

MINUTES OF MEETING  
OF THE  
FEDERAL ADVISORY COUNCIL.

FEBRUARY 17, 1919

A statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Metropolitan Bank building, Washington, D C, Monday, February 17, 1919, at 11 A M.

Mr. James B Forgan called the meeting to order and nominated Mr. E F Swinney as temporary chairman.

Mr. Swinney asked the Secretary to report the credentials of the members of the Federal Advisory Council for the year 1919.

The following compose the Federal Advisory Council for the year 1919:

Daniel G. Wing,	Federal Reserve District No. 1
A. B. Hepburn,	Federal Reserve District NO. 2
L. L. Rue,	Federal Reserve District No. 3
W. S. Rowe,	Federal Reserve District No. 4
J. G. Brown,	Federal Reserve District NO. 5
C. A. Lyerly,	Federal Reserve District No. 6
James B. Forgan,	Federal Reserve District No. 7
F. O. Watts,	Federal Reserve District No. 8
C. T. Jaffray,	Federal Reserve District No. 9
E. F. Swinney,	Federal Reserve District No. 10
E. P. Wilmet,	Federal Reserve District No. 11
A. L. Mills,	Federal Reserve District No. 12

All of whom were present. Also the Secretary Merritt H Grim.

The report of the Secretary covering his secretarial and other expenses for the year 1918 was on motion accepted and ordered spread on the records.

It was suggested that the Executive Committee ought to consist of six members instead of five and on motion Article IV of the By-Laws was amended to read as follows:

"There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice-President of the Council shall be ex-officio members."

Mr. Lyerly moved that the by-laws of the Council for the year 1918 with this change be adopted as the by-laws for the year 1919. Motion carried.

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL  
February 17, 1919.

ARTICLE I. OFFICERS

REPORT OF SECRETARY, FEDERAL ADVISORY COUNCIL, FOR YEAR 1918.

Secretary.

Balance on hand Dec. 31, 1917,	\$294.43
RECEIPTS:	
Feb. 23, 1918, Annual assessments on 12 Federal Reserve Banks of \$150. each, total,	1,800.
TOTAL	\$ 2,094.43

ARTICLE III. SECRETARY

DISBURSEMENTS:

Expenses attending four meetings of the Federal Advisory Council and of the Executive Committee in Washington, as follows:

1918	R R fare	Hotel Meals	Meals.	Total
Feb. 19	\$52.98	\$45.75	\$4.78	\$103.51
May 21	49.23	38.	4.23	91.51
Sep. 17	69.43	33.55	4.54	107.57
Nov. 19	63.22	28.23	1.85	93.35
Totals	\$239.96	\$145.58	\$15.40	\$400.94

Total traveling expenses as above	400.94
stenography, stationary,	25.75
Printing	100.10
Telegram, postage	32.76
Salary Secretary 1918	1,200.
Balance in First National Bank, Chicago, Dec. 31, 1918	334.83
	<u>2,094.43</u>

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

Respectfully submitted

Morriss H. Grim,

Secretary

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

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

ARTICLE VII. AMENDMENTS

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

# BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

## ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice-President and Secretary.

## ARTICLE II. PRESIDENT AND VICE-PRESIDENT

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

## ARTICLE III. SECRETARY

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

## ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice-President of the Council shall be ex-officio members.

## ARTICLE V. DUTIES OF EXECUTIVE COMMITTEE

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

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

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

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

## ARTICLE VI. MEETINGS

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

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

## ARTICLE VII. AMENDMENTS

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

Federal Advisory Council  
Federal Advisory Council

February 17, 1919, Cont.

February 17, 1919, Cont.

Mr. Forgan stated that in accordance with Governor's Harding's request at the previous meeting that the members of the Council take

Mr. Watts moved that Mr. James B. Forgan be elected President of the Federal Advisory Council for the year 1919 and that the secretary be instructed to cast the unanimous ballot for Mr. Forgan. Motion carried and the temporary chairman announced that Mr. James B. Forgan was elected President.

