

1972

EX-OFFICIO MEMBERS
WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN, 7
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 2, 1917.

Dear Sir:

The enclosed abstract of the Report of the Federal Reserve Board, which is to be released probably at 12 noon, on Saturday, February 3, has been prepared at the request of some members of the Press. Thinking that you might possibly have use for it, a copy is herewith forwarded to you. The abstract is not an official statement of the Board, but, as just stated, has been prepared as a matter of convenience to the press.

Very truly yours,

Enclosure:

February 3, 1917.

The Federal Reserve Board to-day sent to the Speaker of the House of Representatives its Third Annual Report covering the operations of the system for the year 1916. The outstanding feature of the document is its discussion of the existing banking situation as affected by possible conditions growing out of the present abnormal state of foreign trade, and the situation that may exist after the war is over.

To make the system an effective means of financial preparedness, able to guard against all contingencies reasonably to be expected, the Board proposes the reserve percentage amendments to the Federal Reserve Act already made known some time ago, which it estimates would result in massing in the Federal reserve banks a total sum of \$800,000,000 to \$900,000,000. Other proposed changes in the law would enable the Board to safeguard this stock, not only by varying discount rates, as at present, but also by changing reserve requirements, inclusive of those of member banks.

As a means of assisting in this process of mobilizing the gold of the country, the Board again proposes an amendment to the Act providing for the issuing of Federal reserve notes under liberalized conditions by permitting cash in the hands of Federal reserve agents to count as a part of the Federal reserve banks' own cash reserve.

This plan for an immensely powerful massed reserve is further amplified and worked out in its foreign aspects as shown by the statement that the establishment of connections with the great governmental banks abroad is under consideration, and that relationships not only with the Bank of England, as announced some time ago, but with other institutions will be authorized from time to time, such relationships to be employed as a means of regulating gold export movements. The central feature of the report is thus a highly developed and thorough-going plan for uniting and organizing the gold resources of the banks of the country under joint management, designed to render their use as effective and economical as possible, both at home and in international trade.

The report shows that the banking situation of the country taken as a whole is in some respects one of remarkable strength, because of the notable additions to the gold holdings of the banks and of the people at large, but a note of caution is sounded in the statement that there has been an even greater proportionate expansion of deposits and loans. The investment of the funds of the banks in long-term securities have been very large. Purchases of obligations other than those of the United States Governments now being more than six billion dollars, an increase as compared with the situation in June, 1914, of about \$1,300,000,000 or 27.2% of the sum then invested. According to the Board, the purchase of desirable foreign loans by American

investors has been a healthy and normal operation, and the recent statement containing a warning against undue extension of bank investments in foreign securities was intended simply as a caution to the banks that eventually the amount of securities to be taken over must depend upon the absorbing power of the investor himself.

The banking and currency situation has developed very satisfactorily during the year in a number of ways, which are fully described in the report. Interest rates have been low throughout the year, but the Board has found it unnecessary to establish any special low rates of discount as was done during 1915, and those that were already in effect have been but little availed of, owing to the satisfactory financial position of local farmers and traders. There has been a most encouraging improvement in the character of the paper circulation of the country, Federal reserve notes, practically equivalent to gold certificates and protected by 100% of gold, being issued to the extent of about \$283,000,000. At the same time the old national bank notes have fallen off to the extent of \$44,500,000, their places being taken primarily by the new gold secured notes. Coordinated with this process of strengthening and improving the circulation of the country has been that of rendering more effective the use and advisability of checks. The Board shows that there are now about 15,000 banks in and out of the Federal reserve system on which checks may be collected at par, and it predicts that further experience under the present plan of clearings and collection will at no distant date practically place the whole country on a par collection basis, inasmuch as banks will be likely to lose desirable business if checks drawn upon them are at a discount while checks drawn upon a nearby competitor circulate at par. While the clearing house system is thus moving forward toward complete success, the Board recommends amendments to the Federal Reserve Act designed to further improve and confirm it by facilitating the use of the System by State banks and trust companies. That the growing strength and efficiency of the Federal Reserve System is fully appreciated by the banks of the country is strongly set forth, the Board stating that the reserve banks have won the confidence of the public, that the system is established upon a firm and enduring foundation, and that information available shows that an increasing favorable attitude is being adopted toward it by strong State institutions. The new members gained by the System during the year 1916 numbered 130.

An interesting feature of the Report is the description of work done in the administration of the Clayton Act, and the so-called Kern Amendment. In a large number of cases directors of banks whose tenure of office was rendered unlawful under the new legislation voluntarily withdrew from one or more directorates, the result being to bring about a considerable change in the distribution of national bank directorships. The process of applying

the Kern amendment has, however, proved to be one of considerable difficulty and detail, and the Board points out that it must be regarded as a continuing operation, which can never be definitely finished, since the conditions will change, and the application of the law to individual cases will necessarily change with them.

The Board points out that practically all of the appeals for changes in Federal reserve districts have been disposed of in one way or another, and it devotes considerable attention to the question of domestic branches and agencies. No new branches have been established during the year, so that the branch at New Orleans remains the only institution of the kind in the system. It is pointed out that the experience gained from the operation of this branch makes it seem wise in every case where the establishment of a new branch is proposed, to consider with special care the question whether there is a real need for such a branch and whether it can be expected not only to increase the convenience of the member banks, but at the same time to make itself self-sustaining. In this same connection, it is further noted that the establishment of agencies or offices in various cities designed to meet the needs of the local banks is under consideration and that good success has been had with an agency of this kind at Memphis, Tenn., during the past year, the agency being established for the purpose of facilitating the handling of the cotton crop. It is, however, stated that the whole question of the establishment of branches is somewhat inadequately dealt with in existing law, so much so that the Board would welcome legislation designed to clarify its authority and duty as well as that of the Federal reserve banks themselves in this matter.

In dealing with the earning capacity of the system, the outstanding fact noted by the Report is that net profits for the past year amounted to 5% on the average for the whole system, as against an average net earning since organization of 3% of paid-up capital. The gross expenses for the year are shown to have been about \$2,200,000, while the net earnings were about \$2,750,000. A table of dividends shows that all the banks are now on a dividend basis, although none of them have provided for their fully authorized percentage up to date. This is in spite of the fact that the past year has been an unusually unfavorable period for the business of rediscounting, owing to the great plethora of funds in the vaults of banks generally and the prevailing low rates of interest.

The amendments to the Federal Reserve Act enacted by Congress in September, 1916, are commended as having added materially to the smooth working of the system, and a lengthy discussion of the detailed changes in the Act now recommended as a further improvement is furnished. Taken all in all, the Report shows a condition of greatly increased strength and capacity in the system as a whole, of favorable outlook for the future, and of expectation that with suitable legislation by Congress all probable contingencies to be expected within the near future can be amply guarded against.

1976

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1005 H. PARKER WILLIS, SECRETARY
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AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 3, 1917.

Dear Sir:

There has been some confusion as to the manner in which the Chairmen of the Boards of Directors and Federal Reserve Agents of the respective banks are to be addressed in official communications sent to them from the office of the Secretary of the Board.

In order to expedite the business of the office, you are advised that a uniform policy will be adopted henceforth, making it necessary to disregard requests that have been made in a number of cases.

The title of "Chairman" will not be used in telegrams or office letters relating to the exercise of Federal Reserve Agent's functions, and for the sake of brevity surnames only will be used when telegrams are sent.

In the case of letters the form that will be used henceforth will be as follows:

"Mr. F. H. Curtiss,
Federal Reserve Agent,
Boston, Mass."

In the case of form letters sent to all Federal Reserve Agents, this form may at times be used, when circumstances require:

"Federal Reserve Agent,
Boston, Mass."

Telegrams will be addressed as follows:

"Curtiss,
Federal Reserve Agent,
Boston, Mass."

Proper substitution of names and addresses will be used in the

-2-

case of telegrams and communications to Federal Reserve Agents in other districts.

You are requested to communicate this to the officials and staff of your Federal Reserve Bank, in order that there may be no misunderstanding or error in regard to the delivery and opening of telegrams and mail addressed to you.

Very truly yours,

Governor.

1978

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FEDERAL RESERVE BOARD

WASHINGTON

1006

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

Dear Sir:

In checking up the receipts from the different Federal reserve banks on account of the first installment of the assessment for the general expenses of the Board for the six months ending June 30, next, it is noted that the amounts remitted would indicate that some of the banks have based the assessment on their capital as of January 2, 1917, while others have apparently based it on their capital as of December 1, 1916. In two or three instances we are unable to reconcile the amount received as being based on the capital as of either of the two dates. In order that the basis of the assessment may be uniform for all of the banks it is requested that the capitalization as reported to the Board for January 2, 1917, be used, and that the matter be adjusted when remitting for the second half of the installment.

Very truly yours,

Fiscal Agent.

1979

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ADDRESS REPLY TO
1007
FEDERAL RESERVE BOARD

February 5, 1917.

Sir:

Heretofore it has been the policy of the Federal Reserve Board to keep on hand in Washington and with Federal Reserve Agents approximately \$500,000,000 of unissued Federal reserve notes available in varying amounts for the twelve banks of the System. The Committee on Banking and Currency of the House of Representatives has reported favorably an amendment to the Reserve Section of the Federal Reserve Act which will take approximately the sum of \$300,000,000 of gold and lawful money out of the member banks and place it with the Federal Reserve Banks.

In order to be better prepared to fill any vacuum which may be created thereby and to respond to any unforeseen demands, the Board deems it advisable that the stock of unissued Federal reserve notes should be increased to about \$900,000,000. The Director of the Bureau of Engraving and Printing has advised the Board that about ninety days' time will be necessary for the execution of orders for Federal reserve notes, and each Federal Reserve Bank is therefore requested to place an order through the Federal Reserve Board for the printing of its proportionate share of the contemplated increased stock, in such denominations as it may desire.

You are requested to bring this letter to the attention of the executive committee or board of directors of your bank and a reply at your early convenience would be appreciated.

Very truly yours,

Governor.

STATEMENT FOR THE PRESS.

The following message has been sent by Honorable W. P. G. Harding, Governor of the Federal Reserve Board, to the North Carolina State Convention of Commercial Secretaries, farm demonstrators, bankers and other business men, held at Gastonia, North Carolina, February 5th - 8th, in lieu of an address which Mr. Harding was to have delivered at a banquet held at noon February 6th.

It was with keen regret that I felt obliged to telegraph you this morning that I could not go to Gastonia tonight in order to be present at the most interesting occasion in your city tomorrow. I had looked forward with much pleasure to the privilege of meeting and addressing the merchants, farmers, and bankers of the Carolinas, and was particularly anxious to avail myself of the opportunity of pointing out to them the very great value especially in times like the present, of the Federal Reserve System, which has enabled the country to withstand without the slightest financial tremor all of the shocks and sensations that it has experienced during the past two years, many of which would doubtless, under old conditions, have been followed by serious consequences. Our preparedness from a military and naval standpoint is now engrossing the attention of

Congress and of the nation, but I wish you would inform the audience which I expected to address that, from a financial standpoint the country is already fully prepared and is ready to meet any contingency that is likely to arise, so that there need be no uneasiness whatsoever on that score.

I had desired particularly to say a few words to the farmers by way of urging them not to become nervous or alarmed because of any threatened temporary interference with ocean transportation. I wished to point out to them that while in these fateful times, when it is beyond human power to forecast even the immediate future, we should remember that after all the only real wealth comes from the soil.

A character in Greek Mythology is Antaeus, of whom it is said that he could not be overcome in wrestling, for whenever he was brought to his knees he received renewed strength from his Mother, Earth, and was enabled thereby to arise in his might and overcome his adversary. Throughout the world millions of men have been withdrawn from their ordinary avocations and are devoting themselves entirely to military duties. It seems to me it is clearly the duty of the farmers of the United States, in the planting season fast approaching, to prepare for the largest crops of all kinds that it possible to produce. No farmer should devote himself to a single crop alone, but he should diversify, with the idea of growing as far as possible on his own land, everything necessary for the sustenance of his family and of his

-3-

domestic animals. Three years have elapsed since our fertilizers have contained an adequate supply of potash, and under present conditions it is hardly probable that an excessive supply of the south's greatest staple crop, cotton, can be produced. Virginia, North and South Carolina, Georgia, and Alabama are now great cotton manufacturing States, and their annual consumption of raw cotton is greater than that of England, and greater than that of New England and Canada combined. If the farmers of the south will practice diversification they need have no fear as to the price of cotton, for any condition which will make exports of cotton impossible will likewise render impracticable exports of food stuffs. It follows therefore, that if the price of cotton should decline, the price of cereals, grain, and hay, will decline also. A few weeks ago cotton was selling at \$100.00 a bale and more. The College of Agriculture of the University of Kansas pointed out at the time these prices were effective that while cotton had advanced in price it advanced merely in terms of gold, and it made an interesting comparison as to its price in terms of other commodities. It estimated the purchasing power of cotton in an ordinary year, and on the basis of \$100.00 per bale, and it demonstrated statistically that even at \$100.00 per bale the Southern cotton planter who had not planted in a manner to provide for his necessities in the way of food stuffs was in a sorry plight, for a bale of cotton will buy,

in an average year, with cotton at from \$50.00 to \$60.00 per bale,

89 bushels potatoes at 70¢
 750 pounds of lard at 8¢
 22 barrels of flour at \$4.50
 375 pounds bacon at 16¢
 6 tons hay at \$10.00
 30 pairs shoes at \$2.00
 720 yards cotton cloth
 100 bu. corn at 60¢

and this year at \$100.00 a bale it will buy

44 bu. potatoes at \$2.25
 555 pounds lard at 18¢
 10 bbls. flour at \$10.00
 333 pounds bacon at 30¢
 5 tons hay at \$20
 20 pairs shoes at \$5.00
 666 yards cotton cloth
 83 bu. corn at \$1.20

The subject of nutrition has been reduced to a science and the importance of a well-balanced diet is now well understood. Some foods are rich in nitrates, others in carbohydrates, and others in proteins. No family can keep itself healthy if it lives entirely on meat or entirely on potatoes, or entirely on peas, or altogether on eggs and milk. A scientific combination of these foods is essential for the best results. So likewise with farming. No State can prosper if its farmers devote their energies to the cultivation of a single crop, be it cotton or be it grain or hay, and to obtain the best results diversification is necessary. The farmer should be impressed with the necessity of rotation of crops in order that their soil may not be impoverished, and if they plant

-5-

several products they are not affected by the price of any one of them. It is not possible to advise a farmer intelligently as to the amount of cotton he should plant. In some cases five acres to the plow would seem best, and there may be other instances where eight or ten acres to the plow may be planted; but in no case, particularly in times like the present, should the farmer entrust all his eggs to one basket and risk his solvency upon a single crop.

In my opinion the greatest service that the farmers of the south can render their section, their country and the world in general, is to coax from the soil, during the year 1917, as great an abundance as possible of crops of all kinds.

Please say to the members of the Chamber of Commerce of Gastonia, and to the bankers of your city, that I highly appreciate their kind invitation, and express to them again my deep regret at being obliged, at the last moment, to forego the pleasure of meeting them.

2/6/17

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AND FISCAL AGENT

ADDRESS REPLY TO
1010 FEDERAL RESERVE BOARD

February 7, 1917.

Dear Sir:

Owing to the fact that Thursday, February 22d, "Washington's Birthday," is a holiday in Washington, the offices of the Federal Reserve Board will be closed on that day. Please be advised, therefore, that transactions under the Gold Settlement Fund cannot be made on February 22, 1917. The weekly settlement usually made on Thursday will be omitted on February 22d, and made on February 23d. Please, however, forward telegrams and letters on which the settlement is made, as usual.

Respectfully,

Assistant Secretary.

T O P I C S .

- I. The Banks and the "Market" - The Chief Modern System of Banking.
- II. Organization of Banking and Division of the Field among Institutions.
- III. Maintenance of the Liquid Condition of the Bank.
- IV. Bank Obligations and Reserve Constituents - Deposits and Notes.
- V. Central vs. Diffused Control of Banking - The Relation of the Government to the Bank.
- VI. Modes of Economizing Cash and Promoting Liquidation - The Clearing System.
- VII. Commercial Paper - Its Varieties and Peculiarities.
- VIII. Testing the Condition of the Borrower - His Business Eligibility.
- IX. Bank Organization and Relationship in International Business - Classes of Paper in International Trade.
- X. The Foreign Exchange Market - Its Organization and Methods.
- XI. International Movements of Specie and Securities.
- XII. Discount Rates and International Competition for Capital.
- XIII. Banking in its Relation to the Money Supply.
- XIV. Banking in its Relation to Prices.
- XV. Current Banking Problems of the United States.

I.

THE BANKS AND THE "MARKET" - THE CHIEF MODERN SYSTEM OF BANKING.1. The Bank as Part of the Banking Organization.

(a) The functions of the bank -

The classical grouping - discount, deposit and issue.

(b) This grouping criticised - identity of "functions".

(c) The modern view of banking - a process of obtaining credit, trading in it, and maintaining its convertibility into cash on demand.

(d) The bank of comparatively minor interest and considered as a separate unit.

(e) The real significance of the bank understood when viewed as an element in the general organization of credit and exchange.

2. The Credit Structure of Economic Society.

(a) The essential purpose of credit mechanism is that of testing, comparing and offsetting claims to wealth.

(b) These claims expressed in terms of money, and should be kept convertible into money.

(c) The duty of the banks as a whole is to perform these functions, but, at the same time, to add in their collective capacity another - that of affording a market for credit in which claims upon banks and traders

may be bought and sold with the maximum of safety and under substantially uniform conditions, thereby insuring as nearly as possible uniformity of charge for banking service, and for the use of capital.

- (d) A study of this market involves analysis of several distinct factors; the methods and practices of business men in creating claims to payment, the form given to such claims; the legal relationships involved in the creation of such claims and in transaction therein, the mechanism by which such claims are dealt in; the relative value of such claims and their relative cost from the standpoint of banking, the bank mechanism needed to "carry" them and offset them among themselves, and to "collect" them when due.
- (e) The credit structure of today must also be studied and analyzed from the standpoint of its constituents, involving a study of, different types of banks and other financial institutions, their respective lines of business, their internal organization, their relations one to another, and their different places in the market of the country.

3. Constituents and Subdivisions of the Financial Market.

(a) The discount market.

The discount market includes the market for those forms of paper which are discountable, i. e., which are based on commercial transactions. It concerns itself with "live" commercial banking operations, and paper growing out of them. Its importance lies in the fact that commercial paper is the class of obligation next to cash in its liquid character.

(b) The investment market.

The investment market is concerned with obligations of long-term which have been created for the purpose of financing or capitalizing undertakings. It deals with obligations whose most important element is yield and safety rather than promptness of payment. It may be subdivided into various classes according to the character of the investment, the underlying conditions under which payment may be expected, and a variety of other considerations.

(c) Other divisions of "market".

Various special kinds of markets, such as that for stock, etc., must be recognized in any study of banking, both because of their own importance, and because of the influence they exert upon the elements in the market with which the banks are directly concerned because of their interest as makers and purchasers of credit instruments.

4. The Discount Market.

- (a) The discount market is that with which banks in the proper sense of the word, are most closely concerned.
- (b) Two essentials to be studied in connection with the discount market - the origin and form of paper which figures there, and the methods employed by banks to guarantee such paper and make it easily and widely recognizable.
- (c) The fundamental requirement of paper in the discount market is that it be short-term and grow out of actual transactions, thus furnishing its own means of payment.

- (d) Analysis and explanation of paper of such description.
- (e) Process by which banks broaden salability of paper in the discount market - acceptance and endorsement.
- (f) Classes of concerns participating in the discount market - makers of paper, acceptors, dealers or brokers; purchasers; speculators, or those who purchase paper as a means of insurance.

5. Systems of Banking.

- (a) Meaning of "system." A banking system is that organization of or relationship between banks which exists as a result of law or custom, and which results in uniting the banks of a country under definite relationships, with a market resulting therefrom, and with definite arrangements for the holding of cash and the conversion of liabilities into cash.
- (b) Principal systems of to-day - three distinct types of system - central banking system, independent charter system, and "free" banking system. Difference lies in conditions under which banks are chartered or incorporated, and in the degree of combination of resources and centralization of control.
- (c) Characteristics of different systems. The central banking system provides complete mechanism for husband-

ing coin and currency, granting relief in time of stringency through note issue, and affording at all times a market for paper growing out of commercial banking operations. In this case actual banking relations with the public are left to various independent institutions which are united through the central banking mechanism.

- (d) The independent charter system assumes that a variety of banks, each with many branches, can perform the service both of a central bank and of communication with the public in the transaction of its business.
- (e) The free banking system assumes that each bank is capable of managing its own affairs without outside aid, or, that if such aid is needed, it would be still, through informal action on the part of leading members of the banking community, designed to bring about community and harmony of policy, and relief when necessary.
- (f) Principles derived from experience. Experience shows that every banking system needs a mode of "mobilizing" its resources. Study of this mode of mobilization is equivalent to study of central banking principles. Need for mobilization resides in the peculiar character of the banking business, and the fact that banks can never be in position to pay cash to all who require it.

Study of financial mobilization has crystallized into analysis of principles governing note issue and reserves, together with inquiry into the question who should hold reserves.

- (g) Part of United States. The United States up to 1913 was the leading example of free banking principles. By enactment of the Federal Reserve Act, principles of combined or centralized banking have been introduced, while free banking mechanism is retained. The effort is to retain free access to banking business for individuals, while at the same time providing machinery of control and cooperation of resources. The United States is thus given a peculiar status, its banking business being analogous in principle to those of the central banking countries, while largely unique in detail and adjustment.
- (h) Study of American banking system. Includes two chief branches, analysis of law and custom governing organization of the system, and analysis of business practice methods in connection with operations under it. Also implies comparative study of legislation, national and State, with a view to noting defects at points at which readjustment is called for.

6. Sketch of Banking Systems of World.

- (a) Chief features of English, French, German and Canadian systems, with special reference to reserves, note issue, and purchase of commercial paper.
- (b) Contrast between practice in foreign countries specified, and practice in the United States, with respect to each of the chief elements in banking operation.
- (c) General conclusions as to best practice of to-day on chief disputed points, and indications of countries most nearly conforming to best principles.
- (d) Analysis of points at which American methods do not conform to the best practice as thus worked out.

2/9/17

ORGANIZATION OF BANKS AND DIVISION OF THE FIELD AMONG INSTITUTIONS.

1. Essentials of Banking Organization.

- (a) Relations between banks developed as result of law or custom; grouping of banks on legal or economic basis.
- (b) Arrangements for combining resources, relieving necessity or stringency or equalizing capital.
- (c) Assignment of functions to be performed on joint or common basis.
- (d) These elements best studied by using our own banking system as illustrative, with comparative analysis of foreign systems, by way of contrast thereto.

2. Outline of American Banking Organization.

- (a) Three main classes of banks from the legal standpoint - national, State and private - no necessary or essential difference between them as to kind of business performed.
- (b) National banks constitute compact, central "core" of banking system, partly because of more stringent general requirements, partly because of wide geo-

graphical distribution, partly because of Federal reserve organization.

- (c) National banks are combined together for cooperative purposes in Federal reserve system, with such additional membership drawn from State banks as the latter may choose to add.
- (d) Federal reserve system composed of twelve banking organizations, each cooperative, including all national and some State banks in the district, all such members being united under the supervision of the Federal Reserve Board.

3. Function of Federal Reserve System in Organizing Banks of the Country.

- (a) Combined reserves. Under former legislation a loose system of combined reserves was obtained by redeposit of funds in specified cities, and at times by operation of clearing houses or, in later years, of "national currency associations." In place of this we now have compulsory deposit of specified proportion of reserves in Federal reserve banks.
- (b) Note issues. Under former legislation notes were issued by national banks which deposited bonds with Treasury to protect such notes. Under the Federal reserve system notes are issued by Federal reserve

banks at the instance of member banks, primarily on the basis of commercial paper or, under special conditions, of gold. Limited amounts of bond-secured notes called "Federal reserve notes," are also issued by Federal reserve banks at discretion. Notes are obtained by member banks through rediscount of their paper.

- (c) Rediscounting process. As method of establishing reserves or obtaining notes from Federal reserve banks, member banks offer their paper of specified kinds, with their own endorsement, to Federal reserve banks. When such rediscount occurs a reserve deposit is created on the books of the reserve bank, or notes are issued. When paper matures the reserve bank receives the cash or its own notes, or a claim on itself (check) thus reducing liabilities or strengthening reserve holdings.
- (d) Reports and examinations. Under former legislation the making of examinations and reports was in the hands of the Comptroller of the Currency. The new system provides for regular reports to reserve banks on the part of members and also examination of member banks whenever deemed necessary. Such examinations likely to be infrequent and unnecessary because of close relationship between reserve banks and member banks.

4. Membership in Federal Reserve System.

- (a) As already seen, all national banks in continental United States are required by law to become members.
- (b) State banks (i. e. banks organized under State law) are permitted to become members upon complying with certain conditions. System may, therefore, include not only national banks but State institutions of specified kinds.
- (c) At present most State institutions remain outside, while many always will so remain because of inability to comply with requirements.
- (d) Many private banks, savings banks and other financial institutions which have a direct relation to the financial market, and in many cases to the discount market, are nevertheless unlikely to become members.

5. Relation Between Reserve System and Outside Institutions.

- (a) Non-national banks have in the past kept balances largely with national banks because of generally more stringent oversight and greater power of the latter. This relationship will continue to a considerable extent, and may be accentuated because of greater power of the reserve system to render relief in case of necessity.
- (b) The reserve system is establishing definite discount market, and in this all financial institutions do and will participate. The reserve system will afford

market for good paper created by outside institutions, thus enabling latter to market assets in time of necessity; and to equalize investments and rates in ordinary times.

- (c) Working of the reserve system will profoundly affect international monetary and financial relations of the United States, and in so doing will alter the basis of business for larger State institutions, such as trust companies.

6. Relation Between National and Other Banks.

- (a) National banks organized under National Bank Act, State banks and other institutions under State legislation.
- (b) National banks inspected by Federal examiners; other institutions by State examiners.
- (c) National banks allowed to keep reserves only in vault, or in Federal reserve banks, or (temporarily) with other national banks in specified cities; State banks allowed in many cases to keep reserves either with other State banks in specified cities, or with national banks; trust companies subject to same conditions where reserve requirements are fully worked out.
- (d) Hence national banks may be regarded as the reserve-holding institutions of the country, the larger number of State banks depending upon them for aid in case of necessity. National banks also exercise the function of rediscount to some extent for smaller State institutions.

- (e) Relations between national banks and other financial institutions, such as savings banks, insurance companies, etc., are similar to relations with State banks, but even less well defined.

7. Relations Between Other Groups of Institutions.

- (a) In some States, State banks are organized on lines similar to those of the national system, with plans for the redepositing of reserves, etc.
- (b) Other institutions may keep these State funds with the stronger State bank or trust companies, which thus in a certain measure act as reserve holders.
- (c) Most of the non-commercial banking institutions participate in and more or less depend upon the discount market (and investment market as affected thereby) in which national banks act as the leading factors.
- (d) These relationships vary considerably from State to State according to legislation prevailing there. (Analysis of State legislation).

8. Comparative Analysis of Foreign Banking Organizations.

- (a) Bank of England: (1) relation with other banks largely the result of custom rather than law; (2) reserves maintained in highly concentrated form in Bank of England; (3) relations with public divided between Bank of England and other banks, but largely in hands of other banks; (4) Bank of England devotes its chief

effort to headship of the discount market, regulations of international movements of specie, and other matters of similar description; (5) note issue practically in hands of Bank of England, security being Government bonds and gold in normal times, with other classes of protection in extraordinary times when bank act is suspended.

- (b) Bank of France: (1) relations with other banks based on fact that Bank of France is practically a Government institution strongly fortified with gold, and transacts very conservative business; (2) other banks keep deposits with it as they see fit; (3) most important function is note issue; (4) Bank does a large business on small unit basis with individuals, thus occupying a position different from that of many other central banks; (5) Bank controls specie movements by use of its rate of discount.
- (c) Reichsbank of Germany: (1) relations with other banks partly result of custom and partly of law; (2) control of note issue based on commercial paper, and adoption of methods designed to centralize control of gold stock give Reichsbank leadership in German international affairs; (3) Bank leaves dealings with public, especially of smaller varieties, to other banks.
- (d) Canadian system: (1) each chartered bank is separate, independent "system," dealing with public and conserving its

own funds by appropriate reserve policy; (2) each bank undertakes, therefore, both large and small transactions, issues its own notes, etc.; (3) note issue is maintained by joint guaranty fund under control of the Government; (4) Government oversight and examination furnish additional bond between banks, and informal consultations between them tend to establish uniform policies.

- (e) Other banking systems. Most other banking systems are more or less closely modeled upon types already enumerated, with variations intended to suit local or national conditions.

9. Organization of the Bank as a Unit.

- (a) The commercial bank: (1) organization of board of directors - interests represented - committee work - president and "chairman"; (2) officers of bank, their duties - variation in assignment of functions; (3) division of bank between "departments," - principal departments enumerated and described.
- (b) The trust company: (1) banking department likely to be substantially similar to that of commercial bank; (2) other departments, number depending upon functions performed.
- (c) Savings banks:

2/15/17

III.

MAINTENANCE OF THE LIQUID CONDITION OF THE BANK.

1. Significance of Liquid Condition:

- (a) Bank's essential function, as already seen, that of insuring convertibility of community's credit.
- (b) This convertibility implies capacity to pay cash on demand at any time.
- (c) Maintenance of liquid condition of bank, therefore, has two aspects (1) The keeping of bank reserves sufficiently high; and (2) The keeping of bank investments in form which can be used to get cash when needed.
- (d) From standpoint of community as a whole, it also implies provision of some means of converting assets into cash generally, i. e., of suddenly increasing money or "currency".

2. Theory of Reserves:

- (a) Reserve is that part of a bank's funds kept in form for immediate use.
- (b) Strictly speaking, this means ultimate legal tender money.
- (c) Actual banking practice allows it to consist in part of deposits with other banks, and in part of non legal tender forms of money.

- (d) Bank theoretically starts with 100% reserve; then puts out its own obligations, payable on demand; a portion of these obligations are presented from time to time. Reserve "percentage" is the ratio of immediate resources to demand liabilities.
- (e) When reserve falls, ratio may be restored (1) by getting in cash from outside; (2) by refraining from further loans and allowing old ones to mature and be paid; (3) by "rediscounting" with other banks.
- (f) Purchase of coin. This may be carried out internationally when country's supply of coin is short; but domestically in periods of pressure is out of the question except on limited scale. Necessity which makes purchase of coin desirable is likely to be tendency of the public to hoard.
- (g) Cessation of loaning or discounting. This hazardous to community and may, if generally undertaken, accentuate bad conditions.
- (h) Rediscounting. This is a process of throwing bank resources together into a common fund. May be carried on by one strong bank for weaker units. Best conducted cooperatively by banking community for all banks that desire it.

3. Theory and Practice of Rediscounting:

- (a) Rediscounting bank is subject to same laws and principles as customers' bank.
- (b) Difference in its position from that of other banks must be twofold (1) must limit itself to specified kinds of choice paper; (2) must practically eliminate certain sources of danger by confining its business to customers not affected by same conditions which influence customers of other banks.
- (c) As rediscounting bank is primarily governed by public service considerations, must put these first, and considerations of profit second.
- (d) Must be able to meet increased demands for currency by supplying acceptable medium of exchange without weakening its own money stock too much. This requirement meets provision for "elastic currency."
- (e) Function of rediscounting bank is thus to check undue extension of credit by testing soundness of banking situation, and raising rates for accommodation when expansion is too active.

4. Function of Open Market.

- (a) By open market is meant general market for paper.
- (b) Object in ordinary times, as already seen, that of equalizing rates and supply of capital.

- (c) In unusual times enables rediscounting banks to influence conditions of other banks indirectly by drawing funds off from market or putting them into market.
- (d) Open market thus an adjunct of rediscounting process, and must be operated in conjunction with latter.

5. Fixed or Fluctuating Reserves.

- (a) Desirable level of reserves differs greatly according to habits of community and methods of banking.
- (b) Must be settled in each case on basis of highest judgment of banker.
- (c) Legal requirement can be only a minimum, and is likely to be at fault.
- (d) Legal fixed reserve is development of free banking system - "rule of thumb" laid down for guidance of inexperienced or reckless banker.
- (e) Most scientific mode of regulating liquid condition of bank is to prescribe classes of paper to be bought so that "secondary reserve" is built up.
- (f) Many variations of reserve regulations exist, including taxes on reserve-deficiencies, etc. These rendered less and less necessary when ultimate de-

cision as to reserve policy is placed in hands of strong, central, regulating body.

6. Maintenance of "Confidence."

- (a) Discussion of reserve based on existence of normal degree of "confidence."
- (b) Any factor tending to destroy confidence throws strain upon banks.
- (c) Maintenance of confidence is result of belief in (1) sound banking condition; (2) ability of bank to get emergency relief if necessary.
- (d) Chief factor in maintaining confidence must be adoption of sound and conservative banking policy.
- (e) If confidence in banking system as a whole is lost, no artificial means of restoration; when loss of confidence affects only locality or group of institutions, situation secured by substituting credit of banks as a whole for that of individual institutions.

7. Past Experience in Maintenance of "Confidence".

- (a) Clearing house agreement and issue of "certificates".
- (b) National currency associations (law of 1908).
- (c) Issue of "emergency currency."
- (d) Joint guaranty of notes or deposit of bonds.

8. Function of Reserve System in Maintaining Liquid Condition.

- (a) Reserve banks' primary duty that of safeguarding

reserves of community and standardizing forms of commercial paper.

- (b) Secondary duty is that of relieving panics or emergencies by rediscounting.
- (c) System may perform its functions by granting of deposit credits, or issue of notes.
- (d) Success in every plan dependent upon ability of other banks to present paper of speedily maturing varieties, so as to enable community to liquidate itself.
- (e) Success depends upon constant wisdom of management.

9. Contrast Between United States and Foreign Countries:

- (a) United States far less homogeneous financially.
- (b) United States lacks distinct national financial market.
- (c) Foreign central banks are largely outgrowth of past commercial banks and exercise dominating control in market.
- (d) Reserve banks are new cooperative organizations, and have not yet obtained strong hold on market.
- (e) State banking systems and differences in legislation tend to create independent groups of institutions directly dependent upon the reserve banks.
- (f) Commercial paper in United States far less standard-

ized than in other countries.

- (g) Periods of credit and open account system more lax in United States than in Europe.

10. Future Development of Liquid Condition.

- (a) Basic problem that of developing sound commercial paper practice.
- (b) Development by experience of accurate reserve percentage policy.
- (c) Evolution of prompt efficient rediscounting, and note issue process.
- (d) Establishment of satisfactory number of branches and agencies at convenient points.
- (e) Gradual growth and confirmation of general national discount market.
- (f) Evolution of distinct local market in each Federal reserve district, and adaptation of paper, etc., within that district to local necessities.

IV.

BANK OBLIGATIONS AND RESERVE CONSTITUENTS - DEPOSITS AND NOTES1. Question of Reserve Composition:

- (a) Problem of reserve implies in practice question of composition of what is called reserve.
- (b) As already seen, this in modern countries really includes large element of credit, although theoretically reserves consist of cash.

2. Reserve Constituents - Deposits:

- (a) Next to actual cash the most immediately available resource is power to draw on another bank.
- (b) Hence National Bank Act grants authority to re-deposit part of reserves, counting such deposit as reserves.
- (c) Hence also under Federal Reserve Act authority is granted to count balance with reserve bank as substantial part of reserves.
- (d) So also in foreign countries, even where no legal reserve is specified, actual reserve requirements consist partly of credit, i. e., balances on books of central bank in favor of other banks.

3. Reserve Constituents - Notes:

- (a) Notes theoretically identical with deposits, but representing credit of issuer.

- (b) Hence often contended that bank notes should be allowed to figure to specified extent in reserves.
- (c) Difference of practice on this point, many systems refusing to allow notes to count on ground that they may cause inflation.
- (d) Essential difference between notes and deposits as reserve constituents lies in rapidity of "turnover" or rate of redemption, notes tending to have much longer life.

4. Modern View of Reserves:

- (a) Real test of reserves is power to liquidate.
- (b) Cash can not be maintained at sufficient figure to affect liquidation under all ordinary circumstances.
- (c) Sufficiently severe shock to national credit means that joint power of the banks is attacked, just as individual power is under difficulties of more limited scope.
- (d) Hence problem becomes that of maintaining succession of prompt maturities sufficiently short in duration to insure continuous flow of maturing credits, thereby providing for cancellation of claims at adequate rate.

5. Secondary Reserves:

- (a) By secondary reserve is meant that portion of the

assets put into shape to be readily convertible into reserves.

- (b) Any paper immediately saleable figures as proper element of secondary reserves.
- (c) This means that what may be secondary reserves for one concern is not for another, and what is secondary reserve for any bank may not be for all banks simultaneously.
- (d) Ordinarily secondary reserves consist of paper having an unquestionable and early maturity.
- (e) Banking problem as affected by reserves thus becomes that of arranging assets and liabilities in such a way as, under all ordinary conditions, to offset one another up to substantial high percentage.
- (f) When this policy is successfully carried out, the question of providing a sudden currency resource is largely minimized.

6. "Emergency Currency".

- (a) Emergency currency has been provided in some countries as a substitute for secondary reserves.
- (b) Its use signifies that the banking system has partially broken down.
- (c) Use of emergency currency implies a subsequent return

to normal conditions, frequently preceded by suspension of specie payment.

- (d) Hence use of emergency currency now considered last resort, and its employment discredits banking system when resorted to.

2/23/17.

-28-

V.

CENTRAL VS. DIFFUSED CONTROL OF BANKING - THE RELATION OF THE
GOVERNMENT TO THE BANKS.

1. Problem of Control.

- (a) By control of banking is meant oversight or regulation designed to prevent banks from unduly expanding loans and placing themselves in a dangerous position.
- (b) Public oversight is ordinarily thought of as a means of avoiding dishonesty. This, however, is only incidental.
- (c) The real problem of control is that of preventing expansion of liabilities (1) beyond the point of safety as compared with reserves; and (2) in a way that involves undue or unfair distribution of credit.

2. Methods of Public Control.

- (a) Obvious means of control is that of regular bank examination and regular reports. These ordinarily made in specified form which is supposed to be uniform or standard.

-29-

- (b) Inspection, however, usually aims to insure that banks are living up to legislative requirements.
- (c) These legislative requirements frequently include
 - (1) fixed reserve percentage; (2) prohibition of certain classes of loans; (3) prohibition of excessive loans to single individuals or concerns; (4) prohibition of loans intended to facilitate the operations of interested persons.

3- Fixed Reserve Requirements.

- (a) First duty of public authorities in connection with reserve requirements is to ascertain extent to which observed.
- (b) If requirement is violated, authorities usually armed with power to penalize the bank or compel it to suspend further operations pending restoration of reserve.
- (c) Exercise of this authority always hazardous and more or less artificial except in isolated instances.

4. Excessive Loans.

- (a) Books of banks show amount of loans to each borrower.
- (b) Public authorities censure banks if limitation is not observed.

-30-

(c) Difficulty found in fact that many ways of evading the spirit of the requirement are easily found.

5. Loans on Improper Security, or Over-Investment.

(a) Facts of this kind ascertained by usual methods of examination, etc.

(b) Difficulty lies in fact that when commitments are once made, rectification may involve not only hardship to banks but to others.

6. Protection of Borrower by Regulating Rates of Interest.

(a) Usury laws found in most States and designed to protect borrowers.

(b) These laws difficult of enforcement and usually result in additional hardship.

(c) Application of such laws by means of legislative control never easy or adequate.

7. Criticism of Foregoing Means of Control.

(a) Remedies generally come too late to relieve evil - hence development of bad conditions which are impossible completely to rectify.

(b) Greatest danger comes from general tendencies in banking which are not revealed by examination of individual institutions.

-31-

- (c) Hence Government or State oversight always unsatisfactory, and usually serviceable only in correcting dishonesty or enforcing manifest requirements of safety.

8. Modern Methods of Control - Cooperative Banking.

- (a) In central banking countries, general restraint imposed by central bank (1) through regulation of the discount rate; (2) through determination of amount of credit to be obtained by banks on given kind of paper, (3) through constant knowledge of operations of specified banks, (4) through adjustment of general means to requirements of specified cases.
- (b) When no central banking mechanism is in existence, similar results may be obtained through informal organizations, e. g., central clearing house associations of the United States which operate examination systems, regulate methods of doing business, etc.
- (c) In United States central banking control now furnished by Federal reserve system (1) through establishment of standard discount rate, (2) through continuous analysis of credit of indiv-

-32-

iduals and condition of banks; (3) through regular reports from member banks; (4) through special examination when necessary.

9. Relation of Government to Banking.

- (a) Generally admitted that examination and inspection based on regulatory laws is necessary.
- (b) Question of direct control of actual banking operations less well agreed. Nevertheless (1) prevailing practice is to give Government power to appoint either some or all of directors of central banking mechanism, or some or all of executive officers; (2) also in some cases to have the Government subscribe a portion of the stock of the central bank, thereby becoming a party in interest from the dividend standpoint; (3) or, in some cases, to have the Government own and operate a central banking institution of its own.
- (c) Best consensus of opinion is that wisest control is obtained through joint management by Government and private capital; leaving to private capital the business initiative and a substantial part, or all, of the risk and profit; and to Gov-

-33-

ernment, exercise of conservative influence and the employment of an absolute or partial veto upon undesirable practices or policies.

10. Two Methods of Banking Control.

- (a) Regulation of discount rates in such a way as to advance or restrict credit (1) generally; (2) in special cases or industries so as to equalize demand with supply.
- (b) Standardization of classes of paper so as to insure maintenance of proportion of bank resources in a given form, thereby enabling community at all times to obtain necessary basic accommodation for maintenance and liquidation of current operations.
- (c) Maintenance of control of directorates to such an extent as to insure nonpartisan and disinterested use of central banking funds of country.
- (d) Prohibition and avoidance of operations that would tend to jeopardize the liquid condition of banks, or would tend to place commercial resources of the country at the disposal of speculative or investment operators.
- (e) In general the maintenance of competition upon a legitimate basis throughout the general bank-

-34-

ing field.

11. Contrast between Central and Diffused Control.

- (a) Diffused control, e. g., banking inspection by the several States, may result at its best in eliminating dishonesty.
- (b) In applying strict regulations as to banking, such control suffers from the competition of the banking systems of the different States, it being desired to attract as many concerns to State incorporation as possible.
- (c) Central control, when properly applied, goes further than diffused control by (1) applying a restrictive oversight of actual operations; (2) constantly changing the underlying conditions of banking in such a way as to maintain sound methods and eradicate any tendency to undue expansion or over development.

12. Criticism of Government Control.

- (a) Opponents of Government control contend that banking is a competitive business, self-regulating, and not properly subject to any oversight except what is necessary to insure honesty as between banks and the public.

-35-

- (b) Public takes the view that banking lies at the bottom of all commercial conditions, and the country as a whole must do what is necessary to insure maintenance of a stable and sound commercial situation.
- (c) Public insists therefore, that banking is a business carried on in public interest, and hence vested with public service qualities.
- (d) Refuses to grant to banks the currency function in so far as it displaces money, on the ground that circulation of money affects prices, and that profit from such circulation properly belongs to the nation at large.
- (e) Public also contends that modern governments have large sums of their own which just be deposited in and handled by banks. Hence urges participation on the part of the nation in banking operations so far as based upon funds which are the property of the public.

13. Status of Discussion at the Present.

- (a) General oversight of all banks to insure honesty and fair treatment of depositors.
- (b) Joint control and sometimes joint ownership of

-36-

central banking mechanism by Government and banks or individuals.

- (c) Separation of note issue power and concentration of it in hands of central banking mechanism.
- (d) Use of central banking mechanism as noncommercial enterprise designed as "balance wheel" of financial market.

3/2/17

~~VII~~
MODES OF ECONOMIZING CASH AND PROMOTING LIQUIDATION -
THE CLEARING SYSTEM.

1. Theory of Clearing.

- (a) Theory of clearing based on fact that if all payments made by bank check, process of liquidation would be bookkeeping.
- (b) Hence, the larger the percentage of payments offsett set against one another, the smaller the amount of money used.
- (c) It is desirable to economize the use of money for obvious reasons.
- (d) Hence, clearing is not only matter of labor-saving and convenience, but also necessary factor in maintenance of bank reserves intact.

2. Relation of Clearing to Central Banking.

- (a) Clearing idea essentially involves combination or cooperation of banks in order to bring about general participation in bookkeeping process of offsetting claims.
- (b) Where regularly organized clearing houses exist such offsetting may result in transfer of final balance in cash, or balance may be transferred in form of claims on cash in clearing house, or in some designated bank.

- 58 -

- (c) Where central banking institution practically acts as clearing house, transfer of balances occurs on books of reserve or central bank.
- (d) Result is to bring about economy in use of reserve cash.

3. Relation of Reserves to Clearing.

- (a) As already seen, "reserves" are not necessarily "cash", but are a portion of bank resources put into shape to perform function of meeting and liquidating claims.
- (b) "Checks" or "drafts", which are items that figure in clearing, are demand claims on banks, hence plan for liquidating them is part of reserve function.
- (c) Such demand claims may likewise, to certain extent, figure in reserves of bank without causing serious danger.
- (d) Consequently National Bank system has allowed balances with city banks counted as reserves, to be composed in part of uncollected checks deposited there for purpose of collection or clearance.
- (e) Under Federal Reserve Act question of allowing such checks or claims to figure as part of "reserve credit" on books of reserve banks, rests with Reserve Board.
- (f) Up to date Board has declined to allow such checks so to count, and has cleared them only on a time basis, giving credit when collected.

4. Problem of Uncollected Checks.

- (a) Where territory embraced in a clearing system is large, time required in transmitting checks may also be large.
- (b) When such time exceeds period between close of business day and beginning of another, so-called "float" is created, during which if checks are credited by receiving bank before they reach bank on which drawn, provision must be made for "carrying" them.
- (c) This is equivalent to an investment in uncollected checks, but if such investments are practically equal the country over, no harm is done through immediate credit, although there may be theoretical loss to banks on account of sacrifice of interest.
- (d) Such investments are not equivalent at all times, however, and hence there may be adverse currents of exchange involving eventual transfers of funds and meanwhile a considerable float.
- (e) This situation may be partially corrected by national clearance.

5. Clearing System of United States.

- (a) As already noted, clearing houses may exist elsewhere, and in fact exist in more or less developed form at over 160 places in United States.

- (b) Each clearing house has its own set of rules, regulations, etc., governing clearance of items.
- (c) Every Federal reserve bank now receives checks on all member banks, and on nonmember banks that will clear them at par, and credits the same on its books, after allowing designated time for collection.
- (d) Gold Settlement Fund at Washington provides weekly telegraphic clearance for Federal reserve banks among themselves.
- (e) Nucleus of national clearance system thus developed inasmuch as all national banks members of reserve system, while reserve banks are usually members of local clearing houses.
- (f) Problem of completing national system of clearance depends on obtaining aid of nonmember banks not now included in system.

6. Theory of Exchange Charges.

- (a) Two views of this problem - one that bank's obligation should be equivalent to currency and collectible at par everywhere it circulates; the other that par payment is properly to be expected only at counters of banks drawn upon.
- (b) In practice, checks of a solvent bank always cashable at par in city where bank is located, and custom has

made such checks so cashable at various other points as result of competition.

- (c) Banks which make exchange charges do so on theory that cashing checks means expense for clerical hire, and loss of interest during time check or draft is in transit, as well as possible cost in providing funds at distant points.
- (d) Those opposed to this view point out that function of bank is to provide medium of exchange, and popular agreement long ago made notes cashable at par, so that checks should be on same basis. Under normal conditions, many claim, exchange currents offset one another, and loss is only theoretical - i. e., a profit that might have been made. Cost of clerical hire, etc., is practically cost of conducting the bank.
- (e) Tendency is toward establishment of par collection with either no charge, or uniform moderate service charge based on number of items.
- (f) Such charge as is made to public is in theory to be placed upon drawer of check, and not on payee who is presumably receiving a flat sum to which he is entitled.

7. Relation of Clearance to American Banking.

- (a) Check collection system has become closely interwoven with "redeposited reserve" plan.
- (b) Abolition of latter necessarily means provision for former.

- (c) Hence effort of reserve system to utilize machinery provided by it in order to take care of collections for member banks.
- (d) In absence of such service, member banks would have to go on paying city banks for performance of functions now technically rendered by reserve banks.
- (e) Clearing thus an integral part of reserve system, essential to smooth working of reserve institutions.
- (f) Experience shows that work can be cheaply done by reserve banks, and that eventually with all banks joining in collection plan, cost would be reduced to low figure.
- (g) Opposition of banks due to desire not to lose profit from exchange on checks, and feeling that reserve collection system subjects them to unnecessary oversight or an extra expense through keeping funds in cities in addition to funds held with reserve banks.

8. Clearance Systems Abroad and at Home.

- (a) On Continent problem does not appear in same form as here owing to preponderating use of note currency and low development of check.
- (b) In England situation is likewise different owing to absence of fixed reserve requirements and small area of country.

- 43 -

- (c) Clearing system, therefore, an American problem, rendered special because of (1) extensive use of check system, (2) great size of country, (3) fixed reserve requirements, and (4) difference of view as to whether uncollected items should or should not figure in "reserve balances."
- (d) In United States experience of widely diffused system of competitive institutions without central or combined banking, has until lately, rendered issue difficult of settlement.
- () Reserve system with its arrangement for cooperation will eliminate much of this difficulty.

3/8/17.

COMMERCIAL PAPER - ITS VARIETIES AND PECULIARITIES.

1. Meaning of Commercial Paper.

- (a) Commercial paper is the material in which banks deal
- (b) It is the evidence of commercial transactions.
- (c) Hence no rigid definition of commercial paper can be given apart from general principles on which bank is conducted - i. e., commercial paper in one country may be different from commercial paper elsewhere.

2. Significance of Commercial Paper.

- (a) Terms, condition and basis of commercial paper determine liquidity of bank and ability to get its funds in hand when needed.
- (b) Legal principles and practices surrounding commercial paper determine validity of bank's operations and relation to business community.
- (c) Volume of commercial paper offered at any given time is index to volume of transactions of community.

3. Classes of Commercial Paper.

- (a) Single-name paper - ordinary commercial note or promise to pay.
- (b) Endorsed single-name paper - additional signature being merely additional evidence of goodness.

- (c) Bill of exchange drawn by seller on buyer, or "two-name" paper evidencing commercial transaction.
- (d) Bankers' acceptance - bill of exchange drawn on bank and accepted by letter on behalf of someone else.
- (e) Endorsed acceptance - same as above, but with additional guarantee.
- (f) Collateral note - single-name paper secured by evidence of value - sometimes called "commodity paper" when collateral consists of claims to staple goods. May be secured by stock, bonds, etc.
- (g) Foreign or domestic bill of exchange accompanied by shipping documents, insurance receipts, etc.
- (h) Miscellaneous variations of foregoing (see regulations of Federal Reserve Board attached hereto).

4. Classification of Commercial Paper.

- (a) By maturities - short-term paper usually regarded as outgrowth of live or liquid commercial obligations; long-term considered less liquid, but both dependent on normal term of credit in community for validity.
- (b) By protection. Two main classes of protection good in process of production, transit, delivery or sale and existing values, such as shares, bonds, real

property, etc. Pure personal credit not a separate classification, but merely evidence of belief in eventual control of property.

- (c) By maker or originator. This relates to the form of paper, although certain kinds or forms are closely allied with certain kinds of security or protection.

5. Modes of Testing Commercial Paper.

- (a) Test of value of commercial paper is test of two elements - solvency of maker and liquid condition of his assets.
- (b) Both tests applied by obtaining satisfactory "statement". Such statement calls for an underlying accounting analysis which varies somewhat from business to business.
- (c) Valuation of items or property is essential, and may be effected through outside appraisement by way of checking validity of statement.
- (d) Ascertainment of reliability of commercial credit involves elaborate study of variety of factors - this accomplished through credit agencies and reports of investigators.
- (e) Commercial paper rating is composite product of judgment as to solvency of maker, and judgment as to prompt-

ness of payment, due to liquid condition of persons directly liable.

- (f) Work of testing credit is important phase of banking and usually entrusted to separate division in charge of experts, while officers of banks spend much of their time in credit analysis.
- (g) Direction of credit analysis varies according to preponderating activities of bank, whether chiefly employed in short-term commercial loans, loans on stock, or other forms of enterprise.

6. Commercial Paper and Currency.

- (a) Sound theory of bank currency bases its volume on volume of transactions.
- (b) Commercial paper is evidence of transaction, hence kind and quality of commercial paper has intimate relation to currency.
- (c) Most modern banking systems regulate note issue by relation to commercial paper.
- (d) Federal Reserve Act provides for segregation of 100% commercial paper behind notes.
- (e) Absence of such protection deprives bank of steady flow of funds with which to provide for liquidation of notes when presented for redemption.

7. Rediscount of Commercial Paper.

- (a) Reliability of paper increases as number of sound endorsements increases.
- (b) Best form of commercial paper is that growing out of business transactions with guarantee of strong financial institutions.
- (c) Rediscounted paper is paper discounted by one financial institution for another. Such paper constitutes best protection of notes.
- (d) Bank rediscounting primarily concerned with solvency of concerns presenting paper - only indirectly with that of maker - work of judging, as well as that of carrying, responsibility, is thus divided.

8. Purchase of Commercial Paper.

- (a) Different from rediscounting in that it must be paid for, while in rediscounting proceeds are credited.
- (b) Moreover, in purchase, paper may be bought with or without recourse.
- (c) Such open market purchases are, therefore, a secondary field of operation after rediscounting has been resorted to and fails to supply the volume needed.
- (d) Purchase of paper necessary as expedient of market in which bills and notes are freely offered for sale,

and in which interest rates are fixed as the result of competition.

9. Principles of Development of "Portfolio".

- (a) Careful selection of paper with view to maturity.
- (b) Selection of paper with view to diffusion of liability.
- (c) Selection of paper with view to division of makers between different industries.
- (d) Selection of paper with view to geographic distribution.
- (e) Selection of paper with view to equalization of sizes of units.
- (f) Main object is to secure compensating or balanced holding of paper in which risks offset one another.

3/15/17.

VIII.

TESTING THE CONDITION OF THE BORROWER - HIS
BUSINESS ELIGIBILITY.1. Significance of Borrower's Condition.

- (a) From the preceding discussion it is evident that bank depends upon borrower for maintenance or convertibility, of credit. Bank guarantees convertibility, but guarantee can not be fulfilled unless average judgment of condition of borrower is sound.
- (b) Ascertainment of actual condition of borrower is, therefore, essential factor in bank's operations.
- (c) Borrower's analysis of his own condition and observance of sound principles necessary in order to enable him to meet obligations.
- (d) Two-fold problem thus presented (1) What is "soundness" in condition of borrower, and (2) What method can best be used by bank to protect itself against deceit and imposition.
- (e) Questions thus raised partly those of accounting and partly those of obtaining quick information.

2. Analysis of Borrower's Condition.

- (a) Question of solvency. Bank is, of course, primarily interested to know that borrower is sound, but solvency is only one fundamental. It must be ascertained by

- usual methods - correct accounting, proper valuation of assets, suitable allowance for depreciation, etc.
- (b) Banker declines ordinarily to have any relation with concern which is either insolvent or on verge of insolvency.
 - (c) Assuming solvency, banker's primary interest is in question of liquidity - he wishes to know whether concern is asking for fixed capital or current accommodation
 - (d) If concern wants capital practically on permanent loan, amount banker is willing to extend would be much smaller, if what is desired is liquifying of short term commercial claims, banker is willing to go practically to extent of his resources.
 - (e) Basis of analysis is relation between turn over of capital and investment, amount of outstanding obligations, as compared with incoming or accruing claims; "goodness" or liquidity of claims, and current activities of business which mean salability of producer's own goods. These factors differ from industry to industry in significance and relative importance.
 - (f) Question of commercial policy. Sound business policy essential factor, if concern is large but business

sapped by excessive dividends or withdrawals, or if expense of carrying on business is unduly high, banker will hesitate as to extent of loan. His effort is to obtain details as to policy as accurate as possible.

3. Criteria of Banker's Choice.

- (a) As already stated, solvency essential, although bank may at times find it wise policy to help a concern technically insolvent.
- (b) Assuming solvency, banker's effort is to discriminate between long term loans which are liquid and short term, or strictly commercial loans.
- (c) In long term loans, banker is willing to go to extent permitted by probability of safety and ultimate liquidation if forced. Regards such loans as undesirable and to be made only for encouragement of more satisfactory business.
- (d) In all applications for loans beyond this basic element of long term investment, banker anxious to expand his operations so far as resources will permit.
- (e) Limitation on operations furnished by desire not to expand beyond point of safety as indicated by capital and reserves of institutions, also not to enlarge risk in any one case beyond point of safety, also not to become

involved too closely with affairs of any one concern or type of business.

- (f) Desire of banker is to supply credit to dealers who are most successful in rapidly turning over capital, not only because of capacity to earn profits, and consequent safety, but also because they are most profitable customers for banks both as to volume and character of accommodation sought: Banker makes profit from rapid turn over of funds, not from long term loans.

4. Relation of Bank to Accounting System.

- (a) As already seen, correct accounting is essential.
- (b) Further, uniform accounting is urgent.
- (c) In addition, standardized accounting is desirable.
- (d) Business practice in United States is loose as to accounting methods.
- (e) Hence reliance upon sound firms of accountants who examine books, criticize methods and reduce results to a somewhat uniform basis, thus permitting of rough standardization and comparison.
- (f) Banker calls first for statement of condition, and if this is unsatisfactory or incomplete, obtains audit or analysis, through accounting firm which advises him of condition of affairs, as well as policy as shown by books.

5. Relation of Banker to Credit Agencies.

- (a) Function of credit agency is to ascertain full facts as to conduct of business man in connection with settlement of claims against him, state of his business as reported by himself, and tested by outside criteria, and other matters.
- (b) Result is body of data indicating general trustworthiness of business man.
- (c) Banker relies on data thus furnished in making his loans.
- (d) Credit agency data, however, not usually sufficiently complete, and consequently banker supplements them by data obtained through unofficial or private credit agencies. These are compiled from a great variety of sources with remarks indicating relative value of items of information.

6. Organization of Credit Department.

- (a) Credit department necessary feature of modern bank.
- (b) In large banks consists of elaborate system of files in which are embodied all credit data together with analyses of borrowers' capacity in regard to accommodation and general financing of business.
- (c) Effort of credit department is to furnish on short notice tabulated, condensed view of situation of prospective

borrower, showing particularly liabilities and their maturities, relation of liabilities to quick assets, and contingent liabilities, if any, and general status of borrower.

- (d) Credit department also includes outside staff of regularly or sporadically employed individuals who furnish data likely to be useful.

3/22/17.

IX.

BANK ORGANIZATION AND RELATIONSHIP IN INTERNATIONAL BUSINESS.

1. Function of "Foreign Exchange".

- (a) As already seen, bank performs function of providing means of payment at a distance and collection of resulting documents. This is fundamental service in foreign exchange operations.
- (b) As further seen, bank furnishes credit for the purpose of "carrying" goods, and this process may imply the furnishing of credit during a productive period or during a period when the goods are in transit, hence commercially out of reach. Latter phase of this function is that performed by bank in foreign exchange relationship.
- (c) Function of supplying capital for investment is performed by many banks, and when undertaken by one country for another must be carried out through banking mechanism which can make use of foreign exchange methods.
- (d) These functions are the same when performed internationally as when performed domestically, except in two particulars (1) Conversion of values from one currency to another, and (2) Transference of funds from

one more or less isolated market to another. "International trade" and "foreign exchange" between Maine and Canada are conducted on the same principles as "domestic trade" between Maine and California.

2. Effect of Variation in Money Standard.

- (a) Money standard of different nations may differ as to (1) basic material, or (2) unit value of coin, or (3) both.
- (b) Where material is identical but unit value is different as, e. g., dollar and pound sterling, fundamental function of bank is to convert coined money or its representatives into one or the other kind of money, buying and selling, according to demand.
- (c) Where basic metal is different, as, e. g., American dollar (gold) and Chinese dollar (silver), function of bank is to deal in gold value expressed in silver, and vice versa, and at times to supply gold or silver, as the case may be, for export, or to receive and sell it.
- (d) Where both elements enter, function of bank is same as last stated.

3. Organization of International Banking.

- (a) If no established relationship between banks of one country and banks of another, owing to fact that

they belong to different systems, international work of bank is merely that of buying and selling foreign currency and claims to credit.

- (b) If relationship established, basis for systematic trading is laid and credit begins to enter in.
- (c) In this case, bank here may act as agent or correspondent for a foreign bank, or foreign bank may establish actual branch office here, or may arrange to control a local institution.
- (d) In every case fundamental change is introduction of credit into relationship of bank in international dealing, which means that payment may be postponed, and that bank becomes merchant in international credit instead of merchant in gold and silver.
- (e) From internal standpoint this necessitates opening of "foreign exchange department" in bank.
- (f) Foreign department is usually organized on separate basis with separate set of records designed to permit of statement of relationship in terms of foreign currency, i. e., bank account is altered to permit change in basic unit of value, and periodical "conversion" must take place. Sometimes also definite portion of bank's resources is set apart for trading in foreign exchange. Where foreign branch is established

given "balance" is usually assigned to such branch, and transfers made from time to time to increase its resources as occasion requires. Where foreign bank is designated as correspondent, balance is placed on its books to credit of home institution. This balance carried in terms of currency of country where foreign institution is located.

4. Dealing in Coin and Bullion.

- (a) Simplest "foreign" operation is purchase of coin of foreign country composed of metal same as domestic standard.
- (b) If metal unit of foreign country contains, say, 4.8666 times as much gold as home unit, bank may purchase title to a unit of such gold actually located in foreign country. In such case, exchange is at "par" when bank is willing to pay exact gold equivalent of foreign unit - in this case \$4.8666 for one pound sterling.
- (c) Modification in problem seen when pound sterling is located here and not abroad. In this case purchasing value may be \$4.8666 less cost of conversion into coin, if any, loss of interest due to time metal is idle, etc. Assuming existence of such par exchange in two countries simultaneously - England and America - theoretical price to be charged by bank for supplying individual with

title to pound sterling is gold equivalent plus cost of transportation, plus interest in transit, plus insurance and other charges, because individual would have to incur these expenses if he shipped local gold and then sold it to English banks at par. In same way theoretical amount home bank will give for title to gold in England is gold equivalent less amount equal to transportation, insurance, interest, etc., coming in opposite direction.

- (d) Points above and below gold equivalent of par which will cover shipping and other costs, known as "gold points".
- (e) If exchange were at gold point, individual would not need to rely on bank, but could effect his own dealings.
- (f) Practical foreign exchange operations, therefore, are concerned with fixing actual ratio of exchange at some point intermediate between "gold points".
- (g) Problem in foreign exchange is to adjust supply and demand in such a way as to avoid shipment of gold.
- (h) Real function of bank is thus seen in offsetting or clearing international claims with shipment (and conversion) of as little gold as possible.

5. Interchange of Gold and Silver.

- (a) Foreign exchange operations between gold and silver may be simply purchase of silver against gold and vice versa.
- (b) Or, where credit relationships established, as above explained, may be clearance or cancellation of series of credits and debits resulting in net balance which is converted from silver into gold and vice versa.
- (c) Bank's profits or losses during continuance of operation consist of charges based not merely on regular exchange service, but also on conversion of gold into silver units according to market variations of one metal stated in terms of the other.
- (d) In all such operations interchange of metals does not necessarily take place in fact, but liability for interchange, in case payment is demanded, is assumed by bank.

6. Supply and Demand in International Exchange.

- (a) Establishment of selling or buying point for one currency in terms of another evidently dependent on comparison of volume of claims on one country, as compared with demand for remittances.
- (b) Volume of remittances dependent on quantity of goods

purchased and requiring payment, while volume of claims dependent on quantity of goods sold and to be paid for.

- (c) "Goods" as here used include commodities, services, interest and dividends, travelers funds, and variety of minor factors - anything giving rise to an indebtedness.
- (d) When such demand or supply is one-sided, artificial resources may be availed of by arranging to create credit balances abroad.
- (e) This done through ordinary loan arrangements, establishing loans or credits in favor of foreign banks.
- (f) Therefore, arrangements giving rise to artificial credits suffice to bridge over period until payment made in "goods", or "goods" received. Exports and imports eventually equal.

3/28/17.

IX
(Continued)

CLASSES OF PAPER IN INTERNATIONAL TRADE.

1. Fundamental Types of Paper.

- (a) "Bill" or "bill of exchange" is the underlying type of document.
- (b) This represents paper drawn against actual shipments of goods from one country to another.
- (c) "Bill" in foreign, as in domestic trade, is order to pay specified sum at sight or at maturity.
- (d) Differs from domestic bill chiefly in requiring more careful protection and frequently in being stated in terms of a foreign currency.

2. Documents.

- (a) Foreign bills usually protected by "documents", including bills of lading, properly drawn, certificates of issuance, hypothecation powers, invoices, consular and other certificates, etc.
- (b) These documents must be made in accordance with local law and administrative regulations, and must give to the bank power to facilitate movements of goods, and to retain control of them until released.

- (c) "Complete set" of documents practically places in hands of bank control over goods constituting basis of credit extended.

3. Clean Bills.

- (a) By "clean bills" are meant bills without documents attached.
- (b) Protection of banker purchasing clean bills dependent entirely on credit standing of persons against whom drawn, and eventual liability of drawer.
- (c) In case of accommodation based on clean bills, advance is practically a loan on two-name paper.
- (d) Documented bill becomes identical with clean bill when banker releases the documents to consignee of the merchandise, though he may protect himself by so-called "trust receipts" which establish different legal status for borrower.

4. Finance Bills.

- (a) By finance bill is meant bill drawn for purpose of providing funds to meet requirements, independent of actual shipments of goods.
- (b) Finance bills may be drawn for the purpose of offsetting difference between exports and imports, or for any other purpose requiring immediate funds.

- (c) Such bills are really drafts against loans negotiated with foreign bankers.
- (d) Protection for finance bills may be collateral of any kind placed with concern agreeing to make payment of bills which are thus drawn.

5. Commercial Letters of Credit.

- (a) By commercial letter of credit is meant authorization issued to importer in order to enable him to obtain goods abroad to be paid for by bank in foreign country, which in turn collects from bank at home extending credit.
- (b) This enables purchase of merchandise on cash basis.
- (c) Banker who furnishes the credit does not ask for payment until maturity of draft and arrival of goods.
- (d) Banker is thus protected by ownership of goods until their arrival and release to importer.
- (e) Confirmed letter of credit is one that can not be revoked without consent of payee.

6. Types of Paper in International Trade.

- (a) From foregoing it is seen that loans or advances in international trade are same as in domestic trade.
- (b) Form, however, is different owing to closer adherence to commercial movements of goods as basis for business.

- (c) Protection is more thoroughly worked out than in most bank loans at home, partly owing to varying legal requirements of different countries, and partly owing to uncertainty as to exact financial or business conditions surrounding each transaction.
- (d) Technique of management of paper also differs, inasmuch as complex relation between banks is introduced, and hence the necessity for some provision protecting such banks' interests against one another, as well as against borrower.
- (e) Foreign trade also implies continuous maintenance of given sum of banking capital in financing trade in given district, and effort so far as possible to have movements of goods and operations for financing such movements offset one another so as to have credits, as well as shipments of goods, cancel as nearly as possible.

4/5/17.

THE FOREIGN EXCHANGE MARKET - ITS ORGANIZATION AND METHODS.

1. Idea of "Market".

- (a) General conception is same as that of any other market, i. e., aggregate of buyers and sellers who deal with one another.
- (b) Analysis of market thus becomes analysis of supply of bills drawn in foreign transactions, and analysis of demand for such bills or remittances growing out of them.
- (c) Associated with this analysis of demand and supply is analysis of agencies for performing work, including both the methods of dealers and of middlemen and speculators.

2. Origin of Bills.

- (a) Supply of foreign exchange is supply of instruments of value growing out of all those transactions which give rise to claims by one country on another.
- (b) As already seen these are claims originating chiefly as follows: (1) raw or manufactured products purchased; (2) securities bought; (3) interest upon capital invested abroad; (4) money borrowed; (5) expenses of travelers; (6) freight and insurance.
- (c) Demand for remittances is converse of above, i. e., is due to the need of meeting obligations growing out of

transactions based on these same elements.

- (d) Distribution of control of foreign exchange naturally adjusts itself according to character of operations, one class of remittances originating with customers of given kind of institution, another with another.

3. Commercial Banks and Their Operations.

- (a) As seen in former analysis, foreign exchange function of commercial bank is that of opening credits for payment of goods, and making transfers - latter function grows out of or is dependent on former.
- (b) Customers of commercial banks are exporters and importers who want to have bank finance movement of goods. Such operations give rise to balance in favor of or against banks abroad, and to some extent "clear" on books.
- (c) Remittances called for may be necessitated in order to offset or liquidate balances, or to enable individual simply to sell or transfer funds.
- (d) Commercial banks may purchase and sell bills or remittances in this way, waiting for maturity of obligations and paying and offsetting them then, or they may buy and sell drafts or claims of different maturities, engaging in exchange business with other banks in domestic field or abroad. This trading process may be intended

either as a means of making earnings or as a means of insurance against loss.

4. Private Banker and "International Banker".

- (a) Operations of private and international bankers are usually either brokerage or finance operations.
- (b) Concerns of this kind have connections or branches abroad, and find a profit in transfers of funds in order to take advantage of varying rates of interest to purchase or carry securities abroad, or to use foreign funds in home market.
- (c) Such operations give rise to "finance bills" which do not grow out of any distinct commercial operations, although eventually liquidated by movement of specie or goods.
- (d) Bankers' acceptances may be used in international trade to create balances for the purposes before mentioned, or they may grow out of actual commercial transactions, and may then be marketed through private or international bankers.

5. Brokers and Middlemen.

- (a) Inasmuch as no definitely established market for foreign exchange exists, there is field for service of broker or middleman.

- (b) This service may be merely conveying of information from bank to bank and carrying through of transactions necessary for interchange of claims. Or it may consist in actual purchase of bills and sale to someone else, in which case broker or middleman approximates to private banker.
- (c) Some houses engaged in international trade conduct foreign exchange departments which operate not only in exchange growing out of business of the concerns, but also out of other business, thus becoming practically foreign exchange brokers in addition to other functions.

6. Work of Commercial Houses.

- (a) Normally commercial house merely opens credit with necessary, or disposes of drafts as case may be.
- (b) Commercial house may, however, foresee fluctuations of exchange market, and hence contract with bank for purchase or delivery of exchange at future dates in specified amounts at contract rates.
- (c) Commercial house may actually purchase bills and hold them in order to supply itself with remittances at future time.
- (d) In all such cases commercial house becomes speculative factor in exchange market.

7. Mechanism of Market.

- (a) As just seen, market contains several classes of factors differently organized.
- (b) No definite meeting place or basis of interchange.
- (c) Nevertheless stable quotations established through action of large dealers in fixing their rates.
- (d) Competition then results in "shading" of rates with modification for various transactions because of special conditions influencing them.
- (e) Government interference with movement of specie, or Government action for supplying or withholding remittances establishes artificial conditions, and either introduces new factor in market, or sets limit to fluctuations, as case may be.

