

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL  
September 17, 18, 1923

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 17, 1923.

The regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., Monday, September 17, 1923.

The President, Mr. Rue, called the meeting to order at 10.30 A. M.

Present :

Mr. L. L. Rue, President	District No. 3
Mr. P. M. Warburg, Vice President	District No. 2
Mr. A. L. Aiken	District No. 1
Mr. C. E. Sullivan	District No. 4
Mr. J. M. Miller, Jr.	District No. 5
Mr. E. W. Lane	District No. 6
Mr. J. J. Mitchell	District No. 7
Mr. F. J. Wade	District No. 8
Mr. G. H. Prince	District No. 9
Mr. P. W. Goebel	District No. 10
Mr. R. L. Ball	District No. 11
Mr. D. W. Twohy	District No. 12
Mr. H. L. Hilyard	Secretary

The President, Mr. Rue, presented communication from the Federal Reserve Bank of Kansas City, stating that on account of illness, Mr. E. F. Swinney would not be able to attend the meeting and that the Bank had appointed Mr. P. W. Goebel, of Kansas City, as alternate. Mr. Goebel was asked to take part in the proceedings of the Council without the privilege of voting.

On motion, duly seconded, the President was instructed to send a telegram to Mr. Swinney expressing the Council's regret for his illness.

On motion, duly seconded, the minutes of the Council meeting of May 21-22, 1923, copies of which had previously been sent to the members, were approved.

On motion, duly seconded, the action of the Executive Committee of the Council as outlined in minutes of special meeting of June 14, 1923, was unanimously approved by the Council.

The members of the Council discussed the action of the Federal Reserve Board upon Recommendation No. 2 of the Council of May 21, 1923, relative to an Agency in Havana, Cuba, of the Federal Reserve Banks of Boston and Atlanta, also upon the recommendation of the Executive Committee of the Council, June 14, 1923, relative to the application of the First Federal Foreign Banking Association of New York City for permission to accept drafts and bills of exchange, and at the same time to issue debentures.

The President, Mr. Rue, presented letters from Governor Crissinger of the Federal Reserve Board requesting the Council to hold hearings on the Par Clearance problem, and stated that due to the urgency of Governor Crissinger's request, he had assented, but that in his opinion, it is not the Council's function to hold hearings, and this should be confined to the Federal Reserve Board and the result of such hearings could be transmitted to the Council, if desired, for the Council's opinion on the matters discussed. The Council was in thorough accord with this view and unanimously requested the President so to notify the Federal Reserve Board.

The President, Mr. Rue, also presented letter from Governor Crissinger, of the Federal Reserve Board, requesting the Council to grant a hearing to Mr. J. W. Barton, of Minneapolis, who wished to discuss the handling of non-cash items by the Federal Reserve Banks, which request, for the reasons above cited, had also been granted.

The President, Mr. Rue, presented letter dated September 7, 1923, from Hon. L. T. McFadden, Chairman of the Joint Committee of Inquiry on Membership in the Federal Reserve System, appointed by Congress, requesting that the President of the Council and one or two other members appear before the Joint Committee on October 5, 1923, in regard to the investigation which the Committee is making as to the reasons for the present limited membership in the Federal Reserve System of State banks and trust companies. On motion, duly seconded, the President was requested to appoint two or more members of the Council to appear with him before the Joint Committee. The President thereupon appointed Messrs. Warburg, Mitchell and Miller.

On motion, duly seconded, the President, Mr. Rue, was instructed to write to Chairman McFadden, suggesting that the Joint Committee send out a questionnaire to the State banks and trust companies which have joined the Federal Reserve System, to ascertain what advantages they have found by their membership, the information received as a result of this questionnaire to be used to supplement the information which the Committee has received as the result of its questionnaire to non-member State banks and trust companies, asking their reasons for not joining.

At 11.30 A. M., the Council adjourned to convene in joint session with the Federal Reserve Board.

H. L. HILYARD,

*Secretary.*

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY  
COUNCIL AND THE FEDERAL RESERVE BOARD

September 17, 1923.

At 11.30 A. M., a joint conference of the Federal Advisory Council and the Federal Reserve Board was held as arranged.

Present: Members of the Federal Reserve Board:

Vice Governor Edmund Platt, Hon. H. M. Dawes, Comptroller of the Currency, Messrs. A. C. Miller, C. S. Hamlin, G. R. James, and E. H. Cunningham.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. A. L. Aiken, C. E. Sullivan, J. M. Miller, Jr., E. W. Lane, J. J. Mitchell, F. J. Wade, G. H. Prince, P. W. Goebel, R. L. Ball, D. W. Twohy, and H. L. Hilyard, Secretary.