Mr. Forgan then took the chair.

On motion the Secretary was instructed to cast the unanimous ballot for Mr. L. L. Rue as Vice-President of the Council for the year 1919. Motion carried and Mr. Rue was declared elected.

Mr. Swinney moved that Mr. Wing, Mr. Hopburn, Mr. Rowe, and Mr. Watts be chosen members of the Executive Committee and the Secretary be instructed to cast the unanimous ballot for these gentlemen. Motion carried and these gentlemen were declared elected.

The officers of the Council as elected for the year 1919 is

President, James B. Forgan  
Vice-President, L. L. Rue  
Executive Committee, Messrs, James B. Forgan, L. L. Rue, D. G. Wing, A. B. Hopburn, W. S. Rowe and F. O. Watts.

On motion of Mr. Rue, Mr. Merritt H. Grim was chosen secretary of the Federal Advisory Council for the year 1919 with a salary of \$1,200.

Mr. Rue moved the adoption of the following resolution:

"Resolved that the President be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$150 towards the secretarial and incidental expenses of the secretary of the Federal Advisory Council for the year 1919 and to draw on them for that purpose as heretofore."

The resolution was adopted.

The minutes of meetings of the Federal Advisory Council held on November 18th and 19th and of its Executive Committee held on November 18th, 1918, copies of which had been sent to members of the Council by the Secretary, were on motion approved.

## Federal Advisory Council

February 17, 1919, Cont.

Mr. Forgan stated that in accordance with Governor's Harding's request at the previous meeting that the members of the Council take the initiative in bringing any criticisms or suggestions relative to the management of the Federal Reserve system to the attention of the Federal Reserve Board and the Council's subsequent action in connection therewith he had on December 3, 1918, written to the chairmen of the twelve Federal Reserve banks suggesting the desirability of keeping their members of the Federal Advisory Council in as close touch as possible with what is going on in the Federal Reserve banks. He also in January 1919 wrote the members of the Council as he was advised of their election for this year requesting that they should each ascertain if there is anything regarding the policy or management of the Federal Reserve banks of their district in connection with which a change should be recommended by the Council or if there were any criticisms of the system.

He further stated that he had written as usual to the Governor of the Federal Reserve Board asking him to submit any topics the Board wished the Council to consider at this meeting and had received a reply, copy of which is hereto attached, dated January 20th, 1919. The topics suggested by the Federal Reserve Board and the members of the Council were listed and sent to all the members of the Council for their consideration in advance of the meeting.

A digest of certain amendments to the Federal Reserve Act recommended by the Federal Reserve Board to Congress and which the Board was requested to recommend for passage by Congress was also sent to Council members.

Mr. Swinney and others said that in their opinion some of the Federal Reserve banks were too liberal in rediscounting for members banks, in some cases granting unwarranted lines. After several citations of instances where this had resulted in threatened loss to the reserve banks it was decided that this subject should be taken up informally with the Federal Reserve Board at the joint session which the chair had arranged for 11:30 o'clock.

FEDERAL RESERVE BOARD

WASHINGTON

Office of the Governor

January 20, 1919.

Dear Sir:-

Receipt is acknowledged of your letter of the 15th inst. advising that the next meeting of the Federal Advisory Council will be held in Washington, Monday, February 17th. The Board presumes that this meeting will be held, as usual, in the assembly room in the Metropolitan bank building, and will be prepared to meet the Council at eleven o'clock.

Secretary of the Treasury Glass has announced in the morning papers that the next bond issue, which may be six billion dollars, will be the last, but he has not as yet indicated what the maturity or rate will be. I think, however, it is reasonable to assume that the issue will be for a short term - not longer than five years - and unless he reaches a conclusion before the meeting of the Council, I am sure that he would be glad to have the Council's views. I know that suggestions have been made to him that subscribers be given an option of taking a bond bearing four and one-half to five per cent interest, running for five years, with limited tax exemptions only, or one running from three to five years at four per cent with full tax exemptions.