4/12/17.

XI.

INTERNATIONAL DISTRIBUTION OF CAPITAL.

1. Character of Demand for Capital:
 - (a) Rate of interest a payment for capital not money.
 - (b) Rates to be earned determine rates that will be offered.
 - (c) International competition the same in theory as competition between individuals or localities.

2. Form of Foreign Loans.
 - (a) When short in form; merely give rise to bankers' balances carried on books; or short term paper of ordinary "finance" varieties.
 - (b) When longer; are represented by bonds as in case of other loans.
 - (c) In either case require to be placed with investor or holder.

3. Mode of Payment of Foreign Loans.
 - (a) This best approached by considering purpose of such loans.
 - (b) Such purpose is not that of getting control of money except in rare instances.
 - (c) It is rather the getting control of goods either for consumption or production.

- (d) Foreign loans are thus essentially transfers of goods (although sometimes of money) in exchange for obligations.

4. Effect of Foreign Loans on International Balance of Trade.

- (a) Creates permanent item of interest.
- (b) To the extent or amount of such items it becomes no longer necessary to ship goods to make up full merchandise balance.
- (c) Loan operations affect exchange market directly by leading to necessity of supply of exchange to meet obligations.

5. Control of Exchange and Monetary Movements.

- (a) Method is to supply exchange or withhold it.
- (b) This method practiced on short term basis by bankers in order to equalize temporary differences in supply of bills growing out of commercial shipments.
- (c) When movement of specie is continuously against a country, Government may undertake to supply exchange through the placing of public obligations or through other artificial methods of meeting demands (illustration afforded by "gold pool" established in the United States at opening of European war).

- (d) At times the practice of artificially furnishing exchange may be adopted as regular basis of control of monetary relationships by Government, as seen in the case of India and the Philippine Islands.

6. Effect of Specie Movement.

- (a) Eventually it is necessary to liquidate trade balance which is continuously unfavorable by shipment of specie due to fact that conditions of sale of securities are likely to be unfavorable if plan of such sale is carried too far.
- (b) When specie moves from one country to another it usually goes into bank reserves.
- (c) Effect is to increase lending power of banks, hence to reduce rates of interest.
- (d) Effect of this reduction is to supply buying power and to raise prices, while through influence on the investment of capital the tendency is to cut rates of interest.
- (e) In consequence country tends to increase in cost of production and loses its competitive advantage.
- (f) Under ordinary conditions this results in gradually restoring balance of trade.

7. Debtor and Creditor Countries.

- (a) Creditor countries are those in which process of saving

and investing capital has resulted in more or less complete utilization of domestic resources leaving investment surplus for use abroad.

- (b) Debtor countries are those in which funds have been needed for local use, and because ordinary interest returns have been higher.
- (c) Creditor countries are able to maintain their hold on trade of debtors by dictating form in which remittances shall be made, and by offering satisfactory financial market for disposal of bills.
- (d) This ordinarily means that creditor countries are bankers for others.

8. International Position of United States.

- (a) Before war - borrower not engaged in financing foreign trade - in debt about 2 billions.
- (b) Since war - lender and financier of foreign trade.
- (c) Future - depends on intensity of desire to develop own country as against operations in foreign countries.

4/19/17

XII.

RATES AND COMPETITION FOR CAPITAL.

1. Distinction Between Long Term and Short Term Competition.
 - (a) Long term capital is supplied through mechanism already studied, and distribution depends upon conditions governing investments.
 - (b) Short term capital is supplied for temporary or short term operations, and may not require or presuppose any long term investment.
 - (c) International money market may, therefore, be afforded by country which has no surplus capital for investment, although ordinarily country which is large lender of capital also develops banking machinery for short term operations.
 - (d) Short term competition primarily a matter of discount rates and banking facilities; long term is matter of investment and financing.

2. Mechanism of International Money Market.
 - (a) Essential factor is rate of discount which can be allowed on the use of banking funds for facilitating movement of goods.
 - (b) Second essential factor is ability to furnish actual banking conveniences for collections, opening of credits, etc.

- (c) Third essential is ability to operate banks under most economical method and with approved types of paper.
- (d) Fourth essential is satisfactory trade relations with foreign countries so that "market" is not disturbed by undue difficulties with trade balance.

3. Methods of International Payments.

- (a) These are selected by agreement or contract.
- (b) Effort of bankers connected with given market is to have merchants settle balances by "bills" drawn on market with which such bankers are connected.
- (c) In times past "sterling bill" was standard method of settlement because of facilities held out by England.
- (d) Selection of money unit in which to draw bills is determined by conditions governing sale of such bills.
- (e) Bills drawn usually distributed by currency unit according to market on which they are drawn in first instance, while bills which would ordinarily be drawn on minor markets are shifted to major markets according to facilities for sale or disposition as already indicated.

Conditions Determining Location of Financing.

- (a) Fundamental consideration is level of discount rates for first class commercial paper.

- (b) development of banking with branches and agencies and other international connections, has important influence.
- (c) Extent of country's financial interests abroad, investments in foreign countries, etc., has underlying influence in directing business to home market.
- (d) Character of country's foreign business and degree of permanence tend to influence permanence of foreign financing which comes to it.

5. International Competition Among Bankers.

- (a) Bank which has abundance of funds desires to have bills drawn on it and thus keep its funds employed.
- (b) When funds are fully occupied, banker endeavors to secure assistance of some intermediary country by arranging to draw bills on it (illustrated by present position of United States and Great Britain).
- (c) Selection of intermediary country depends on cost of establishing bankers' balances there. This depends somewhat on international arrangements, and somewhat on prevailing rates of interest.
- (d) One determining influence at any given time may be condition of balance of trade which affects exchange rates, and so alters basic cost of providing remittances.

6. Influence of Balance of Trade.

- (a) In general, in order to carry on financial relations with any country, basis must be laid by establishment of good commercial relations.
- (b) This means that extension of banking business abroad is associated with extension of sale of goods.
- (c) Financial facilities also react, as already seen, upon development of commercial business.
- (d) Summary: - Basic considerations influencing short term financing and current sale of goods found in relative discount levels of trading countries and in conditions surrounding export of capital.

4/27/17

XIII.

MONEY PRICES, AND CREDIT.

1. Definition of Money Value.

- (a) Price a statement of relationship between goods and money.
- (b) Money not a final good in itself, but a means of trans-
tion to some other good.
- (c) Hence price really a mode of expressing the value of any
one good or article in terms of all other goods or articles.
- (d) "Value of money" is converse of other expressions of value
which state such value in terms of money.

2. Theory of Prices.

- (a) Theory of prices is analysis of factors governing rela-
tionship between money and goods.
- (b) If "money" were an abstract purchasing power or unit
representing control over an aggregate of different goods,
theory of prices would be theory of values in general.
- (c) When money is introduced, peculiarity of the analysis is
seen in fact that it is narrowed so as to bear specially
upon elements relating to the exchange power of the money-
article.
- (d) Most discussions of prices thus tend to become special
discussions of factors directly influencing the value of

money itself. While factors of value which are common to all classes of goods are taken for granted.

3. Conflicting Views of Prices:

- (a) Original "quantitative" theory of money states that prices vary according to variations in supply of money.
- (b) As economic activities became more complex, this necessitated various refinements upon definition of "quantity of money."
- (c) Eventually there was developed the so-called "credit theory of prices," which regarded price as outcome of aggregate of factors representing purchasing power.
- (d) Principal difference between conflicting theories found in definition assigned to term money, and in analysis of factors influencing its supply.

4. Nature of Credit..

- (a) Various definitions but two chiefly in opposition:
 - (1) That credit is a "short sale of money", i. e., merely a deferred agreement to deliver money.
 - (2) That credit is purchasing power based on the possession of goods and merely stated in terms of money. The latter idea the correct one.
- (b) Object of using credit to dispense with use of money (1)

because of expense of using it, (2) because of greater speed and convenience without it.

5. Effect of Use of Credit.

- (a) Two primary or original views on the topic. (1) That use of credit is equivalent in effect to use of money and affects prices in same way. (2) That credit acts as substitute for money, and relieves money of demand which would otherwise fall on it, prices being simply transferred to credit exchanges from the money exchange.
- (b) Electric view more recently developed is combination of foregoing and is that credit and money normally operate together as media of demand for commodities; relation between money and commodities being established by comparison of demand and supply in exchange system of which credit forms integral part.

6. Relation of Credit to Prices.

- (a) Under any given conditions if new volume of goods comes into existence they lead to creation of credit at banks and elsewhere sufficient to effect their exchange. In such case no influence on prices, but some strain which would have fallen on money is lifted off.
- (b) In certain cases credit may be granted out of proportion

to real values created or exchange work to be done. Such exchange of credit may lead to undue amount of purchasing power in certain hands, and this tends to increase demand for commodities, hence causes rise of prices.

- (c) In either case over-conservatism or "panic" may lead to withholding of credit which would otherwise have been granted. This may lead to lessening of demand for commodities, hence fall of prices.
- (d) In some cases derangement of normal credit arrangements may result in unusual call for money to settle with; prices, however, remaining unchanged.

7. The Bank and the Money Supply.

- (a) Two views regarding the function of bank in relation to money, (1) one treats it as a means of providing a substitute for money. (2) the other as a means of effecting transactions without the necessity of any reference to money.
- (b) First effect of banking operations is to provide means of exchange which economize or reduce necessary use of money.
- (c) Secondary effect is to render circulation of money much more rapid, thereby enabling a given quantity of money to perform larger number of exchanges.

- (d) Incidental effect of banking is to equalize stocks of money, and hence to bring about equilibrium of prices both locally and internationally.

8. Relation of Banking to Price Level.

- (a) Banking comes into existence on basis of established price level. Relation of bank to this existing price level is one of steady and constant modification.
- (b) Effect of bank operations is to stimulate exchange and production, while encouraging use of money stock as banking reserve.
- (c) Rise or fall of reserve tends to affect supply of credit, hence to increase or decrease means of transferring goods.
- (d) Fluctuation in supply of bank credit also tends to influence direct payment for goods, hence to affect prices.
- (e) Such influence on prices tends to bring about readjustment of money domestically or internationally, hence to establish similar relationships between money and goods throughout world.
- (f) Banking is thus direct influence through which price level is altered (1) by reflecting change in activity of the process of exchange and in the conditions of supply of credit, (2) by directly affecting the supply of bank credit itself through changes in reserves, and hence in

the volume of credit which can be extended by bank at given time.

9. Ultimate Problem of Prices as Influenced by Banking Credit.

- (a) If bank credit merely eliminates certain transactions from entering into money exchange, effect of banking upon price problem is negligible from long-range standpoint although significant temporarily, and prices are basically established in that range of operations which are conducted on a money basis.
- (b) If bank credit is merely a substitute for money, foregoing conclusion must hold generally good.
- (c) If bank credit is regarded as one element among factors of demand, coordinate with money, fluctuations in bank credit are real fluctuations in demand for goods, hence bank credit may be regarded as playing the same part as additional "money" supply, and prices may be considered with bank credit treated as an essential element in equation.
- (d) From this standpoint, analysis of price becomes largely analysis of all factors tending to influence activities of exchange, and convertibility of goods into purchasing power.

5/3/17.

XIV.

BANKING AND ITS RELATION TO MONEY AND PRICES
(Continued)

1. Mechanism of Money and Banking.
 - (a) Under conditions where money is used as medium of exchange, but no banking or credit system in operation, assume creation of banking mechanism.
 - (b) Immediate effect is to withdraw portion of circulating medium and simultaneously provide a credit mechanism capable of supplying a means of effecting exchanges as needed, up to much larger amount.
 - (c) Banks stand ready to provide this circulating medium by converting claims upon wealth into means of payment, or, in other words, "extending credit."
 - (d) This system enables owner of wealth to make direct payment for other wealth in form acceptable to owner thereof.
 - (e) Process does not create new wealth, but renders process of exchange more active and simple, than would be true without it.
 - (f) Process makes a demand for a given sum of money in the first instance for use as "reserve", but also facilitates transactions which might otherwise have required use of money, and at the same time renders possible or brings into existence transactions that otherwise would probably

not have been undertaken.

- (g) Credit mechanism thus both constitutes demand for money and influences supply of it, by obviating the necessity for as large a coinage as would otherwise occur.

2. Adjustment of Level of Money Supply.

- (a) Banking system undertakes to place money where it will yield largest returns, in convenience as measured by interest rate.
- (b) Hence if bank reserve has been unduly lessened in any country, owing to growth of credit structure with resulting increase in discount rate, banking mechanism shifts specie to that point.
- (c) Effect is to prevent undue increase in price level resulting from cost of bank credit as element in cost of production, or from temporary curtailment of demand due to inability or indisposition of local bank to provide additional amounts of credit on books.
- (d) Process of readjustment of specie supply thus carried out establishes stable relationship between credit system of world and underlying money basis.

3. Relation of Reserve to Amount of Credit.

- (a) This relationship not constant either geographically or

chronologically.

- (b) Amount of credit which can be safely sustained by a given reserve varies widely in accordance with several factors.
- (c) Hence no positive statement to be made concerning extent to which credit is "substitute" for money.
- (d) Credit instruments as medium of exchange also vary in ability to satisfy wishes of community, public being at some times more ready to employ credit instruments than at others.

4. Relation of Credit System to "Rapidly of Circulation".

- (a) Rapidity of circulation recognized by all economists as factor in real money "supply."
- (b) Must likewise be recognized as factor in credit supply, since efficiency and availability of credit are rendered greater when given amount of credit is rendered more able to exchange goods, through improved methods.
- (c) Hence variation in activity of credit mechanism implies variation in extent and effectiveness of current or immediate demand for goods.

5. Credit System and Prices.

- (a) Credit system is thus seen as an arrangement or mechanism

which operates to affect the strength of every factor entering into the determination of prices.

- (b) May correctly be regarded as affording means of providing a "substitute for money" at times, or as rendering money more efficient.
- (c) This, however, is only incidental effect of its operation.
- (d) Credit system affords entirely new medium within which different factors influencing demand and supply of goods and money act upon one another.
- (e) Even if conceded that change in quantity of money produces an exactly corresponding change in prices, this could be true only under stable or assumed condition as to use of credit, because change in such condition changes relationship between other factors in price equation.
- (f) Credit itself, as already seen, does not constitute "demand for goods"; but demand is, at least potentially, present in some form before credit is extended.
- (g) Money must be included among goods, not only because of circulation power, but because constituent metal has a value of its own.
- (h) Money, however, not to be regarded as a medium through which all exchange must ultimately or theoretically be effected, but as simply an element entering into the general equation of demand and supply.

6. General Summary.

Banking and bank credit are to be regarded as processes or means whereby exchange system of the world is facilitated and demand for goods is rendered more steady and effective. Inasmuch as extension of bank credit, and credit system as a whole, are processes without any eventual value in themselves, they are not substitutes for money, but are means of creating a condition of exchange in which money occupies a place different from that otherwise to be assigned to it. Prices can not be discussed without reference to credit situation since this tends to influence them both absolutely and relatively because it affects the conditions under which demand is exerted. Money is one element in a great aggregate of goods. It has a value dependent upon a variety of different elements of use. Prices can not be regarded as based upon a theoretical comparison of the total volume of money in existence with a given total of goods to be exchanged. Neither element in such an equation is stable at any moment, but both are variable.

XV.

CURRENT BANKING PROBLEMS OF THE UNITED STATES.

1. Problem of a Combined Gold Reserve.

- (a) Effect of Federal Reserve Act (1) Establishment of partial and incomplete system of organization shared in by about one-half banking capital and surplus of country. (2) Creation of a partial combination or concentration of gold reserve. (3) Inauguration of system of Federal oversight which, however, has no means of direct cooperation with State authorities.
- (b) New system has shown itself effective as stabilizer of credit in peaceful times Not tested as yet by panic or international pressure or by severe government financing.
- (c) Question now to be met in this connection is the means of securing organization of complete system able to carry the load of public demands and maintain convertibility of whole credit structure.

2. Problem of Elastic and Sound Currency.

- (a) Coexistence of variety of different kinds of note issues, including three classes of bank note.
- (b) Difficulty of eliminating bond security behind notes, and putting issues upon a basis of sound commercial paper.
- (c) Failure to recognize bank note as form of credit, hence

tendency to include it as bank reserve in State institutions.

- (d) Difficulty of securing note issue based solely on commercial paper instead of on bonds or long term investments.

3. Problem of Introducing Sound Method of Financing Business With Commercial Paper.

- (a) Prevalence of single name paper type of loan.
- (b) Obstacles to introduction of trade acceptance and bankers acceptance.
- (c) Special conditions under which discount market must be developed.
- (d) Federal Reserve system provides for several technically separate discount markets, connected by the Federal Reserve system of oversight. This is a new mode of dealing with the banking question and requires the application of new methods.

4. Problem of Relation of Government to Banking System.

- (a) Federal Reserve system, though technically fiscal agent of Government, not yet performing more than routine functions.
- (b) With peace maintained, problem would have been that of gradually taking over subtreasury duties.
- (c) In view of condition of war, chief problem becomes that of aiding in flotation of loans and in keeping banking system as sound and liquid as possible as outstanding obli-

gations increase.

- (d) In modern government loans, public obligations tend to become a staple banking paper, and hence the basis of advances. Problem of reserve system is to prevent dangerous inflation based on such advances.

5. Problem of Uniform Collection and Clearance System.

- (a) Maintenance of erroneous collection system by considerable number of banks based on faulty reserve plan has continued down to date.
- (b) Retention of deposits of country bank funds in cities where they are baned on call leads to a desire to use these funds to "carry" the collections.
- (c) Opposition to prompt and cheap collection owing to existence of large number of artificially created institutions, likely to persevere.

6. Problem of Uniform Management, or Oversight, of All Classes of Banks.

- (a) Conflicting State laws and regulations differing from those of national Government.
- (b) Lack of any accepted principle of classifying different kinds of banking operations and dividing them among different (and mutually exclusive) types of institutions.

- (c) Lack of uniform policy regarding loans, discount rates, and banking policy throughout country.
- (d) Competition for retention of institutions under State supervision, resulting in concessions regarding reserves, management and other details of operation.

5/14/17

1014

For release Sunday, a. m., February 11, 1917.

February 10, 1917.

MEMORANDUM FOR THE PRESS.

Mr. William L. Saunders has been elected a Class "C" Director of the Federal Reserve Bank of New York in the place of Mr. Charles Starek, resigned, for the term ending December 31, 1917.

Mr. Saunders is President of the Rand Drill Company, and prominently identified with other business interests in New York and New Jersey. He has been twice Mayor of Plainfield, N. J., which is his home, a member of the New Jersey Harbor Commission, the New Jersey Board of Commerce and Navigation, is Vice Chairman of the Naval Consulting Board and holds other like offices. He has business offices at No. 11, Broadway, New York.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES
OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED,

That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal reserve bank or Federal reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal reserve bank or Federal reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold coin or gold certificates on the order of the Federal Reserve Board to any Federal reserve bank or Federal reserve agent at the Treasury or at the subtreasury of the United States nearest the place of business of such Federal reserve bank or such Federal reserve agent, Provided, however, That any expense incurred in shipping gold to or from the Treasury or subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the Federal reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the Governor, or Vice Governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

The expenses necessarily incurred in carrying out the provisions of this Act, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the Federal Reserve Board and included in its assessments against the several Federal reserve banks.

Gold deposits standing to the credit of any Federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal reserve notes, or as a part of the reserve it is required to maintain against deposits.

"Nothing in this Act shall be construed as amending the Act of March 14, 1900, as amended by the Acts of March 4, 1907 and March 2, 1911, nor shall the provisions of that Act be construed to apply to the deposits made or to the receipts or certificates issued under this Act."

LETTER OF COUNTRY BANKER IN TEXAS TO

R. L. VAN ZANDT, GOVERNOR, FEDERAL RESERVE BANK OF DALLAS.

"I have tried to keep in touch with the purposes and objects of the Federal Reserve Act as well as a busy man could who was not charged with the administration of any part of it. There is no question in my mind but that the System will eventually prove to be one of the very best bank acts in the world, after it has been seasoned and amended by years of experience.

"In view of the fact that the present is an epoch making period in the history of our country (and particularly so in a financial way) I am deeply interested both as a banker and citizen in making use of every instrument at command for fortifying ourselves against the coming evil day.

"It occurs to me that just at this time the thing of most pressing importance is the getting under the control of the Federal Reserve Banks as large a percentage as possible of all the gold in the United States where it can be advantageously used to protect the Government as well as the business interests of the country in an economic way. The recent amendments to the Federal Reserve Act as recommended by the Federal Reserve Board would materially aid in accomplishing this.

"Another thing which, in my judgment, would help to place the country, and particularly Texas, on a sounder, safer basis, in a business way, would be the liberal use of both trade and bankers' acceptances in domestic and foreign transactions. Notwithstanding the information industriously circulated by the Federal Reserve Banks, very few country merchants and country bankers have ever given the matter, so far as I am able to judge, any serious thought or tried to make use of them, and but few of the wholesalers, jobbers, grain dealers, oil mills, lumbermen and manufacturers in the State have made general use of either. If they were in general use I believe a broad market for such bills would soon develop, and if country bankers could buy prime bills for thirty, sixty and ninety days' maturity from their correspondence in Texas or from brokers in the principal Texas cities, a lot of these short maturities would be taken by country banks at any rate in advance of the usual 2% on balances. In this way a lot of us fellows could loan much closer and at the same time always have paper that could be quickly re-discounted with our Federal Bank if some emergency should arise. I understand, of course, that these bills can be bought at this time in New York, but I want to see Texas business men make use of all the good things going and Texas finance herself in so far as is possible."

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 14, 1917.

Dear Sir:

A Committee of the Federal Reserve Board has recently been engaged in reviewing the discount rates now in effect at Federal reserve banks, and finds that there is a considerable lack of uniformity among them, while in some cases the policy followed by one bank is slightly opposed to that of others. A summary of the situation shows that there are in effect at the present time thirteen different discount rates, as follows:

1. Collateral notes, 1 to 15 days,
2. Paper maturing within ten days,
3. " " " 15 days,
4. " " between 11 and 30 days,
5. " " " 16 " 30 "
6. " " " 31 " 60 "
7. " " " 61 " 90 "
8. Agricultural paper within 90 days,
9. Trade acceptances between 1 and 30 days,
10. " " " 31 " 60 "
11. " " " 61 " 90 "
12. Commodity paper within 90 days,
13. Bankers' acceptances.

The Committee has recommended that an attempt be made to simplify these rates by suggesting to the various banks the adoption in lieu thereof of the following seven standard quotations.

1. Paper maturing within 15 days,
(including collateral notes),
2. Paper maturing from 16 to 30 days,
3. " " " 31 to 90 days,
4. Trade acceptances 30 to 90 days,
5. Commodity paper within 30 to 90 days,
6. Agricultural paper 90 to 180 days,
7. Bankers' acceptances 30 to 90 days.

Will you give this matter your careful consideration and report as soon as possible your views with respect to this proposal?

Very truly yours,

Governor.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES IN CONGRESS ASSEMBLED,

That every bank, banking association, trust company and private banker authorized by the laws of the United States or of any State to receive money on deposit subject to check shall pay an annual tax of one-tenth of one per cent on the aggregate amount of checks paid by it during each fiscal year which bear the endorsement of or which are collected through any other bank, banking association, trust company or private banker located outside of the State in which such checks are made payable, and every bank, banking association, trust company or private banker shall make a return at the end of each quarterly period to the Collector of Internal Revenue showing the aggregate amount of such checks paid during that quarter, such return being verified by the oath of a member of any private banking firm or of at least two officers of any incorporated bank, banking association, or trust company, PROVIDED, HOWEVER, that this tax shall not apply to any Federal reserve bank or member bank of any Federal reserve bank, or to any non-member bank which carries and maintains a collection or exchange account with any Federal reserve bank under authority of the Federal Reserve Act.

2/14/17

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED,

That all Federal reserve notes and all gold, gold certificates, lawful money and eligible collateral security issued to or deposited with any Federal reserve agent under the provisions of the Federal Reserve Act shall hereafter be held by such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates, lawful money, and eligible collateral security. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold, or gold certificates, with the Federal Reserve Board to be held by such Board subject to his order or with the Treasurer of the United States for the purposes authorized by law.

2/14/17

A P R O P O S E D P L A N O F P R O C E D U R E .

TO BE ADOPTED BY THE FEDERAL RESERVE BOARD IN PROMOTING THE
MATTER OF CHECK COLLECTION.

After consultation with each of the Federal Reserve Banks as to the situation in each of the Districts in respect to clearing, the Federal Reserve Board outlines the following line of procedure as the next important step in the solution of the collection and clearing system:

1. That as soon as possible; say, April 1st, or May 1st, each of the Federal Reserve Banks shall notify their member banks that they are prepared to receive checks from their members, upon any bank in their District or in other Districts, subject to the following scale of service charges, which it is hoped may be reduced in the case of checks drawn on member and assenting banks to nil.
 - (a) Checks on member banks and bearing member bank indorsements; 1¢ per item.
 - (b) Checks on assenting nonmember banks (those agreeing to remit at par) when presented and indorsed by a member bank; 1¢ per item.
These checks may also be accepted without charge from assenting nonmember banks when remitted in settlement of checks received from the Federal Reserve Bank.
 - (c) Checks on nonassenting nonmember banks (those refusing to remit at par) a charge of one-tenth of

one per cent on the aggregate amount of all the items: Provided, however, that this charge is imposed solely to reimburse the Federal reserve bank in whole or in part for its expense of collection and is not to be paid to the remitting bank.

2. In order to assist the Federal reserve banks in every way in making these collections, the Federal reserve banks will be authorized to make use of post offices (*), express companies, or any other agencies which they may find necessary in making the collections; provided, however, that as a matter of equity to member banks required to remit at par, no exchange charge for remitting funds shall be paid to any remitting bank. Banks which have no offsetting items to remit will be permitted, as heretofore, to remit currency at the expense of the Federal reserve bank.
3. Federal reserve banks will be requested to encourage in every possible way the direct routing of items, either by sending items on banks in other Districts to the Federal reserve banks of those Districts, or by mutual consent, or with the permission of the Federal reserve bank -

Note (*) - When post offices are used, under the arrangement authorized by the Postmaster General, postmasters, after having collected checks, will have the privilege of remitting either currency or a postal money order for the amount of the total funds collected, less the customary charge for the postal money order.

routing their checks direct to the bank upon whom drawn. Thus, a bank at "A", in the Seventh District, will have the privilege of sending checks drawn against a bank at "B", in the same District, and settling for these checks by a draft drawn on the bank at "B", to be sent direct to the Federal reserve bank, together with a copy of the letter listing and transmitting the items. In the same way, the bank at "B" will have the privilege of offsetting items which it receives drawn on the bank at "A".

4. For the present, the Federal Reserve Board will not promulgate any rules in respect to charges which member banks may make against their customers for checks.
5. The Federal Reserve Board will continue to issue a par list the first of every month to accompany the Bulletin, until further notice.

2/16/17.

EX-OFFICIO MEMBERS
WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
1024
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 16, 1917.

Dear Sir:

The Board deems it advisable that the Federal reserve banks should understand clearly what they may and may not do in the way of rediscounts or loans based upon United States Government bonds or notes. For your information, therefore, a memorandum which has been prepared by counsel and which has been approved by the Board, is sent to you herewith, as follows:

Section 13 of the Federal Reserve Act provides two methods whereby Federal reserve banks may make advances to their member banks for the purpose of enabling them or their customers to carry or trade in bonds or notes of the United States.

Paragraph 2 of Section 13 provides that upon the endorsement of a member bank, a Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions, which may or may not be secured by staple agricultural products or other goods, wares or merchandise. The law then states that "such definition" of eligible paper shall not include notes, drafts, or bills of exchange drawn for the purpose of "carrying or trading in stocks, bonds or other investment securities except bonds and notes of the Government of the United States."

This is equivalent to an affirmative declaration that a Federal reserve bank may discount a note, draft, or bill of exchange endorsed by a member bank which is issued or drawn for the purpose of carrying or trading in bonds or notes of the United States. This clause of Section 13, however, does not permit of the discount for a member bank of one of its own bills payable, since the requirement that the note or bill must be endorsed by a member bank precludes the possibility of applying this provision to the discount of anything but customers' paper.

The amendment to Section 13, approved September 7, 1916, provides on the other hand that a Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days, provided, such notes are secured by certain specified classes of paper or "by a deposit or pledge of bonds or notes of the United States." It is evident, therefore, that a member bank may borrow directly from its Federal reserve bank on the security of Government obligations, but not for a period longer than fifteen days.

Under the provisions of Section 14, subsection (b), Federal reserve banks are authorized "to buy and sell at home and abroad, bonds and notes of the United States" and under authority of this section member banks owning Government obligations may properly sell them to any Federal reserve bank desiring to make the purchase.

- 3 -

S U M M A R Y

I. Any member bank which has loaned money to any of its customers for the purpose of carrying or trading in bonds or notes of the United States, may rediscount with its Federal reserve bank the bill or note of its customer, provided, such bill or note

- (a) Has a maturity at the time of discount of not more than ninety days, exclusive of days of grace;
- (b) Has the endorsement of the member bank.

Such bill or note, however, need not necessarily be secured and need not be drawn for a commercial purpose other than for the purpose of carrying or trading in notes or bonds of the United States.

II. Any member bank which has itself purchased obligations of the United States may procure advances from its Federal reserve bank, for not exceeding fifteen days, on its own promissory note, provided, such note is secured by a deposit or pledge of bonds or notes of the United States.

III. Any member bank owning bonds or notes of the United States may, under authority of Section 14, subsection (b), sell such bonds or notes to any Federal reserve bank, desiring to make the purchase.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
 PAUL M. WARBURG, VICE GOVERNOR
 FREDERIC A. DELANO
 ADOLPH C. MILLER
 CHARLES S. HAMLIN

1925
 H. PARKER WILSON, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

February 16, 1917.

Dear Sir:

I enclose herewith copies of letters received this morning from one of the Federal reserve banks, which explain themselves.

I assume, of course, that it is entirely unnecessary to caution you to be careful lest your bank be victimized in a similar manner, but for the information of the Board, I would appreciate it if you would let me know what your course would have been had you received a letter like the one enclosed, purporting to come from one of your member banks, asking that a shipment of currency be made by registered mail to an individual unknown to you.

Very truly yours,

Governor.

Enclosure.

. 1025 a.

"Please ship to us as soon as possible \$1,000 in \$1 notes and \$500 in \$2 notes. It will not matter if the notes are new or old ones.

It will also save time and additional expense, and we will appreciate it, if you will send direct, by registered mail, to one of our customers, Mr. Ralph Miller, so as to reach him Monday, C/o Hotel Dupont, Wilmington, Delaware, \$2,000 in \$10 notes, preferably Federal reserve notes, new or old. Charge the amount and expense of this shipment to us.

We will make good any shortage in reserve required with the Federal Reserve Bank."

1025 b.

"I regret to announce that this morning we discovered that apparently we are going to suffer a loss of \$2,000 because we acted on a letter which we believed to be genuine and which now proves to be a forgery. The facts are substantially as follows:

On Saturday morning, February 10th, we received a letter from the Pine Grove National Bank of Pine Grove, Pennsylvania, a member bank, a copy of which I enclose. The letter is on the regular letterhead of the Pine Grove National Bank and the signature of the Cashier to the letter is a poor imitation of the genuine signature. We acted in accordance with the letter, shipping \$1,500 in currency to the Pine Grove National Bank, and \$2,000 to Ralph Miller, c/o the Hotel du Pont, Wilmington, Delaware. This morning we received a letter from the Pine Grove National Bank returning the currency shipped to them and stating that they had not ordered it. We immediately called them on the telephone and were advised that the whole matter was fraudulent.

We have put the case in the hands of detectives but have not much hope of locating the \$2,000 sent to Ralph Miller. We wish it were possible for us to call upon the Secret Service to help us out in a matter of this kind because we think they are far more competent than any detective agency. None of the policies which we are carrying protect us against forgery unless the forgery is conducted in collusion with one of our own employees, which is not the case in the present instance.

There is no excuse for us to offer, the fact is that we passed a forged signature and that is all there is to it. As soon as we have further information on the matter I will communicate with you."

EX-OFFICIO MEMBERS

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H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

February 17, 1917.

Dear Sir:

It is noted that Federal reserve agents are treating supplies of notes in subtreasuries not as reserve or emergency supplies, but as stock to be drawn upon for current requirements. The Board believes that a more desirable policy will be to treat notes held in subtreasury as reserve, to be drawn upon only in case of necessity, while using the stock in Washington as the current supply to be drawn upon when notes are required to be issued to a Federal reserve agent.

In this connection it is suggested that Form 45 be used only in ordering notes from Washington or in confirming such orders which have been sent by wire.

Some confusion has been caused in the offices of the Board through the failure of Federal reserve agents to indicate upon requisitions for notes on the printed form that the requisition is in confirmation of an order forwarded by telephone or telegram.

You are requested, therefore, if you are not already doing so, to indicate plainly when an order is forwarded on the usual form in confirmation of a telephone or telegraph message. A rubber stamp may be used or the word "Confirmation" written diagonally across the requisition with the date on which the original request was forwarded. This will prevent duplication of orders.

Requests for the release of notes from the subtreasury should be confirmed over the signature of the Federal reserve agent in the ordinary way, and not upon a blank.

Thanking you for your attention to this matter, I
 am,

Very respectfully,

Governor.

2096

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

1028
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
DOLPH C. MILLER
CHARLES S. HANLIN

FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 16, 1917.

Sir:

The Treasurer of the United States has advised the Federal Reserve Board that his office will be pleased to extend the privilege of transfers of funds to the Federal reserve banks situated in subtreasury cities, payment to be made in the same form of currency as that deposited and in such denominations as may be available at the time payment is made. Such transfers will be made by wire upon request; but the expense of telegrams must be borne by the depositing bank.

This cooperation by the Treasurer will facilitate deposits of currency by Federal reserve banks in a subtreasury city with the subtreasury therein, for payment in similar currency to a Federal reserve bank in another subtreasury city through the subtreasury there located.

The Board has asked that it be kept informed, as far as practicable, of the amounts and denominations of currency available in each subtreasury.

Respectfully,

Governor.

2097

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
1050.
FEDERAL RESERVE BOARD

Dear Sir:

In reply to your letter of
I have pleasure in advising that your name has
been placed on our list to receive a copy of the
third annual report of the Federal Reserve Board
as soon as it is available.

An advance copy is enclosed herewith.

Very truly yours,

Assistant Secretary.

Enclosure.

REMARKS OF H. P. WILLIS

At New Haven, February 21, 1917.

Members of the Connecticut Bankers' Association:

The question of "preparedness" has been discussed during recent months from many angles, but comparatively little attention has been given it from the point of view of finance. Perhaps this is as good a time as any to clear our minds upon that phase of the subject. It is a moment which appeals strongly to the patriotic instincts of the average American in any year, but in this year and at this moment above all others. If we were to ask the traditional man in the street what he means by preparedness, he would perhaps define it as defense of the country against outside aggression. We all hope that no such danger will ever be imminent, but most of us also recognize that in order to prevent it from becoming so, we must be ready to meet such a contingency. Most men also realize that the true analysis of the idea of "preparedness" implies not merely preparation for some possible event, but also preparation for certainties. In this view of the problem the question is really one of self-analysis or inventory. It is an inquiry as to the degree of our discipline, the extent to which we are ready for what may come, the measure in which we are able to husband and use our resources of every kind.

The experience of the European nations during the past two and a half years shows that even in the limited military sense "preparedness" depends much for its efficacy upon finance, since it is only through proper finance that the nations' resources can be husbanded, marshalled and directed to the spot where they are most needed. This, too, is the teaching of general observation and of the logic of events. How have we prepared ourselves financially? To what degree have we made ready for any sudden strain or catastrophe? More important still - How far are the resources of the country of today, marshalled for the economic contests of the future?

You are all familiar with the Federal Reserve System and its work. I do not need to tell you anything about that system in detail. Many of you are already members of it, You have, therefore, studied the system intimately, and you know how it affects you individually. I believe most of you think it has been beneficial to you even from the narrower business standpoint - that new opportunities have been opened, and that while they have not all perhaps been fully put to use, they are all available, and when so used will result in making the bank as a going institution far more profitable and satisfactory from the investment standpoint than it could have been under the old system. However, this may be and whatever you may think on the subject from the standpoint of

- 3 -

banking as a business investment, let us consider the matter in its more important public aspects.

The Federal reserve banks stand ready today to provide you with all of the note currency that can in any conceivable state of things be asked for. Altogether I estimate their note-issuing capacity in round numbers at about one billion dollars. They hold reserve money to the extent of \$535,000,000. Their necessary reserve holdings against deposits are, roughly speaking, \$235,000,000. They have thus \$300,000,000 of free gold which can be used as a 40% reserve against notes, thereby permitting an issue of \$750,000,000. In addition to this they hold today almost \$100,000,000 of free commercial paper not pledged to protect outstanding notes. By withdrawing from Federal reserve agents an equal amount of the gold held by the latter and putting this paper in the place of it, they would, after deducting the reserves required by law to be held against notes already outstanding, be able to issue fully \$150,000,000 more. Inasmuch as there would still remain a sum in gold amounting to nearly \$200,000,000, in the hands of Federal reserve agents, a considerable portion of which could also be released and used under favorable conditions as a basis for notes, we may safely add another \$100,000,000 to the sums of \$750,000,000 and \$150,000,000 already enumerated, thus raising the potential issue power of the banks to fully one

thousand million dollars. Numbers so large as these have little meaning in and of themselves. We must remind ourselves by way of comparison that during the year 1914 when the modified Aldrich-Vreeland Law was called into active operation, the issue of notes was less than \$400,000,000 for the country as a whole, while additional issues of clearing house certificates were less than \$150,000,000. In round numbers we may say that notes available today are double the total of emergency issues called for at any time in the past.

Do not suppose that this issue power is only theoretically available for use. The Federal Reserve Board knowing the importance that is attached to the question of note issue, has promptly and efficiently arranged to make full use of the provisions of the law which facilitate the issue of notes. You remember that the original Aldrich-Vreeland Law made provision for the printing and holding in stock of some \$500,000,000 of what was called emergency currency. This was an outgrowth of previous experience which had emphasized the difficulty of getting bank notes under the older system with the speed that was required in times of emergency, some three weeks or more being necessary for the printing and seasoning of the new circulation before it could be issued. Therefore when the Federal Reserve Board was first organized it directed the printing of \$500,000,000 of notes. Later

this amount was increased to some \$700,000,000 because of the large demand for these notes in exchange for gold. Very recently it has been voted to raise the total note issue to \$900,000,000, this sum, of course, being in addition to the notes now outstanding. The Bureau of Engraving and Printing at Washington is working at full speed upon the new currency, and it is hardly conceivable that the demand should overtake it. There are today in the vaults at Washington and in the hands of Federal reserve agents and Federal reserve banks an accumulated supply of not less than \$450,000,000, in notes already prepared.

It has also been found in past times that a serious difficulty lay in the time required to transmit notes from Washington. Delays were inevitable, due to the necessity of sending the notes under guard or with special precaution for their safety, or due to the limitations placed by the forwarding companies upon the transmission of large consignments of notes. For many reasons, therefore, it has been properly felt that every center of note issue should have its reserve stock readily available and in abundant supply. The framers of the Federal Reserve Act foresaw this necessity and provided that the notes to be printed might be stored in the subtreasuries or mints nearest the reserve banks at which they were to be issued, but until recently it has been deemed wise to keep the great bulk of this supply in Washing-

ton. Today the provisions of the law are fully availed of. A large deposit of notes is being made in every subtreasury and in some of the mints in order that every reserve bank may be readily in touch with the source of supply for its currency necessities. If, therefore, there is any safety or security to be found in abundant, well protected, sound and carefully controlled circulating notes the Federal reserve system is fully prepared to provide that safeguard. This seems an ample protection so far as the currency situation is concerned. We may regard it as the supply of financial "munitions" stored and available to meet any possible shock.

Let me say, however, that in my judgment, the note circulation is not likely to play the important part in the future that it has in the past as a means of relief. We have placed far too much emphasis upon the note question in our whole discussion of banking and currency. Notes may be of great importance as an auxiliary resource, but the currency of the advanced commercial countries of today is not the note but the check and deposit. How has the Federal reserve system prepared itself to meet the call for this kind of currency? Precisely in the same way as in that of the notes. It has perfected its machinery for the granting of discounts; it has simplified the kinds and classes of paper that are available as discount offerings; it has developed

- 7 -

its internal organization, and last but not least, it has laid the foundation of an adequate check collection system. You know that in times past when banks of our centers have suspended specie payment upon occasions of emergency, the result was to make a vast volume of checks constituting the so-called "float" of the country, practically uncollectible. That this was one of the fundamental elements of the situation which could be corrected only in very limited measure by the ^{free} issue of bank notes, is considered by every man familiar with the real facts in the situation. It was, therefore, one of the principal cares of those who framed the Reserve Act to provide for an adequate system of collecting and cashing checks drawn on both member and non-member banks that might be deposited with reserve institutions. The reserve banks, therefore, stand today as the post expresses it, "forthright, accoutered, accepting," ready to cash the credit claims of the community by the established method of offsetting them against one another under conditions and backed by resources which guarantee the convertibility of the balance into available circulating media upon demand. It is the knowledge and consciousness of this fact widely diffused among the bankers of the country that constitutes the best safeguard against disturbance, and that strongly indicates the impossibility that any sudden demand for notes as in the past has made itself felt, will now

be presented. There has from time to time been a large expansion in the circulating necessities of the country as confidence rises and ebbs, and as current events influence the minds of depositors and through them the necessities of the banks. But it is not the ebbing and flowing of the tide that causes disaster, but the sudden tidal wave. We may expect our currency necessities in the future to resemble the former and not the latter, and we may confidently count upon our control of the movement through proper provision for the storage and disposal of the surplus waters of demand. It is the organization of the banks of the country into self-governing, self-contained, self-dependent districts that constitutes the best safeguard against possible danger in the months to come. We have, in short, carefully organized, drilled and disciplined a competent corps of expert financial soldiers, and with them as with others, their best resource is found in their esprit de corps, and only secondary in weapons of credit with which they are provided.

The ultimate problem in the matter does not however relate to this aspect of preparation, but relates to those who are inclined to enlist. The Federal reserve system at its start was, as you all know, the result of conscription. We have been waiting for additional recruits to come forward upon the principle of voluntary service, but they have been slow. Some 40 State institutions have enrolled themselves, and among these are some of national prominence and outstanding responsibility. All are

good institutions, and all have shown both their patriotism and the enlightened character of their self-interest in associating themselves with the new system; but in this case, as in others, the question must always be raised whether it is right to leave the heat and burden of the day to be borne by those of the greater public spirit and patriotism who are willing to volunteer, or whether their efforts should be sustained by a requirement made in the interest of the public service. It would be far better indeed to maintain the voluntary character of the enrollment, but there is justice in the contention that a large part of those who are now enlisted have become members because of the requirements of law, and that they should not be compelled to carry the load which in all equity and justice should be distributed among those who are best able to bear it, and who expect to profit from the results of the operation of the system. It is with this in mind that the Federal Reserve Board has recently presented to Congress a series of amendments to the Federal Reserve Act which are designed to open the way for an enlarged membership, and which will offer full and equal opportunity for service to those who are willing to promote the safety of the financial structure of the nation. The amendments suggested go even further than this. They undertake to bring about a combination of gold resources which shall be superior in strength to anything else now known in the financial world, and which shall practically unite under associate control the basic reserve funds of the banks of the United States.

The outstanding feature of the amendments is its discussion of the existing banking situation as affected by possible conditions growing out of the present abnormal state of foreign trade, and the situation that may exist after the war is over.

To make the system an effective means of financial preparedness, able to guard against all contingencies reasonably to be expected, the Board proposes the reserve percentage amendments to the Federal Reserve Act already made known some time ago, which it estimates would result in massing in the Federal reserve banks a total sum of \$800,000,000 to \$900,000,000. Other proposed changes in the law would enable the Board to safeguard this stock, not only by varying discount rates, as at present, but also by changing reserve requirements, inclusive of those of member banks.

As a means of assisting in this process of mobilizing the gold of the country, the Board again proposes an amendment to the Act providing for the issuing of Federal reserve notes under liberalized conditions by permitting cash in the hands of Federal reserve agents to count as a part of the Federal reserve banks' own cash reserve.

This plan for an immensely powerful massed reserve is further amplified and worked out in its foreign aspects as shown by the statement that the establishment of connections with the great Governmental banks abroad is under consideration, and that

-11-

relationships not only with the Bank of England, as announced some time ago, but with other institutions will be authorized from time to time, such relationships to be employed as a means of regulating gold export movements. The central feature of the report is thus a highly developed and thorough-going plan for uniting and organizing the gold resources of the banks of the country under joint management, designed to render their use as effective and economical as possible, both at home and in international trade.

It is not well, however, in finance any more than in the management of individual affairs, to be constantly preparing against emergencies. The man who lays by for a rainy day is likely to provide for such a day, but for very little else. It is more important to prepare our banking and financial system for the future expansion and development which must come to it, and for the performance of the duties which it can not avoid, than it is to strengthen it simply against some danger which may prove imaginary, and which will be met in any case by the progressive strengthening and increasing of its capacities. How was it that the Bank of England met the unexpected onset of the war? I do not underestimate in the least the capable management of the English currency systems, or the prompt adaptation of long-established customs and laws to immediate necessities; but I submit that England's principal bulwark against danger was found in the foreign connections which fortified

English bankers and English banking systems against a shock that might otherwise have overcome them. England's enormous foreign balances on current accounts gave to the London market an enormous financial power at the opening of the war. British investors' ownership of foreign securities gave to England a staying power in the investment market that, considering the issue at stake, has been almost unparalleled. When our Civil War was two and a half years old, the Government at Washington was selling 7% bonds and accepting pay for them in currency which was worth about thirty-eight cents on the dollar. England to-day sells her securities in this market at a rate between five and six per cent, and obtains her payment for them in the best currency in the world, at a favorable rate of exchange. Have we in the United States forearmed ourselves in any similar fashion, not merely against the possibility of conflict with other nations, but against the chance of competition and commercial warfare? The Federal Reserve Act has held out the opportunity to our bankers to lay the foundation for this kind of preparation. Has it been availed of? Two of our leading institutions have established branches in South America. None has entered the Oriental field. Almost nothing has been done in Europe. Other parts of the world have not been touched. They are a virgin field to-day for beneficial exploitation by American banking capital. I have heard it said by some that American bankers would prefer that the

-13-

Federal reserve system should lead the way into the foreign field, and by breaking a path prepare a road for those who are to come after. Is not this reversing the real intent of the Federal reserve system? In order to do its best work the reserve system must act as it has always acted, as a cooperative enterprise, as a union of banks and bankers. It must have the underlying support which comes from the presence of live commercial transactions conducted by Americans, stated in dollars, and ready for use. And yet the Federal reserve system has endeavored to keep well to the forefront in this regard. It has undertaken negotiations with some of the foremost banking institutions. It has perfected a working arrangement with one such. It has concluded an agreement with an Oriental institution which operates upon a smaller scale. It is prepared to go further and to accommodate itself to any requirement with which it is free to cope. But in this it must have the aid and backing of American bankers.

For many years past there has been an almost unlimited amount of talk about foreign banking, and yet the number of banking enterprises actually established abroad by American bankers prior to the passage of the Federal Reserve Act, could be counted on the fingers of one hand. The Federal Reserve Act, as you know, provides for the establishment of branch banks, by properly qualified institutions, in foreign countries, and it also authorizes the Federal reserve banks to establish agencies in such countries. Only

-14-

two national banks, so far as I am aware, have taken advantage of this permission, and of these but one, an eminent and ably-managed institution of great resources and far-reaching vision, has entered the field on a large scale. A few months ago there was an outcry among business men's associations for an amendment to the Federal Reserve Act that would permit bankers to join together for the purpose of ~~organizing~~ such branch institutions. The demand was heeded, and on September 7, 1916, Congress, at the request of the Federal Reserve Board, so amended the Federal Reserve Act as to permit such jointly-owned banks to be organized. Thus far no such banks have been established and I am not aware of any proposals to create them that are likely to come to a head in the near future. Perhaps there are some of which I am not aware, but certainly the movement has not gone far, if indeed it has ever been started. We must conclude, therefore, that the banks of the country have not gone actively into the task of preparing themselves for the struggle to retain our foreign trade after the change of conditions which all admit must come when European conditions materially alter, and when competition is restored to something like its former intensity. The Federal reserve system has made a beginning by undertaking preliminary arrangements looking to the designation of foreign agencies intended to assist in fulfilling the purposes of the system in

-15-

so far as these relate to foreign operations. I need not, however, insist upon the fact that the Federal reserve system has a purpose which is essentially different from that of ordinary commercial banks, and that whatever it may do in promoting our relations with foreign countries and in aiding in the general plan to promote the welfare of the American discount market, it can not perform the task which only strong commercially organized institutions can fulfill - that of exploiting and developing the foreign market in the interest of our own business community.

It is to be feared that some of our bankers look at this question as if it were a question of immediate profit solely. They are inclined to inquire into the possible profits to be gained by the establishment of branches and connections abroad, as if it affected only them and the welfare of their institutions. The question is, however, a good deal broader than this, since, as I have just shown, it involves the whole matter of retaining our trade and developing it in markets other than our own domestic fields. The business man will not be able under existing conditions in trade and industry, to carry on the campaign alone. He must have that powerful assistance which only the banker can afford, and this can not be rendered without special organization and cooperation for foreign trade in the way that I have spoken of. There are two methods by which such

-16-

effective cooperation can be accomplished; one, the actual establishment of branches abroad, the other the establishment of connections with some institution which will faithfully and earnestly represent the interests of our own bankers and business men in those foreign countries.

The only true way in which to foster and retain foreign trade is through the extension of accommodation under wise and conservative conditions, to those business interests in other countries which require that kind of assistance, and which in return for it, or as a condition of getting it, will be willing and ready to turn their purchasing power toward the United States. We have long known that England's powerful hold upon the trade of South America and the Far East was not due to any innate fondness on the part of the people of those regions for Great Britain or her assistance, but was due to the fact that British banking institutions stood ready to facilitate the movement of goods to those countries, while they also stood ready within reasonable limits to assist in the development of the resources of those countries, and in the exportation of their products to Great Britain. The progress which has been made in recent years by German bankers and business men in competing with Great Britain and her representatives, has been due to Germany's recognition of the essential basis for

-17-

British trade, and her adoption of similar modes of getting and controlling business. The real question in the whole matter is: Do we want to continue our present control of foreign trade, or are we content to return to the foreign trade situation which existed before the European war? If we do in fact believe that benefit comes to the country from the maintenance of a strong and well-diversified foreign trade, it will be necessary for us as a nation to adopt those measures and methods which experience has shown to be requisite.

As I have already intimated, I do not believe strongly in the effect of artificial legislation in sustaining and extending our business. In order to deal with foreign countries successfully we must not only sell but buy. We must do more than this. We must hold out the help necessary to enable our own business men to place their goods on foreign markets with success and at reasonable cost, and we must enable shippers in this country to export without unreasonable sacrifice. Indeed, we must, if we wish to create a permanent and growing foreign trade, aid producers and shippers abroad by every legitimate means in our power, to increase their output, and to market it under favorable conditions. The idea that this can not be done, or that some special difficulties stand in the way, or that the problem is being prematurely presented, or that for some reason

we can escape immediate action upon it, has been dispelled by the events of the past two years. It must be evident to all that the present moment is one which calls for the exercise of constructive business ability and the display of enterprise and initiative by our people along every line that experience shows to be required in facilitating the growth of business.

There is another way in which preparation has been made for eventualities, whatever they may be. In the United States for many years past there has been a lack of uniformity and consistency of practice with reference to commercial paper. When the Federal Reserve Act was first put forward the statement was often made that its requirements with reference to commercial paper were so stringent that banks could not live up to them, and that they would almost inevitably be debarred from the enjoyment of rediscount privileges, save perhaps in some unusual and specially favored instances. Events have proved the baselessness of this fear. According to the reports of the Comptroller of the Currency the national banks hold at least \$1,-639,000,000, of paper eligible for discount under the requirements of the Federal Reserve Board. Congress, in order to meet the convenience of member banks, has broadened the classes of paper which are eligible for purchase and discount, and has provided for the making of loans upon the direct note of a member

bank secured by eligible paper as collateral. The Federal reserve banks have set themselves earnestly to work to improve the character of the commercial paper of the country, to standardize it, and to reduce the element of renewal paper which is found in the vaults of almost every institution. There is no phase of the work of the Federal reserve system which is less spectacular and perhaps less appreciated than this; yet it has required only leadership and uniformity of action to bring about a very material progress. There are many progressive business firms which are actively cooperating with the reserve banks in the effort to introduce the trade acceptance. The bankers acceptance has been placed upon the market by American institutions to the amount of perhaps \$300,000,000, and while there are still defects and errors connected with its use, a desirable beginning has been made. How far the member banks themselves have gone in applying the principles of the Federal reserve system in their communications with their borrowers, and yet insisting that their borrowers live up to and observe the manifest necessities of good banking practice, it would be impossible to say. There is, however, abundant evidence that this movement has made large progress, as many banks which alone and unaided would not have felt able to institute reforms

among their borrowers are doing so; that they have been materially assisted by the moral and actual support of the Federal reserve banks; and that to-day the commercial paper of the country is as a consequence in a better, more liquid and more available shape than it has ever been before. If this be true, or even only comparatively true, the greatest possible service has been rendered in preparing the community and the country not merely for any sudden shock to which it may be exposed, but for the more efficient and capable performance of its regular duties in the extension and conversion of credit from this time forward.

- 21 -

I think we all realize the importance of discipline and organization, both individual, local and national, in a way that we never did before the breaking out of the European war. We appreciate certain qualities of cooperation more than we ever did before. And yet we are somewhat reluctant to do what is necessary to attain them. Like the Roman poet we recognize the better way but we follow the worse. Nevertheless there is reason to think that this tendency to inertia will be overcome and that we shall do what circumstances require us to do as a nation for the purpose of organizing and marshalling our forces. Is not the situation among our banks very similar to that which prevails among our citizens? We have long prided ourselves on our individuality, our freedom from control, the fact that we were not subject to oversight, and did not recognize allegiance to any. We have protested against Government interference with industries, and we have done well to do so. But there is a danger in this as in other cases, that many crimes may be committed in the name of a good cause, and that many will mistake for independence and vigor that which is nothing more than a refusal to cooperate for the common good. The Federal reserve system has sometimes been represented as a system of drastic oversight and control over a business which was already competitive, and which could be engaged in by any citizens who possessed the

- 22 -

necessary character and capital: It has been described as an exhibition of paternalism. How far is this true? Every Federal reserve bank is under the control of a board of nine directors of whom six are chosen by the bankers of the district. It elects its own officers, chooses its own employees, fixes their salaries, determines the conditions of operation, and in every other reasonable way is fully autonomous. The control exerted by the Federal Reserve Board at Washington is merely that of harmonizing and unifying the policies and practices of the banks, thereby attaining that degree of community of method universally recognized as a necessity to the proper conduct of any banking system worthy of the name. The Federal Reserve Board is authorized to issue certain kinds of orders, and its approval is required in certain other cases; but its actual voice in the Federal reserve banks is limited to the appointment of one third of their directors, and I am happy to say that they have thus far in every case with which I am familiar been interested in the bank as directors and business men, and not as Government employees. There is no evidence that the participation of the Government in the establishment of the boards of directors has thus far resulted in any different kind or method of management or organization than would have been provided by wise and cautious business men in any banking institution. Nor is there

any reason to question that the type of management thus far furnished at Washington and elsewhere will continue to be characteristic of the Federal reserve system. This is a matter entirely in the hands of the bankers of the country, and the power and influence of their opinions are too well known to call for any comment from me. So far from being a plan for the increase of Government oversight over banking, the Federal reserve system is a plan which decreases the necessary scope of Government oversight, and which places in the hands of bankers the duty of mutual control and mutual support. It is a system that endeavors to give effect to what has happily been called "the common sense of most", which represents the best average judgment of the financial community, and which, therefore, should be accepted as the normal or guiding opinion in matters financial. If there are practices or methods in vogue among sections of the banking community which are not in the best interests of all, it is desirable that they should be improved or superseded, and this is recognized by the banking community itself. There will always be in every organization some restiveness and unwillingness to submit to discipline, even where that discipline is self-imposed and is intended in the interest of those to whom it is made applicable. We can not expect that the Federal reserve system will be free from the necessities and conditions that apply to all other or-

ganizations. Our safety will be found in making the policies adopted and the methods pursued so manifestly reasonable in their nature that there can be no question of their propriety, soundness, and benefit. In recognizing this fact the Federal reserve system necessarily concedes that it can never maintain that support in public opinion without which it must inevitably be doomed to failure, unless what it does commends itself to the sentiments of the less prejudiced and more enlightened of those who are affected by it. I am very happy to think that thus far it has had this support, and that it has grown in strength and approval as the months have past. At the opening, therefore, of what may be a severe strain upon its powers and capacity to serve the public, it feels itself strong in the support and approval of the best element of the community, and obliged to face no internal problems more serious than that of inducing some members who do not as yet feel inclined fully to cooperate, or the fact that it is their duty so to do. And in this I think the hopeful aspect is that this process of convincing and persuading a minority of the need of cooperation is an intellectual process. It implies no element of coercion. Discussion has been free and open, and the issues at stake have been tested before the bar of public opinion. I believe that the present national emergency will perform, among other services, the great one of persuading every member of our

banking and financial community of the necessity of cooperation and harmonious action designed to promote the welfare of this organization, and to strengthen its hands in all good undertakings. If such should be the result, we must say in this as in other cases, that there is good in all things, and that even an emergency which we would gladly have avoided has strengthened us to meet future emergencies, and to make our resources continuously effective.

X. Y. Z. MOTOR CO.

No. _____

\$ _____

Milwaukee, Wis., _____, 191_____

_____ after date pay to the order of our-

selves _____ Dollars

in settlement of our invoice No. _____ dated _____

amounting to _____ dollars, _____ % discount

being deducted for payment of this bill at maturity.

X. Y. Z. MOTOR CO.

by _____
Cashier.

TRADE ACCEPTANCE

Accepted _____

Payable at _____

Designate bank or

selves

in settlement

amounting

being deducted

To _____

Place of payment

Signature of acceptor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

2124
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

X-3

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 21, 1917.

Sir:

Some time ago at the request of a Federal reserve bank the Federal Reserve Bank of New York was asked by the Board to notify us of changes in bankers' acceptance rates in New York, such information to be conveyed to the several Federal reserve banks. We are to-day in receipt of a telegram as follows:

"New York, February 20, 1917.....Ruling prices to-day bankers' acceptance thirty to ninety days members three to three and one quarter nonmembers three and one quarter to three and one half percent."

Future changes in acceptance rates will, in accordance with a plan adopted by the Federal Reserve Board, be transmitted to you by wire.

Yours very truly,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

FEDERAL RESERVE BOARD X-4
WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 20, 1917.

Dear Sir:

Recently there have come to the Board some requests of Federal Reserve Banks for approval of purchases of warrants in excess of the 25% limit.

The object of this letter is to inform you that the Board does not believe that it would be good policy at this time for Federal Reserve Banks to invest in warrants. Such investments should be encouraged during periods of great ease of money and when rediscounts from member banks and offers of bankers' acceptances are not expected to be heavy. At the moment, however, when indications are that rates are likely to harden and when Federal Reserve Banks must be prepared to meet heavy demands upon them by their member banks, the Board thinks that it is inadvisable to invest the funds of the Federal Reserve Banks in warrants.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 CONTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
 WASHINGTON

W. P. G. HARDING, GOVERNOR
 PAUL M. WARBURG, VICE GOVERNOR
 FREDERIC A. DELANO
 ADOLPH C. MILLER
 CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

X-8

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

February 21, 1917.

Dear Sir:

The question has been raised at various times recently with individual members of the Board as to the advisability of a conference of the Governors of the Federal reserve banks to be held here some time during the month of March. At the Board's meeting this morning the matter was discussed and the conclusion reached that it seems particularly desirable under existing conditions, that the executive officers of the banks should remain closely at their respective posts of duty. The Board does not know of any matters requiring the joint deliberation of the Governors in the near future, and it therefore advises that any plans that may have been in contemplation for a meeting be held in abeyance. Of course if there are any compelling reasons in your judgment why a meeting should be held, the Board would be pleased to have you state them, as it is always glad to receive suggestions from you, but it does not know of any matters pressing at this time affecting the operation of the twelve Federal reserve banks as a system, which can not be handled effectively by the Board, which is keeping in close touch by correspondence with the officials of the various banks.

Very truly yours,

Governor.

2197

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
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FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

~~H. D.~~ PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 21, 1917.

Dear Sir:

It appears from recent correspondence with some of the Federal reserve banks that there is a lack of uniformity in the protection afforded under certain forms of casualty insurance carried by the banks.

The officials of some of the banks feel that insurance carried protects them against loss by forgery, while others advise that they are not so protected. The Board desires to look into this matter of insurance, with the view of bringing about uniform methods if possible, and I am therefore requesting that you forward to this office a memorandum of the forms and amounts of the insurance carried by your bank.

Thanking you in advance for your courtesy, I am,

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
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FEDERAL RESERVE BOARD

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

February 27, 1917.

Dear Sir:

The Board has determined to have prepared a telegraphic code book for use in transmitting messages between the offices of the Board and the Federal reserve banks and between the Federal reserve banks and their branches or agencies, but not to be used as between Federal reserve banks and their member banks. It is desired that this code book be so comprehensive as to insure brevity and privacy in every message that is likely to be sent. Your cooperation in the preparation of this work will be appreciated and you are requested to send to the Board a list of any subjects and phrases which in your opinion should be incorporated.

Very truly yours,

Governor.

February 28, 1917.

STATEMENT FOR THE PRESS.

Pursuant to the policy already made known in connection with the Bank of England on December 26, 1916, at which time it was stated that the Board had had under consideration the advisability of authorizing Federal reserve banks to establish correspondents or agencies in Europe, the Federal Reserve Board has announced that it has passed a resolution approving the application of the Federal Reserve Bank of New York for authority to establish an agency with the Bank of France of Paris, France.

This action is taken under the provisions of Section 14, paragraph (e) of the Federal Reserve Act, which authorizes any Federal reserve bank, with the consent of the Federal Reserve Board, to "open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions * * * and to open and maintain banking accounts for such foreign correspondents or agencies."

Other Federal reserve banks may participate in the agency relationship with the Bank of France, when established, upon the same terms and conditions that will govern the Federal Reserve Bank of New York, if they so desire.

EX-OFFICIO MEMBERS
WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
X-19 CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 1, 1917.

Dear Sir:

Through the courtesy of the Federal Reserve Bank of St. Louis Mr. O. M. Attebery has been released for temporary service in the offices of the Federal Reserve Board at Washington.

Mr. Attebery will be used by the Board as its expert in transit matters and a comprehensive plan for the development of the clearing and collection system will be given consideration by the Board at once. Mr. Attebery has been instructed to report to the Board's Committee on Clearings and in correspondence with the Federal reserve banks will act in behalf of that Committee.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

February 28, 1917.

Mr. C. J. Rhoads,
 Governor, Federal Reserve Bank,
 Philadelphia, Pa.

Dear Governor Rhoads:

Your letter of February 27 to Mr. Warburg, concerning purchases of U. S. bonds by Federal reserve banks, has been referred to me for reply. In answer to your inquiries you are advised as follows:

The Treasury Department desires to have the resolutions from the banks covering anticipated conversions of bonds promptly on March 20, and would prefer that they be filled in for the maximum amount or any part thereof. When you are advised of the amount of bonds which you will be required to take through offerings to the Treasurer of the United States, you can wire the Board and we will have the necessary adjustment made in your resolution.

For your confidential information, and for similar use of the other banks, I can advise you that the total offerings by member banks in the several Districts for sale through the Treasurer of the United States amounted, at the close of business today, to \$8,691,750, distributed as follows:

Banks	No. of banks making offerings	Amount
Boston	12	\$ 950,500
New York	12	832,500
Philadelphia	10	1,121,500
Cleveland	2	26,250
Richmond	1	200,000
Atlanta	7	452,000
Chicago	9	542,500
St. Louis	7	4,069,750
Minneapolis	1	38,000
Kansas City	3	170,000
Dallas	3	195,000
San Francisco	5	93,750
Total	72	\$8,691,750

-2-

Allotments will be approximately as follows, but these figures are not exact, and will be definitely given later:

Banks	Proportionate allotment of \$15,000,000.
Boston	\$1,348,100
New York	3,206,450
Philadelphia	1,407,100
Cleveland	1,613,600
Richmond	899,550
Atlanta	667,750
Chicago	1,861,050
St. Louis	752,300
Minneapolis	640,800
Kansas City	821,450
Dallas	725,600
San Francisco	1,056,250
Total	\$15,000,000

Very truly yours,

Assistant Secretary

EX-OFFICIO MEMBERS
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SECRETARY OF THE TREASURY
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FEDERAL RESERVE BOARD
WASHINGTON

X-20

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 2, 1917.

Dear Sir:

The following message, received from the Federal Reserve Bank of New York to-day, is transmitted to you in accordance with the instructions of the Federal Reserve Board, as already explained in the letter addressed to you under date of February 21st:

"Bankers' ninety-day acceptances -
Members three three and one-eighth,
nonmembers three and one quarter
to three and three-eighths."

Respectfully,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
 WASHINGTON

W. P. G. HARDING, GOVERNOR
 PAUL M. WARBURG, VICE GOVERNOR
 FREDERIC A. DELANO
 ADOLPH C. MILLER
 CHARLES S. HAMLIN -21.

H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

March 3, 1917.

Dear Sir:

It appears that nearly all Federal reserve banks prepare for the information of their executive committees of Board of directors bi-weekly statements showing the aggregate of acceptances held and of indorsement liabilities thereon, as of the day of the meeting. In the opinion of the Board it would be desirable to condense these statements into one, so that there may be shown the aggregate amount of acceptances of any one acceptor held, and the total indorsement liability of any one firm or corporation, not only in the several banks, but in the combined system. These totals will doubtless be of interest and value to each Federal reserve bank, and the Board contemplates therefore, sending this summary to each one of the Federal reserve banks for its confidential use. The forms of statement used by the bank which purchases the largest volume of acceptances are inclosed herewith.

In order to facilitate the compilation here, it is suggested that each Federal reserve bank use a similar form in making compilations for its directors, and each bank is requested to send a copy of this bi-weekly statement to the Federal Reserve

-2-

Board. Compilation of these figures submitted by all banks will not, of course, show actual conditions on the date of compilation, and the footings will show the total holdings a week or more back, but this is not regarded as detracting very much from its value. The Board realizes that compilations might be made here from its own records, but as it is important that the figures of each bank be available for meetings of their directors or executive committees, the Board believes that it is better to have the combination statements made here, in order to avoid unnecessary duplication in making the original tabulation.

Very truly yours,

Governor.

2 inclosures.

STATEMENT OF ACCEPTANCES HELD
at
CLOSE OF BUSINESS FEBRUARY 26, 1917.

<u>Name and Address</u>	<u>Amount Indorsed By Member Banks</u>	<u>Amount Not indorsed By Member Banks</u>	<u>Total Amount Liable as Acceptor.</u>	<u>Total amount Liable as Ind. on Accept- ances Of Other Banks and Trust Co's.</u>
First Nat'l. Bank, Boston, Mass.	\$	\$	\$	\$
Fourth Atlantic Nat'l. Bk. Boston, Mass.				
Kidder, Peabody & Co., Boston, Mass.				
Lee, Higginson & Co., Boston, Mass.				
Merchants Nat'l. Bank, Boston, Mass.				
Moors & Co., J.B., Boston, Mass.				
National Shawmut Bank, Boston, Mass.				
Old Colony Trust Co., Boston, Mass.				
Second National Bank, Boston, Mass.				
1st Bridgeport Nat'l. Bk., Bridgeport, Conn.				
American Exchange Nat. Bk. New York, N. Y.				
Anglo South American Bk., New York, N. Y.				
Atlantic National Bank, New York, N. Y.				
Bank of America, New York, N. Y.				
Bk. of British No. America New York, N. Y.				
Bank of the Manhattan Co., New York, N. Y.				
Bank of Montreal, New York, N. Y.				
Bank of New York, N.B.A., New York, N. Y.				
Bank of United States, New York, N. Y.				

Morimura Arai & Co.,
New York

Yokohama Ki-Ito Kwaisha
Ltd., Yokohama

"

"

"

R. W. Peabody & Co.,
New York

Jardine Matheson & Co.,
Shanghai

R. W. Peabody & Co.,
New York

John C. Siegfried & Co.,
Kobe

Stone, Timlow & Co.,
Boston, Mass.

Hagerty Brothers,
London

Tata Sons & Company,
New York

Hara Yusutauten,
Yokohama

3/3/17

X-27

AMOUNTS AND PERCENTAGES OF TOTAL PAID-IN CAPITAL
FOR EACH FEDERAL RESERVE BANK AND PROPORTION-
ATE BOND CONVERSION ALLOTMENTS ON
\$15,000,000 BASIS .

BANK	Paid-in Capital March 2, 1917	Per cent of Total paid-in capital.	Proportionate allotment for \$15,000,000.
Boston	5,083,000	9.0695	1,360,400
New York	11,888,000	21.2116	3,181,700
Philadelphia	5,259,000	9.3835	1,407,500
Cleveland	6,085,000	10.8574	1,628,600
Richmond	3,409,000	6.0826	912,400
Atlanta	2,420,000	4.3179	647,700
Chicago	6,999,000	12.4882	1,873,200
St. Louis	2,794,000	4.9853	747,800
Minneapolis	2,412,000	4.3037	645,500
Kansas City	3,089,000	5.5116	826,800
Dallas	2,696,000	4.8104	721,600
San Francisco	3,911,000	6.9783	1,046,800
Total	56,045,000	100.0000	15,000,000

March 6, 1917.

EX-OFFICIO MEMBERS
WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

FEDERAL RESERVE BOARD

X-30 H. PARKER WILLIS, SECRETARY
BERNARD P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 8, 1917.

Dear Sir:

Criticism having been made by some of the Federal reserve agents of a method which permits the delivery of a large amount of money to a single individual, however responsible, the Board has, after due consideration, adopted the following preamble and resolutions:

W H E R E A S, The Federal Reserve Act provides that Federal reserve notes may be deposited in subtreasuries or mints of the United States for safekeeping, and may be delivered to Federal reserve agents upon order of the Comptroller of the Currency acting under the general supervision of the Federal Reserve Board, and

W H E R E A S, The Board desires to adopt all necessary and proper safeguards against loss in making such deliveries,

NOW, THEREFORE, BE IT RESOLVED, That the Comptroller of the Currency be and he is hereby requested to stipulate in the order for delivery of notes to Federal reserve agents that no delivery shall be made to a Federal reserve agent except in the presence of at least one other officer of the Federal reserve bank to which such Federal reserve agent is accredited.

RESOLVED FURTHER, That the Secretary of the Treasury be and he is hereby requested to direct the Treasurer of the United States and Director of the Mint to require all receipts accepted for Federal reserve notes delivered to Federal reserve agents to be witnessed by a duly authorized officer of the bank to which such Federal reserve agent is accredited.

