

P R E S S   S T A T E M E N T .

January 29, 1917.

The Federal Reserve Board to-day made public the text of a memorandum transmitted to it by Mr. James B. Forgan, President of the Federal Advisory Council, expressing the views of that body with reference to the proposed amendments to the Federal Reserve Act recently submitted to the Banking and Currency Committees of the two Houses of Congress by the Federal Reserve Board.

It will be noted that the Council unanimously approved the proposed note issue amendment which has been stricken out by the House Committee on Banking and Currency, and that the Council has suggested a modification of the proposed reserves to be carried by member banks with the Federal reserve banks. In view of the fact, however, that the House Committee struck out all requirements for vault cash, the Board believes that the suggested reserves of seven, ten, and thirteen per cent respectively for country banks, reserve city banks and central reserve city banks, should be retained.

The Advisory Council's memorandum, dated January 25th, is as follows:

RECOMMENDATIONS BY  
THE FEDERAL ADVISORY COUNCIL IN REGARD TO THE AMENDMENTS  
TO THE FEDERAL RESERVE ACT PROPOSED BY  
THE FEDERAL RESERVE BOARD

JANUARY 1917 .

No. 1. AMENDMENT TO SECTION 16 which provides

- (a) for the issue of Federal reserve notes directly against the deposit of 100% gold; or 100% of paper, or both;
- (b) for the counting of gold held by the Federal reserve agents as security for notes, as part of the gold reserve required to be held by the bank against such Federal reserve notes;

Meets with the approval of the Federal Advisory Council.

No. 2. IN RE. AMENDMENT OF SECTION 19, abbreviating and simplifying the clauses in Section 19 which relate to reserve requirements. This provides that all member banks shall maintain reserves in the Federal reserve bank as follows:

|                                | Against<br>Demand<br>Deposits | Against<br>Time<br>Deposits |
|--------------------------------|-------------------------------|-----------------------------|
| (a) Country banks              | 7%                            | 3%                          |
| (b) Reserve city banks         | 10%                           | 3%                          |
| (c) Central Reserve city banks | 13%                           | 3%                          |

and in addition every member bank is required to keep in its own vault for till money an amount of specie or currency (not necessarily gold or lawful money) equal to five per cent of its demand deposits, less the amount of net balance with Federal reserve banks in excess of the minimum above stipulated.

This amendment is in harmony with one of the basic principles of the Federal Reserve Act to the effect that the bulk of the gold held as reserves for bank deposits should be mobilized in the Federal reserve banks. From the standpoint however of a practical working basis the Council doubts if so much as is proposed of the member banks' available cash should be arbitrarily tied up in the form of compulsory balances with the Federal reserve banks.

The Council at its meeting of September 19th last, drew the Board's attention to the fact that until the State banks join the system and daily clearing house balances can be settled by checks on the Federal reserve banks the member banks, especially in the large cities, must keep a sufficient supply of gold or lawful money on hand for the settlement of such balances as well as for their counter use. Besides this it would be a conservative policy for the member banks to keep in their own vaults a reasonable amount of gold or lawful money proportionate to their demand deposits. Banks located in Federal reserve cities now receive from the Federal reserve banks late in the afternoon checks on themselves in large volume and amount which have accumulated during the day and have been charged against their legal reserve balances in such large volume and amount as to hamper them in maintaining their legal reserve balances. In our opinion 5% cash on hand would not be sufficient for these purposes and from a practical standpoint it would facilitate the oper-

ations of the member banks if the minimum compulsory balances to be kept by them with the Federal reserve banks against their demand deposits were at least reduced 1% in each class and the percentage of the till money correspondingly increased in the case of the reserve city and central reserve city banks, the increase in till money in the case of the country banks being unnecessary. The Council's recommendation is therefore as follows:

|                            | Deposits in<br>Federal Res.<br>Banks against<br><u>Demand Deposits.</u> | Deposits in<br>Federal Res.<br>Banks against<br><u>Time Deposits.</u> | Till<br><u>Money</u> |
|----------------------------|---|---|----------------------|
| Country Banks              | 6%  | 3%  | 5%                   |
| Reserve City Banks         | 9%  | 3%  | 6%                   |
| Central Reserve City Banks | 12%   | 3%  | 6%                   |

No. 3. AMENDMENT OF SECTION 11, so as to permit the Federal Reserve Board to raise reserve requirements in emergencies, just as it is now empowered in certain contingencies of a different kind to lower those requirements.