The policies of the Federal Reserve Board just now as to discount rates are dependent to a great extent upon the determination of the Treasury as to bonds, and the Board is unable at the moment to offer any suggestions as to topics to be discussed. It would be interesting, however, if members of the Council would come to the meeting informed as to the amount of Government issues remaining undigested in the respective districts, and prepared to express an opinion as to the length of time which will be required in making a permanent distribution of them. This will have a bearing not only upon discount rates but upon the character of the invested assets of the Federal reserve banks, the larger part of which consists of member banks' fifteen-day notes secured by Liberty Bonds and Treasury certificates, and of customers' notes maturing within ninety days secured in like manner.

The Board would like the opinion of the Council, also, as to the merits of differential rates. Assuming the differentials have been necessary to aid the Treasury in floating its securities, does the Council feel that differentials with respect to the

character of paper and not to time of maturity should be continued as a permanent policy?

In order to encourage the development of the acceptance business the Board has authorized the Federal reserve banks to purchase in the open market bankers' acceptances with member banks' endorsements at rates considerably lower than the discount rate for eligible promissory notes of like maturities, and preferential treatment in a smaller degree has been accorded to trade acceptances. As you know, the acceptance market in London is much broader than in this country on account of large accumulations of funds there available for purchase of bills. The private rate is lower than the bank rate, and purchasers of bills desiring relief before maturity may discount them at the bank at the official rate, while in New York the rate at which the Federal Reserve Bank will buy acceptances has governed in market transactions. For several months past the actual rate for bills in London has been lower than in New York as the private rate, which has been around three and one-half per cent, has governed, although the official Bank of England rate has been five per cent. Rates at the Federal Reserve Bank of New York have been from four to four and three-eighths per cent, thus making our official rate lower than the British official rate, but as the private rates have followed the bank rates, our market has actually been higher than the London market. The Board believes, however, that it will be necessary for some time to come, in order to develop an acceptance market in this country, to stimulate it by a low rate at the Federal reserve bank, but would like the views of the Council on this point.

Very truly yours,

W. P. G. Harding,

Governor.

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

Minutes of  
Joint session of  
The Federal Reserve Board  
and  
The Federal Advisory Council

February 17, 1919

February 17, 1919

Messrs Harding, Hamlin, and Miller, and Secretary F A Broderick, of the Federal Reserve Board came in as arranged.

Mr. Forgan asked Governor Harding to address the meeting.

Governor Harding reviewed the topics which he had submitted in his letter of January 20th, and suggested several additional subjects for the Council's consideration.

Governor Harding said he expected Congress to pass in a day or two an amendment to the Federal Reserve Act which would permit the surpluses of Federal Reserve banks to accumulate until it amounted to 100% of the subscribed capitals of the banks and ten per cent per annum thereafter. This was recommended by the Council at a previous meeting.

Mr. Forgan then brought before the Board in an informal way the subject of too liberal rediscounting for member banks on the part of some Federal Reserve banks. The matter was carefully discussed. The Board had already taken steps to check this policy and would continue their efforts, also requesting the officers of the reserve banks to thoroughly investigate all applications and to refuse those that were excessive or unwarranted.

The joint session adjourned, and <sup>on</sup> motion of the Council voted to meet at 2 P M.

Secretary

Minutes of  
 Federal Advisory Council  
 MINUTES OF MEETING  
 OF  
 THE EXECUTIVE COMMITTEE  
 OF THE  
 FEDERAL ADVISORY COUNCIL  
 February 17, 1919

At 3 P M the Council resumed its session. February 18, 1919.

All members of the Council were present.