The President of the Council, Mr. Rue, called the meeting to order and requested Vice Governor Platt to address the conference. Mr. Platt referred to the questions which had been submitted to the Council for consideration, including the Par Clearance problem; the letter dated August 3, 1923, from the Undersecretary of the Treasury to the Governor of the Federal Reserve Board relative to a differential between the rediscount rate for commercial paper and the open market rate for bankers' acceptances and treasury certificates; and letter dated August 18, 1923, from the General Counsel of the Federal Reserve Board to the Governor of the Board relative to the purchase of Government securities and bankers' acceptances by Federal Reserve Banks under so-called repurchase agreements.

The President of the Council, Mr. Rue, requested Vice Governor Platt to explain the Board's reasons for granting permission to the First Federal Foreign Banking Association to accept drafts and bills of exchange, and at the same time to issue debentures. Mr. Platt stated that the Board felt safe in granting such permission, since it was done merely experimentally and was hedged around with due safeguards.

The President of the Council, Mr. Rue, stated to the Federal Reserve Board that in the opinion of the members of the Council, it is not the Council's function to grant hearings, and while on account of the urgency of Governor Crissinger's request, arrangements had been made to grant hearings on the Par Clearance problem, and to Mr. Barton, of Minneapolis, on the handling of non-cash items by Federal Reserve Banks, yet it was Council's opinion that this should not become an established policy. It was therefore decided and agreed that the hearings on these questions would be held under the auspices of the Federal Reserve Board with the Federal Advisory Council sitting in an advisory capacity.

The members of the Board and of the Council discussed at length the question of the purchase of Government securities and bankers' acceptances by Federal Reserve Banks under so-called repurchase agreements.

At 1.15 P. M., the joint conference adjourned.

H. L. HILYARD,

*Secretary.*

## MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 17, 1923.

At 2.30 P. M., the Council reconvened, the President, Mr. Rue, in the Chair.

The members discussed fully the subject of the letter of August 3, 1923, from the Undersecretary of the Treasury to the Governor of the Federal Reserve Board

advocating a differential between the rediscount rate for commercial paper and the open market rate for bankers' acceptances and treasury certificates. A recommendation on the question was formulated and unanimously approved for presentation to the Federal Reserve Board. Copy of the recommendation is attached hereto and made a part of these minutes. (Recommendation No. 1.)

The members of the Council discussed fully the letter of August 18, 1923, from the General Counsel of the Federal Reserve Board to the Governor of the Board relative to the purchase of Government securities and bankers' acceptances by Federal Reserve Banks under so-called repurchase agreements. A recommendation in the matter was formulated and unanimously approved for presentation to the Federal Reserve Board. Copy of the recommendation is attached hereto and made part of these minutes. (Recommendation No. 2.)

At 5.30 P. M., the conference adjourned until the following day.

H. L. HILYARD,  
*Secretary.*

## MINUTES OF HEARINGS OF THE FEDERAL RESERVE BOARD AND THE FEDERAL ADVISORY COUNCIL ON THE PAR CLEARANCE PROBLEM

September 18, 1923.

At 10 A. M., as arranged, a joint conference of the Federal Reserve Board and the Federal Advisory Council was held to grant hearings on the Par Clearance problem.

Present: Members of the Federal Reserve Board:

Vice Governor Edmund Platt, Hon. H. M. Dawes, Comptroller of the Currency, Messrs. A. C. Miller, C. S. Hamlin, G. R. James, and E. H. Cunningham.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. A. L. Aiken, C. E. Sullivan, J. M. Miller, Jr., E. W. Lane, J. J. Mitchell, F. J. Wade, G. H. Prince, P. W. Goebel, R. L. Ball, D. W. Twohy, and H. L. Hilyard, Secretary.

Messrs. Claiborne of New Orleans and Adams of Atlanta were heard on the so-called Claiborne-Adams check collection plan which they had suggested as a substitute for Regulation J, Series of 1923 (suspended before being put into effect). The plan and the subject of check collections in general were discussed fully by Messrs. Claiborne and Adams and by the members of the Federal Reserve Board and the Advisory Council.

At 12 o'clock noon, Messrs. Claiborne and Adams withdrew from the meeting, whereupon a Committee representing the Reserve City Bankers' Association consisting of Messrs. Ayres of Detroit, Boyce of Baltimore and Estes of Chicago were admitted to the meeting and presented their views on the subject of check collection.

At 1.15 P. M., the hearings were concluded and the meeting adjourned.

H. L. HILYARD,  
*Secretary.*

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 18, 1923.

At 2.30 P. M., the Council reconvened in the Federal Reserve Board room, the President, Mr. Rue, in the Chair.

A communication to the Council, dated September 18, was presented from the Chamber of Commerce of the United States on the subject of par clearances and the collection of checks.

