A statutory meeting of the Federal Advisory was held in the
Federal Reserve Board room, Metropolitan Bank building, Washington,
D.C., Monday, September 15, 1919, convening at 11 A.M.

Present: Messrs. L. L. Rue, Vice-President, D. G. Wing, W S Rowe, A B
Swinney, E. P. Wilmot, A. L. Mills, and Merritt H. Grim, Secretary.

Absent: James B. Forgan.

The meeting was called to order by Mr. Swinney.

Mr. Swinney announced that Mr. James B. Forgan, President, was pre­
vented by illness from being present and that Mr. Rue, the Vice-President
would soon arrive, when he would take the chair.

The minutes of meeting of the Federal Advisory Council held on May
19th, 1919, copies of which had been sent by the Secretary to the members
of the Council were on motion of Mr. Mills, duly seconded, approved.

The minutes of a special meeting of the Executive Committee of the
Council held on June 20th, 1919, which had been called by Governor Harding,
copies of which had been sent by the Secretary to the members of the
Council, were also approved.

Mr. Rue, Vice-President, having arrived he took the chair and the
letter of Governor Harding, dated August 20th, 1919, to Mr. Forgan,
reading as follows was laid before the Council:
August 20, 1919.

Dear Mr. Forgan:—

I acknowledge receipt of your letter of the 16th instant in which you advise that the next meeting of the Federal Advisory Council will be held on Monday, September 16th at eleven o'clock, A. M.

You ask for a memorandum of the action taken by the Board on the Council's recommendations made at its last meeting, May 19th, and I would state that in most cases it has seemed to the Board that the recommendations required no definite or immediate action but that they should serve rather as a guide for the Board in the formulation of general policies.

The Council expressed the opinion that the time had arrived when the embargo on the export of gold could be lifted with safety, and, as you know, the embargo was raised on June 9th. The Board has issued a regulation defining readily marketable staples, in conformity with the recommendation made by the Council. The substance of the Council's recommendations regarding various matters relating to the maintenance of the country's export trade has been conveyed to the Committees on Banking and Currency of the Senate and House, and bills have been introduced and in some cases passed by one house or the other, which if enacted into law would make the recommendations of the Council effective.

(a) A bill has passed the House amending Section 5202 of the Revised Statutes, as recommended by the Council some several months ago, which would except from the limitations on the liability of a national bank its endorsements on foreign bills actually owned and discounted abroad.

(b) A bill has been passed by the House and reported favorably, without amendment, by the Senate Committee to amend Section 5200 of the Revised Statutes, which would have the effect of enabling national banks to operate with more freedom in the movement of crops, as the bill
raises the ten per cent. limitation to twenty-five per cent. on loans secured by non-perishable agricultural staples; this lending power to be limited to not more than six months in any consecutive twelve months.

(c) The House has passed a bill authorizing any national bank, with the approval of the Federal Reserve Board, to subscribe for an amount not exceeding five per cent. of its capital and surplus of stock in a corporation principally engaged in the business of financing foreign trade, the five per cent. so subscribed to be a part of the ten per cent. now authorized in the case of foreign banking corporations under Section 25 of the Federal Reserve Act.

(d) The Senate Committee has reported favorably what is known as "The Edge Bill" to provide for the Federal incorporation of corporations engaged principally in foreign banking or financing.

1: The Board would be glad to have the Council consider and make recommendations regarding Senate Bills 2582 and 2590 (copies enclosed) upon which its opinion will be asked.

2. The Board would also ask for an expression of the views of the Council as to the advisability of any legislation at this time looking to the retirement of the United States notes or legal tender. (The Board itself has already gone on record against any legislation on this subject at the present time, but it has been requested to ascertain the views of the Council).

3: The suggestion has been made that the law should be amended so as to permit Federal reserve banks to lend money both on call and short time, without restriction against renewal, to any person, firm, corporation, or institution, member or nonmember, on the collateral security of any of the things which the banks might acquire by purchase under the provisions of Section 14 of the Federal Reserve Act, the argument of the proponents being that the banks should have a relation to the money market giving them the power to make money easy, if not plentiful, upon occasion, and thus influence rates downward; that lacking contact with the market, except through member banks, such power may not be exerted effectively without the cooperation of the member banks, and that as the law now stands, the banks may make advances in rates effective at times when large accommodation is desired, and if accommodation is sought by members, by loaning freely, may ease.
money rates, but in the absence of the member banks’ willingness or desire to borrow or rediscount, the reserve banks’ effective power is very limited.

4: Section 11 (e) of the Act gives the Federal Reserve Board the power to add to the number of cities classified as reserve and central reserve cities under existing law, and to reclassify existing reserve and central reserve cities or terminate their designation as such. The Board has received applications from banks in several cities for reclassification to a lower level in order that their reserve requirements may be reduced, but has taken no action, feeling that the whole subject should be given careful study in order that some principle may be deduced, if possible, to govern the classification. The suggestion has been made that legislation should be asked to provide for the fixing of reserves with reference to the character of deposits applicable to all places alike regardless of population. The Board is having tables prepared by its Statistical Division showing the effect upon the reserves of the various cities and of the Federal reserve banks of a uniform law fixing reserves on time deposits at three per cent., on demand individual, firm and corporate accounts, at seven, eight and ten per cent., respectively, and on balances due to other banks at thirteen, fourteen and fifteen per cent., respectively. It will not be practicable to distribute these tables in advance of the meeting of the Council, but the Board would like to have an opportunity of presenting them to the Council for the consideration of its members at the time of the meeting.

Very truly yours,

W. P. G. Harding,
Governor.

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

P. S. A bill has passed the Senate authorizing national banks in cities of not less than five hundred thousand population to establish branches, but its fate in the House seems doubtful.
The topics therein submitted for the Council's consideration were taken up and Mr. Forgan having sent the answers on the topics prepared by him for the use of the Council it was decided they should be read by the chair. The executive committee was asked to prepare tentative recommendations on the topics embodying the views as expressed by the Council.

The members of the Federal Reserve Board having arrived the Council went into joint session with the Board.