The President called the meeting to order. He suggested that it would be advisable to incorporate an introduction to the Council's formal report to the Federal Reserve Board indicating the result

of the replies he had received from the members of the Council in regard to any criticisms or suggestions in connection with the Federal Reserve system in the twelve Federal Reserve districts. On motion it was so ordered and referred to the Executive Committee. It was also understood that all of the topics brought before the meeting would be freely discussed and then referred to the Executive Committee to formulate the conclusions arrived at by the Council. All of the topics submitted by the Federal Reserve Board and by members of the Council were fully discussed.

In connection with the question as to whether the reserves of member banks should be based on the character of the deposits held, rather than on present classification by reserve and central reserve cities, on motion of Mr. Watts, it was postponed until the next meeting of the Council.

Mr. Lyerly moved a hearty vote of thanks to President Fergan, Vice-President Rue and the members of the Executive Committee for their faithful and efficient work during the year 1918. Motion unanimously carried.

At 5:30 o'clock the Council adjourned until 10:30 A M tomorrow February 18th.

Secretary

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

February 15, 1919

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

February 18, 1919.

was held in the second session of the Federal Reserve Board in Federal Reserve Board room, Washington, D. C., at 9 A. M. Tuesday, February 18th.

A meeting of the Executive Committee of the Federal Advisory Council, was held in the Federal Reserve Board room, Washington, D. C., Tuesday, February 18th at 9 A. M.

Present: Messrs J B Forgan, L L Rue, A B Hepburn, D C Wing, W S Rowe, and F O Watts. Also Merritt H Grim, Secretary.

The Committee took up the topics referred to it by the Federal Advisory Council and prepared a tentative report covering the conclusions arrived at in the general discussion of them by the Council on the preceding day, and the Chair was authorized to present the report to the meeting of the Council at 10:30 A. M.

Secretary.

MINUTES OF MEETING  
OF THE  
FEDERAL ADVISORY COUNCIL

February 18, 1919

As arranged the second session of the Federal Advisory Council was held in Federal Reserve Board room, Washington, D. C., at 10:30 A. M., Tuesday, February 18.

Present: Messrs. James B. Forgan, President, in the chair, L. L. Rue, Vice President, D.G. Wing, A. E. Hepburn, W. S. Rowe, J. G. Brown, C. A. Lyerly, F. O. Watts, C.T. Jaffray, E. F. Swinney, E. P. Wilmot, A. L. Mills and Merritt H. Grim, Secretary.

The President presented the report of the Executive Committee and after carefully considering the suggested recommendations the following formal report was prepared by the Council and ordered submitted by the Chair to the Federal Reserve Board at the joint session arranged for that purpose.

(See printed report hereto attached and made a part of these minutes)

In connection with topic No. 3, Mr. D. G. Wing and Mr. A. L. Mills voted in the negative.

The members of the Federal Reserve Board having arrived the Council adjourned for the joint session.

Secretary

Minutes of Joint Session  
of  
The Federal Reserve Board  
and  
The Federal Advisory Council

Washington, D. C., February 18, 1919

As arranged a joint session of the Federal Reserve Board and the Federal Advisory Council was held in the Federal Reserve Board room, Washington, D. C., at 11:30 A. M., Tuesday, February 18, 1919.

**Present:** The following members of the Board: Governor W. P. G. Harding, Messrs. C. S. Hamlin, A. C. Miller and F. A. Broderick, Secretary; and the following members of the Council: Messrs. James B. Forgan, President, L. L. Rue, Vice President, D. G. Wing, A. B. Hepburn, W. S. Rowe, J. G. Brown, C. A. Lyerly, F. O. Watts, C. T. Jaffray, E. F. Swinney, E. P. Wilmot, A. L. Mills, and Merritt H. Grim, Secretary.

Governor Harding called the meeting to order and asked for the Council's report. Mr. James B. Forgan then read the Recommendations of the Federal Advisory Council, after which followed a general discussion on the various topics and other matters pertaining to the Federal Reserve system.