RESOLVED FURTHER, That the board of directors of each Federal reserve bank be and they are hereby requested to designate and authorize one or more officers of such bank to witness the delivery of all Federal reserve notes to the Federal reserve agent of such bank and to sign receipts as evidence of this fact.

You are requested to bring the foregoing to the attention of your executive committee or board of directors.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

3141
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

X-31

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 8, 1917.

Dear Sir:

The Board is informed that each Federal reserve agent, with possibly one exception, carries the notes and securities with the custody of which he is charged by law, in a separate safe or compartment in the vault of the bank to which he is accredited, the combination of the vault being in the exclusive control of the executive officers of the bank and not of the Federal reserve agent, while the latter has the combinations to his own safe or compartment. It seems, therefore, that only a few additional steps are necessary to bring about joint control and custody of the gold, notes and securities held by the agent, and the Board would appreciate the opinion of the Federal reserve agents and of the Governors as to whether it would be practicable or desirable for the Federal reserve banks to assume with the Federal reserve agents such joint custody under a voluntary arrangement which would require the presence of some person duly authorized by the board of directors of the bank whenever the Federal reserve agent's safe is opened. If this plan is impracticable under the law as it now stands,

-2-

would it, in your opinion, be advisable to ask for legislation requiring joint custody of the notes, funds and securities now held exclusively by Federal reserve agents, and making the banks and the Federal reserve agents jointly liable?

A frank expression of your views upon this subject would be appreciated by the Board.

Very truly yours,

Governor.

F E D E R A L R E S E R V E B O A R D

Washington, March 9, 1917.

A T E N T A T I V E P R O P O S A L

Submitted by

THE FEDERAL RESERVE BOARD

For the Consideration

of

Banks, Bankers and Banking Associations;

of

Merchants, Manufacturers and Associations of Manufacturers;

and of

Auditors, Accountants and Associations of Accountants.

Through the courtesy of the Federal Trade Commission the Federal Reserve Board has been enabled to take advantage of a large amount of information and data which the Trade Commission acquired in connection with the study of the statements made by merchants, manufacturers, etc., as showing the condition of their business. Because this matter was clearly of importance to banks and bankers, and especially to the Federal reserve banks who might be asked to rediscount commercial paper based on borrowers' statements, the Federal

Reserve Board has taken an active interest in the consideration of the suggestions which have developed as a result of the Trade Commission's investigation, and now submits in the form of a tentative statement certain proposals in regard to suggested standard forms of statements for merchants and manufacturers.

The problem naturally sub-divides itself into two parts:

- (1) The improvement in standardization of the forms of statements.
- (2) The adoption of methods which will insure greater care in compiling the statements and the proper verification thereof.

In recent years bankers through their associations and otherwise have made rapid progress in the direction of more uniform and complete forms of statements. Much has also been accomplished in the improvement of the quality of the statements rendered and in securing statements which do not depend for their accuracy on the borrowers' statement alone but are verified to a greater or less extent by independent scrutiny and audit. The advantage of a statement certified by trustworthy public accountants over an unverified statement is evident. At the present time, however, there is no uniformity as to the extent of verification in the case of statements put forward as having been verified.

The Federal Trade Commission in the course of its investigation of business conditions has been strongly impressed with the lack of uniformity and has enlisted the aid of the American Institute of Accountants with a view to remedying the condition. It has found that verified statements may be divided broadly into -

- (a) Those in which the certificate is based on an examination of the books without personal supervision of inventories and independent appraisal of all assets with the aid of technical appraisers and
- (b) Statements verified with the personal supervision of inventories and independent appraisal of all assets.

- 3 -

The value of the two classes of audits and their relation to each other depends to a great extent upon the character and magnitude of the business involved.

In some cases method (b) has advantages over method (a). In other cases, notably those of large companies in which personal supervision of inventories is arduous and perhaps impracticable and the value of an independent appraisal of assets is liable to be considerably exaggerated, the reverse may be true. That is to say, a verification based upon the books themselves without an appraisal may be and often is the safer method of procedure. It is highly desirable gradually to educate the business world to the great importance of a complete form of audit statement, although any plan for immediate adoption intended to produce practical results must recognize that under present practice probably more than ninety per cent of the statements certified by public accountants are what are called balance sheet audits, such as are described in paragraph (a) above referred to.

As a first step toward the standardization of balance sheet audits and to insure greater care in compiling and verifying statements the Federal Trade Commission requested the American Institute of Accountants to prepare a memorandum on balance sheet audits. This memorandum was duly prepared and approved by the Council of the Institute representing accountants in all sections of the country.

After approval by the Federal Trade Commission the memorandum was placed before the Federal Reserve Board for consideration. The Federal Reserve Board, after conferences with representatives of the Federal Trade Commission and the American Institute of Accountants, and a careful consideration of the memorandum in question, has accepted the memorandum, given it a provisional or tentative endorsement, and submitted it to the banks, bankers and banking associations throughout the country for their consideration and criticism.

The recommendations in the memorandum apply primarily to what are known as balance sheet audits. This is an initial step which may easily be succeeded by future developments tending still further to establish uniformity and covering more fully the field of financial statements.

GENERAL INSTRUCTIONS FOR A BALANCE SHEET AUDIT OF
A MANUFACTURING OR A MERCHANDISING CONCERN.

The scope of a balance sheet audit for a fiscal year or other operating period of an industrial or mercantile corporation or firm comprises a verification of the assets and liabilities, a general examination of the profit and loss account, and, incidental thereto, an examination of the essential features of the accounting.

Trial balances of the general ledger, both at the beginning and end of the period under review, should be prepared in comparative form and checked with the ledger. The items in the trial balances should be traced into the balance sheets before the assets and liabilities are verified, to prove, among other things, that no "contra" asset or liability has been omitted from the accounts, that the assets and liabilities have been grouped in the same manner at the beginning and end of the period, and also that the balance sheets are in accordance with the books. The disposition of any general ledger assets and liabilities that may have been scrapped, sold, written off, or liquidated during the period under review should be traced and noted in the working papers. Furthermore, a general scrutiny of the general ledger should be made to see that the accounts, if any, that have been opened and closed during the year have no bearing on the company's financial position at the close of the fiscal period.

The auditor should obtain a copy each of the balance sheet at the beginning and the end of the period to be audited, and should make a comparison between them, so that a comprehensive view may be had by him of the changes in the figures during the period under review. A statement of the disposition of the profits should then be prepared from this comparative balance sheet as a further aid in impressing the meaning of the figures upon the mind of the auditor.

The verification of assets and liabilities for convenience will be considered in the order in which the items appear in the form of balance sheet attached hereto. This form of statement has been determined by the desire to meet as nearly as possible the requirements and practice of Federal reserve banks.

SPECIFIC INSTRUCTIONS AND SUGGESTIONS RELATING TO
THE SEPARATE HEADINGS.

C A S H .

The cash on hand preferably should be counted after banking hours on the last day of the fiscal period to be covered by the audit, and the amount thereof, together with the cash stated to be in bank, reconciled with that shown by the cashbook. The cash, bills receivable, and investments must be examined on the same day, so as to make it impossible for a treasurer to make up a shortage in one asset by withdrawing negotiable funds temporarily from another.

In counting the cash on hand the auditor must see that all customers' checks produced to him as part of the cash balance have been duly entered in the cashbook prior to the close of the period and should note the dates and descriptions of such checks, and also the dates and descriptions of all advances made from cash and not recorded on the books. Advances to employees should be strictly investigated, and if any are secured by personal checks the auditor should see that the checks are certified by the bank on which they are drawn before the close of the audit.

Certificates must be obtained, as of the evening of the closing date, from the banks in which cash is deposited, by, or mailed directly to, the auditor himself. The balances as shown by the certificates must be reconciled with those shown on either the cashbook, the checkbook stubs, or bank registers, taking into consideration outstanding checks.

In verifying the outstanding checks there is only one safe and satisfactory method of proving their accuracy, and that is to compare the credit side of the cashbook from the last day of the fiscal period backward, item by item, with the checks returned from the bank for such period as may be necessary to account for all current outstandings. Any old checks not yet cashed by banks should be made the subject of special inquiry. When this work is completed, a list of the outstanding checks so ascertained should be prepared, showing the dates of the checks and compared with the actual checks returned from the bank at a later date, and any not so returned should be specially investigated. Special care is necessary to see that no checks for cash purposes are drawn at the close of the period and entered in the next period.

Where the currency and bank transactions are kept together in the cashbook and the auditor does not count the cash until a date subsequent to the close of the fiscal year, he must, in addition to verifying the bank balances as of the close of the year, verify them as of the date of the count of cash. This is absolutely essential when it is considered that, although the cash on hand, which forms only part of the balance, at the date of the count is correct, it does not follow that the total cash is correct.

When receipts are shown in the cash book as being deposited in bank on the last day of the fiscal period, but are included in the reconciliation statement on account of their not being paid into the bank until the next day, the auditor must obtain letters from the banks acknowledging such deposits.

The deposits shown in the pass books should be checked in detail for the last two or three days of the fiscal period from the books to prove that they were composed of bona fide checks, and that no check drawn by the company was deposited in a bank without being credited to the bank on which it was drawn prior to the close of the fiscal period.

So that the auditor may satisfy himself that deposits are promptly made in bank each day, and that the same checks are paid into bank as are received, it is advisable to call for a number of deposit slips and compare them with the receipts as shown by the cashbook for the days in which the deposits are made. To make such verification absolute the deposit slips should be obtained from the banks.

When the practice of a company is to pay all of its cash receipts into bank, they should be compared and reconciled with the total deposits, as shown by the bank books, and similarly the disbursements should be reconciled with the total checks drawn.

Outstanding checks not examined at a previous audit on account of not having been returned by the banks must be called for and traced into the cashbook at the beginning of the current audit.

NOTES RECEIVABLE.

A list of notes receivable outstanding at the end of the fiscal period should be prepared showing the dates the notes are made, the customers' names, the date due, the amounts of

the notes and the interest, if any, contained in the notes. If discounted the name of the discounting bank should be noted and verification obtained from the bank.

The outstanding notes must be carefully examined with the notes-receivable book, and with the list prepared by or produced to the auditor, the due dates and the dates of making the notes being carefully checked, and when notes have been renewed the original dates should be recorded. When notes have been paid since the close of the fiscal year, the cash should be traced into the books of the company, and when they are in the hands of attorneys or bankers for collection, certificates should be obtained from the depositaries.

When notes receivable are discounted by banks the company has a liability therefor which should appear on the balance sheet. Lists of discounted notes not matured at the date of the audit should be obtained from the banks as verification, and their totals entered under 20a if the cash therefor is shown as an asset.

The value of collateral, if any, held for notes should be ascertained, as it frequently happens that the notes are worth no more than the collateral.

Notes due by officials and employees must always be stated separately from customers' notes, as must also notes received for other than trade transactions.

Notes due from affiliated concerns must not be included as customers' notes, even though received as a result of trading transactions. Affiliated companies' notes should be shown as a separate item of current assets or as other assets as the circumstances warrant. They may be fairly included in current assets if the debtor company has ample margin of quick assets over its liabilities, including such notes.

The term "Quick Assets" is used here in the sense in which it is used by Federal reserve practice. "Current Assets" is used to comprise these assets and other assets which though current are excluded in determining the eligibility of the paper for Federal reserve purposes.

Optional - The best verification of notes receivable is an acknowledgment by the party named in each note as the payor on the due date, that the note is a bona fide obligation.

Therefore, if time permits, and the client does not object, it is advisable to obtain such written confirmation for each note. The auditor should personally mail the letters, inclosing stamped envelope for reply addressed direct to himself.

ACCOUNTS RECEIVABLE.

The bookkeepers of the accounts-receivable ledgers should be asked to draw off lists of the open balances at the end of the fiscal period, and distributions of the total columns should be shown on the lists according to the age of the accounts, e.g., not yet due, less than 30 days past due, more than 30 days past due. The accounts paid since the close of the fiscal period should be noted in the lists before taking up the matter of past due accounts with the credit department, as payment is the best proof that an account was good at the date of the audit.

The totals of the lists of outstanding accounts should agree with the controlling account in the general ledger if separate ledgers are kept. When credit balances appear on customers' accounts they should be shown on the balance sheet as a separate item and not deducted from the total of debit balances; and debit balances on the accounts-payable ledgers should be treated in the same manner.

The lists must be footed and compared in detail with the customers' accounts in the ledgers.

The composition of outstanding balances should always be examined, as it frequently happens that while a customer may be making regular payments on his account, old items are being carried forward which have been in dispute for a considerable period of time. Such items and accounts which are past due should be taken up with the credit department or some responsible officer and the correspondence with the customers examined, so that the auditor may form an opinion of the worth of the accounts and satisfy himself that the reserve for bad and doubtful accounts set up by the company is sufficient.

Trade discounts (and also so-called cash discounts, if exceeding 1%) and freights allowed by the company should be inquired into, and if they have been included in the accounts receivable a reserve therefor should be set up in the balance sheet. Also inquiries should be made regarding customers'

-9-

claims for reductions in prices and for rebates and allowances on account of defective materials, so that it may be seen that a sufficient reserve has been established therefor,

Inquiry must be made as to whether any of the accounts receivable have been hypothecated or assigned, and the sum total of accounts so listed entered under (20b).

The auditor should satisfy himself that the bad debts written off have been duly authorized by responsible officials.

Accounts due from directors, officers, and employees must be stated in the balance sheet separately and not included as trade accounts. This applies also to deposits as security, guaranties, and other extraordinary items not connected with sales.

Accounts due from affiliated concerns must not be included as customers' accounts, even though arising as a result of trading transactions. Affiliated companies' accounts should be shown as a separate item of "Current Assets" or as "Other Assets", as the circumstances warrant. They may be fairly included as "Current Assets" if the debtor company has ample margin of quick assets over its liabilities, including such accounts.

Optional - The best verification of an open balance is a confirmation by the customer; therefore, if time permits and the client does not object, it is advisable to circularize the customers. The auditor should personally see the circulars mailed after comparing them with the lists of outstanding accounts. The envelopes for replies sent with the circulars should be addressed direct to the auditor.

In large concerns the system of accounting is generally so arranged that it would be almost impossible for accounts to be paid and not correctly credited on the accounts-receivable ledgers, but in small concerns, with imperfect systems, such occurrences are quite possible, so much so, in fact, that it is generally admitted that the risk of errors and omissions decreases in direct proportion to an increase in bookkeeping.

SECURITIES.

Under this caption must be listed securities in which surplus funds of the company or firm have been temporarily invested and which are considered as available as "quick assets," i. e., can be turned into money in time of need. Where stocks or bonds represent control or a material interest in other enterprises, the ownership of which carries more or less value to the holder outside of the return thereon they should be considered as fixed assets.

A list of investments should be prepared showing -

- The dates of purchases.
- Descriptions of the investments.
- Par value of the investments.
- The denomination of the shares.
- The number of shares or bonds owned.
- The total capital stock of the various companies.
- The amounts paid for the investments.
- The interest and dividends received.
- The market values of the investments.
- The surplus or deficit shown by the balance.
- sheets of the companies where no market quotations are available.
- If hypothecated, with whom and for what purpose.

This list must be compared with the ledger accounts concerned and the total of amounts paid according to the list must agree with the balance of the investment account or accounts.

The securities must be examined by the auditor in person or he must secure confirmation of their existence from those who hold them as collateral. Those in possession of the company must be counted and examined as soon as possible after the audit starts, and all of them must be submitted to him at one time. It is much more satisfactory to see the actual securities than to verify cash receipts and other evidences therefor after the audit has progressed some time.

Certificates out for transfer must be verified by correspondence.

Where the market values of securities are less than the book values, save where the variation is so small as to be

- 11 -

trifling, a reserve for loss in value on the balance sheet date must be set up.

Care must be taken to see that the certificates are made out in favor of the company, or that they are indorsed or accompanied by powers of attorney when they are in the names of individuals.

Coupons on bonds must be examined to see that they are intact subsequent to the latest interest payment date.

The investment schedule must show that the total interest and dividends receivable by the company has been duly accounted for; the income from the investments shown in the profit and loss account must be in accord with this schedule.

When market quotations can not be obtained for investments, the balance sheets of the companies in which investments are held must be examined so that the auditor may form an idea of their value.

In verifying purchases of stock exchange securities the brokers' advices must in all cases be examined in connection with the verification of the purchase price.

Investments in deeds and mortgages must be supported by both the mortgages and insurance policies, and, furthermore, it must be shown that all assessed taxes on the property have been duly paid, that the mortgages have been properly recorded and that the insurance policies are correctly made out to the company.

If any of the securities have been hypothecated the fact and amount (book value) must be stated under 20d of the balance sheet.

INVENTORIES.

Under this caption must be included only stocks of goods owned and under control of the owner. Stocks are often hypothecated and if this is the case, the fact should be stated on the balance sheet.

Inasmuch as the accuracy of the profit and loss account is absolutely dependent upon the accuracy of the inventories

of merchandise at the beginning and end of the period under review, this part of the verification should receive special attention. When a balance sheet audit is being made for the first time, the inventory at the beginning of the period should receive as much attention as that at the end, and the auditor should take every precaution to satisfy himself that both inventories were taken on the same basis.

An acceptable program of audit for inventories is as follows:

- (1) Secure the original stock sheets if they are in existence and carefully test the typewritten copies with them and with tickets, cards, or other memoranda that show the original count.
- (2) See that the sheets are certified to or initialed by the persons who took the stock, made the calculations and footings, and fixed the prices, and satisfy yourself that they are dependable and responsible persons. Obtain a clear and detailed statement in writing as to the method followed in taking stock and pricing it; also a certificate from a responsible head as to the accuracy of the inventory as a whole.
- (3) A thorough test of the accuracy of the footings and extensions should be made, especially of all large items.
- (4) The inventories should be compared with the stores ledger, work in progress ledgers and finished product records and stock records as to quantities, prices, and values, and any material discrepancy should be thoroughly traced.
- (5) Where stock records are kept and no physical inventory is taken at the time of the audit, ascertain when the last physical inventory was taken and compare it with the book records. If no recent comparison is possible, select a few book items of importance and personally compare with the actual stock on hand.
- (6) Where no stock records are kept, a physical inventory should be taken preferably under the general direction of the auditor. After the inventory is completed, he should apply the same tests to verify its accuracy as if the inventory had been taken before his arrival upon the scene.
- (7) When the cost system of a company does not form a part of the financial accounting scheme there is always a

chance that orders might be completed and billed but not taken out of the work in progress records. Especially is this the case when reliance is placed on such records to the extent that a physical inventory is not taken at the end of the period to verify the information shown therein. In these cases the sales for the month preceding the close of the fiscal period should be carefully compared with the orders in progress as shown by the inventory, to see that nothing that has been shipped is included in the inventory in error. Cost systems which are not co-ordinated with the financial accounts are unreliable and frequently misleading. Special attention should be called to every case in which the cost system is not adequately checked by the results of the financial accounting.

(8) Ascertain that purchase invoices for all stock included in the inventory have been entered on the books. Look for post-dated invoices and give special attention to goods in transit.

(9) See that nothing is included in the inventory which is not owned but is on consignment from others. If goods consigned to others are included, see that cost prices are placed thereon, less a proper allowance for loss, damage, or expenses of possible subsequent return. This does not include goods at branches, as the valuing of such stocks will be governed by the same principles as apply at the head office.

(10) Ascertain that nothing is included which has been sold and billed, and is simply awaiting shipment.

(11) If duties, freight, insurance, and other direct charges have been added, test them to ascertain that no error has been made. Duties and freight are legitimate additions to the cost price of goods, but no other items should be added except under unusual circumstances.

(12) As a check against obsolete or damaged stock being carried in the inventory at an excessive valuation, the detailed records for stores, supplies, work in progress, finished products, and purchased stock in trade, should be examined and a list prepared of inactive stock accounts, which should be discussed with the company's officials and satisfactory explanations obtained.

(13) The auditor should satisfy himself that inventories

- 14 -

are stated at cost or market prices, whichever are the lower at the date of the balance sheet. No inventory must be passed which has been marked up to market prices and a profit assumed that is not and may never be realized. If the market is higher than cost it is permissible to state that fact in a footnote on the balance sheet.

(14) It may be found that inventories are valued at the average prices of raw materials and supplies on hand at the end of the period. In such cases the averages should be compared with the latest invoices in order to verify the fact that they are not in excess of the latest prices, and also with the trade papers, when market prices are used, to see that they are not in excess of market values.

(15) Make an independent inspection of the inventory sheets to determine whether or not the quantities are reasonable, and whether they accord in particular instances with the average consumption and average purchases over a fixed period. Abnormally large quantities of stock on hand may be the legitimate result of shrewd foresight in buying in a low market, but may, on the other hand, arise from serious errors in stock-taking.

(16) Always attempt to check the totals by the "Gross profit test" and compare the percentage of gross profit shown with that of previous years. In a business where the average gross profit remains fairly constant this test is a dependable one, because, if the rate of gross profit is apparently not maintained and the discrepancy can not be satisfactorily accounted for by a rise or fall in the cost of production or of the selling price, the difference will usually be due to errors in stock-taking.

(17) In verifying the prices at which the work in progress is included in the inventory, a general examination and test of the cost system in force is the best means of doing this work satisfactorily. In a good cost system little difficulty will be found with the distribution of the raw materials, stores, and pay roll, but the distribution of factory overhead cost is one that should receive careful consideration, the main points to be kept in view being:

(a) That no selling expenses, interest charges, or administrative expenses are included in the factory overhead cost.

(b) That the factory overhead cost is distributed over the various departments, shops, and commodities on a fair and equitable basis.

(18) No profit should be included in the price of finished products or stock in trade. The price lists should be examined to see that the cost prices of stock are below the selling prices after allowing for trade discounts, and if they are not a reserve should be set up on the balance sheet for this loss. If the company takes immediate steps to increase the selling price, however, the amount of this reserve may be limited to the loss on goods which may have been sold since the close of the period to the date of the discovery.

(19) In the case of companies manufacturing large contracts it is frequently found necessary to make partial shipments thereof. The question then arises as to whether it is permissible to include the profits on these partial shipments in the profit and loss account. As a matter of fact, it is evident that the actual cost can not be known until the order is completed. It may be estimated that a profit will ultimately be made, yet unforeseen conditions, such as strikes, delays in receiving material, etc., may arise to increase the estimated cost. It is better not to include the profits on partial shipments, but information of this character which may have its influence in the decision of the banker upon a proposed loan may properly be laid before him. Of course, an exception should be made in cases where the profit on the partial shipments largely exceeds the selling price of the balance of the order.

(20) The selling prices for contract work in progress should be ascertained from the contracts, and where it is apparent that there will be a loss on the completed contract a due proportion of the estimated loss should be charged to the period under audit by setting up a reserve for losses on contracts in progress.

(21) If a company has discontinued the manufacture of any of its products during the year, the inventory of such products should be carefully scrutinized and, if unsalable, the amount should be written off.

(22) The inventory should be scrutinized to see that no machinery or other material that has been charged to plant

or property account is included therein.

(23) Partial deliveries received on account of purchase contracts for material, etc., should be verified by certificates from the contractors, both as to quantities and prices.

(24) Advance payments on account of purchase contracts for future deliveries should never appear in an inventory, but be shown on the balance sheet under a separate heading.

(25) Trade discounts should be deducted from inventory prices, but it is not customary to deduct cash discounts. However, this may be done when it is the trade practice so to do.

(26) While the inventory is being verified, the auditor should ascertain the aggregate sales for the last year. If the turnover has not been rapid, it may be due to a poor stock of goods. Some business men dislike to sell below cost and would rather accumulate a big stock of old goods than dispose of the old and unseasonable stock at a sacrifice. The usual outcome is that the stock becomes unwieldy and funds are lacking to purchase new goods. The inventory and the gross sales may, therefore, have a direct connection.

(27) It may be well to reiterate that interest, selling expenses, and administrative expenses form no part of the cost of production, and therefore should not be included in the inventory in any shape.

COST OF FIXED PROPERTY

In preparing the leading schedules for the accounts grouped under this heading, such as real estate, buildings, plant, machinery, etc., the balances at the beginning of the period, the additions or deductions to the accounts during the year, and the balances at the end of the period must be shown.

The total of the balances at the beginning of the period must agree with the cost of property figures given in the balance sheet at that date, and the balances at the end of the

period, with the amount shown in the balance sheet that is being audited. The charges entering into the additions must be verified in detail and in this connection the following notes are of value:

(1) Authorizations for the expenditure made during the year should be examined, and where the costs of the additions have overrun the sums authorized inquiries should be made in regard thereto. The authorizations should show the accounts to which the expenditures are chargeable, the amounts thereof, the approvals of the comptroller and manager, and descriptions of the jobs. When the authorizations are not specific as to the work done the actual additions should, if possible, be inspected.

(2) The auditor should satisfy himself before approving additions that they were made with the object of increasing the earning capacity of the plant, and that they are not of the nature of either renewals or improvements, and in this connection changes in the production and capacity of the plant should receive consideration.

(3) To verify the pay roll and store and supply charges to jobs, one or two pay roll distribution reports should be examined in detail, and also one or two storehouse reports. In cases where large purchases have been made from outside parties for capital construction work the vouchers therefor should be examined and the usual precautions taken to see that they are properly approved for the receipt of materials, prices, etc.

(4) For purchases of real estate the title deeds should be examined together with the vouchers, and it should be seen that the deeds have been properly recorded.

(5) While it may be considered permissible to make a charge for factory overhead cost to additions to property such as, e. g., time of superintendent and his clerical force employed on construction work, etc., it can not be deemed conservative business practice, inasmuch as the probabilities are that the overhead charges of a plant will not be decreased to any extent even though additions are not under way, and, therefore, the absorption of part of these charges when additions are in progress has the effect of reducing the operating costs as compared with months in which no construction work is under way.

(6) Construction work in progress at the end of the fiscal period should be shown in the balance sheet under the heading of fixed assets and not as part of the inventories. This is important to bear in mind because construction work is not an asset that can be quickly turned into money, while everything in the inventory is supposed to be realizable in cash within a reasonably short time.

(7) The auditor should inquire as to whether any installments are due on account of construction work in progress which is being carried on by outside parties; and if so, the liabilities for these installments should be included in the balance sheet, as they may have a direct bearing on the amount of available cash on hand.

(8) When a company uses leasehold properties the leases should be examined and notes made of the periods covered, so that it may be seen that improvements, etc., on such properties are written off over the periods covered by the leases.

(9) The auditor should satisfy himself that the reserves for depreciation of buildings, machinery, equipment, etc., are adequate to reflect the deterioration in the value of the fixed properties. If in his opinion the reserves shown on the balance sheet are insufficient he should call attention to the matter in his certificate.

(10) Care should be taken to ensure that property destroyed by fire or otherwise prematurely put out of service is correctly treated in the books. Any portion of the original charge for such property which is not recoverable through insurance, as salvage or otherwise and has not been provided for by the depreciation scheme, should be written off.

It is to be observed that the foregoing notes are to be applied only to cost of properties incurred during the period under audit. In addition, information may usefully be obtained on broader lines in regard to the composition of the real estate, building and machinery accounts, and showing what principal property is represented thereby and how the accounts have been built up from year to year for a reasonable time past, if not from the inception of the business. The information derived therefrom is valuable only in indicating the progressive policy of the concern, the extent to which it reinvests undivided surplus in its plant, etc. Beyond these facts the banker who is asked for ordinary discounts or short-term loans is not interested; he looks more to the quick assets for his security.

-19-

Optional - When the loan is greater than the quick assets seem to justify the auditor should suggest a reliable verification of the cost of property prior to the period under audit. Such action may become necessary even to the extent of calling for an appraisalment by disinterested outside experts!

DEFERRED CHARGES TO OPERATIONS.

Under this heading in the balance sheet are grouped such items as unexpired insurance, bond discounts applicable to a future period, prepaid royalties, experimental charges, etc. After the clerical accuracy of the deferred charges has been verified the auditor should satisfy himself that they are properly carried forward to future operations.

Wherever possible, documentary proof must be produced in support of the items carried forward, as, for example, with unexpired insurance the policies must be examined to verify the dates of expiration, the amounts covered, and the proportion of the premiums carried forward; with royalties the agreements must be examined; with experimental charges the vouchers and particulars of the work done must be looked into, etc.

The examination of the deferred charges will usually furnish the auditor with valuable information in regard to the accounts of the company, as, e. g.,:

- (1) The verification of experimental charges carried forward will generally furnish information as to the production and future policy of the company.
- (2) Royalty vouchers will generally furnish a check on the production of mines.
- (3) An examination of the insurance policies will show if the properties are mortgaged or covered by lien, and thus be an additional verification of the liability for mortgages on real estate, buildings, etc., shown in the balance sheet.
- (4) The assets covered by insurance will be ascertained and, if any omissions are discovered, they should be mentioned.

-20-

NOTES AND BILLS PAYABLE.

Under this caption appear notes payable and drafts accepted. Schedules should be prepared under the subcaptions, and in columns headed -

Date of making the notes or drafts.
Due dates.
Names of creditors.
Collateral hypothecated.
Additional indorsers.
Interest accrued to date of audit.
Notations of renewals (as information of this nature furnishes a guide to the state of the concern's credit).

The schedule must be compared with the notes-payable book and the total of the aggregate must agree with the balance of the ledger account of notes payable.

Statements must be obtained from all banks and brokers with whom the concern does business showing all notes and drafts discounted or sold by them for the benefit of the concern. These statements when received must be checked against the loans shown on the concern's books and approved in the minutes of a company.

Inasmuch as a note is a negotiable instrument, care must be taken to see that all of those recorded as paid during the year under audit have been properly discharged, and the canceled notes are the best evidence of this fact.

Careful attention should be given to the collateral deposited for loans and statements as to the existence of such collateral should be obtained from the holders thereof. Such hypothecation of any of the concern's assets should be accounted for on the balance sheet.

When practicable the auditor might suggest to the client the advisability of drawing notes payable on blanks bound in a book, like a check book, with a stub for each blank - the blank and the stub to bear identical numbers. The officer, or officers, signing the notes could, in such case, initial the stub as a certificate to the amounts, payees and terms of the notes issued. If this were done, the auditing of bills payable would be greatly facilitated.

-21-

ACCOUNTS PAYABLE.

A list of balances due on open accounts must be prepared and carefully checked with the ledger accounts, care being taken to see that no open account on the ledger has been omitted from the list. It should be ascertained that the balances represent specific and recent items only. When any account does not appear regular a statement from the creditor should be obtained. If there are many such accounts in dispute, and they amount to so large a sum as to affect appreciably the total of current liabilities, the general causes for the disputes should be inquired into and note made of the matter for the consideration of the banker.

In concerns with modern voucher systems accounts payable are easily verified, as all liabilities are then included in the books when incurred. Care should be taken, however, to see that all goods received on the last day of the fiscal period, as shown by the receiving records, and also all goods that were in transit and belonged to the concern on that date, are included as liabilities, and the corresponding assets included in the inventories. This test is necessary as an increase in the accounts payable may have a very important bearing on the financial position of the concern if the cash on hand is small.

Monthly expenses outstanding can usually be ascertained by a comparison of the expenses of the last month of the fiscal period with previous months, and those of the year with the previous year. The voucher record should, however, be examined for the months subsequent to the close of the fiscal year, in case any expenses included therein are applicable to the fiscal period under audit.

When a first-class voucher system is not in operation the auditor must take additional precautions to satisfy himself that all liabilities are included in the accounts, among which may be mentioned:

(1) Payments made in the months subsequent to the date of the fiscal period as shown by the cashbook, which should be carefully scrutinized to see that none of them is applicable to the period under review.

(2) The file of bills not vouchered or entered on the books should be examined to see that none of them belongs to the period under audit.

-22-

(3) A careful perusal of the minutes of a company may further assist the auditor in determining liabilities.

When a company has large purchase contracts in force for future deliveries they should be examined, as, if the contract prices are greater than market prices, it might be necessary to set up a reserve for this loss. Any debit balance due to advance payments on such contracts or to any other cause should be shown on the balance sheet under a separate heading.

If the business under audit is one where there is any possibility of goods having been received on consignments, and part or all of such goods having been sold without a liability therefor having been shown in the books, the auditor must use all due diligence to cover the point fully. This may readily happen, as consignment accounts are usually treated as memoranda only.

If inquiry develops the fact that goods have been received on consignment, all records in connection therewith should be called for. If the goods have all been sold, the consignor's account should show the full amount due, and if the debt is a current one, the amount will appear among accounts payable due to trade creditors. Where only part of the goods have been sold, the net proceeds due to the consignors should be shown on the balance sheet under the caption of "Accounts payable consignors."

As an additional precaution against the omission of liabilities a certificate should be obtained from the proper officer or member of the concern stating that all outstanding liabilities for purchases and expenses have been included in the accounts of the period under review or of former periods. In many cases it is also advisable to obtain a certificate from the president stating that all liabilities for legal claims, infringements of patents, claims for damages, bank loans, etc., have been included, as he may be the only executive officer of the company to know the extent of such obligations.

CONTINGENT LIABILITIES.

It is not enough that a balance sheet shows what must be paid; it should set forth with as much particularity as possible what may have to be paid. It is the duty of an

-23-

auditor who makes a balance sheet audit to discover and report upon liabilities of every description, not only liquidated debts but possible debts. The following are the usual forms under which contingent liabilities will be found:

Indorsements - Inquiry of the officers or partners of the concern should be made as to whether any indorsement of outside paper has been made and as to any security received to protect the concern. Such inquiry should be particularly strict if it is known that any of the officers or partners are interested in other enterprises. Similar action should be taken in the matter of -

Guaranties.

Unfulfilled contracts - Contracts to accept the delivery of goods contracted for before the date of the balance sheet may call for the payment of large sums of money within a short time. In the case of raw materials for a manufacturer this might be a perfectly legitimate reason for seeking a temporary loan pending production and sale, but for a merchant whose balance sheet shows a large stock of goods on hand it might indicate a real liability impending with assets of a doubtful character to offset it. In every audit, therefore, the auditor should call for copies of all orders for future delivery, and if such orders call for stock in excess of the current and reasonable prospective demand, mention should be made on the balance sheet and a report submitted, the details depending on the circumstances of each particular case.

Items other than those arising from the specific hypothecation of current assets to be listed under item 20 should appear as a footnote on the liability side of the balance sheet, the total amounts being stated for each subheading and such additional report made as will convey clear information to the banker.

ACCRUED LIABILITIES.

Under this caption are grouped such items as interest, taxes, wages, etc., which have accrued to the end of the period under audit but are not due and payable till a later date. The verification of such items can be accurately made from the books and records. Special attention may be directed to the following:

-24-

Interest payable - Many of the liabilities which appear on a balance sheet carry interest. Such items as bonds and notes payable are obvious, but the auditor should also consider the possibility of accounts also bearing interest, as enough book accounts, when past due, do bear interest to warrant inquiry being made. Loan accounts of partners and officers of corporations almost invariably bear interest; also judgments, overdue taxes, and other liens.

Taxes - The amount of accrued State and local taxes can be ascertained from an examination of the latest tax receipts, though in some cases, as the period for which the taxes are paid is not shown on the face of the receipt, it may be necessary to make inquiries of the proper taxing authorities as to the period covered.

Under the Federal income tax law a tax of 2 per cent is imposed upon the net profits of a corporation, which must be paid even if the corporation is dissolved before the end of the year during which the tax is imposed. As the tax is specifically based upon the net profits of a particular period, although payable some months thereafter, the tax accrues throughout the specified period, and if a net profit is disclosed upon the closing of the books at any date during the year, a reserve of 2 per cent must be shown on the balance sheet as an accrued tax.

Wages - Where the date of the balance sheet does not coincide with the date to which the last pay roll of the period under audit has been calculated, the amount accrued to the date of the balance sheet must be ascertained and entered as a liability, unless such amount is trifling. It will suffice to take the proportion of a full week's pay roll (six days) without reference to possible daily variations.

Water rates, etc. - Where bills for such expenses as water, gas, etc., are not rendered monthly, the auditor must enter the accrual of the proper proportion since the last bill as a liability.

Traveling expenses and commissions - It is important to note whether the accounts of all traveling salesmen have been received and entered before the books are closed. The auditor should secure a list, and if any report was not so entered, provision should be made for it unless the amount is likely to be trifling.

Ample provision should be made for all commissions eventually payable on sales which have been billed to customers. As commissions are frequently not payable to salesmen until the sales have been collected from the customers, accrued commissions are often omitted from the books. As they must, however, be paid out of the proceeds of the sales on which the full profit has already been taken into the accounts, they should be set up as an accrued liability.

Legal Expense - All concerns have more or less litigation. Before the books are closed the lawyers should be requested to send in a bill to date. If one is not found, the auditor should ascertain the amount, if any, probably due and set it up as an accrued liability.

Damages - If the concern is insured against liability for damages to employees or the public a proportion of the premiums paid in advance for the unexpired time covered by the insurance will appear in Deferred Charges. But there may be claims or suits for other damages not covered by insurance and where the auditor finds any evidence which leads him to suspect there may be liability of this nature he should insist upon being informed of all the facts. He can then form an opinion as to the amount that should be set up as an accrued liability, or if the outcome is uncertain as a reserve against possible loss.

BONDED AND MORTGAGE DEBT.

A copy of the mortgages must be examined and the terms thereof noted. The amount of bonds registered, issued, and in treasury, rate of interest, and duration of the bonds, should be shown on the face of the balance sheet. A certificate should be obtained from the trust company certifying the amount of bonds outstanding, etc., as verification of the liability stated in the balance sheet. The interest on the bonds outstanding, shown in the balance sheet, should be calculated and reconciled with the interest on bonds, as shown in the profit and loss account.

Sinking-fund provisions in mortgages should be carefully noted and care should be taken to see that they are provided for in the accounts of the company, and any default noted in the balance sheet.

Bonds redeemed during the period or previously should be examined to see that they have been properly canceled, or, if they have been destroyed, a cremation certificate should be obtained from the trustees:

Mortgages sometimes stipulate that the current assets must be maintained at a certain amount in excess of the current liabilities, and the auditor must give due consideration to such matters and any other stipulation in regard to the accounts, or any audit thereof, that may be referred to in the trust deed, and see that they have been complied with.

Mortgages - As a mortgage derives its chief value from the fact that upon registry it becomes a lien, the auditor should verify the existence of such an obligation by inspecting the public records, not only with reference to such as may be found on the company's books but also any that may still appear on the public records as unsatisfied. If the auditor lacks the necessary facilities for making a search it will be worth his while to arrange with a local lawyer or title company whereby, for a small fee, any mortgages or judgments entered against the concern under audit will be reported to him.

In any event the auditor must verify the amount as recorded in the account, the rate, the due date, and the property covered thereby.

It should be borne in mind that a payment on account of a mortgage must be recorded or the entire amount will remain as an encumbrance on the property. Therefore, if payments on account appear, the auditor should ascertain if they have been so recorded; if not the fact should be noted on the balance sheet.

Judgments - The same procedure should be followed in verifying judgments as in verifying mortgages. As many business men consider that the entry of an invoice is an admission of liability, and will not permit the entry of a claim which they propose to fight, it is sometimes difficult for an auditor to find any evidence of such liens. Even admitting the fact they may still refuse to allow the judgment to be entered on the books as a liability in which case it is proper for the auditor to include it as a footnote on the balance sheet as a contingent liability.

Unpaid interest - When considering the matter of liens it should be noted that interest unpaid is a lien as well as unpaid principle, so where the auditor finds evidence of interest on liens being in default, he should add it to the principal in each case.

CAPITAL STOCK.

As a rule trust companies are the transfer agents for the capital stock of large corporations, and for verification purposes it is sufficient to obtain letters from them certifying to the capital stock outstanding.

Where companies issue their own stock, the stock registers and stock certificate books should be examined and compared with the lists of outstanding stockholders.

On the balance sheet each class, if more than one, of stock must be stated, giving amount authorized, issued, and in treasury, if any. In the case of companies with cumulative preferred stocks outstanding a note must be made in the balance sheet of the dividends accrued but not yet declared.

If stock has been sold on the instalment plan, the auditor should ascertain that the calls have been promptly met and whether any are in arrears. If special terms have been extended to any stockholder, approval of the board of directors is necessary and the minutes should be examined accordingly.

If any stock has been sold during the period under audit, the auditor should verify the proceeds of the sales.

S U R P L U S

The auditor should give consideration to the surplus at the beginning of the period. This item represents the accumulated profits prior to the beginning of the fiscal period under review, and should be compared with the surplus shown on the balance sheet of the previous year, and with the ledger account, to see that it corresponds, and if it does not, a reconciliation statement should be prepared giving full details of the differences.

P R O F I T A N D L O S S A C C O U N T

The auditor should obtain the profit and loss statement for three years, at least, including the period under audit, and after verifying them by comparison with the ledger account, prepare a statement in comparative form. This comparison will furnish valuable information to the banker as to the past progress of the concern under audit.

A satisfactory form of profit and loss account is annexed hereto, but any other form giving substantially similar information is acceptable.

While it would be impracticable in an ordinary balance sheet audit, and, at the same time, somewhat useless to make a detailed check of all the transactions entering into the composition of the profit and loss account, there are certain main principles to be kept in view which are briefly outlined below:

S A L E S

Whenever it is possible the quantities sold should be reconciled with the inventory on hand at the beginning of the period, plus the production, or purchases, during the period, less the inventory on hand at end of the period.

Where a good cost and accounting system is in force the sales records will very probably be in good shape, but nevertheless, the auditor should satisfy himself from the shipping records that the sales books were closed on the last day of the fiscal year, and that no goods shipped after that date are included in the transactions.

When an audit is being made for the first time the auditor should satisfy himself that the sales at the beginning of the period were recorded in accordance with the dates of shipments. Such verifications can be made conveniently by a direct comparison of the shipping memoranda with the invoices billed.

Allowances to customers for trade discounts, outward freights, reductions in prices, etc., should be deducted from the sales in the profit and loss account, as the amount of net sales is the only figure of interest to the bankers.

The future bookings at the close of the fiscal year should be looked into, as a comparison of orders on hand with corresponding periods of other years furnishes the bankers with an idea of the concern's business outlook.

C O S T O F S A L E S

The inventory at the beginning of the period, plus purchases during the period, less inventory at the end of period, gives the cost of sales. In a manufacturing concern the factory cost of production takes the place of purchases. These items will have

already been verified in auditing the balance sheet, but nevertheless care should be taken to see that this heading has not been made a dumping ground for charges which would be more properly embraced under the heading of special charges. The composition of the items entering into the cost of sales should be traced in totals into the cost ledgers of accounts.

GROSS PROFIT ON SALES

This is obtained by deducting the cost of sales from the net sales. The ratio of gross profits to net sales should be calculated and compared.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.

Under these general headings should be set down the expenses itemized to correspond with the titles of the ledger accounts kept in each division. In checking the totals of each account with the statement for the period under audit, special attention to credits in these accounts should be given to see that none have been made for the sale of capital assets and for other items which should not appear in expense accounts. The percentages of the totals of each division and of the aggregate total to net sales should be calculated for each year for comparison.

NET PROFIT ON SALES

This is obtained by deducting the aggregate total of the selling, general and administrative expenses from the gross profit on sales, and shows the net earnings of the concern on its real business. Ratio to sales should be calculated for each year for comparison.

OTHER INCOME

Under this heading is embraced any income that may be derived from sources outside of sales, such as income from investments, interest, discounts, etc. Schedules should be prepared of each item, and the auditor should satisfy himself of their accuracy and of the propriety of including them as income.

DEDUCTIONS FROM INCOME

Under this heading are grouped such items as interest on

- 30 -

bonded debt, interest on notes payable, etc. The same procedure of verification as in the case of other income should be followed.

NET INCOME — PROFIT AND LOSS

Adding other income to gross income and deducting deductions from income gives the net income or profit and loss for the period, which is the amount that should be carried to the surplus account.

SURPLUS ADDITIONS AND DEDUCTIONS

Items of unusual or extraordinary profit which do not belong strictly to the period under audit, or can not be said to be the legitimate result of the ordinary transactions of the concern, should be entered here and verified with the surplus account. Similarly deductions should be treated. Also dividends declared should be entered in the surplus account and as an item under this caption, inasmuch as it is the usual custom to declare dividends "from net earnings and surplus." After adding special credits to and deducting special charges from the net income we have the total profit and loss for the whole period from all sources which added to the surplus balance at the beginning of the period gives us the surplus at the end of the period, which should agree with the surplus as stated on the balance sheet.

G E N E R A L

These instructions cover audits of small or medium sized concerns. In large concerns having, for instance, tens of thousands of accounts or notes receivable, the detail procedure suggested would be impracticable and internal check should make it unnecessary. In such cases only tests can be made, but the auditor must always be prepared to justify his departure from a complete program by showing that the purposes sought to be accomplished thereby have been adequately effected by his work.

Any extensive clerical work, such as preparations of lists of notes receivable, etc., should be performed by the client's staff, so as to avoid unnecessary employment of professional staff in merely clerical work and consequent undue expense.

FORM OF CERTIFICATE

The balance sheet and certificate should be connected with the accounts in such a way as to ensure that they shall be used only conjointly. This rule applies also to any report or memorandum containing any reservations as to the auditor's responsibility; any qualification as to the accounts, or any reference to facts materially affecting the financial position of the concern.

The certificate should be as short and concise as possible, consistent with a correct statement of the facts, and if qualifications are necessary the auditor must state them in a clear and concise manner.

If the auditor is satisfied that his audit has been complete and conforms to the general instructions of the Federal Reserve Board, and that the balance sheet and profit and loss statement are correct, or that any minor qualifications are fully covered by the footnotes on the balance sheet, the following form is proper:

I have audited the accounts of Blank & Co.
for the period from to
. and

I certify that the above balance sheet and
statement of profit and loss in my opinion set
forth the financial condition of the firm at
. and the results of its
operations for the period.

(Signed) A. B. C.

FORM FOR PROFIT AND LOSS ACCOUNT

Comparative statement of profit and loss for three years ending. 19 .

	Year ending -		
	19..	19..	19..
Gross sales.	\$	\$	\$
Less outward freight, allowances and returns.
Net sales.
Inventory beginning of year.
Purchases, net
Less inventory end of year.
Cost of sales.
Gross profit on sales.
Selling expenses (itemized to correspond with ledger accounts kept)
Total selling expense.
General expenses (itemized to correspond with ledger accounts kept)
Total general expense.
Administrative expenses (itemized to cor- respond with ledger accounts kept)
Total administrative expense
Total expenses.
Net profit on sales
Other income:			
Income from investments
Interest on notes receivable, etc.
Gross income.
Deductions from income:			
Interest on bonded debt.
Interest on notes payable.
Total deductions.
Net income - profit and loss.
Add special credits to profit and loss
Deduct special charges to profit and loss.
Profit and loss for period.
Surplus beginning of period.
Dividends paid.
Surplus ending of period

FORM OF BAL

ANCE SHEET.

ASSETS:

LIABILITIES:

Cash:

- 1a. Cash on hand - currency and coin
- 1b. Cash in bank.....

Notes and accounts receivable:

- 3. Notes receivable of customers on hand (not past due)
- 5. Notes receivable discounted or sold with indorsement or guaranty.
- 7. Accounts receivable, customers (not past due)
- 9. Notes receivable, customers, past due (cash value, \$.....)
- 11. Accounts receivable, customers, past due (cash value, \$.....)

Less:

- 13. Provisions for bad debts.....
- 15. Provisions for discounts, freights allowances, etc.....

Inventories:

- 17. Raw material on hand.....
- 19. Goods in process.....
- 21. Uncompleted contracts.....
- Less payments on account thereof.....
- 23. Finished goods on hand.....

Other quick assets (describe fully):

Total quick assets (Excluding all investments).....

Securities:

- 25. Securities readily marketable and salable without impairing the business.....
- 27. Notes given by officers, stockholders or employees.....
- 29. Accounts due from officers, stockholders or employees.....

Total current assets.....

Fixed assets:

- 31. Land used for plant.....
- 33. Buildings used for plant.....
- 35. Machinery
- 37. Tools and plant equipment.....
- 39. Patterns and drawings.....
- 41. Office furniture and fixtures.....
- 43. Other fixed assets, if any (describe fully)

Less:

- 45. Reserves for depreciation.....
- Total fixed assets.....

Deferred charges:

- 47. Prepaid expenses, interest, insurance, taxes, etc.

Other assets (49).....

Total assets.....

Bills, notes, and accounts payable:

Unsecured bills and notes -

- 2. Acceptances made for merchandise or raw material purchased.....
- 4. Notes given for merchandise or raw material purchased.....
- 6. Notes given to banks for money borrowed
- 8. Notes sold through brokers.....
- 10. Notes given for machinery, additions to plant, etc.....
- 12. Notes due to stockholders, officers, or employees.....

Unsecured accounts -

- 14. Accounts payable for purchases (not yet due)
- 16. Accounts payable for purchases (past due)....
- 18. Accounts payable to stockholders, officers, or employees.....

Secured liabilities -

- 20a. Notes receivable discounted or sold with indorsement or guaranty (contra).....
- 20b. Customers' accounts discounted or assigned (contra).....
- 20c. Obligations secured by liens on inventories
- 20d. Obligations secured by securities deposited as collateral.....
- 22. Accrued liabilities (interest, taxes, wages, etc.....

Other current liabilities (describe fully):

Total current liabilities

Fixed liabilities:

- 24. Mortgage on plant (due date....)
- 26. Mortgage on other real estate (due date...)
- 28. Chattel mortgage on machinery or equipment (due date.....)
- 30. Bonded debt (due date.....)
- 32. Other fixed liabilities (describe fully):

Total Liabilities

Net Worth:

- 34. If a corporation -
 - (a) Preferred stock (less stock in treasury.....
 - (b) Common stock (Less stock in treasury)
 - (c) Surplus and undivided profits.....

Less -

- (d) Book value of good will.....
- (e) Deficit.....

- 36. If an individual or partnership -
 - (a) Capital.....
 - (b) Undistributed profits or deficit....

Total

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. F. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

FEDERAL RESERVE BOARD
WASHINGTON

H. PARKER WILLIS, SECRETARY
X MAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 8, 1917.

Dear Sirs:

For your information there is attached to this letter a statement of bond conversion allotments, computed on a basis of offerings of \$15,000,000 by member banks through the Treasurer of the United States for purchase by Federal reserve banks on April 1st.

As you have been confidentially advised by Governor Rhoads, proposals for sales by national banks to the close of business February 28th amounted in the aggregate to \$8,691,750.

On the receipt of advice from the Treasurer of the United States, say on March 22d, the Federal Reserve Board will wire you the total amount of bonds offered and the allotment which you will be required to purchase, and you will then kindly wire the figures to be inserted in your resolution covering conversion, which will have previously been mailed to the Treasury Department.

Very respectfully,

Governor.

Inclosure.

Remarks of H. P. Willis at the Conference of the

NATIONAL ASSOCIATION OF CREDIT MEN

New York, March 9, 1917.

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MR. CHAIRMAN AND MEMBERS OF THE CONFERENCE:

More than a year has elapsed since I had the opportunity of discussing with you the subject which forms the principal topic of consideration this morning. The months have passed rapidly, full as they have been of financial and banking developments of first importance both to the business public and the nation at large. In such times attention tends to be diverted from permanent and underlying problems to those whose nature is immediate and urgent even if of relatively transitory interest. I am pleased to think that in this case, however, the broad question how to improve our commercial paper has not been allowed to become wholly submerged. Real progress has been made, and if this progress seems comparatively small when stated numerically and contrasted with the great figures representing the growth of our total banking operations or of our foreign trade, nevertheless I believe it is general and represents actual advance in the right direction.

The experience of this past year has impressed upon my mind with even greater force than in the past, the belief that the trade acceptance question is not solely a banking problem, and that

-2-

it is not likely to be solved by bankers alone. I believe it is essentially a business man's question - a problem of credit and sales practice, and, as such, to be dealt with chiefly by organizations like your own which have to do with the conditions upon which credit is extended. Theoretical students of banking and the Government officers in charge of banking affairs can and should do much toward the promotion of progress in the use of acceptance. The practical banker can lend his aid by establishing better rates for satisfactory paper, and there is every reason to think that he will do so. Indeed the attitude of the American banker toward the trade acceptance question has been on the whole not only intelligent and understanding, but encouraging and helpful. It remains true that important changes are never effected without pioneer work, and it has become plain that such work will become necessary in order to bring about the general adoption of the acceptance system.

What I have said probably suggests to you that I do not believe it very necessary for me or for anyone to devote much attention to advocacy of the use of the trade acceptance. Every one now knows why it should be used. Every one at all interested in the subject, or led to investigate it, recognizes that the experience of the past, the dictates of good commercial practice in our country at the present time, consideration of economy among

-3-

ourselves, and the broader arguments derived from banking theory, all combine with the idea of preparedness against emergency conditions to dictate the broader use of the trade acceptance. Arguments against its use are those which spring from inertia, custom, unsound competition, and various obstacles of an artificial nature. That it is wise for the buyer of goods to close up his transactions by obligating himself to pay a certain sum at a certain time, thereby reducing his liability to the lowest terms, is evident. That it is good business policy for the seller to obtain a distinct, recognized obligation evidencing indebtedness of the buyer in enabling him to obtain economical credit at his bank, is also beyond question. That it is desirable for the bank to base its loans upon paper evidencing a commercial transaction, and hence limited by the volume of such transactions, protected by two satisfactory signatures and adjusted in such a way as to distribute liability, so far as practicable, is equally evident. When these premises have been admitted, the case is practically closed, as the adverse arguments based upon existing practice in granting trade discounts, difficulties in allowing for defective goods, problems of invoicing, etc., which are rendered more difficult through the use of the acceptance, are of no particular interest except as a mere statement of obstacles to be overcome in introducing the better situation represented by paper of this type, as compared

with the direct loan on single-name paper protected only by open accounts of customers.

Believing, therefore, that the question at issue is no longer a matter of theory, but a problem in commercial education, our discussion of it is at once considerably simplified because the field is narrowed. It is essentially the problem: How shall those who believe in the trade acceptance (as we all presumably do) make their views effective? In this, as in all matters of education, the first appeal must be to the intelligence of the business community. And just here the question arises: Do those who advocate the use of the trade acceptance know exactly what they want? There has apparently been considerable doubt in the minds of many persons who are urging the use of the trade acceptance as to precisely what should be the form of the documents they are advocating. This has led to confusion and difficulty. The Federal Reserve Board has devised a trade acceptance form of its own which is being distributed to those who make inquiry. This form is as follows:

X. Y. Z. MOTOR CO.

No. _____

\$ _____

Milwaukee, Wis., _____, 191_____.

_____ after date pay to the order of our-

selves _____ Dollars

in settlement of our invoice No. _____ dated _____

amounting _____ dollars, _____ % discount

being deducted for payment of this bill at maturity.

X. Y. Z. MOTOR CO.

By _____
Cashier.

TRADE ACCEPTANCE

Accepted _____

Payable at _____

Designate bank or _____

To _____

Place of _____

Signature of acceptor. _____

The form proposed by the Federal Reserve Board is, of course, not the only one that could be employed to advantage, and doubtless as time goes on, it will be improved. What is important is that all those who believe in the use of the trade acceptance should, as soon as they can, agree upon a form which they are prepared to recommend, and more important still, to explain to the business men who are interested in using it. Personally, I hope that the form which will thus find favor in the eyes of all may be that which is recommended by the Federal Reserve Board; but the only thing that is really necessary is that discussion as to the proper contents of the form, and the conflict between competing types of the trade acceptance should be ended as soon as may be.

Second only in importance to the necessity of agreeing upon and standing firm in support of a good form of trade acceptance, ^{of} is that/agreeing when and under what conditions this trade acceptance is to be used.

I regret to say that views on this subject, which certainly are erroneous and which may be dangerous, have developed and are being spread abroad. I have noted that at various places where trade acceptances are discussed, it is occasionally suggested that they may properly be used to close up old accounts, or that the proper medicine for a doubtful account is a dose of trade acceptance. Of course, if this thought becomes widely diffused, it would mean that the trade acceptance paper of the country would be decidedly inferior

- 7 -

in value to paper based on quick, active, open accounts. Nothing could more quickly injure or discredit the trade acceptance movement than such an outcome. It should be distinctly and positively understood that the trade acceptance is, in its true form, nothing more than a representative of live indebtedness, and that the acceptance has not been created for the purpose of giving a better hold to the creditor over the debtor, but has been produced in order to create definite evidence of indebtedness which is available for banking purposes. That there will always be in any aggregate of banking paper some items that prove doubtful or slow, is unavoidable and consequently to be expected; but to inject into such an aggregate items known and recognized as slow or doubtful, is quite another matter. To create a volume of paper essentially consisting of slow or doubtful items, would be anything but a reform in banking. This proposition seems to me so obvious that I have noted with surprise in literature sent out from usually authoritative sources the thought that the acceptance as such is intended to liquify "frozen credits." Its real intent is, of course, that of preventing credit from becoming frozen, and anything that tends to obscure this essential character in the trade acceptance, must be regarded as distinctly injurious.

Granting now that we are agreed on the kind of trade acceptance to be used, and agreed also as to the time and circum-

stances under which it should be used, how shall we broaden its application? Shall we wait for the gradual evolution of an understanding on the part of business men who hope that it will, in a certain sense, win its own way to success, or shall we take more direct and vigorous steps in the matter? My own inclination is strongly in favor of the former course. Nevertheless, I recognize that much can be done by force of example, and by a process of education and clarification of ideas. In all such work leadership is essential. I do not think it would be fair to ask the buyer of goods to sign trade acceptances if, by so doing, he should transfer all of the benefits of the open account system direct to the wholesaler or manufacturer. The latter must have his share of the advantage, but not more. The first question to be dealt with, therefore, is whether those who are engaged in extending credit, like yourselves, will figure their requirements down to a point where distinct encouragement is held out to the buyer to make use of the trade acceptance. Undoubtedly there is too much effort to temporize with existing conditions, and to arrange for trade discounts and for the retention of other elements in the present methods of settlement which are inconsistent with the acceptance plan. The proper way of meeting the situation is, I believe, the direct way, that is, the buyer must be met on a business basis and must be offered satisfactory inducements.

When the buyer has recognized the value of such inducements and has received the benefits thereof in the form of lower prices, he should be compelled to perform his fair share of the bargain by scrupulously settling the acceptance when it falls due. There should, under ordinary circumstances, be no expectation of a renewal of the acceptance. Speaking on this general subject some months ago, Governor Harding of the Federal Reserve Board, presented the following analysis of the acceptance situation:

"The Federal Reserve Act distinguishes clearly between commercial banking and investment banking, and specifically excludes from purchase or discount 'notes, drafts, or bills covering purely investments, or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds or notes of the Government of the United States.' * * * * * It is clear that the intent of the Act is to safeguard the self-liquidating character of acceptances, as securities of an investment nature are barred, and provision is made that the transactions should be based upon either an actual sale of goods or upon the conveyance of legal title to goods which can be readily marketed so as to protect the acceptor.

"The Board was obliged to face, soon after the establishment of the Federal reserve banks, the question of renewals

-10-

of acceptance credits, and ruled that certain renewals of such credits, which clearly grew out of the shipment of goods in the first instance, need not, as a matter of principle, be excluded. American acceptances now are quite well established in the world's market, and while we may expect to see this acceptance business grow into very large figures, we must not permit either our ambition or our desire to assist others, or considerations of profit, to cause us to disregard long-established and sound banking principles."

While these cautionary words were used primarily with reference to bankers' acceptances growing out of foreign transactions, the principle involved in them is equally as applicable to domestic trade, or perhaps even more so, since in domestic business the average period of the representative transaction is, or at least should be, shorter than in foreign trade, while the conditions under which business is carried on are more fully within our control than they are in those cases where we are dealing with foreign nations. The trade acceptance, in short, grows out of an actual business transaction involving a sale of goods, and its natural life closes with the termination of the transaction which gave rise to it, and with the transfer of the goods to the consumer. To renew acceptances from time to time would place them on the same basis with all paper evidencing an ordinary loan at a bank, and there would be no reason

why they should be considered entitled to greater favor than any two-name accommodation paper. This phase of the situation is, in a measure, one with which the banker is directly concerned, since it is to him that we must look for the application of rigid principles with regard to renewals. Much, however, can be done by strong and sound elements in the commercial community, since they can establish a general atmosphere of public opinion relating to this subject which will reduce or eliminate the tendency of some to look for renewals of such paper at the hands of these bankers. If trade acceptances have been properly made in the first instance, however, and do in fact represent transactions of the kind they are presumed to represent, the danger that they will become a medium for renewal credits is not serious; and it may be expected that a very moderate amount of education and expression of opinion will correct any such tendency in that direction as may exist.

To so much perhaps most persons would agree. They would be prepared to admit the essential character of the trade acceptance, the conditions of its use, and the proper attitude to be assumed with respect to its liquidation. There is another ^{is} phase of the subject that ~~that~~/probably less obvious, but on that account deserves attention. In every case where an acceptance of any kind is given, the question is naturally raised: What becomes of this acceptance? In the case of trade acceptances there are

not a few firms among those which are now encouraging their customers to give these acceptances, who have no intention to use them as a basis for discount. They are seeking to develop the practice of giving such paper in payment, because it is a cleaner and better way of doing business, and because it provides them with a body of discountable paper if they see fit. There are others which are desirous of developing the business because it enables them to get credit at banks in a better and more satisfactory way. It is with this latter class that the question of the means of discounting the acceptance becomes vital. In this connection the most immediate problem is: Where should the trade acceptance be discounted? Under the existing regime, we may assume that "A" is a wholesaler who sells a bill of goods to "B", a retailer, carrying an account in favor of "B" on his books for perhaps 90 days. If "A" feels the necessity of accommodation, he may obtain from his banker a loan on his own paper equivalent to the indebtedness of "B", confined with that of hundreds or thousands of customers like "B". "A's" bank in this case has furnished the capital with which to finance the dealings of "B", and the group of dealers to which he belongs. The capital has come through the medium of "A" and on the strength of his guarantee, but it has been furnished to "B" and the others. If under the trade acceptance system "A" has, let us say, 1,000 trade acceptances made by "B" and others, he may take them to his bank and may discount them there en bloc. He may, however, arrange with the bank in the city where the buyer "B" is located, to take the draft and hold it until maturity, giving him credit for the proceeds. Here there is a system of credit distribution whereby the duty of furnishing capital is widely diffused among the banks of the country. The banker knows "B", the retailer, and when the paper has been accepted by

him, is willing to discount it particularly as, in the event of difficulty, it is a liability of "A". The situation contrasts sharply with the present situation because it amounts to an equitable distribution of loan credits among a considerable number of banks, with the result that liability is minimized and diffused, while the banks themselves have an opportunity of obtaining good paper which otherwise might not be open to them. Undoubtedly many a large dealer feels that it is no part of his duty to encourage a customer who is unable to obtain the aid of banking institutions to finance himself, or to extend his own credit to such customer in lieu of the aid which the customer should get from institutions close to him. We are now past the period when it was the duty, or at all events the necessity, of the producer to supply their customers the means of carrying on business. To-day there is abundant opportunity for borrowing, and the effort of the Federal reserve banks has been to standardize rates for standard paper. The function of the producer and wholesaler, therefore, is essentially that of enabling the customer to obtain the credit to which he is entitled. On the other hand, the financial institution is aided in extending its credit upon a sound basis, by supplying to it the evidence or data it needs in assuring itself of the true nature of each transaction, so that it can feel certainty that every application grows out of a commercial transaction, and is eligible as a basis for the extension of accommodation. Under the trade acceptance plan the development and application of this view of the relation between the business man and the bank becomes very much easier and simpler than under the

old system. Credit is rendered more stable, and the flow of business to the smaller banks of the country is greatly facilitated. The situation becomes far more wholesome and normal than it is when large banks furnish through the wholesaler or producer the means of "carrying" the smaller business man of a whole trade or occupation. This is a view of the matter that should appeal not merely to the banking community at large, but particularly to the good business man. Such a plan establishes relations between him and many banks the country over for the ascertainment of the credit condition of buyers, and brings the latter into more satisfactory relations with their banks than could otherwise have prevailed. It is, moreover, one of those general aspects of phases of a great commercial problem that appeals most strongly to those who are studying and dealing in credits. This makes it appropriate to present the matter with special force to you because you are better equipped and more directly concerned in its settlement than perhaps any similar group of men.

Although a substantial number of concerns are now using the trade acceptance in their business, this number is a very small percentage of those who might so employ it. There are various parts of the country where practically no change in the older situation has developed. The field, therefore, has been barely scratched, and its intensive cultivation must be

undertaken and pressed forward by those who are brought into that direct contact with business men throughout the country that makes their words persuasive from a practical standpoint. The matter is not, however, solely one of self-interest. It is one phase of the improvement of national credit, the progressive strengthening of business methods, and the elimination of those unsound or doubtful elements of accommodation which tend to weaken all business, and which thereby pave the way for periods of over extension and consequently of expansion. It requires vision and far-sightedness to realize that what is done in urging forward this movement will have results very much broader than those which directly show themselves in cheaper and better rates at banks.

3/8/17

Release for morning newspapers of Friday, March 9.

X-36

STATEMENT FOR THE PRESS.

March 8, 1917.

From statements which have been published from time to time, both in ^{the} American and foreign press, there appears to be a misunderstanding of the attitude of the Federal Reserve Board with respect to investments in foreign loans in the United States. On more than one occasion the Board has endeavored to remove this misunderstanding. So far from objecting to the placing of foreign loans in ^{the} American market, it regards them as a very important, natural and proper means of settling the balances ~~created~~ in our favor by our large export trade. There are times when such loans should be encouraged as an essential means of maintaining and protecting our foreign trade.

The Board has already stated that its announcement of November 28, 1916, did not deal with the finances or the credit of any particular country, but only with banking principles which it seemed desirable to emphasize under the conditions existing at that time. The objection then made by the Board was to the undue employment by our banks of their funds in the purchase of foreign loans and not to the merits of foreign loans as investments. The Board was then, and is now, of the opinion that the liquid condition of our banks should not be impaired through undue or unwise use of their resources for investment operations. The position of the Board with respect to this principle has not changed. It still takes the view that foreign borrowings should appeal primarily to the investor and not involve the use of banking resources beyond the limits of sound practice. In view, however, of existing conditions, especially as they affect our foreign trade, the Board deems it desirable and in the public interest to remove any misconception that may be left in the minds of those who read the statement issued on the 28th of November, 1916. Since that date the country's gold reserve has been further materially strengthened and supplies a broad basis for additional credit. The Board considers that banks may perform a useful service in facilitating the distribution of investments, and in carrying out this process they may, with advantage, invest a reasonable amount of their resources in foreign securities. So long as this does not lead to an excessive tying up of funds and does not interfere with the liquid condition of the banks, there cannot be any objection to this course.

The Board did not, of course, undertake to give advice concerning any particular loan. It desires, however, to make clear that it did not seek to create an unfavorable attitude on the part of American investors toward desirable foreign securities, and to emphasize the point that American funds available for investment may, with advantage to the country's foreign trade and the domestic economic situation, be employed in the purchase of such securities.

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD
WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 10, 1917.

Dear Sir:

May we request that at the end of March, June, September and December you report to us on Form 40, in addition to the figures of member banks accommodated during the month, also the number accommodated during the latest quarter of the year.

The number of banks accommodated is to include all banks which had any discount operations with your Bank during the month or the quarter. Care should be taken to eliminate all duplications. Thus, a member bank for which you have discounted during the report period one-name paper collateral notes or trade acceptances, should be counted only once in figuring the total number of banks accommodated. Similarly, a bank which is reported each month among discounting or rediscounting members, should count only once in figuring the quarterly total.

Inclosed please find copy of modified Form 40 for guidance of your discount department in reporting quarterly figures of members accommodated.

Very truly yours,

Assistant Secretary.

Inclosure.

2194

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-40

March 10, 1917.

Dear Sir:

This will call attention to the fact that copy for business conditions to be used in the Federal Reserve Bulletin for April should be in the offices of the Federal Reserve Board not later than March 23, 1917. With this copy, please send the usual information as to clearing operations on which the summary for the Bulletin is made up, and do not fail to include the summary of business conditions upon the slips furnished you for the purpose.

Very respectfully,

Assistant Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
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H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

March 13, 1917.

My dear Sir:

As you are aware, the Federal Reserve Board has taken measures to provide that each Federal reserve bank should have an adequate supply of notes in stock at the subtreasury or mint nearest it. This naturally brings about a condition differing from that which has existed in the past, in that the stock of reserve notes available for issue is now divided between the subtreasuries or mints, and the Bureau of Engraving and Printing. The question has been raised whether existing regulations which call for the issue of notes in order of serial numbers, so far as possible, should be maintained by steadily drawing on the subtreasuries in response to note requisitions and restoring the existing supplies by shipment of additional notes to such subtreasuries, or whether the stock in subtreasuries should be regarded as a reserve supply, not to be interfered with except in case of emergency. The Board has determined upon the latter course, and this makes it necessary to modify the instructions already issued with regard to preserving the exact sequence of serial numbers.

The following resolution has been adopted:

RESOLVED, That henceforward requisitions for Federal reserve notes shall be supplied by shipping direct from Washington, the supply already in subtreasuries to be regarded as an emergency stock and to be drawn upon only under exceptional conditions. No attempt shall be made to maintain the continuity of serial numbers. The issue of notes to the public without regard to the serial numbers of those held in subtreasuries shall be authorized, all regulations to the contrary now in existence to be repealed.

It will, however, be wise to issue notes, so far as possible, in their consecutive order, treating those drawn from subtreasuries as a separate series.

Yours very truly,

Governor.

EX-OFFICIO MEMBERS
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CHARLES S. HAMLIN-43.
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD
WASHINGTON

March 13, 1917.

Dear Sir:

On the 14th ultimo a circular letter, No. 1078, was sent to all Federal reserve banks suggesting that the discount rates quoted by the various banks be simplified.

Replies have been received from practically all the banks expressing cordial approval of the Board's suggestion. It appears from the correspondence, however, that a majority of the Federal reserve banks would prefer quotations for paper maturing from 16 to 60 days, and 61 to 90 days, rather than from 16 to 30 days and 31 to 90 days.

The majority of the banks also have indicated a desire that in the case of trade acceptances, commodity paper, and bankers' acceptances, the quotation should be made for maturities not exceeding 90 days, instead of from 30 to 90 days. Having considered these suggestions, the Board has decided to approve discount rates to be established for paper of the character and maturities as follows:

1. Paper maturing within 15 days, including collateral notes;
2. Paper maturing within 16 to 60 days;
3. Paper maturing within 61 to 90 days;
4. Trade acceptances maturing within 60 days;
5. Trade acceptances maturing within 90 days;
6. Bankers' acceptances maturing within 90 days;

7. Commodity paper maturing within 90 days;

8. Agricultural paper maturing within 90 to 180 days.

The rate to be approved for bankers' acceptances will not be a fixed or definite one, but will be for "not less than ___% nor more than ___%", so that within the limitations thus established there will be ample provision for a fluctuating market rate, - as heretofore. In the matter of trade acceptance rates the Board has distinguished between paper maturing within 60 days and paper maturing between 61 to 90 days, so as to admit of a distinct rate for each maturity. It is thought that some Federal reserve banks may wish to establish such a differential, so as to correspond with any difference that may exist between their 60 and 90 day rates for commercial paper, but the matter is entirely optional with them, and experience will determine whether it will be advisable permanently to make this distinction.

