bank may undertake that another bank or banker shall accept or pay any such drafts or bills of exchange drawn upon such bank or banker, and may indemnify any bank or banker against the acceptance or payment of any such bills of exchange drawn upon such other bank or banker. No member bank shall accept or agree to accept or pay such bills, or undertake that others shall accept or pay such bills, or indemnify others against the acceptance or payment of such bills, whether in a foreign or domestic transaction, for any one person, company, firm or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus, except by authority of the Federal Reserve Board, under such general regulations as said Board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulations shall apply to all banks alike regardless of the amount of capital stock and surplus.

In addition to the powers granted in the preceding paragraph of this Section, any member bank may accept or agree to accept or pay drafts or bills of exchange drawn upon it and payable at sight and may undertake that any other bank or banker shall accept or pay sight bills drawn on such other bank or banker and may indemnify any other bank or banker against the acceptance or payment by such bank or banker of any such sight bills, drawn upon such bank or banker, but no member bank shall accept or agree to accept or pay such sight bills, or undertake that others shall accept or pay such sight bills, or indemnify others against the acceptance or payment of such sight bills, for any one person, firm or corporation for an amount equal at any time in the aggregate to more than ten per cent of its paid up and unimpaired capital and surplus, and no member bank shall accept or agree to accept or pay such sight bills or undertake that others shall accept or pay such sight bills, or indemnify others against the acceptance or payment of such sight bills to an amount equal at any time in the aggregate to more than twenty-five per cent of its paid-up and unimpaired capital stock and surplus, except by authority of the Federal Reserve Board, under such general regulations as said Board may prescribe but not to exceed fifty per cent of the capital stock and surplus of such bank.

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Mr. Fleishhacker moved that a special committee consisting of the president, vice-president, and Mr. Wing be appointed to take this matter up with the Governor and Vice-Governor of the Federal Reserve Board and also the Comptroller of the Currency if in the committee's judgment it is thought advisable.

Motion seconded and carried.

Mr. Rue presented, as requested at the last meeting, a proposed amendment prepared by him to Section 5200 R S U.S. as amended by the sixth paragraph of Section 13 of the Federal Reserve Act, reading as follows:

"Sixth, Liabilities as an endorser on accepted bills of exchange actually owned by the association and rediscounted at home or abroad".

On motion of Mr. Rue it was ordered that this Council recommend to the Federal Reserve Board said amendment and that it be referred to the Committee consisting of the President, Vice President, and Mr. Wing to present the matter to the Governor and Vice-Governor of the Federal Reserve Board.

Motion duly seconded and passed.

The Council then proceeded to consider the topics submitted by the Federal Reserve Board. (See minutes of Joint Meeting with Federal Reserve Board, Nov. 20, 1916)

On motion of Mr. Record, duly carried, it was agreed that the Council should discuss informally the topics and then refer them to the Executive Committee for the preparation of statements embodying the views expressed, to be reported back for its final approval.

In connection with the second topic the following statement was adopted as the Council's opinion on it and the Executive Committee instructed to make it a part of their report:

'In regard to bank acceptances and particularly in regard to so-called "Revolving" credits" with a renewal agreement on the part of the accepting banks we are in accord with the arguments and the policy based thereon as set forth in the address recently made by Governor Harding to which our attention has been directed. Even if such acceptances may, under a legal interpretation of the wording of the Federal Reserve Act, be regarded as eligible for purchase by Federal reserve banks they are not in our opinion in accord with the spirit of the law. They are in no sense self-liquidating

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within the time fixed by the law and cannot be regarded as strictly liquid instruments of credit such as are based on commercial transactions which themselves provide for their retirement at maturity. In our opinion, therefore, the purchase of them by the Federal reserve banks in the open market should be discouraged".

The Council then adjourned until 2:30 P. M.

MINUTES OF MEETING OF  
FEDERAL ADVISORY COUNCIL

Nov. 20, 1916  
Continued.

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The Federal Advisory Council reconvened at 2:30 P.M.

The Council continued the informal consideration of the topics submitted by the Federal Reserve Board.