Governor Harding suggested that it would be desirable to print the Recommendations of the Council for the past four years as an appendix to the forthcoming annual report of the Federal Reserve Board and on putting a motion to that effect to the Board it was so ordered subject to the approval of the Council.

The President then laid the question before the Council and on motion of Mr. Hue, seconded by Mr. Wilmot the President was authorized to turn over to the Federal Reserve Board the complete recommendations of the Federal Advisory Council during the past four years of the Council's existence for publication along with the annual report of the Board about to be issued. The motion was carried, Mr. W. S. Rowe voted in the negative.

The joint session then adjourned.

TOPIC NO. 2—It has been suggested that the Federal Reserve banks should send all checks and other items for collection directly to the bank in city in which they are payable even if such bank is in another Federal Reserve district. Secretary

RECOMMENDATIONS OF THE FEDERAL ADVISORY  
COUNCIL TO THE FEDERAL  
RESERVE BOARD

Washington, D. C., February 18, 1919

The Federal Reserve Board,  
Washington, D. C.

Gentlemen:

As suggested when we last met in conference the members of this Council have each made inquiry among the member banks to ascertain how they feel in regard to the administration of the Federal Reserve banks of their respective districts and as to whether there now exist any criticisms or suggestions, the correction or adoption of which would improve the working of the Federal Reserve system.

We are pleased to report that we find no criticisms that in any way reflect on the policies of the Federal Reserve Board or on the management of the Federal Reserve banks as they are now administered under the terms of the Federal Reserve Act. We believe there is a growing appreciation of the usefulness of the Federal Reserve system, a pride in what it has accomplished during the strain caused by the war and an increasing confidence that it will continue to function satisfactorily during the remainder of the government war financing and the reconstruction period and that it will continue to be a bulwark of strength to its member banks when business is reestablished on a peace basis.

The few suggestions that have come to us are not of a vital nature. They are as follows:

TOPIC NO. 1—It is suggested that the present law should be so amended as to require all new national banks to have the approval of the Federal Reserve Board before they are permitted to begin business.

Recommendation:

The Council is of the opinion that the Federal Reserve Board having facilities for investigation through the official staffs of the Federal Reserve banks should have this authority placed upon it and that Section 5169 should be so amended.



TOPIC NO. 2—It has been suggested that the Federal Reserve banks should send all checks and other items for collection directly to the town or city in which they are payable even if such town or city is located in another Federal Reserve district rather than send them in the first place to the Federal Reserve bank of the district as is now the practice with at least some of the banks.

Recommendation:

The Council is of opinion that collections should be made in the most direct and expeditious way possible and would recommend that in the interest of increased and better service the Board should look into this matter with the view of seeing to it that due diligence is exercised by the transit departments of the Federal Reserve banks in the matter of check collections.



TOPIC NO. 3—It has been suggested that the Council should recommend that the Federal Reserve Act should be amended so as to permit member banks to borrow on their promissory notes secured by U. S. Government obligations for a period of ninety days instead of for the short period of fifteen days which is the time limitation now put upon them by Section 13 of the Federal Reserve Act.

Recommendation:

This would prove a great convenience to both the Federal Reserve banks and to the member banks. The Council would recommend that the necessary legislation be asked to extend the period to not exceeding ninety days and to last until the government war financing has been fully accomplished and its bonds have been better distributed among permanent investors. (Mr. Wing and Mr. Mills voted in the negative.)



TOPIC NO. 4—It has been suggested that the Federal Advisory Council should recommend that the contingent liability of Federal Reserve banks on account of bills rediscounted with other Federal Reserve banks should be shown in the published statements of the banks so rediscounting.

Recommendation:

It is most desirable that each of the Federal Reserve banks should disclose its actual condition in all of its published statements and as this is not done if its contingent liability for bills rediscounted is not shown, the Council would recommend that the Federal Reserve Board make a ruling requiring them to do so.