Wherever the 15 day rate is the lowest of all the rates established by a Federal reserve bank, such rate would apply to trade acceptances, commodity paper, or to bankers' acceptances maturing within the 15 day limit.

The Board advises that at your next Directors' meeting, your discount rates be adjusted in so far as may be necessary to harmonize them with this uniform plan, which all Federal reserve banks are requested to adopt.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS
 WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
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FEDERAL RESERVE BOARD
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 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT
 ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

March 13, 1917.

Dear Sir:

Referring to circular letter of March 3rd, requesting additional information regarding acceptances held by your bank, may I ask that statements be forwarded to the Board twice a month showing holdings of acceptances under the several heads, as at close of business on the 15th and on the last business day of the month. In case the 15th falls on Sunday, or a legal holiday, statements should relate to the day following.

Very truly yours,

Governor.

X-45.

A MEMORANDUM PREPARED BY A BANKER OF 40 YEARS' EXPERIENCE AND
SUBMITTED TO A MEMBER OF THE FEDERAL RESERVE BOARD.

WHY THE RIGID DEAD LINE IN THE MAINTENANCE OF RESERVES.

If a catechism of banking was prepared the first question might with propriety be, what is the chief end of Banking Law and Practice? The answer to this which I think would meet with general acceptance would be that the chief end of banking law and practice is the maintenance of the percentage of lawful reserve. In my judgment we surround the matter of reserves with a sanctity which is undeserved. We have made that which should be of service to us, our master.

In a communication appearing in the New York Times some months ago from Mr. C. Scott-Dalgleisch on the subject of Rural Credits he says, "As the music is the accompaniment to the voice in a song so should the music of legislation merely accompany and modulate the voice of the performance". This important sentiment so poetically expressed I should like to see as a declaration of principles painted on the walls of the houses of Congress and of every legislative chamber in the land. Let us see how far we have departed from this standard in one feature of banking.

Let us consider a transaction in some moderate sized bank. A valued customer comes in and says that he has immediate need of say \$2,000. The security, his name, the bills receivable or col-

lateral, as the case may be, that he brings are entirely satisfactory. The banker tells him so, but states that in view of the fact that his reserve is low he is unable to accommodate him; as the law provides that under such circumstances he must not increase his loans. The banker adds, however, "If you can wait until tomorrow I can let you have the amount, as several large loans will then be paid off. Many bankers in this situation take what is called a common sense view of the matter, ignore the law, and make the loans. If the banker does not do this the business man may be and often is seriously inconvenienced.

It has been the practice of the Comptroller of the Currency to ask on the reports called for, "What has been the average reserve for the thirty days preceding the date of the report?" I find no lawful basis for such a question and it suggests that the Comptroller also is willing to ignore the law and take a common sense view.

The present Comptroller has recently brought to light an almost forgotten clause of the National Bank Act which prohibits banks from accepting more than the lawful rate of interest, and calls attention to the Directors' Oath that banks shall be conducted in accordance with the law. Mr. Warburg has called attention to the fact that our usury laws are not based on common sense but that is another story which I would like to tell at

another time. The point I now want to make is that the violation of the usury feature of the law is no more perjury than is that which applies to the reserve.

I understand that in Great Britain the banks are not required to keep any stated percentage of reserve and I have never heard that the banks or the business interests of the country suffer thereby. In my long experience as a banker and as one closely in touch with other bankers I have never found any benefit to the banks or the business public in such lawful requirements. I do not mean that banks should not maintain adequate reserves and I do not regard the percentage specified by law as excessive. My complaint is that the requirement of a fixed and rigid proportion of deposits, as reserve, tends to handicap banks in the performance of their proper functions in the community. If the reserve restrictions were removed all intelligent and wise bankers would keep sufficient reserves, but many considerations have to be taken into account to determine what is sufficient. Income in sight has been alluded to. Character of the deposits in certain banks differ. Seasons of the year may have some bearing. Under previous conditions readiness or unwillingness of reserve agents to extend rediscounts made a difference. Geographical proximity to a source of supply of currency is also to be considered. The fact that in periods of money stringency the lawful reserves have never been

regarded as sufficient also shows the inadequacy of the law. Varying conditions indicate that the percentage of reserve should fluctuate accordingly.

Banks as a rule deal in money and credit and are the source of supply of these facilities in their immediate locality, just as a corner grocery store supplies food to the neighborhood in which it is located. Let us apply the principles complained of in banking to the operations of the grocery store. Let us suppose that the Secretary of Agriculture had supervision over such stores and that he learned that occasionally some stores allowed their stock of standard foods to become depleted. In his zeal to regulate, he might have an Act of Congress passed which should require that every grocery store should always have on hand a reserve supply of standard articles of food, at least enough to last five days. Under the operations of such a law a housewife might call for oatmeal, beans, sugar, and flour and be told by the grocer that he was very sorry but he could not accommodate her as his reserve would be trenched upon. He would have plenty on hand tomorrow as he had just received word from the freight house that a shipment from the wholesale house in the city had arrived and he would have his team haul it to the store the first thing in the morning. In the conduct of a grocery store this action seems to be so absurd that I am almost ashamed to speak of

it as a possibility. Five days' supply of food on the shelves and more in sight and the neighborhood population compelled to shop somewhere else or go hungry! In the case of the grocery the people can go a couple of blocks away and supply their needs. In the case of the bank this is not as a rule feasible as the depositor has no account elsewhere and his standing is not known - and when he goes where he is not known asking for accommodation he almost invariably is looked on with suspicion.

Let us take another illustration to shed light upon our banking practice. We have heard much of mobilizing troops and also of mobilizing bank reserves. To my notion bank reserves are or should be treated as soldiers are on the firing line. The latter are in position to do serious work and in war it is to be expected that many of them will be killed. What would be thought of a military commander who was so careful of his soldiers on the firing line that his energy was spent in seeing that none of them ever got shot? While his regard for human life is commendable it would render futile the purposes for which the army was created.

Bank reserves should be in constant use in meeting the daily needs of the banking business in supplying money and proper credit. It should be taken as a matter of course that the percentage of reserve should fluctuate one or two points above or below what was determined to be the proper average. Please remember

that I am not complaining of banks being compelled to carry too much money as reserve but only of the rigidity of the requirements. The spirit of the law is good but the application is not wise. We have it on good authority that the spirit of a law giveth life but that the letter killeth. The rules regarding the observance of the Sabbath day in old Judea were rigid and burdensome; what a relief it was when it was declared that the Sabbath was made for man and not man for the Sabbath. The requirements of law should be designed to insure the safe and convenient carrying on of the daily affairs of the people. The people should not be compelled to conform to the requirements of laws framed by those not fully conversant with the details of the conditions of our life and business.

In proposing a change in the matter spoken of it would not be necessary to go the extent of abolishing all laws as to reserve but the relief I think we should have for ourselves as bankers and for the benefit of business generally could be obtained by making the reserve percentage an average one for the month. With each report called for by the Comptroller there could be sent a statement of the daily reserve for the two or three calendar months preceding, showing the average for each month. With this much freedom of

action allowed to the banks it would not be an inexcusable hardship if the penalty of a fine should be a condition of law.

The continuance of poorly working laws upon our statute books results in handicaps in business or else in the disregard of law. Either of these results is surely of enough importance to warrant us in requesting that laws be changed to harmonize with the normal requirements of business.

Under the operations of the Federal reserve law while technically less reserve has to be carried, practically more will be required, for the reason that the banks will all have to carry balances with their correspondents. These balances now are reserve but after they cease to be so considered they will still have to be maintained as a matter of convenience. This is an added reason why the relief suggested should be granted.

3/16/17

EX-OFFICIO MEMBERS
 WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
 WASHINGTON

W. P. G. HARDING, GOVERNOR
 PAUL M. WARBURG, VICE GOVERNOR
 FREDERIC A. DELANO
 ADOLPH C. MILLER
 CHARLES S. HAMLIN X-50.
 H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

March 19, 1917.

Dear Sir:

By direction of the Federal Reserve Board, you are advised that the Board is in receipt of a letter from Honorable B. R. Newton, Assistant Secretary of the Treasury, reading as follows:

"Referring to the recommendation of the Federal Reserve Board to the effect that the transportation charges on all Federal reserve notes, whether fit or unfit, sent to the Treasurer of the United States for redemption, be assessed against the sender, you are advised that the Secretary has approved the recommendation and has directed a change in Department practice to accord thereto. Paragraph 20 in section IX of Department circular No. 55-A (1916) regarding the issue, exchange and redemption of money, will be amended by the omission of the words "Federal reserve notes." The change, for convenience of the Treasurer in order to permit the proper adjustment of his accounts and in order to give due notice to all parties concerned, will be made on April 15, 1917, and will not be retroactive."

Attention is especially called to the date named by Mr. Newton upon which the new plan becomes effective.

Respectfully,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
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COMPTROLLER OF THE CURRENCY

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CHARLES S. HAMLIN

FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN WALKER, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 21, 1917.

Dear Sir:

The Board has been advised by the Secretary of War that, owing to the failure of Congress at its last session to pass the general deficiency appropriation bill, no funds are available for the payment of many obligations which have been contracted by the War Department, as evidenced by official "Public Vouchers" for "Purchases and Services other than Personal". No doubt is entertained that Congress at the approaching extra session will promptly enact this appropriation bill, so that the necessary money will be available. In the meanwhile it is earnestly desired that holders of these vouchers be enabled to realize upon them at as small a cost as possible, and you are requested to send your member banks a copy of this letter. The Board understands from the War Department that each voucher will have a rider attached as follows:

"This account is not payable at this date by reason of the fact that no funds are now available owing to the failure of Congress to pass the general deficiency measure. This is the original voucher and payment will be made when funds are available, only on presentation thereof. No other voucher will be issued covering this transaction except on conclusive proof of the loss of the original."

Your member banks in giving accommodation to holders of Government claims as evidenced by these vouchers, could take the note of the firm or contractor with the voucher attached as collateral security. The Board holds that such notes will be eligible for rediscount by Federal reserve banks at the fifteen-day rate, or at the regular commercial paper rates according to maturities.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
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FEDERAL RESERVE BOARD

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON
CONFIDENTIAL.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 21, 1917.

Dear Sir:

The attention of the Board has been called to efforts that are likely to be made in some of the districts should a state of war be declared, to induce the withdrawal of deposits from savings banks and savings departments of commercial banks.

The Board would suggest, therefore, that your bank make a discreet but careful investigation of the situation in your district, with the view of ascertaining what withdrawals are likely to occur. The Board has no doubt that you are prepared to give prompt and effective assistance to any member banks which may be directly concerned, and through your member banks to other solvent institutions which may be affected by excessive withdrawals.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

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FEDERAL RESERVE BOARD

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

March 23, 1917.

Dear Sir:

Enclosed herewith I hand you copy of a letter from Mr. B. R. Newton, Assistant Secretary of the Treasury, containing a statement of the cost of preparing Federal reserve notes during the month of February last, amounting to \$42,203.90. I shall be glad to receive a check for the amount charged against your bank \$ in order that the proper reimbursement may be made.

Very truly yours

Fiscal Agent.

Enclosure.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY,
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FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS, SECRETARY,
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 27, 1917.

Sir:

In further reference to office letter of March 8, advising you of the resolutions of the Board relating to the delivery of Federal reserve notes to Federal reserve agents, you are advised that where delivery is made to a Federal reserve agent by mail or express, the notes will be accompanied by a form of receipt to be prepared by the Treasury Department which should be executed in duplicate and witnessed by a duly authorized bank officer, one copy to be forwarded to the Comptroller of the Currency for his files and the other to the Treasurer of the United States, Assistant Treasurer, or director of the Mint who ships the notes to the Federal reserve agent.

In order to consummate the proposed arrangement it will be necessary for the Secretary of the Treasury to issue instructions through the public moneys division to the assistant treasurers. These instructions will provide that the new plan shall become effective from and after a given date. Prior to that time it will be necessary for each bank to file with the Treasurer or with the assistant treasurers of the United States a certified copy of the resolution of the bank designating the officers who are authorized to sign the receipts as evidence of the fact that they have witnessed delivery of notes to the Federal reserve agent. Upon advices from the Secretary as to the date that the order becomes effective, you will be promptly notified so that this resolution may be filed.

Respectfully,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
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COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
X-61 FEDERAL RESERVE BOARD

March 30, 1917.

Dear Sir:

Referring to circular letter No. X-52 dated March 21st, addressed to Governors of Federal reserve banks, your attention is called to letter from the Quartermaster General dated March 19, copy of which is inclosed herewith, which you are requested to bring to the attention of your Executive Committee, in order that the information contained therein may be given to your member banks or to any of them that would be interested.

Very truly yours,

Governor.

Inclosure.

C O P Y

March 19, 1917.

To: Depot Quartermaster,
Washington, D. C.

1. In all cases where amounts are due contractors which, if funds were available, would be paid upon a properly executed voucher, you are authorized by the Secretary of War to prepare and sign a voucher for the amount due and place it in the hands of the contractor securely attaching to the voucher a statement, dated and signed, reading:

"This account is not payable at this date by reason of the fact that no funds are now available owing to the failure of Congress to pass the general deficiency measure. This is the original voucher and payment will be made, when funds are available, only on presentation hereof. No other voucher will be issued covering this transaction except on conclusive proof of the loss of the original."

2. The duplicate voucher will be retained by the depot quartermaster and under no conditions will a second original voucher be given the contractor except upon the production of satisfactory evidence that the original voucher has been lost or destroyed.

3. Under the provisions of Section 3477, Revised Statutes of the United States, the Quartermaster Corps can not recognize the assignment by contractors of claims against the United States within the meaning of making payment of amounts to the person to whom the claims may be assigned, but the procedure herein authorized will place in the hands of contractors evidence that they have amounts due them from the United States and may assist them materially in making arrangements with banks to extend them financial aid.

4. You will immediately advise all contractors having moneys due them from the United States which, if funds were available, would be payable from your office, that you stand ready, upon their request, to furnish them with a voucher prepared and signed in the manner herein stated.

5. A sample form of voucher is inclosed herewith for your information and guidance.

HENRY G. SHARPE

Quartermaster General.

WELLS FARGO & COMPANY

EXPRESS.

MONEY SHIPMENTS

Washington, D. C.

March 24, 1917.

Honorable William G. McAdoo,
Secretary of the Treasury,
Washington, D. C.

Dear Sir:

Under date of February 7, 1917, this office addressed a letter to Mr. B. P. Newton, Assistant Secretary of the Treasury, in reply to his letter of January 25, 1917, in which we advised that this Company would undertake to handle for the Government shipments of Mutilated or Cut Unfit Currency returned for destruction from the various sub-treasuries located on its lines to Washington, D. C., by express at the regular merchandise rate, provided a value of not to exceed \$50.00 was placed on each shipment. Shipments to be sealed by the sub-treasury and marked "Mutilated or Cut Unfit Currency", also marked "Value not to exceed \$50.00". The same rate to apply on shipments from the Federal Reserve Banks to the Treasury Department at Washington, D. C., and will you please instruct that such shipments be routed as follows:

Via The Adams Express Company:

From Cincinnati, O.,	St. Louis, Mo.,
New Orleans, La.,	Richmond, Va.
Philadelphia, Pa.,	Atlanta, Ga.,

Via The American Express Company:

From Boston, Mass.,	Kansas City, Mo.,
Chicago, Ill.,	Cleveland, O.,

Via Wells Fargo & Company:

From Baltimore, Md.,	Dallas, Texas,
New York, N. Y.,	Minneapolis, Minn.
San Francisco, Cal.,	

Very truly yours,

W. C. JOHNSON,

General Agent.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
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AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 31, 1917.

Dear Sir:

The Board's attention has been called to the fact that office letter dated March 21, 1917, may have been construed to mean that member banks may purchase outright Government vouchers assigned by contractors or others having claims represented by such vouchers, without taking the note of the claimant. It was not the intention of the Board, however, to suggest such a course. Under Section 3477 Revised Statutes, these claims are not assignable and in the ordinary sense would not constitute bankable security. In view of the present emergency, however, it was suggested that notes with these vouchers attached might be rediscounted by member banks with a Federal reserve bank. The notes would be eligible without security, and, notwithstanding Section 3477, it was the view of the Board that where contractors have amounts due them from the Government which will be paid as soon as the proper appropriations have been made by Congress, banks might reasonably extend accommodations to such contractors.

The Government officers might refuse to recognize the assignment of a claim -

"But if those officers chose to make payment to the person whom the claimant, by formal power of attorney has accredited to them as authorized to receive payment, the claimant cannot be permitted to make his own disregard of the statute the basis for impeaching the settlement had with his agent."

(Bailey v. United States, 109 U. S.)

In other words, Section 3477 was enacted in order to protect the Government and to make it unnecessary for disbursing officers to determine the merits of disbuted claims. Under the present circumstances it may reasonably be anticipated that the Government officers will seek to protect the banks which extend these accommodations to those having contracts with the Government. It is expected that the necessary appropriation will be made within a short time, and that these loans can and will be adjusted.

Respectfully,

Governor.

F E D E R A L R E S E R V E P R I M E R

(Prepared by F. A. Delano for Criticism)

1. The United States is divided, for facilitating the banking inter-relations of the country, into twelve districts, each district named after the city which is its headquarters.

These twelve districts are known as follows:

- No. 1 - Boston District,
- No. 2 - New York District,
- No. 3 - Philadelphia District,
- No. 4 - Cleveland District,
- No. 5 - Richmond District,
- No. 6 - Atlanta District,
- No. 7 - Chicago District,
- No. 8 - St. Louis District,
- No. 9 - Minneapolis District,
- No. 10 - Kansas City District,
- No. 11 - Dallas District,
- No. 12 - San Francisco District.

2. Every national bank is required and every State bank, under certain conditions, is permitted, to become a stockholder to the extent of 3% of its capital and surplus.
3. In this way the paid-in capital of the twelve Federal reserve banks is approximately 56 millions of dollars. The largest bank, New York, has \$11,880,000; the smallest - Atlanta, has \$2,414,000.
4. Every national bank and every other member bank is required to keep its legal reserves on deposit with the Federal reserve bank. These reserves are at present 18% for banks in

the three central reserve cities (New York, Chicago and St. Louis); 15% for banks in some fifty-two other cities, and 12% for banks in non-reserve cities, known usually as "country banks."

5. The aggregate reserve deposits held by the twelve Federal reserve banks amounted on March 31, 1917, to \$720,411,000.

6. In consideration of the ownership of stock in the Federal reserve bank and the deposit of its reserves with said bank, each national or other member bank is permitted to borrow at specially low rates from its Federal reserve bank on the collateral of the, what is commonly called commercial paper. This paper consists of the notes of farmers, manufacturers, and merchants not exceeding six months time to run in the case of farmers' paper, or three months time to run in the case of manufacturers and merchants' paper.

These notes of the member bank's customers, when endorsed by a member bank, may, as already stated, be put up as collateral with the Federal reserve bank and credit given by the Federal reserve bank to the applying member bank. This credit may take the form of a book credit, subject to draft, or in the form of Federal reserve notes, which each Federal reserve bank is permitted to issue.

7. Federal reserve banks are permitted to accept deposits from, or make loans only to member banks. Hence each Federal

reserve bank is a central bank for its district. Thus, the Federal Reserve Bank of Chicago has 1,045 member bank depositors, while the Federal Reserve Bank of Atlanta has 382 member bank depositors. This represents at present the maximum and minimum. As more national banks are chartered, or State banks join the system, as they are permitted to do, this number will increase. At present the total aggregate number in the system of twelve Federal reserve banks is -

7,594	National banks
<u>40</u>	State banks
7,634	Total

7½. The twelve Federal reserve banks are under the supervision of a Board of seven men in Washington, D. C., constituted as follows: The Secretary of the Treasury, ex-officio, the Comptroller of the Currency, ex-officio, and five other members appointed for terms of ten years by the President, with the advice and consent of the Senate. Of these five appointed members two must have been trained bankers, and the three others need not have had such experience. The terms of the Board were so adjusted with those first chosen that the term of one man expires every two years.

8. The salaries of the five appointive members are fixed at \$12,000 per year, and these salaries, plus 7/12ths of the salary of the Comptroller of the Currency, and the expenses for

salaries of staff and other expenses of the Federal Reserve Board at Washington are paid by the twelve Federal reserve banks in the form of a semi-annual assessment levied by the Federal Reserve Board. The total expenses of the Federal Reserve Board for the fiscal (and calendar) year of 1916 were \$226,937.37.

9. Each Federal reserve bank is conducted under the direction of a Board of nine directors:

- 3 Bankers elected by groups representing the large, the medium sized, and the small banks;
- 3 Business men similarly chosen by the banks;
- 3 Directors, two of whom must have had tested banking experience, appointed by the Federal Reserve Board at Washington, to represent them and interests of the general public.

The term of each director is for three years, but the term of one director in each group expires each year; on December 31st.

10. The Federal reserve banks are permitted to invest their capital and a reasonable share of their reserve deposits in four ways;

(a) In loans to member banks on commercial paper, as already described under 6. These loans are usually called "Rediscounts".

(b) In the purchase in the "Commercial" or "Open Market" certain well known grades of commercial paper, such as "Bankers

Acceptances", but only when such paper has only three months to run;

(c) The purchase (under restrictions expressed in the law and by the Federal Reserve Board) of town, city, county and State tax warrants, having not more than six months to run;

(d) The purchase of United States Government Bonds and notes, both those having and those not having the privilege of issuing bank note circulation.

11. Every Federal reserve bank is allowed to issue Federal reserve notes against commercial paper, accepted as collateral from a member bank or when bought in the open market. It must do this under the restrictions laid down in the law and by the rules of the Federal Reserve Board. In this connection, each bank must establish as a reserve against the notes so issued at least 40% in gold in addition to the commercial paper held. Against deposits a reserve of at least 35% in gold must be held.

12. The object of permitting the notes to be issued only against commercial paper, that is to say, short time borrowing, representing the actual production of food products, or staple commodities, or the sale of raw materials to manufacturers, is to base the currency solely upon the demands of commerce and business, increasing as business increases and diminishing as business diminishes. Thus the currency will tend to expand and contract with the volume of business; for example, if at

the end of 90 days, a borrowing bank repays its loan at the Federal reserve bank, the notes issued when the loan was made are either retired or a deposit of the equivalent sum of lawful money must be made to guarantee their retirement.

13. The Federal Reserve Board at Washington is authorized to designate the Federal reserve banks to exercise all the functions of clearing houses for their member banks, and may also promulgate from time to time regulations covering the transfer of funds and the charges therefor.
14. The Secretary of the Treasury may use Federal reserve banks as Government depositaries and may require them to act as fiscal agencies of the Government. This right has been exercised as yet to only a limited extent.
15. The Federal reserve banks may, with the consent of the Federal Reserve Board, open and maintain banking accounts in and appoint correspondents or establish agencies in foreign countries.
16. The Federal reserve banks are not chartered primarily for profit. The capital of the Federal reserve bank is owned by the member banks, subject to a cumulative dividend of 6% per annum. Profits in excess of this revert to the Government. Primarily the duty of the Federal reserve banks is to act as the custodians and guardians of the bank reserves of their member banks. Next it is their duty to render a service to their member banks and, through them in turn, to the general public in equalizing and stabilizing interest rates.

FEDERAL RESERVE PRIMER .

1. The United States is divided, for facilitating the banking inter-relations of the country, into twelve districts, each district named after the city which is its headquarters.

These twelve districts are known as follows:

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- No. 12 - San Francisco District.

2. Every National bank is required and every State bank under certain conditions, is permitted, to subscribe to the stock of the Federal Reserve Bank of its district, to the extent of 6 per cent of its own capital and surplus; but of this only 3 per cent has been paid in, and the remainder, while subject to call by the Federal Reserve Board, is not likely to be called.

3. In this way the paid-in capital of the twelve Federal Reserve Banks is approximately 56 millions of dollars. The largest bank, New York, has \$11,880,000; the smallest, Atlanta, has \$2,414,000.

4. Every national bank and every other member bank is (after November 17, 1917) required to keep a substantial share of its legal reserves on deposit with the Federal Reserve Bank. These reserves are at present 18 per cent for banks in the three central reserve cities (New York, Chicago and St. Louis); 15 per cent for banks in some fifty-two other cities, and 12 per cent for banks in non-reserve cities, known usually as "country banks."

5. The aggregate reserve deposits held by the twelve Federal Reserve Banks amounted, on March 31, 1917, to \$720,411,000.

6. In consideration of the ownership of stock in the Federal Reserve Bank and the deposit of its reserves with said Bank, each national or other member bank is permitted to borrow at very favorable rates from its Federal Reserve Bank on the collateral of, what is commonly called commercial paper. This paper consists of the notes of farmers, manufacturers, and merchants not exceeding six months' time to run in the case of farmers' paper, or three months' time to run in the case of manufacturers' and merchants' paper, where the proceeds have been used solely for farming, manufacturing and mercantile purposes.

These notes of the member bank's customers, when endorsed by a member bank, may, as already stated, be put up as collateral with the Federal Reserve Bank and credit given by the

Federal Reserve Bank to the applying member bank. This credit may take the form of a book credit, subject to draft, or the form of an issue of Federal Reserve notes, which each Federal Reserve Bank is permitted to obtain by application to its accredited Federal Reserve Agent.

7. Federal Reserve Banks are permitted to accept deposits from, or make loans only to, member banks. Hence each Federal Reserve Bank is a central bank for its district. Thus, the Federal Reserve Bank of Chicago has 1,045 member-bank depositors, while the Federal Reserve Bank of Atlanta has 382 member-bank depositors. This represents at present the maximum and minimum. As more national banks are chartered, or State banks join the system, as they are permitted to do, this number will increase. At present the total aggregate number in the system of twelve Federal Reserve Banks is -

7,594	National Banks
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8. The twelve Federal Reserve Banks are under the supervision of a Board of seven men in Washington, D. C., constituted as follows: The Secretary of the Treasury, ex-officio, the Comptroller of the Currency, ex-officio, and five other members appointed for terms of ten years by the President, with the ad-

advice and consent of the Senate. Of these five appointed members two must have been trained bankers, and the three others need not have had such experience. The terms of the Board were so adjusted with those first chosen that the term of one man expires every two years.

9. The salaries of the five appointive members are fixed at \$12,000 per year, and these salaries, plus seven-twelfths of the salary of the Comptroller of the Currency, and the expenses for salaries of staff and other expenses of the Federal Reserve Board at Washington are paid by the twelve Federal Reserve Banks out of the proceeds of an assessment levied by the Federal Reserve Board semi-annually. The total expenses of the Federal Reserve Board for the fiscal (and calendar) year of 1916 were \$226,937.37.
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- 3 Bankers elected by groups numerically equal, representing the large, the medium sized, and the small banks;
 - 3 Business men similarly chosen by the banks;
 - 3 Directors, two of whom must have had tested banking experience, appointed by the Federal Reserve Board at Washington, to represent them and interests of the general public, none of whom may be directors or stockholders in banks.

The term of each director is for three years, but the term of one director in each group expires each year - on December 31st.

11. The Federal Reserve Banks are permitted to invest their capital and a reasonable share of their reserve deposits in the following ways:

(a) In loans to member banks on commercial paper, as already described under 6. These loans are usually called "Re-discounts."

(b) In the purchase in the "Commercial" or "Open Market" certain well known grades of commercial paper, such as "Bankers Acceptances", Bills of Exchange, foreign and domestic, but only when such paper has not more than three months to run;

(c) In the purchase (under restrictions expressed in the law and by the Federal Reserve Board) of town, city, county, and State tax warrants, having not more than six months to run;

(d) In the purchase of United States Government Bonds and notes, both those having and those not having the privilege of issuing bank note circulation.

In addition to these powers, the Federal Reserve Banks are permitted to deal in gold coin or bullion at home or abroad.

12. Every Federal Reserve Bank is allowed to issue Federal Reserve notes against commercial paper, accepted as collateral

from a member bank or when bought in the open market. It must do this under the restrictions laid down in the law and by the rules of the Federal Reserve Board. In this connection, each bank must establish as a reserve against the notes so issued at least 40 per cent in gold in addition to the commercial paper held. Against deposits a reserve of at least 35 per cent in gold or lawful money must also be held.

13. The object of permitting the notes to be issued only against commercial paper, that is to say, short time borrowing, representing the actual production of food products, or staple commodities, or the sale of raw materials to manufacturers, is to base the currency solely upon the demands of commerce and business, increasing as business increases and diminishing as business diminishes. Thus the currency will tend to expand and contract with the volume of business; for example, if at the end of 90 days, a borrowing bank repays its loan at the Federal Reserve Bank, the notes issued when the loan was made are either retired or a deposit of the equivalent sum of lawful money must be made to guarantee their retirement.

14. The Federal Reserve Board at Washington is authorized to designate the Federal Reserve Banks to exercise all the functions of clearing houses for their member banks, and may also promulgate from time to time regulations covering the transfer

of funds and the charges therefor.

15. The Secretary of the Treasury may use Federal Reserve Banks as Government depositaries and may require them to act as fiscal agencies of the Government. This right has been exercised as yet to only a limited extent.

16. The Federal Reserve Banks may, with the consent of the Federal Reserve Board, open and maintain banking accounts in and appoint correspondents or establish agencies in foreign countries.

17. The Federal Reserve Banks are not chartered primarily for profit. The capital of the Federal Reserve Bank is owned by the member banks, subject to a cumulative dividend of 6 per cent per annum. Profits in excess of this revert to the Government, with the provision that one-half of these excess profits shall be diverted to the creation of a surplus fund for the Federal Reserve Bank until the fund shall have reached 40 per cent of the capital of that Bank. Primarily the duty of the Federal Reserve Banks is to act as the custodians and guardians of the bank reserves of their member banks. Next it is their duty to render a service to their member banks and, through them in turn, to the general public in equalizing and stabilizing interest rates.

4/10/17.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES
OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED.

"That every bank, banking association, and trust company authorized by the laws of the United States or of any State to receive money on deposit subject to check shall pay an annual tax of one-tenth of one per cent on the aggregate amount of checks paid by it during each fiscal year which bear the indorsement of or which are collected through any other bank, banking association, trust company, or private banker located outside of the State in which such checks are made payable, and every bank, banking association, and trust company shall make a return at the end of each quarterly period to the Collector of Internal Revenue showing the aggregate amount of such checks paid during that quarter, such return being verified by the oath of at least two of its officers, PROVIDED, however, That this tax shall not apply to any Federal reserve bank or member bank of any Federal reserve bank, or to any nonmember bank or trust company which carries and maintains a collection or exchange account with any Federal reserve bank under authority of Section 2 of this Act.

"Section 2. Any Federal reserve bank, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: Provided, such nonmember bank or trust company maintains with the Federal reserve bank of its district, under such rules and regulations as the Federal reserve board may prescribe, a balance in an amount to be determined by such Board, but in no event to exceed the amount of reserves which it would be required to maintain with its Federal reserve bank if it were a member bank, and, Provided, further, That such nonmember bank or trust company agrees to comply with the provisions of law and the regulations of the Federal Reserve Board relating to the collection or clearance of checks, drafts, notes, and bills through Federal reserve banks."

4/4/17

TO BE RELEASED FOR THE MORNING
PAPERS OF SUNDAY, APRIL 8, 1917

Synopsis of Address by
HON. PAUL M. WARBURG
before the
COMMERCIAL CLUB OF CHICAGO,
April 7, 1917.

In speaking last evening before the Commercial Club of Chicago about the topic "Government and Business", Paul M. Warburg, Vice-Governor of the Federal Reserve Board, emphasized the necessity of a clearer recognition of the necessity of cooperation between Government boards and business if the large economic problems of modern industrial states are effectively to be coped with.

Before dealing with the subject of his address, he spoke about the financial problems confronting the United States, saying:

"When the United States goes to war, it can never be a race war; it must be a war for a principle, for liberty or for human rights. It can never be a war by a race against a race, but a war by people holding to one principle against people holding to another. Our greatest contribution to the world's development is that we are giving the living proof that common aims and ideals can be stronger than racial differences. When the die is cast there can be only one duty for any citizen and that is to stand loyally by the flag of his country. But that duty is doubly strong with us, where any hesitation in that respect would shake the fundamental thought of the Union - which is: that its citizens must shake off the smaller racial or sectional thought and subordinate it to the larger duty of loyalty and allegiance to the principles of liberty, justice and equality upon which the United States is founded. That does not mean that we should cease to love the people who were near and dear to us in the old

countries 'where our ancestors', or even our own cradle stood, or that we should forget that every one of these old races has given us some great contribution toward the higher development of our own country. During our Civil War many a brave man continued to love his brother even though he found himself forced to fight him on the field of battle. But this tragic conflict of affections could not shake his loyalty to the cause he had espoused. And so it must and will be with us. When our country goes to war it has a right to expect and demand of all its citizens a willingness to serve and to suffer and to die. No matter what this may entail for any of us, about our whole-hearted and unquestioning allegiance to our flag, about our unhesitating readiness to stand by our President and to do our duty, there can be no possible doubt.

"This duty may be performed in many ways. It may be personal service with the colors. It may be organizing and placing at the disposal of the Government the various industries of the country, or the investors' prompt response to offerings of loans issued in the interest of the cause.

"Under the particular circumstances in which we enter the war, the financial aid that our country will be able to render will be one of our most important contributions, and I have no doubt that in whatever way our Government will finally decide to appeal to the American investor he will respond with an alacrity and in a spirit that will astound the world.

"It is a profound satisfaction to all of us to know that never before was this country financially as strong and as well prepared

as it is today. During the last three years our gold holdings have increased by 57% from \$1,900,000,000 to about \$3,000,000,000. In addition, as you are well aware, we have improved our position as against other nations by repurchasing our own securities and making foreign loans to an amount approaching \$5,000,000,000.

"Moreover, by the establishment of our Federal Reserve System we have organized this enormous strength. We have brought into effective coordination a large portion of the country's banking reserves. We have regulated and brought about a general understanding of modern methods of rediscounting. We have created a new wide market for bankers' acceptances, so that our member banks now have an easy means of recourse to the Federal Reserve Banks in case they wish to replenish their reserves.

"We have established fiscal agency relations with the Government and perfected an instrument which may prove of great value in placing future issues of our Government securities. Not so much by investing their own funds, except when dealing with short maturities, but by acting as a medium of distribution, the Federal Reserve Banks may play a most important part in facilitating the participation of all sections of the country, in receiving the payments for subscriptions and adjusting any drastic dislocation of funds that might arise through heavy payments by the banks to the Treasury. We have available a vast supply of notes of undoubted solidity ready to be issued whenever there may be a demand; and, through the inter-district gold clearing fund, we have established machinery for the freest exchange of balances between the various parts of the country. Not by any stretch of imagination could

we any longer perceive the possibility of a gold premium between the various American centers or a currency famine as in years gone by. About our power to take care of ourselves there can be no doubt. But in view of the unparalleled demands that may be made upon us, both during the war and after the conclusion of peace - demands which it may be our highest national interest and duty to satisfy - we should not neglect to perfect our financial machinery to such a degree as to give it the greatest possible strength. For this reason, the Federal Reserve Board has again recommended to Congress amendments having for their object a still further concentration in the Federal Reserve Banks of gold held in scattered bank reserves, and a more liberal substitution of Federal Reserve notes for our present rigid 100% gold certificate circulation. One billion dollars - one third of the gold holding of the United States - is at present "unaccounted for"; you and I carry it in our pockets, it is in the tills of the baker, the grocer and the dry-goods store. We all would just as leave take Federal Reserve notes - our Government's absolute obligation secured at present by practically 100% of gold and all the assets of the Federal Reserve Banks. It is as apparent that it would increase our strength enormously if we could add to our organized reserves a substantial portion of this wasted gold as it is obvious that it would be nothing short of a crime wilfully to withhold from our country at this time so vital an addition to its power of offense and defense.

"Unfortunately, in the general tie-up of all legislative work at the end of the preceding session, Congress was unable to pass the desired legislation. It is most essential for the best interest of the country that prompt action be taken by the present Congress and it is most desirable that public opinion assist the committees on banking and currency in

securing early and favorable consideration of these amendments, which will enable us promptly to complete our financial mobilization."

He recapitulated the thoughts about his general topic as follows:

"The modern state is as much an economic as it is a political unit. There are millions of individual enterprises apparently self-centered and independent, but as a matter of fact, all dependent upon each other. There is not one in the conduct of which, directly or indirectly, the state is not interested. There is not one which, by exaggerating the single and selfish point of view, might not do harm to others and affect the well being of the whole. Whenever the fair middle course essential for the greatest prosperity and comfort of all cannot be established and adhered to by common understanding between contending parties, Government has to step in as a regulating factor. If this regulation is to bring about the best results, it must not be exclusively preventive of abuses or destructive of old business practices, but it must be, at the same time, constructive. Government must not regulate only. It must also promote.

"In the state of the future, particularly in Europe after the war, the most efficient Government promotion of industries in many lines will be held to exist in actual government ownership and operation. More than ever before will states become solid industrial and financial unions effectively organized for world competition driven by the necessity of perfecting a system of the greatest efficiency, economy and thrift in order to be able to meet the incredible burdens created by the war.

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"Such is the future of the world in which we shall have to maintain our own position, and it requires, on our part, thorough organization and steady leadership. Under our democratic system this cannot be furnished by changing party governments, but can only be provided by fairly permanent, non-partisan and expert bodies. These bodies must combine the judicial point of view with that of active and constructive business minds. They must be able to act as expert advisers alike to Congress and the industries concerned. They must break down suspicion and prejudice of Government against business and business against Government. They must stand for the interest of all against the exaction or aggression of any single individual or group, be it called capital or labor, carrier or shipper, lender or borrower, Republican or Democrat.

"Our ability to handle effectually the great economic problems of the future will depend largely upon developing boards and commissions of sufficient expert knowledge and independence of character. This will be possible only if both Government and the people fully appreciate the importance of such bodies, so that the country may find its ablest sons willing to render public service worthy of the personal sacrifices it entails.

"I believe that the dark clouds of sorrow and suffering which for three long years have shrouded the world will before long show us their 'silver lining'. We shall see it in the greater political liberty and safety coming to millions in Europe. We shall perceive it in the chastening that will come to some and the awakening in

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others to the deeper realization of the things most essential in life. To us it will bring, I believe, a keener appreciation of the individual's duty toward his country, not alone to his country in stress, but also to his country in its peaceful endeavors. It will ~~bring~~ develop a better understanding of our common problems, and with a proper estimation of their importance there will come a greater willingness on the part of all to serve the country either by taking a more active share in its government or by readier and more intelligent subordination of our own work or comfort to the larger public interest.

"This broader conception of genuine citizenship will perceive in government regulation not unwelcome and arbitrary restraint to be resented by liberty loving men, but self-imposed rules established for mutual advantage and protection.

"Aristotle, in defining the essential characteristics of liberty, said: 'It is to govern and in turn to be governed', and this thought has lost nothing of its force even though 2,000 years have passed since it was expressed.

"Liberty without Government is anarchy.

"Government without cooperation of the governed is autocracy.

"To govern and in turn to be governed is the only form of true liberty.

"In this conception there is nobody governing and nobody governed. We all govern and serve alike and together. We all serve one master; the only master that no liberty loving man need be ashamed to serve - we serve our country."

Mr. Warburg spoke at length about the importance for the whole country of effecting a uniform banking system and developing the fullest strength of the Federal Reserve System by securing the entrance into the system of the State banks and trust companies. In this connection, he said:

"The present condition of having 7,500 banks carry the burden for 27,000 is unfair both to the member banks and the best interests of the country. The strong non-member banks who, knowing the facts, do not remove this inequality will, in time, force the Government to do its duty in adjusting the matter. But if Congress finally should be forced to swing the 'big stick' they will be the ones to complain most loudly about the 'nuisance and unfairness' of governmental compulsory regulation."

He said that the Federal Reserve Board had gone to the limit in prescribing impartial conditions for member State banks and trust companies and that, instead of trying to restrict the legitimate banking operations of such members, the Board ~~xxx~~ had striven rather to secure from Congress enlarged powers for national banks.

Mr. Warburg said further:

"I know that a great many of the leading State bankers of the country are very sensitive as to this situation. They do not feel happy about it and have made up their minds that it is the proper thing for them to come in. They furthermore know that every depositor in a member bank contributes his share to the stronger protection and to the greater credit power of the country, and that their depositors will awaken to a realization of the importance of this

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condition. They ~~do not know~~ know that in case of a real strain, savings banks, trust companies and State banks, indirectly, will have to depend upon the strength of the Federal Reserve System others maintain for them. But they know that entering the system means certain sacrifices in earnings, and, may be, the loss of some interlocking directors. Yet, if that is their contribution to the rise of America's banking system and to the safety and better growth of our economic edifice, they ought to be willing to pay that price."

"Under a highly developed system of branch banking, there are in England 259 joint stock banks; in Canada, 21, and in Germany about 350. We have about 30,000. It is obvious, therefore, that leadership and direction by government agencies is even more necessary with us than in Europe. We have adopted from Europe the principle of cooperative protection in banking and we ought to accept from them also the loyal spirit in which they cooperate with their leaders. The people, the banks and the press are mindful of the fact that farmer and manufacturer, borrower and lender, of necessity cannot take an unselfish point of view; that no matter how profoundly they believe they have given due regard to the country's general interests, most of them are so busy with their own affairs that they have not even had the time to consider the problem from any but their own angle. The central bank's actions must, of course, bear careful analysis and

healthy public discussion. But the first impulse abroad is to follow the men they have placed in charge, to stand by them and to take it for granted that the obvious is not likely to have escaped their attention, and that the only object in view is to be fair to all and to do the best for their country.

"More than in Europe it is necessary with us that our banks shall not consider the Federal Reserve System as an unwelcome and bothersome leash from which some day they still hope to escape. The Federal Reserve Act provides for a joint administration by Government on the one hand and banking and business on the other. The more the banking and business communities realize that Government regulation in banking is indispensable and has come to stay, the more they substitute for a critical attitude a spirit of active cooperation, the more they begin to recognize their duties and privileges as half-partners in the administration, and the more they make it their business to perfect the machinery which has been established for their own protection, helping instead of hindering those who try to make it a success, the happier and safer will they be and the better it will be for all. Let them be clear about it that our people will never permit this Federal Reserve System, or any other similar system, to be run by the banks alone without the check and regulation of the Government, just as little as the country would permit the Government to run such a system without the counter-check of the cooperation of the banking and business communities. You may say that this marriage between Government and business is not wedlock based upon love at first sight. But no matter whether it was love, reason, or necessity, that brought it about, there can be no divorce. And inasmuch as they must live together the only wise course is to pull together and let the common interest act as the strong bond uniting them."

End.

To be released for the morning
papers of Sunday, April 8, 1917.

A Synopsis of Address by
HON. PAUL M. WARBURG
before
The Commercial Club, Chicago,
April 7, 1917.

Business men must feel toward government boards and commissions as lawyers do toward the Supreme Court, Paul M. Warburg, vice-governor of the Federal Reserve Board, told the Commercial Club of Chicago last evening. Boards and commissions for the regulation of business are necessary to thorough organization and steady leadership which cannot be furnished by changing party government but only by fairly permanent, non-partisan and expert bodies.

Mr. Warburg's subject was "Government and Business" and he covered the field generally by showing industrial, financial, and governmental tendencies and particularly by illustrations drawn from his experience as a member of the Federal Reserve Board. He showed the development and increase of government's interest in business and indicated the belief that business men had not evidenced keen appreciation of the underlying reasons. He said the concern of government for business would grow greater and that in Europe at the end of the war "the most efficient government promotion of industries in many lines will be held to exist in actual government ownership and operation."

"More than ever before," he continued, "will states become solid industrial and financial unions effectively organized for world competition, driven by the necessity of perfecting a

system of the greatest efficiency, economy, and thrift in order to meet the incredible burdens created by the war."

Of the expert commissions who are to represent government in the regulation of business, Mr. Warburg said:

"Our ability to handle effectually the great economic problems of the future will depend largely upon developing boards and commissions of sufficient expert knowledge and independence of character. This will be possible only if both government and the people fully appreciate the importance of such bodies, so that the country may find its ablest sons willing to render public service worthy of the public sacrifice it entails.

"Business men must feel toward these boards as lawyers do toward the Supreme Court. Just as any lawyer might be expected to give up a highly remunerative practice in order to accept a call to the Supreme Bench, so the government must feel that it is entitled to ask the best business minds to serve on a supreme bench, if you please, of transportation, banking, or trade. If in England, France, and Germany the flower of the nation always stands ready to serve its government, why should our country find its citizens less ready to follow its call? Men are willing to serve their country if they feel that the sacrifice involved is commensurate with the result to be achieved and if they can count upon the confidence, the sympathy, and support of the people. How much have business, railroads, and banking done in this respect to enhance the attractiveness of these government positions? Have they tried to do everything in their power to help in the public work and to promote a

sympathetic understanding? Or have many done the best they could to belittle it; to lament unnecessary government interference and to discourage those charged with the duty of carrying into effect the people's will?"

Mr. Warburg, in answering this question, said he had no personal reason for complaint, but that everything should be done to secure for these commissions the most capable men. "The higher the estimation the country places on the work of these boards, the more the country realizes the importance of having the ablest men serve it, the greater will be the chance of securing and retaining for these boards the services of leaders in their respective callings. Men who join such commissions or boards do not want empty compliments or praise. There is but one possible compensation to which they aspire, and that is success in their efforts. If the public is interested in their efforts, if it trusts them and wishes them to prevail, their battle is half won. Intelligent understanding and a sympathetic and cooperative attitude is all that they require."

In outlining the necessity for commissions to regulate business, Mr. Warburg told how the industrial development in Europe had permitted the sustaining of a larger population than when the chief interest was agriculture. Larger population made possible larger tax returns and greater armies. This condition made the food question important and ocean control took its place as the great problem. Success in war depends on financial strength and the ability to mobilize industries.

This explains why European countries, in questions of commerce and production, have long ceased to be simply regulators and have become active promoters of business. Transportation is an essential aid to production and so railroads have been subjected to variations of government influence.

After summing up the conditions in this respect and the intensifying influence of the war, Mr. Warburg said the great debts of the warring nations would compel a continuation of their regulation of business.

"I have outlined these conditions," said Mr. Warburg "in order to ask the question: 'In the face of the ultra-organization to be expected of other countries, can we afford to believe that when peace is restored we can meet this competition, or hold our own, unless we likewise systematize or organize our individual efforts?' Furthermore, if in Europe it is necessary to have governments take an active part in organizing industries and banking, may we assume that it can be done without government regulation in a country which by law and sentiment much more than Europe is opposed to extensive combinations in industries and banking?"

Mr. Warburg said that there was general agreement that the operation of industries by party government in the United States should be avoided. "Where regulation is required," he said, "and where regulation borders on the field of operation, it is best exercised through non-partisan government bodies. The task of government regulation is as complex as it is ungrateful. It is largely a judicial function. Those

charged with it must hear the producer and the consumer, the shipper and the carrier, the borrower and the lender, and find a course that is fair to all, at the same time taking into consideration the larger question of the interests of the entire country".

"Efficient government regulation must conscientiously weigh all these aspects with fairness toward all, with malice toward none. It cannot please all sides; it probably will invariably displease some party involved in the question, or even all. But the test of its work does not lie in praise or blame. The test is, 'Has its work been fair, and, first of all, has it been constructive?'

"When by reduction of rates and improvement of service, excessive dividends on watered stock are cut, no harm is done, provided the country at large profits from such action. If, however, by going to an extreme in this direction, the corporation's credit is impaired and its ability to grow and expand thereby destroyed, regulation proves a failure. A carrier, by exacting extortionate rates, may hurt its own interests because it is bound to weaken or even destroy the shipper. Conversely, the shipper, by securing excessively low rates, may destroy the railroads' ability to serve him well, or to serve him at all. But these two conflicting interests, themselves often engaged in a life and death struggle with their own competitors, cannot take any but a strictly selfish view and there must be a power to intervene between them, protecting them from each other, and safeguarding the public interests. Without governmental bodies of this nature,

which take a judicial and at the same time constructive point of view, the only remaining solution would be government ownership and operation.

"All this is so obvious that I feel like apologizing for taking your time in stating it; but if it is obvious that these bodies perform functions of the very highest importance in regulating transportation and finance, in developing equitable tariffs, and in seeking to develop ways and means by which our industries may organize for joint and effective competition in foreign fields, why, then, if this is so obvious, does business look upon the work of these bodies, generally with apathy, and frequently with ill-disguised animosity?"

Mr. Warburg said that he believed the reason for this attitude was that we are a highly individualistic people and cherished personal liberty and naturally resent any kind of regulation as bothersome and unnecessary interference; moreover, American business men are self-reliant and think that any government requirement or regulation "is bound to be theoretical rather than practical; extreme and destructive rather than helpful." In explanation of this Mr. Warburg said:

"True democracy cannot resent self-imposed regulation as an infringement on personal liberty; it would be that only if it were imposed by others. We willingly accept police regulations as measures adopted for our own personal safety. Why, then, should we revolt against regulation that deals with the much larger question of national protection?"

"Putting the question in this way is to answer it."

'Because in our daily life, we value our personal interest higher than that of the country.'

"These last months have brought us face to face with problems of extreme gravity. Their redeeming feature has been that they have awakened in us the willingness to consider our country first, and to place our personal comfort and interest where they belong - in the second row. But our lesson would be only half learned if we did not begin to apply it in peace as well as in times of stress or war.

"The scope of government regulation in business matters all over the world will not decrease but rather increase in the next twenty-five years. Modern states can no longer succeed without it. For us it is no longer the question of whether we shall or shall not have government regulation, or promotion, in certain branches of our business life. The problem is to find the most efficacious form. Whether democracy will prove itself capable of dealing effectively, fairly, and promptly with the intricate economic problems of the modern state will depend largely upon our ability to develop to their proper degree permanent and capable expert boards and commissions, assuring that measure of stability and reasonable promptness in action without which healthy progress cannot be made".

As an illustration of some of his points, Mr. Warburg said that for nearly three years the Federal Reserve Board had been striving towards the perfection of the greater financial mobilization which would be made permissible by amendment of the Reserve Act. "How many business men," he asked,

"have followed the work of the Board; how many have raised a hand in its support? How many realize that what really caused the fatal delay in acting upon this legislation was, as we have reasons to believe, a side-issue bearing no relation to the proposed amendments? It was the question of whether there should be added to the amendments the right to make certain exchange charges, abolished by the Federal Reserve Act, but which a large number of small country banks want to see restored. Whether or not these charges should be permitted or refused is a matter for Congress to decide, but it does not seem reasonable that vital legislation should be withheld or delayed at this time on account of an issue which ought to be settled independently upon its own merits.

"I have mentioned this incident because I have been wondering at the apathy of business men in this connection. It has also been a source of surprise to me that the business man has not yet fully realized the fact that the entrance of the State banks and trust companies into the Federal Reserve System is his concern."

Mr. Warburg pointed out that the burden of giving financial protection to the country is now borne by the 7,500 National banks. In case of real strain, he said, the savings banks, trust companies, and State banks will have to depend upon the Federal Reserve System.

"Early training in banking in Europe," said Mr. Warburg, "has inculcated in me an aversion to banking by re-regulation when, by intelligent voluntary action of the banks,

the same result can be achieved. But in Washington I am constantly met with the view that without compulsion it is impossible in the United States to make any headway. I have been unwilling to surrender to that point of view. I liked to think of the Federal Reserve System as of a club which the strongest and best banks consider it an honor to join, and not as of a 'club' to swing over the heads of the banks in order to coerce them into sound banking cooperation. The present condition of having 7,500 banks carry the burden for 27,000 is unfair both to the member banks and the best interests of the country. The strong non-member banks who, knowing the facts, do not remove this inequality will, in time, force the government to do its duty in adjusting the matter. But if Congress finally should be forced to swing 'the big stick' they will be the ones to complain most loudly about the 'nuisance and unfairness' of governmental compulsory regulation."

In conclusion Mr. Warburg said: "The broader conception of genuine citizenship will perceive in government regulation not unwelcome and arbitrary restraint to be resented by liberty-loving men, but self-imposed rules established for mutual advantage and protection.

"Aristotle, in defining the essential characteristics of liberty, said, 'It is to govern and in turn to be governed,' and this thought has lost nothing of its force even though 2,000 years have passed since it was expressed.

"Liberty without government is anarchy.

"Government without cooperation of the governed is autocracy.

"To govern and in turn to be governed is the only form of true liberty.

"In this conception there is nobody governing and nobody governed. We all govern and serve alike and together. We all serve one master; the only master that no liberty-loving man need be ashamed to serve - our country."

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FEDERAL RESERVE BOARD
WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 4, 1917.

Dear Sir:

For the purpose of accurately knowing what progress is being made in clearing operations, it is requested that each Federal reserve bank furnish the Federal Reserve Board with the following information each month for the period from the 16th to the 15th inclusive, beginning as soon as possible:

- (a) Average number and amount of items handled, daily drawn on banks located in its district exclusive of those drawn on banks located in the Federal reserve city.
- (b) Average number and amount of items handled daily drawn on banks located in the Federal reserve city.
- (c) Average number and amount of items handled daily drawn on the Treasurer of the United States.
- (d) Average number and amount of items handled daily drawn on banks located outside its district.
- (e) Number of member banks in its district.
- (f) Number of non-member banks in its district.
- (g) Number of non-member banks on its par list.

In respect to items a, b, c, and d, business days are to be used in figuring averages.

The figures for items e, f, and g, should be those of the 15th, of each month or the preceding business day when the 15th is a holiday.

Respectfully,

Governor.

2250

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AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 5, 1917.

Dear Sir:

May we request that, beginning with the April report of Federal reserve notes (Form 381) you include among Federal reserve notes received from other Federal reserve banks the amounts of unfit notes of your bank returned to the Treasurer by other Federal reserve banks, and among Federal reserve notes returned to other Federal reserve banks - the amounts of notes of other Federal reserve banks returned to the Treasurer by your bank.

It would also be appreciated if on your monthly Form 44 (revised) items 4 and 7 could be subdivided so as to show separately: (1) the amounts by denominations of unfit Federal reserve notes of your bank forwarded to the Treasurer of the United States by all other Federal reserve banks; and (2) all other unfit Federal reserve notes, by denominations received by or returned to the Comptroller either direct from your bank or in the regular course of business.

Very truly yours,

Assistant Secretary.

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FEDERAL RESERVE BOARD

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

April 6, 1917.

Dear Sir:

Enclosed herewith please find copy of computation made by our Statistical Division showing the maximum note-issue and gold-lending powers of the Federal reserve banks as at close of business on March 23, 1917.

You will note that in arriving at the totals, uniform account was taken of all eligible paper and Federal reserve notes on hand. From the total amount of paper held were deducted \$3,391,000 of collateral notes and \$778,000 of trade acceptances without endorsement of member banks, neither of which are available as collateral for the issuance of Federal reserve notes. Furthermore, it was assumed that of the total eligible paper held, as well as likely to be held, in the case of each Federal reserve bank, 5 per cent was not available as collateral with Federal reserve agents for the issuance of notes, and on line 11-1/2 the additional Federal reserve note issue power of the banks has been reduced accordingly.

This assumption, of course, is merely for purposes of illustration. It is realized that these percentages will vary by banks according to the relative proportions of paper payable at banks located in the Federal reserve city and outside that city.

No account was taken of the 8 millions of Federal reserve bank notes on hand or of about 18 millions of United States bonds with circulation privilege owned, which may be used as basis for additional issues of bank notes, increasing thereby the total issue power of the banks by about \$23,750,000 net.

It was also assumed that in case large issues of Federal reserve notes become necessary, the banks will discontinue the discounting of member banks' collateral notes and the purchase of trade acceptances without the endorsement of member banks.

Respectfully,

Secretary.

3252

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CHARLES S. HAMLIN

FEDERAL RESERVE BOARD

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AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

April 9, 1917.

Dear Sir:

Enclosed herewith I hand you copy of exhibit indicating the method used by our statistical division in combining the ledger items of Form 34 into the several asset and liability items shown in the Board's weekly bank statement.

May we request that, until further notice, you mail to us each week on Friday night if practicable or on Saturday morning at the latest, in addition to the regular statement, a condensed statement on enclosed Form 341 prepared along the lines indicated in the attached exhibit.

If, after a month's trial, it is found that the condensed statements as submitted by the banks are prepared in a uniform manner, the Board may authorize the substitution of the condensed statement for the full statement (Form 34) which is being wired at present each Friday evening. This, of course, will result in considerable saving of labor and expense to the Federal reserve system.

With the view of facilitating the preparation of the condensed report, I enclose herewith 25 copies of Form 341 which gives all the items on Form 34 for which telegraphic data may be required in a condensed weekly statement. Until further notice please insert figures only for asset and liability items "FANG" to "TWIN".

Respectfully,

Governor.

Enclosures.

P. S. In case you decide to use copies of the enclosed form for press statements, please make sure that all code words are eliminated before the statement is made public.

X-75a.

Form for weekly telegraphic statements.
FORM - 341.

STATEMENT OF RESOURCES AND LIABILITIES OF THE FEDERAL RESERVE
BANK OF _____ AT CLOSE OF BUSINESS ON _____ 191 .

Code Words: (In thousands of dollars)

R E S O U R C E S .

FANG	Gold coin and certificates in vault.....	_____
FELL	Gold settlement fund.....	_____
FIRK	Gold redemption fund with United States Treasurer.....	_____
TONG	Total gold reserve.....	_____
FUSS	Legal tender notes, silver, etc.....	_____
TEND	Total reserve.....	_____
FAIL	National Bank notes and notes of other F. R. banks.....	_____
FAKE	Five per cent redemption fund against F. R. bank notes...	_____
FEND	Bills discounted - Members, exclusive of collateral notes.	_____
FISH	Member banks' collateral notes.....	_____
FORD	Acceptances bought.....	_____
FLAG	United States bonds.....	_____
FIST	One-year Treasury notes.....	_____
FYFE	U. S. certificates of indebtedness.....	_____
FOAM	Municipal warrants.....	_____
TILL	Total earning assets.....	_____
FERN	Federal reserve notes - Net.....	_____
FLIP	Due from other Federal reserve banks - Net.....	_____
FONE	Uncollected items.....	_____
FUNK	All other resources.....	_____
TOTE	TOTAL RESOURCES.....	_____

L I A B I L I T I E S .

GASH	Capital paid in.....	_____
GOVT	Government deposits.....	_____
GRAB	Due to members - Reserve account.....	_____
GUST	Collection items.....	_____
GILL	Federal reserve notes - Net.....	_____
GENT	Federal reserve bank note liability.....	_____
GNAT	Due to other Federal reserve banks - Net.....	_____
GOBI	All other liabilities.....	_____
TWIN	TOTAL LIABILITIES.....	_____

M A T U R I T I E S .

BILLS:

WARRANTS:

MARK	Past due	_____	SALE	_____
MACE	Within 15 days	_____	SEND	_____
MELT	From 16 to 30 days	_____	SIFT	_____
MILK	" 31 to 60 days	_____	SORE	_____
MORE	" 61 to 90 days	_____	SUCH	_____
MUCH	Over 90 days	_____	SYLP	_____
TIME	Total	_____	TOST	_____

MINE	Trade acceptances <u>not</u> endorsed by member banks.....	_____
DEER	Federal reserve notes outstanding.....	_____
	With Federal Reserve Agent for retirement of outstanding F. R. notes:	
DAMP	Gold.....	_____
DISH	Lawful money.....	_____
DOPE	Total.....	_____
DRAB	Paper pledged with Federal Reserve Agent.....	_____

Exhibit indicating method used by the Board's Statistical Division
in building up the several items of its Weekly Statement X-75^b
(Ledger Items of Form 34 are designated by the CODE words only)

New Tele- graphic Code Words	RESOURCES	CODE	ITEMS
FANG	Gold Coin & Certificates in vault.....	BIRR	and BOLD
FELL	Gold Settlement Fund.	BABE	
FIRK	Gold Redemption Fund.	BELT	
TONG	Total Gold Reserve		
FUSS	Legal Tender Notes, silver, etc.....	BOSS,	BULK and BURG
TEND	Total Reserve.....	TEND	
FAIL	National Bank Notes & Notes of other F.R.Bks.	BAYS	
FAKE	5% Redemption Fund - F.R.Bank Notes.....	BACK	
FEND	Bills discounted - Members.....	BALE	
FISH	Member banks' collat- eral notes.....	BANK	
FORD	Bills bought in open market.....	BEND	
FLAG	U. S. Bonds.....	BELL	and BITE
FIST	1-yr.U.S.Treas. Notes	BOYD	
FYFE	U.S.Certificates of indebtedness.....	BYCE	
FOAM	Municipal Warrants...	BAND	
TILL	Total earning assets		
FERN	Federal Reserve Notes - Net.....	BEET	plus BONE minus COKE
FLIP	Due from other F. R. Banks - net.....	BRAG	minus CHOP
FONE	Uncollected Items....	BULL	to BOAT both inclusive
FUNK	All other resources.	BUTT, BISE, BOND, BUSH, TASK, TARE, BILL	minus CITE, THOR and TURF.
TOTE	Total resources.....	TOTE	
<u>L I A B I L I T I E S.</u>			
GASH	Capital.....	CAPE	and CASH
GOVT	Government Deposits..	CAKE	
GRAB	Due to members-Reserve account.....	CLAY	
GUST	Collection Items,....	CLUB	to CLOG, both inclusive.
GILL	Federal Reserve Notes- Net.....	COKE	minus sum of BFET and BONE.
GNAT	Due to other F.R.Banks, Net.....	CHOP	minus BRAG
GENT	F.R.Bank note liabil- ity.....	COIL	minus BEAR
GOBI	All other liabilities	CITE - THOR & TURF,	minus BISE, BOND, BUSH, TASK, TARE and BILL
TWIN	Total liabilities	TWIN	

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AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 9, 1917.

Dear Sir:

This is a reminder that copy for your report of business conditions to be published in the Federal Reserve Bulletin for May should be in the hands of the Board not later than the morning of Monday, April 23.

In this connection, the Board desires to brighten up the report of business conditions, and will be glad if you will consider and report briefly in your opening paragraphs upon such matters as the effect of the declaration of war, the present cost of living, crop prospects, and the visible supply of foodstuffs. It would like to have a short but interesting review of conditions in your District, which when combined with the reports from the eleven other Federal Reserve Agents will graphically and truly portray the general situation in the United States.

In this connection, please forward any changes which are to be made in the supplement to the Par List.

Very truly yours,

Secretary.

256

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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 10, 1917.

Dear Sir:

On my recent visit to a number of the Federal Reserve Banks I spoke of the desirability of making an effort in the direction of encouraging enthusiasm by member banks in the Reserve System and the wisdom of conducting some campaign of education and information to that end. I felt that this could best be done if the Federal Reserve Bank of each District would take the lead, hence, I am glad to find that the New York Federal Reserve Bank has just issued some very interesting material, which you have doubtless already seen. One leaflet is in the nature of a little primer, and the other is a series of suggestions for illustrated advertising.

Before I knew just what the New York Bank was doing in this matter I had tried my hand at a primer, copy of which I enclose herewith. This is simply suggestive and I hope to hear that your Bank has taken hold of it actively by adopting these or some even better method of bringing about a more co-operative spirit, first, among the member banks, and, secondly, between member banks and the public.

Yours truly,

Enclosure.

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AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 10, 1917.

Dear Sir:

In order that we may be able to check our own monthly compilations of acceptances bought, it will be appreciated if your bank will furnish us, not later than the 10th of each month, figures for the immediately preceding month showing the aggregate purchases during the month of acceptances directly by your bank and by other banks for account of your bank, under the following captions:

- (1) Acceptances in the foreign trade
 - (a) Bankers' bills
 - (b) Commercial bills
- (2) Acceptances in the domestic trade
 - (a) Bankers' bills
 - (b) Commercial bills.

May we also ask you to send us, as soon as practicable, classified figures of acceptances purchased during March 1917.

Respectfully,

Secretary.

2258

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FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 12, 1917.

Dear Sir:

The Board understands that it has been the practice hitherto for Federal Reserve Banks to deposit gold or lawful money with the Federal Reserve Agent, or to make substitutions of other paper with him, for commercial paper held as security for Federal Reserve notes about ten days in advance of maturity, in order that the banks may have possession of the paper for the purpose of collection. This process impairs the note issuing capacity of the banks, and as counsel is of the opinion that a Federal Reserve Agent may designate as his collecting agent the Federal Reserve Bank from which he has received notes and bills as collateral security for Federal Reserve notes, the Board has ruled that henceforth Federal Reserve Banks need not make substitutions of paper or deposits of gold or lawful money with the Federal Reserve Agent until the actual due date of the paper originally pledged to secure notes. The Federal Reserve Agents are therefore authorized to turn over maturing notes and bills to their respective Federal Reserve Banks for collection upon the execution by the bank of a receipt reciting the fact that the notes and bills are taken for collection only, settlement to be made with the Federal Reserve Agent in gold or lawful money on the dates the notes and bills fall due unless other eligible paper has been substituted already for the maturing paper. Such notes or bills should be endorsed to the Federal Reserve Bank "for collection for account of the Federal Reserve Agent," or a rider may be attached to them showing that they are delivered to the Federal Reserve Bank for collection, in order that any banks used by the Federal Reserve Bank in making the collection may be on notice.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
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COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

X-82. 2259
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H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 12, 1917.

Dear Sir:

On April 9 the Board sent out the usual monthly request for reports of business conditions during April, using the following language:

"In this connection the Board desires to brighten up the report of business conditions, and will be glad if you will consider and report briefly in your opening paragraphs upon such matters as the effect of the declaration of war, the present cost of living, crop prospects, and the visible supply of foodstuffs."

The words "brighten up" have been construed by one Federal reserve agent to mean that the Board desires a favorable report of conditions to be made. While this seems a most unusual construction, this letter is sent to you that it may be perfectly clear that the Board in reports of business conditions desires, as it has always desired, a report of conditions as they actually are. The words "brighten up" in the letter of April 9 were used with reference to the form not to the contents and were meant to produce an effort to make the reports a little more attractive to the reader.

Very truly yours,

Secretary.

TREASURY DEPARTMENT

WASHINGTON

April 12, 1917.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the month of March last, amounting to \$128,433.22, as follows:

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston.....	382,000	246,000	24,000	5,000	2,000	659,000
New York.....	693,000	353,000	157,000	74,000	61,000	1,338,000
Philadelphia... ..	26,000	56,000	17,000	2,000	101,000	
Cleveland.....	33,000	62,000	24,000	6,000	125,000	
Richmond.....	36,000	40,000	10,000	...	86,000	
Atlanta.....	14,000	11,000	10,000	8,000	43,000	
Chicago.....	243,000	138,000	98,000	18,000	1,000	498,000
St. Louis.....	69,000	54,000	8,000	...	131,000	
Minneapolis....	117,000	178,000	36,000	3,000	4,000	338,000
Kansas City....	87,000	66,000	41,000	8,000	3,000	205,000
Dallas.....	61,000	71,000	44,000	9,000	8,000	193,000
San Francisco..	8,000	5,000	2,000	5,000	20,000	
	<u>1,688,000</u>	<u>1,227,000</u>	<u>552,000</u>	<u>170,000</u>	<u>100,000</u>	<u>3,737,000</u>
	3,737,000 sheets at \$34.368 per M.....					\$ 128,433.22

The charges against the several Federal reserve banks are as follows:

	<u>Sheets</u>	<u>Bureau appropriations</u>			<u>Total</u>
		<u>Compen sation</u>	<u>Plate Printing</u>	<u>Materials</u>	
Boston.....	659,000	\$ 7,187.05	\$9,276.74	\$6,184.72	\$22,648.51
New York.....	1,338,000	14,592.22	18,835.03	12,557.13	45,984.38
Philadelphia...	101,000	1,101.50	1,421.78	947.89	3,471.17
Cleveland.....	125,000	1,363.25	1,759.63	1,173.12	4,296.00
Richmond.....	86,000	937.92	1,210.62	807.11	2,955.65
Atlanta.....	43,000	468.96	605.31	403.56	1,477.83
Chicago.....	498,000	5,431.19	7,010.35	4,673.73	17,115.27
St. Louis.....	131,000	1,428.69	1,844.09	1,229.43	4,502.21
Minneapolis....	338,000	3,686.23	4,758.02	3,172.13	11,616.38
Kansas City....	205,000	2,235.73	2,885.79	1,923.92	7,045.44
Dallas.....	193,000	2,104.86	2,716.86	1,811.30	6,633.02
San Francisco..	20,000	218.12	231.54	187.70	687.36
	<u>3,737,000</u>	<u>\$40,755.72</u>	<u>\$52,605.76</u>	<u>\$35,071.74</u>	<u>128,433.22</u>

-2-

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation, "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

B. R. NEWTON.
Assistant Secretary.

4/14/17

2262

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

FEDERAL RESERVE BOARD
WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 17, 1917.

Dear Sir:

Enclosed herewith please find 25 copies of Form 381, revised, for reporting monthly the amounts of Federal reserve notes exchanged with other Federal reserve banks.

You will note that the statement calls for cumulative figures for the period beginning with January of each year, also for the inclusion of amounts of the reporting bank's notes returned direct to the Treasury by other Federal reserve banks, and of other Federal reserve banks' notes returned to the Treasury by the reporting bank.

Please discard the use of the old form and, beginning with April, 1917, report on revised form, giving in addition to the monthly figures the cumulative figures for the period January 1, to the end of the report month.

Respectfully,

Assistant Secretary.

EX-OFFICIO MEMBERS

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 18, 1917.

S i r :

Telegrams have been received from a majority of the Governors of the Federal reserve banks calling attention to the fact that the bill which recently passed the House authorizing the United States to issue and sell $3\frac{1}{2}$ per cent bonds, contains no provision for the conversion of the three per cent bonds held by the several Federal reserve banks.

The Board had already given consideration to this matter, realizing that the issuance of five billion dollars worth of $3\frac{1}{2}$ per cent bonds would naturally have a tendency to depreciate the market value of the three per cent bonds held by the Federal reserve banks. The amount now held by such banks, namely, about seven million dollars, is, however, relatively small and the Board is undecided whether it would be justified at this time in asking for an amendment to Section 18 authorizing the conversion of the three per cent bonds now held and the two per cent bonds subsequently acquired by the Federal reserve banks into bonds paying a higher rate of interest. The Board no doubt will ultimately ask for such an amendment.

From the best information obtainable it is unlikely that Congress will at this session pass any legislation except that coming within the classification of war measures. It is fully understood that unless such an amendment is obtained, Federal reserve banks will not be disposed to purchase two per cent bonds and to offer them for conversion into three per cent bonds and notes and the Board would not require such purchase if the three per cent bonds are below par and a conversion could not be made without a loss to the Federal reserve banks.

Before determining whether an effort should be made at this time to obtain the desired amendment, or whether this action should be deferred until Congress reconvenes in December, the Board will be glad to have the views of the Governors on the following questions:

- (1) Will the probable demands for currency during the period of the war make it advisable to discourage curtailment of national bank note circulation by discontinuing all conversion of two per cent bonds having the circulating privilege for bonds or notes without the circulating privilege? In other words, is it probable that Federal reserve notes can be issued in sufficient volume to take care of current needs or will it probably be necessary for Federal reserve banks to use any two per cent bonds acquired as a basis of issue for Federal reserve bank notes in order to supplement circulation outstanding?
- (2) Assuming that there will be no redundancy of circulation if retirement of national bank notes is not encouraged, would it not be advisable to defer any effort to obtain an amendment to Section 18, which might have a tendency to encourage the conversion of bonds having the circulating privilege for bonds without this privilege?