Mr. Jaffray suggested that the Council recommend to the Federal Reserve Board the advisability of having the Secretary of the Treasury exchange all thirty year 3% bonds of the United States for 2% bonds, instead of half thirty year 3's and half one year 3% notes, as now provided by law. After consideration on motion of Mr. Rue, the President was requested to present this matter for informal discussion at the joint meeting with the Board.

On motion the Council adjourned until 10:00 A. M. Tuesday, November 21st.

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Secretary.

MINUTES OF EXECUTIVE COMMITTEE MEETING  
FEDERAL ADVISORY COUNCIL

Nov. 20, 1916.

The Executive Committee met after adjournment of the Council in the Board room at 4:30 P.M. and proceeded to formulate tentative statements in regard to the five topics submitted by the Federal Reserve Board, embodying the views expressed by members in their informal discussion of them, to be submitted at the meeting of the Council on the 21st instant.

The following recommendations were finally agreed to:

RECOMMENDATIONS PREPARED BY THE  
FEDERAL ADVISORY COUNCIL  
ON THE TOPICS SUBMITTED BY THE  
FEDERAL RESERVE BOARD.

November 20, 1916

Topic No. 1.

In view of the amendment which permits member banks to use their option as to vault reserves, provided the excess reserve with the Federal Reserve Banks offsets the diminished reserve in vault, what would it be advisable for the Federal Reserve Banks to do to induce member banks to deposit their excess reserves with them?

Recommendation:

As member banks become more familiar with and better accustomed to the working of the Federal reserve system they will more fully appreciate the desirability for the strengthening of the system of keeping as much of their legal reserves on deposit in the Federal Reserve Banks as may be found practicable. We know of no special inducements that should be offered to member banks to do so at present, but we would reiterate the suggestion we made at our last meeting that "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". If this could be accomplished it is our belief that the member banks would be inclined to carry a greater proportion of their cash reserves with the Federal Reserve Banks. In this connection a resolution was passed nine to one in favor of making Federal Reserve notes available as legal reserve for member banks. (Mr. W. S. Rowe voting in the negative).

Topic No. 2.

A discussion of the subject of acceptances and acceptance credits in general, and in particular so-called "revolving credits" with a renewal agreement on the part of the accepting banks.

In this connection, your attention is called to an address made recently by the writer in which this subject is discussed (pages 8 to 19). The Board invites comment upon or criticism of its policy regarding such credits, as well as suggestions as to the course it should adopt in the future.

Recommendation:

In regard to bank acceptances and particularly in regard to so-called "revolving credits" with a renewal agreement on the part of the accepting banks we are in accord with the arguments and the policy based thereon as set forth in the address recently made by Governor Harding to which our attention has been directed. Even if such acceptances may, under a legal interpretation of the wording of the Federal Reserve Act, be regarded as eligible for purchase by Federal Reserve Banks they are not in our opinion in accord with the spirit of the law. They are in no sense self-liquidating within the

## Answer to Topic No. 2 Continued:

time fixed by law and cannot be regarded as strictly liquid instruments for credit such as are based on commercial transactions which themselves provide for their retirement at maturity. In our opinion therefore the purchase of them by the Federal Reserve Banks in the open market should be discouraged.

## Topic No. 3.

The establishment of branches of national banks where state laws are not in contravention of such policy. The proposed amendment allowing this went over by agreement until the short session of Congress this Winter, and in view of the resolution adopted at the Convention of the American Bankers Association at Kansas City (Upon which resolution state bankers were allowed to vote), it is evident that some hard work will be necessary to secure the passage of the proposed amendment.

## Recommendation:

We still adhere to the opinion expressed in our communication to you of September 21, 1915, to the effect "that the National Bank Act should be amended so as to permit 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". We are advised that such a privilege granted to national banks would not be affected by state laws and in our opinion any Federal legislation granting such a privilege should apply to all banks in the national system of adequate capital or to none.

## Topic No. 4.

In connection with the clearing system for the collection of country checks, the suggestion has been made that Federal Reserve banks allow member banks in the smaller cities and towns having no clearing house a moderate fee for the collection of checks drawn on state banks; the theory being that while a bank may be obligated to remit without charge to the reserve bank for checks drawn upon itself, it has no such duty in the case of items which it has first to collect before remitting.