TOPIC NO. 5—It is suggested that the Federal Reserve banks should receive on deposit National bank notes and pay out in place of them clean Federal Reserve notes.

Recommendation:

The Council recommends that the Federal Reserve Board as a matter of additional service to member banks request the Federal Reserve banks to

receive on deposit for immediate credit from member banks national bank notes unfit for circulation.



TOPIC NO. 6—Should the Council again call to the attention of the Federal Reserve Board its recommendation for a plan under which instant credit should be given to the members' reserve accounts for bank acceptances paid to any Reserve Bank?

Recommendation:

The Council at its last meeting recommended that this be done and would respectfully inquire what progress if any has been made to put the plan in operation?



TOPIC NO. 7—You have asked our opinion as to the terms under which the next Government bond issue should be offered to the public. Some suggestions have also come to us from member banks as to such terms, as follows:

- (a) the length of time the bonds should run to maturity;
- (b) the rate of interest they should bear;
- (c) the extent to which they should be exempt from taxation;
- (d) should they be made acceptable at their face value by the Government in payment of inheritance taxes?

Recommendation:

After full discussion of this topic the Council voted as follows:

- (a) That the life of the proposed Victory Loan bonds should not exceed five years. (Unanimous.)
- (b) and (c) That two classes of bonds should be offered, one free of all taxes and one subject to surtaxes. The following vote indicates the opinion of each member of the Council as to the rate of interest on the two issues suggested:

	<i>Tax Free.</i>	<i>Surtax.</i>
Mr. Wing .....	4%	5%
Mr. Hepburn .....	3.65%	4¾%
Mr. Rue .....	4%	4¾%
Mr. Rowe .....	4%	4¾%
Mr. Brown .....	4%	5%
Mr. Lyerly .....	4%	5%
Mr. Forgan .....	4%	4¾%
Mr. Watts .....		4¾%
Mr. Jaffray .....	4%	5%
Mr. Swinney .....	4%	4¾%
Mr. Wilmot .....	4%	4¾%
Mr. Mills .....	4%	5%

Mr. Watts' vote indicates his disapproval of the issue of any bonds exempt from surtaxes.

- (d) It was unanimously voted that both issues of bonds be made acceptable by the Government at par and accrued interest for inheritance taxes.

It is also the opinion of the Council that both issues should be made convertible at the option of the holder during the term of the bonds into a twenty or thirty year  $4\frac{1}{4}\%$  bond subject to surtax.



TOPIC NO. 8—You have asked our advice as to the discount rates current at the Federal Reserve banks particularly as they are affected by the amount of government issues remaining undigested as evidenced by the fact that the larger part of the invested assets of the Federal Reserve banks consists of member banks' fifteen day notes secured by Liberty bonds and Treasury certificates and of customers' notes maturing within ninety days secured in like manner.

The Board would like the opinion of the Council as to the merits of differential rates. Assuming the differentials have been necessary to aid the Treasury in floating its securities, does the Council feel that differentials with respect to the character of paper and not to time of maturity should be continued as a permanent policy.

#### Recommendation:

Until the Liberty bonds already issued and the Victory bonds to be issued are distributed among permanent investors and paid for by them and until the banks are relieved of the obligation they are under to carry such large lines of them for their patriotic customers who have gone in debt for them, and until our Government gets through with its temporary financing on short time certificates, the discount rates at the Federal Reserve banks should continue to show some preference on loans covered by Government securities. The rates might well be continued as they now are until after the next bond issue has been placed, but there will come a time when such preference should not be continued, otherwise loans on Government securities will continue to form too large a proportion of the Federal Reserve bank loans to the disadvantage of commercial paper and therefore to the disadvantage of industrial and commercial enterprise. The financial necessities of the Government for the payment of its war debts will however have to be met and provided for before such discrimination in favor of loans covered by Government securities as will induce people to borrow to pay for them in anticipation of their future earnings and incomes can be discontinued.