Respectfully,

Governor.

X-90.

X. Y. Z. Co.

No. _____

Binghamton, N. Y. _____, 191

\$ _____

TRADE ACCEPTANCE.

Accepted
Payable at
Designate bank or place of payment.

Signature of acceptor.

_____ after date pay to the order of our-
selves _____ Dollars
in settlement of the purchase of goods as billed in our
invoice No. _____ dated _____.

Goods received.

X. Y. Z. Co.

To _____ By _____
Cashier.

X-90.

X. Y. Z. Co.

No. _____

Binghamton, N. Y. _____, 191

\$ _____

TRADE ACCEPTANCE.

Accepted
Payable at
Designate bank or place of payment.

Signature of acceptor.

_____ after date pay to the order of our-
selves _____ Dollars
in settlement of the purchase of goods as billed in our
invoice No. _____ dated _____.

Goods received

X. Y. Z. Co.

To _____ By _____
Cashier.

F E D E R A L R E S E R V E D R A F T S .

There shall be two special forms of drafts on each Federal Reserve Bank which will be available for immediate credit at other Federal Reserve Banks.

The privilege of drawing these drafts shall be extended to all member banks complying with the regulations formulated by their Federal Reserve Banks.

The drawing of these drafts shall not interfere with member banks drawing the ordinary checks on their Federal Reserve Banks.

The special drafts provided for in this circular must be drawn on forms approved by the Federal Reserve Bank of which the drawing bank is a member. The forms are to be similar to the specimens enclosed herewith.

Any Federal Reserve Bank may, if in the judgment of its officers it becomes necessary, make a reasonable charge against member banks drawing these drafts for the purpose of effecting transfers of funds, such charge not to exceed the rate for transfers prevailing at the time the drafts are drawn.

All of these drafts shall be immediately charged to the drawing member bank's account on receipt of advice by the

drawee Federal Reserve Bank. Specimen forms of advice are enclosed with this circular.

The two kinds of drafts shall be known as "Federal Reserve Exchange" and "Federal Reserve Transfer" drafts.

FEDERAL RESERVE EXCHANGE DRAFT.

FEDERAL RESERVE TRANSFER DRAFT.

The "Federal Reserve Exchange" drafts shall be the draft drawn by a member bank upon its own Federal Reserve Bank and made receivable for immediate availability at par at any Federal Reserve Bank but actually payable only at the drawee Federal Reserve Bank.

The "Federal Reserve Transfer" draft shall be the draft drawn by a member bank upon its own Federal Reserve Bank and made payable on advice of the drawee at any Federal Reserve Bank specified in the draft.

They shall, for the present and until otherwise provided, be drawn for amounts not in excess of \$250.00.

They shall, for the present, be drawn for amounts in excess of \$250.00.

The drawing bank shall be required to give advice by mail to its Federal Reserve Bank of the total amount of drafts drawn each day.

The drawing bank shall be required to give advice by mail to its Federal Reserve Bank of the numbers, amounts and total made payable at each Federal Reserve Bank of drafts drawn each day. This advice shall be under an authorized signature and a duplicate shall be forwarded to the Federal Reserve Bank at which the drafts are made payable, the duplicate advice to contain the signature in ink of officers signing the drafts.

These drafts on a Federal Reserve Bank when received for immediate availability by another shall be listed in a special letter and forwarded to the drawee Federal Reserve Bank for credit.

If the total of the letter justifies there can be an advice by wire and entries made on the day the letter goes forward.

FEDERAL RESERVE TRANSFER DRAFT.
(Continued)

The drawee Federal Reserve Bank shall, upon receipt of advice from the drawing member bank, telegraph the Federal Reserve Bank at which the drafts were made payable, confirming the advice and authorizing a transfer of the aggregate amount from its regular account to an exchange account.

When sending a telegram the arrangement of the code words for name of bank, date of advice and aggregate amount shall be in the order given and shall be understood to mean; Federal Reserve Transfer Drafts drawn by _____ per their advice dated _____ the aggregate amount of which is not more than \$_____ are good. Charge our account and credit our exchange account with the total amount advised in this telegram. See specimen telegram enclosed with this circular.

For the purpose of simplifying telegrams it is suggested that each Federal Reserve Bank may make a code so that each of its member banks can be designated by one code word, the first letter of the word to indicate the district in which the member bank is located.

The drafts when paid, by the Federal Reserve Bank specified in the draft, shall be marked paid, listed in a special letter and forwarded to the drawee Federal Reserve Bank. The total of the letter shall be charged to the exchange account of the addressee.

Under existing regulations governing the Gold Settlement Fund any Federal Reserve Bank can, at any time, obtain a settlement on a net balance due from another Federal Reserve Bank.

This plan shall become operative on the 21st day of May, 1917.

Enclosures:

CLASS OF SERVICE DESIRED	
Fast Day Message	
Day Letter	
Night Message	
Night Letter	
Patrons should mark an X opposite the class of service desired; OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.	

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

Receiver's No.
Check X-96.
Time Filed

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

April 12, 1917.

To Federal Reserve Bank,
Chicago, Ill.

Keramic Eclipse Animal Kronic Export Cursedly Slingcart.

Federal Reserve Bank of Dallas.

Decoded - Federal reserve transfer drafts drawn by

First N.B., Waco, Tex. Amer. N. B.
Beaumont, Tex.
April 10th April 11th

per their advice dated
the aggregate amount of which
is not more than

\$15,000.00

\$5,000.00

are good. Charge our account \$20,000.00 and credit our exchange account.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING TERMS:

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for comparison. For this one-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND PAID FOR AS SUCH. In consideration whereof it is agreed between the sender of the telegram and this Company as follows:

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond the amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond fifty times the sum received for sending the same, *unless specially valued*; nor in any case for delays arising from unavoidable interruption in the working of its lines; *nor for errors in cipher or obscure telegrams.*
2. In any event, the Company shall not be liable for damages for any mistakes or delays in the transmission or delivery, or for the non-delivery, of this telegram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereby valued, unless a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission, and an additional sum paid or agreed to be paid based on such value equal to one-tenth of one per cent. thereof.
3. The Company is hereby made the agent of the sender, without liability, to forward this telegram over the lines of any other Company when necessary to reach its destination.
4. Telegrams will be delivered free within one-half mile of the Company's office in towns of 5,000 population or less, and within one mile of such office in other cities or towns. Beyond these limits the Company does not undertake to make delivery, but will, without liability, at the sender's request, as his agent and at his expense, endeavor to contract for him for such delivery at a reasonable price.
5. No responsibility attaches to this Company concerning telegrams until the same are accepted at one of its transmitting offices; and if a telegram is sent to such office by one of the Company's messengers, he acts for that purpose as the agent of the sender.
6. The Company will not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the telegram is filed with the Company for transmission.
7. *Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to all the foregoing terms.*
8. *No employee of the Company is authorized to vary the foregoing.*

THE WESTERN UNION TELEGRAPH COMPANY
INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

FAST DAY MESSAGES

A full-rate expedited service.

NIGHT MESSAGES

Accepted up to 2.00 A.M. at reduced rates to be sent during the night and delivered not earlier than the morning of the ensuing business day.

DAY LETTERS

A deferred day service at rates lower than the standard day message rates as follows: One and one-half times the standard Night Letter rate for the transmission of 50 words or less and one-fifth of the initial rate for each additional 10 words or less.

SPECIAL TERMS APPLYING TO DAY LETTERS:

In further consideration of the reduced rate for this special "Day Letter" service, the following special terms in addition to those enumerated above are hereby agreed to:

A. Day Letters may be forwarded by the Telegraph Company as a deferred service and the transmission and delivery of such Day Letters is, in all respects, subordinate to the priority of transmission and delivery of regular telegrams.

B. Day Letters shall be written in plain English. Code language is not permissible.

C. This Day Letter may be delivered by the Telegraph Company by telephoning the same to the addressee, and such delivery shall be a complete discharge of the obligation of the Telegraph Company to deliver.

D. This Day Letter is received subject to the express understanding and agreement that the Company does not undertake that a Day

Letter shall be delivered on the day of its date absolutely and at all events; but that the Company's obligation in this respect is subject to the condition that there shall remain sufficient time for the transmission and delivery of such Day Letter on the day of its date during regular office hours, subject to the priority of the transmission of regular telegrams under the conditions named above.

No employee of the Company is authorized to vary the foregoing.

NIGHT LETTERS

Accepted up to 2.00 A.M. for delivery on the morning of the ensuing business day, at rates still lower than standard night message rates, as follows: The standard day rate for 10 words shall be charged for the transmission of 50 words or less, and one-fifth of such standard day rate for 10 words shall be charged for each additional 10 words or less.

SPECIAL TERMS APPLYING TO NIGHT LETTERS:

In further consideration of the reduced rate for this special "Night Letter" service, the following special terms in addition to those enumerated above are hereby agreed to:

A. Night Letters may at the option of the Telegraph Company be mailed at destination to the addressees, and the Company shall be deemed to have discharged its obligation in such cases with respect to delivery by mailing such Night Letters at destination, postage prepaid.

B. Night Letters shall be written in plain English. Code language is not permissible.

No employee of the Company is authorized to vary the foregoing.

X. 5.

FIRST NATIONAL BANK

Waco, Texas _____

To Federal Reserve Bank
of Dallas.

Gentlemen:

We have this day drawn checks on Federal Reserve Exchange
form, the total amount of which is \$ _____
_____ Dollars.

Charge our account to cover.

R. P. DUPREE,

Cashier.

FEDERAL RESERVE TRANSFER

48-1

2272

FIRST NATIONAL BANK

No. _____

WACO, TEXAS, _____

PAY TO THE ORDER OF _____ \$ _____

_____ DOLLARS

TO FEDERAL RESERVE BANK OF DALLAS 32-3

THE FEDERAL RESERVE BANK

SAMPLE COPY

CASHIER

WILL PAY THIS CHECK UPON ADVICE OF DRAWEE

FEDERAL RESERVE EXCHANGE

48-1

3273

FIRST NATIONAL BANK

No. _____

WACO, TEXAS, _____

PAY TO THE ORDER OF _____ \$ _____

DOLLARS

To FEDERAL RESERVE BANK
32-3 OF DALLAS

SAMPLE COPY

CASHIER

ANY FEDERAL RESERVE BANK WILL RECEIVE THIS CHECK FOR IMMEDIATE AVAILABILITY AT PAR

1874

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-97

April 20, 1917.

Dear Sir:

The Board will appreciate immediate
advice of the receipt by you of applications
for membership in the Federal Reserve System.

Very truly yours,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 20, 1917.

Dear Sir:

Your attention is directed to a statement issued to the press this afternoon by the Secretary of the Treasury. In view of the large issues of United States bonds which will be offered in the near future and which it is hoped will be subscribed for to a great extent by investors, large and small, whose funds are now on deposit in banks, the Board regards an investment by banks in United States Treasury certificates of indebtedness having a short maturity and which are receivable in payment of subscriptions to United States bonds, as a highly desirable investment for them. The Secretary of the Treasury has announced his intention, in the financial operations in which the Government is about to engage, to adjust receipts and disbursements in such a way that as far as possible money paid in will be promptly returned to the market and the Federal reserve banks may be counted upon by offering liberal terms of rediscounting to do their utmost in counteracting any effect of temporary dislocation of banking funds. The banks of the country by absorbing these certificates in advance of the issue of the war loans, will possess themselves of ready means with which to meet withdrawals made by depositors for the purpose of paying for bond subscriptions and they will thereby assist in an effective manner in paving the way for the successful flotation of our war loans.

The Board does not doubt that you will impress upon the banks of your district, both national and State, the importance of this offer, and that you will enlist their hearty cooperation in this plan of preparing the field and preparing themselves.

Very truly yours,

Governor.

2270

EX-OFFICIO MEMBERS
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FEDERAL RESERVE BOARD
WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT
X-99
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 21, 1917.

Dear Sir:

In the report of the last audit of the Gold Settlement Fund it was suggested that the gold certificates of which the Fund is made up be sealed in packages by the auditors and that the contents of such sealed packages, unless seals were broken, need not be counted on the occasions of future audits. The arrangement would greatly facilitate the work of the auditors.

At the last meeting of Governors of Federal reserve banks in Washington the sealed package plan was approved. After a consultation with the Chief of the Division of Audit and Examination the Board is prepared to approve the plan above set forth, provided the auditors give final and unconditional certificates as to the presence of the certificates. If you approve this plan as recommended, please indicate your approval upon receipt of this letter.

Very truly yours,

Governor.

X-101

PRESS STATEMENT.

The Federal Reserve Board to-day telegraphed all Federal reserve banks that payments for the new issue of certificates of indebtedness under the war financing act, subscriptions for which have been taken by Federal reserve banks, will probably be called for by the Secretary of the Treasury April 25 or 26. Remittances will be made by subscribers to the Federal reserve banks of their Districts and placed to the credit of the Treasurer of the United States.

April 21, 1917.

3276

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
CHAIRMAN
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FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD
X-102

April 25, 1917.

Dear Sir:

Following the last conference with the Governors of the Federal reserve banks in Washington the Committee on Clearings of the Federal Reserve Board took up the matter of Federal Reserve Exchange and has worked out a plan which the Board has approved to become operative May 21. An explanation of the plan and sample forms, are enclosed herewith for your information and guidance.

The Federal reserve banks are requested to issue as soon as possible circulars to their member banks embodying the rules and recommendations which are applicable to them, it being unnecessary, of course, to inform member banks of such details as concern the Federal reserve banks only.

Respectfully,

Governor.

PRESS STATEMENT.

Member banks of the Federal reserve system have received from the Federal reserve banks of their districts, copy for a series of advertisements intended to run through the year. Included among this series is one which sets forth the facilities of the Federal reserve system, for enabling the farmer to carry his crop until a fair price can be realized for it.

When Governor Harding, of the Federal Reserve Board, was asked about this advertising to-day, he said:

"The advertising matter was not prepared by the Board, but was drafted and sent out from the several Federal reserve banks, to their member banks, for the use of the latter should these banks care to place advertisements in local newspapers as a matter of business policy. As the advertising is intended to meet the needs of banks throughout the country, 'copy' for all parts of the country is included, and 'copy' suitable for different seasons of the year is likewise included. It is necessarily left to the judgment of the member banks whether and when to use the various advertisements. The Board, as is well known, has authorized a so-called 'commodity rate' designed to assist farmers in borrowing money upon their crops during the past two years. There has been no change in this policy, although the rate is higher now than at the beginning; as a matter of fact, very little in the way of rediscounts based upon this rate has been asked for. The Federal reserve banks, as is well known, do not deal directly with the individual, but with the member banks, and the judgment of the latter necessarily governs the conditions under which funds are advanced. The Federal Reserve Act is clear and positive in its attitude adverse to speculation and the Board has consistently adhered to this point of view in its policy and regulations.

"The effort to make capital out of the proposed advertising is not warranted by any of the facts in the case, as the advertisements referred to are not intended for use under unsuitable conditions any more than are the rates of discount established by the Board."

April 24, 1917.

280

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-105-

105

April 25, 1917.

Dear Sir:

By reason of the increased demand for Regulation H, relating to State bank membership, contained in "Circulars and Regulations of the Federal Reserve Board, Series of 1916," this regulation has been reprinted in separate form, with the proposed amendments to section 9 of the Federal Reserve Act attached thereto. A supply of 100 copies of this separate regulation is being sent to you today under separate cover.

Respectfully,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMMILL
X-106.
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

April 26, 1917.

S i r :

Enclosed herewith please find copy of statement showing acceptors' and endorsers' liabilities on bankers' acceptances held by all Federal Reserve Banks and aggregated for each acceptor, as of March 15 and 31.

It is the desire of the Board that on subsequent statements (i. e. beginning with statement for April 30) the banks group their acceptances under the following two heads:

- (a) Amounts endorsed by bank or banker other than drawer or acceptor;
- (b) Amounts not so endorsed.

A third column should show, as heretofore, the aggregate endorsers' liabilities of acceptors on bills accepted by other banks or bankers.

May I also ask that after receipt of this letter you discontinue in your daily telegram or letter to the Board the special data regarding acceptances based upon renewal credits, giving us merely the holdings of your bank at close of report day of -

- (a) Bills discounted for members, including member banks' collateral notes - Code word "HALE".
- (b) Acceptances bought in open market - code word "BEND".

Data regarding acceptances based upon renewal credit should be mailed to us only twice a month, together with the other data regarding acceptors' and endorsers' liabilities.

Information regarding renewal paper should be given under the same heads as heretofore, viz:

- (A) Holdings as at close of report period of -
 - 1. Acceptances based upon renewal credit;
 - 2. Other acceptances.

- (B) Purchases during report period -
 - 1. For own account of -
 - (a) Acceptances based upon renewal credit;
 - (b) Other acceptances.

 - 2. For other Federal Reserve Banks, of -
 - (a) Acceptances based upon renewal credit;
 - (b) Other acceptances.

Statements should show the holdings and purchases of acceptances grouped under the several heads as at close of and for the semi-monthly period ending, the 15th and the last business day of the month. In case the 15th falls on a Sunday or a legal holiday, statements should relate to and include the day following.

Respectfully,

Governor.

Enclosure.

3256

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD
X-107.

April 26, 1917.

Dear Sir:

The Comptroller of the Currency has instructed all national bank examiners to leave with each national bank upon the completion of its examination, a bill covering its assessment for the examination, with instructions that the national banks deposit with the Federal reserve bank of their district, in the name of the Comptroller of the Currency, to the credit of the Treasurer of the United States, the amount of the bill.

The Federal Reserve Board is desirous of cooperating with the Comptroller in this matter, and has instructed me to advise Federal reserve banks that they should receive these deposits as they are tendered, and issue one certificate of deposit in triplicate covering all deposits on account of examinations, made by national banks in each district for that day, the certificate to contain an itemized list of the deposits made by each national bank. One copy of the certificate should be forwarded each day, as deposits are made, by the Federal reserve bank to the office of the Comptroller of the Currency, another to the Treasurer of the United States, and the third to the Secretary of the Treasury.

Very truly yours,

Governor.

3204

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
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FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-108

April 26, 1917.

Dear Sir:

The Secretary of the Treasury has called the attention of the Board to the fact that Federal reserve banks, in receiving subscriptions for Treasury certificates of indebtedness, and for war loan bonds, do so in their capacity as fiscal agents for the Government. At his request this letter is written in behalf of the Board, to caution you that no information should be made public regarding names of subscribers or amount subscribed by each except when and as specifically authorized by the Secretary of the Treasury.

Very truly yours,

Governor.

2285

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
CONTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
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H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD
X-109.

April 26, 1917.

Dear Sir:

I send you herewith ten copies of a tentative proposal in regard to uniform methods of accounting in making up balance sheets and statements for merchandising or manufacturing concerns, reprinted from the Federal Reserve Bulletin of April, 1917. The Federal Reserve Board would be glad to see these proposals given the fullest consideration and study, and to that end will be glad to send as many copies as may be required for distribution to bankers, merchants, manufacturers and accountants, or to groups or associations who might be interested in the study of the question.

Yours very truly,

Governor.

Enclosure.

2286

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD
X-109a

April 27, 1917.

Dear Sir:

I send you herewith ten copies of a tentative proposal in regard to uniform methods of accounting in making up balance sheets and statements for merchandising or manufacturing concerns, reprinted from the Federal Reserve Bulletin of April, 1917.

There have been so many requests for copies of this article that the Federal Reserve Board ordered a reprint made and would now be glad to see these proposals given the fullest consideration and study. To that end we shall be glad to send as many copies as may be required for distribution to bankers, merchants, manufacturers and accountants, or to groups or associations who may be interested in the study of the question.

Yours very truly,

Governor.

Inclosures.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
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ADOLPH C. MILLER
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X-111.
H. PARKER WILLIAMS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

April 27, 1917.

Dear Sir:

Owing to the fact that there appears to be some misunderstanding as to the monthly date on which typewritten lists of changes in the par list should be in the hands of the Federal Reserve Board, and also as to the last date on which telegraphic changes will be accepted, you are advised as follows:

1. Duplicate typewritten lists of changes should be in the hands of the Board not later than the 23rd of each month. In preparing these lists it is believed it will be more satisfactory and will facilitate the work here if you will prepare complete lists showing all changes since the last publication of a full list, using a separate page for each State and the withdrawals following the additions, the same as they are to appear for your bank in the printed supplement. If the changes from the last previous supplement are very few in the case of any particular State, the list may be clipped from the supplement and the changes indicated thereon by typewriter. Please also send such changed lists in duplicate.

2. Changes by wire will be received until the 27th of each month.

3. In case either of the above dates falls on a Sunday or a legal holiday, the changes should be in the hands of the Board on the date previous.

4. If in any particular instance the changes are desired on dates different from those given above, special instructions will be given.

Respectfully,

Secretary.

Not to be released until the morning of April 29, 1917.

PRESS STATEMENT

The following notice has been distributed among newspapers of the twelfth Federal reserve district and press associations:

"The Federal Reserve Bank of San Francisco has had under consideration the extension of its service through branches and has reached the determination, approved by the Federal Reserve Board, to establish branches in Portland, Seattle and Spokane.

"The President of the Spokane Clearing House Association has telegraphed to the Federal reserve bank that if a branch of the Federal reserve bank should be established at Spokane all State banks of that city would immediately make application for membership in the Federal reserve bank, and also influence many similar applications from State banks in the tributary territory; that the Clearing House Association would offer to employ the branch bank to make regular examinations of the Clearing House, paying as compensation an amount equal to the present cost to the Clearing House of conducting such examinations; that as far as feasible the branch bank would be used in collecting checks; that settlement of Clearing House balances would be made through the branch bank, and that free membership in the Clearing House would be granted.

"It is anticipated that there will be similar evidences of cooperation from banks in Portland and Seattle."

4/27/17

225

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
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FEDERAL RESERVE BOARD

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 27, 1917.

Dear Sir:

The Federal Reserve Board has received a letter from Honorable Oscar T. Crosby, Assistant Secretary of the Treasury, in which he calls attention to the method now employed by certain Federal reserve banks in cancelling unfit half notes sent to the Comptroller of the Currency by Federal reserve agents, for retirement. He says:

"The cancellation consists of punching eighteen small round holes in each half note, which renders the examination very slow because the notes are thus welded together and it is almost impossible to separate them. The daily average count per counter of half notes cancelled by the Treasurer or assistant treasurers is approximately 45,000; the average count of Federal reserve notes cancelled in the manner above referred to is not over 20,000. With the condition of work in the division of loans and currency, this office, where the notes are examined, this is a very serious matter, particularly as greatly increased receipts of these notes have been noted recently. If it is possible to make the change, it is requested that the half notes which finally reach this office for examination be cancelled in the manner prescribed for subtreasuries."

Investigation seems to indicate that the difficulty lies in the fact that too many notes are inserted in the cancelling machine at the same time, with the result that they become welded together - a condition which would not exist if

fewer notes were punched simultaneously. I am, therefore, instructed to call the matter to your attention, and to urge that greater care be taken in the cancellation of these notes prior to transmission, in order that the difficulty referred to by Assistant Secretary Crosby may not continue. Should it again furnish cause for complaint, it would probably be necessary to adopt an entirely different method of cancelling the notes, with resulting inconvenience and expense to the Federal reserve banks. This it is highly desirable to avoid.

Yours very truly,

Secretary.

Suggested plan for deposit and disbursement of those funds to be derived from the sale of United States bonds and certificates of indebtedness which are to be used to purchase foreign securities and which will be disbursed by foreign governments in this country.

4-030-4

In adopting any plan of procedure in the collection and disbursement of funds realized from the sale of United States securities authorized by the Act of April 24, 1917, provision must be made --

(1) For the deposit of such funds in the Treasury or to the credit of the United States with Federal reserve banks or member banks, or with those nonmember banks which subscribe to and purchase such securities.

(2) For the withdrawal of such deposits by the Secretary of the Treasury for the purpose of purchasing foreign securities.

(3) For the deposit in a bank or banks in the United States by the foreign government whose securities are purchased of the proceeds of sale of such foreign securities.

(4) For the disbursement of such proceeds by the foreign government making the deposit.

It is important that these transactions be consummated as far as possible by an exchange of credits so as to make it un-

necessary to transfer funds from the vaults of member banks or nonmember banks to the vaults of the Treasury or of the several Federal reserve banks, and so as to avoid the necessity of maintaining and drawing against a large number of deposit accounts.

On the other hand, it is important that the subscribing banks should contribute as far as possible on a pro rata basis the funds disbursed by the foreign governments rather than to have abnormally large withdrawals from a few banks.

With this end in view, it is respectfully suggested

(a) Where member or nonmember banks subscribe to bonds or certificates of indebtedness, such banks should be permitted to deposit the bonds as security and to retain the amount of subscription as a Government deposit until it becomes necessary for the Secretary to use the proceeds of such subscriptions to purchase foreign securities.

(b) Following the plan adopted in the payment of the two hundred million dollars to the United Kingdom of Great Britain and Ireland for the purchase of securities, the Secretary might issue a Treasury warrant in payment of other securities in favor of the accredited representative of the foreign government. Such representative might indorse this warrant and deliver the same to the Treasurer with the request that payment be made by having the amount placed to the credit of the foreign government on the books of one or more Federal reserve banks.

-3-

(c) In order to open this credit it is necessary to deposit an equivalent amount with such Federal reserve banks. This might be accomplished by issuing orders to the subscribing banks to make remittance of the amount of subscription to the Federal reserve banks. The Federal reserve banks, instead of requiring the actual transfer of funds, might agree to accept the note of the subscribing bank payable at or before fifteen days from date, and might accept as collateral security for this note the bonds or certificates of deposit purchased by the subscribing bank.

In the case of nonmember banks, the note of such nonmember banks, secured by bonds or certificates of deposit, might be discounted with a member bank and by the member bank with a Federal reserve bank. The total amount of the purchase price could in this way be credited to the account of the United States on the books of the Federal reserve banks, provided, of course, the Federal reserve banks have sufficient reserve on hand to enable them to make these loans. The Federal Reserve Board might fix a special rate of interest to cover such loans.

(d) When those credit balances have been opened in favor of the United States on the books of the Federal reserve banks, the Treasurer may direct such Federal reserve banks to transfer such balances to the account of the foreign government whose securities are purchased in accordance with the plan followed in the case of the English loan.

(e) In order that each subscribing bank may contribute on a pro rata basis to funds withdrawn by foreign governments from the Federal reserve banks an arrangement might be entered into by which each subscribing bank would undertake to transfer to the Federal reserve bank a sufficient amount to meet its pro rata part of any withdrawals made by the foreign government, such transfer of funds to the Federal reserve bank by a subscribing bank to be credited on the note of such subscribing bank under discount by the Federal reserve bank.

Assuming that the foreign governments can and will give a few days advance notice of the larger withdrawals the details of such an arrangement could be worked out without great difficulty.

The obvious advantage of such a plan is that the foreign governments would have to maintain only a few banking accounts, but in any case of withdrawal of funds standing to the credit of such government each subscribing bank would contribute its part and the burden would not fall on a few banks. The funds withdrawn would, in most cases, be redeposited in banks and little disturbance would result.

To make such a plan possible it is, of course, necessary that all member banks should deposit their surplus gold with the Federal reserve banks so as to provide the necessary reserve.

Respectfully,

M. C. ELLIOTT.
Counsel.

4/28/17

A B I L L
TO AMEND THE ACT APPROVED DECEMBER 23, 1913,
KNOWN AS
THE FEDERAL RESERVE ACT.

--oOo--

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled that the Act approved December 23, 1913, known as the Federal Reserve Act, be amended by adding a new section as follows:

BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS.

Section 25 (a): That banking corporations for carrying on the business of international banking and banking in foreign countries and/or in the dependencies and/ or insular possessions of the United States, and in aid of commerce between the United States, its dependencies, insular possessions and foreign countries, and to act when required as fiscal agents of the United States, may be formed by any number, not less than three, of persons, firms, companies or corporations; for which purpose they shall enter into articles of association, in such form and containing such rules and regulations with respect to and governing the conduct of the business of the proposed corporation as may be prescribed by the Federal Reserve Board. Such articles of association shall, in general terms, specify the objects for which

the banking corporation is formed, and may contain any other provisions for the regulation and conduct of the business and affairs of the corporation not inconsistent with the provisions of this Act or with any other law of the United States, which may be deemed proper. Such articles of association shall be signed by all of the persons, firms, companies or corporations intending to participate in the organization of the said banking corporation and, thereafter, shall be forwarded to the Federal Reserve Board and shall be filed and preserved in its office.

The persons, firms, companies or corporations signing the said articles of association shall also make an organization certificate which shall specify

First: The name assumed by such corporation, which shall be subject to the approval of the Federal Reserve Board.

Second: The foreign country, countries and /or the dependency, dependencies, colony or colonies thereof, and/ or the dependency or dependencies, insular possession or insular possessions of the United States where its operations are to be carried on.

Third: The place in the United States where its home office is to be located.

Fourth: The amount of its capital stock and the number of

shares into which the same shall be divided.

Fifth: The name and place of business of each person, firm, company or corporation executing such certificate, and the number of shares which each has subscribed or agreed to take.

Sixth: A declaration that said certificate is made to enable the persons, firms, companies and corporations subscribing the same, and all other persons, firms, companies and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this Section.

The persons, firms, companies and corporations respectively signing the said organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary and, thereafter, the certificate shall be forwarded to the Federal Reserve Board to be filed and preserved in its office. From the date of the filing of the organization certificate, the corporation therein mentioned shall become and be a body corporate, and, as such, and in the name designated therein, shall have power to adopt and use a corporate seal which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years un-

less sooner dissolved by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain and defend in any court of law or equity; to elect or appoint directors, a majority of whom shall be citizens of the United States; and, through its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require security for the faithful performance of their duties from such thereof, and in such amounts as may be deemed proper, dismiss them, or any thereof, at pleasure, and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Federal Reserve Board, specifying the manner in which its stock shall be transferred, its directors chosen, its officers and employees selected, its property transferred, its general business conducted and its privileges exercised and enjoyed.

Each corporation so organized shall also have power:

(a) To purchase, sell, discount and negotiate notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, and other evidences of indebtedness; to purchase and sell securities, including the obligations of the United States or of any State thereof; to accept bills or drafts drawn upon it; to

issue letters of credit; to purchase and sell, exchange, coin and bullion; to borrow money, to lend money on real or personal security or without security; to receive deposits; and generally to exercise such powers and to do such things as are incidental to the banking business or as may be usual in connection therewith, as the same may be conducted in the country or countries, colonies, dependencies, or possessions in which it shall transact business.

(b) To establish and maintain branches or agencies in foreign countries, their dependencies or colonies and in the dependencies or insular possessions of the United States, at such places as may be approved by the Federal Reserve Board and under such rules and regulations as it may prescribe; and the number of places where branches or agencies may be established and maintained may, from time to time, with the consent of the Federal Reserve Board, and under such rules and regulations as it may prescribe, be increased or decreased.

(c) To purchase and hold stock or other certificates of interest or ownership in any other banking corporation or association organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency or insular possession of the United States or any dependency or insular

possession thereof, which banking corporation, or association, shall not be transacting business in the United States, except to such extent as may be incidental to its international or foreign business; provided, however, that without the consent of the Federal Reserve Board, no corporation organized hereunder shall invest in any one banking corporation an amount in excess of twenty per centum of its own capital and surplus; and provided further that, without the consent of the Federal Reserve Board, no corporation organized hereunder shall purchase stock in any other corporation organized under the provisions of this section or under the laws of any State of the United States or of any dependency or possession thereof. So much of Section 7 of the Act approved October 15, 1914, entitled "An Act to Supplement Existing Laws against unlawful restraints and monopolies and for other purposes," as may be in conflict with the provisions of this paragraph is hereby amended in such manner that the provisions thereof shall not apply to a corporation organized hereunder.

(d) To exercise, through its board of directors or duly constituted officers or agents, all powers not herein expressly granted, which shall be incidental to such expressly granted powers and which shall be necessary for the purpose of carrying

on the business of banking authorized by law; provided, however, that no corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Federal Reserve Board, shall be incidental to its international or foreign business; and provided further that except such as is incidental and preliminary to its organization no such corporation shall transact any business until it has been duly authorized by the Federal Reserve Board to commence business as a corporation organized under the provisions of this Section.

No corporation shall be organized under the provisions of this section with a capital stock of less than one million dollars, one quarter of which must be paid in before the corporation may be authorized to begin business. The capital stock of any such corporation may be increased at any time, with the approval of the Federal Reserve Board, by a vote of two-thirds of its shareholders, or by unanimous consent in writing of the shareholders without a meeting and without a formal vote; and may be reduced in like manner, provided that, in no event, shall it be less than one million dollars.

A majority of the shares of the capital stock of any such corporation shall be held and owned by citizens of the United States, by corporations chartered under the laws of the United States or of a State of the United States or by firms or

-8-

companies, the controlling interest in which is owned by the citizens of the United States or of a State thereof. The provisions of Section eight of the Act approved October 15, 1914, entitled "An Act to Supplement Existing Laws against unlawful Restraints and Monopolies, and for other purposes," shall not be construed to apply to the directors, other officers, agents, or employees of corporations organized under the provisions of this section.

No national bank or other member of a Federal reserve bank shall subscribe for or hold stock in banking corporations organized under the provisions of this section aggregating more than ten per centum of the paid-in capital and surplus of the subscribing bank.

Shareholders in such corporations shall not be liable for the contracts, debts and engagements of such corporations except to the extent of their unpaid stock subscriptions.

Any member bank may act as agent for any corporation organized under the provisions of this section for the purpose of dealing with any Federal reserve bank and the Federal Reserve Board shall establish and promulgate rules and regulations defining and governing transactions which corporations organized hereunder may have with Federal reserve banks, either directly or through the agency of a member bank. No corporation organ-

ized hereunder shall, however, become a member of any Federal reserve bank.

Every corporation organized hereunder shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, at which directors, or such number thereof as the by-laws may require, shall be elected to serve until their successors are elected and qualified, which meetings shall be held at its home office in the United States. At every meeting of stockholders, each shareholder shall be entitled to cast, in person or by proxy, one vote for each share held. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Federal Reserve Board; and each such corporation shall make reports to the Federal Reserve Board at such times and in such form as it may require; and shall be subject to examinations whenever deemed necessary by the Federal Reserve Board which examinations shall be conducted by examiners appointed by the Federal Reserve Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Federal Reserve Board and to be paid by the corporation examined.

Should any corporation organized hereunder fail to comply

with any of the provisions of the laws of the United States, all of its rights, privileges and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Federal Reserve Board. Upon adjudication of such non-compliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders or officers for any liability or penalty previously incurred.

Any such corporation may go into voluntary liquidation and be closed and wound up by a vote of its shareholders holding two-thirds of its stock.

Whenever the Federal Reserve Board shall become satisfied of the insolvency of any such corporation, it may appoint

-11-

a receiver thereof who shall take possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States; provided, however, that the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with such laws.

5/1/17

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

May 2, 1917.

Dear Sir:

With the view of facilitating our work of compiling the statistics of acceptances, we would suggest the following form of letter informing the Board of the purchase of acceptances by another Federal reserve bank for account of your bank:

"We are advised that on _____ 191_ the Federal Reserve Bank of _____ purchased for the account of this bank _____ bills, amounting to \$ _____ and numbered by us _____. Our schedule number of these bills is _____; Amount credited to un-earned discount \$ _____; charged to investments \$ _____."

In case the bank prefers to make report of such purchases on Schedule BD-7, it is urged that such reports be made on separate sheets, duplicating as nearly as possible the schedule or schedules received from the purchasing bank, and that the present practice of listing such items together with other items purchased directly by your bank, or of transcribing to one sheet of schedule BD-7 data originally given on two or more sheets by the purchasing bank, be discontinued.

Respectfully,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

DIVISION OF REPORTS AND STATISTICS

2307
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 2, 1917.

Dear Sir:

Under date of April 4 a circular letter was sent by this office to all Federal reserve banks modifying in some details previous requests for monthly data of clearing operations.

With the view of assuring greater uniformity in the compilation of these reports there are inclosed herewith 25 copies of Form 50 for the use of your transit department in reporting to this office monthly information regarding clearing operations of your bank for the period ending the 15th of each month.

Please arrange to have these reports reach us not later than the 23d of each month.

This request supersedes all previous requests for similar information, and the sending of weekly data of clearing operations, as well as of monthly data compiled along slightly different lines, may accordingly be discontinued.

Respectfully,

Secretary.

Inclosures.

FORM No. 50
1917 Edition.

X-110a

MONTHLY REPORT OF CLEARING OPERATIONS.

FEDERAL RESERVE BANK OF _____

Report of clearing operations for the period from _____ 16th
to _____ 15th, 191_, inclusive.

Average number and amount of items handled daily	NUMBER	AMOUNT
Drawn on:		
Banks located in the Federal reserve city.		
Banks located in this district outside Federal reserve city.		
Banks located outside this district		
T o t a l.....		
The Treasurer of the United States		
Number of member banks in this district		
Number of nonmember banks in this district		
Number of nonmember banks on par list		

Business days are to be used in figuring averages for first four items. The figures for the last three items are to be those of the 15th of each month or the preceding business day when the 15th is a holiday.

(Signature of officer in charge)

THIS REPORT SHOULD REACH THE FEDERAL RESERVE BOARD NOT LATER THAN THE 23d OF EACH MONTH.

5/2/17

Dear Sir :

The attached letter from the Kittanning Brick & Fire Clay Company to Mr. D. C. Wills, Chairman of the Federal Reserve Bank of Cleveland, raises the question whether a trade acceptance given by the purchaser of goods extinguishes the original debt for goods sold by substituting a new form of obligation and whether if that is so the drawer or seller waives his rights under the various Mechanics Lien Acts of the different States.

Mr. Wills, in his reply under date of March 23rd, states that a trade acceptance is "only a different form of a stated account" and that the drawer does not in any way waive any rights which he would have had by continuing his open account.

The question to be determined is whether the giving of a note or acceptance for a debt is a payment of that debt. The courts and text writers apparently disagree on this point.

In the case of Edgell v. Stanford, 6 Vt. 551, 556, it is said that there is much doubt whether the substitution of one contract for another of the same form extinguishes the first contract, but this statement is made in reference to the substitution of one promissory note for another promissory note and is not strictly applicable to the case of the acceptance of a promissory note in place of a debt for goods sold. The court, however, in that case, goes on to say that :

"In New York accepting a promissory note for goods sold has been considered usually as not extinguishing the contract but that an action might be brought for goods sold. In Massachusetts a different decision has been had. "

Though I have been unable to locate the Massachusetts case referred to the decision of the Vermont court indicates that there is some difference of opinion on the question under consideration.

It is stated, however, in Frey v. Patterson, 49 N.J. Law, 612, 613 :

"The giving of a note for a debt is not a payment. It merely extends the credit until the note matures. If the note is not paid, the creditor has his election to sue upon the note or the original cause of action. The rule is too well established to need citation of authorities in support."

The Supreme Court of the United States in the case of Sheehy v. Mandeville, 6 Cranch, 225, 263, 264, speaking through Justice Marshall, says :

"That a note, without a special contract, would not, of itself, discharge the original cause of action, is not denied. But it is insisted that if, by express agreement, the note is received as payment it satisfies the original contract, and the party receiving it must take his remedy on it. This principle appears to be well settled. The note of one of the parties , or of a third person may, by agreement, be received in payment. "

It appears from this decision, therefore, that the Supreme Court of the United States considers it to be the general rule that the mere giving of a note does not of itself extinguish the original debt but that the parties to the transaction may, if they so desire, agree that the note is given in payment of the original obligation. If that is done then, of course, the original debt is discharged and the rights of the creditor are limited to an action upon the note. If, however, there is no such express agreement the original debt is not extinguished.

Under this decision the conclusion reached in Mr. Wills' letter would appear to be correct, that is, that there is no necessity for stating on the trade acceptance that the maker reserves his rights to file a lien under the Mechanics Lien Acts. This would seem to be particularly true in the case of a trade acceptance in which it is usually stated, either expressly or impliedly, that the obligation of the acceptor arises out of the purchase of goods from the drawer. Such a statement as that tends to indicate that the acceptance is not payment of the debt and under the ruling of the court in Sheehy v. Mandeville, supra, the taking of a promissory note (and by analogy, a bill of exchange) does not extinguish the original obligation, unless there is an express agreement by the parties to the transaction that such note (or bill of exchange) is to be considered a payment of the original obligation.

In view of this decision of the Supreme Court of the United States, it is probable that the courts of most States would agree that the giving of a promissory note or trade acceptance does not discharge the original debt unless there is an express agreement that it is given in payment of that debt, but it is suggested that in view of the doubts expressed by some courts, no general ruling can be made without a view of the court decisions and laws of the various states in which the question may arise.

Respectfully,
M. C. ELLIOTT

Hon. W. P. G. Harding,
Federal Reserve Board.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

3811
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-122.

May 3, 1917.

Dear Sir:

There are enclosed fifty copies of the form for the weekly recommendation as to discount rates at your bank.

Please substitute these forms, which have been revised to conform to the new reclassification of rates, for those now in your possession. The Board will appreciate your sending these regularly.

Very truly yours,

Secretary.

Enclosures.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

1812
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD
X-124.

May 3, 1917.

Sir :

By direction of the Federal Reserve Board

I transmit herewith a certified extract from the minutes
of the meeting of the Board held in the offices of the
Board on May 2, 1917.

Yours very truly,

Secretary.

Enclosures.

X-124a.

"On motion it was voted that the Federal Reserve Bank of New York, acting as Fiscal Agent for the United States Government, be authorized upon the instructions of the Government to open accounts in favor of foreign governments as follows:

WHEREAS, Section 2 of the Act entitled "An Act to authorize an issue of bonds to meet expenditures for the national security and defense and to extend credit to foreign governments, and for other purposes," approved April 24, 1917, provides in part that -

"That for the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments, the Secretary of the Treasury, with approval of the President, is hereby authorized, on behalf of the United States, to purchase, at par, from such foreign governments then engaged in war with the enemies of the United States, their obligations hereafter issued, bearing the same rate of interest and containing in their essentials the same terms and conditions as those of the United States issued under authority of this Act; to enter into such arrangements as may be necessary or desirable for establishing such credits and for purchasing such obligations of foreign governments and for the subsequent payment thereof before maturity, etc."

And WHEREAS, Section fifteen of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act, provides that the Federal reserve banks "when required by the Secretary of the Treasury, shall act as fiscal agents of the United States;"

And WHEREAS, the Secretary of the Treasury has duly appointed each and every Federal reserve bank a fiscal agent of the United States;

NOW, THEREFORE, BE IT RESOLVED, that the Federal Reserve banks, in order effectively to carry out the provisions of the Act first above referred to are hereby severally directed to receive and hold on deposit as such Fiscal Agents for the credit of any foreign government, ^{any} moneys or credits placed at the disposal of such foreign government by the Secretary of the Treasury "for the purpose of establishing credits in the United States for foreign governments," as provided in Section two of the Act of April twenty-fourth, nineteen hundred and seventeen, quoted herein.

I certify the above to be a true extract from the minutes of the meeting of the Federal Reserve Board held in the offices of the Board on May 2, 1917.

Secretary.

2515

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
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ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-125.

May 3, 1917.

Dear Sir:

For your information and guidance,
copy of letter from Chief Clerk of the Treasury
Department is enclosed herewith.

Very truly yours,

Governor.

TREASURY DEPARTMENT.
WASHINGTON

May 3, 1917.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Treasury Department.

Dear Governor Harding:

Before the Secretary left this morning he gave instructions for notice to be served upon the Western Union and Postal Telegraph Companies as to the handling of telegrams and the rendition of accounts under the forthcoming bond issue. The following message was transmitted to both companies, and their replies follow:

"Secretary of Treasury requests you notify your managers in all Federal Reserve Bank cities New York, Philadelphia, Richmond, Cleveland, Atlanta, Dallas, St. Louis, Kansas City, Chicago, Minneapolis and San Francisco that great many telegrams relating to the forthcoming bond issue will be filed by above named banks and that such telegrams should be transmitted at Govt Rates and bills sent to Treasury Department. Banks will be notified to endorse all such messages "Official Business Govt Rate" Charge Treasury Department. Please notify your agents as soon as possible. Please acknowledge receipt."

The Western Union has replied as follows:

"Your message relative to messages to be filed by Federal Reserve Banks received and will be given immediate attention.
H. F. Taff, Manager."

The Postal Telegraph Company has replied as follows:

"Your telegram Will instruct our offices as requested.
G. M. Foote, Mgr."

Respectfully,

JAMES L. WILMETH,

Chief Clerk.

C O P Y

For signature by
Underwriting Members
of Lloyd's, London, only.

BANKERS' AND BROKERS' POLICY.

Effected by ("In and Out" Form)
James Hartley Cooper & Co., Ltd.,
Cowper's Court Cornhill,
London, E. C., and at Lloyd's.

London, 15th May, 1916.

IN CONSIDERATION of a premium of twenty shillings per cent now paid to us by Federal Reserve Bank of _____ hereinafter called the Assured, on the amount underwritten by us respectively (the receipt of which we hereby acknowledge) and of the further premium (if any) to be paid to us as hereinafter mentioned, We the undersigned each in the proportion which the amounts hereby underwritten by us respectively bear to the sum of Thirty thousand pounds - \$150,000. and each being liable only in respect of any one loss to the extent of the amount underwritten by him, hereby undertake and agree with the said Assured to hold them harmless and indemnified for and during the space of Twelve Calendar months, from noon of the _____ day of _____, 191_, to noon of the _____ day of _____ 191_, from and against all such losses or damages as they the said Assured including branches established or to be established may during the said period suffer or sustain or discover that they have suffered or sustained in manner hereinafter mentioned (that is to say):

1. BY reason of any Bonds, Debentures, Scrip, Certificates, Warrants, Transfers, Coupons, Bills of Exchange, Promissory Notes, Cheques, Bank Notes, Specie, Currency, Coin, or other similar Securities, whether payable to bearer or otherwise (not including title deeds of landed property) in which they are interested or the custody of which they have undertaken, and which now are or are by them supposed or believed to be or at any time during the said period of Twelve months may be in or upon their own premises or upon the premises of their bankers or in any recognized place of safe deposit in _____ or branches established or to be established or lodged or deposited in the ordinary course of business for exchange, conversion, or registration with the issuers thereof, or with any agent of such issuers, or with any persons employed to procure or manage the exchange, conversion, or registration thereof, being (while so in or upon such premises or so placed, lodged or deposited as aforesaid) lost, destroyed or otherwise made away with by robbery, theft, fire, embezzlement, burglary or abstraction, or taken out of their possession or control by any fraudulent means or by means of credit established by fraud whether with or without violence, and whether from within or without or whether by the officers, clerks and servants of the said Assured or any other person or persons or by the negligence or fraud of the said officers, clerks and servants.

2. BY reason of any securities of the description above specified being lost, stolen, mislaid, misappropriated, or made away with, whether by negligence or fraud of their officers, clerks or servants or any messengers or otherwise, whilst in transit in their own hands or in the hands of their officers, clerks or servants or any messengers between any houses or places situate within ten miles from _____ or branches established or to be established, such risk or transit to commence on every security or parcel of securities from the moment of the person into whose hands the same may be delivered on behalf of the said Assured receiving the same and to continue until the delivery thereof at destination.

PROVIDED that the total liability of each of the undersigned in respect of any one loss under this guarantee is limited to the amount underwritten by him, irrespective of the total value of the securities comprised in such loss and that in estimating the amount of such securities so lost as aforesaid the value of the same shall be taken at the average market price or value in _____ on the day next after the discovery of such loss or losses respectively (omitting Sundays and Holidays), and if there be no market price or value for the same or any of them on such day then the value thereof shall be the value as agreed between the respective parties or in the event of difference as ascertained by arbitration. And further that upon any loss happening under this Insurance (and subject to the due payment thereof) a further premium calculated at pro rata of the annual premium for the unexpired time on the amount of such loss shall be payable by the said Assured to the undersigned and that as from the time of the happening or discovery of such loss, and even although the further premium may not meanwhile have been actually paid, this insurance shall be treated as renewed so as at all times during the said period of twelve calendar months to continue as an Insurance to the full extent of £30,000 - \$150,000. notwithstanding any previous loss which the undersigned may have paid or be liable to pay hereunder, the true intent and meaning of these presents being that while the total liability of each of the undersigned in respect of any single loss is to be limited to the amount underwritten by him, any number of separate claims to that amount may either on the same or on different days arise against him hereunder subject only to his right on the happening of any loss to payment of the further premiums hereinbefore mentioned and provided for.

Warranted free of all claim for losses not discovered within the said period of twelve calendar months.

Warranted free of all claim for loss of any securities confided to the care of the said Assured, including branches established or to be established, the nominal value and description of which have not been ascertained by them before loss.

AND IT IS HEREBY AGREED that the undersigned upon payment of of any loss hereunder shall become subrogated to all the rights and remedies of the said Assured in respect of the securities for which a a loss is paid and that immediate notice of any such loss shall be given by the said Assured to Messrs. James Hartley, Cooper & Co., Ltd., of Cowper's Court, Cornhill, London, together with all such particulars for the purpose of identification as may be in their power.

Whereas the said Assured has in force certain bonds guaranteeing the fidelity of its officers and employees, it is hereby agreed that this insurance in so far as it covers losses also covered by said fidelity bond (or bonds) shall only be for the excess over and above the amount recoverable under the bond (or bonds) of the officer or employee through whose want of fidelity the loss occurs.

WAR CLAUSE.

(Approved by Lloyd's Underwriters' Fire and Non-Marine Association)

This Policy does not cover loss or damage to the property insured occasioned by war invasion hostilities acts of foreign enemies civil war rebellion insurrection military or usurped power or martial law or confiscation by order of any Government or public authority.

Attaching to and forming part of Policy

AMERICAN CURRENCY CLAUSE.

In consideration of an addition of 6% to the premium, which the Underwriters who have hereunto subscribed their names hereby acknowledge to have received, it is declared and agreed that in the event of loss under this Policy payment shall be made in New York in American Currency. In apportioning the loss, if any, the Sum Insured by this Policy shall be calculated at the rate of Five Dollars for every Pound Sterling.

5/4/17.

287

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
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AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 9, 1917.

Dear Sir:

The Governors of the Federal Reserve Banks at their conference in Washington on April 4th to 16th, 1917, voted, (Topic No. 23 - Surety and Fidelity Bonds of Federal Reserve Banks):

"THAT the Federal Reserve Board be requested to have a summary of its investigation into the matter of surety and fidelity bonds held by the Federal Reserve Banks made, and a copy forwarded to each Bank for its consideration."

In accordance with this vote, and acting for the Committee to whom this matter was referred, I hand you herewith an analysis covering the salient features of the various bonds held by the Federal Reserve Banks as disclosed by the information submitted to the Board.

It will be noted that while nearly all the banks have fidelity bonds in standard form, as approved by the Insurance Committee of the American Bankers' Association, but two of them - New York and Chicago - have policies which cover losses by fraud or forgery perpetrated by parties not connected with the Bank. This policy is known as Lloyd's Bankers' and Brokers' "In and Out" Form. The standard form of American

policy does not cover fraud or forgery unless committed "by or with the collusion of one or more employees of the Bank."

There is also attached hereto a memorandum covering various points included in this analysis which are submitted simply for the consideration of the Governors or of a Committee which might be appointed to investigate this subject.

It might be possible to have a policy written for each of the Banks by an American Company, or by "Lloyds", which would specifically cover frauds and forgery and which would eliminate any clause which is ambiguous as to coverage, or which is not satisfactory to the Banks, if it could be arranged so that all of the Banks would get together and commit their joint interests to some one agent or broker who would be authorized to act for them in negotiating for such policies. It is doubtful if the various Banks acting independently could obtain a policy from different companies which would contain all the desirable features.

Very truly yours,

Enclosures:

M E M O R A N D U M

With reference to the attached analysis of insurance policies of the various Federal Reserve Banks, attention is directed to certain features which might be considered in connection therewith:

Lloyds Bankers & Brokers "In and Out" form, carried by the New York and Chicago Banks, (copy attached), in Provision 1, covers losses by fraud or forgery, whether by parties connected with the Bank or by outside parties. One of the Federal Reserve Agents, however, calls attention to a provision reading as follows:

"Warranted free of all claims for loss of any securities confided to the care of the said Assured, including branches established or to be established, the nominal value and description of which have not been ascertained by them before loss."

He gives it as his opinion that in event of a hold-up of an authorized messenger calling at a post office or an express office for a package, this policy would not cover, even though it were possible, through cooperation with the shipper, to prove the value and contents of the package. Or, in event of unauthorized persons, through fraudulent or forged orders, obtaining packages as indicated above, the contents of which are not known in advance, the policy might not give protection.

Perhaps, however, it is the intent of the clause quoted above simply to deny liability for alleged loss of securities which might be deposited with the Bank for safe keeping, in which event the Bank would probably have no means of knowing the value of any packages so deposited. This situation might be somewhat similar to that of a safe deposit company which rents space to a customer for the safe keeping of valuable papers or securities, the contents of which the company has no knowledge and for which it should not be held responsible. This is a matter which should be given careful consideration, perhaps by a committee of counsel of the Banks. It will be noted that Provision 2 of the Lloyds policy plainly states that the company is responsible for loss of securities while in the hands of messengers within ten miles of the Bank or any of its branches.

One of the Federal Reserve Banks has a policy which does not cover "teller's shorts". While there should, of course, be no suggestion that a Bank would hold an insurance company responsible for ordinary teller's shorts, it is possible that, through theft, there might be a considerable shortage in a teller's accounts, which should be covered.

While the majority of the bankers' blanket bonds cover loss through robbery, theft, hold-up, etc., while the property is in transit within twenty (20) miles of any of the offices covered in the policy, a few of the policies limit this distance to ten (10) miles. Uniformity in this matter ought to be easily obtained.

Query: Should not the co-sureties, or underwriters, sign the policies with the principal, as is done in the case of the policy carried by the Federal Reserve Bank of Richmond? This would add strength to the policy.

One of the clauses of the standard form as adopted by the insurance committee of the American Bankers Association states that the policy does not cover "any loss resulting from the act or acts of any of the directors of the insured, other than those employed as salaried officers." This clause should have careful consideration in those Districts where the Deputy Federal Reserve Agent is a Class "C" Director, is not a salaried officer of the Bank, but has access to the funds in the possession of the Bank, or the Agent.

5/9/17

STATE BANK MEMBERSHIP.Preliminary Investigations.

Referring to memorandum submitted under date of April 27, 1917 - in connection with - Atascosa County State Bank, Jourdanton, Texas.

Friendly cooperation with State Bank Commissioner is essential. It would be well to have an applying bank request the Bank Commissioner to furnish to the Reserve Bank copies of examination reports. Requests should be made only for necessary information. In some states joint examinations have not met with the approval of the Bank Commissioner, as the presence of the Reserve Bank Examiner was apparently considered as a reflection upon the State Examiner. In many of the states, however, the assistance is welcomed. A report of an examination made within a few months prior to the filing of an application should give the Reserve Bank Committee reliable data.

In some states the standard of examinations is not such as to warrant the Reserve Bank Committee in accepting a report as a proper basis for a favorable recommendation. In such instances a special investigation by a representative of the Reserve Bank will be necessary. Again, in at least one state while the Bank Commissioner is authorized by law to furnish copies of reports of examinations of member banks, he has ruled that he is not permitted to furnish any information prior to a bank becoming a stockholder of the Federal Reserve Bank.

In those states where the examinations by State authorities are of a standard satisfactory to the Board and it is not possible to obtain from the Bank Commissioner a copy of the report of the last previous examination, and where in view of the reputation of the applying bank it is not considered by the officers of the Reserve Bank necessary or desirable to have a special investigation made by an examiner of the Reserve Bank, the applying bank should be requested to furnish over the signatures of the president or vice-president and the cashier or an assistant cashier additional data as to loans and investments to enable the Reserve Bank Committee to determine its condition. Memorandum of information desired is attached.

Where an investigation is made by a representative of the Reserve Bank it should cover a detailed examination and report of the investments, loans and discounts with particular attention paid to the credit standing of borrowers and the valuation of investments and collaterals.

Respectfully submitted,

J. A. BRODERICK.

STATE BANK MEMBERSHIP.

GENERAL INFORMATION DESIRED.

- 1. Copy of the last periodical report filed with the State Bank Commissioner.
- 2. Copies of all letters of criticisms (if any) received from the Bank Commissioner or State Examiner in connection with the last two examinations. State what action has been taken.
- 3. General character of business in the community served by the institution.
- 4. A memorandum as to present status of all law suits in which the applying institution is interested.
- 5. Memorandum - Business corporations or other concerns owned or controlled by or operated in the interest of the applying institution.
- 6. List of officers and directors - giving post-office address - number of shares owned and also their business, firm or other outside affiliations.

List of loans to officers, directors and employees. Arrange loans in groups showing indebtedness of each official as maker, endorser or guarantor; loans to firms and corporations in which he is interested either as member, officer or director; loans to relatives and business associates of officers and directors; loans collateralized by securities issued by corporations in which directors are interested.

Give:

Borrower -	Amount -	Director interested.
------------	----------	----------------------

- 7. General information as to loans - Detailed list past due loans.
 - a. Demand loans - upon which no interest has been paid for one year or more.
 - b. Notes and other loans in default six months or more and which are not secured or in process of collection.

-2-

- c. Other past due notes and loans. Include overdrafts.
Exclusive of loans secured by agricultural commodities and live stock.
- d. Notes renewed from time to time, with interest added.
- a. b. c. d. Give name - Borrower - Amount - Maturity.
Security, if any. Estimated loss.

Other loan information. Except R. E. loans.

- e. Loans to officers of - Other banks - name - amount - bank identified with. Security, if any.
- f. Loans on own bank stock. Amount of loan - shares held.
- g. Large lines - (not previously listed) In excess of 3% of capital. Give name of Borrower - Business - postoffice address - amount of liability - Remarks.
8. Real Estate Loans. List of loans equal to 3% of capital. Give name of borrower - amount of loan - maturity - prior liens - location of property - valuation - when and by whom appraised.
9. Real Estate Owned. Give location of property - book value - original cost - prior lien if any - estimated value - when and by whom appraised - how and for what purpose acquired.
10. Investments. List in detail, giving name of issuing corporation - par value - book value - rate of interest or dividend - (date of last payment) - estimated present value.
- Please give latest information as to securities upon which interest is in default. If bank owns securities of small private or local corporations, inclose with this memorandum a copy of the latest financial statement issued by such corporations.
11. Notes and Bills rediscounted. Bills payable and certificates of deposit representing borrowed money. Give a memorandum of present indebtedness - From whom borrowed - rate - maturity - assets pledged as security for indebtedness, totals only.

- 12. Assets pledged as security for deposits or other purposes (except money borrowed) - give particulars.
- 13. Assets and liabilities which are not entered as such upon the books of the banking institution.
- 14. Moneys borrowed by officers and directors in the interest of the bank under examination.
- 15. Contingent liabilities. Nature and extent - On bills endorsed and sold - guarantees - notes and securities pledged or sold with agreement to repurchase - all other.
- 16. Estimated losses or deductions from assets:

	<u>Estimated losses</u>	<u>Doubtful.</u>
Loans		
Investments		
Real Estate		
Furniture and fixtures		
Cash items		
Total.		

- 17. List of balances due from and to other banks.

5/5/17

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER,
CHARLES S. HAMLIN X-129.

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 8, 1917.

Dear Sir:

With reference to my letter of April 26, (X-107), relative to deposits made by national banks on account of assessments for expenses of examinations, you are further advised that certificates of deposit should be prepared on national bank form 1, certifying that the Comptroller of the Currency has made the deposit on account of "Miscellaneous receipts: assessments upon national banks for expenses of examinations" and listing the names of the banks and the amount deposited by each.

One certificate only should be issued for all deposits made each day. If the space on the face of the certificate, is not sufficient to list the banks and amounts, the reverse side should be used.

The original certificate should be forwarded with your Daily Transcript of Account to the Treasurer of the United States. The duplicate should be forwarded direct to the Comptroller of the Currency, and the office copy should be retained by your bank.

Since the original is transmitted by the Treasurer to the Secretary, it is not necessary for your bank to prepare and forward a third copy to the Secretary as instructed in letter of April 26.

Very truly yours,

Governor.

3329

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
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COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
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FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 8, 1917.

Dear Sir:

Several of the Federal Reserve Banks have made inquiry as to whether they might be permitted to use the Government frank on all correspondence connected with the flotation of the Liberty Loan of 1917.

This matter has been taken up with the Postoffice Department, and I quote below for your information, letter received today from the Postmaster General on the subject:

"Receipt is acknowledged of your letter of today, suggesting that postmasters of the cities in which Federal reserve banks are located be authorized to accept from such banks free of postage under the penalty privilege matter mailed by them in connection with the flotation of the Liberty Loan of 1917.

"In reply I have to say, as pointed out in previous correspondence, that Federal reserve banks are not entitled under the law to use penalty envelopes to send matter in the mails free of postage, and, therefore, this Department is without authority to instruct postmasters to accept for mailing free of postage under penalty envelopes matter mailed by such banks."

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HANLIN

H. PARKER WILLIS, SECRETARY
SHERMAN W. ALLERTON, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

See page 233

May 10, 1917.

Dear Sir:

The Board is in receipt of a letter from the Counselor for the Department of State, calling its attention to the desirability of guarding against transfers of banking credits to neutral countries for account of alien enemies, and against the use of domestic credits for similar purposes.

The Board is informed that the State Department is not concerned in the ordinary commercial transactions and routine bank accounts of aliens of whatsoever nationality, resident in the United States, with banks situated therein. It is suggested by the Department, however, that each banker doing business in this country should scrutinize with particular care such accounts as may be held by his bank for any resident alien enemy, and in the event any suspicious transactions occur in connection with such accounts, that they be reported immediately to the Board for transmission to the proper Department.

The transactions which are interesting to the State Department may be divided into three classes:

1. Foreign exchange transactions between banks in this country and banks in neutral countries in Europe;
2. Ordinary banking transactions such as the obtaining of credits by alien enemies resident in the United States;
3. Banking transactions between this country and Mexico, or Central American and South American countries.

The State Department is especially interested in preventing all transfers of money by cable, by draft, or by shipments of currency or otherwise to neutral countries in Europe for the account of alien enemies.

It is, of course, difficult for a bank to determine offhand whether or not a transfer is for the account of alien enemies, when it is asked by an individual or corporation in this country to make a transfer to a bank in a neutral country.

The Board is advised, however, that the State Department is anxious that bankers throughout the country should be warned that they should scrutinize most carefully every application made to them involving the transfers of funds to neutral European countries, which transfers seem intended to give aid to the enemies of this country, either directly or indirectly.

The Board is further advised that the State Department is interested in banking transactions between this country and Mexico or other Latin-American countries, as there is some evidence in its possession that alien enemies operating either as individuals or through the instrumentality of an American corporation, or otherwise, are desirous of fomenting trouble between this country and other Republics of this hemisphere, and in order to further their plans they must rely upon financial assistance through the form of credits opened in their behalf in this country. It is, of course, true that many accounts held by banks in this country for the benefit of alien enemies resident in countries adjacent to the United States, are ordinary commercial accounts, and up to the present time the State Department has disclaimed any disposition to interfere with the free operation of such accounts, being interested only in such transactions as may appear to the bankers who are requested to facilitate the same as being of a suspicious character.

The Board is of the opinion that, in view of your intimate contact with member banks in your district, you are in a position to secure their cooperation in scrutinizing and supervising financial transactions made or attempted to be made for the benefit of alien enemies. Reports of suspicious transactions coming to the notice of banks should be made to the Board by wire, in order that the officials of the proper department may be advised and immediately make investigations.

There are, of course, many trust companies, State banks, and private bankers with which your bank has no intimate relationship. The Board believes, however, that if an appeal should be made to these banks and bankers, they would readily observe such precautionary methods as you may, with the approval of the Board,

- 3 -

ask your member banks to comply with. Express companies and telegraph companies doing a banking business in transmitting currency or credits by express or by wire should also be asked to cooperate on the lines suggested above.

The attention of the Comptroller of the Currency has been called to this letter and he has been asked to enlist the cooperation of the large force of national bank examiners working under his supervision. It is believed that their assistance will be of great value in securing the information desired and in further enlisting the cooperation of the banks with which they come in contact in their work. You are requested to urge the banking departments of the States in your district to cooperate in the same manner through their bank examiners.

It is requested by the Board that a copy of this letter be sent to all banks and trust companies in your district, in order that they may understand that, while innocent transactions of a domestic character with alien enemies are unobjectionable, no business of a nature calculated to give aid or comfort to the enemy directly or indirectly will be countenanced.

Very truly yours,

Governor.

S. J. - 300

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
CHAIRMAN
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-134

May 11, 1917.

Dear Sir:

When the last audit of the Gold Settlement Fund was made it was suggested in the report made by the auditors that at future audits the \$10,000 gold order certificates which make up the fund be made up in packages and properly sealed so that in future audits it will be unnecessary to count them.

This suggestion received approval at the last conference of Governors and has, upon recommendation of the Division of Audit and Examination, received the approval of the Federal Reserve Board.

On April 21, at the direction of the Board, a letter was sent to Federal reserve agents requesting that they indicate approval or disapproval of the proposed arrangement. Some of the replies to this inquiry have been stated in such a manner that the Board does not feel that it thoroughly understands the position which some of the Agents have taken in the matter. I have been directed, therefore, to write to you requesting that you state clearly and beyond chance of misapprehension whether you favor the adoption of this plan or whether you do not favor it.

Very respectfully,

Secretary.

3524

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

X-15 ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 11, 1917.

Dear Sir:

Referring to my letter of the 3d instant I quote below, for your further information, message which was sent to the managers of both the Western Union and Postal Telegraph Companies to-day by the Treasury Department, as follows:

"Please instruct your representatives in Federal reserve bank cities that Treasury Department request of third instant as to charging to this Department telegrams relating to the bond issue filed by Federal reserve banks is intended to include collect messages from other banks to Federal reserve banks or Federal reserve agents. Please acknowledge."

The Treasury Department is to-day in receipt of the following replies:

"Your telegram date. Will comply with request."

(Signed) G.M.Foote, Manager Postal Telegraph Co.

"Your message relative to charging telegrams relating to the bond issue will be given prompt attention."

(Signed) H.F.Taft, Manager Western Union
Telegraph Company.

Very truly yours,

Governor.

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

NO. 177
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 12, 1917.

Dear Sir:

Referring to my letter of April 25th inclosing uniform plan for the issue of Federal Reserve Exchange Drafts, to become operative on May 21st, you are advised that, in view of the vast amount of detail work imposed upon Federal reserve banks in connection with the flotation of the Liberty Loan, the Board has decided that it would be advisable to postpone the date on which this plan is to become effective, to June 1st, 1917.

Very truly yours,

Governor.

J. X-132

S T A T U S O F R E S I D E N T
A L I E N S W H O A R E S U B J E C T S
O R
C I T I Z E N S O F N A T I O N S
A T W A R W I T H
T H E
U N I T E D S T A T E S

May 10, 1917.

X-138

STATUS OF RESIDENT ALIENS WHO ARE SUBJECTS OR
CITIZENS OF NATIONS AT WAR WITH
-the-
UNITED STATES.

* * * * *

Mr. President, and Members of the Richmond Bar Association .

Aside from the interest which necessarily attaches to questions directly or indirectly involved in the present war, the determination of the status of resident aliens who are subjects or citizens of nations at war with the United States makes it necessary to consider certain legal questions which are of independent interest because they involve the reconciliation of three distinct propositions or principles of law - each apparently supported by authority - which on their face are incapable of reconciliation.

The first is, that as soon as war is declared between the United States and a foreign country all business intercourse and communication between the citizens of the two nations must immediately cease, whether the subjects of the hostile nation are residents of this country, or of the enemy nation.

The second is, that citizens or subjects of an enemy nation, who are domiciled in the United States, become to all intents and purposes citizens of the United States after war is declared - in so far as their right to enter into contracts and to have business intercourse with citizens of the United States is concerned.

The third is, that no resident or domiciled alien can become a citizen of the United States without complying with the naturalization laws of the United States. That no subject of an enemy nation can become naturalized after war is declared and that all subjects, denizens or citizens of an enemy nation may be treated as alien enemies after a declaration of war.

Each of these propositions is apparently supported by authority but it is evident that all three can not be consistently sustained. In order to reconcile them it is necessary to analyze the authorities which seem to support them.

In the case of United States v. Grossmayer, 76 U. S.

72, 73, the court said :

"It has been found necessary, as soon as war is commenced, that business intercourse should cease between citizens of the respective parties engaged in it, and this necessity is so great that all writers on public law agree that it is unlawful, without any express declaration of the sovereign on the subject."

In Montgomery v. United States, 82 U. S. 395, 400, the court said .

"Nothing is clearer, says President Woolsey (International Law, Sec. 117), than that all commercial transactions of whatever kind (except ransom contracts), with the subjects, or in the territory of the enemy, whatever direct or indirect, as through an agent or partner who is neutral, are illegal and void."

Again in United States v. Lapens, 84 U. S., 601, 602, the court said :

"All contracts with the subjects or in the territory of the enemy, whether made directly by one person, or indirectly through an agent, who is neutral, are illegal and void. This principle is now too well settled to justify discussion. No property passes and no rights are acquired under such contracts "

Similar language is used in a number of other cases which it is not necessary to quote. (1)

Construing this language literally, it would seem to be clearly established that no citizen or subject of a nation with which the United States is at war has any right to enter into contractual relations or to have any business intercourse of any sort with a citizen of the United States. It will be observed that this prohibition, according to the language of the courts, extends to contracts "with the subjects or in the territory of the enemy. " This would seem to include those subjects or citizens of an enemy nation which are domiciled in the United States, as well as those residing within the jurisdiction of the enemy nation.

In support of the second proposition and in direct conflict with this view, however, we find that the text writers apparently treat all citizens of an enemy nation who are domiciled in the United States at the outbreak of war as entitled to the privileges of citizenship in this country, in so far as their right to contract and deal with citizens of the United States is concerned

President Woolsey of Yale, who was an acknowledged authority on International Law, states that :

"The nationality of individuals in war depends not on their origin or upon their naturalization, but upon their domicile." (2)

If this be literally accepted as the true principle it would seem to follow that a citizen of an enemy nation domiciled in the United States would immediately, or within a reasonable time, after the outbreak of war ~~cease~~ to be a citizen or subject of that country and become a citizen of the United States. It could hardly have been the intention of President Woolsey, nowever, to subscribe to the view that a declaration of war by a foreign nation could have the legal effect of making its citizens or subjects domiciled in the United States ipso facto citizens of the United States, and the word "nationality" was no doubt used in a more restricted sense. It would perhaps be more accurate to say that the enemy status of an alien after the outbreak of war is determined by domicile rather than by citizenship.

According to the text of the American & English Encyclopedia of Law, the authorities hold that -

"Apart from cases of direct assistance to the enemy, the question of domicile is controlling in determining whether one is to be considered an enemy or a neutral, the theory being that one contributes to the resources of the country in which he is domiciled, and is consequently to be considered as a subject thereof." (3)

The rule as stated in Livingston v. Maryland Ins Co. is that .