The following members of the Federal Reserve Board were present: Governor W P G Harding, Messrs. C S Hamlin, J S Williams, A G Miller, Albert Strauss and W. T. Chapman, Acting secretary.

Governor Harding addressed the meeting stating the Board's position on the topics and also reviewed existing financial conditions. He also asked the Council to make recommendations on

- Discount rates, especially in regard to a continuance of a differential rate on paper secured by government obligations,

- A plan for an automatic routing of checks collected through the Federal Reserve Banks.

- Three amendments to law proposed by the Administrative Committee of the American Bankers' Association.

At 1 P M the Council adjourned until 2:30 P M.

Secretary
At 2:30 P.M. the Federal Advisory Council resumed its consideration
of the topics submitted by the Federal Reserve Board.

Mr. Hepburn suggested that a recommendation should be made to the
Board in regard to a bill which had passed in the Senate (S.170) per-
mitting member banks in cities of 500,000 or more population and having
a capitalization of $1,000,000 or more to establish branches, again
urging the enactment of such legislation. This and the additional topics
suggested by Governor Harding were left to the Executive Committee to
prepare formal recommendations thereon.

At 4:30 P.M. the meeting was adjourned until Tuesday, 16th inst., at
ten A.M.

MINUTES OF MEETING OF
THE EXECUTIVE COMMITTEE

September 15, 1919

Present: Messrs. L. L. Rue, Vice-President, presiding, D. C. Wing, A. B.
Hepburn, W. S. Rowe, F. O. Watts, and Merritt H. Grim, Secretary.

Immediately following adjournment of the Federal Advisory Council
at 4:30 the Executive Committee met and prepared a report making tentative
recommendations on all the topics submitted to it by the Council and the
Chairman was requested to present same to the Council at its meeting on
16th inst.
MINUTES OF THE
FEDERAL ADVISORY COUNCIL.
RECOMMENDATIONS TO THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD.
September 16, 1919.

TOPIC NO. 1. Senate bills 2583 and 2584.

The Federal Advisory Council met in the Federal Reserve Board room, as arranged, at ten o'clock A. M., Tuesday, September 16, 1919.

Present: Mosher, L. L. Rue, Vice-President, presiding, D. E. 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. Brim, Secretary.

The Chair laid before the Council the report of the Executive Committee. The Committee's tentative recommendations on all of the topics were fully discussed and the following recommendations to the Federal Reserve Board were prepared and the Vice-President requested to present same to the Federal Reserve Board at the joint session arranged for,

(See printed copy hereto attached and made apart of these minutes).

On motion of Mr. Watts, seconded by Mr. Lyerly, it was ordered that the time of convening the Council at future statutory meetings should be fixed at 10:30 A.M. on the first day of the session.

The meeting then adjourned until the arrival of the Federal Reserve Board for a joint session.

S E C R E T A R Y.
RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

September 16, 1919

TOPIC NO. 1. Senate bills 2582 and 2590.

66th CONGRESS, 1st Session. S. 2582.

IN THE SENATE OF THE UNITED STATES.

July 22, 1919.

Mr. Owen introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

A BILL


Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 14 of the Act known as the Federal Reserve Act be, and is hereby, amended as follows:

Strike out all in paragraph (e) of section 14 and insert in lieu thereof:

"(e) To establish accounts with other Federal reserve banks and with the Federal reserve foreign bank."

After section 25 insert a new section, as follows:

"Sec. 25a. There is hereby created a Federal reserve foreign bank of the United States, to be under the supervision of the Federal Reserve Board, and to be located in the city of New York, State of New York.

"The Federal reserve foreign bank of the United States, hereinafter referred to as the foreign bank, shall have an authorized capital of $100,000,000, and shall begin business with a paid-up capital stock of $20,000,000. The stock of such bank shall be offered at par to the banks of the United States and to the public by the Secretary of the Treasury, any stock not subscribed for to be taken by the Treasury of the United States subject to sale at the option of the Secretary of the Treasury.

"The capital stock of the foreign bank shall pay 5 per centum annual dividends if earned and shall not be taxable by any State or municipality or by the United States. The 5 per centum dividend if not earned in any one year shall be cumulative. Any surplus shall be distributed as follows: One-half to surplus and one-half to the United States, until 50 per centum surplus on the then outstanding capital shall have been accumulated, and thereafter such surplus dividends shall be paid into the Treasury of the United States.

"The Federal Reserve Board shall prepare an organization certificate and file the same with the Comptroller of the Currency.

"Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said foreign bank shall become a body corporate, and as such shall have the power—

"First. To adopt and use a corporate seal.

"Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

"Sixth. To prescribe by its board of directors by-laws, not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act."
The foreign bank shall be conducted under the supervision and control of a board of directors, consisting of nine members appointed by the President upon the advice and consent of the Senate.

One of the directors appointed by the President shall be known as the governor, one as vice governor, and one as the Federal reserve agent. The directors shall name a committee of five as an executive board to actually manage the affairs of the bank. The members of the board shall be citizens of the United States over thirty-five years of age and be men of tested mercantile experience and be fairly representative of the various parts of the United States.

The directors shall be designated by the President to serve from one to nine years, respectively, and thereafter each member so appointed shall serve for a term of nine years, unless sooner removed for cause by the President.

After the first year the directors shall annually elect the governor and vice governor from among the directors appointed by the President of the United States.

The salaries of the directors and officers shall be fixed by the Federal Reserve Board and be paid from the earnings of the foreign bank: provided, that the governor of the foreign bank shall receive $25,000, the vice governor $15,000, and the reserve agent $10,000.

The directors of the foreign bank shall receive in addition to their salary a reasonable allowance for necessary expenses in attending meetings of the board.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and perform all such duties as are prescribed by law.

Said board shall administer the affairs of the foreign bank fairly and impartially and without discrimination, and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to Federal reserve banks and to member banks, and to all other banks and bankers throughout the country, and to foreign banks and bankers such accommodations as may be safely and reasonably made in relation to foreign banking business.