## Recommendation:

The statement published in the Federal Reserve bulletin for

Answer to Topic No. 4 Continued:

October of the operations of the inter-district clearing system indicates that the number of state banks agreeing to remit at par is steadily increasing and that checks on nearly half of the State banks in the country are now being remitted for at par. It would seem therefore that the system is satisfactorily developing and under these conditions we think it inadvisable that any change should be made at present.

INFORMAL SUGGESTION BY GOVERNOR HARDING.

ANSWER

In response to your suggestion that the provisions of the law which require that after Nov. 16, 1917, balances in the hands of legal reserve agents will cease to count as lawful reserve be made effective at an earlier date, in view of present financial conditions we would favor amending the law so as to grant authority to the Federal Reserve Board to make this provision effective at any date prior to Nov. 16, 1917, on giving member banks sixty days' notice.

ADDITIONAL RECOMMENDATION.

The Council recommends that to the exceptions contained in Section 5202 R.S. as amended by Section 13 of the Federal Reserve Act the following should be added as a sixth exception:

"6th. Liabilities as an endorser on accepted bills of exchange actually owned by the association and rediscounted at home or abroad.

MINUTES OF  
FEDERAL ADVISORY COUNCIL

November 21, 1916

The Federal Advisory Council met as arranged in the Federal Reserve Board room at 10:00 A.M. November 21st,

Present: Messrs. J. B. Forgan, President, in the chair, L. L. Rue, Vice President, , W. S. Rowe, D. G. Wing, J. W. Norwood, C. A. Lyerly, F. O. Watts, C. T. Jaffray, T. J. Record, Herbert Fleishhacker and Secretary Merritt H. Grim.

Mr. Forgan reported that the committee consisting of Mr. Rue, Mr. Wing and himself had a conference with the Governor and Vice-Governor of the Federal Reserve Board as instructed in regard to the amendments to the Federal Reserve Act which had been proposed at yesterday's meeting and that they had secured their favorable consideration of them. (See minutes of Federal Advisory Council, Nov. 20, 1916).

The Council voted to hand to the Federal Reserve Board the following as an additional recommendation:

"The Council recommends that to the exceptions contained in Section 5202 R S as amended by Section 13 of the Federal Reserve Act the following should be added as a sixth exception:

"6th. Liabilities as an endorser on accepted bills of exchange actually owned by the association and rediscounted at home or abroad".

The President then laid before the meeting the report of the Executive Committee presenting tentative statements on the topics submitted by the Federal Reserve Board.

In connection with topic No. 1, a resolution was passed nine to one in favor of making Federal reserve notes available as reserve for member banks, Mr. Rowe voting in the negative.

The statements on the topics submitted by the Federal Reserve Board as prepared by the Executive Committee were otherwise unanimously agreed to. (See minutes of Executive Committee of Nov. 20, 1916).

The Council then adjourned pending the arrival of the members of the Federal Reserve Board for the joint session arranged for.

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Secretary.....

MINUTES OF JOINT MEETING  
of the FEDERAL ADVISORY COUNCIL with the  
FEDERAL RESERVE BOARD.

As arranged a joint meeting with the Federal Reserve Board was held in the Board room at 11:00 A.M., November 21, 1916.

The following members of the Board were present: Governor, W. P. G. Harding, presiding; Vice-governor, P. M. Warburg, F. A. Delano, J. S. Williams, C. S. Hamlin, A. C. Miller, H. Parker Willis, Secretary.

The following members of the Council were present: President, James B. Forgan, Vice-president, L. L. Rue, D. G. Wing, W. S. Rowe, J. W. Norwood, C. A. Lyerly, F. O. Watts, C. T. Jaffray, T. J. Record, Herbert Fleishacker and Secretary Merritt H. Grim.

Governor Harding called the meeting to order and asked Mr. Forgan to read the Council's report to the Board, which was done.

The members of the Board and the Council then joined in a general discussion of the various topics.