"Whenever a person is bona fide domiciled in a particular country, the character of the country irresistibly attaches to him. The rule has been applied with equal impartiality in favor of and against neutrals and belligerents. It is perfectly immaterial what is the trade in which the party is engaged, or whether he be engaged in any. If he be settled bona fide in a country with the intention of indefinite residence, he is, as to all foreign countries, to be deemed a subject of that country. Without a doubt, in order to ascertain this 'domicile' it is proper to take into consideration the situation, the employment, and the character of the individual. The trade in which he is engaged, the family that he possesses, and the transitory or fixed character of his business are ingredients which may properly be weighed in deciding on the nature of an equivocal residence or domicile. But when once that domicile is fixed and ascertained all other circumstances become immaterial."

(4)

This rule seems to be borne out by a long line of decisions, but while it establishes the principle that a citizen of the United States acquires the status of an enemy if he is domiciled in a foreign country with which the United States is at war, and remains there more than a reasonable time after war is declared, it does not justify the assumption that such a citizen becomes a citizen of the enemy nation. Nor can it be accepted as authority for the proposition that a citizen of a hostile nation domiciled in the United States at the outbreak of war becomes entitled to the privileges of citizenship in this country even though he is treated as an enemy of his own country if he does not return within a reasonable time after war is declared. A number of cases are cited in the American & English

-6-

Encyclopedia of Law in support of this general statement but when analyzed it is found that they deal with the status of a citizen of the United States who remains within the jurisdiction of a hostile nation after a declaration of war and not with the status of a citizen of a hostile nation who remains in the United States after war is declared.

In analyzing cases cited as authority for the proposition under consideration, we find that our Supreme Court has been called upon to pass upon this question in cases growing out of the war with England, the war with Mexico, the Civil war and the war with Spain. The principles established in the earlier cases have been followed with more or less uniformity and reference to the later cases is hardly necessary, except as a matter of historical interest.

One of the earliest cases is that which is entitled "The Venus", reported in 12 U. S. 253. In that case, a citizen of the United States had acquired a business or commercial domicile in England and before the outbreak of the war shipped goods to himself and associates in the United States. These goods were seized after war was declared and condemned as enemy property on the ground that the shipper, who was also a consignee, had acquired an enemy status by remaining out of the United States after the outbreak of war. Chief Justice Marshall, while upholding this principle, dissented on the ground that he should have been given a reasonable time within which to return to the United States before his enemy status became fixed.

The cases of "The Vowles" (5) and "The Frances" (6), reported in the same volume of United States Reports involved similar transactions.

A case growing out of the Mexican War was that of the United States v. Guillemin. (7) In this case a citizen of France had acquired a domicile in Mexico. When war was declared he attempted to return to France on a ship which was seized while running the blockade. The court held that although he was a citizen of a neutral country he became impressed with an enemy status by being domiciled in a hostile country after the outbreak of the war but that he lost this hostile character when he attempted to return to France on a French ship immediately following the outbreak of the war, that while the ship was subject to seizure for running the blockade the person and property of the Frenchman were not.

Among the Civil War cases, cited in support of the proposition that domicile must determine enemy status, we find the cases of "The William Bagaley"(8) and "Miller v. The United States"(9).

In the first case a citizen of the North owned an interest in a vessel which was used by the Confederacy and was seized as a prize of war by the Federal Government. His interest was held to be enemy property and subject to confiscation.

In the case of Miller v. United States a citizen of the Confederate States owned stock in two Northern railroads and this

interest was likewise confiscated on the ground that it belonged to an enemy of the United States and was being used for purposes inimical to the United States.

The latest reported case dealing with this subject appears to be that of *Jaragua Iron Co. v. United States* (9½) decided in February, 1909. In this case the Jaragua Iron Company was domiciled in the United States and had its main office in Pennsylvania. It was, however, engaged in business in Cuba and had acquired a commercial domicile there. Its property was destroyed for sanitary reasons under order of General Miles as an incident of the war with Spain. The Court held its Cuban property to be an enemy property and declined to allow compensation.

It will be observed that each of these cases deals with the status of American citizens who have acquired domiciles in countries with which the United States is at war, or who have property which is susceptible of use in aid or comfort of enemies of the United States.

It may, of course, be reasonably argued that if a subject of an enemy nation, domiciled in the United States and thereby becomes an enemy of his own country, he should not be treated as an enemy of the United States.

This is no doubt true as a matter of comity or of international hospitality but it can hardly be claimed that an alien

under such circumstances is inherently, or as a matter of right, entitled to the privileges of citizenship. Such a presumption is rebutted by the statutes of the United States which sustain the third proposition, namely, that no alien can become a citizen of the United States without complying with the naturalization laws of this country.

To advert for the moment to certain elementary principles of law, we find that a citizen is defined by the authorities as one who by birth, naturalization, or otherwise, is a member of an independent political society and, as such, is subject to its laws and entitled to its protection in the enjoyment of civil or private rights. (10)

Naturalization is defined as "the act of adopting a foreigner and clothing him with the privileges of a native citizen." In the United States the power of naturalization is vested exclusively in Congress and can not be exercised by any of the States. (11)

By the Act of April 14, 1802, as amended, Congress has declared that "an alien may be admitted to become a citizen of the United States in the following manner and not otherwise." The provisions of the Act which prescribe the manner in which naturalization may be affected are substantially, as follows :

That a circuit or district court of the United States or a district or circuit court of the territories or a court of record of any of the States having common law jurisdiction and a seal and clerk may receive the declaration of an alien of his intention to become a citizen of the United States. (12) The same courts have power to entertain and pass upon applications for naturalization. (13)

The alien seeking admission to citizenship must declare upon oath before a competent court at least two years prior to his admission to citizenship that it is his bona fide intention to become a citizen, (14) and to renounce his allegiance to any prince, potentate, or state, particularly by name to the prince, or state whereof he is at the time a subject or citizen. This preliminary declaration of intention is, however, dispensed with in certain cases (15) (e. g. in the case of honorably discharged aliens who have enlisted and served in the United States Army or in the case of minors who have lived in the United States three years before reaching their majority). At the time of his application for citizenship the alien must declare on oath that he will support the Constitution of the United States; that he renounces and abjures all allegiance and fidelity to every foreign prince, potentate, or state; and these proceedings must be recorded. (16)

The alien must prove that he has resided within the United States five years at least, and within the state or territory where the court sits for one year, and that during that time he has behaved as a man of good moral character, attached to the principles of the Constitution of the United States, and well disposed to the good order and happiness of the same. His residence must be proved other than by his oath. The courts acting upon such application

-11-

consider both the law and the facts, and the decision of the court has the effect of a judgment and is conclusive as to all matters necessarily before the court and involved in the issue. (17).

It is obvious that under our naturalization laws enacted by Congress, no alien can acquire citizenship by proof of domicile in the United States, acquired prior to the outbreak of war, On the contrary, it is specifically provided by Sec. 2171, Revised Statutes, that :

"No alien who is a native citizen or subject or a denizen of any country, state or sovereignty with which the United States are at war, at the time of his application, shall be then admitted to become a citizen of the United States, * * * nor shall anything herein contained be taken or construed to interfere with or prevent the apprehension and removal, agreeably to law, of any alien enemy at any time previous to the actual naturalization of such alien. "

As such aliens are not entitled to citizenship and are not, therefore, inherently and as of right entitled to the protection of our laws in the enjoyment of civil or private rights, the only question for determination appears to be - Does a declaration of war have the effect of converting them from friendly strangers to alien enemies, or are they still to be regarded as entitled to the same international hospitality that is afforded neutral aliens ?

In other words, does the fact that they are citizens or subjects of an enemy government cause them to acquire an enemy status ?

While the cases actually cited to support the proposition that domicile is controlling in determining enemy status may be said to create a strong presumption in favor of the friendly status of subjects of enemy governments domiciled in the United States, the acts of Congress dealing with this subject do not specifically recognize any distinction between the subjects which are domiciled and those which are temporarily residing in this country.

Sections 4067 and 4068 Revised Statutes of the United States provide as follows :

Section 4067. "Whenever there is a declared war between the United States and any foreign nation or government, or any invasion or predatory incursion is perpetrated, attempted, or threatened against the territory of the United States, by any foreign nation or government, and the President makes public proclamation of the event, all natives, citizens, denizens, or subjects of the hostile nation or government, being males of the age of fourteen years and upward, who shall be within the United States, and not actually naturalized, shall be liable to be apprehended, restrained, secured and removed as alien enemies. The President is authorized, in any such event, by his proclamation thereof, or other public act, to direct the conduct to be observed, on the part of the United States, toward the aliens who become so liable, the manner and degree of the restraint to which they shall be subject, and in what cases, and upon what security their residence shall be permitted, and to provide for the removal of those who, not being permitted to reside within the United States, refuse or neglect to depart therefrom; and to establish any other regulations which are found necessary in the premises and for the public safety."

Section 4068. "When an alien who becomes liable as an enemy, in the manner prescribed in the preceding section, is not chargeable with actual hostility, or other crime against public safety, he shall be allowed, for the recovery, disposal, and removal of his goods and effects, and for his departure, the full time which is or shall be stipulated by any treaty then in force between the United

States and the hostile nation or government of which he is a native citizen, denizen, or subject; and where no such treaty exists, or is in force, the President may ascertain and declare such reasonable time as may be consistent with the public safety, and according to the dictates of humanity and national hospitality."

It will be observed that Section 4067 provides in terms that:

"All natives, citizens, denizens, or subjects of the hostile nation or government * * *, who shall be within the United States and not actually naturalized, shall be liable to be apprehended, restrained, secured, and removed as alien enemies."

Congress has not excepted from the provisions of this Act subjects of enemy governments which are domiciled in the United States. It is true that the Act does not declare all subjects of enemy nations to be alien enemies. It merely provides that they shall be liable to be treated as such and those which have acquired a domicile in the United States are included in this class. It may be contended, with reason, that the status of such subjects, particularly those which have acquired a domicile here, remains that of friendly aliens until they are declared to be otherwise. The authorities would seem to justify this conclusion. In any event, however, the courts and text writers are agreed that any nation at war may permit such limited or restricted intercourse between its citizens and the citizens of a nation with which it is at war as it deems necessary or advisable. (18)

In some instances our courts have expressed doubt as to whether this restricted commercial intercourse between our citizens and the citizens of an enemy nation should be allowed by proclamation of the President or by an act of Congress. In dealing with this question in Hamilton v. Dillin, (19) the court said :

"In England this power to remit the restrictions on commercial intercourse with a hostile nation is exercised by the crown. Lord Stowell says: "By the law and constitution of this country, the sovereign alone has the power of declaring war or peace. He alone, therefore, who has the power of entirely removing a state of war, has the power of removing it in part, by permitting, where he sees proper, that commercial intercourse which is a partial suspension of the war. * * * By the Constitution of the United States the power to declare war is confided to Congress. The executive power and the command of the military and naval forces is vested in the President. Whether, in the absence of Congressional action, the power of permitting partial intercourse with a public enemy may or may not be exercised by the President alone, who is constitutionally invested with the entire charge of hostile operations, it is not now necessary to decide, although it would seem that little doubt could be raised on the subject. * * *

"But without pursuing this inquiry and whatever view may be taken as to the precise boundary between the legislative and executive powers in reference to the question under consideration, there is no doubt that a concurrence of both affords ample foundation for any regulations on the subject. "

As Congress has specifically authorized the President to "direct the conduct to be observed on the part of the United States" towards resident subjects of enemy nations, his power in this regard is unequivocal.

In determining, therefore, the present status of such subjects it is necessary to consider any proclamations made by the President since war was declared. In the proclamation issued on April 6, he says in part :

"All alien enemies are enjoined to preserve the peace towards the United States and to refrain from crime against the public safety, and from violating the laws of the United States and of the States and territories thereof, and to refrain from actual hostility or giving information, aid or comfort to the enemies of the United States, and to comply strictly with the regulations which are hereby or which may be from time to time promulgated by the President; and so long as they shall conduct themselves in accordance with law they shall be undisturbed in the peaceful pursuit of their lives and occupations, and be

accorded the consideration due to all peaceful and law-abiding persons, except so far as restrictions may be necessary for their own protection and for the safety of the United States, and towards such alien enemies as conduct themselves in accordance with law, all citizens of the United States are enjoined to preserve the peace ~~with~~ and to treat them with all such friendliness as may be compatible with loyalty and allegiance to the United States."

. So long as the subjects of enemy nations preserve the peace, refrain from crime against the public safety, from actual hostility and from giving information, aid or comfort to the enemies of the United States and obey the State and Federal laws and regulations from time to time prescribed by the President, they are authorized by this proclamation to pursue their peaceful occupations.

As such peaceful occupations will necessarily involve entry into contractual relations and having business intercourse with citizens of the United States, it would seem that until Congress by legislative action, or the President by proclamation or regulation, imposes restrictions, citizens of the United States may continue their ordinary transactions with those resident subjects of enemy nations who have not acquired an enemy status. If citizens of the United States should be prohibited from having any business intercourse of any kind with subjects of enemy nations domiciled or residing in the United States it would be difficult for such subjects to obtain the ordinary necessities of life and the Government might therefore be called upon in the interest of humanity to segregate and provide for the support of such subjects.

Business intercourse between the citizens of two nations at war, however, appears to be a matter of privilege rather than of right and is subject to such restrictions as either sovereign may impose.

It is probable that Congress will pass a "Trading with the Enemy Act," which will deal with this general subject.

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- (1) Hamilton v. Dillin, 88 U. S. 73;
Mitchell v. United States, 88 U. S. 350;
The William Bagaloy, 72 U. S. 377
Woods v. Wildor, 43 N. Y. Rep. 164
Scholfield v. Eichselberger, 32 U. S. 586;
Burbank v. Conrad, 96 U. S. 291.
- (2) Woolsey on Int. Law, 6th ed., Sec. 183.
- (3) Vol. 16, page 1146, 2d. ed., Am. & Eng. Enc. of Law,
- (4) 7 Cranch (U.S.) 542.
- (5) 12 U. S. 347.
- (6) 12 U. S. 371.
- (7) 52 U. S. 60.
- (8) 72 U. S. 408.
- (9) 78 U. S. 306.
- (9 $\frac{1}{2}$) 212 U. S. 309.
- (10) Blanck v. Pausch, 113 Ill. 60;
Walsh v. Lalland, 25 La. Ann. 188
Lyons v. Cunningham, 66 Cal. 42;
State v. Fairlamb, 121 Mo. 150;
3 Am. & Eng. Ency. of Law (1st ed.) 242;
6 Am. & Eng. Ency. of Law (2nd ed.) 15.

- (11) United States v. Villato, 2 Dall (Pa) 373,
Thurlo v. Conn. 5 How (U.S.) 504,
Smith v. Turner, 7 How (U.S.) 283,
Minneapolis v Reum 12 U. S. App. 446.
- (12) U. S. Revised Statutes, 2165
- (13) Spratt v. Spratt, 4 Pet (U S) 393,
- (14) Revised Statutes 2165.
- (15) Revised Statutes 2166, 2167.
- (16) Revised Statutes 2165, subdivision 24
- (17) Stark v. Chesapeake Ins. Co. 7 Cranch, (U S) 420,
Spratt v Spratt, 4 Pet. (U S.) 406,
The Acorn, 2 Abb (U S.) 434.
- (18) Hamilton v. Dillin, 88 U. S. 73.
Burbank v. Conrad, 96 U S. 291.
- (19) Hamilton v. Dillin, 88 U. S. 87.

5-14-17

Dangers which may result from the passage of the Amendments to the Federal Reserve Act, known as the Hardwick Amendment, Providing That Banks May Charge One-tenth of One Percent for Remitting Funds to a Federal Reserve Bank.

-----oOo-----

(1) Many banks that have heretofore charged less than 1/10th of 1 percent, or even nothing at all, for remitting will avail themselves of the privilege to charge 1/10th of 1 percent, and thereafter 1/10th of 1 percent will become the usual and customary discount from the face of all checks, and hence operate to that extent as a tax upon all business, much greater in the aggregate than the sporadic charges previously made.

(2) Unless every check shows upon its face what deduction will be made for remitting, the person receiving the check will never know whether it is subject to deduction of 1/10th of 1 percent or not. Under these circumstances the payee bank could easily make a deduction of 1/10th of 1 percent on all out-of-town items, regardless of whether the drawee bank made the charge or not.

The only remedy for this seems to be that each check should show upon its face if it is subject to a discount for remitting funds to another bank, and what that charge is.

(3) Inasmuch as the Hardwick Amendment legalizes a charge for remitting funds, it establishes a principle, which has never

before had legal recognition. At the same time there is nothing to prevent a State bank (nonmember of the Federal Reserve System) from charging 1/4th of 1 percent, or any other charge it chooses to make.

(4) If the charge for remitting funds to cover checks becomes general and applies to Central Reserve and Reserve City banks, as well as the country banks, it is evident that banks in general will not profit by the result. A bank in remitting to a Federal Reserve Bank wishes to be able to send offsetting items, rather than cash, and the whole proposition of clearing checks depends upon this principle. Heretofore, a charge has been made by the country bank for remitting but no charge by the city bank, whereas, under the proposed amendment the city bank is authorized to charge as much as the country bank. If, therefore, a bank receives 1/10th of 1 percent on all items drawn upon itself, but pays out 1/10th of 1 percent for collecting all items it has received, the probability is that the large city banks will be the gainers.

(5) It is argued that the passage of this amendment will make for harmony between city and country banks, and will result in State banks entering the Reserve System. This would be a strong argument in favor of it if it could be sustained, but it seems

very doubtful for the reasons already suggested. It must be remembered that while those in favor of changing exchange have been well organized; those opposed to any such change have not been organized, and have scarcely had any hearing. The business community and the general public are yet to be heard from and the probability is that opposition and bitterness will develop rather than harmony.

5/14/17

Handwritten notes and signature

X-139

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5/14/17

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
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CHARLES S. HAMLIN

X-140

PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 14, 1917.

Dear Sir:

With the view of giving the Board a clearer idea of your bank's activity as fiscal agent for the Government in connection with the latter's loan transactions, it is requested that your bank include among Government deposits (Code "CAKE") the amounts received as subscriptions to U. S. certificates of indebtedness and bonds of the pending and subsequent loans whether or not redeposited with the subscribing member and nonmember banks. An additional asset item "Due from depository banks - fiscal agent account" (Code "EABA") should be set up, this item to include subscribed amounts redeposited with subscribing banks and trust companies.

Our Statistical Division will show separately in the published weekly statement, following item "Due from other F. R. Banks - net" the new item "Due from depository banks - fiscal agent account", and it is requested that your bank's published weekly statement likewise show separately the corresponding asset item.

Respectfully,

Vice-Governor.

X-142.

Remarks of H. P. Willis, before
NATIONAL ASSOCIATION OF MANUFACTURERS,
New York, May 16, 1917.

Mr. Chairman and Members of the National Association of Manufacturers:

The subject assigned me opens an almost unlimited field of inquiry. There are many aspects of the relationship between the manufacturer and the bank on which we could profitably spend much more time than is allotted for this meeting. The significance of the topic, I take it, is however found in the fact that just at present there are certain important relationships between the bank and the business world that require attention; while among business men the manufacturer may be considered as having a peculiar and special duty, because of his central place in the productive system of the country.

It will probably always be true that the action of manufacturers with regard to the terms upon which goods are sold will profoundly influence the type of commercial paper, available for discount at banks. So far as anyone can predict, it is likely moreover, to be the fact that the relations between manufacturers and banking institutions will be widely copied by those whose dealings are smaller in volume and less directly in touch with modern methods of finance and production. The manufacturer thus has a double responsibility on every occasion when changes in banking methods are suggested. The present time is one of these

occasions, and the question offers itself: What is the duty of the manufacturer in his relationships with the bank at this moment? I like to think that this question is synonymous with this other way of putting it: What is the highest self-interest of the manufacturer in his relationship with the bank? The welfare of the community is best served by the legitimate and genuine prosperity and success of the manufacturer. Anything that advances the true interests of his business, therefore, tends to advance those of the community, and vice versa.

For three years the Federal Reserve Banking System has been in process of establishment. It is not fully organized even as yet; its membership is not complete; its establishment of branches has only just begun; its foreign relationships are only now beginning to be worked out. Domestically it has but just addressed itself with seriousness to its ultimate mission - that of improving the banking and credit conditions under which the business man today lives and works. When we say that the System is fully organized, that it is in working order, that it is rendering yeoman service to the country, that it is affording most valuable aid in the flotation of Government loans, and that in many other ways it has already amply warranted the cost and trouble involved in its establishment, we do not mean that its work is complete. Indeed, as I have already intimated, it has barely begun to perform some of its most important functions.

At the bottom of all better banking and commercial methods in the United States today lies the problem of improved control of credit and the adoption of better methods of issuing commercial paper. It is encouraging that the business men of the country have so promptly interested themselves in this question of better credit and better bank paper. When the Federal Reserve Act was first passed many thought that it was of interest primarily to bankers and that such reforms and improvements as could be introduced would come through the effort of bankers. Experience is showing us more and more that, helpful and necessary as the aid and sympathy of the banker is, we must look to the business man himself for the initiative that will bring about better methods in the two particulars I have spoken of. So, as time goes on, it has been recognized that if there is to be any important improvement in American methods of financing business, the movement must be taken in hand by yourselves. As things have developed, the concrete issue presented to the business public has been this: Are you willing to substitute commercial paper for your open accounts; and will you in this process employ the trade acceptance and banker's acceptance as your media of extending credit? I am happy to know that this question has been answered in the affirmative by some of the most progressive manufacturers in the country. They have set themselves actively to work to adopt this acceptance

paper in actual practice; and, although the movement is thus far very young, it has lasted long enough to make plain the fact that there is a genuine appreciation of what may be done and a genuine disposition to do it. It has, moreover, lasted long enough to show that the use of the acceptance paper is beneficial, and there are many manufacturers who to-day testify to the aid they are realizing from the substitution of acceptances for their open accounts. This is most satisfactory and helpful. It is a real benefit, even from the very narrowest standpoint, that the seller of goods should close up his transactions with an acceptance in this way. He gets a definite recognition of the satisfactoriness of the consignment; he receives an acknowledgment of indebtedness; he simplifies his relationships with the buyer, and in every way he is benefitted. The customer likewise finds himself aided by the new method. He is encouraged to be prompt and efficient in his treatment of his indebtedness. There is, furthermore, every reason why he should, if he wishes, retain all of the advantages of the cash discount system, for the acceptance plan has been so developed as to render this entirely feasible of application. The progress already made deserves high commendation, and warrants us in urging those who distribute large quantities of goods but who have not adopted the acceptance system to go and do likewise.

In this matter, however, as in most that involve forward steps in any branch of business, public, or political activity, there is a tendency to attribute imaginary virtues to

the remedy offered for a particular evil. As a nation, we are prone to over-praise or over-depreciate what we like or dislike. In the trade acceptance movement it has become too much the fashion to speak of the new form of paper as "creating credit" or as "liquefying frozen accounts", or as a means of "rendering dead accounts available". There is no doubt in my mind that these exaggerated claims tend to alienate sound and careful thinkers who would be attracted by a more sober presentation of the case, while, on the other hand, some who take up the new method but find that it hardly fulfills the predictions of its advocates, are disappointed, throw it down and are lost to the movement. On the other hand, the constant insistence upon certain aspects of the trade acceptance which are less important to its real progress than others tends to divert the attention of some who might become interested in it under more favorable circumstances. I think it is worth while, today, therefore, to consider as simply and plainly as I can, exactly what the trade acceptance may be expected to do, and more important still, to indicate the conditions under which alone the full benefit of it can be realized.

Let me first sketch the contrasting conditions under which goods may be disposed of. You may have sold \$100,000 worth of goods to a hundred different buyers, averaging \$1,000 each, who have received the consignments, have found them satisfactory and have

placed them on sale with the understanding on your part that if they remit to you within a given number of days each man shall receive a discount of 3% on his \$1,000 indebtedness, or, in other words, that he will be considered to have liquidated his account in full by sending you \$970. The alternative plan in which the trade acceptance is used involves your asking him to accept a negotiable instrument at the time the goods are received and approved by him. This instrument may be drawn to give him the advantage of the discount or without any reference to discount. Let us suppose that he has given his acceptance for a sum representing the amount of the face of his discounted bill - in this case \$970 - the maturity being the last day upon which his discount would have been available. If this individual pays his acceptance promptly upon the day of maturity, the only difference between the two situations is that during the intervening time the seller of the goods has been in possession of a recognized legal instrument evidencing the indebtedness on the part of his customer. If the seller has held this acceptance in his safe during its life and has merely returned it to his customer upon receiving the latter's remittance, or perhaps has forwarded it to a local bank to be collected of the customer at maturity, the giving of the acceptance under the conditions set forth has not altered the relation of buyer and seller or the relation of either to the banks of the country. If the manufac-

turer who is in receipt of such trade acceptances has continued to finance himself meanwhile by giving "straight single name paper" to his bank his actual business methods have not changed. The same is true of the customer. He may be in the habit of borrowing at his bank in order to enable himself to take advantage of the discount on the goods he buys, and if the maturity of the acceptance is the same as the discount period allowed him, nothing has been done that will alter the amount for which he must habitually resort to his banker. There will have been some change in the accounting systems of both the seller and the buyer, but that is the principal change. To represent the acceptance under such conditions as a radical transformation in business and banking methods, profoundly altering the conditions which govern the sale of goods, would, I think, be a mistake.

Let us take a second case. Suppose that the manufacturer who has been in the habit of obtaining \$100,000 worth of advances from his bank upon his own single name paper now takes to his bank acceptances amounting to \$100,000 which he offers there for discount. Is there or is there not any reason to suppose that his relationship to the bank will thereby be altered as compared with its former status? In some quarters there seems to be a suggestion that whereas under the older conditions the manufacturer might be able to obtain from the banker credit of only say 75% to 80% of the value

of his outstanding accounts, he will be able to discount the whole of his acceptances up to face; - that is to day, he will be able to obtain \$100,000 of credit where he formerly obtained only \$75,000 or \$80,000. If this suggestion be sound, it would mean that a method had been discovered for enlarging by one-third to one-fourth the total amount of credit at the disposal of business men, or in other words, that the business man, without possessing greater assets than before, had enlarged his borrowing power by one-third to one-fourth. Can this be true? The question is one which goes to the root of the whole matter and which is primarily to be answered from the standpoint of banking practice. What is it that determines the banker in any given case to advance funds? As a rule the careful banker makes his advance only after the most minute scrutiny of the statement furnished him by his customer or by the accumulation of credit data from many other sources. He does not want to restrict the credit of his customer unduly; on the contrary, he is usually only too anxious to find a borrower who, he feels, can safely be entrusted with funds. His purpose is to establish a "line" of credit up to which he can safely and wisely loan. When the trade acceptance is offered to him it is on the surface a primary obligation of the acceptor, and the indirect obligation of the drawer. The banker in the case I have described probably has little idea of the acceptor's position or

circumstances. The manufacturer may have sent agricultural machinery to some small retailer in the Far West. The manufacturer knows from long years of experience that the retailer is honest and trustworthy, but the banker has no knowledge of him and could probably get such knowledge only by an investigation made through a local bank. When the bank discounts the trade acceptance for the manufacturer, therefore, it looks to him just as before to reimburse it. There is no reason why it should give to the manufacturer more credit than he formerly had.

Now let us take a third case. The manufacturer or shipper has decided to make arrangements with local bankers at the places where the buyers of goods are resident, to extend him the credit he desires. The buyer who accepts is, therefore, asked to make the acceptance payable locally, and the acceptance may be presented by the local bank and left in its hands until maturity, the local banker meanwhile remitting the face of the acceptance less discount to the shipper. Here the local banker has purchased or invested in the local commercial paper of his community. He is, or should be, in good position to make such an investment with safety to himself, because of his knowledge of local conditions. It may be that the purchaser of the goods, who is expected to give the acceptance, is already a customer of the bank. In such event, the discounting of the acceptance may result in altering the form of the credit which

he will find it necessary to ask in any event, since he may be in the habit of going to his bank for funds with which to take up his outstanding bills at a time that will enable him to obtain the discount. The introduction of the trade acceptance has not in such a case resulted in increasing the amount of credit extended, but has merely altered its location, either shifting it from the manufacturer's bank at the point of production, to the purchaser's bank at the point where the goods have been received, or else perhaps merely lengthening the time for which the local institution which presented it to the buyer would in any case have carried the obligation. The advantage of the plan is found in the better distribution of credit, the greater certainty of getting accommodation where many banks are thus employed and generally in the wider and more satisfactory organization of business upon lines of recognized commercial accommodation.

The benefits of the plan to the smaller producer or business man are evident when the buyer of the goods is better known than the shipper. If, for example, the Standard Oil Company or the International Harvester Company has purchased goods from a comparatively unknown seller to be paid for in cash, say, 30 days after receipt of the consignment, the shipper would be greatly profited if he could offer to the bank the acceptance of the purchaser of the goods. Such paper would inevitably receive the rate accorded to the well known purchaser, rather than the rate charged by the

local bank to the comparatively unknown seller; while he may likewise get distinct advances through the action of the seller in according him a lower price for the goods. One result of such an arrangement is to give to the seller of the goods, whoever he may be, the benefit of the better credit facilities that naturally grow out of the transaction, whether they be those that are produced by the name and standing of the manufacturer, or by those of the buyer. This suggests a thought that has not figured very prominently in the trade acceptance discussion thus far - namely, that it is a poor rule that will not work both ways. Some concerns which have "adopted the trade acceptance" seem to mean that they have required their customers to give them trade acceptances, but do not mean that they have themselves adopted the plan of giving trade acceptances to others. And yet a thorough going and impartial adoption of this method of settlement is necessary if it is to be successful. A plan whereby the small and doubtful customer gave trade acceptances, but the large and "gilt edged" buyer of raw material of other products never gave them but insisted upon the old style open account plan, would hardly promote the standing of the trade acceptance, but would be far more likely to impair it. This thought should be commended to those who are in the habit of suggesting that the business man employ both the trade acceptance and the single name method of financing. Apparently some of these believe that the

acceptance plan should be employed in those cases where the credit is somewhat questionable and calls for the introduction of a legal instrument, while it may safely be dispensed with in those cases where credit is known and established and where the borrower's recognized standing enables him to obtain a good rate from his bank under all conditions.

If the local bank can be induced to give its own acceptance in place of the actual purchaser of the goods, protecting itself when necessary by some special arrangement with the buyer, the credit situation is still more satisfactory than it otherwise would be. The local bank has probably better facilities for informing itself regarding the credit status of its customers, than any other institution can possibly have, and if it determines to assume the legal responsibility for the payment of the bill at maturity, it will be still more careful in determining upon its course of action. Its decision in the matter will afford an unmistakable evidence of the opinion locally entertained with respect to the credit of particular individuals, beside placing the responsibility for the credit instrument definitely at the point where the goods are now owned, and where the proceeds from their sale will presumably be received. This method of managing the discount transaction is obviously the one to which the trade acceptance is adapted, and represents part of a banking and credit

system to which the acceptance idea generically belongs. It is the plan of financing that is followed in other countries.

All this merely amounts to an elaborate statement of the fact that the trade acceptance is a method and not a material. It is a way of conducting credit relations, not a philosopher's stone for the manufacture of wealth or credit where it did not exist before. Inasmuch as it is essentially a method of financing or of securing credit, it must be applied systematically, sincerely and consistently in order to attain general success.

This analysis makes it clear that the trade acceptance from the banking standpoint is valuable only as it produces a direct effect upon the distribution of credit and lending power. If it proves a method of promoting the investigation of credit and ensuring a wiser and better use of bank funds and a strengthening of the credit structure generally it has an interest whose service can hardly be exaggerated. But, as has just been shown, this service can be rendered only by altering the distribution of accommodation, and the division of labor involved in passing upon and adjusting credits. That such a redistribution is desirable, if not essential, to the proper reorganization of our business system, many have long since recognized. Where the manufacturer or distributor asks for the trade acceptance, it is then re-mailed to him by the buyer at a great distance. The trade acceptance travels back to the point from which the goods were shipped, and may then be held for a longer

or shorter period of time; according to its maturity, at the end of which it must again start upon its travels for presentation and cancellation at the place where it was originally accepted. The proceeds of the acceptance must in like manner be remitted by the shipper to the seller, while in the meanwhile the goods which constitute the basis of protection against the acceptance are held and disposed of by the buyer at the point of distribution.

The European plan, whereby the local banker accepts the bill at the point to which the goods have been shipped through arrangements with the buyer not only places the problem of determining the buyer's credit in the hands of the local banking interests which are closest to him, but it would also shift to the bank the function of furnishing the funds that were needed when the time came to settle the acceptance. The local banker almost necessarily supplies the funds that were needed to carry the individual merchant in any case, but the thoroughgoing adoption of the acceptance system would give a far deeper insight into the affairs of the business man and a far closer relation to him than he could otherwise obtain. The shipper of the goods meanwhile would have secured himself definitely and positively against loss on the goods which he had thus shipped against a local banker's acceptance. Even if it should for the present prove too novel a step to obtain bankers' acceptances in the way just indicated there is at least the easy

possibility of placing the trade acceptance of the local banker for discount and collection, and thus of effecting at all events the secondary object of the acceptance system - that of ensuring a wide distribution of discounts among the bankers of the country, and so far as possible the holding of local paper by institutions situated in the communities where it originates.

You may reasonably ask what advantage there is to be gained in making a transformation of method that would involve so many obstacles and so much genuine hard work as would this. The advantages of the trade acceptance from the narrowest standpoint have been so often set forth that I do not need to repeat them. I am now speaking of the help to be realized from the broader and more thorough application of the underlying principle of the acceptance. In a general way it directly aids the manufacturer and shipper by diminishing the extent of his dependence upon the bank. He does not need to ask for the favor or support of any single institution. He gets the assistance of every institution whenever he is able to present paper evidencing the existence of a bona fide commercial transaction. Better still, he enables his customer (if the idea of the bank acceptance has been carried through in good faith, as already explained) to finance himself at his own bank, and thereby he eliminates long range credits and the necessity of costly and

elaborate investigations of credit on his own part. He is able to reduce the cost of the goods to the buyer whenever that buyer is in position to present him with an acceptance that guarantees him against loss, because he is thereby able to avoid any necessity of ensuring himself against bad debts by making excessive additions to the selling price of the commodity he is disposing of. He will succeed in eliminating from the business of the country a large element of bad credit, and in habituating the banks of the nation to the extension of credit upon uniform terms whenever there may be submitted to them concrete evidence of the existence of a real transaction warranting the extension of such credit. In the long run both producer and banker will make great savings in this way. There is nothing in the plan that in any way interferes with or necessitates the discontinuance of the cash discount system, although it permits the elimination of that system more easily and with less friction than any other plan that has heretofore been devised.

Is not this an improvement in business practice well worth contending for? The fact that so many able business firms are already recognizing the merits of the trade acceptance, even upon the incomplete and partial basis upon which it has thus far been applied plainly suggests an authoritative answer. The new

- 17 -

system still has a long and difficult road to travel, for, as I have suggested, it is not merely the formal adoption of the method but the incorporation of it into actual financial practice that will bring results. That these results can be obtained only by a process of some length and difficulty is merely another way of stating that no good thing and no great reform is likely to be secured without paying its price in one way or another.

5/15/17

3878

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

X-143 ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 15, 1917.

Dear Sir:

This is to remind you that copy for your report of business conditions to be published in the Federal Reserve Bulletin for July should be in the hands of the Board not later than Saturday morning, June 23d.

Very truly yours,

Secretary.

3075

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
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AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

X-144

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 15, 1917.

Dear Sir:

Will you for our files kindly send us at your earliest convenience your home address, in order that we may be able to make use of it in writing you under conditions of emergency.

Very truly yours,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
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COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-145

May 15, 1917.

Dear Sir:

By direction of the Federal Reserve Board
I inclose herewith copy of a letter recently re-
ceived from the Judge Advocate General's office,
and also a copy of the Bulletin of Information ac-
companying the same.

Respectfully,

Secretary.

Inclosures.

War Department
Office of the Provost Marshal General
Washington

BULLETIN OF INFORMATION

Concerning Registration and Conscription under
So-called Draft Act.

Concerning the Selective Service Bill, the plan for registration briefly stated is as follows:

The registration in each state will be under the direction of the Governor thereof.

The Governor will appoint County Registration Boards which will ordinarily be composed of local officials. These boards will, in turn, appoint registrars in each voting precinct, in the proportion of one registrar for each eighty men to be registered. Cities having a population of thirty thousand or more will be registered by City Registration Boards. All applications for positions, or offers of services in connection with the registration, should therefore be made to the Governor or to county or city officials.

Many inquiries are being made, not only by individuals but by various classes of religious sects, manufacturers, etc., regarding exemptions to be made under the proposed law. To such inquiries it is necessary to reply that the Selective Service Bill has not yet passed Congress and it is impossible to say just what exemptions will be provided for by law and regulations. Boards of tribunals will be appointed for the purpose of passing upon individual cases where exemption is provided for.

There is no lack of appreciation of the desirability of continuing without interruption, persons engaged in occupations necessary to the supply of our military needs or the maintenance of the national interest, and our guiding principle must be to make the draft in such manner as to secure the greatest efficiency, while, at the same time, distributing the burdens of war.

-2-

The law and regulations will make provisions for the protection of dependent relatives. It is manifestly impracticable to pass upon special cases at this time.

As soon as the bill becomes a law, the President will issue a proclamation requiring all males between certain designated ages to present themselves for registration upon a day to be prescribed by him. From those so enrolled the first draft will be made. It is estimated that there will be enrolled about one million men of each age. In other words, if Congress should fix the age limits from twenty-one to twenty-seven, inclusive, seven millions would be registered. Should the age limits be extended the total number registered would be approximately one million multiplied by the number of annual classes. It is apparent that the first draft will call for but a small proportion of those enrolled. Of course, all males outside of the prescribed age limits, in addition to a majority of those enrolled, will remain available for peaceful pursuits.

Provisions for the registration of absentees, the sick, those residing on military reservations, Forest Reserves, Naval Training Stations, etc., and those who may be at sea, or those without the continental limits of the United States, will be set forth in regulations to be issued as soon as the law is enacted.

It will be the endeavor of the War Department to coordinate the man-power of the country so as to place each man where his services will be most useful.

Immediately upon the passage of the bill full and complete information and instructions will be given to the public.

E. H. CROWDER,
Judge Advocate General.

X-145^b

War Department
Office of the Provost Marshal General
Washington

May 12, 1917.

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

Dear Sir:

Replying to your letter of May 5th, addressed to the Secretary of War and enclosing a communication from Deputy Governor R. H. Treman of the Federal Reserve Bank of New York, you are informed that the selective draft bill now before Congress authorizes the President to "exclude or discharge from the selective draft or to draft for partial military service only, persons engaged in industries, including agriculture, found to be necessary to the maintenance of the Military Establishment or the effective operation of the military forces, or the maintenance of national interest during the emergency."

"No exemption or exclusion shall continue when a cause therefor no longer exists."

As the Bill now stands, the age limits are fixed from twenty-one to thirty inclusive, as you no doubt are aware.

The law further authorizes the President to exempt such persons employed in the service of the United States as may, in his discretion, be desirable.

For your further information I am inclosing herewith a bulletin issued from this office. It may enable you to answer many of the questions arising with respect to registration and draft.

Very truly yours,

E. H. CROWDER.
Judge Advocate General.

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

FEDERAL RESERVE BOARD
WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN T. JACOBSON, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 15, 1916.

Dear Sir:

The use of gold coin in machines for counting money has caused quite a serious abrasion of the gold coin thus counted, resulting in considerable loss. It was with a view of avoiding this result, and in order to provide the community with a more convenient medium of circulation, that the gold certificate as a substitute for gold was authorized by law. Gold in circulation in the United States, therefore, means, principally, gold circulating in the form of the gold certificate, gold coin having pretty generally disappeared from circulation except in certain parts of the country, such as the Pacific States, where it is below the limit of tolerance and cannot be returned to the Mint except at a considerable loss to the holder. Under this natural process, gold has found its proper lodgment in banking reserves, and in the trust fund held by the Government to protect the gold certificates which it has issued, and seldom appears except in the settlement of international payments, where no other form of money is acceptable. It seems highly undesirable to disturb this situation by extending the use of gold coin as currency, a practice which has latterly been much promot-

ed by the use of mechanical machines for counting coin.

The manufacturers of coin counting machines will undoubtedly make a strenuous protest against the enforcement of any order forbidding or discouraging the use of their machines for counting gold coin, but when the matter is explained to them they ought to see the importance of protecting the country's gold supply and discouraging the wasteful use of gold for payrolls, especially when it is remembered that the recipient of gold coin would in most cases much prefer paper money. Of course, it is unnecessary to say that coin counting machines are very valuable in counting silver money, and their use in this way is in no way objected to, silver coinage being accepted by tale and not by weight.

It is suggested that the banks of your district be invited to point out to corporations or firms of their district using these coin counting machines that they should forego the slight advantage or greater convenience derived from the use of gold in making up their payrolls, in view of the loss such use causes to the country by the abrasion involved and by the keeping in circulation of gold which, if held by the Federal Reserve Banks, would add to the greater credit power of the country.

Very truly yours,

Vice Governor.

X-149-

DEPOSITS OF GOVERNMENT FUNDS REALIZED FROM THE SALE OF
 UNITED STATES BONDS AND CERTIFICATES OF DEPOSIT
 UNDER AUTHORITY OF THE ACT APPROVED
 APRIL 24, 1917.

TREASURY DEPARTMENT,

1917.

Office of the Secretary,

Department Circular No. _____

Washington, May _____, 1917.

.....
 Division of Public Moneys.

To Federal Reserve Banks, National Banks, State Banks
 and Trust Companies which have been or may be designated as deposi-
 taries of funds realized from the sale of bonds and certificates
 of deposit issued under authority of the Act approved April 24, 1917.

LOCATION AND PURPOSE OF DEPOSITS.

Under authority of the Act approved April 24, 1917,
 it is proposed to designate as Government depositaries National
 Banks, State Banks and Trust Companies which are under obligation
 to pay as much as \$100,000 on June 28th on account of subscrip-
 tions to bonds issued under authority of that Act.

In vesting in the Secretary the authority to designate
 such banks and trust companies as depositaries, Congress intended
 to provide a means by which bonds and certificates might be paid
 for without the immediate transfer of large amounts from
 the vaults of the subscribing banks to the Treasury or to the

Federal Reserve Banks. In conformity with this purpose those banks will be designated which by reason of their own or their customers subscriptions will be under the necessity of paying to the Government a reasonably large proportion of their cash resources.

DESIGNATION OF ACCOUNT.

Each bank designated will be required to open and maintain a separate account to be known as the United States Deposit Liberty Loan Account.

HOW DEPOSITS SHALL BE MADE.

Deposits will be made in this account by the Federal reserve bank of the district in which the depository bank is located, acting as the fiscal agent for the Government.

AMOUNT OF DEPOSIT.

Deposits made in this account can in no case exceed the total amount of subscriptions to bonds made by the depository bank for its own account or for the account of its customers.

COLLATERAL SECURITY ACCEPTED.

As security for such deposits banks receiving same must deposit with the Federal reserve bank of their district United States bonds or certificates of indebtedness of the United States Government of any issue equal at par in amount to at least 25 per cent of the amount of the deposit. Such bonds or certificates will be accepted at par. The remaining 75 per cent may be secured -

-3-

(a) Bonds of the United States Government of any issue, including Treasury certificates of indebtedness, and bonds of the Liberty Loan and interim certificates therefor; and bonds of the Philippine Islands, Porto Rico, and the District of Columbia; all at par;

(b) $3\frac{1}{2}\%$ bonds of the Territory of Hawaii at 90% of par; and other bonds of said territory at market value not exceeding par;

(c) Bonds of the Manila Railroad Company at 90% of market value, not exceeding 90% of par;

(d) Bonds of any State of the United States; bonds issued under the United States Farm Loan Act at par; and dollar bonds and obligations of foreign governments (and of the dependencies thereof) engaged in war against Germany and issued since July 30th, 1914, to be taken at 90% of the market value thereof, not exceeding 90% of par;

(e) County and city bonds which are direct obligations of the County or city as a whole, at 75% of the market value thereof, not exceeding 75% of par;

(f) High grade railroad mortgage bonds secured by direct lien upon lines of railroad within the United States, at 75% of the market value thereof, not exceeding par; but not including any such bonds which shall be selling at a market price to yield more than $5\frac{1}{2}\%$ if hold to maturity according to standard tables of bond values;

(g) by prime commercial paper eligible for rediscount or purchase by Federal reserve banks which has been approved by the Federal reserve bank of the district in which the depository bank is located.

SECURITIES COMMITTEE.

The Secretary of the Treasury will appoint in the manner hereinafter provided committees to be known as Securities Committees in such cities as he may deem necessary in each Federal reserve district. The Securities Committee shall consist of six members, three of whom shall be nominated by the Federal reserve bank of the district, and three shall be members of and shall be nominated by the local Clearing House Association.

CUSTODY OF SECURITY FOR DEPOSITS.

All securities accepted as collateral security for deposits made under authority of the Act of April 24, 1917 must be deposited with the Federal reserve bank of the district in which the depository bank is located, or with a custodian appointed by the Secretary of the Treasury. The Secretary of the Treasury may designate a member or members of the Securities Committee or some bank or trust company as custodian. The custodian so appointed may be required to execute a bond in a penalty to be fixed by the Secretary, and in no case to be less than the face

value of the securities deposited. The condition of this bond shall provide for the safe keeping of such securities and the delivery of the same to the party or parties entitled thereto upon the direction of the Federal reserve bank of the district acting as fiscal agent of the Government. All securities held as collateral security for deposits either by a Federal reserve bank or by a custodian, selected as herein provided, shall be kept under seal in a safe deposit box or safe, separate from all other papers and securities. The safe deposit box or safe used by custodians other than Federal reserve banks shall be located in a fireproof vault or building approved by the Securities Committee, and the seal on the box or package containing securities held by such custodian shall be broken and securities removed only in the presence of a committee of not less than two, to consist of a representative of the custodian designated and a representative of the bonding company.

HOW DEPOSITS ARE TO BE OBTAINED.

Any bank or trust company desiring to be designated as a depository and to receive deposits under the provisions of this circular shall proceed as follows:

(1) It shall make application to the Secretary of the Treasury through the Federal reserve bank of its district for such designation (on Form A, Liberty Loan.)

(2) Five days before any instalment is due on subscriptions to bonds or certificates of indebtedness made by the applying bank for its own account or the account of its customers,

it shall file with the Federal Reserve Bank of its district an application (on Form B, Liberty Loan) for the deposit with it of any part of the instalment about to become due. If the securities offered are approved by the Committee of Directors of the Federal Reserve Bank appointed for that purpose, they shall be deposited with the Federal Reserve Bank or with the custodian appointed by the Secretary and the applying bank shall thereupon be authorized to transfer to the United States Liberty Loan Deposit Account the amount of such instalment upon the date it becomes due and shall hold the same subject to the orders of the Federal Reserve Bank acting as fiscal agent of the Government.

Where the applying bank is located in one of the cities designated by the Federal Reserve Board or where it is nearer to such city than the Federal Reserve City of its district, its application may be filed with the Securities Committee, and shall be transmitted to the Federal Reserve Bank with the recommendation of that Committee.

EXCHANGE OF SECURITIES.

Banks desiring to exchange securities must submit to the Federal Reserve Bank or to the nearest Securities Committee a list of offerings at least _____ days before the maturity

of any securities it desires to withdraw. The list of securities offered in exchange will be handled in the same manner as the list of original offerings. The time necessary to transmit such list to the Federal Reserve Bank should be taken into consideration in submitting all lists of securities, and ample opportunity should be given to obtain the approval of the Federal Reserve Bank.

COLLATERAL MATURING IN CUSTODIAN'S POSSESSION.

Should any note mature while in the possession of the custodian, it should be presented for payment by such custodian or his or its representatives at the bank at which it is payable on the date of maturity, provided such note is payable at the depository bank or some other bank located in the same city. If, however, such note is payable in some other city, the custodian should present it for payment to the depository bank at least five days before maturity, so that the depository bank may have ample time to forward it for collection. All moneys collected by the custodian or by the Federal Reserve Bank for payment of collateral securities held to secure deposits shall be deposited to the credit of the United States with the Federal Reserve Bank and shall be treated as a withdrawal of that much of the funds on deposit with the depository bank.

WITHDRAWAL OF DEPOSITS.

All deposits will be payable on demand and without previous notice, but in order to prevent financial disturbance the Federal Reserve Bank will, wherever it is possible, give reasonable notice in advance

of contemplated withdrawals. Upon withdrawal of funds by the Federal Reserve Bank a proportionate amount of collateral security will be surrendered to the depositary bank. Paper having the earliest maturity will be surrendered in such cases, unless in the opinion of the Secretary a variation of this rule should be made. The Secretary reserves the right to call for additional security at any time when in his opinion it may be desirable. Eligible commercial paper held by a Federal Reserve Bank or by a custodian as security for deposits may be tendered for rediscount by direction of a depositary member bank to the Federal Reserve Bank in order to meet demands made for payment of such deposits. Such paper shall in all cases bear the endorsement of the depositary bank.

Any securities held by a Federal Reserve Bank or custodian as collateral security for deposits may also be tendered to the Federal Reserve Bank, by direction of the member bank as collateral security for loans evidenced by the 15-day note of the member bank provided the proceeds of such loans are to be used to pay deposits held by the depositary bank which secures the loan from the Federal Reserve Bank.

INTEREST AND EXPENSES OF DEPOSITS.

The depositary bank will be required to pay two per cent interest on the average balance maintained during the period of the deposit and must in addition pay such expenses as are incident to

such deposit- that is to say , all expressage or transportation charges, premium or custodian's bond , cost of custody, if any, telegraph and telephone tolls, and any other expense growing out of or incident to such deposit.

May 16, 1917

LIBERTY LOAN CONFERENCE: THURSDAY, MAY 17, 1917.

MEETING OF REPRESENTATIVES OF RESERVE BANK COMMITTEES .

Suggested Topics for Discussion

-----oOo-----

The Conference might profitably be divided into two divisions, or committees; the first to consider all subjects related to the technical banking details concerning payments of subscriptions, designation of Government depositaries, delivery of interim certificates and definitive bonds, etc., and the second to consider subjects bearing upon the general questions of publicity, distribution of the bonds, organization of selling campaigns, etc. The topics suggested below have accordingly been grouped under the two heads, "TECHNICAL TOPICS", and "GENERAL TOPICS."

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TECHNICAL TOPICS.

1. General outline of plan suggested.
2. Banking institutions (other than F. R. banks)
 - a. Applications received from customers.
 - b. Advice to the Federal Reserve Bank.
 - c. Allotments.
 - d. Payment of subscriptions (full paid - part payment)
 - e. Receipt and delivery of securities.
 - f. Suggested records.
3. Federal Reserve Banks.
 - a. Receipt of subscriptions. (Direct from individual subscribers.
(From banking institutions.)

-2-

- b. Issue of temporary receipts for 2% payment
- c. Allotments - notice to subscribers upon receipt of telegraphic advice from Secretary of Treasury.
- d. Interim certificates. Denominations - full paid, part paid, Registered. - Bearer - etc.
- e. Payments - Dates - Amounts.
 - 1. Use of Treasury certificates - 2% payment - subsequent payment - or in full.
 - 2. Advice to subscribers as to funds acceptable for cash payment.
 - 3. Request to subscribers of large amount for advice five days prior to date of payment as to form in which payment will be made.
 - 4. Request to member banks to advise five days prior to due date, as to what, if any, paper will be offered to the reserve bank for purchase or discount.
- f. Subsequent instalments. Payments. Issue of interim certificates.
- g. Delivery of definitive bonds - Bearer - Order - (Assignable) - Insurance on shipments.
- h. Suggested records and forms.
- i. Internal operation:
 - 1. Supervision - appointment of officers with limited signing powers.
 - 2. Clerical organization.
 - 3. Floor space.
 - 4. Vault facilities.
 - 5. Equipment.
- j. Expenses of operation.

4. Office of Secretary of the Treasury.
 (Division of Loans and Currency)

- a. Subscriptions - Daily report and summary from Federal Reserve Banks.
 - 1. Number and amount by denominations of subscriptions to be paid in full ~~January~~ 28, 1917.
 - 2. Number and amount by denominations of subscriptions to be paid by instalment.

-3-

- b. Other information and reports to be required.
- c. Advice of allotments granted.
- d. Issue of interim certificates - full paid, part paid - bearer, order (assignable) - registered.
- e. System of control in delivery to reserve banks of definitive bonds.
- f. Registered definitive bonds.

GENERAL TOPICS.

1. Organization.

- a. General committees)
- b. District committees) SUB-COMMITTEES.
- c. Local committees)

2. Publicity.

- a. Cooperation with advertising and publicity managers.
- b. Use of newspapers and magazines.
- c. Use of pamphlets, circulars and posters.
- d. Public meetings, educational campaigns.
- e. Suggestions as to best plans for arousing interest and enthusiasm.

3. Distribution.

Cooperation with bond-distributing houses.

- 1. Banks
 - Loans and rates
 - Safekeeping
 - Bank employes
 - Use of Treasury certificates to help sale
- 2. Bond Houses
 - Mobilize salesman for common good.
- 3. Employers
 - Subscribe and sell in instalments to employes
- 4. School lectures and talks.
 - "Daddy! Buy a bond"
- 5. Churches.
 - President's Proclamation.
 - Cardinal Gibbons, etc.
 - Church societies.
- 6. Municipal employes.

7. Fraternal Societies.8. Department and other stores.

Not retail drygoods association.

9. Public utility companies having large mailing list. (Circular or card to be enclosed with monthly bills).4. Cooperation with Committees in other Federal reserve districts.

- a. Adoption of uniform plans wherever practicable.
- b. General use of similar pamphlets and posters.
- c. Plan to keep informed as to campaign in other districts through exchange of circulars, bulletins, etc.

5. Adoption of distinctive slogan for general use stationery -

Newspapers, etc. "Buy Liberty Bond - Do it now".

6. Suggestion by New York Committee.

Distinctive button for those engaged in work - Liberty

Loan Committee.

FORM "A" - LIBERTY LOAN.

To the Secretary of the Treasury,
Washington, D. C.

S i r :

I am directed by the Board of Directors of the _____
name of bank or
_____ of _____ to request you to designate it
trust company location
as a Government depository under authority of the Act approved April
4, 1917.

Respectfully,

name of bank or trust company.

Title.

CERTIFICATE OF FISCAL AGENT.

The foregoing _____ has applied for
bank or trust company
an allotment of United States bonds issued under authority of the
Act approved April 24, 1917, for itself or its customers in the
aggregate amount of \$ _____.

Federal Reserve Bank of _____

By _____
Fiscal Agent for United States.

CERTIFICATE OF APPROVAL.

The foregoing application is approved and the _____
_____ of _____ is hereby designated as a Govern-
ment depository under the authority of the Act of April 24, 1917.

Secretary of the Treasury.

To the Secretary of the Treasury,
Washington, D. C.

S i r :

Pursuant to a resolution duly adopted _____ 1917,
by the Board of Directors of _____ of _____,
and in accordance with the terms and conditions of Department Circular
No. _____ dated _____, and signed by the Secretary of the
Treasury, application is hereby made for a deposit of \$ _____.

As collateral security for such deposit the Board of Direc-
tors of this Association has authorized the deposit of securities de-
scribed in the within attached list.

_____ of _____
by _____
Title.

CERTIFICATE OF SECURITIES COMMITTEE.

We, the undersigned, members of the Securities Committee, ap-
pointed for the purpose of passing upon securities offered as collat-
eral security for Government deposits, to be made in accordance with
Department Circular No. _____ above referred to, do hereby certify
that we have examined the within attached list of securities which
are offered as collateral security for the deposit of \$ _____
_____ of Government funds.

We have this day approved same and recommend to the Federal
Reserve Bank of _____ that such securities be accepted.

it being the opinion of the Committee that they will furnish a full and complete security to the Government for the payment of such deposit.

Securities Committee.

X-153-

CERTIFICATE OF APPROVAL OF FISCAL AGENT.

The foregoing application is hereby approved. Upon deposit with _____ of the securities listed and described, the applying bank is authorized to transfer to the United States Liberty Loan Deposit account the sum of \$ _____ to be held subject to withdrawal on demand. Notice that such transfer has been made will be accepted as payment of that amount on the instalment due _____ by the applying bank on its subscription to United States bonds issued under authority of the Act of April 24, 1917.

Federal Reserve Bank of _____
by _____
United States Fiscal Agent.

CERTIFICATE OF CUSTODIAN.

The securities described in the within attached list have been this day received from _____ of _____
_____ to be held as collateral security for the deposit of Government funds in accordance with Government Department Circular No. _____.

Custodian.

X-154-

INSTRUCTIONS.

Three original copies of this application should be filed with the Federal reserve bank or with the Securities Committee nearest the place of business of the applying bank. If filed with a Securities Committee it should be transmitted promptly to the Federal reserve bank with the recommendation of that Committee. If the securities offered are approved the Federal reserve bank should notify the applying bank to deposit them with it or with a designated custodian. If deposited with a designated custodian, two copies of this application should be forwarded by the Federal reserve bank to the custodian and upon receipt of the securities described one copy of this application should be delivered to the applying bank with the custodian's receipt duly executed and one copy should be retained by the custodian. The Federal reserve bank should in all cases retain one original in its possession. If securities are filed with the Federal reserve bank it should execute the custodian's receipt and deliver a copy bearing this receipt to the applying bank.

May 17, 1917.

EX OFFICIO MEMBERS
—
WILLIAM G MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W F GARDNER GOVERNOR
PAUL H WARBURG VICE GOVERNOR
FREDERIC A DELANO
ADOLPH C MILLER
CHARLES S HANLIN
—
H PARKER WILLIS SECRETARY
SHERMAN F ALLEN ASST SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD
WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 18, 1917.

Dear Sir:

With the view of assuring uniform accounts and statements on Form 34 of Federal reserve bank drafts, Federal reserve exchange drafts and Federal reserve transfers sold, the following suggestions are made, which I would thank you to bring to the attention of your transit and auditing departments:

1. Federal reserve bank drafts (Liability item "CALK" on Form 34) should be used to designate gross amounts of drafts drawn on the reporting Federal reserve bank by other Federal reserve banks, of which the reporting Federal reserve bank has received advice but which have not yet been presented for payment. Upon receipt of advice the bank should credit item "CALK" and charge item "BRAG" When the draft is actually paid the bank will charge item "CALK" and make appropriate credit entry. At the time the draft is issued it will be necessary for the drawing Federal reserve bank to credit "Federal reserve banks - transfers sold"(See paragraph 2 below) and make appropriate charge. At the expiration of the period fixed by the banks' time schedule, the drawing bank will credit "Due to other Federal reserve banks - collection funds" (Item "CHOP") and charge "Federal Reserve bank - Transfers sold."

2. Federal reserve banks - transfers sold, in replacement of item "Dividend checks" on Form 3¹, should be used to designate gross amount of funds available as the result of transfers sold. Corresponding item on the asset side "BAIT" (Federal reserve banks - transfers bought), should represent gross amount of transfers bought from member and non-member banks.

3. Federal reserve exchange drafts. It will be necessary for Federal reserve banks to insert on the liability side of Form 3⁴ new item "CROP" to follow item "CALK", to be designated as "Federal reserve exchange drafts". Referring to our circular letter of April 20, and exhibits attached thereto. Upon receipt of advice from the drawing (Waco) bank that it has drawn F. R. exchange drafts, the F. R. Bank of Dallas will charge the Waco bank's reserve account and credit liability item "F. R. exchange drafts". When the draft is received by the drawee (Dallas) bank, it will charge liability item "F. R. exchange drafts" and credit "F. R. banks - Collected funds". The paying F. R. bank will credit the depositing member bank's reserve account and charge item "BARK" (Federal reserve banks - other items) on the asset side.

4. Federal reserve transfer drafts. It will be necessary for the F. R. banks to set up on the liability side of Form 3⁴ a new item "CULP", to follow new item "CROP", this new item to be designated as "Federal reserve transfer drafts". Upon receipt of advice from the drawing (Waco) bank that it has drawn F. R. transfer drafts,

the F. R. Bank of Dallas will charge the Waco bank's reserve account and credit "Due to Federal reserve banks - collected funds", telegraphing the F. R. bank at which the draft is made payable. The latter will then charge "Due from Federal reserve banks - collected funds" and credit "Federal reserve transfer drafts", and upon presentation of the draft will credit the depositing member bank's reserve account and charge "Federal reserve transfer drafts".

The above suggestions do not imply the necessity for the Federal reserve banks to set up special exchange accounts with each of the other F. R. banks. It will be sufficient, so far as the Board is concerned, if the banks will set up two general accounts - "Federal reserve exchange drafts" and "Federal reserve transfer drafts", through which the two classes of drafts will be handled, irrespective of the bank on which drawn, or at which payable.

It is also requested in this connection that Federal reserve banks furnish the Federal Reserve Board at the close of each business day, with statement showing the rates at which mail and wire transfers were bought and sold.

Respectfully,

Secretary.

3107

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HANLIN

FEDERAL RESERVE BOARD

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 18, 1917.

Dear Sir:

Referring to recent purchases by Federal reserve banks of U. S. 3 per cent certificates of indebtedness, and with the view of avoiding confusion and diversity of statements, may we request that the Federal reserve banks report to the Board on schedules S-2 the gross amounts of U. S. certificates purchased by them, stating on the same sheets -

- (1) Amounts sold on date of purchase, and not carried to earning assets;
- (2) Amounts not sold on date of purchase, but carried to the bank's earning assets, even though the bank expects to dispose of the certificates on the day following.

Whenever certificates which had been carried to the bank's earning assets are sold, it will be necessary for the Federal reserve bank to send us schedules S-2, descriptive of such sales, regardless of whether the sale has been effected one or more days after purchase.

In order to complete our records of transactions of this class, may we ask you to send us a schedule for the month of April giving -

- (1) Amounts of U. S. certificates bought;
- (2) Amounts of certificates immediately sold;
- (3) Amounts carried to earning assets;
- (4) Amounts sold after having been included among earning assets.

Respectfully,

Secretary.

2405

EX-OFFICIO MEMBERS

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FEDERAL RESERVE BOARD

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 18, 1917.

Dear Sir:

Request has been made by some Federal reserve agents for regular information regarding the important matters which are now pending in Congress and at the Treasury Department in which Federal reserve banks are directly interested. In response to this demand, I have been instructed by the Federal Reserve Board to transmit to you daily, or as often as needful, copies of statements issued here and other matters in which you are likely to be interested and information concerning the progress of legislation in Congress whenever definite information can be had sufficiently early to warrant us in sending it by mail.

In accordance with this plan I hand you herewith:

1. Copies of the amendments to the Federal Reserve Act as pending in the House and Senate. These bills, as you are aware, have been passed by the respective Houses with minor changes, and the Conference Committee is now at work in an endeavor to harmonize them. Further meetings of the Conference Committee have been deferred until Monday next. The so-called Hardwick Amendment, relating to collection charges, is an important topic of consideration at the conference, and many telegrams protesting against its incorporation into the final legislation are now being received by the conferees.
2. Copies of statements issued by the Treasury Department or by the Director of Publicity for the Liberty Loan during the past two days.
3. An outline of topics discussed at the conference of representatives of Federal reserve banks called for consideration of the details of the new loan which assembled in the Board Room on Thursday, May 17.

If there are points upon which you wish to be advised we shall be glad to receive suggestions and so far as practicable will incorporate information regarding such points in the next succeeding letter of information.

Very truly yours,

Secretary.

Enclosure.

3405

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
X-161 FEDERAL RESERVE BOARD

May 19, 1917.

Dear Sir:

May I request that additional expenses in connection with the Liberty Loan be segregated and reported on Form 34 separately from "Expense - Current" against new item "Expense - Liberty Loan", this item to follow item "Disbursements - Transit Department."

Respectfully,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 21, 1917.

Dear Sir:

The Board's attention has been drawn to the fact that some Federal Reserve Banks have recently omitted weekly to submit for the re-approval of the Board the prevailing discount rates, such banks only reporting to the Board when they desire to make a change in some of their rates.

The Board has instructed me to request you to kindly see to it that these weekly reports are not neglected.

Respectfully,

Vice Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 21, 1917.

Dear Sir:

Pursuant to the plan of which you have already been informed, to send you such data as are available from day to day concerning general matters in which you are interested, I hand you herewith:

1. A copy of the official print of the Bill amending the Federal Reserve Act, containing the Hardwick Amendment of the latest form.
2. Copies of statements issued by the Treasury Department stating the progress in connection with the Liberty Loan.

There has been no new development with reference to the conference between the two Houses on the amendments to the Federal Reserve Act, the chairman of the Banking and Currency Committee being absent from the city until to-morrow.

Very truly yours,

Secretary.

Inclosures.

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD
X-165

May 22, 1917.

Dear Sir:

I beg to advise you that there was no session to-day of the Conference Committee of the two Houses which has in charge the Bill making amendments to the Federal Reserve Act. A session will occur to-morrow at 11 o'clock, and at that time it is expected that some conclusion will be reached with reference to the matters under consideration.

I inclose you copies of statements issued by the Treasury Department to-day with reference to the progress of the Liberty Loan.

Very truly yours,

Secretary.

Inclosures.

2413

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

X-167-
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 22, 1917.

Dear Sir :

The Treasury Department suggests that Federal Reserve Banks address to all member banks of their district, a letter substantially as enclosed.

The Department believes that member banks by offering to receive and take in custody Liberty Loan bonds purchased in small amounts by people of their community would render patriotic assistance in the distribution of the loan.

Very truly yours,

Vice Governor.

SUGGESTION FOR CIRCULAR LETTER TO BE SENT BY THE
FEDERAL RESERVE BOARD TO EACH MEMBER BANK IN THE COUNTRY.

LIBERTY LOAN.

To the Member Banks :

It is of the utmost importance that the Liberty Loan bonds now being offered by the Secretary of the Treasury be purchased to the largest possible extent by individuals in order that the resources of the banks may be available for the conduct of the current business of the country. It is realized that in order to accomplish such a distribution these bonds must be purchased by people all through the country who have not heretofore been bond buyers and who for the most part have no facilities for the safekeeping of securities.

The Board, therefore, suggests that you can render patriotic assistance in the distribution of the loan by offering to receive and care for Liberty Loan bonds purchased in small amounts by people in your community, collecting and remitting to them the interest on the bonds as payable, such service to be rendered without charge to the buyer of the bond. We would not recommend that such service be rendered free of charge except for a maximum amount of bonds, say \$5000 par value, and that no other securities should be received and cared for in this way except Liberty Loan bonds.

This service has already been offered by many banks throughout the country. It will be apparent to you that there are collateral advantages to any bank rendering such service in that people will become accustomed to doing business with a banking institution and it is likely that many new accounts will result from such service rendered by you.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
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ADOLPH C. MILLER
~~CHARLES~~ HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 22, 1917.

Dear Sirs:

The task of developing an organization for the successful flotation of the Liberty Loan through the agency of the Federal Reserve Banks has made satisfactory progress. All districts report that the committees organized by the Federal Reserve Banks are actively at work with very encouraging results.

At its meeting to-day the Federal Reserve Board considered the question how Federal Reserve Banks may use their credit facilities to assist in the placing of the Loan, and it was determined that this could be brought about by establishing a special rate for notes secured by Liberty Loan bonds and United States Treasury certificates of indebtedness and by a special ruling applying to facilities to be granted to member banks rediscounting such notes for nonmember banks.

In order that the instalments due on the Liberty Loan may be steadily and gradually anticipated, the Board believes that all the banks of the country should cooperate in accumulating United States Treasury certificates of indebtedness. The purchase of these certificates in advance of the dates on which the Liberty Loan instalments fall due, combined with the plan of re-deposit outlined by the Secretary of the Treasury in Circular No. 79, dated May 16, 1917, will, it is thought, reduce to a minimum any disturbance of the money market that might result from the transfer of the large sums of money employed in paying for the Liberty Loan.

As far as possible all moneys paid in will be returned to the market without delay, in order that there may be no substantial withdrawal of funds from general use. With this policy in operation, it is hoped to avoid any appreciable shortage or contraction of banking funds, even though some time be required for the return of the funds to the usual channels.

To meet temporary shortages which may arise here and there, however, the Federal reserve system should freely render assistance as needed, and it is suggested, therefore, that when the time for the payment of the instalments draws near Federal Reserve Banks establish or maintain liberal rates of discount at

-2-

which member banks may, by rediscounting with the Federal Reserve Banks, recoup themselves for any unusual withdrawals they may have to meet.

The facilities offered by Federal Reserve Banks for the rediscount of 15-day member bank collateral notes, secured by commercial paper or Government securities, should prove of great value in meeting such withdrawals. The rates now established for this class of paper are low, varying between 3 and $3\frac{1}{2}$ per cent in the various districts. Banks should realize that, under present circumstances, it will be their patriotic duty freely to avail themselves of these facilities. They will thus be able to keep money rates easy. Member banks should also be impressed with the importance of making their rediscount arrangements in advance of the dates of payment of the various instalments.

The Board has been advised that many corporations including savings banks have agreed to subscribe to substantial amounts of the Liberty Loan, carrying the bonds for their employes subject to payment in small instalments. It has been suggested that it would be helpful to the banks in placing the Liberty Loan, and particularly in assisting corporations which make subscriptions of this character, if Federal Reserve Banks were authorized to establish a special Liberty Loan rate of $3\frac{1}{2}$ per cent for notes, drafts, and bills of exchange drawn by customers of the banks, including savings banks, having a maturity not in excess of 90 days, and secured by Liberty Loan bonds or United States Treasury certificates of indebtedness. The Board has given this matter its careful consideration and has determined that it will grant such a rate to any Federal Reserve Banks requesting it, good until countermanded or modified.

Consideration has also been given to the needs of non-member banks under present conditions. While the law provides that member banks may not, except with the special permission of the Board, act as agents in rediscounting for nonmember banks, the Board feels that, in view of the magnitude of the task imposed upon all banks of the country, member banks should be permitted to rediscount for nonmember banks, including the savings banks, whenever the proceeds have been or will be used in meeting demands caused by subscriptions to the Liberty Loan. From June 15 to July 15, 1917, subject to further notice, Federal Reserve Banks are, therefore, authorized, for such purposes, to rediscount such

-3-

nonmember bank paper, indorsed by member banks and otherwise eligible, without any further permission from this Board. It is left to the discretion of the Federal Reserve Banks to withhold the facilities whenever they believe that assistance is requested for other than the large objects and purposes to be carried out at this time.

Very truly yours,

Vice Governor.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
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FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
X. 159.
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 25, 1917.

Dear Sir:

I beg to advise you that a meeting of the Conference Committee of the two Houses which has charge of the bill making amendment to the Federal Reserve Act, was held today, and it is understood that an agreement was arrived at. A report will probably be presented to the House and Senate tomorrow, and this will be promptly transmitted to you.

I enclose copies of two statements issued today by the Treasury Department with reference to the Liberty Loan.

Yours very truly,

Secretary.

Enclosures.

TREASURY DEPARTMENT

WASHINGTON

May 19, 1917.

The Governor,
Federal Reserve Board.