The powers of the foreign banks shall be as follows:

To receive deposits from American and foreign banks and bankers, from the United States or foreign Governments, in current funds in lawful money, national-bank notes, Federal reserve notes or checks and drafts, payable upon presentation, and also for the collection of maturing notes and bills.

The foreign bank may discount notes, drafts, and bill of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or which are to be used for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this Act.

The aggregate of such notes, drafts, and bills, bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, discounted for any one bank, shall at no time exceed 5 per centum of the net unimpaired capital and surplus of said foreign bank, but this restriction shall not apply to the discounting of bills of exchange drawn in good faith against actual existing values. The foreign bank may discount acceptances of the kinds permitted under the authority of this Act.

The foreign bank shall not at any time be indebted or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the following nature:

First. Notes of circulation.

Second. Moneys deposited with or collected by the foreign bank.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the foreign bank or due thereto.

Fourth. Liabilities to the stockholders of the foreign bank for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act. The discounting and rediscouning and the purchase or sale by the foreign bank of any bills receivable and of domestic and foreign bills of exchange and of acceptances shall be subject to such limitations, restrictions, and regulations as may be imposed by the Federal Reserve Board.

The foreign bank shall have power—

(a) To deal in gold and silver coin and bullion at home or abroad, to make loans thereon, exchange Federal Reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary,
acceptable security, including the hypothecation of United States bonds or other securities which Federal Reserve Banks are authorized to hold:

"(b) To buy and sell, at home or abroad, bonds and notes of the United States, bonds and notes of foreign Governments, and bills, notes, revenue bonds, and warrants, with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

"(c) To purchase and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions as hereinbefore defined;

"(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount and exchange and commissions for the opening of credits at home or abroad, to be charged by the foreign bank for each class of paper which shall be fixed with a view to accommodating commerce and business.

"(e) To issue bank notes and receive Federal Reserve notes upon like terms and conditions as now provided for the Federal Reserve Banks.

"(f) To open credits at home and abroad for account of domestic and foreign banks or bankers, to facilitate exports and imports to and from the United States, and exports and imports to and from one foreign country to another foreign country.

"(g) Upon the direction and under rules and regulations prescribed by the Federal Reserve Board to establish branches and agencies in foreign countries for the purpose of facilitating commerce with the United States.

"(h) No bank, banker, corporation, or individual, other than the foreign bank, shall sell dollar balances at less than gold par except as payment for merchandise imported into the United States without the express authority of the Federal Reserve Board."

S. 2582—2

66th CONGRESS, 1st Session. S. 2580.

IN THE SENATE OF THE UNITED STATES.

July 22, 1919

Mr. Owen introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

A BILL

To incorporate a Foreign Finance Corporation to provide means of acquiring and selling public and private foreign securities, extending credits against the same, and assisting in the development of the foreign trade of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That a Foreign Finance Corporation shall be established with a capital of $1,000,000,000, divided into ten million shares of $100 each. Two million five hundred thousand shares shall be subscribed and paid for by the War Finance Corporation, two million five hundred thousand shares may be subscribed and paid for by banks and trust companies incorporated under the laws of the United States or of any State thereof in the manner hereinafter specified, and five million shares shall be subscribed and paid for by individuals, firms, companies, or corporations other than banks or trust companies hereinbefore mentioned in the manner hereinafter specified.

Sec. 2. That the subscribers to the said Foreign Finance Corporation, their successors and assigns, shall be, and are hereby, created a corporation and body politic by the name, style, and title of "The Foreign Finance Corporation" (herein called "the corporation"), and shall have succession for a period of twenty years.

Sec. 3. That the Secretary of Commerce is authorized and hereby directed, under rules and regulations to be prescribed by him, to receive, approve, and allot subscriptions for the capital stock of the corporation from banks, trust companies, individuals, firms, companies, and other corporations in the aggregate sums herefore specified. The War Finance Corporation, through its board of directors, is
Sec. 4. That the principal office of the corporation shall be located in New York City, New York, but the corporation shall be authorized to establish branches or agencies in any city or cities of the United States or any foreign country, under rules and regulations to be prescribed by the board of directors.

Sec. 5. That the management of the corporation shall be vested in a board of directors, consisting of nine members, three of whom shall be annually appointed by the Secretary of Commerce, three of whom shall be elected annually by the stockholding banks and trust companies, and three of whom shall be elected by the stockholding individuals, firms, companies, or corporations other than banks or trust companies.

Sec. 6. That the corporation shall be empowered and authorized to adopt, alter, and use a corporate seal; to make contracts; to purchase or lease and hold or dispose of such real estate as may be necessary for the prosecution of its business; to sue and be sued; to complain and defend in any court of competent jurisdiction, State, Federal, or foreign; to appoint by its board of directors and fix the compensation of such officers, employees, attorneys, and agents as are necessary for the transaction of the business of the corporation, to define their duties, require bonds of them, and fix the penalties thereof; and to prescribe, amend, and repeal by its board of directors by-laws regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed, and prescribing the powers and duties of its officers and agents.

Sec. 7. That the corporation shall be empowered and authorized (1) to make advances upon such terms not inconsistent herewith as it may prescribe to any foreign Government, with or without security, or to any bank, banking institution, or trust company, or other corporation organized or operating under the laws of any foreign country or to any individual or firm located in or doing business in a foreign country for the purpose of importing goods from the United States into such foreign country or into other foreign countries: Provided, however, That the corporation shall not make any advances for the purpose of directly financing individual short-term transactions which are in their nature self-liquidating; (2) (a) to buy and sell, at home or abroad, the obligations evidencing the advances made under paragraph (1) of this section, and to sell any securities pledged as collateral to such obligations, (b) to buy and sell, at home or abroad, foreign securities, whether public or private; that is, securities of any foreign Government municipality, or political subdivision, or securities of any individual, firm, or corporation of the kind described in subparagraph (1) of this section: Provided, however, That the corporation shall not engage in the business of buying and selling notes, drafts, bills of exchange, or other short-term obligations arising out of transactions which in their nature are commercial or self-liquidating, and shall not engage in any other business or exercise any other powers except those that are expressly defined or conferred by this Act and except those that are necessarily incidental to the exercise of such express business or express powers. (3) That the corporation shall be empowered and authorized to issue and to have outstanding at any one time its bonds in an amount aggregating not more than ten times its paid-in capital, such bonds to mature not less than one year and not more than twenty years from the respective dates of issue and to bear such rate or rates of interest as the corporation may determine. Such bonds shall have a first and paramount floating charge on all the assets of the corporation which shall not at any time be mortgaged or pledged by the corporation; such bonds may be offered for sale publicly or to any individual, firm, corporation, or association at such price or prices as the corporation may determine; such bonds shall not be eligible for purchase or discount by any Federal reserve bank, and no note, draft, or bill drawn for the purpose of buying or carrying such bonds, whether or not secured by such bonds, shall be eligible for purchase or rediscount by a Federal reserve bank.