Mr. Forgan suggested for informal discussion the advisability of having the Secretary of the Treasury in his discretion exchange all thirty year 3% bonds of the United States for 2% bonds instead of half thirty year 3% bonds, and half one year 3% as now provided by law. It was pointed out that such an exchange would be more advantageous to the Federal Reserve banks.

Mr. Delano suggested that the law might be amended to provide that a definite percentage of reserve should be kept on deposit with the Federal reserve banks, leaving it to the individual member banks to keep whatever amount of cash on hand for till money they required. The suggestion met with the general favor of the Council.

Governor Harding called on the members of the Council individually for informal reports on financial and commercial conditions in the various districts, and all of the members of the Council responded.

Comptroller Williams, suggested that Council members should visit their Federal reserve banks at least once a quarter to keep in closer touch with the management of the various banks and that the Federal Reserve banks should pay the expense of members of the Council in this connection.

There being no further business the joint session adjourned.

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Secretary.  
Federal Advisory Council.

FEDERAL RESERVE BOARD

Washington

February 5, 1917.

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

My dear Mr. Forgan:-

Replying further to your letter of January 27th I have the honor, in behalf of the Board, to suggest that the Council consider the following:

1. DOMESTIC BRANCHES OF FEDERAL RESERVE BANKS, as required by Section 3 of the Federal Reserve Act.

In this connection the attention of the Council is called to the report of the Committee of the Governors of Federal Reserve Banks, which advises that agencies rather than branches be established; and to the fact that the House Committee on Banking and Currency has reported favorably a bill making it mandatory upon the Federal Reserve Board to see that branches are established in each district, but at the same time simplifying the machinery for operating these branches. (See House Bill 20661, page 9)

2. FOREIGN AGENCIES OR BRANCHES OF FEDERAL RESERVE BANKS. Should their establishment at this time be encouraged?

3. RESERVE POSITION OF MEMBER BANKS. What changes are anticipated in the present situation?

4. SUB-TREASURIES. (See letter of Secretary of the Treasury in February Bulletin, page 110) To what extent is it practicable or advisable that their functions be performed by the Federal Reserve Banks?

Very truly yours,

Signed)

W. P. G. Harding

Governor.

Additional topic in following telegram

February 6, 1917

\*James B. Forgan, Prest.  
Federal Advisory Council,  
First National Bank,  
Chicago, Ill.

\*Board has been advised to establish Division or Bureau in charge of competent man, which shall begin by making thorough study and investigation of Foreign exchange and its bearing on our efforts to establish Dollar Exchange in this country. Board would be very glad to have you add this, to list of topics for discussion at your coming meeting at Washington and to have benefit of your recommendations.

"Harding, Governor"

January 30, 1917.

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D. C.

Dear Sir:

At the meeting in Washington last month the Governors adopted the following vote:

"That it is the sense of the Conference that when conditions in a Federal Reserve District appear to necessitate the establishment of additional facilities in cities other than that in which the Federal Reserve Bank is located, such facilities should be provided through the means of Agencies, rather than through Branches, as contemplated by the Federal Reserve Act."

The Committee appointed to submit this recommendation to the Federal Reserve Board begs to report that the discussion of the topic by the Governors brought out the following reasons on which the vote was based:

(a) The establishment of branches would involve large expense which, in the event several were necessary, would be almost if not quite prohibitive.

(b) The establishment of agencies would be much less expensive, the difference being sufficient to be of vital importance.

(c) The establishment of agencies would permit of more uniformity of operation, all being under the direction of the Federal Reserve Bank.

(d) The establishment of branches with their semi-independent operation would undoubtedly tend to arouse conflict in policy and rivalry between sections.

(e) The establishment of agencies would permit of the discontinuance of any agency or office which experience proved to be unnecessary or unprofitable, while there is no provision in the Federal Reserve Act for the discontinuance of a branch once established, regardless of how unprofitable or unnecessary that branch may prove to be.

(f) The establishment of agencies would permit of the expansion of any one or all of them into fully organized branches whenever experience demonstrated the expediency of such a course.

Respectfully submitted,  
R. L. VAN ZANDT,  
JOS. A. McCORD,  
JNO. U. CALKINS,

Committee.