S i r :

By direction of the Secretary you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the month of April last, amounting to \$138,159.36, as follows:

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston.....	275,000	155,000	1,000	--	--	431,000
New York.....	939,000	604,000	86,000	20,000	19,000	1,668,000
Philadelphia..	104,000	122,000	32,000	--	--	258,000
Cleveland....	90,000	65,000	95,000	4,000	--	254,000
Richmond.....	36,000	46,000	27,000	--	--	109,000
Atlanta.....	78,000	22,000	19,000	--	--	119,000
Chicago.....	103,000	70,000	61,000	36,000	25,000	295,000
St. Louis....	135,000	29,000	38,000	7,000	--	209,000
Minneapolis..	123,000	30,000	27,000	--	--	180,000
Kansas City..	192,000	52,000	33,000	6,000	2,000	285,000
Dallas.....	25,000	29,000	24,000	6,000	--	84,000
San Francisco	44,000	42,000	34,000	8,000	--	128,000
	<u>2,144,000</u>	<u>1,266,000</u>	<u>477,000</u>	<u>87,000</u>	<u>46,000</u>	<u>4,020,000</u>
	4,020,000 sheets at \$34.368 per M.....					\$138,159.36

The charges against the several Federal reserve banks are as follows:

	<u>Bureau appropriations</u>				<u>Total.</u>
	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials.</u>	
Boston.....	431,000	\$4,700.49	\$6,067.19	\$4,044.93	\$14,812.61
New York.....	1,668,000	18,191.20	23,480.44	15,654.18	57,325.82
Philadelphia	258,000	2,813.75	3,631.87	2,421.33	8,866.95
Cleveland....	254,000	2,770.12	3,575.56	2,383.79	8,729.47
Richmond.....	109,000	1,188.75	1,534.39	1,022.97	3,746.11
Atlanta.....	119,000	1,297.81	1,675.16	1,116.82	4,089.79
Chicago.....	295,000	3,217.27	4,152.72	2,768.57	10,138.56
St. Louis....	209,000	2,279.35	2,942.09	1,961.47	7,182.91
Minneapolis..	180,000	1,963.08	2,533.86	1,689.30	6,186.24
Kansas City..	285,000	3,108.21	4,011.95	2,674.73	9,794.89
Dallas.....	84,000	916.10	1,182.47	788.34	2,886.91
San Francisco	128,000	1,395.96	1,801.86	1,201.28	4,399.10
	<u>4,020,000</u>	<u>\$43,842.09</u>	<u>\$56,589.56</u>	<u>\$37,727.71</u>	<u>\$138,159.36</u>

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation, "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

B. R. NEWTON,

Assistant Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
 WASHINGTON

W. P. G. HARDING, GOVERNOR
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 CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 X-1773 CAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

May 24, 1917.

Dear Sir:

The report of the Conference Committee on the amendments to the Federal Reserve Act was not presented to Congress this afternoon as had been expected, owing to an unexpected delay. The situation is understood to be as follows:

1. The revision of the reserve section follows substantially the House draft, copy of which has already been transmitted to you.
2. The section relating to the issue of Federal reserve notes is under discussion.
 (still
3. The amendments relating to the management of the Gold Settlement Fund and to the status of State bank members of the system have been agreed to in practically the form in which they appear in the Senate bill already in your hands.
4. The Hardwick Amendment is retained but is altered by providing that Federal reserve banks shall not be subject to exchange charges on checks, while the regulation and determination of exchange charges elsewhere is placed within the jurisdiction of the Federal Reserve Board.

I inclose a copy of a statement issued by the Treasury Department under this date with reference to the subscription to the new offering of \$200,000,000 of Treasury certificates.

The Federal Reserve Board has issued a statement with reference to the establishment of a branch of the Federal Reserve Bank of Richmond at Baltimore, as follows:

The Federal Reserve Board has had under consideration the approval of a plan submitted by the Federal Reserve Bank of Richmond to establish a branch in Baltimore. It has informally reached agreement that it will take favorable action upon the proposal, but has deferred formal decision un-

-2-

til such time as it is advised of the action of Congress with reference to the amendments to the Federal Reserve Act now pending before that body, inasmuch as these amendments have a direct bearing upon the case of other cities, the establishment of branches in which is under consideration.

Very truly yours,

Secretary.

Inclosures.

STATE BANK APPLICATIONS - PROCEDURE

May 29, 1917.

1. Upon receiving a request for a blank form upon which to make application for membership in the Federal Reserve System, the Federal Reserve Agent will instruct the applicant institution -
 - (a) To return the application and required exhibits, when completed, to the Federal Reserve Agent
 - (b) To request the State Bank Supervisor to send to the Federal Reserve Agent two certified copies of the report of its last examination, together with a certificate based upon such report, a form of which is hereto attached.
 - (c) To furnish to the Federal Reserve Agent the information called for in the attached memorandum under "General Information Desired."
2. The Federal Reserve Agent will -
 - (a) Immediately notify the Federal Reserve Board of the receipt of the application.
 - (b) Submit the application to Counsel for the Federal Reserve Bank for his certification.
 - (c) If the Federal Reserve Agent and the Governor of the Federal Reserve Bank consider the standard of State examinations to be satisfactory, and a copy of the last report has been furnished, together with the certificate above mentioned, the Federal Reserve Agent will submit the application and other papers in connection therewith to a committee composed of himself, the Governor of the Federal Reserve Bank, and at least one other member of the Board of Directors. No Class A director whose bank is in the same city or town as the applying bank or trust company shall be a member of such committee.

3. If a special examination is deemed necessary by the Committee above mentioned, or later considered desirable by the Federal Reserve Board, the Federal Reserve Agent should proceed -
 - (a) To arrange with the State Supervisor to have the applicant bank examined by a State examiner with the request that he submit a report in duplicate and a certificate of condition; or
 - (b) To arrange with the State Supervisor to have the applicant bank examined by a State examiner jointly with an examiner designated by the Federal Reserve Bank or the Federal Reserve Board. The State Supervisor should be asked to file two copies of the report of examination. If the report of examination to be furnished by the State authorities is voluminous, a digest containing the material items will be satisfactory. The report or digest should contain the examiner's comments and criticisms, a complete list of investments, giving book and current values, based upon the last available quotations, a memorandum of direct and indirect liabilities of officers and directors, and a memorandum of outside corporations under the control or operated in behalf of the applicant bank; or
 - (c) To arrange to have an examination made by a member of the staff of the Federal Reserve Bank who has previously been designated as a special examiner by the Federal Reserve Board. A form of certificate for use by the examiner is hereto attached. Suggestions as to the points to be considered in connection with special examinations will be sent on request to the members of the staff who have been designated as special examiners. If not possible to obtain State examination forms the report should be made on blanks used by the national examiners. An investigation made by a representative of the Reserve Bank should cover a detailed examination and report of the investments, loans and discounts with particular attention paid to the

credit standing of borrowers and the valuation of investments and collateral; or

(d) If the applicant bank is subject to periodical examinations by a clearing house examiner, and a comparatively recent examination has been made, the Reserve Bank Committee may authorize the applying bank to file the report of such examination, with a memorandum of the material changes to date of application.

4. When the Reserve Bank Committee have considered the matter and reached a conclusion, the Federal Reserve Agent will forward the application and all papers in connection therewith, together with the report and recommendation of the Reserve Bank Committee, to the Federal Reserve Board. The recommendation should be signed by each member of the Committee. One copy of the report of examination may be retained for the files of the Federal Reserve Bank.
5. The Federal Reserve Board will, on the basis of the application and information submitted therewith, and the recommendation of the Reserve Bank Committee, approve or disapprove the application.
6. The Federal Reserve Agent will be duly advised as to the action taken by the Board. Duplicate copies of letters addressed to applicant banks will be transmitted to the Federal Reserve Agent.

5/26/17

Form 34

EXAMINATION OF STATE BANKS OR TRUST COMPANIES. 310.

 CERTIFICATE OF EXAMINER

I hereby certify that I have been duly (authorized) by
 (appointed)
 _____ to make an examination of the
 affairs and conditions of the _____
 that on the _____ day of _____, 191 , I examined
 fully into the books, papers and affairs of the said corporation
 and that the annexed report shows its true condition to the best
 of my knowledge and belief.

I further certify, from my knowledge of its affairs based
 upon such examination, that such corporation is solvent and its
 capital stock unimpaired.

Dated: _____

 Name of Examiner.

SUGGESTED FORM OF LETTER OR CERTIFICATE TO BE SIGNED
BY THE STATE BANK SUPERVISOR.

An examination of the affairs of the _____ (Name) _____
_____, was made under my direction on _____ (date) _____.

From my knowledge of its affairs, based upon the report of such examination and upon subsequent reports of condition made to me, it is my opinion that the bank is solvent, its capital is unimpaired and that the report filed by the examiner as of (date) _____, shows its true condition at that time, to the best of my knowledge and belief, and further, it is my opinion that there has been no material change in the condition of the institution since the examination made by my Department.

7/2/15

STATE BANK MEMBERSHIP

GENERAL INFORMATION DESIRED.

1. Bank filing application is requested to communicate with the State Bank Supervisor requesting that he forward to the Federal Reserve Agent a copy of the report of the last examination.
2. Copies of all letters of criticisms (if any) received from the Bank Commissioner or State Examiner in connection with last two examinations. State what action has been taken.
3. General character of business in the community served by the institution.
4. State Law Limitations: Unsecured Loans - Real Estate loans - Loans on other collateral - Acceptances - Investments in securities - Loans upon bank stock - Real estate owned.
5. Memorandum - Names of corporation or other concerns owned or controlled by or operated in the interest of the applying institution.
6. List of officers and directors - address - number of shares owned - business - firm or other outside affiliations.

List of loans to officers, directors and employees. Arrange loans in groups showing indebtedness of each official as maker, endorser or guarantor; loans to firms and corporations in which he is interested either as member, officer or director; loans to relatives and business associates of officers and directors; loans collateralized by securities issued by corporations in which directors or officers are interested.

Give:

Borrower -	Amount -	Director interested.
------------	----------	----------------------

7. General information as to loans -
 - a. Demand loans - upon which no interest has been paid for six months or more.
 - b. Notes and other loans in default six months or more and which are not secured or in process of collection.

-2-

- c. Other past due notes and loans. Include overdrafts.
Exclusive of loans secured by agricultural commodities and live stock.
- d. Notes renewed from time to time with interest added.

(In answers under paragraph 7, give Name, -- Borrower, Amount, Maturity, Security, if any, and Estimated loss.)

8. Other loan information.

1. Loans to officers of other banks: - name - amount - bank identified with. Security, if any.
 2. Loans on own bank stock. Amount of loan - shares held.
 3. Real Estate Loans. List of loans in excess of 3% of capital and surplus. Give name of borrower - amount of loan - maturity - prior liens - location of property - valuation - when and by whom appraised.
 4. Large lines - (not previously listed) In excess of 3% of capital and surplus. Give name of Borrower - Business - Postoffice address - Amount of liability - Remarks.
9. Real Estate Owned. Give location of property - book value - original cost - prior lien if any - estimated value - when and by whom appraised - how and for what purpose acquired.
10. Investments. List in detail, giving name of issuing corporation - par value - book value - rate of interest or dividend - (date of last payment) - estimated present value.

Please give latest information as to securities upon which interest is in default. If bank owns securities of small private or local corporations, enclose with this memorandum a copy of the latest financial statement issued by such corporations.

11. Notes and Bills rediscounted. Bills payable and certificates of deposit representing borrowed money.
Give a memorandum of present indebtedness - From whom borrowed - rate - maturity - assets pledged as security for indebtedness - totals only.
12. Assets pledged as security for deposits or other purposes (except money borrowed) - give particulars.
13. Assets and liabilities which are not entered as such upon the books of the banking institution.
14. Money borrowed by officers or directors for or in behalf of the bank.
15. Contingent liabilities. Nature and extent - On bills endorsed and sold - guarantees - notes and securities pledged or sold with agreement to repurchase - all other.
16. Estimated losses or deductions from assets:

	<u>Estimated losses.</u>	<u>Doubtful.</u>
Loans		
Investments		
Real Estate		
Furniture and fixtures		
Cash items		
Total		

17. List of balances due from and to other banks.
18. List of affiliated banking institutions.

5/29/17

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
CONTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
~~X-174~~
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 25, 1917.

Dear Sir:

No change has occurred today in the status of the legislation amending the Federal Reserve Act. It had been expected yesterday that another session of the Conference Committee would be held at some time today, but this has now been deferred until the middle of next week, owing to the absence of Senator Owen.

I enclose herewith copies of statements issued by the Treasury Department today with regard to progress in connection with the "Liberty Loan".

Very truly yours,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
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H. PARKER WILLIS, SECRETARY
SHELDON GLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 27, 1917.

Dear Sir:

I beg to enclose herewith copies of state-
ments issued by the Comptroller of the Currency and
by the Treasury Department relating to the placing
of the "Liberty Loan."

Very truly yours,

Secretary.

Enclosure.

F E D E R A L R E S E R V E B A N K S

as

F I S C A L A G E N T S

of the

U N I T E D S T A T E S

----oOo----

Suggested form of Circular embodying instructions heretofore sent out together with certain new matter. Arranged according to subject matter and indexed for convenience of fiscal agents.

--oOo--

Office of
M. C. ELLIOTT, Counsel,
Federal Reserve Board.

FEDERAL RESERVE BANKS AS FISCAL AGENTS
OF THE UNITED STATES

For the convenience of the fiscal agent and in answer to inquiries received, it is deemed advisable to analyze the services that the Federal reserve banks are called upon to perform as fiscal agents, and to explain in some detail the method of procedure to be followed. This necessarily involves some repetition of instructions heretofore issued but it will no doubt prove a convenience to the fiscal agents to have the general details embodied in one circular.

THE ACT OF APRIL 24, 1917.

The Act of April 24, 1917, provides among other things -

- (a) For the issuance and sale of short-term Treasury certificates of indebtedness bearing interest at not to exceed three and one-half per cent to an amount not to exceed two billion dollars
- (b) For the issuance and sale of United States bonds bearing interest at not to exceed three and one-half per cent to an amount not to exceed five billion dollars.
- (c) For the designation as Government depositaries of State banks and trust companies which subscribe to such bonds of certificates and for the deposit in such depositaries of amounts not to exceed the amount withdrawn from such banks or trust companies and invested in such bonds and certificates of indebtedness plus the amount so invested by the designated bank or trust company.

.....I N D E X.....

ALLOTMENTS:

Form - When instalment payments are made	17
When payment is made in full	18
How made	7
Notice of	7
Report to Secretary of information necessary to enable him to make	7

ANTICIPATED PAYMENTS: (See Payments)CERTIFICATES OF INDEBTEDNESS:

Authorized by Act of April 24, 1917,	1
May be used to pay for bonds	2
Outstanding	2
Presented for payment at maturity	14

DISPOSITION OF COLLECTIONS:

Made by fiscal agent	11
" " Treasurer of United States	14

FISCAL AGENTS:

Applications of subscribers received from	5
Subscribers direct	6
Through Treasurer of United States	6
Through Sub-agents	6
Books and accounts	4
Duties of	4
Federal Reserve Banks as	2

INTEREST COMPUTATIONS:

How adjustments are made	13
Rate	12
Table of computations	16
When interest begins to run	12

INTERIM RECEIPTS:

How executed	7
Issued when	7
In negotiable form	7
Must show	7

.....INDEX, No. 2.....

LIBERTY BONDS:

Amount that may be sold	1
" now offered	1
Authorized by Act of April 24, 1917....	1
Every United States citizen must be given opportunity to subscribe	2
Must be sold as popular issue	2
No commissions allowed	2
Rate of interest	2

PAYMENTS:

Disposition of by fiscal agents -	
Cash	11
Certificates of Advice	11
Certificates of indebtedness	11
Made to Treasurer - disposition of....	14
To whom made	9
What may be accepted	10
Cash	10
Certificates of Advice	10
Certificates of Indebtedness	10
Bank drafts, money orders, etc.....	10
When due -	
On individual \$50 or \$100 bonds	8 & 9
On other subscriptions	9
When may be anticipated	9
When notice of payment in advance not required	9

SUB-AGENTS:

Agent for subscriber until subscrip- tion accepted	3
Funds held by remain funds of sub- scriber	3
National banks, State banks, trust companies, and other corporations and associations as	3

-2-

TREASURY CERTIFICATES OF INDEBTEDNESS.

The Secretary has already issued and sold Treasury certificates of indebtedness to the extent of approximately \$700,000,000. The proceeds have been paid into the general fund of the Treasury and have been or are being disbursed. These certificates are held primarily by banks and trust companies which will in all probability subscribe to Liberty Loan bonds, and the certificates will no doubt be used to a great extent to pay, in whole or in part, the purchase price of such bonds.

LIBERTY BONDS.

The Secretary is now offering to the public an issue of \$2,000,000,000 in three and one-half per cent United States bonds, popularly known as Liberty bonds. These bonds must be disposed of without commission to any underwriting syndicate, and in order to market them the twelve Federal reserve banks have been appointed fiscal agents of the Government.

FISCAL AGENTS.

The Act provides, in terms, that these bonds "shall be offered at not less than par as a popular loan under such regulations prescribed by the Secretary of the Treasury as will give all citizens of the United States an equal opportunity to participate therein * * * but no commissions shall be allowed or paid on any bonds issued under authority of this Act." As it is manifestly impracticable for the twelve Federal reserve banks to receive directly all subscriptions applied for by the public, it is necessary to employ the services of agencies for this purpose.

National banks, State banks, trust companies, and other corporations and associations in large numbers have offered to assist the Government in selling these bonds, and the tender of their services has been accepted by the Secretary. For convenience, these associations and corporations will be referred to as sub-agents. Federal reserve banks acting as fiscal agents will be referred to as fiscal agents.

SUB-AGENTS.

Sub-agents are authorized to receive applications from the public and to file them with the fiscal agent either in the name of the original subscriber or in the name of the sub-agent. While for convenience such associations are referred to as sub-agents, it is obvious that when they apply to a fiscal agent for an allotment of bonds they must act as the agent of the subscriber until the subscription is accepted and the allotment is made. Funds delivered to any sub-agent by a subscriber remain the funds of the subscriber until the fiscal agent accepts them in payment or part payment of bonds subscribed for and allotted.

On the other hand, when funds are received by the fiscal agent or by the Treasurer of the United States, they are deposited in a government depository by the direction of the Secretary and the United States becomes liable therefor. If such funds are received by a fiscal agent or by the Treasurer of the United States prior to allotment they are held in trust until the allotment is made when they are credited as a payment on subscription

-4-

in which case they become the property of the United States and a part of the Treasurer's balance in the general fund.

In considering the several steps involved in the subscription and sale of bonds, it is important to bear these distinctions in mind,

DUTIES OF FISCAL AGENTS.

The duties which each fiscal agent will be called upon to perform in connection with the sale of Liberty bonds may be briefly summarized as follows:

- (1) To receive and carefully record in subscription books opened for that purpose all applications from subscribers in its Federal reserve district.
- (2) To allot to each subscriber such proportion of the amount applied for as the Secretary may direct and to execute and deliver notices of such allotments.
- (3) Upon payment in full of subscription to deliver, after allotment, interim receipts exchangeable for Liberty bonds, when such bonds are ready for delivery.
- (4) Upon payment of installment due June 28th, to issue interim receipts for bonds in exchange for notices of allotments.
- (5) To collect all installments as they severally become due and to deposit proceeds in the Federal reserve bank or other Government depositaries under direction of the Secretary. The interim receipt must accompany all payments made subsequent to its issue.
- (6) To make delivery of Liberty bonds in exchange for interim receipts representing payments in full of subscriptions.

BOOKS AND ACCOUNTS OF FISCAL AGENTS.

It will be necessary for each Federal reserve bank to open and maintain a separate set of books and accounts in its capacity as fiscal agent.

-5-

It should be borne in mind that in performing the services of fiscal agent each bank is acting in a representative capacity as an agent for the United States Government. Transactions between the United States and its fiscal agent should not, therefore, be confused with transactions between the United States and the Federal reserve bank, acting as a Government depository..

The fiscal agent, for example, should open an account with each subscriber to Liberty Bonds in its district and an account with the Treasurer of the United States. The Federal reserve bank, as a bank, will receive no deposits from subscribers as such but funds paid by subscribers to the fiscal agent will be credited to the subscribers account and deposited by the fiscal agent in the Federal reserve bank to the account of the Treasurer of the United States. In such case the account of the Treasurer will be charged by the fiscal agent with the amount of deposit and the account of the Treasurer will be credited by the Federal reserve bank with the same amount.

A general balance sheet showing accounts to be maintained by the fiscal agent appears as an exhibit on page _____ of this circular.

APPLICATIONS FOR SUBSCRIPTIONS.

Applications for subscriptions may be received

- (a) through the Treasurer of the United States;
- (b) through sub-agents;
- (c) from subscribers direct.

- 6 -

(a) Applications received by the Treasurer will be transmitted to the fiscal agent of the district from which the application is received. The original application will in each case be transmitted and all such applications should be treated as if filed directly with the fiscal agent.

(b) All applications received by sub-agents may be consolidated and included in one application filed by the sub-agent. In such case the sub-agent should keep an accurate record of all applications received by him and should be prepared upon request of the fiscal agent to furnish any details desired, including the names and addresses of subscribers, the amount and denomination of bonds applied for, and the amount tendered with each application. Unless the fiscal agent should call for the names of subscribers the application may show merely the number and amount of the several subscriptions and particularly the number of subscribers which have applied for one bond of the denomination of \$50 or of \$100.

(c) Applications received direct should be recorded in the name of the subscriber.

ALLOTMENTS.

The subscription books of each fiscal agent should be closed at _____ o'clock on June 15th. Applications received

after this time should be returned to the subscriber after allotments have been made. As soon as practicable after the books are closed each fiscal agent should report to the Secretary by wire the total amount of subscriptions, applied for and the number and amount of the several subscriptions, e. g. 1,000 of \$5,000, 1,000 of \$1,000, 1,000 of \$500. This report should show specifically the number of individual subscribers applying for one \$50 bond and the number of such subscribers applying for one \$100 bond. This report should be promptly confirmed by letter. Upon receipt of this information the Secretary will give full directions as to allotments to be made.

As soon as this information has been received from the Secretary each applicant should be sent a notice of allotment. This notice should show (a) the amount of bonds allotted to subscribers, (b) the date and amount of installments to become due, (c) how payments may be made and should contain a statement to the effect that the notice must be exchanged for an interim receipt when the installment due on June 28 is paid.

INTERIM RECEIPTS.

Upon payment of installment due on June 28, the fiscal agent must deliver in exchange for the notice of allotment sent to each subscriber an interim receipt. This receipt will bear the engraved signature of the Secretary and must be countersigned by a duly authorized officer on behalf of the fiscal agent. It should show (a) the amount of bonds to which the subscriber will become entitled upon payment in full of subscrip-

tion price; (b) amount paid by the subscriber to date of issue; (c) the date of maturity and amount of future instalments; (d) the rate of interest and date from which such interest runs, and should contain a statement to the effect that upon payment of last instalment the receipt may be exchanged for Liberty Bonds. Where subscription is paid in full after allotment interim receipts, exchangeable for Liberty Bonds, when such bonds are ready for delivery, should be issued on form approved for that purpose. All interim receipts will be issued in negotiable form payable to bearer unless the Secretary deems a variation of this rule necessary.

WHEN PAYMENTS BECOME DUE.

Individual subscriptions for one bond of the denomination of \$50, or of \$100. An individual subscriber to one bond of the denomination of \$50 or of \$100, may, at his option, make payment in full at the time that his application is filed. When such payments are received by the Treasurer at Washington, or by the fiscal agent, a non-negotiable receipt may be issued therefor exchangeable for a Liberty Bond by the fiscal agent. It will not be necessary in such case to issue any other notice of allotment or any interim receipt. When such payments are made to sub-agents, the sub-agent may, at its option, transmit them direct to the fiscal agent and procure non-negotiable receipts in its own name or in the name of the subscriber, or it may include such subscriptions in its own application. If such subscriptions are included in its own application it must pay for and deliver to the subscriber the bond applied for as soon as such bonds are ready for

delivery by the fiscal agent.

OTHER SUBSCRIPTIONS.

All other subscriptions shall be payable as follows:

Two per centum on date application is filed with
the fiscal agent.

Eighteen per centum on June 28, 1917.

Twenty per centum on July 30, 1917.

Thirty per centum on August 15, 1917.

Thirty per centum on August 30, 1917.

Individual subscribers to one bond of the denomination of \$50, or \$100, may make payments in foregoing instalments at the option of the subscriber.

ANTICIPATED PAYMENTS.

On or after allotment subscribers at their option may, make payment in full at any time before August 30, 1917, and without previous notice, provided, the allotment does not exceed \$10,000 or payment is to be made in Treasury certificates of indebtedness. When the allotment exceeds \$10,000 and payment is not made in Treasury certificates of indebtedness, the subscriber must file written notice with the fiscal agent not less than two weeks in advance of payment specifying the date upon which payment is to be made.

HOW PAYMENTS SHOULD BE MADE.

Payments should be made to the fiscal agent by subscribers located in the Federal reserve district served by such fiscal agent. Subscribers who have filed subscriptions with the Treasurer at Washington may, however, at their option make payments to the

Treasurer.

WHAT MAY BE RECEIVED IN PAYMENT.

Fiscal agents may receive in payment of subscriptions

(a) Cash - i. e. gold, gold certificates, legal tender notes of the United States, silver, silver certificates, national bank notes, Federal reserve notes and Federal reserve bank notes.

(b) Treasury certificates of indebtedness issued under authority of the Act approved April 24, 1917, will be accepted at par in payment of the two per cent instalment required when application is filed. Where such certificates are presented to the fiscal agent in payment of bond subscriptions prior to June 15th, accrued interest to June 15th should be paid to the subscriber by cashier's check drawn by the Federal reserve bank after allotments have been made. Pending allotment such certificates of indebtedness should be kept by the fiscal agent in the safe-keeping or custody department of the bank, separate and apart from the assets of the bank but subject to the same system of control.

After allotments have been made the fiscal agent should deliver such certificates to the Federal reserve bank crediting the subscriber's account with the face value thereof. The Federal reserve bank should thereupon credit the account of the Treasurer in the Treasurer's general balance with the face value of the certificate and should charge the account by a like amount, forwarding the certificate to the Treasurer

as a warrant for credit at face value plus accrued interest theretofore paid by cashier's check.

Certificates of indebtedness should also be received by the fiscal agent in payment of subsequent instalments. In such case they should be accepted as equivalent to cash payments at par plus accrued interest computed to date of payment, and should be deposited in the Federal reserve bank and treated in the same manner as a Treasury warrant except that the Treasurer's balance in the Federal reserve bank should be first credited as if cash had been deposited and should be immediately charged as if the cash deposited had been used to pay the certificates of indebtedness and accrued interest.

(c) Bank drafts, checks, postoffice money order or express company money order. All checks received must be certified. When items received are payable in the Federal reserve city of the fiscal agent they should be immediately collected and placed to the credit of the subscriber. When drawn against other Federal reserve banks they should be collected through the Gold Settlement Fund and credited to the subscriber. When payable elsewhere than in the Federal reserve city of the fiscal agent, they should be accepted for collection only and credit should be given the subscriber only after actual collection and for

the amount actually collected. All exchange and collection charges must be borne by the subscriber.

(d) Certificates of advice issued by a designated Government depository on Treasury Form No. 1, under authority of Treasury Circular No. 79, as supplemented by Circular No. 81. Such certificates may be accepted only when tendered by the issuing bank in payment of subscriptions filed by it for its own account or for the account of its depositors. Payments of subscriptions filed with the Treasurer at Washington may be made to the Treasury in the same manner.

DISPOSITION OF PAYMENTS MADE TO FISCAL AGENTS.

(a) All cash received, including the proceeds of all items collected by the fiscal agent, should first be credited on the books of the fiscal agent to the account of the subscriber making payments and should be charged to the account of cash. Such cash should immediately be deposited in the Federal reserve bank to the credit of the United States in the Liberty Loan Bond Account. The cash account will thereupon be credited on the books of the fiscal agent and the account of the Treasurer charged with the amount of such deposit.

(b) Certificates of indebtedness received in payment should be credited to the account of the subscriber and charged to the account of the Treasurer of the United States. Such certificates may be treated in the same manner as Treasury warrants and forwarded to the Treasurer for credit to the account of the fiscal agent. The Treasurer will treat such certificates as if they had been paid in cash to

-13-

the fiscal agent and the cash had been withdrawn by Treasury warrants to pay the maturing certificates of indebtedness. Where interest is paid by the Federal reserve bank to June 15th on certificates of indebtedness as hereinbefore provided, such certificates will be accepted by the Treasurer as Treasury warrants at par and accrued interest to June 15th.

(c) Where certificates of deposit on Form 1 are received in payment as hereinbefore provided, the subscriber should be credited on the books of the fiscal agent and the Treasurer of the United States charged with the corresponding amount. In such case no entry will appear on the books of the Federal reserve bank.

INTEREST COMPUTATIONS.

Liberty Bonds and interim receipts issued when subscriptions have been paid in full will in terms bear interest from June 15, 1917, at three and one-half per cent on the principal amount of such bonds or receipts.

In all cases where payment in full is made after June 15, 1917, it will, therefore, be necessary to make interest adjustments. In making such adjustments the fiscal agent should proceed as follows :

Charge subscriber with interest at three and one-half per cent on face amount of bond or interim receipt from June 15, 1917, to date that payment is made in full.

Credit subscriber with interest at same rate on pay-

ments made on or before June 15th from that date to date of full payment. If instalment payments have been made after June 15th, credit subscriber at same rate on each instalment from due date of instalment to date of full payment if instalments were paid on or before due date. If instalments were paid and accepted after due date, credit subscriber with interest at same rate from date of deferred payment to date of full payment.

Certificates of indebtedness tendered in payment on or before June 15th should be credited to subscriber at face amount and the interest paid to June 15th by the fiscal agent as hereinbefore provided. Certificates of indebtedness tendered in payment after June 15th should be credited to subscriber at face amount and accrued interest to date of payment.

A table of interest computations prepared by this office, which should be used by fiscal agents in making interest computations, appears on page _____ of this circular.

MATURING CERTIFICATES OF INDEBTEDNESS NOT
PRESENTED IN PAYMENT OR PART PAYMENT OF LIBERTY BONDS.

Certificates of indebtedness issued under authority of the Act of April 24, 1917, may be presented at maturity to the Treasurer of the United States or to any Federal reserve bank for payment. When presented to a Federal reserve bank, they should be

-15-

treated as Treasury warrants and paid with interest accrued to date of maturity and charged to the general balance of the Treasurer of the United States.

GENERAL

Instructions issued by the Treasurer to Government depositories designated under the Act of April 24, 1917, to transmit funds to the Federal reserve banks will, whenever, practicable, be transmitted through the fiscal agent.

Collections made by the Treasurer will be charged to the Treasurer's balance in the general fund and credit will be given to the Federal reserve bank of the district from which such payments were received. The Federal reserve bank will be authorized to charge the Treasurer's general balance with the amount collected and to credit the Liberty Loan Account.

In any case in which the Treasurer receives in payment of subscription items which would ordinarily be sent through the Federal reserve bank for collection, such items will be forwarded to the Federal reserve bank with instructions to collect and to credit the Liberty Loan Account with the proceeds.

Form of notice of allotment and of interim receipts to be issued in case of full payment of subscriptions, as well as form to be used where payments are made in instalments, will appear on pages _____ and _____ of this circular.

Secretary of the Treasury.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 28, 1917.

Dear Sir:

The Federal Reserve Banks of New York and Chicago have asked the Board for approval of their plans of issuing \$10 certificates of interest in the Liberty Loan.

The Board has informed these two Federal reserve banks that it does not see any objection to their doing so, provided that sufficient precautions are taken in order to avoid the certificates being used as currency. The color and general appearance should be sufficiently distinct and the size should be sufficiently large so as to preclude their being used as currency.

It was further stipulated that the \$50 Liberty bonds which will be held against these \$10 certificates should be kept in a separate account and the whole matter be so arranged as to enable the examiners of the Board, without great difficulty, to check up the operations from time to time.

As a suitable text for these certificates, the Counsel of the Board suggested language as follows:

-2-

"This certificate represents a payment of ten dollars on the purchase price of one fifty-dollar Liberty Bond issued under authority of the Act of April 24, 1917. Upon surrender of this certificate to the Federal Reserve Bank of _____, accompanied by four others of like amount, the holder will be entitled to receive a fifty-dollar United States Government Liberty Loan, three and one-half per cent bond with all coupons attached.

FEDERAL RESERVE BANK OF _____

By

Governor."

I am giving you these details so as to keep you advised in case your bank should decide to follow a similar course, but the Board wishes me to make it entirely clear to you that it has no wish whatsoever to urge you to issue these certificates unless your board of directors and the Liberty Loan Committee of your district should feel that such action is desirable. This letter is written only for the purpose of keeping you advised in case you should wish to adopt the New York and Chicago plans.

Very truly yours,

Governor.

1453

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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PAUL M. WARBURG, VICE GOVERNOR
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ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

Dear Sir:

I inclose herewith copies of statements issued by the Treasury Department, chiefly with reference to the "Liberty Loan."

Yours very truly,

Secretary.

Inclosures.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

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4454
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES E. HAYDEN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 29, 1917.

Dear Sir:

In order that the Federal Reserve Board may be fully informed as to the activities of the auditing departments of the Federal reserve banks, it is desired that a monthly report showing the work done be rendered by the auditors of the respective banks. This report should be made, in duplicate, on the first day of each month to the Federal Reserve Agent, who will send one copy to the Federal Reserve Board.

Specimens of the form desired are enclosed, from which it will be noted that it calls for date upon which audit was made of any particular item, as well as the date of the preceding audit of the same item.

Yours very truly,

Secretary.

Enclosures.

MONTHLY REPORT OF PROOFS AND VERIFICATIONS
by the AUDIT DEPARTMENT,
FEDERAL RESERVE BANK OF _____

_____ 191 .

Date of preceding proof

Date of proof this month.

_____	Bills discounted for members _____
_____	Member bank collateral notes _____
_____	Acceptances bought _____
_____	Bill of lading drafts _____
_____	United States securities _____
_____	Accrued interest U.S. securities _____
_____	Premium account U.S. securities _____
_____	Municipal obligations _____
_____	Reserve Cash _____
_____	Tellers' cash _____
_____	Exchanges for clearing house _____
_____	Checks and other cash items _____
_____	Due from nonmember banks _____
_____	Due from remitting member banks _____
_____	Due from member banks - deferred debit _____
_____	Due from depository banks - Fiscal Agent _____
_____	Capital account _____
_____	Due to member banks - deferred credit _____
_____	Number of accounts of member banks not reconciled during month _____
_____	Accounts with F. R. banks reconciled (in- dicate whether daily, weekly or monthly) _____

To be filed in duplicate on first day of each month with Federal Reserve Agent.
One copy to be sent by Federal Reserve Agent to Federal Reserve Board.

1457

Ex-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

113

FEDERAL RESERVE BOARD
WASHINGTON

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Yours very truly,

Secretary.

Enclosures.

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FEDERAL RESERVE BOARD

H. PARKER WILCOX, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 29, 1917.

Dear Sir :

It may be expected that at the end of June and early in July, when the bulk of the payments on the Liberty Loan will be made, there will be substantial temporary dislocation of funds all over the United States. As far as any forecast can be made there may probably be at the end of June heavy withdrawals of funds from the financial centers- particularly from New York- and during the succeeding weeks this should be followed by a movement back to New York and a corresponding depletion of other centers.

It will be the task of the Federal Reserve System to equalize as far as possible the distribution of banking funds. The Gold Settlement Fund will play an important part. Balances of the Government will no doubt be so distributed as to counteract any excessive withdrawals from any Federal Reserve District, but in addition it will be necessary to prepare the Federal Reserve Banks so as to have them ready at the shortest notice and with the least possible amount of "red tape" temporarily to rediscount for each other. On June 28th, or as soon thereafter as it becomes apparent to the Board, on which Federal Reserve Banks the brunt of withdrawals will have fallen, the Board will at once if necessary require other Federal Reserve Banks whose deposits and reserves have been temporarily increased in a corresponding amount to rediscount for those Federal Reserve Banks which should be relieved temporarily.

The Board, therefore, has at its meeting today fixed the rediscount rate between Federal Reserve Banks at 3% to be in force until further notice for all classes of paper and hands you herewith forms to be used in connection with such rediscount transactions. It is the opinion of the Board that for these operations which probably will be of short duration, it will be unnecessary or in some cases not even feasible for the rediscounting bank to send the paper to the Federal Reserve Bank giving the rediscount. Forms have been prepared, therefore, providing for the appointment of the Federal Reserve Agent of the bank selling its paper to act as agent in taking custody of that paper for the Federal Reserve Bank making the purchase. It will be necessary, however, that the certificate issued by the Federal Reserve Agent to the effect that he holds this paper for the benefit of the buying Federal Reserve Bank should contain

an exact and detailed description of the paper rediscounted, and that this rediscounted paper should be endorsed in blank by the selling Federal Reserve Bank.

The Board realizes of course that it should be left within the discretion of each bank as to whether or not it wishes to cooperate along the lines indicated above or whether it will insist upon having all rediscounted paper sent to it instead of leaving it in the custody of the Federal Reserve Agent. You are requested therefore to inform the Board at your earliest convenience the preference of your bank in this respect. If you desire to cooperate, it will be necessary for your Federal Reserve Bank to write a letter authorizing the Federal Reserve Agent at the Federal Reserve Bank at which the paper is bought to hold such paper for its account and subject to its order.

If your Federal Reserve Bank should desire to use paper on deposit with another Federal Reserve Agent as collateral for an issue of Federal reserve notes it may do so provided you, as Federal Reserve Agent, are willing to issue notes on the basis of the procedure outlined in the enclosed memorandum.

Respectfully yours,

Governor.

Inclosure.

M E M O R A N D U MA..... REDISCOUNTS BETWEEN FEDERAL RESERVE BANKS.

If Federal reserve bank A sells its paper to Federal reserve bank B, under the provisions of Section 11 of the Federal Reserve Act, and if Bank B does not desire to have that paper forwarded to it but intends to leave it in the custody of the Federal reserve agent at Bank A, he holds it merely as custodian or agent for Bank B and the transaction should be recorded by the buying and selling banks in the same manner as if the paper had been forwarded direct to the purchasing bank. All papers however must be properly indorsed by the selling bank and must be kept by the Federal reserve agent separate and apart from paper deposited with him by his Bank A for its own account.

Payment should be made by transfer through the Gold Settlement Fund in even thousands, odd amounts to be adjusted by a credit to the account of the selling bank on the books of the purchasing bank. The selling bank should decrease the item "loans and discounts" and increase "Gold Settlement Fund." (The memorandum item, "liability as endorser on bills sold" should also be increased by the selling bank.) The purchasing bank should increase item "rediscounts for other Federal reserve banks" and should decrease "Gold Settlement Fund." The selling bank should prepare a schedule (Regular Form B.D.4) of the rediscount-

ed paper in duplicate, one copy to be sent to the purchasing bank and the other to the Federal Reserve Board. This schedule should contain a list of all paper and collateral, if any,

The Federal reserve agent of Bank A should notify Bank B (see Form C hereto attached) that he holds the paper listed in Schedule B.D.4 for the account and subject to the order of Bank B. Before undertaking these transactions Bank B should pass a resolution giving Federal reserve agent A authority to act as custodian of paper which it buys from Bank A (See Form D hereto attached).

B....AVAILABILITY OF REDISCOUNTS BETWEEN FEDERAL
RESERVE BANKS AS COLLATERAL SECURITY
FOR THE ISSUE OF FEDERAL
RESERVE NOTES.

If Bank B desires to procure an issue of Federal reserve notes upon the security of paper which it has bought from Bank A and which has been left in the custody of the Federal reserve agent of Bank A for the account of Bank B, this procedure should be followed:

1. Federal reserve agent of Bank B should give the Federal reserve agent of Bank A a power of attorney (See Form A hereto attached) authorizing him to receive and to hold for the account of the Federal reserve agent at Bank B, notes, drafts and bills of exchange of the kinds made eligible as collateral security, provided they are indorsed by Bank A.

-3-

2. Bank B should notify the Federal reserve agent at Bank A to transfer the paper intended as collateral security from its account to the account of the Federal reserve agent at Bank B.
3. Federal reserve agent A should immediately wire Federal reserve agent B that he holds for his account and subject to his order eligible paper thus transferred to him, stating that it is properly endorsed and otherwise eligible as collateral security. This telegram should be confirmed by letter (See Form B hereto attached)
4. Federal reserve agent B may then, acting upon the advice from Federal reserve agent A, issue Federal reserve notes to Federal reserve bank B, provided proper application has been made by Bank B.
5. Substitutions of collateral, if desired, may be arranged for in each case as it arises.

F O R M A .

KNOW ALL MEN BY THESE PRESENTS.

That I, _____, Federal Reserve Agent of the Federal Reserve Bank of _____ have constituted and appointed, and by these presents do constitute and appoint _____ Federal Reserve Agent of the Federal Reserve Bank of _____, my true and lawful attorney in fact, to receive from the Federal Reserve Bank of my district or from its duly authorized agent, and to hold for me and in my name and subject to my order, notes, drafts and bills of exchange of the kinds made eligible as collateral security for Federal reserve notes under the terms of the Federal Reserve Act, provided, such notes, drafts and bills of exchange are endorsed by the Federal Reserve Bank of _____ .

Witness by hand and seal this _____ day of _____, A. D., 1917.

Signed, sealed and delivered in presence of:

_____) _____ (SEAL)
 _____)

X-185^bF O R M B.

Form of letter to be forwarded by a Federal reserve agent receiving notes, drafts and bills of exchange for the account of another Federal reserve agent.

Dear Sir:

You are advised that, acting under power of attorney, I have this day received for your account and hold in your name and subject to your order notes, drafts and bills of exchange, properly indorsed by the Federal Reserve Bank of my district, of the kinds and character described in the attached schedule (Regular Form BD-22-3) and otherwise eligible as collateral security for the issue of Federal reserve notes.

Respectfully,

To Federal Reserve Agent of Federal Reserve Bank B from
Federal Reserve Agent of Federal Reserve Bank A.

X-185^cF O R M C.

Form of letter to be forwarded by a Federal reserve agent receiving notes, drafts and bills of exchange for the account of a purchasing Federal reserve bank other than his own bank.

Dear Sir:

You are advised that acting under power of attorney I have this day received for your account and hold in your name and subject to your order, notes, drafts and bills of exchange properly indorsed by the Federal reserve bank of my district, of the kinds and character described in schedule BD-4 forwarded to you by that bank on _____ 1917.

Respectfully,

To Federal Reserve Bank B from Federal Reserve Agent
of Federal Reserve Bank A.

F O R M L.

Form of resolution by Federal Reserve Bank B authorizing Federal reserve agent of Bank A to act as custodian of paper which Bank B purchases from Bank A.

At a meeting of the board of directors of the Federal Reserve Bank of _____, called pursuant to the provisions of the by-laws of said bank and held on the _____ day of _____, 191____, the following resolution was offered, seconded and duly adopted:

BE IT RESOLVED, "That _____ Federal Reserve Agent of the Federal Reserve Bank of _____ be, and he hereby is authorized and empowered to receive from the Federal reserve bank of his district, and to hold for the account of this bank and subject to its order, notes, drafts and bills of exchange acquired under the provisions of Sections 13 and 14 of the Federal Reserve Act and rediscounted by this bank, provided such notes, drafts and bills of exchange are endorsed by the Federal Reserve Bank of _____

I hereby certify that the foregoing is a true and correct copy of a resolution adopted and spread upon the minutes of the board of directors of this bank, held on the date specified.

Cashier or Secretary

Federal Reserve Bank of _____

May 28, 1917.

3467

X-186.

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
CONTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 31, 1917.

Dear Sir:

There are enclosed herewith, for your information and guidance, four copies of a revised form of procedure in handling State Bank applications, and 25 copies of a memorandum calling for certain general information which it is desired shall be furnished by the applying bank. This latter memorandum will be incorporated in the regulation governing the admission of State Banks and trust companies which will be reprinted at soon as Congress acts upon the pending amendments. When requests are received from State institutions for application blanks, kindly enclose a copy of the memorandum in order that the applying bank may forward the "General Information Desired" with its application.

Very truly yours,

Assistant Secretary.

Enclosures:

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

2468
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH L. HOOPER
CHARLES S. HAWLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 1, 1917.

To the Employes
On the Staff of the Federal Reserve Board:

The Board has discussed methods of aiding its employes, - all of whom it feels sure, wish, from patriotic motives, to become subscribers for Liberty Bonds. It does not, however, believe that the facilities which are offered by practically all of the banks in Washington, can be improved upon. Most of the banks here have offered to receive subscriptions and to carry bonds of either \$50 or \$100 denominations for subscribers, and to accept payments in weekly or monthly installments.

The Board would suggest that its employes acquaint themselves with the subscription plans offered by the banks in Washington, and would be much gratified if a very large proportion, if not all of its employes, should become subscribers. Savings can not be invested more safely or in a nobler cause.

Governor.

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DEBANDER, No. 189.
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 1, 1917.

Dear Sir:

The activities of the Federal reserve banks as fiscal agents for the Government, and especially in connection with the sale of Liberty Bonds, seem to require some additional accounting. With the exception of Receipts deposited with the Federal Reserve Bank to the credit of the Treasurer of the United States, general account, or to the credit of such other deposit accounts that may be opened at the request of the Treasury Department, no record of the transactions handled by the Fiscal Agent Department should be entered upon the general books of a Federal reserve bank, or upon Daily Statement Form 34.

Forms suggested for use in handling subscriptions were approved at the meeting of representatives of Federal reserve banks held in Washington on May 17. Copies have since been sent to each Federal reserve bank by the Treasury Department.

In the opinion of the Board, it is desirable and necessary that each Federal reserve bank should keep a full and complete record of all transactions handled by the Fiscal Agent Department, and that such general ledger and other accounts be kept as will permit of a proper system of audit and control. For that purpose, your bank is requested to open in a special ledger the accounts shown on the daily statement enclosed herewith, and to make entries in the manner indicated in the memorandum attached thereto. In order that the Board may be advised as to the Fiscal Agent Department accounts, your bank is requested to forward a copy of the daily statement beginning Monday, June 18, and each day thereafter until further notice. A supply of the necessary forms will be sent in the course of a few days.

Very truly yours,

Governor.

Enclosure.

Fiscal Agent Accounts -

LIBERTY LOAN BONDS.

1. PRIOR TO ALLOTMENT:

Subscriptions Received

DebitCredit

- | | |
|---|---|
| <ul style="list-style-type: none"> (a) Receipts deposited with
Federal Reserve Bank,
General Account.
Liberty Loan Account.
Full Payment Account. (b) Certificates of Indebtedness. (c) Unpaid Balances,
Liberty Loan Bond Subscriptions | <ul style="list-style-type: none"> Subscriptions Received. |
|---|---|

2. WHEN ALLOTMENTS HAVE BEEN ANNOUNCED:

- (a) Adjust subscription account

DebitCredit

- | | |
|---|---|
| <ul style="list-style-type: none"> Subscriptions Received (This entry will close
account) (b) Adjust Receipts
Transfer balances,
Liberty Loan Account
Full Payment Account
Certificates of Indebtedness
to account.
Receipts deposited to credit of
General Account,
Treasurer of United States. | <ul style="list-style-type: none"> Subscriptions Allotted. Unpaid balances on Liberty Bond
Subscriptions Received |
|---|---|

After adjusting entries are made all receipts will thereafter be deposited to credit General Account, Treasurer of United States, unless other instructions are issued.

3. PAYMENTS AFTER ALLOTMENTS HAVE BEEN ANNOUNCED:

DebitCredit

- | | |
|--|--|
| <ul style="list-style-type: none"> (a) Receipts deposited for credit
General Account, Treasurer of
United States. (b) Depository Banks,
Liberty Loan Deposit, balances
due to Treasurer of United States | <ul style="list-style-type: none"> (a) Unpaid balances on Liberty
Bond Subscriptions. |
|--|--|

Individual ledger accounts should be kept for each of the several depository banks, showing all deposits and withdrawals. Boston Ledger is suggested:

4. CASH AND OTHER ITEMS CARRIED OVER FOR FOLLOWING DAY'S BUSINESS AND ITEMS CARRIED PENDING COLLECTION.

<u>Debit</u>	<u>Credit</u>
Cash and other items	Suspense account

When items are collected, make necessary adjustments in above accounts, also, give credit to subscribers and charge "Receipts Deposited".

5. INTEREST RECEIVED:

Credit to this account, interest received from depository banks, also, interest received in adjustment at time of full, or final, payment of bond subscriptions. Charge corresponding amount to account "Receipts Deposited". Payment of interest on certificates of indebtedness should not be entered in this account.

INTERIM CERTIFICATES.

- (a) When received

<u>Debit</u>	<u>Credit</u>
Interim Certificates on hand Separate accounts	Interim Certificates, Received from Secretary of Treasury.
20 per cent paid	
40 " " "	
70 " " "	
Full amt. "	

- (b) When deliveries are made

<u>Debit</u>	<u>Credit</u>
Interim Certificates Delivered to subscribers	Interim Certificates on hand 20 per cent paid 40 " " " 70 " " " Full amt. "

- (c) When Certificates are surrendered

<u>Debit</u>	<u>Credit</u>
Interim Certificates on hand	Interim Certificates delivered to subscribers.

LIBERTY LOAN BONDS.

- 7. (a) When received

<u>Debit</u>	<u>Credit</u>
Liberty Bonds on hand	Liberty Bonds received from Secretary of Treasury

- (b) When deliveries are made

<u>Debit</u>	<u>Credit</u>
Liberty Bonds delivered to subscribers.	Liberty Bonds on hand.

8. TREASURY CERTIFICATES OF INDEBTEDNESS:

- (a) When allotted.

<u>Debit</u>	<u>Credit</u>
1. Receipts deposited with Federal Reserve Bank, credit General Account, Treas. of United States.	Treasury Certificates of Indebtedness allotments.
2. Depository Banks, Treasury Certificate proceeds. deposited; balances due to Treas. of United States.	

Individual ledger accounts should be kept for each of the separate depository banks, showing all deposits and withdrawals.

- (b) Interest account.

Credit to this account, interest received from depository banks. Charge a corresponding account to "Receipts deposited".

9. INTEREST PAID ON CERTIFICATES OF INDEBTEDNESS SHOULD NOT BE ENTERED IN THIS ACCOUNT BUT TREATED IN MANNER INDICATED BELOW:

- 1. Certificate deposited prior to June 15, 1917.

After allotments have been announced the certificate will be deposited by the Fiscal Agent's department, with Reserve Bank as a cash receipt at face value. The Reserve Bank will issue its cashier's check to the subscriber, for interest to June 15.

The Reserve Bank will then add the interest to the face amount of certificate and charge the combined amount to the General Account, Treasurer of the United States, returning the certificate with other warrants paid.

2- Certificate deposited after June 15, 1917.

Fiscal Agent's department will add interest to date of payment to the face amount of certificate, accept the combined amount in the same manner as a cash receipt and deposit it with the Reserve Bank for credit of General Account, Treasurer of United States. The Reserve Bank will, in turn, collect the certificate and interest by charging the amount to the General Account, Treasurer of the United States, and forward the certificate to the Treasurer in the same manner as a Treasury warrant for credit at face value, plus accrued interest.

3 - Maturing Certificate of Indebtedness, not presented in payment or part payment for Liberty Bonds -

Should be handled by the Banking Department and not the Fiscal Agent's Department.

When presented on or after date of maturity the certificate should be treated in the same manner as a Treasury warrant; paid with interest to maturity and charged to the General Account of Treasurer of the United States.

10. CUSTODY OF COLLATERAL.

1- Security for Liberty Loan Deposits with depositary banks to the credit of Treasurer of United States,

- (a) Held by Reserve Bank,
- (b) Held by other custodians.

2- Security for deposit of proceeds of Treasury Certificate, with depositary banks to the credit of Treasurer of United States.

- (a) Held by Reserve Banks.

Adequate records should be maintained showing the securities held, deliveries, substitutions and withdrawals.

Remarks of
H. P. WILLIS
before the
PENNSYLVANIA BANKERS' ASSOCIATION
June 7, 1917.

Mr. Chairman,
and members of the Trust Company Section of the
Pennsylvania Bankers' Association:

In accepting your courteous invitation to join you on this occasion I said to your Chairman that I thought the topic he has announced - The Banking Functions of Trust Companies - would be especially appropriate at this particular time. The question is one that is of large general and permanent interest, but just now has special significance.

As you are aware, many strong trust companies are either joining, or considering membership in, the Federal reserve system. National banking associations have, under the Federal Reserve Act, been granted certain trust company powers. Many of them have been approved in the exercise of these powers by the Federal Reserve Board and are already doing considerable business under them. The question is thus plainly suggested: What is to be the line of division between the banks and the trust companies in the future? In other words along what line is our banking development to be carried by these two classes of institutions? With trust companies as members of the Federal reserve system and with national

-2-

banks exercising functions heretofore regarded as peculiar to the trust companies where will the line of division between them run in the future?

From the abstract standpoint it would probably have been well had trust companies, from the start, confined themselves to the operations especially belonging to their field in the narrower sense, and had the banks similarly limited themselves. This, however, has not been the history of our banking development during the past few decades. The trust company has come, in many cities, to perform most important and extensive banking functions. We must suppose that this has been the result of real demand and that there is a good reason for growth in the direction I have mentioned. The fact that this mixture, or fusion, of functions has occurred, must have been due to public appreciation of the combined service or public desire that the two classes of duties should not be wholly separated. I do not believe that economic institutions develop after any haphazard plan. There may be survivals; obsolete institutions may be perpetuated; or peculiar legal conditions may bring about undesirable or temporary ramifications that would not have occurred had it not been for some special, or local, or perhaps temporary, cause. But this is certainly not the case with trust companies. They have taken on banking func-

tions because these were needed and because they could thus serve the public. On the other hand, it is not strange that banks have at times felt themselves hard-pressed by trust company competition and have in many cases found that the more liberal laws governing trust company organization and operation subject them to unfavorable conditions. To these circumstances must be ascribed the grant of trust powers made in the Federal Reserve Act. Congress might have proceeded, abstractly speaking, by attempting to legislate the trust companies out of the commercial and banking business, although it probably would not have succeeded without the aid and cooperation of State governments. Be this as it may, the line of action chosen has been the opposite - that, namely, of throwing open the field for the exercise of trust powers to the banks. This is a condition and not a theory, and it is with the results of it that we are directly concerned at the present moment.

Must it be supposed that, as time goes on, the banks of the country will gradually expand their trust powers while the trust companies will expand their banking powers until the two classes of institutions have reached something like a parity of function so that many of them stand upon substantially the same basis? In order to follow such a line of development much more legislation would be needed as well as many changes in banking and trust company practice. It is not likely that such a situa-

tion will be reached in the near future. It is, however, possible, and even probable, that the development will be to some extent, at least, in that direction. The foundation has already been laid for it and we must expect progress to occur along lines that are already marked out. Nevertheless it is practicable to direct the development and to make it rational and sound; to avoid unnecessary conflict and waste of energy in that kind of competition which does no good and which merely pays too high a price for lessons of experience better and more cheaply learned in some other way. There is a dividing line between the trust company and the bank that can and must be clearly drawn if our further advance in banking in the United States is to be efficient and economical.

The key to the solution of this problem of relationship between the banks and trust companies is found in the Federal reserve system and in the new banking conditions that are being developed under that system. As I have indicated, it is as certain as anything in the banking future that the banking functions now so well performed by trust companies will continue to expand. They will maintain themselves as popular banking institutions, receiving large funds subject to check, making transfers, doing a foreign exchange business, engaging in many of the lending activities that are common to the commercial banks of the country,

and otherwise occupying and cultivating the field in which they have already established themselves under public encouragement. Our effort to shape conditions must devote itself primarily to the character of their assets and the adjustment of this character to the business they are doing. Almost all, I think, will admit that in proportion as any banking institution accepts demand obligations it should hold itself ready to meet them promptly and with only the least possible necessity of relying upon outside aid. Heretofore trust companies have deposited the bulk of their ready cash with banks. They have looked to these banks to pay them interest upon the deposits so made, and in case of necessity to assist them with advances upon collateral, usually of a long-term nature. So satisfactory have been the relations thus created between the trust companies and the banks that many of the companies have hesitated to enter the Federal reserve system. They have known that they could not keep their reserve funds at interest were they to become members, and in many cases they have doubted whether they would normally be in position to obtain aid from the Federal reserve banks in case of necessity because of the fact that they had not the kind of paper eligible for rediscount with the reserve institutions. With the first of these considerations I confess I have never had much sympathy. The pay-

ment of interest by one bank to another upon reserve deposits is uneconomic and unsound in principle. In our own country it has been for many years an established practice, although the best bankers and financiers have recognized its evils and have wished to correct it. The fact that some of the strongest trust companies in the country are already members of the Federal reserve system and that others are daily joining it shows that the logic of the case appeals strongly to trust company managers - so strongly, in fact, that they have in these representative cases chosen to forego the interest they have been receiving upon their reserves carried with the banks. You are all familiar with the argument against the earning of interest in this way and it is not necessary to urge the matter in detail. Belief on this point is very much like belief in a religious principle - either you hold to it or you do not, and, if not, no argument that I could present on this occasion would convert you.

The other point - the question of the assets held by the trust companies - presents a quite different problem. On that subject, there is a large field of discussion and a still larger field of work for the improvement of existing conditions. Undoubtedly if trust company managers heretofore exercising non-banking functions for the most part could find adequate and sat-

isfactory investments in live commercial paper eligible for re-discount with Federal reserve banks they would willingly place a substantial part of their funds in this form, to the proportionate exclusion of the longer-term investments that have heretofore absorbed the greater part of their resources. They would then be in as good a position as the commercial bank to take advantage of the opportunities of the Federal reserve system. Indeed they would be able to make, if anything, better use of them inasmuch as they could with safety invest a much larger share of their resources, while at the same time feeling assured of ready cash when it was needed. The danger of sudden demands on them being relatively less urgent, and their need for cash in vault correspondingly smaller, they could keep their funds closely invested, as many of them now do, but with the assurance, as just indicated, that such investment would not result in cramping them at times of need. Yet the fact remains that hitherto the trust companies have not gone largely into the commercial paper field. Will they do so in the future? The answer to this question is found by inquiring why they have not in the past held more commercial paper - a query to which the reply is very plain. A trust company is, as its name implies, vested with certain highly responsible and onerous duties. Its funds must be as secure as good judgment and sound investment ability can make them. It

must not take any more risk than is absolutely unavoidable. Yet, as every banker knows, investments in commercial paper involve either a rigid and careful scrutiny of credits or else acceptance of the judgment of others with respect to the credits. The trust companies have not maintained large credit departments. That has not been the kind of business for which they were fitted or the field which they chose to enter. On the other hand they have not been disposed to accept a mere personal assurance of the soundness of given paper. They have desired to find a field of absolutely reliable investment in business paper which they could with confidence enter and in which they would find the investments they sought for their funds, upon as safe a basis as that provided by the securities market, while at the same time obtaining a more liquid type of assets available for conversion into immediate resources when necessary. Precisely such a type of investment the Federal Reserve Act was designed to supply. Its provisions with reference to commercial paper and acceptances were intended to stimulate the development of the material of a discount market, while its organization sections were intended to afford the structure of such a market. If a true discount market could be built up in the United States the trust company would there find precisely what it needs as a field for the investment of that part of its assets which it

is willing to use as secondary reserve. It would be able to buy commercial paper with the indorsement of the commercial bank which had investigated it, or better still, to purchase the acceptance of such commercial banks themselves. It would thus be able to employ its funds in the support of the commercial business of the country, while the banks of the nation would first have devoted themselves to the analysis of credits, the study of the conditions surrounding them, and the approval and guaranteeing of paper presenting itself from time to time. For this they would have been adequately paid, and such demand would have sufficed to compensate them for the risk and labor involved in the service they thus rendered. The trust companies, on the other hand, would have assured themselves of the employment of their funds at remunerative rates, free of risk, and under conditions ensuring to them the possession of a liquid asset. Were they members of the Federal reserve system they would have sought possession of paper which they could turn into cash upon demand, and even when not members, they would have been in position to obtain their accommodation indirectly through some other channel. The existence of the discount market would have assured to them not only the immediate opportunity for safe investment in commercial paper, but also the certainty of power to withdraw funds when desired and to apply them to the meeting of their own

obligations. I do not for a moment suppose that the trust companies would or should thus employ the whole of their assets. To do so would be to place themselves in very much the same position as the commercial bank - an outcome which is hardly to be expected, even under conditions most likely to favor it. What I do mean is that the trust company would have found it wise to pay a portion of its resources into a secondary reserve of this kind; and would thus have protected itself far better than in the past, while at the same time continuing to earn the income necessitated by the fact that it usually paid interest to its depositors upon their dormant accounts..

No great change in banking or commerce comes about immediately, and the change to which I have made reference is too far-reaching in its significance to be produced without much effort and more or less unavoidable delay. Since the beginning of the European war, we have made some progress in the development of the acceptance market in this country. The maximum amount of bankers' acceptances available since the opening of the war is probably about \$300,000,000, but the amounts coming upon the open market - that is to say not discounted and held in portfolio by the banks which made the acceptances - are of course very much smaller. These acceptances have, moreover, been largely given by the institutions of the cities, including the larger trust companies. The practice of accepting and

that of purchasing acceptances of others has not thus far been widely diffused. To encourage the development of which I have spoken wherein a trust company becomes the purchaser or holder of substantial amounts of absolutely safe commercial paper it will be necessary to bring about something of a revolution in the commercial and banking practice of the United States. I need hardly say that my remarks have no reference to those cities where the trust companies are already under the law largely in the commercial banking business, but to the much larger part of the country where development has been far less marked.

What must be the nature of this change? We can answer that question by reviewing very briefly the status of commercial paper in the United States at the present time and the new conditions which it has been desired to establish in the market for commercial paper. The practice of the past has been that of borrowing from banks upon the "straight single-name" paper of individuals or corporations. Borrowers have made more or less frank statements of condition to the banks from which they sought accommodation and the latter have determined the amount of credit to which they were entitled. When this has been ascertained the credit has been extended, and the result has been to finance given trades or industries through the agency of the manufacturer or producer. He has obtained the necessary advances from his bank and has "carried" the trade

dependent upon him by giving its members time within which to pay their indebtedness, subject to discount for prompt returns. The Federal reserve system recognized the demerits of some phases of this system and sought to improve upon it by adapting the European practice to conditions in the United States. Following the intent of the Federal Reserve Act the Federal Reserve Board has defined and described the trade acceptance and the bankers' acceptance and has fixed preferential rates of discount on these two classes of paper good at Federal reserve banks. The thought has been that merchants would seek to obtain from their customers acceptances evidencing the existence of indebtedness, and that in this way the commercial operations of the country would be represented by definite units of desirable paper. It should hardly be necessary to say that no substantial progress in banking method is made if the buyer of goods merely gives to the seller a trade acceptance which the latter carries in his safe until maturity, or which he discounts with his own bank after indorsing it. Such a change may be desirable from the narrow standpoint of ease of collection or from that of the local relationship existing between the seller and the buyer. It does not, however, introduce any new element in banking practice, nor does it furnish in and of itself any reason why the upright merchant or manufacturer should

-13-

be able to obtain from his bank a greater volume of credit than he could otherwise have obtained upon the strength of his own statement of condition. It is necessary that the business men and the bankers of the country should take advantage of this new mechanism by altering their methods of borrowing. Such alteration in its essence involves a radical change in the location of the business man's financing. If a manufacturer, for example, has sold goods to a retailer, he has evidently parted with the goods and he expects to obtain reimbursement out of the funds arising from the sale of these goods to the customers at or near the point to which they are shipped. The financing of the operation should, therefore, be transferred from his bank to the bank at the point of shipment - that is to say where the buyer is located. If the local banker at that point is willing to accept the paper drawn upon the buyer the conditions conform to the best banking practice for two reasons - (1) The process of financing is now conducted at the point where the goods are located and where the funds from which payment must be made are in process of collection; (2) The aid of the local banker has been enlisted in passing upon the credit to which the local merchant or buyer is entitled. Long-range credit is eliminated and the unsatisfactory features of our past method of financing trade are done away with. The commercial transaction is now fi-

nanced on the basis of local judgment and with local funds. Perhaps there are some who are inclined to suggest that the effect of such a change in method would be to limit each community to the banking resources there existing and that as a consequence the amount of business that could be locally done would be greatly restricted. This might be the case if it were not that we have in existence a system of rediscount one of whose main purposes it is to provide a market for satisfactory paper of the kinds to which I have referred. The Federal reserve system aims to afford a place at which such paper may be rediscounted and thus stands ready to pour into any community that portion of the funds thus jointly owned by the banks of the district or of the country to which the business there originating is entitled. There is nothing in the proposed method which cuts down the opportunities of a community, but on the contrary there is everything to encourage those opportunities, improve them, and reduce the cost of doing business to which the members of such a community have been subjected in the past. Whether the paper thus offered be trade acceptances indorsed by the local banker or a local banker's own acceptances is a matter of detail. The point is the shifting of the process of financing the business operation from the producer's or manufacturer's bank, where it has heretofore been concentrated, to the bank with which the buyer

-15-

habitually trades and which knows him and his circumstances. Such a system is restrictive only in so far as it tends to prevent over-buying and to make each community responsible for its own judgment with regard to the credit of its members. It is not only the scientific way of financing trade, but it is the plan that has proved itself in those countries which have been most successful as traders and producers. That there is opposition to it in some quarters is not surprising. Many naturally dislike any innovation which looks in the direction of sounder and more stringent credit and which seeks to eliminate doubtful elements upon which persons of weak and questionable credit may rely for the expansion of their operations.

While it is true that the introduction of this great change in commercial and financial practice calls primarily for the initiative of the manufacturer, jobber, merchant and credit man, and for the earnest cooperation of the banker, it is also true that the undertaking will be greatly advanced if it can likewise have the cooperation of the investment institutions of the country. Why should the community undertake so difficult an innovation as this? There are some enlightened members of all branches of trade who not only appreciate the advantage to the public at large that may be reaped from a far-reaching and desirable reform, but the rank and file will adapt themselves to

-16-

the change only as they are persuaded that it is beneficial to their business in the narrower sense of the term. They want to know how they will profit from it. This, however, is fortunately the easiest phase of the situation to make clear. With the development of a discount market based upon standardized credit in the way I have just outlined the rate of accommodation is reduced to its lowest terms. The man with small capital but first-class credit becomes entitled to and will receive the rate prevailing in the market. The banker who passes upon his credit and indorses his paper or accepts for him, as the case may be, obtains his due remuneration in the form of a commission, while the investment institution which eventually takes and holds the paper up to maturity receives the going rate of interest upon its advance. Since the credit is unquestionable and is moreover capable of liquidation at any moment, such an institution is safe and conservative if it invests a much larger proportion of its funds than it would otherwise be warranted in doing. It is therefore better that it should have, let us say, \$100,000 of prime acceptances with good banking names upon them, yielding $3\frac{1}{2}$ or 4%, than if it should have an equal amount of money technically on deposit in banks at 2%, since we know that such deposits must be made to earn interest and are frequently employed in collateral loans which may or may not be promptly paid in the event of

-17-

stringency. True, the commercial bank may wish to hold its acceptances or its indorsed paper, whether originating with itself or with some other bank, as an investment. Many banks at the present time do so. This, however, is not the ideal condition, for good banking practice tells us that the process of discounting should, if possible, be separated from that of accepting or indorsing. It is just here that the trust companies of the country can be of great service both to themselves, to the banking community, and to the public in general. If a situation can be created in which the banks of the country, small and large, will devote their activities primarily to passing upon commercial credit and guaranteeing the paper that comes into their hands, the trust companies and other investment concerns can with confidence assume the function of carrying this paper. They will be warranted in placing their trust funds in such a form because of the safety they will enjoy through bank guarantees, while they will be warranted equally from the general public standpoint since they will be possessed of paper eligible for rediscount and hence convertible into available funds upon demand. They can in this way harmonize their banking and trust functions and serve as an indispensable element in the nation's commercial banking system. Their competition, so-called, will be a help and not

a limitation upon the banks of the country, and the latter will find their power to make profits increased by reason of the existence of such an auxiliary. Where the trust companies are practical banking institutions, that is to say in those places where their banking functions have overshadowed their trust functions, they will find the new plan the only means by which they can get the advantage of the Federal reserve system and receive from it the benefits to which, as members, they will be entitled or which, as nonmembers, they may reap through the existence of a flexible and effective discount market.

Changes such as this are not, as I have said, likely to be brought about at once. They will not be brought about at all except through the comprehension and appreciation of their meaning on the part of those who are to profit from them and to carry them into effect. In speaking recently to gatherings of business men I have endeavored to make clear the business man's direct and urgent interest in taking up this change in commercial practice. He must take the initiative, and it is to him that the community must look for the first steps in the movement. But his efforts will be unsuccessful unless he can have the aid of the banks and investment institutions of the country, I have shown that they have an important interest

in the matter from the narrow profit-making standpoint. How much larger is this interest when viewed from the standpoint of the community as a whole! We can never make the nation's bank resources fluid and safe until we have established the credit of the country upon an unimpeachable foundation, and until the great majority of all those who are carrying on the business of banking in whatever form have united in the cooperative system of organization which gives to each the benefit of the combined results of all. Such a system is that of the Federal reserve. Let us now, however, make the mistake of supposing that the mere organization of such a system is enough. Many persons have fallen into the error of supposing that the establishment of the machinery of cooperation and creation of banks which could be relied upon in emergency to render help with an abundant issue of flexible note currency is all that is necessary. Indeed there are those who have asserted that such endeavors have made panics a thing of the past, but little reflection is needed to show that this is taking the shadow for the substance. The Federal reserve system will be useful in proportion as it succeeds in renovating and strengthening the credit business upon which banks rest. If it does not do this; if it does not perform its functions every day, then it is more or less of a failure. It must be continuously and actively at work passing upon credit, transferring it from one point to another, and rendering it acceptable to all who are entitled to its use.

6/5/17

3400

EX-OFFICIO MEMBERS

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AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

June 1917.

Federal Reserve Bank,

Dear Sirs:

The Board has received a letter from an officer of a Federal Reserve Bank, suggesting certain changes in the form of the par list to be issued as of July 1, next, as follows:

"The list of towns should include all towns in the State in which are located banks whose checks are collectible at par through the Federal Reserve Banks. Where a State is located in two districts the number of the district immediately follows the name of the town. Where all banks in a town are not on the par list the names of such banks as are on the par list are shown. In making up this list all banks whether national, member or non-member, are considered alike. Towns collected indirectly, that is, through an intermediary point, are so indicated.

"A par list compiled on this plan makes it unnecessary to refer to more than one place in the list to obtain all necessary information. For instance, referring to the specimen attached hereto, Alexandria, Tenn., is located in the 6th district; all banks in the town are on the par list. (They consist of two State banks). Ashland City is in the 6th district; the Ashland City Bank and Trust Company is the only bank in that town that is on the par list. Athens is in the 6th district; all banks in the town are on the par list. (They consist of two national bank). Bristol is in the 6th district; the three banks shown, one State and two nationals, are on the par list. (The Washington Trust and Savings Bank of this town is not on the par list). Brownsville is in the 8th district; the First National Bank is the only bank in that town that is on the par list. (The two nonmember banks in this town are not on the par list). Buffalo Valley is in the 6th district; all banks are on the par list. This point is collected through some other town."