Sec. 8. That the corporation shall not exercise any of the powers granted by this Act, or perform any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Secretary of Commerce to commence business under the provisions of this Act. The corporation shall be authorized to begin its business whenever five million shares shall have been subscribed.

Sec. 9. That neither the War Finance Corporation nor any other shareholder in the corporation shall be liable beyond the amount of its subscription to the capital stock of the corporation for the payment of any bond or other obligation issued or
incurred by the corporation, nor shall any such shareholder as such incur any liability in respect to any act or omission of the corporation.

Sec. 10. That whoever makes or authorizes to be made any statement in writing, knowing it to be false, for the purpose of obtaining for himself or for any other person, firm, corporation, or association any advance under this title, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years or both.

Whoever (1) falsely makes, forges, or counterfeits any bond, coupon, or paper in imitation of or purporting to be an imitation of a bond or coupon issued by the corporation; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by the corporation, knowing the same to be falsely made, forged, or counterfeited; or (3) falsely alters any such bond, coupon, or paper; or (4) passes, utters, or publishes as true any falsely altered or spurious bond, coupon, or paper issued or purporting to have been issued by the corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years or both.

Whoever, being connected in any capacity with the corporation, (1) embezzles, abstracts, or willfully misapplies any moneys, funds, or credits thereof, or (2) with intent to defraud the corporation or any other company, body politic or corporate, or any individual, or to deceive any officer of the corporation (a) makes any false entry in any book, report, or statement of the corporation, or (b) without authority from the directors draws any order or assigns any note, bond, draft, mortgage, judgment or decree thereof, shall be punishable by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

The Secretary of the Treasury is hereby authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest and deliver into custody of the United States marshal having jurisdiction over any person committing any of the offenses punishable under this section.

Sec. 11. The corporation shall file quarterly with the Secretary of Commerce a report of its business in such manner and form as may be directed by the Secretary of Commerce, who shall make an annual report to Congress of the operation of such corporation.

Sec. 12. That the term "securities" as used in this Act shall include bonds, debentures, notes, certificates of indebtedness, and other such obligations (not stocks).

Recommendation:

In the opinion of the Federal Advisory Council the same general objections obtain against both Senate bills (Nos. 2582 and 2590). Sufficient governmental machinery now exists in our judgment and any further necessity should be met through private enterprise.

Recommendation:

TOPIC NO. 2. The Board would ask for an expression of the views of the Council as to the desirability of any legislation at this time looking to the retirement of the United States notes or legal tenders. (The Board itself has already gone on record against any legislation on this subject at the present time, but it has been requested to ascertain the views of the Council).

Recommendation:

Concurring in the statements made, the views expressed and the advice given on this topic in the Board’s letter of August 8th, 1919, addressed to Hon. George P. McLean, Chairman Committee on Banking and Currency, United States Senate, we regard any legislation at this time look-
ing to the retirement of the United States notes or legal tenders as in-
advisable and unnecessary. So long as no part of the circulating medium
of the country in the possession of the member banks can be counted in
their legal reserve requirements, which causes them to turn over daily to
the Federal Reserve banks such of it as they have not actual use for, there
cannot be any serious redundancy of currency in actual circulation. The
daily redemption of Federal Reserve notes by the Federal Reserve banks
and the daily depositing with them of all other kinds of circulating notes
not actually needed by the public or by the member banks for supplying
the public keeps the money in circulation down to the actual requirements
of the public in trade and commerce.

TOPIC NO. 3. The suggestion has been made that the law should
be amended so as to permit Federal Reserve banks to lend money both on
call and short time, without restriction against renewal, to any person, firm,
corporation, or institution, member or nonmember, on the collateral security
of any of the things which the banks might acquire by purchase under the
provisions of Section 14 of the Federal Reserve Act, the argument of the
proponents being that the banks should have a relation to the money
market giving them the power to make money easy, if not plentiful, upon
occasion, and thus influence rates downward; that lacking contact with
the market, except through member banks, such power may not be exerted
effectively without the co-operation of the member banks, and that as the
law now stands, the banks may make advances in rates effective at times
when large accommodation to member banks exists or when greater accom-
modation is desired, and if accommodation is sought by members, by loan-
ing freely, may ease money rates, but in the absence of the member banks'
willfulness or desire to borrow or rediscount, the reserve banks’ effective
power is very limited.

Recommendation:
In our opinion the law now furnishes ample channels through which
the resources of the Federal Reserve banks are made available to the
public through the member banks for all legitimate purposes. We do not
therefore approve the suggestion that the law should be amended so as to
permit Federal Reserve banks to lend money both on call and short time
without restriction against renewal to any person, firm, corporation or in-
titution, member or nonmember, on the collateral security of any of the
things which the banks might acquire by purchase under the provisions of
Section 14 of the Federal Reserve Act.