TOPIC NO. 9—You have asked for the views of the Council, as to whether it will be necessary for some time to come in order to develop an

acceptance market in this country to stimulate it by a low rate at the Federal Reserve banks, and you have drawn our attention to the lower rates prevailing in London for bankers' acceptances than those current here.

#### Recommendation:

In the opinion of the Council the acceptance market in this country is developing as well as could be expected. The market for bankers' acceptances is now and has been materially interfered with by our Government's financing on certificates of indebtedness. This interference will continue as long as the Government continues its short time financing. In the meantime the acceptance rates at the Federal Reserve banks should be maintained just about as they have been. When conditions again settle down on a peace basis supply and demand combined with competition in foreign markets will govern such rates. In comparing discount rates for bankers' acceptances current here with those current in London it should be remembered that during recent years much of Europe's foreign business, particularly that of England, has been financed through loans made by our Government. In this connection it is of interest to note that the acceptance business of the London banks and banks domiciled in London, on December 31, 1912, amounted to approximately £117,000,000 sterling, while on December 31, 1917, the same had fallen to approximately £82,000,000. On August 31, 1918, it had advanced to £86,000,000. This decrease of from 25% to 30% in the volume of the London acceptance business, together with the fact that our loans to the British Government had the effect of largely relieving the London banks of responsibility for financing their Government on short time obligations while it threw exactly that burden on the banks of this country largely account for the low discount rates for acceptances prevailing there and for the higher rates prevailing here. When England again resumes the financing of her imports and exports through the ordinary banking channels and the present artificial restrictions are withdrawn by both Governments in connection with their imports and exports, and our Government restrictions on all foreign exchange transactions are removed a better equilibrium of the two discount markets is likely to be established. In other words foreign exchange markets during the war have been in quite an abnormal condition and are likely to continue so until government war debts between the nations are finally and permanently adjusted and international business transactions return to their normal and natural course free from the governmental restrictions and impediments placed on them during the war. Until then existing conditions do not afford an equitable basis on which a comparison of current rates existing in London and New York can be made.



TOPIC NO. 10—The Council would draw the attention of the Federal Reserve Board to the following:

Under the provisions of Section 5202 of the National Bank Act the liabilities incurred by a national bank directly and indirectly cannot exceed the amount of its capital stock except for certain purposes named.

It would seem that the amount of bills of exchange which a national bank may discount in London and other foreign centers comes under the prohibition of this section.

The rate at which 60 or 90 day bills of exchange on London are sold in this country is based upon the Sterling cable rate less certain deductions, principally an interest charge at the open market rate in London for discounting bills. This rate, which today is 3 7-16% rules much below market rates for money in this country.

In purchasing export Sterling bills a national bank must discount the bill in London immediately upon its arrival if it is to engage in a profitable transaction. If it does not discount the bill, it carries a 3 7-16% investment to maturity when money in this country is worth more. This no bank will do.

But to engage in this class of business to the extent required by the demands of American exporters and to discount the bills purchased upon their arrival in London the contingent liability created by the bank by the endorsement of bills will quickly exceed the amount of its capital.

Again, while the rediscount of domestic acceptances with the Federal Reserve bank does not come within the prohibitions of Section 5202, it is probably true that the discount of such acceptances through channels other than the Federal Reserve bank does come under such prohibition.

As it is the desire of the Federal Government and the Federal Reserve Board to encourage as far as possible the development of bankers acceptances and the financing of foreign commerce by American banks to meet the competition of London banks, it is suggested that Section 5202 be amended so as to exclude from its prohibitions the liability created by a national bank as an endorser on accepted bills of exchange actually owned by the bank and rediscounted at home or abroad, or if this object can be accomplished by a ruling of the Federal Reserve Board it would be more desirable than to attempt an amendment to the Act.

There is no limit in the amount of bills drawn against actually existing values which a bank may purchase and hold, hence it would seem logical that there should be no limit upon the amount which a bank might negotiate by endorsement.