At 2.45 P. M., Mr. J. W. Barton of Minneapolis was admitted in accordance with arrangement to be heard by the Council on the collection of non-cash items by Federal Reserve Banks. Mr. Barton stated that he represented a Committee appointed by the American Bankers' Association to investigate the matter and that he desired to register his opposition to the handling of non-cash items by Federal Reserve Banks. In view of the fact, however, that Mr. Barton's recommendation had not yet been approved by the American Bankers' Association which had appointed him, nor had his recommendation been presented formally to the Federal Reserve Board, Mr. Barton was advised by the Council that his proposition had not been sufficiently developed to be presented properly to the Council.

The Council thereupon took up consideration of the Par Clearance problem and recommendations and plans which had been presented by Messrs. Claiborne and Adams, the Committee of the Reserve City Bankers' Association and others.

A recommendation was formulated on the subject of the Claiborne-Adams plan, which recommendation was unanimously approved by the members of the Council for presentation to the Federal Reserve Board. Copy of the recommendation is attached hereto and made part of these minutes. (Recommendation No. 3.)

Council thereupon gave further consideration to the matter of Par Clearances, particularly Regulation J, Series of 1923 (which has been indefinitely suspended), and formulated recommendation to the Federal Reserve Board which was unanimously approved. Copy of the recommendation is attached hereto and made part of these minutes. (Recommendation No. 4.)

At 4.30 P. M., the Council adjourned to convene in joint session with the Federal Reserve Board.

H. L. HILYARD,

*Secretary.*

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY  
COUNCIL AND THE FEDERAL RESERVE BOARD

September 18, 1923.

At 4.30 P. M., a joint conference of the Federal Advisory Council and the Federal Reserve Board was held as arranged.

Present: Members of the Federal Reserve Board:

Vice Governor Edmund Platt, Hon. H. M. Dawes, Comptroller of the Currency, Messrs. A. C. Miller, C. S. Hamlin, G. R. James, and E. H. Cunningham.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. A. L. Aiken, C. E. Sullivan, J. M. Miller, Jr., E. W. Lane, J. J. Mitchell, F. J. Wade, G. H. Prince, P. W. Goebel, R. L. Ball, D. W. Twohy, and H. L. Hilyard, Secretary.

The President, Mr. Rue, called the meeting to order and presented to the Federal Reserve Board the four recommendations which had been adopted by the Council, copy of which is attached hereto and made part of these minutes. The recommendations were informally discussed by the members of the Board and the Council.

At 5.40 P. M., the joint conference adjourned, concluding the sessions of the Council.

H. L. HILYARD,

*Secretary.*

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE  
FEDERAL RESERVE BOARD

September 17, 1923.

RECOMMENDATION No. 1. The Federal Advisory Council has considered carefully the letter from the Undersecretary of the Treasury to the Governor of the Federal Reserve Board dated August 3, 1923, suggesting a certain differential between the rediscount rate for commercial paper and the open market rate for bankers' acceptances and approves of the principle, but is of the opinion that the time is not opportune to increase the existing differential rate to the extent suggested.

RECOMMENDATION No. 2. Recognizing the great importance of the development of the acceptance market and the market for short term Treasury certificates, the Federal Advisory Council recommends to the Federal Reserve Board, if possible, some legal plan be adopted whereby the Federal Reserve Banks may extend accommodation to member banks and corporations or firms dealing in acceptances and short term Treasury certificates by the purchase of these acceptances and certificates; and in the event of resale of these securities to such member banks and corporations or firms, proper compensation should be exacted for the service rendered; but these transactions should be confined to acceptances and short term Treasury certificates and should not include United States bonds or Treasury notes.

RECOMMENDATION No. 3. The Federal Advisory Council having heard Messrs. Claiborne and Adams in support of the so-called Claiborne-Adams check collection plan and the recent amendments thereto, is of the opinion that the plan is unsound, and therefore unanimously recommends its rejection by the Federal Reserve Board. The Council concurs in the essential objections to the plan as set forth in the report of the Advisory Committee of Governors of the Federal Reserve Banks to the Federal Reserve Board dated August 1, 1923.

RECOMMENDATION No. 4. The Federal Advisory Council has considered the effect of Regulation J, Series of 1923, and recommends that it be amended as follows:

1. To provide that Federal Reserve Banks shall receive at par from member banks and non-member clearing banks in their respective districts, checks drawn upon member and non-member banks that are collectible at par in acceptable funds; and shall receive at par from or for account of other Federal Reserve Banks such checks payable within its district. Collectibility at par may be established by an agreement of a drawee bank to remit at par in acceptable funds or ability of a Federal Reserve Bank to make collection at par through another member or non-member bank.

2. To provide that Federal Reserve Banks shall not receive upon deposit checks upon any non-member bank which are not collectible at par.

3. To provide that Federal Reserve Banks shall not charge exchange upon checks drawn upon a member bank deposited with a Federal Reserve Bank, which checks are drawn by, endorsed by, or which emanate from any non-member bank which does not remit at par.