TOPIC NO. 4. Section 11 (e) of the Act gives the Federal
Reserve Board the power to add to the number of cities classified as reserve
and central reserve cities under existing law, and to reclassify existing
reserve and central reserve cities or terminate their designation as such.
The Board has received applications from banks in several cities for
reclassification to a lower level in order that their reserve requirements may be reduced, but has taken no action, feeling that the whole subject should be given careful study in order that some principle may be deduced, if possible, to govern the classification. The suggestion has been made that legislation should be asked to provide for the fixing of reserves with reference to the character of deposits applicable to all places alike regardless of population. The Board is having tables prepared by its statistical division showing the effect upon the reserves of the various cities and of the Federal Reserve banks of a uniform law fixing reserves on time deposits at three per cent, on demand individual, firm and corporate accounts, at seven, eight and ten per cent respectively, and on balances due to other banks at thirteen, fourteen and fifteen per cent respectively. It will not be practicable to distribute these tables in advance of the meeting of the Council but the Board would like to have an opportunity of presenting them to the Council for the consideration of its members at the time of the meeting.

Recommendation:
It is the opinion of the Council that the reserve requirements of all member banks should be based on the character of deposits and not on their classification as central reserve cities and reserve cities and further the Council recommends that the Federal Reserve Board endeavor to secure such legislation as may be necessary to authorize them to make such reclassification.

TO P I C  N O . 5. Senate bill No. 170.

66th CONGRESS, 1st Session.  S. 170. 
IN THE HOUSE OF REPRESENTATIVES.
August 5, 1919.
Referred to the Committee on Banking and Currency.

AN ACT
To amend section 25 of the Act of December 23, 1913, known as the Federal Reserve Act, as amended by the Act of September 7, 1916.
Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That section 25 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended by the Act of September 7, 1916, be amended by adding a subsection (a) to read as follows:
"Sec. 25a. That any member bank located in a city or incorporated town of more than five hundred thousand inhabitants and possessing a capital and surplus of $1,000,000 or more may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches, not to exceed ten in number, within the corporate limits of the city or town in which it is located: Provided, That no such branch shall be established in any State in which neither State banks nor trust companies may lawfully establish branches."
Passed the Senate August 2, 1919.
Attest: GEORGE A. SANDERSON, Secretary.

Recommendation: We urge the Federal Reserve Board to use every effort to secure the passage of Senate bill No. 170 in the interest of sound banking and the granting of equal banking facilities to all people in the same business community.
THREE AMENDMENTS PROPOSED BY THE ADMINISTRATIVE COMMITTEE OF THE AMERICAN BANKERS ASSOCIATION

TOPIC NO. 6. (a) Proposed amendment to Section 9 of the Federal Reserve Act authorizing the Federal Reserve Board to admit to membership incorporated savings banks with insufficient capital stock to entitle them to become member banks under existing law, provided the combined capital and surplus of the incorporated savings banks is equal to the amount of capital stock required of national banks in the places in which such incorporated savings banks are located.

(b) Proposed amendment to Section 19 of the Federal Reserve Act adding at the end of sub-division C thereof a new paragraph to read as follows:

"Two-thirds of the three per centum of time deposits required to be maintained as reserve by subdivision A, B and C hereof may consist, in the case of savings accounts only, as defined by the Federal Reserve Board, of bonds of the United States issued since April Twenty-fourth, Nineteen hundred and seventeen, or certificates of indebtedness of the United States deposited with the Federal Reserve bank.

(c) Proposed amendment to Section 5154 U. S. R. S. adding thereto the following:

"Any savings bank incorporated by special law of any state or of the United States, or organized under the general laws of any state or of the United States, which has been converted into a national banking association according to the provisions herein, is permitted to maintain a separate savings department and to continue to discharge the same functions as it exercised before the conversion, such savings department to be operated under rules and regulations to be promulgated by the Federal Reserve Board."

Recommendation:

The Council is opposed to all three of the above proposed amendments.

TOPIC NO. 7. Differential discount rates on loans secured by United States government obligations.

Recommendation:

In view of the uncertainty existing as to the continuance of the policy of a differential rate of discount in favor of loans secured by the United States government obligations the Council recommends to the Federal Reserve Board that existing rates on loans of this character be maintained during the balance of this year.
TOPIC NO. 8. Check Collections.

Recommendation:

Referring to Governor Harding's remarks respecting a proposed order of the Federal Reserve Board for a uniform plan for handling of checks on member banks the Council respectfully requests that the Federal Reserve Board mail to each member of the Council such information regarding the plan as may be available and further that the Federal Reserve Board take no definite action on this subject pending the next meeting of the Council with the Federal Reserve Board.

The following members of the Federal Advisory Council were present at this meeting: Messrs. L. L. Rue, Vice-President; D. G. Wing, A. B. Hepburn, W. S. Rowe, J. G. Brown, Charles A. Lyerly, F. O. Watts, C. T. Jaffray, E. F. Swinney, E. P. Wilmot, A. L. Mills and Merritt H. Grim, Secretary.
At 11 A.M. Tuesday, September 16, 1919, a joint meeting of the Federal Reserve Board and the Federal Advisory Council was held in the Federal Reserve Board Room, Washington, D.C.


Governor Harding called the meeting to order and Mr. Rue read the recommendations of the Federal Advisory Council on the topics submitted.

A general discussion followed on the topics and on matters pertaining to the Federal Reserve Banks.

In regard to the Board's plan for a system of automatic routing of checks collected by Federal Reserve Banks (Topic No. 8) Governor Harding said that should the Board prepare a regulation on this subject copies of it would be sent to each member of the Council for further consideration before putting it into effect. This would probably be before the next regular meeting of the Council.

In regard to changing the basis of figuring the reserves of member banks (Topic No. 4) Governor Harding said copies of the Board's statistical tables showing the effect of various computations, etc., would be provided so that the President could send one to each member of the Council.
Governor Harding stated it was Counsel's opinion that there was no authority in the Federal Reserve Act for the appointment of an alternate or proxy for a member of the Council, therefore he would have no legal standing or vote, and could only participate in the deliberations of the Council through courtesy.

Governor Harding said that the Board would print the Recommendations of the Federal Advisory Council for the year 1919 in its forthcoming annual report. There was no objection.