A copy of the specimen form referred to is inclosed herewith.

Will you please give the Board your views as to whether or not the form proposed would increase the usefulness of the par list.

As the material for this par list should be in the hands of the Board by June 23, this matter should be given immediate attention.

Very truly yours,

Secretary.

Inclosure.

T E N N E S S E E .

DISTRICTS NOS. 6 AND 8 - ATLANTA AND ST. LOUIS.

Alexandria, (6)	All banks.
Ashland City, (6)	Ashland City Bank & Trust Co.
Athens, (6)	All banks.
Bristol, (6)	Bank of Bristol. Domino National Bank. First National Bank.
Brownsville, (8)	First National Bank.
*Buffalo Valley, (6)	All banks.

* Collectible through an intermediary town.

X-195.

PRESS STATEMENT.

June 6, 1917.

Governor W. P. G. Harding of the Federal Reserve Board left Washington this morning for St. Louis, Mo., where he will arrive on June 7th. At St. Louis he will make an address in furtherance of the success of the new Liberty Loan. Mr. Harding will leave St. Louis in company with the Secretary of the Treasury, going from that point to:

New Orlenas	Friday, June 8th.
Birmingham.....	Saturday, June 9th.
Louisville.....	Monday, June 11th.
Cincinnati.....	Monday, June 11th.
Pittsburgh.....	Tuesday, June 12th.

and returning to Washington probably on June 14th.

This is Mr. Harding's second trip of the kind; he having joined the Secretary of the Treasury in the Liberty Loan speaking trip from May 17th to May 27th during which time he visited Chicago, Milwaukee, St. Paul, Des Moines, Denver, St. Joseph, Mo., Omaha, Topeka, Kansas, Kansas City, and Columbus, Ohio.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

1457
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ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD
A-197

June 8, 1917.

Dear Sir:

Further delay in reporting the amendments to the Federal Reserve Act occurred today. It is now understood that no action will be taken before Tuesday, June 12th.

Very truly yours,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

3498
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42506
H. PARKER WELLES, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 9, 1917.

Dear Sir:

Enquiries have been made of the Board from several quarters concerning the Board's circular of May 22. In this circular the Board has authorized member banks to rediscount for nonmember banks, including savings banks from June 15 to July 15, whenever the proceeds have been or are to be used to meet demands caused by subscriptions to the Liberty Loan. The question has been raised whether this authorization would permit member banks to rediscount with their endorsement with Federal reserve banks a direct obligation of a nonmember bank provided the nonmember bank states in an affidavit that the proceeds of the note have been used for the purpose of paying for or carrying Liberty Loan Bonds.

The Board has carefully considered this matter and reached the conclusion that, in view of the importance of making this loan a success, and furthermore, in view of the fact that the amendments covering the admission of State banks are still under the consideration of Congress at this time, the Board should not, all things considered, withhold this authority, which it is advised by counsel it may grant, it being strictly understood that this authority, as stated before, is given to be in force only between June 15 and July 15, 1917, and the Board is desirous that it should be understood that the whole question will be reviewed after that date and a new decision then given to cover similar cases in the future.

Very truly yours,

Vice Governor

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
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H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 11, 1917.

Dear Sir:

I enclose herewith a copy of the Conference Report on the amendments to the Federal Reserve Act. It is now understood that the discussion of this report will begin at 11 a. m., tomorrow, June 12.

Also enclosed find copies of statements issued by the Treasury Department chiefly with reference to the "Liberty Loan."

Very truly yours,

Secretary.

T R E A S U R Y D E P A R T M E N T

WASHINGTON June 8, 1917.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the month of May last, amounting to \$142,867.78, as follows:

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	Total Sheets
Boston.....	131,000	51,000	17,000	5,000	2,000	206,000
New York.....	1,157,000	589,000	130,000	18,000	37,000	1,931,000
Philadelphia....	60,000	179,000	49,000	. . .	16,000	304,000
Cleveland.....	30,000	151,000	118,000	3,000	. . .	302,000
Richmond.....	47,000	65,000	31,000	. . .	. . .	143,000
Atlanta.....	39,000	29,000	2,000	. . .	. . .	70,000
Chicago.....	126,000	159,000	111,000	14,000	1,000	411,000
St. Louis.....	97,000	74,000	13,000	1,000	. . .	185,000
Minneapolis.....	100,000	24,000	22,000	1,000	1,000	148,000
Kansas City.....	130,000	. . .	33,000	5,000	1,000	169,000
Dallas.....	55,000	31,000	. . .	. . .	4,000	90,000
San Francisco...	54,000	107,000	37,000	. . .	. . .	198,000
	<u>2,026,000</u>	<u>1,457,000</u>	<u>563,000</u>	<u>47,000</u>	<u>62,000</u>	<u>4,157,000</u>

4,157,000 sheets at \$34.368 per M.....\$142,867.78

The charges against the several Federal reserve banks are as follows:

	<u>Sheets</u>	<u>Bureau appropriations</u>			<u>Total</u>
		<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	
Boston.....	206,000	\$2,246.64	\$2,899.86	\$1,933.31	\$7,079.81
New York.....	1,931,000	21,059.48	27,182.69	18,122.43	66,364.60
Philadelphia....	304,000	3,315.42	4,279.41	2,853.04	10,447.87
Cleveland.....	302,000	3,293.61	4,251.25	2,834.27	10,379.13
Richmond.....	143,000	1,559.55	2,013.01	1,342.06	4,914.62
Atlanta.....	70,000	763.42	985.39	656.95	2,405.76
Chicago.....	411,000	4,482.37	5,785.65	3,857.23	14,125.25
St. Louis.....	185,000	2,017.61	2,604.25	1,736.23	6,358.09
Minneapolis.....	148,000	1,614.09	2,083.40	1,388.98	5,086.47
Kansas City.....	169,000	1,843.11	2,379.01	1,586.07	5,808.19
Dallas.....	90,000	981.54	1,266.93	844.65	3,093.12
San Francisco...	198,000	2,159.39	2,787.25	1,858.23	6,804.87
	<u>4,157,000</u>	<u>\$45,336.23</u>	<u>\$8,518.10</u>	<u>\$39,013.45</u>	<u>\$142,867.78</u>

-2-

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation, "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

OSCAR T. CROSBY
Assistant Secretary.

1502

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

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H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 11, 1917.

Dear Sir:

I enclose herewith a copy of the Conference Report on the amendments to the Federal Reserve Act. It is now understood that the discussion of this report will begin at 11 a. m., tomorrow, June 12.

Also enclosed find copies of statements issued by the Treasury Department chiefly with reference to the "Liberty Loan."

Very truly yours,

Secretary.

503

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
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FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-204

June 12, 1917.

Dear Sir:

Debate on the bill amending the Federal Reserve Act was begun in the House of Representatives shortly after the opening of the session to-day, and was continued until 2.00, when the measure was displaced by another bill which had the right of way. No definite action, therefore, was taken.

I inclose you herewith copies of statements issued to-day by the Treasury Department chiefly with reference to the "Liberty Loan".

Very truly yours,

Secretary.

Inclosures.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
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FEDERAL RESERVE BOARD X-205

WASHINGTON

DIVISION OF REPORTS AND STATISTICS

3504
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 13, 1917.

Dear Sir:

Under date of May 14 request was made by the Vice Governor of the Board that amounts received as subscriptions to U. S. certificates of indebtedness and U. S. bonds be included by your bank on Form 34 among Government deposits, and that a new asset item be set up headed "Due from depository banks - fiscal agent account."

Since then a special Fiscal Agent report (Form FISC 101) has been devised to take care of all transactions in connection with the Liberty Loan, including transactions involving the redeposit of amounts subscribed to "Liberty" bonds. May I ask, therefore, that, beginning with June 18, you eliminate from Form 34 item "Due from depository banks - fiscal agent account" and corresponding liability item. In case amounts received in payment for subscription to Government bonds are held by the Federal reserve bank, such amounts should be carried with U. S. Government deposits on Form 34, as well as under proper heads on new Form 101.

It will not be necessary to send us on Friday nights any telegraphic reports of Fiscal Agent accounts in addition to the daily mail reports on Form 101.

Respectfully,

Secretary.

EX-OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
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ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 13, 1917.

Dear Sir:

There was no discussion in the House of Representatives today with reference to the conference report on the bill amending the Federal Reserve Act, but it was understood that the matter will be taken up at tomorrow's session and disposed of.

I enclose you herewith copies of statements issued today by the Treasury Department, chiefly with reference to the "Liberty Loan".

The opinion of the Supreme Court of the United States in the case of Bank v. Fellows will be in hand within a day or two, and it is expected that the Board will reprint it for immediate distribution.

Very truly yours,

Secretary.

Enclosure.

X-207.

LIBERTY LOAN DISCOUNT RATES.

<u>Bank</u>	<u>Customers' Paper</u>			<u>Banks' Direct Obligations</u>		
	Rate	Maturity	Effective	Rate	Maturity	Effective
Boston	3½%	90 days	June 11			
New York	3½%	"	May 22			
Philadelphia	3½%	"	June 1	3½%	15 days	June 11
Cleveland	3½%	"	June 15	3%	15 days	June 8
Richmond	3½%	"	May 25			
Atlanta	3½%	"	May 24			
Chicago	3½%	"	May 24	3%	"	May 19
St. Louis	3½%	"	May 25			
Minneapolis	3½%	"	June 4	3%	"	May 8
Kansas City	3½%	"	May 28	3%	"	May 7
Dallas	3½%	"	May 22			
San Francisco	3½%	"	May 23			

EX-OFFICIO MEMBERS

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JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

X-209

FEDERAL RESERVE BOARD

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CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 14, 1917.

Dear Sir:

The conference report on the Bill amending the Federal Reserve Act was adopted by the House of Representatives this afternoon.

I inclose you herewith statements issued by the Treasury Department, chiefly with reference to the "Liberty Loan".

Very truly yours,

Secretary.

Inclosures.

1000

EX-OFFICIO MEMBERS

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CHAIRMAN
JOHN SKELTON WILLIAMS
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CHARLES S. HAMLIN

FEDERAL RESERVE BOARD

X-212

M. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 15, 1917.

Dear Sirs:

On May 29, 1917, the Board issued a circular letter relating to rediscount operations between Federal reserve banks, and inclosed with that letter a memorandum setting forth the general outline of the procedure to be employed in effecting those rediscounts.

All the Federal reserve banks, excepting Chicago, have advised the Board of their willingness to avail themselves of the opportunity afforded by that plan for making a speedy and effective transfer of funds by rediscounts between the various Federal reserve districts. That plan was designed generally to cover all rediscount operations between Federal reserve banks, it being intended to leave arrangements of minor details to the banks themselves. In view of the fact, however, that the next few weeks may create an emergency which will demand immediate transfers of funds between reserve banks, the Board suggests the following modus operandi in order to avoid any delay that might be incident to the working out of separate agreements between individual banks.

(1) As suggested in memorandum X-185, inclosed with the Board's circular letter of May 29, each Federal reserve bank should pass a resolution (Form D attached to memorandum X-185) authorizing the Federal reserve agent at each of the other Federal reserve banks to receive and to hold for its account, subject to its order, notes, drafts and bills of exchange which it has rediscounted and which are properly indorsed by the selling Federal reserve bank.

(2) Arrangements for rediscount operations may be made either by telephone or by telegram and the funds involved may be transferred in the same manner on the same day through the gold settlement fund as described in Memorandum X-185.

-2-

(3) Paper which is rediscounted in this manner must be indorsed by the selling Federal reserve bank either in blank or as follows:

"PAY TO THE ORDER OF ANY BANK, BANKER,
OR FEDERAL RESERVE AGENT.
FEDERAL RESERVE BANK OF _____

CASHIER."

In order to avoid any undue delay in rediscounting large amounts this indorsement may be made by the means of a rubber stamp.

(4) The selling Federal reserve bank should prepare a detailed schedule (Regular Form B. D. 4) of the paper rediscounted. This schedule should be made in triplicate, one copy to be sent to the purchasing bank, another to the Federal Reserve Board, and the third copy to the Federal reserve agent at the selling bank. This schedule need not be prepared in advance. It should, however, be prepared as soon as practicable after the rediscount operation is consummated, and should contain a detailed list of all paper and collateral, if any. Ratings should be furnished if the purchasing bank requests them.

(5) The Federal reserve agent of the selling Federal reserve bank who acts as custodian of the paper rediscounted, should notify the purchasing Federal reserve bank by telegram that he has received the rediscounted paper for its account and should confirm this telegram by letter (see Form C attached to memorandum X-185).

Enclosed please find a reprint of X-185, together with a reprint of the forms referred to in that memorandum. This reprint is made merely to eliminate references to indorsements "in blank," and to eliminate the requirement that ratings of the payers of notes be given with each schedule of notes rediscounted.

Nothing in this proposed plan providing for rediscounts between Federal reserve banks should be construed to interfere with the right of any Federal reserve bank to participate, if it so desires, in the purchase or discount of notes or accept-

-3-

ances made through the agency of another Federal reserve bank without the indorsement of the latter bank. The Board believes, however, that the exercise of the rights vested in the reserve banks to rediscount paper for other reserve banks necessitates the indorsement of the borrowing bank as indicated in this letter.

Very truly yours,

Governor.

Inclosures.

2511

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
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CHARLES S. HANLIN

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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-213

June 15, 1917.

Dear Sir:

I inclose herewith copy of decision of the Supreme Court of the United States in the case of Bank v. Fellows; also statements issued by the Treasury Department, chiefly with reference to the "Liberty Loan."

Discussion of the Conference Report on the Amendments to the Federal Reserve Act will begin in the Senate within a day or two.

Very truly yours,

Secretary.

Inclosures.

3512

EX-OFFICIO MEMBERS
—
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

X-215

W. P. G. HARDING, GOVERNOR
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ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 16, 1917.

Dear Sir:

Numerous questions have recently been presented to the Federal Reserve Board with reference to trade acceptances, and I have in consequence been instructed to make some inquiry about the present situation in the matter, and to report the results to the Board.

I know that considerable work has been done in your district with reference to the trade acceptance, and should be very much obliged if you would send us a complete set of all matter issued by your bank on the subject, and also any other material, or copies of correspondence showing the position of business men and bankers on the subject, that you feel at liberty to transmit for the information of the Board.

Yours very truly,

Secretary.

REMARKS OF H. P. WILLIS

before

AMERICAN INSTITUTE OF BANKING

at

Toledo, Ohio,

June 18, 1917.

Mr. Chairman and Gentlemen:

The participation of the United States in the war against Germany has raised a multitude of pressing national questions which are calling for immediate solution. It is natural and unavoidable that in preparing ourselves for our share in this struggle we should direct our attention, first of all, to those matters whose immediate urgency is such as to admit of no delay. We must arm and equip large forces, provide transportation on land, build an enormous quantity of tonnage, and in manifold ways adjust our social and industrial conditions to the special needs of the moment. More important, perhaps, than anything else, is the requirement that we furnish at once the funds that are needed for the support of our undertakings both at home and abroad, and for those of the nations with which we are allied. Fortunately we are perhaps better equipped in the matter of banking and finance than in any other branch of public activity for meeting and bearing the unprecedented duties and burdens which war has brought us.

In all this, however, we must remember that immediate, must not be provided for at the expense of future, necessities. Wise advisers have told us that it is not safe to count upon a short war, and the experience of other nations enforces this counsel. We hope that the duration of the struggle will be brief; we earnestly look to the coming of peace as a way of deliverance for the world from evils that are, if anything, worse than those that have yet been suffered. Nevertheless, we recognize that perhaps the surest way to hasten the early conclusion of peace is to act as if such an outcome were not probable. This is true in every branch of our activity; it is conspicuously true in banking and finance. Every step that we take must be chosen with a view to its eventual effect upon our financial future, remembering that this future includes not merely our success in the war, but our industrial and economic position as a nation in the long years of peace that are to follow it.

The Federal reserve system is the nation's basic reliance in its financial preparation; the central mechanism for coordinating and uniting the various elements of national strength; the only means by which we can hope for the proper development and marshalling of the country's resources of credit and money. Every step that it takes, every policy that it outlines, must be tested, not by its immediate success, but by its eventual bearing

-3-

as illustrated by experience and tried financial principles.

The United States has recently struck a telling blow on the side of the Allied nations. It has furnished them in round numbers a billion dollars of advances with which to meet their maturing obligations for supplies, munitions, transportation and the thousand and one requirements which must be provided if the war is to go on. Many persons think of this as our only contribution thus far. The truth is that this is only the latest contribution of the United States to the war. For three years past we have been exporting at a rate never before dreamed of. Since the middle of 1914 we have sent abroad \$12,000,000,000 of goods - a net merchandise balance of over \$6,000,000,000 - and we have accepted in payment of this net indebtedness probably \$2,000,000,000 of our own securities which have been returned to us, \$2,000,000,000 of foreign securities, and opened our own credits amounting to another billion. No one probably would have imagined, before the beginning of the European war, that any such aid could be so promptly furnished by this country. Yet through our financial organization it has been possible to render ^{the} aid in question without shock to our banking or financial mechanism. The cost, however, has already been great. We have suspended the extension of our railroads; we have checked our building enterprises; we have discontinued the development and enlargement of our internal

undertakings in many lines. More important still, we have submitted to an enormous increase in the cost of living, which has borne heavily upon every man in the land, and particularly upon those whose incomes are fixed, whether they be drawn from labor or from invested capital. Some classes of labor have succeeded in obtaining advances of pay roughly corresponding to the rise in prices, but even they have not kept pace with the growing costs of all classes of necessities. Strong as we are in material wealth, efficient as we have become in industry, we have already accepted a great burden, and now that we are called upon to increase this burden perhaps many times over, we must take serious account of ways and means and must adjust our undertakings to our capacities.

Let me review for you in briefest outline what the Federal reserve system has already done as a basis for discussion of what it may yet be able to do. Even before the coming on of actual war, the System had prepared itself for any sudden pressure or strain. Early in the present year it placed very large orders for Federal reserve notes, and when these had been printed it distributed them throughout the country at the various subtreasuries and mints in order that they might be readily available upon demand. There has never been a moment when the System did not stand ready to supply to banks in need of currency that emergency relief of which so much has been said in public and which

has been so unfortunately lacking in moments of crisis and stringency heretofore. The Federal reserve system has, from its very inception, moreover, sought to conserve its strength from the credit standpoint. It has recognized that notes, however desirable and valuable, could not be of much service unless they were backed by ample reserves held by institutions conservatively managed and in thoroughly sound and liquid condition. It has, therefore, discouraged long-term investments by the various reserve banks and has at times recommended to them moderation even in the purchase of paper of recognized liquidity which, under other conditions they would have been glad to take over as a part of their assets. At the beginning of the year 1917, as a result of this policy of conservatism, the Reserve banks found themselves possessed of assets amounting to \$769,500,000 of which \$474,600,000 consisted of gold or lawful money. Since then effort has been made to secure accumulation of a still larger quantity of reserve money in the System, and legislation in process of adoption has made provision for transferring a still larger share of the vault cash of the banks to the reserve institutions. Without this legislation the reserve banks could probably supply accommodation additional to that already furnished by them in an amount varying from one billion to twelve hundred millions of dollars. With this legislation in effect, they could probably add \$350,000,000 to the amount I

have mentioned. Since the beginning of the war every effort has been made to prevent these resources from being dissipated and to place them reasonably at the disposal of the Government in the process of financing that has been in progress. Not only have the reserve banks endeavored to do their utmost as fiscal agents of the Treasury Department, but they have, by making special rates of discount in favor of paper secured by public obligations, sought to further the flow of immediate funds from the banks and the people to the Government. The Government, on its part, has wisely refrained from initiating any policy that could result in depleting the store of cash either in the reserve banks or in the vaults of the members or nonmembers. Every arrangement has been made for maintaining the funds on deposit, for facilitating their easy and natural transfer from one part of the country to another, for providing exchange in such a way as to avoid unnecessary friction and for relieving the banks of any of the older limitations of law with reference to reserves that seemed likely to stand in the way of the safe and efficient placing of the new securities. The great loan of two thousand million dollars offered by the Secretary of the Treasury a few weeks ago has thus been successfully put on the market. It is a satisfaction to know that after the great effort already made by the banks and people since the beginning of the European war, they were never-

theless able to supply this sum, unprecedented as it is in American finance, for the immediate requirements of their own Government. It is a splendid record of public service for the financial community in general and the Federal reserve system in particular.

If we were now at the end of our requirements for additional financing we might, perhaps, give ourselves no further concern about the unusual banking problems growing out of the war. But this, as we all know, is far from being the case. The Secretary of the Treasury has estimated our costs for the first year of war at perhaps ten billions of dollars. How can we supply this immense sum? Can we confidently look to the Federal reserve system to do the work? Can we expect the banks of the country to absorb and carry any considerable part of this immense volume of securities? Can we believe that our banking credit as such is sufficient to shoulder such a burden? I do not underestimate in the least what has already been done by the people of the United States in purchasing the bonds of their Government; but I believe it is true that in too many cases there is a fancied security resulting from the very greatness of the resources of our banks which has led many to withhold their direct assistance. They look to the financial institutions to carry the load as if it were possible for them to go to almost any length they might choose in

investing their funds in long-term securities. The bonds, they well know, are wholly safe; they are the premier security of the world to-day -- then why should the banks hesitate to purchase them in any quantity that their resources will permit? Is it only a reluctance to invest in a security that bears interest at so low a rate as $3\frac{1}{2}\%$? If so, the average man may, with safety, look to the banks to absorb any portion of securities that may not have been subscribed through popular participation. This is not a new point of view. It was adopted in England at the beginning of the war when the Government practically looked to the banks for support, and when they absorbed vastly more of the short-term issues thus poured out upon the market than, under other conditions, they would have dreamed of accepting. Something of ^{the same} the kind occurred in the other belligerent countries. It was not for a long time that the public became aware, even in a remote degree, of the nature of the transactions that were going forward and the real consequences to be expected from the absorption of securities by commercial and banking institutions. To-day it is recognized that inflation of bank credits, unduly large purchases of bonds by banking institutions, congestion of these bonds in bank vaults, due to the fact that investors cannot, or will not absorb them, and loss of specie in consequence of the inflation policy, mean high prices,

weakened financial credit, extravagance on the part of individuals, and, if not checked, eventual bankruptcy. There are too many, even among our financiers of light and leading, who fail to appreciate the real efforts of undue enlargements of banking credit. At the outbreak of the Civil War American bankers were asked to absorb great issues of Government bonds. When their purchasing power was exhausted, issues of legal tender notes came in to take the place of bank loans. Gold was driven from circulation, prices rose enormously, and the country received a lesson as to the bad consequences of currency inflation that it has never entirely forgotten. To-day we have the greenback still with us, but we know the evils of an unrestrained issue of bank notes.

What we have less clearly recognized as a nation has been that inflation could occur quite as easily through the over-extension of banking credit as through the over-issue of currency. There is no difference in principle between the issue of a bank's notes and the establishment of a credit upon its books. Both represent purchasing power, and in both the bank itself stands obligated to make immediate payment upon demand. Both can and will be used by those who obtain them as a means of purchasing goods in the market, and both, therefore, add to the power of the holder to raise prices by exerting his demand for commodities. So long

as the note or the bank credit represents actual lines of immediate purchase, its creation is beneficial and not injurious. The man who obtains an advance designed to put him in funds at the present moment, knowing that he is sure to receive from others within the next 90 days fluid means of liquidating his account, has merely facilitated the exchange of goods against goods. He has been helped to render his real purchasing power available, but he has thereby received no greater control over goods than that which he enjoyed in the first place. If, however, he receives a loan upon some long-term security, be it ever so sound and reliable, he has been given a means of obtaining the goods on the market at the moment against a promise to pay some long deferred debt in the future. He has thus been enabled to make a demand for the current products of industry, notwithstanding that he had no right or title thereto as a purchaser. His long-term capital has been rendered immediately available as an offset against consumable articles, and the effect is to raise the prices of those articles in preparation. On the other hand the bank which grants this accommodation has placed itself in an ambiguous position. It may have every reason to believe itself safe and solvent, but it has undertaken to pay something upon demand and to keep it redeemed in specie despite the fact that it has not arranged for any corresponding

claim upon specie in the near future. As a result, its specie tends to dwindle as the claims against it are presented for cashing, and if the process goes far enough, the bank is irresistibly driven towards the suspension of specie payments. It tends to fall into the same position as a Government which issues legal tender notes which it has no immediate means of paying because the volume of the notes and the Government's own necessities are so much larger than what it can collect in current funds.

Language is hardly strong enough to depict with adequate force the effect of such a development upon the individual and through him upon the nation at large, as prices are raised and his cost of living increases out of all proportion to his efforts. Relations between the debtor and creditor are deeply disturbed. The man who has agreed to pay a specific sum in money finds that he is really returning to his creditor a very much smaller control over goods than he had originally received. The receipts of the Government from taxation dwindle in value because they now no longer buy what they were originally supposed to command. Every element of production is disturbed; every industrial process is thrown out of gear. Every business relationship depending upon stability for its soundness and strength is rendered doubtful. The financial foundations of

the community are shaken.

Such a condition must not occur in the United States. How can it be avoided? First and most important of all, we must not look to our banks as the ultimate holders of long-term bonds or other obligations. Their assistance as distributors is not only desirable, but absolutely essential. But this assistance is a very different thing from reliance upon them as ultimate investors or holders. If they are called upon to purchase and carry bonds in undue amounts a beginning has been made for all of the evils that I have set forth. It is to the individual investor and buyer, and to him alone, that we must look for the strength to furnish what the Government requires, and to conserve the power of the banks in their true capacity as commercial agencies for facilitating the transmission of funds and the maintenance of the liquid condition of the nation.

How far can he be expected to go in thus sustaining the fighting power of the nation? Before the coming on of the war, the wealth of Great Britain was estimated at some eighty billions against which she had an outstanding debt of over three billions of dollars. The wealth of the United States was estimated at one hundred and eighty billions, and some estimators have since raised this figure to two hundred and fifty billions. England to-day has a war debt of about fifteen billions, and

-13-

there are some who think that reckoning upon a like basis we can support an indebtedness for war purposes of perhaps thirty-five to forty billions in addition to such taxes as we may be called upon to pay. If this be true, all that is required in the United States is a campaign of education designed to induce the average man to save, save, save, and bring his savings to the support of the Government. It is of vital moment for us to reach a positive conclusion on this question, since by so doing, we shall test our power to bear the great responsibilities by which we are now confronted, and shall ascertain the true limits of our capacity to save and invest. No figures of absolute accuracy with reference to our national income have, so far as I am aware, ever been compiled. Some recent estimates fix the gross total at thirty billions of dollars, an estimated average family income of less than \$1,500. Our annual savings fund is placed at from five to six billions. How much can this latter figure be increased? There are some who point out that an annual additional saving of \$250.00 per family would yield an additional five billions a year, and would give us what we need for our war aims. Analyses of figures show us the difficulty of sustaining such an inference. Two-thirds of the families of the United States, it is estimated, have only two-fifths of the incomes. They are to a great extent, below the margin of saving

since their average income is much below \$1,000. They can contribute something, but the total will be relatively small. The recipients of higher incomes can, and should do much more in bearing the load of such compulsory saving. Here, however, there is another difficulty. The man of higher income who begins to save finds that his saving must be judicious or it will be ineffectual for our purposes. If he abandons certain favored outlays, he will take work from men of specialized ability whose incomes will cease, but who must be set at work elsewhere in order to make the sacrifice bear fruit. Even if they are at once transferred to productive enterprise, it will remain a question how much they can for a good while contribute. Unfortunately the measure of the real saving brought to pass is not the money put aside by the owner of income, but the increased production effected by those whose labor has thus been set free. What can be done by them must be done through a general process of reorganizing our resources. What we do must, however, be judiciously done, if the real benefits are to be realized. When by a process of experimentation we have ascertained what we can do, and have done it, we shall have accomplished our utmost, and more can not be expected.

In a very special and peculiar way the economic problem of the nation is an unprecedented problem. In all other wars or

-15-

times of stress, the nations have been able to induce other nations to divide the load with them. They have induced others to save by paying high rates of interest that would suffice to call forth the necessary resources. It was in this way that the European belligerents at the opening of the present war secured from the United States and elsewhere the goods that they required. This expedient is now closed. To all intents and purposes, the United States is the last reservoir of liquid capital in the world. We cannot sell our bonds to Mexico or China. We must take and purchase them ourselves. It ⁱⁿis/carrying out this process that the real test is supplied, the real measure of our contributing power furnished.

This is a genuine national problem, a problem for every man in the land. Financial issues are often thought of as something distant, vague, to be settled by experts. Yet in their real bearing they are not so. The present situation shows how the settlement of the pressing issue now at stake must be worked out in the home, the factory, the field - though not at the bank. Fortunately we have smoothed away by wise legislation the problems of banking operation that in times past have troubled us. To-day we have ready to hand a highly perfected, smooth-working, financial machine. We can, if we will, - and we must - take from our pockets with the minimum of friction and lost motion the utmost we are willing to part with. Banking, however,

-16-

is a process of exchange and not of production, and it is production that counts. We must produce by creating goods, or by abstaining from their consumption, before we can, by the use of our banking mechanism, transfer such goods, new or old, to public uses. If we refuse to do so, if we say to our banks and our administrators that they must carry the burden, we suggest that they by the mere creation of credits, bid up prices and buy the goods away from the consumers who have been purchasing them in the past. Such a process may result in supplying the goods called for, but only at a tremendous sacrifice, far greater than that required by the act of saving them in the first place.

We must make of ourselves a nation of experts and wise counselors, on this great economic problem, surpassing as it does in its significance any that has been presented in the past. We must also present to the world an example of wise and conservative self-denial in consumption, carrying nothing to excess overdoing nothing, but sanely and calmly setting ourselves to husband our strength and to apply it to our purpose. Last but not least, we must comprehend the issue in its essentials and possess ourselves of the strength of mind that will measure our capacity to the task, and attempt only what we can carry through. We have now no choice in the matter. Conditions, not theories, require to be dealt with. Not only our success in war, but our future as a solvent nation able to fulfill

-17-

the duties of reconstruction that will come when the war is over, require that we conform to this high standard. We must not jeopardize our essential powers in the doing of it, we must not deceive ourselves as to the real problems that are presented. In a very unusual and peculiar way the successful conduct of our financial and banking affairs depends upon the decisions of the average man. The Federal Reserve System is the instrument through which his judgments and conclusions can and will be carried out, but the responsibility for those judgments, the soundness of those conclusions will rest ultimately with him.

AN ANALYSIS OF THE SUBJECT OF AN "EXCHANGE"
CHARGE ON CHECKS.

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- (1) Until the Federal Reserve Act went into effect and, indeed, until November 17, 1916, when the final transfer of reserves was made, it was permissible under the National Banking Act for banks to count as part of their legal required reserves funds redeposited in banks in other cities. There were only three cities in the country where this was not permitted, to-wit: New York, Chicago and St.-Louis; and those cities, being Central Reserve cities, their national banks were not permitted to count as reserve deposits which they held in other cities. Next in rank to these three Central Reserve cities, there were fifty-three reserve cities. Banks in any of these cities could keep a part of their reserve deposits in their own vaults, and a part in Central Reserve cities. Banks in all the other cities, towns and villages in the United States, known as non-reserve city banks, or country banks, were permitted to re-deposit three-fifths of their reserves in any Reserve or Central Reserve city bank. Incidentally it should be point-

ed out that the term country bank does not mean a small bank necessarily. Many large cities, for example, Buffalo, New York, are nonreserve cities, and banks in those cities, however big, are spoken of as country banks.

- (2) Under the operations of this system banks in Central Reserve and Reserve cities competed actively for country bank deposits, paying interest on these deposits and performing other services of value for the country banks.
- (3) One of the recognized evils of the old national banking system which the Federal reserve system sought to remedy, was the duplication of reserves, and the payment of interest on reserve deposits, which compelled the banks holding those reserves to use the funds actively. As a result of this, in times of stress, the country bank was not always able to secure funds from its city correspondent. Hence, one of the main objects of the framers of the Federal Reserve Act was to avoid this duplication of reserve deposits by creating central banks which would receive the reserves from the banks of their respective districts, paying at the same time no interest on these reserves, thus largely removing the necessity for investing

-3-

these funds, which it was intended should be conserved and employed chiefly as a basis for the extension of credit to member banks and, through them, to the public in times of need.

- (4) Incidental with the growth of the National Banking System and in part due to some of the cumbersome features of their note-issuing power, a system of bank checks came into general use. Indeed, there is no country in the world which has developed the bank check so far and so completely as has the United States. While the bank check is specifically the order by a depositor in a bank to pay to a named payee a certain specified sum of money, it has come to perform nearly all the functions which bank notes perform in other countries, furnishing at the same time the added advantage of giving the debtor a receipt for the money paid. It must be obvious to any man of affairs that the development of the check system in the United States in the last fifty years has been one of the most important, satisfactory and useful by-products of our business activity. Nothing must be done to hamper it, for it must be remembered that from ninety to ninety-five per cent of the purchases and sales in this country are effected by check without the use of either

-4-

specie or bank notes.

- (5) One of the objects of the framers of the Federal Reserve Act, as already explained, was the transfer of the reserves from national banks in Reserve and Central Reserve cities to specially created banks, known as Federal reserve banks, of which there are twelve. This done, the authors of the Act permitted a considerable reduction in reserves, a safe expedient under the circumstances. It was apparent, however, that an incidental, though very necessary function of these reserve banks must be to act as clearing houses for the transfer of funds from one section of the country to another, and for handling the vast system of check collection. In the last year a fair beginning has been made and the checks upon all national banks, some seven thousand six hundred in number, and upon an even greater number of State banks and trust companies, may be collected at par through Federal reserve banks. The charge for performing this service varies now from 1¢ to 2¢ per item, and should be further reduced as the work develops. The bank depositing its checks is given immediate credit for the gross deposit which is made available as soon as it can be collected. While the introduction of this system of check clearing has met with much favorable comment it

-5-

has been the cause of a very vigorous protest from many country bankers who claim that they have been deprived of a charge for "exchange", that is, a collection fee. It is proper, therefore, to study exactly what this charge is and how it operates. In order to analyze it fairly we must consider it from opposite points of view.

THE CITY MERCHANT'S POINT OF VIEW.

- (a) The customer of the city bank is affected in the following manner: When he deposits checks which have been sent to him in payment for articles sold, he is told by the teller of the city bank there is a deduction of a certain fixed percentage on this and that check, ranging in the past from, say, 10 cents per thousand to \$2.50. There is nothing on the face of the check to show what deduction would be made, and the recipient of a check had nothing to indicate the amount of the charge except the paying teller's word that a certain deduction was right and proper. The explanation usually made by the paying teller of the city bank was that he was charging the customer only the exact amount which the country bank deducted from the face of its check. If the city merchant complained to his country client he might be told that other city merchants accepted country

checks and that if he objected the buyer would go elsewhere.

THE COUNTRY MERCHANT'S POINT OF VIEW.

- (b) Let us see how the country merchant looks at it. The country merchant may possibly be interested in the bank: If not actually interested, he is likely to be the friend and neighbor of the banker; the banker might also be paying him 3%, 4% or 5% interest on his deposit, and when the country merchant receives letters from the city merchant complaining of deduction for collection, the country banker suggests just the sort of response which has been referred to in the foregoing. While it is not agreeable to assume that the country merchant intentionally pays the bill due the city merchant with "short change" yet, it has been repeatedly argued by defenders of the system of deduction from checks for collection, that the city merchant charges enough more for his goods to cover the deduction for collection of checks and that therefore a deduction is justifiable. Thus, we are forced to two conclusions, first, that the country merchant to some extent connives at defrauding the city merchant, and second, that the city merchant, recognizing the fraud, adds to the price of his goods enough to cover the deduction. The cost of the deduction, therefore, by the banker, falls upon

the merchants, but in the end on the ultimate consumer as a part of the cost of distribution.

THE CITY BANKER'S POINT OF VIEW.

- (c) The city banker is not opposed to the collection or exchange charge, partly because he is able, to some extent, to pass it on to his customer, but, chiefly because, even if he is not able to so pass it on, he uses this payment to his country bank correspondent as a bait to secure country bank deposits. The service rendered is susceptible of close analysis. The city banker pays interest on the country bank deposits and also pays the deduction which the country banker makes for remitting for his checks. This so-called "exchange" charge the city banker analyzes most carefully, and rightfully demands compensation for the service he renders and the money he pays in interest on balances. The city bank handles the country account only so long as its value, by reason of its size and earning capacity, is sufficient to compensate for the interest he has paid the country bank, plus exchange charges, and all other expenses.

THE COUNTRY BANKER'S POINT OF VIEW.

- (d) The country banker, very naturally, looks at the subject in a different way. First, he feels very strongly that the city banker has opportunities for making money which are superior to those in the country, and therefore he has a grievance. He has not the same facilities for closely analyzing the cost of doing business, and would not be justified in creating such facilities. The result is that, while tenaciously holding to the profits made by charging "exchange" - that is, a deduction from the face value of his own checks presented through city correspondents - he often fails to appreciate that the city banker is not rendering this service for him free, but is doing it only when he carries a compensating balance. Thus it is that country banks have unwittingly carried far greater balances with city banks than they were required under the law to keep, and have carried these balances at, say, 2% interest, when the money was needed at home, and could have been profitably employed at home to help local enterprise at 4%, 5% and 6%. Furthermore, not infrequently the city banker, glutted with funds upon which he was paying interest, has often been compelled to send his money into the

-9-

same district from which it originated and lend it in competition with the country banker. The country banker has undoubtedly reason to feel that he should receive some compensation, when he is required to remit cash to pay his own checks rather than offsetting items. If the flow of business is such that he is able to pay checks drawn on him by checks received by him, but drawn on the city, he can feel that "one hand washes the other", but if he must pay, say $1/3$ or $1/2$ of his daily balances by remitting currency, which of course rarely happens, he is justified in feeling that he should receive some compensation, and the compensation should be enough to cover the expense of remitting the currency and perhaps also the expense of replenishing that stock of currency thus depleted. This statement is on the assumption that in some country districts there is a tendency for currency to flow away from the country to the city, and that this must be made good by shipments of currency from the city to the country. As a general thing, the interior, because it represents the production of raw materials, is receiving city checks and drafts to pay for its produce. Thus country communities, generally speaking, receive in checks and drafts somewhat more than they pay out for pur-

-10-

chases in the city. There can be no doubt as to the justice of allowing the country banker compensation where he is thus situated, and the Federal Reserve Board has that power. The question which has arisen has been wholly how this compensation shall be provided for. In the past it has been accomplished by charging the customer of the payee bank in the city, whereas, many students of the question take the position that the charge should be made against the drawer or maker of the check. But the country banker will say that this will put a tax upon the maker of the check, which he will resent, and he will show his resentment by withdrawing his deposit with the country bank, and thereafter keep it with the city bank. The public is interested, in a correct and equitable adjustment of the question. If it is fair, as above outlined, that the country banker should receive compensation for maintaining his balance of trade with the city by paying for the shipment of currency, then the question to be decided is how shall that compensation be provided. If a small tax is put upon the maker of the country check sent to pay a distant bill, he will perhaps cease to use his checks to pay city accounts. In other words, he will use his country bank account, if at all, only to pay his neighbors

-12-

which the legislator affords him.

- (6) The problem before the Federal Reserve Board is primarily to carry out the objects of the Federal Reserve Act. The twelve Federal reserve cities, each operating as a nerve center for an important area of country, connected together as they are by a central Gold Settlement Fund through which balances between them can be settled by wire, provides an ideal machine for check collection. Furthermore, it is a machine which can be enlarged and expanded by the establishment of branches, and collection agencies in the larger districts. The problem is two-fold. First, to create a machine which will operate as economically as possible, and there ^{every} is/reason to believe that one can be created to operate very much more efficiently and economically than any that has heretofore existed. Second, to distribute expense with reasonable justice and equity. At the present time the Federal reserve banks are charging their member banks a service charge, varying from 1¢ to 2¢ per item. It is hoped soon to reduce this. It might indeed be arranged so that country banks be permitted to remit for checks sent to them for collection any offsetting items, such as checks drawn on other banks in the same Federal reserve district. When currency must be sent, the Federal reserve bank now pays

-13-

for the shipment of currency. There is some question whether, in view of the equities of the case, Federal reserve banks should not go further in helping out the country banker by a remission, for example, of charges in the case of checks sent direct by member banks to the Federal reserve bank, that is, upon all checks bearing only one bank indorsement. This would enable every country bank to offset (making due allowance for collection time) without expense the items sent against it. The payment of postage or express charges might properly be borne by the Federal reserve bank and, possibly the shipment of currency to the country bank might be borne by the Federal reserve bank when such shipment was necessary by reason of depletion due to the operation of what might be termed the "balance of trade". The whole question is one of very considerable difficulty, and is highly technical. It is so closely related to the question of reserves that it cannot well be disassociated from it, ^{it} and/was for this reason that the Federal Reserve Board was inclined to think that the fairest and surest way of compensating country banks was by reducing the balances which they were compelled to keep with their reserve banks to a minimum figure. Coupled with the general provision of clearing all checks, the low re-

-14-

serve requirement becomes of great value to the country bank. Balances no longer need be kept in various cities far in excess of reserve requirements, and a bank is able to render a larger service in its own community and to offset its losses on exchange by earnings received from loaning its funds at home. However, if it appears that the country banks are still at a disadvantage, it may be said with some force that there is a great chance for profit by a reduction of excessive interest rates now commonly allowed to depositors. The Comptroller of the Currency and the Federal Reserve Board have always stood ready to help in the accomplishment of this much desired reform, for the reason that bank customers cannot hope for low interest rates on loans if banks continue the insane policy, usually the result of competition for deposits, of paying exorbitant rates of interest for deposits.

F. A. DELANO.

Washington, June 16, 1917.

EX-OFFICIO MEMBERS
 WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD X-221

WASHINGTON

W. P. G. HARDING, GOVERNOR
 PAUL M. WARBURG, VICE GOVERNOR
 FREDERIC A. DELANO
 ADOLPH C. MILLER
 CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

Dear Sirs:

There is being sent to you to-day, under separate cover, a supply of Forms 58 and 59, blank certificates of increase and decrease of capital stock, together with Exhibits A and B.

Attention is called to the fact that the form of these certificates has been slightly changed, so that only one Exhibit A and one Exhibit B are required, and that these exhibits may be attached to either form of certificate.

In this connection it has been noted that some of the banks have been making two certificates at the same time, one of increase and one of decrease. It will be satisfactory to this office if only one such certificate is made, all of the increases to be listed on Exhibit A and all decreases on Exhibit B. Should there be a net increase, those exhibits should accompany Form 58, and should there be a net decrease the exhibits should accompany Form 59.

It will also be satisfactory to the Board if these certificates are made quarterly only - preferably at the close of the quarter.

Very truly yours,

Secretary.

Inclosures.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

223-C
FEDERAL RESERVE BOARD
WASHINGTON

1545
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN C. CALLEN, ASST. SECRETARY
FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 19, 1917.

Dear Sir:

There is inclosed for your information and attention copy of a resolution adopted by the Federal Reserve Board at a meeting held on June 19, levying an assessment of eleven hundredths of one per cent (.0011) against Federal reserve banks to defray the estimated general expenses of the Federal Reserve Board from July 1 to December 31, 1917. This assessment does not include the cost of engraving and printing Federal reserve notes.

There is also inclosed a statement showing the basis upon which the assessment is levied.

I have the honor to request that you bring this matter to the early attention of the Board of Directors of your bank, and forward the assessment to the Federal Reserve Board, one-half to be payable July 1, and one-half on September 1, as indicated in the resolution.

Very truly yours,

Fiscal Agent.

Inclosures.

	January 1 to May 31 1917	Estimate for June	Total for 6 Months	Average for 6 Months	Estimated monthly require- ments 7/1 to 12/31/17
X-223					
<u>Personal services:</u>					
Board & its Clerks	36,756.29	7,383.31	44,139.60	7,356.60	7,383.31
Secretary's Office	12,685.55	2,481.67	15,167.22	2,527.87	2,531.67
Counsel's Office	10,341.66	2,018.32	12,359.98	2,060.00	2,018.32
Div. Audit & Examination	7,951.66	1,458.32	9,409.98	1,568.33	1,883.34
" Reports & Statistics	5,580.00	1,130.00	6,710.00	1,118.33	1,230.00
" Issue	3,579.16	768.33	4,347.49	724.58	768.33
Messengers	1,975.00	395.00	2,370.00	395.00	395.00
Charwomen	294.00	60.00	354.00	59.00	60.00
Total	<u>79,163.32</u>	<u>15,694.95</u>	<u>94,858.27</u>	<u>15,809.71</u>	<u>16,269.97</u>
<u>Non-personal Service:</u>					
Transportation & Subsistence:					
Board & its clerks	1,128.62	124.87	1,253.49	208.92	250.00
Secretary's Office	219.64	100.00	319.64	53.27	50.00
Div. Audit & Examination	2,141.76	100.00	2,241.76	373.63	600.00
" Reports & Statistics	20.30	...	20.30	3.38	...
Counsel's Office	...	...	...	...	10.00
Messengers (carfare)	15.00	...	15.00	2.50	3.00
Communication service:					
Telephone	493.91	235.00	728.91	121.49	225.00
Telegraph	1,627.48	320.00	1,947.48	324.58	333.00
Postage	25.00	20.00	45.00	7.50	5.00
Printing & Binding, etc.	10,328.10	1,776.13	12,104.23	2,017.37	2,000.00
Contract repairs	64.92	...	64.92	10.82	20.00
Electricity (Light & power)	150.00	30.00	180.00	30.00	30.00
Steam (heat)	75.00	...	75.00	12.50	15.00
Other (non-personal services)	137.48	110.00	247.48	41.25	50.00
Supplies:					
Stationery	650.73	100.00	750.73	125.12	150.00
Periodicals	120.33	14.50	134.83	22.47	20.00
Other	73.52	5.00	78.52	13.09	25.00
Equipment:					
Furniture & office supplies	573.50	264.55	838.05	139.68	150.00
Books	451.29	...	451.29	75.22	50.00
Gold Settlement Fund	957.28	250.00	1,207.28	201.21	250.00
Expert assistance transit matters	1,133.80	...	1,133.80	188.97	...
Contingencies					500.00
Total	<u>20,387.66</u>	<u>3,450.05</u>	<u>23,837.71</u>	<u>3,972.95</u>	<u>4,736.00</u>
GRAND TOTAL	<u>99,550.98</u>	<u>19,145.00</u>	<u>118,695.98</u>	<u>19,782.66</u>	<u>21,005.97</u>

X-223^aESTIMATE FOR JULY 1917, ASSESSMENT.

Average monthly encumbrance for period
 January 1, 1917 to June 30, 1917.....\$ 19,782.67

Estimated monthly requirements, July to
 December, inclusive, 1917..... 21,005.97

Estimated monthly increase.....\$ 1,223.30

Estimated requirements, June to December,
 inclusive, 1917..... 126,035.82

Estimated unencumbered balance July 1, 1917... 8,315.19

\$117,720.63

Total capitalization of Federal reserve banks
 June 15, 1917.....\$114,342.00

Rate of assessment to produce \$117,772.26..... .00103

Rate of assessment to produce \$125,776.20..... .0011

In view of all conditions I have the honor to recommend that an
 assessment of eleven-hundredths of one per cent be levied.

SHERMAN ALLEN

Fiscal Agent.

APPROVED FOR .0011: Committee on Organization,
 Expenditures, and Staff.

F. A. DELANO

A. C. MILLER

C. S. HAMLIN

6/19/17

WHEREAS, under Section 10 of the Act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semiannually upon the Federal reserve banks in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts, and employes for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year; and

WHEREAS, it appears from estimates submitted and considered that it is necessary that a fund equal to eleven hundredths of one per cent (.0011) of the capital stock of the Federal reserve banks be created for the purposes hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes;

NOW, THEREFORE, BE IT RESOLVED, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal reserve banks of an amount equal to eleven hundredths of one per cent (.0011) of the total capital stock of such banks, and the fiscal agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of this Board, a receipt for payment made. Such assessment will be collected in two instalments of one-half each; the first instalment to be paid on July 1, 1917, and the second half on September 1, 1917.

6/19/17

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH W. PETER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 20, 1917.

Dear Sirs:

The Conference Report on Federal Reserve Act Amendments having passed the Senate, the Amendments will have been enacted into law as soon as the President affixes his signature.

Under separate cover there is forwarded to you a copy of the Conference Report as adopted. A reprint of the Act is in course of preparation and will be sent to you in a few days in such quantity as you may desire.

As soon as the amended law goes into effect it will be necessary to adjust the weekly statements issued by the banks and the consolidated statement issued by the Board so as to conform to the new provisions of the Act. I take pleasure in inclosing herewith a copy of the consolidated statement showing the method which the Board will adopt in publishing the next weekly statement, provided the new Act is in force at that time. There is also inclosed copy of Form 34, containing the changes to be made by the bank in its daily statement to the Board.

In preparation of its weekly statement, the Board proceeds on the theory that the liability of Federal reserve banks on outstanding Federal reserve notes will ^{not} be "reduced" by the amount ^{of gold} held by the Agent but that gold deposited with the Federal reserve agent is to be considered as collateral and reserve but is not to be considered as "reducing liability."

It was thought advisable to keep the item "Gold held by the banks" and "Gold with Federal reserve agent" separate so as to show exactly how the notes are secured.

A Federal reserve bank, under the amended law, will be entitled to withdraw gold held by the Federal reserve agent and substitute therefor commercial paper, provided it maintains a reserve of at least 40 per cent of gold in its own vaults, or it may withdraw the gold held with the agent down to 40 per cent. It should be borne in mind, however, that whenever there is in the hands of the Federal reserve agent more than 40 per cent of gold

-2-

against notes, the excess beyond that figure can be counted as additional reserve against notes only, but cannot be in that case counted as a reserve against deposits.

You will be advised by telegram as soon as the President affixes his signature to the Bill, and, upon receipt of such telegram, the above instructions are to be considered as being in force.

Yours respectfully,

Governor.

Inclosures.

X-227

(CONFIDENTIAL.)

June 7, 1917.

Dear Sir:

The Board has received your letter of June sixth, informing it that you are negotiating arrangements with the Bank of England by which about \$50,000,000 in gold will be earmarked and held by that institution for your account, in order to effect payment of a loan of \$50,000,000 made by New York banks to banks in London, which matures June 20th.

The Board understands that the Bank of England will agree to assume the cost and risk of shipment of the gold when you require it, and that it will assume full responsibility for the safeguarding of this gold. You write to inquire if the Board would raise objection to counting this gold, to the extent of \$50,000,000, as part of the reserve of the Federal Reserve Banks participating in the transaction.

- 2 -

The Board fully discussed this matter and I am instructed to advise you that it would not raise any objection to transactions of this character, under the present circumstances, so long as the amount involved remains within the limit of ten per cent of the aggregate gold holdings of the participating Federal Reserve Banks, authority being given in any event to the extent of \$50,000,000.

It is obvious that transactions of this kind could not be engaged in except within a reasonable percentage of the aggregate gold holdings of the Federal Reserve Banks. The Board believes that the member banks might justly object if more than such reasonable amount of their reserves should be kept in foreign lands, out of easy reach of the Federal Reserve Banks. On the other hand, it is evident that demands for gold in most cases will be made on Federal Reserve Banks for the purpose of shipping it abroad in settlement of foreign balances. Gold kept in London would in such circumstances prove an economic means of satisfying such demands.

Within reasonable limits, the Board feels satisfied, therefore, that there could not be any objection raised to keeping a certain amount of the Federal Reserve Banks' gold reserve in the custody of foreign agencies of Federal Reserve Banks.

When peace is restored the matter should, however, be taken up again, from the point of view of securing, if possible, in-

-3-

ternational agreements more fully safeguarding against difficulties arising from international complications. Under present conditions, which call for mutual assistance and cooperation between allied countries, this aspect of the case may temporarily be disregarded.

In the near future the United States will have to make substantial payments in Europe in connection with the contemplated operations of the Army and Navy and the gold in the hands of the Bank of England may prove a welcome protection in this connection.

The Board feels, therefore, that it should, for the time being, grant your request - reserving, however, the right at a later date to review the entire question.

Before the definite conclusions of this transaction, the Board expects that your arrangements with the other Federal Reserve Banks will be submitted for final approval, and pending this, it might be useful to give some thought to the question how this earmarked gold will be carried in the statements of the Federal Reserve Banks, it being the opinion of the Board that it will have to be frankly shown in the statement.

Respectfully,

P. M. WARBURG
Vice Governor.

Benjamin Strong, jr., Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. ZWILANO
ADOLPH C. MILLER
CHARLES S. HANLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 22, 1917.

Dear Sir:

The bill recently passed by Congress amending the Federal Reserve Act has today been approved by the President and has become a law. A revised draft of the Federal Reserve Act as amended has been prepared and will be forwarded to all Federal Reserve Banks and member banks as soon as received from the printer. New regulations by the Board are in the course of preparation and will be forwarded to you in the very near future for distribution among your member banks. In the meantime, your attention is directed to Section 10 of the Act in question which amends Section 19 of the Federal Reserve Act and provides in part as follows:

"Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

"Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

"(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(b) If in a reserve city, as now or hereafter defined it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

Compliance with this Section will make it necessary, in most cases, for member banks to increase their balances with the Federal Reserve Banks. It is, of course, desirable that these deposits should be made promptly, but with as little disturbance to financial conditions as possible, and to accomplish this the cooperation of all member banks is necessary.

Federal Reserve Banks in Central Reserve Cities should request their member banks located in such cities to increase their balances with their Federal Reserve Bank in an amount sufficient to comply with the new requirement of the Act, not later than June 27th.

In view of the fact that it is to be assumed that Reserve City banks and country banks will be obliged to draw heavily upon their Central Reserve City and Reserve City correspondents in order to meet demands to be made on account of the instalments becoming due upon subscriptions to the Liberty Loan, country banks and Reserve City banks should be requested immediately to build up their balances with their respective Federal Reserve Banks by remitting cash from their own vaults as far as they can do so without impairing their ability to care for local needs.

The Board considers it inadvisable to increase at this time the pressure on Reserve and Central Reserve cities by encouraging heavy withdrawals from those cities by correspondent banks desiring to make transfers to the Federal Reserve Banks to meet the new reserve requirements.

While the new law becomes technically effective from this date it is, of course, understood that a reasonable time must be allowed for making the necessary transfer of reserve to meet the requirements of the Act.

If, therefore, member banks continue to maintain with the Federal Reserve Banks the percentage of reserve required hitherto, the Federal Reserve Banks may, until July 15th, reasonably refrain from imposing penalties against member banks on account of deficiency in reserve carried with them. That is to say, failure to transfer the additional amount required by the new Act need not be penalized until after July 15th.

It is suggested to Federal Reserve Banks that it might be advisable for them, in order to facilitate and expedite the transfer of cash from vaults of member banks to the vaults of Federal Re-

- 3 -

serve Banks, to show liberality, as far as permitted by law, in refunding to member banks the shipping expenses of currency sent to Federal Reserve Banks before June 30th and in dealing with remittances of gold coin to be exchanged for Federal reserve notes. A similar policy is suggested in dealing with State banks desiring to establish balances with Federal Reserve Banks in advance of becoming either full members or members of the clearing system.

It must be evident to all banks that it is to their own interest to strengthen as far as possible the reserve and lending power of their Federal Reserve Banks, the facilities of which are likely to be used extensively in connection with the shifting of funds incident to the payments to be made on account of Liberty bond subscriptions. Every bank, member and nonmember, should, therefore, do its utmost to strengthen the gold reserve of the Federal Reserve Banks by promptly transferring such vault money as can be spared and by exchanging gold certificates and gold for Federal reserve notes, thereby helping to carry out the policy adopted for the public welfare of encouraging, for purposes of general circulation, the use of Federal reserve notes rather than of gold certificates.

It is hoped that banks in Federal Reserve Cities will make a special effort to cooperate with the Central Reserve Cities in at once transferring to their respective Federal Reserve Banks such amount of vault money as they can conveniently spare. In case of demand they can always replenish their currency supply by calling upon their respective Federal Reserve Banks.

Respectfully,

Governor.

"WAR FINANCE AND THE FEDERAL RESERVE BANKS"

Address of Mr. A. C. Miller

before the

Joint Conference of the Western Economic Society and
the Chicago City Club.

Hotel La Salle.
June 22nd.

"Saving on a scale of unprecedented intensity will be an essential preliminary under any effective scheme of national finance we may adopt" said Mr. Miller, addressing the Joint Conference of the Western Economic Society and the City Club last night at the Hotel La Salle. Financing a war whose annual cost is estimated as high as \$10,000,000,000 a year, "will involve, for many classes of the consuming public, very drastic revisions of their mode of living." "Only thus can we successfully undertake the financing of the war and put it on a foundation of economic concrete."

Mr. Miller reviewed the success of the Liberty Loan just negotiated, commenting on the numerous elements in the community that had loyally contributed to its success, and explaining the various steps taken by the Federal Reserve Banks, in the way of preferential rates of rediscount, to aid the banks in floating the loan. He analyzed the existing figures of national wealth and income and showed that, despite our large wealth and enormous annual income - the latter estimated as high as \$40,000,000,000 - the yearly burden on us

of this war (\$10,000,000,000) would involve the absorption of fully one-fourth of our entire annual income for Government use during the war. Inasmuch as the annual savings of the nation in peace times are, at the most optimistic estimate, only \$5,000,000,000, it is evident that another \$5,000,000,000 will have to be raised out of the new savings of the people.

Because this new savings could not at once be induced, "it was clearly necessary that the great financial institutions of the country should make advances either to their customers in aid of their subscriptions to Liberty bonds, or directly to the Government, in the expectation that they could subsequently place these bonds with the investing public." Consequently the Federal Reserve System cooperated in every way and at every stage to aid the banks in this process. What the ultimate position of the Federal Reserve Banks will be in the nation's war finance program will depend upon what permanent form that program takes. "The Federal Reserve Banks are, after all, but one part, however important, of our national machinery of finance, and that machinery will work to poor purpose if every part of it does not mesh in with the other essential parts. The making of a national financial policy for the conduct of the war is not in the hands of the Federal Reserve Board," and Mr. Miller pointed out that as yet Congress has evolved no definite program.

Speaking of the danger of over-confidence the banking structure of the country in absorbing war loans, Mr. Miller said,

- 3 -

"Banks can perhaps safely undertake the financing of wars of ordinary financial magnitude, but a war calling for expenditures and advances of \$10,000,000,000 for the first year clearly calls for more fundamental financial provision than can be provided by the banking credit of this or any other country." This provision will have to be made from the savings of the people, and Mr. Miller showed that the much-discussed controversy over loans and taxation as means of raising war revenue really resolved itself into a question as which of the two, or what combination of them, would have the greatest effect in stimulating thrift and the growth of the annual savings. "The danger of the loan policy is that, by deluding itself with the notion that it is putting the burden on to the future, it will, after failing to induce a commensurate increase of the savings fund of the nation, degenerate into inflation through abuse of banking credit." The evils and iniquities of inflation were dealt with at length by Mr. Miller, illustrations being drawn from our own Civil War experience and that of the European belligerents in the present war. He emphasized that inflation was essentially conscriptive taxation of the masses. "If our loan policy, through an undue reliance upon banking credit, degenerates into inflation, it means that that policy is failing, and therefore that the system of undertaking to induce the people to save for the use of the Government - in brief the voluntary system - must give way to some other method, the system of compulsion, or financial

draft." "That may mean taxation carried to the limit."

Although there are dangers in undue reliance upon banking credit, it nevertheless has a very useful and important part to play in aiding investors to take up their bonds. "How long a time might reasonably be allowed Liberty Loan subscribers, who have sought accommodation from their banks in order to complete their subscriptions, to take up these loans, or how long a time should be allowed the banks which have made direct subscriptions in order to work these loans off on the saving and investing public, in other words, how far we might safely go in anticipating future savings, is a question upon which opinions may well differ." In England, the normal time was set at one year, but Mr. Miller thought our productive power and general economic position was enough stronger than England's to make four to six months the limit. "Otherwise", he said, "banks and investors will not be in a position satisfactorily to assume their obligations in connection with the subsequent loans that will be placed by the Government."

"But when all is said," concluded Mr. Miller "and every reasonable and proper provision for the legitimate use of the banking machinery and credit of the country is made, in order to mobilize the nation's money savings, let us not make the mistake of supposing that the savings which is called for in the present exigency is merely a saving of dollars. It is a saving of the productive power of the community from the service of private consumption for the service of public consumption which is called

for, and the saving of money is of consequence only so far as it results both in a transfer and in an increase of the effective industrial power of the nation for Government use.

"Taxation, and even loans which are bottomed upon real economic savings can at best only provide the Government with buying power. But the Government will need more than buying power in order properly to finance the war. As the war goes on, it will become clearer and clearer that this is a war of economic resources, and that victory will lie with those who are best able to resist the processes of economic exhaustion. More than buying power will, therefore be needed for the effective prosecution of the war and its successful issue, no matter how orthodox and carefully guarded in a financial sense, the methods of providing the Government with this buying power are. Napoleon, as the greatest soldier of his age, summed up his experience in the statement 'An army marches on its belly.' The experience of the present war is every day reinforcing the doctrine that a successful army is carried on the back of industry. It can not therefore be too much emphasized, in the discussion of plans for the mobilization of the financial resources of the country, that, much as the Government will need buying power, it will need something far more potent than buying power. It will need arm power, tool power, natural power; and brain power and will power to organize and vitalize them. Natural power we have in unlimited abundance. Our present problem is to combine with this the undeveloped potentialities of our

arm power, our brain power, and our will power; the power to do and the power to do without. Our battles will be fought on the plains of Flanders and the heights of Arras. But the war will have to be won in the American workshop and the American kitchen. The fate of democracy may, therefore, well be said to rest in the hands of our women.

"Can we reorganize our life during the period of the war so as to provide a quarter of the productive power of the nation for the use of the Government? Only, if at all, by an heroic exercise of our national will to enforce the necessary economic sacrifice and saving. We must find a substitute for England's blockade of Germany and Germany's submarine blockade of England in forcing economy and saving. I have been told upon trustworthy authority that when the policy of the submarine warfare against England was under discussion in Berlin, one of the most eminent of Germany's economic strategists protested vigorously against it, not on the ground of its violation of the established rules of international practice, but on the ground that it would help England more than it would hurt her. 'Keep the submarine away from England's shores and England will eat herself into bankruptcy quicker than the submarine can starve her.'"

"Saving will never be as easy for the nation as during the period of this war, if we know why we are in this war. The war and all that it implies in the way of high and chivalrous national endeavor should be our substitute for our customary luxuries during the war.

- 7 -

We can afford to be generous in national indulgences. Indeed, when we consider the vast consequences for civilization and the democratic principle that hang on the issue of this war, we can not afford to be other than generous in support of a cause which we hold true and dear."

6/22/17

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

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ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 28, 1917.

Dear Sir:

The Federal Reserve Board has just reissued its circulars and regulations in a new series to conform with the changes in the Federal Reserve Act made in the Act approved June 21, 1917.

The check clearing and collection circular has been modified slightly, the most important change being that with reference to receiving checks from such State banks and trust companies as are qualified under the amendments of the first paragraph of Section 13.

It is the recommendation of the Clearing Committee of the Board and the desire of the Board that a strong effort shall be made to popularize the clearing functions in every proper way. The discussions, in Congress and out, of the so-called Hardwick Amendment, and the comments which have been made in bankers' magazines have had the effect of stirring up some feeling on the subject, which it is now desirable to overcome. The Federal Reserve Board, therefore, endorses the recommendations made by the Board's Clearing Committee, for adoption by the

Federal reserve banks, which may be summarized as follows:

1. That the Federal reserve bank shall bear the cost of postage for the transmittal of checks sent to it for clearance or collection by its regular members and clearing members;
2. That each Federal reserve bank shall grant to each member or clearing member bank an exemption of service charges upon, say, 25 checks or items per day, or upon a minimum of, say, 500 checks or items per month;
3. For all acceptable checks in excess of the checks exempted as hereinabove provided the charge shall be limited to $1\frac{1}{2}\%$ per item;
4. While direct inter-bank routing of checks should be encouraged, the Board thinks that such direct routing should be only by mutual consent of the banks involved. For example, it is not fair to let a large bank in a Federal reserve city take advantage of its location by sending to a small country bank against its will checks to be credited to the city bank's account in the Federal reserve bank. This practice permits the large city bank to secure an advantage of a day's time in settlement even after clearing hours in its own city;
5. In the large districts it is desirable that Federal reserve banks shall consider the establishment of collection or clearing agencies, at points where it may not be desirable to establish branches. In this connection it may be entirely feasible to operate through the agency and with the cooperation of a local clearing house.
6. Attention is called to the fact that under the amended provisions of the Reserve Act in respect to reserves the only reserves for member banks are those held by the Federal reserve banks, There-

-3-

fore, any form of currency held by a member bank or a clearing member is available for counter cash or "till money." Under these circumstances Federal reserve banks should be liberal in accepting any form of currency (fit for circulation) from those banks which are compelled to ship currency to make good their balances.

The Board will be very glad to have your bank proceed with as little delay as possible with the development of your clearing operations along the lines above indicated. We shall also be glad to confer with you in regard to any of the details, or to receive your suggestions or criticisms.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

1567
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 27, 1917.

Dear Sir:

It has been noted by various members of the Board, in looking over the reports of various Federal reserve banks with reference to business, that some are in the habit of giving very detailed data regarding the situation and outlook in the different branches of trade and commerce of the principal cities of the district. This information is valuable in some cases, but it has been suggested that at present, at least, it is not essential, and that so much other work is in hand that members of the Board have not the opportunity to go fully into these detailed reports.

It is suggested that this data may, therefore, be omitted in future reports. Of course in those cases where such material is compiled for local use in any event, so that it does not entail additional work to transmit a copy to the Board, we shall be glad to continue to receive it.

Very truly yours,

Secretary.

3560

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

x-243

June 28, 1917.

Dear Sir:

There is inclosed for your information a circular issued by the Acting Secretary of the Treasury covering the procedure on the part of the Treasurer of the United States in connection with the Gold Settlement Fund account of the Federal Reserve Board. The Fund was turned over to the Treasurer to-day.

Very truly yours,

Assistant Secretary.

Inclosure.

RESOLVED, that it is the sense of the Board that no necessity exists for enforcing the requirement provided for under Section 18 of the Federal Reserve Act at the end of this quarterly period ending June 30, 1917, and that it will not at this time require the Federal reserve banks to purchase any of those bonds which are offered for sale by member banks through the Treasurer of the United States under the provision of Section 18.

BE IT FURTHER RESOLVED, that the Secretary be instructed to send a copy of this resolution to the various Federal reserve banks and to the member banks which have offered bonds for sale in order that they may be notified of the action of the Board in the premises.

Adopted by Board
June 21, 1917.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

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H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
X-246 FEDERAL RESERVE BOARD

June 28, 1917.

Dear Sir:

There is inclosed for your information copy of a resolution adopted by the Federal Reserve Board at its meeting on June 21, with reference to the sale of United States bonds offered by member banks for the quarter ending June 30, 1917.

Very truly yours,

Secretary.

Inclosure.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOC
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

X-247

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 29, 1917.

Dear Sir:

The Act approved June 21, 1917, amending the Federal Reserve Act, has abolished the office of Deputy Federal Reserve Agent, and has provided that the Federal Reserve Agent shall appoint one or more assistants of whom bonds shall be required by the Federal Reserve Board in such amount as it may deem necessary for the protection of the United States. Section 16 of the Act as amended provides that "all Federal reserve notes and all gold, gold certificates, and lawful money issued to or deposited with any Federal reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such Agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates, and lawful money."

The Board will, in the near future, issue regulations governing such joint custody of funds and securities, and would appreciate any suggestions which you may have to make. It also requests that you have the directors or the Executive Committee of your bank consider the subject, with the view of recommending such changes as may be deemed expedient, in the amount of bond to be required of the Federal Reserve Agents and of their assistants. Meanwhile, assistants to Federal Reserve Agents who have not already done so, should make bonds in the same form and amount as have been given heretofore by the Deputy Federal Reserve Agents.

Very truly yours,

Governor.

3572

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-248

June 29, 1917.

Dear Sir:

There is inclosed herewith a draft of by-laws of branches of Federal reserve banks based upon by-laws which have been substantially agreed upon between the Federal Reserve Board and the Federal Reserve Bank of San Francisco for branches to be established in that district. With respect to other districts these by-laws are, of course, tentative, and are submitted by the Board for your information, criticism, and suggestion.

Very truly yours,

Governor.

Inclosure.

FORM OF BOND TO BE EXECUTED BY ASSISTANT FEDERAL RESERVE AGENT.

KNOW ALL MEN BY THESE PRESENTS, That we _____
of _____, as principal, and _____
of _____, as surety, are held and firmly bound unto
the UNITED STATES OF AMERICA in the full and just sum of _____
_____ DOLLARS (\$ _____), lawful money of the
United States, for which payment, well and truly to be made, we bind
ourselves, jointly and severally, our joint and several heirs, executors
and administrators, successors and assigns, firmly by these presents.

Sealed with our seals, and dated this _____ day of
_____ in the year one thousand nine hundred and
_____.

THE CONDITION OF THE FOREGOING OBLIGATION IS SUCH, That whereas,
the said _____ has been duly appointed Assist-
ant Federal Reserve Agent of the Federal Reserve Bank of _____
by _____, Federal reserve agent of the Federal Reserve
Bank of _____, and whereas, such appoint-
ment has been approved by the Federal Reserve Board, and whereas, the
said _____ has entered upon his duties as assistant
Federal reserve agent.

NOW, THEREFORE, if the said _____
shall well and truly execute and discharge all the duties of said office
according to the laws of the United States, and the regulations of the
Federal Reserve Board made in conformity therewith, safely keeping and
correctly accounting for and delivering to the party or parties entitled
thereto all moneys, notes, securities and other funds coming into his
hands from time to time, without loaning, using, depositing in bank or
exchanging for other funds except as allowed by law, then this obliga-
tion to be void and of no effect, otherwise to remain in full force and
virtue.

_____ (SEAL)

SIGNED, SEALED and DELIVERED
IN THE PRESENCE OF -

By _____

ATTEST:

REPORT OF THE EXECUTIVE COMMITTEE ACTING
AS COMMITTEE ON COMMITTEES.

AUDIT AND EXAMINATION:

Mr. Delano
Mr. Hamlin
Mr. Miller Secretary - Mr. Broderick.

CLEARINGS:

Mr. Delano
Mr. Harding Secretary - Mr. Willis.

EXECUTIVE: *

Mr. Harding
Mr. Warburg
A Member (rotating) Secretary - Mr. Willis.

GOLD SETTLEMENT FUND:

Mr. Hamlin
Mr. Miller Secretary - Mr. Allen.

ISSUE AND REDEMPTION:

Mr. Miller
Mr. Delano
Mr. Hamlin Secretary - Mr. Allen.

LAW:

Mr. Harding
Mr. Hamlin
Mr. Warburg Secretary - Mr. Elliott

OPERATION OF FEDERAL RESERVE BANKS:

BOSTON Mr. Hamlin
 Mr. Warburg

NEW YORK Mr. Warburg
 Mr. Delano

PHILADELPHIA Mr. Warburg
 Mr. Hamlin

* Questions relating to establishment of Branch Banks should
be referred to Executive Committee. (Mins. 6/27/17)