The Council is of opinion that it would be undesirable and unnecessary to grant such power to the Federal Reserve Board. The Board would only take action under such power when member banks are overburdened with surplus cash reserves and its action then could only apply to member banks. The effect would therefore be that member banks would be compelled to increase their noninterest-bearing balances with the Federal reserve banks while

nonmember banks would have the free use of their funds. It would place another stumbling block in the way of State banks joining the system.

- No. 4. AMENDMENT OF SECTION 13, to permit nonmember State banks and trust companies, even though too small to be eligible for membership in the Federal reserve banks, to avail themselves of the clearing and collection facilities of the Federal reserve banks, provided that they cover at par checks on themselves sent for collection by the Federal reserve bank and provided further that they keep a compensating balance with the Federal reserve bank in an amount to be determined under rules prescribed by the Federal Reserve Board.

This might work to the mutual advantage of the member banks in connection with the check collection system and of non-member banks willing to conform to the rules prescribed by the Federal Reserve Board as well as to that of the Federal reserve banks through the compensating balances. The experiment might be worth trying.

- No. 5. AMENDMENT OF SECTION 22 - the penal statute - so as to define more clearly the rights and limitations of directors in the matter of accepting fees or compensation other than the ordinary fees paid directors for legitimate services rendered in the regular course of business, the performance of which services is not incumbent upon them in their capacity as directors.

The Council would recommend that the proposed addition to Section 22 commencing with "PROVIDED, HOWEVER, THAT NOTHING IN THIS ACT CONTAINED" should be amended as follows:

PROVIDED, HOWEVER, THAT NOTHING IN THIS ACT CONTAINED SHALL BE CONSTRUED TO PROHIBIT A DIRECTOR, OFFICER, OR EMPLOYEE FROM RECEIVING THE SAME RATE OF INTEREST PAID TO OTHER DEPOSITORS FOR SIMILAR DEPOSITS MADE WITH SUCH BANK: OR TO PROHIBIT A DIRECTOR, WHO IS NOT AN OFFICER OR EMPLOYEE FROM RECEIVING, DIRECTLY OR INDIRECTLY, THE USUAL AND CUSTOMARY COMMISSIONS OR FEES FOR SERVICES RENDERED IN BUYING AND SELLING SECURITIES OR OTHER INVESTMENTS FOR OR ON ACCOUNT OF SUCH BANK, BUT IN THIS LATTER CASE THE ACTION OF THE BOARD OF DIRECTORS, IN DIRECTING EACH PURCHASER OR SALE OF SUCH SECURITIES OR OTHER INVESTMENTS, MUST BE BY AN AFFIRMATIVE VOTE OR WRITTEN ASSENT OF AT LEAST THREE-FOURTHS OF THE MEMBERS OF THE BOARD EXCLUSIVE OF THE DIRECTOR INTERESTED. AND BUT EACH SUCH TRANSACTION MUST BE RECORDED IN THE MINUTES OF THE MEETING OF SAID BOARD, SUCH MINUTES TO SPECIFY THE NAME OF THE DIRECTOR AND THE FIRM OR CORPORATION WITH WHICH HE IS CONNECTED, IF ANY, THROUGH WHICH SUCH ORDER IS TO BE EXECUTED TOGETHER WITH THE AMOUNT OF THE FEE OR COMMISSION TO BE PAID ON EACH TRANSACTION; AND, PROVIDED FURTHER, THAT NOTES, DRAFTS, BILLS OF EXCHANGE, OR OTHER EVIDENCES OF DEBT EXECUTED OR INDORSED BY DIRECTORS OF A MEMBER BANK MAY BE DISCOUNTED WITH SUCH MEMBER BANK ON THE SAME TERMS AND CONDITIONS AS OTHER NOTES, DRAFTS, BILLS OF EXCHANGE, OR EVIDENCES OF DEBT UPON THE AFFIRMATIVE VOTE OR WRITTEN ASSENT OF AT LEAST THREE-FOURTHS OF THE MEMBERS OF THE BOARD OF DIRECTORS OF SUCH MEMBER BANK.