The joint session then adjourned at 12:30 o'clock.
RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

September 16, 1919

TOPIC NO. 1. Senate bills 2582 and 2590.

66th CONGRESS, 1st Session. S. 2582.

IN THE SENATE OF THE UNITED STATES.

July 22, 1919.

Mr. Owen introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

A BILL


Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 14 of the Act known as the Federal Reserve Act be, and is hereby, amended as follows:

Strike out all in paragraph (e) of section 14 and insert in lieu thereof:

"(e) To establish accounts with other Federal reserve banks and with the Federal reserve foreign bank."

After section 25 insert a new section, as follows:

"Sec. 25a. There is hereby created a Federal reserve foreign bank of the United States, to be under the supervision of the Federal Reserve Board, and to be located in the city of New York, State of New York.

"The Federal reserve foreign bank of the United States, hereinafter referred to as the foreign bank, shall have an authorized capital of $100,000,000, and shall begin business with a paid-up capital stock of $20,000,000. The stock of such bank shall be offered at par to the banks of the United States and to the public by the Secretary of the Treasury, any stock not subscribed for to be taken by the Treasury of the United States subject to sale at the option of the Secretary of the Treasury.

"The capital stock of the foreign bank shall pay 5 per centum annual dividends if earned and shall not be taxable by any State or municipality or by the United States. The 5 per centum dividend if not earned in any one year shall be cumulative. Any surplus shall be distributed as follows: One-half to surplus and one-half to the United States, until 50 per centum surplus on the then outstanding capital shall have been accumulated, and thereafter such surplus dividends shall be paid into the Treasury of the United States.

"The Federal Reserve Board shall prepare an organization certificate and file the same with the Comptroller of the Currency.

"Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said foreign bank shall become a body corporate, and as such shall have the power—

"First. To adopt and use a corporate seal.

"Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

"Sixth. To prescribe by its board of directors by-laws, not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act."
"The foreign bank shall be conducted under the supervision and control of a board of directors, consisting of nine members appointed by the President upon the advice and consent of the Senate.

"One of the directors appointed by the President shall be known as the governor, one as vice governor, and one as the Federal reserve agent. The directors shall name a committee of five as an executive board to actually manage the affairs of the bank. The members of the board shall be citizens of the United States over thirty-five years of age and be men of tested mercantile experience and be fairly representative of the various parts of the United States.

"The directors shall be designated by the President to serve for from one to nine years, respectively, and thereafter each member so appointed shall serve for a term of nine years, unless sooner removed for cause by the President.

"After the first year the directors shall annually elect the governor and vice governor from among the directors appointed by the President of the United States.

"The salaries of the directors and officers shall be fixed by the Federal Reserve Board and be paid from the earnings of the foreign bank: Provided, That the governor of the foreign bank shall receive $25,000, the vice governor $15,000, and the reserve agent $10,000.

"The directors of the foreign bank shall receive in addition to their salary a reasonable allowance for necessary expenses in attending meetings of the board.

"The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and perform all such duties as are prescribed by law.

"Said board shall administer the affairs of the foreign bank fairly and impartially and without discrimination, and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to Federal reserve banks and to member banks, and to all other banks and bankers throughout the country, and to foreign banks and bankers such accommodations as may be safely and reasonably made in relation to foreign banking business.

"The powers of the foreign banks shall be as follows:

"To receive deposits from American and foreign banks and bankers, from the United States or foreign Governments, in current funds in lawful money, national-bank notes, Federal reserve notes or checks and drafts, payable upon presentation, and also for the collection of maturing notes and bills.

"The foreign bank may discount notes, drafts, and bill of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or which are to be used for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this Act.

"The aggregate of such notes, drafts, and bills, bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, discounted for any one bank, shall at no time exceed 5 per centum of the net unimpaired capital and surplus of said foreign bank, but this restriction shall not apply to the discounting of bills of exchange drawn in good faith against actual existing values. The foreign bank may discount acceptances of the kinds permitted under the authority of this Act.

"The foreign bank shall not at any time be indebted or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the following nature:

"First. Notes of circulation.
"Second. Moneys deposited with or collected by the foreign bank.
"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the foreign bank or due thereto.

"Fourth. Liabilities to the stockholders of the foreign bank for dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the Federal Reserve Act. The discounting and rediscounting and the purchase or sale by the foreign bank of any bills receivable and of domestic and foreign bills of exchange and of acceptances shall be subject to such limitations, restrictions, and regulations as may be imposed by the Federal Reserve Board.

"The foreign bank shall have power—

"(a) To deal in gold and silver coin and bullion at home or abroad, to make loans thereon, exchange Federal Reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary,
acceptable security, including the hypothecation of United States bonds or other securities which Federal Reserve Banks are authorized to hold:

"(b) To buy and sell, at home or abroad, bonds and notes of the United States, bonds and notes of foreign Governments, and bills, notes, revenue bonds, and warrants, with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

"(c) To purchase and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions as hereinbefore defined;

"(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount and exchange and commissions for the opening of credits at home or abroad, to be charged by the foreign bank for each class of paper which shall be fixed with a view to accommodating commerce and business.

"(e) To issue bank notes and receive Federal Reserve notes upon like terms and conditions as now provided for the Federal Reserve Banks.

"(f) To open credits at home and abroad for account of domestic and foreign banks or bankers, to facilitate exports and imports to and from the United States, and exports and imports to and from one foreign country to another foreign country.

"(g) Upon the direction and under rules and regulations prescribed by the Federal Reserve Board to establish branches and agencies in foreign countries for the purpose of facilitating commerce with the United States.

"(h) No bank, banker, corporation, or individual, other than the foreign bank, shall sell dollar balances at less than gold par except as payment for merchandise imported into the United States without the express authority of the Federal Reserve Board."

S. 2582—2

66th CONGRESS, 1st Session. S. 2590.

IN THE SENATE OF THE UNITED STATES.

July 22, 1919

Mr. Owen introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

A BILL

To incorporate a Foreign Finance Corporation to provide means of acquiring and selling public and private foreign securities, extending credits against the same, and assisting in the development of the foreign trade of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That a Foreign Finance Corporation shall be established with a capital of $1,000,000,000, divided into ten million shares of $100 each. Two million five hundred thousand shares shall be subscribed and paid for by the War Finance Corporation, two million five hundred thousand shares may be subscribed and paid for by banks and trust companies incorporated under the laws of the United States or of any State thereof in the manner hereinafter specified, and five million shares shall be subscribed and paid for by individuals, firms, companies, or corporations other than banks or trust companies hereinbefore mentioned in the manner hereinafter specified.

Sec. 2. That the subscribers to the said Foreign Finance Corporation, their successors and assigns, shall be, and are hereby, created a corporation and body politic by the name, style, and title of "The Foreign Finance Corporation" (herein called "the corporation"), and shall have succession for a period of twenty years.

Sec. 3. That the Secretary of Commerce is authorized and hereby directed, under rules and regulations to be prescribed by him, to receive, approve, and allot subscriptions for the capital stock of the corporation from banks, trust companies, individuals, firms, companies, and other corporations in the aggregate sums hereinafter specified. The War Finance Corporation, through its board of directors, is

— 15 —
Sec. 4. That the principal office of the corporation shall be located in New York City, New York, but the corporation shall be authorized to establish branches or agencies in any city or cities of the United States or any foreign country, under rules and regulations to be prescribed by the board of directors.

Sec. 5. That the management of the corporation shall be vested in a board of directors, consisting of nine members, three of whom shall be annually appointed by the Secretary of Commerce, three of whom shall be elected annually by the stockholding banks and trust companies, and three of whom shall be elected by the stockholding individuals, firms, companies, or corporations other than banks or trust companies.

Sec. 6. That the corporation shall be empowered and authorized to adopt, alter, and use a corporate seal; to make contracts; to purchase or lease and hold or dispose of such real estate as may be necessary for the prosecution of its business; to sue and be sued; to complain and defend in any court of competent jurisdiction, State, Federal, or foreign; to appoint by its board of directors and fix the compensation of such officers, employees, attorneys, and agents as are necessary for the transaction of the business of the corporation, to define their duties, require bonds of them, and fix the penalties thereof; and to prescribe, amend, and repeal by its board of directors by-laws regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed, and prescribing the powers and duties of its officers and agents.

Sec. 7. That the corporation shall be empowered and authorized (1) to make advances upon such terms not inconsistent herewith as it may prescribe to any foreign Government, with or without security, or to any bank, banking institution, or trust company, or other corporation organized or operating under the laws of any foreign country or to any individual or firm located in or doing business in a foreign country for the purpose of importing goods from the United States into such foreign country or into other foreign countries: Provided, however, That the corporation shall not make any advances for the purpose of directly financing individual short-term transactions which are in their nature self-liquidating; (2) (a) to buy and sell, at home or abroad, the obligations evidencing the advances made under paragraph (1) of this section, and to sell any securities pledged as collateral to such obligations, (b) to buy and sell, at home or abroad, foreign securities, whether public or private; that is, securities of any foreign Government municipality, or political subdivision, or securities of any individual, firm, or corporation of the kind described in subparagraph (1) of this section: Provided, however, That the corporation shall not engage in the business of buying and selling notes, drafts, bills of exchange, or other short-term obligations arising out of transactions which in their nature are commercial or self-liquidating, and shall not engage in any other business or exercise any other powers except those that are expressly defined or conferred by this Act; (c) to buy and sell, at home or abroad, public or private securities of any foreign Government municipality, or political subdivision, or securities of any individual, firm, or corporation of the kind described in subsection (1) of this section: Provided, however, That the corporation shall not engage in the business of buying and selling notes, drafts, bills of exchange, or other short-term obligations arising out of transactions which in their nature are commercial or self-liquidating, and shall not engage in any other business or exercise any other powers except those that are expressly defined or conferred by this Act; (3) That the corporation shall be empowered and authorized to issue and to have outstanding at any one time its bonds in an amount aggregating not more than ten times its paid-in capital, such bonds to mature not less than one year and not more than twenty years from the respective dates of issue and to bear such rate or rates of interest as the corporation may determine. Such bonds shall have a first and paramount floating charge on all the assets of the corporation which shall not at any time be mortgaged or pledged by the corporation; such bonds may be offered for sale publicly or to any individual, firm, corporation, or association at such price or prices as the corporation may determine; such bonds shall not be eligible for purchase or discount by any Federal reserve bank, and no note, draft, or bill drawn for the purpose of buying or carrying such bonds, whether or not secured by such bonds, shall be eligible for purchase or rediscount by a Federal reserve bank.

Sec. 8. That the corporation shall not exercise any of the powers granted by this Act, or perform any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Secretary of Commerce to commence business under the provisions of this Act. The corporation shall be authorized to begin its business whenever five million shares shall have been subscribed.

Sec. 9. That neither the War Finance Corporation nor any other shareholder in the corporation shall be liable beyond the amount of its subscription to the capital stock of the corporation for the payment of any bond or other obligation issued or
incurred by the corporation, nor shall any such shareholder as such incur any liability in respect to any act or omission of the corporation.

Sec. 10. That whoever makes or authorizes to be made any statement in writing, knowing it to be false, for the purpose of obtaining for himself or for any other person, firm, corporation, or association any advance under this title, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years or both.

Whoever (1) falsely makes, forges, or counterfeits any bond, coupon, or paper in imitation of or purporting to be an imitation of a bond or coupon issued by the corporation; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by the corporation, knowing the same to be falsely made, forged, or counterfeited; or (3) falsely alters any such bond, coupon, or paper; or (4) passes, utters, or publishes as true any falsely altered or spurious bond, coupon, or paper issued or purporting to have been issued by the corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years or both.