The Council makes this recommendation because in its judgment an affirmative vote or written assent of at least three-fourths of the members of the Board is an unnecessary restriction in connection with such services by a director as the buying and selling of securities and inasmuch as notes, drafts, bills of exchange or other evidences of debt executed or indorsed by bank directors are as a rule the very best of their class, the placing of special restrictions on the discounting of such instruments for directors would only unnecessarily and unwarrantably impede legitimate business or force it into other banks.

No. 6. AMENDMENT OF SECTION 13 to restore the provision which was by error stricken from the Act in the amendments of September 7, 1916, thus restoring to national banks, with the approval of the Federal Reserve Board, the right to accept up to 100% of their capital and surplus in transactions involving imports and exports.

The Council approves this amendment.

No. 7. AMENDMENT OF SECTION 17, to cancel the provision of The National Bank Act which requires national banks to maintain a minimum deposit of Government bonds with the Treasurer of the United States.

The Council approves this amendment.

No. 8. AMENDMENT OF SECTION 25 to authorize member banks located in cities of more than 100,000 population and which have a capital and surplus of more than \$1,000,000 to establish branches in the same city, provided the State laws do not prohibit State banks and trust companies from establishing branches.

The Council has already advised the Board that it approves the authorization of member banks located in cities of more than 100,000 population and which have a capital and surplus of more than \$1,000,000 to establish branches in the same city, but disapproves the granting of such a privilege to the banks in some States while it is withheld from banks in other States irrespective of State laws affecting State banks and trust companies in regard to the establishment of branches by them.

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- No. 9. AMENDMENT OF SECTION 9, to authorize mutual savings banks not having a capital stock to become associate members of the Federal reserve system under certain prescribed conditions.

The Council approves this amendment.

- No. 10. AMENDMENT OF SECTION 18 so as to give to United States one-year 3% gold notes in the hands of Federal reserve banks the circulation privilege for the issuance of Federal reserve bank notes.

The Council would recommend that instead of amending Section 18 so as to give United States one-year 3% gold notes in the hands of Federal reserve banks the circulation privilege for the issuance of Federal reserve bank notes that the law providing for the exchange of 2% gold bonds bearing the circulation privilege, but against which no circulation is outstanding, for one-year gold notes to an amount not exceeding one-half of the 2% bonds so tendered for exchange, be so amended as to do away with the one-year gold notes entirely and provide that the 2% gold bonds may be exchanged for an equal amount of thirty-year 3% gold bonds without the circulation privilege.

- No. 11. AMENDMENT OF SECTION 4 to abolish the title and office of Deputy Federal Reserve Agent, thus having two unattached Class C directors instead of one as at present, and to create the position of Assistant Federal Reserve Agent, who shall not be a director of the bank, but who shall be a salaried bonded officer in the



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Federal Reserve Agent's department serving at all times as an assistant to the Federal Reserve Agent and qualified to act for the Agent in his absence.

As member banks and others doing business with the Federal Reserve Agent and his assistant would not necessarily be charged with knowledge of the absence or disability of the Federal Reserve Agent the restricted power of his assistant to act in his name and stead only during his absence or disability should for their protection be removed by striking out the words "during his absence or disability" occurring in the last paragraph of the proposed amendment. If the assistant should act in any matter of importance during the presence or disability of the Agent to act for himself his action would be null and void. Otherwise the Council sees no objection to the amendment.

1/29/17