Whoever, being connected in any capacity with the corporation, (1) embezzles, abstracts, or willfully misapplies any moneys, funds, or credits thereof, or (2) with intent to defraud the corporation or any other company, body politic or corporate, or any individual, or to deceive any officer of the corporation (a) makes any false entry in any book, report, or statement of the corporation, or (b) without authority from the directors draws any order or assigns any note, bond, draft, mortgage, judgment or decree thereof, shall be punishable by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

The Secretary of the Treasury is hereby authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest and deliver into custody of the United States marshal having jurisdiction over any person committing any of the offenses punishable under this section.

Sec. 11. The corporation shall file quarterly with the Secretary of Commerce a report of its business in such manner and form as may be directed by the Secretary of Commerce, who shall make an annual report to Congress of the operation of such corporation.

Sec. 12. That the term "securities" as used in this Act shall include bonds, debentures, notes, certificates of indebtedness, and other such obligations (not stocks).

Recommendation:

In the opinion of the Federal Advisory Council the same general objections obtain against both Senate bills (Nos. 2582 and 2590). Sufficient governmental machinery now exists in our judgment and any further necessity should be met through private enterprise.

TOPIC NO. 2. The Board would ask for an expression of the views of the Council as to the desirability of any legislation at this time looking to the retirement of the United States notes or legal tenders. (The Board itself has already gone on record against any legislation on this subject at the present time, but it has been requested to ascertain the views of the Council).

Recommendation:

Concurring in the statements made, the views expressed and the advice given on this topic in the Board's letter of August 8th, 1919, addressed to Hon. George P. McLean, Chairman Committee on Banking and Currency, United States Senate, we regard any legislation at this time look-
ing to the retirement of the United States notes or legal tenders as inadvisable and unnecessary. So long as no part of the circulating medium of the country in the possession of the member banks can be counted in their legal reserve requirements, which causes them to turn over daily to the Federal Reserve banks such of it as they have not actual use for, there cannot be any serious redundancy of currency in actual circulation. The daily redemption of Federal Reserve notes by the Federal Reserve banks and the daily depositing with them of all other kinds of circulating notes not actually needed by the public or by the member banks for supplying the public keeps the money in circulation down to the actual requirements of the public in trade and commerce.

TOPI C NO. 3. The suggestion has been made that the law should be amended so as to permit Federal Reserve banks to lend money both on call and short time, without restriction against renewal, to any person, firm, corporation, or institution, member or nonmember, on the collateral security of any of the things which the banks might acquire by purchase under the provisions of Section 14 of the Federal Reserve Act, the argument of the proponents being that the banks should have a relation to the money market giving them the power to make money easy, if not plentiful, upon occasion, and thus influence rates downward; that lacking contact with the market, except through member banks, such power may not be exerted effectively without the co-operation of the member banks, and that as the law now stands, the banks may make advances in rates effective at times when large accommodation to member banks exists or when greater accommodation is desired, and if accommodation is sought by members, by loaning freely, may ease money rates, but in the absence of the member banks' willingness or desire to borrow or rediscount, the reserve banks' effective power is very limited.

Recommendation:
In our opinion the law now furnishes ample channels through which the resources of the Federal Reserve banks are made available to the public through the member banks for all legitimate purposes. We do not therefore approve the suggestion that the law should be amended so as to permit Federal Reserve banks to lend money both on call and short time without restriction against renewal to any person, firm, corporation or institution, member or nonmember, on the collateral security of any of the things which the banks might acquire by purchase under the provisions of Section 14 of the Federal Reserve Act.

TOPI C NO. 4. Section 11 (e) of the Act gives the Federal Reserve Board the power to add to the number of cities classified as reserve and central reserve cities under existing law, and to reclassify existing reserve and central reserve cities or terminate their designation as such. The Board has received applications from banks in several cities for
THREE AMENDMENTS PROPOSED BY THE ADMINISTRATIVE COMMITTEE OF THE AMERICAN BANKERS ASSOCIATION

TOPIC NO. 6. (a) Proposed amendment to Section 9 of the Federal Reserve Act authorizing the Federal Reserve Board to admit to membership incorporated savings banks with insufficient capital stock to entitle them to become member banks under existing law, provided the combined capital and surplus of the incorporated savings banks is equal to the amount of capital stock required of national banks in the places in which such incorporated savings banks are located.

(b) Proposed amendment to Section 19 of the Federal Reserve Act adding at the end of sub-division C thereof a new paragraph to read as follows:

“Two-thirds of the three per centum of time deposits required to be maintained as reserve by subdivision A, B and C hereof may consist, in the case of savings accounts only, as defined by the Federal Reserve Board, of bonds of the United States issued since April Twenty-fourth, Nineteen hundred and seventeen, or certificates of indebtedness of the United States deposited with the Federal Reserve bank.

(c) Proposed amendment to Section 5154 U. S. R. S. adding thereto the following:

“Any savings bank incorporated by special law of any state or of the United States, or organized under the general laws of any state or of the United States, which has been converted into a national banking association according to the provisions herein, is permitted to maintain a separate savings department and to continue to discharge the same functions as it exercised before the conversion, such savings department to be operated under rules and regulations to be promulgated by the Federal Reserve Board.”

Recommendation:

The Council is opposed to all three of the above proposed amendments.

TOPIC NO. 7. Differential discount rates on loans secured by United States government obligations.

Recommendation:

In view of the uncertainty existing as to the continuance of the policy of a differential rate of discount in favor of loans secured by the United States government obligations the Council recommends to the Federal Reserve Board that existing rates on loans of this character be maintained during the balance of this year.
Recommendation:

Referring to Governor Harding's remarks respecting a proposed order of the Federal Reserve Board for a uniform plan for handling of checks on member banks the Council respectfully requests that the Federal Reserve Board mail to each member of the Council such information regarding the plan as may be available and further that the Federal Reserve Board take no definite action on this subject pending the next meeting of the Council with the Federal Reserve Board.

The following members of the Federal Advisory Council were present at this meeting: Messrs. L. L. Rue, Vice-President; D. G. Wing, A. B. Hepburn, W. S. Rowe, J. G. Brown, Charles A. Lyerly, F. O. Watts, C. T. Jaffray, E. F. Swinney, E. P. Wilmot, A. L. Mills and Merritt H. Grim, Secretary.