Form of Agreement required by the Federal Reserve Board of Foreign Banking Corporations as a Condition Precedent to the Purchase of their Stock by National Banks under the Provisions of Section 25 of the Federal Reserve Act.

A. GENERAL:

In order to enable you and other corporations of the same character to compete effectively in foreign countries, it is necessary that latitude be given in the development of business abroad, and the Board believes that, for the present at least, restrictions should not be rigid or too much in detail, and that it is desirable to prescribe only general rules for your guidance. As occasion required, the Board will modify its regulations in such manner as experience may prove to be necessary.

B. POWERS:

1. In the United States:

a. Deposits: It is clear that in order to avoid competition in the matter of receiving deposits with national banks and state banks, which do not enjoy the wide powers which you must necessarily possess in order to compete successfully in foreign countries, you should not be permitted in the United States to receive individual deposit accounts or domestic bank exchange or collection accounts. You will be permitted, however, to receive any deposit which is incidental to, or for the purpose of, carrying out transactions in foreign countries or dependencies of the United States, where you have established agencies, branches, or business connections. Deposits of this character may be made by individuals, firms, corporations or banks, whether foreign or domestic, and may be time deposits or on demand.

Reserves: It will be required that, against all such deposits received in the United States, you maintain a reserve in the amount required by law against such deposits of member banks located in central reserve cities. The Federal Reserve Banks are authorized, for purposes of clearing or collection, to receive deposits from non-member banks, and your reserve against domestic deposits may be maintained by opening a clearing account with the Federal Reserve Bank of your district, where an adequate balance may be carried by you.

b. Acceptances:

In the matter of acceptance of drafts and bills of exchange, the Board has concluded that you should be authorized to accept for all transactions permissible to member banks under the provisions of the Federal Reserve Act, provided that you make no acceptance for account of any one drawer in an amount aggregating at any time in excess of ten per centum of your subscribed capital and surplus, unless the transaction be fully secured, or represents an exportation or importation of merchandise and is guaranteed by a bank or banker of undoubted solvency; and provided that whenever the aggregate of your acceptances outstanding at any time (a) exceeds the amount of your subscribed capital and surplus, fifty per centum of all acceptances in excess of such amount shall be fully secured, or (b) exceeds twice the amount of your subscribed capital and surplus, all acceptances outstanding in excess of such amount shall be fully secured, whichever of said two requirements shall call for the smaller amount of secured acceptances; and provided further that in no event shall the aggregate of all your acceptances outstanding, plus the total of all deposits held by you, whether foreign or domestic, exceed twelve times the amount of your subscribed capital and surplus, except with the approval of the Federal Reserve Board.

Reserves:

It must be understood, furthermore, that against all acceptances which mature in thirty days or less a reserve of at least fifteen per centum shall be maintained, and that against all acceptances outstanding which mature in more than thirty days a reserve of at least three per centum shall be maintained. Reserves against acceptances must be in liquid assets of any or all of the following kinds:

1. Cash
2. Balances with other banks
3. Bankers' acceptances; and / or
4. Such securities as the Board may, from time to time, permit.

2. In foreign countries:

You are authorized to accept deposits of any kind from banks, individuals and corporations in foreign countries, and generally to exercise such powers and to do such things as are incidental to banking conducted in the countries and dependencies in which you may transact business. The Board assumes however that in the matter of receiving deposits, making loans, and in all other business conducted in foreign countries, you will be guided primarily by the laws of those countries and by sound business judgment and banking principles. While the Board will not require you to carry abroad cash reserves against deposits abroad, should it appear at any time that your business methods are such as to afford insufficient protection, the Board will formulate such restricting regulations as may be proper in the circumstances.

C. REPORTS AND EXAMINATIONS:

1. You will be required to make two reports annually to the Federal Reserve Board, covering such details as may be prescribed.

2. You will also be subject to such examinations as the Board may order, these examinations to be made either by employees or agents of the Board or of the Federal Reserve Bank of your district.

TOPICS SUGGESTED BY THE FEDERAL RESERVE BOARD FOR DISCUSSION AT THE MEETING OF THE FEDERAL ADVISORY COUNCIL SEPTEMBER 20, 1920.

I. CREDIT CONTROL

1. What are the objects sought to be attained by the policy of credit control in the existing circumstances?

   Is the object

   (a) To maintain or to strengthen reserves?

   (b) To stabilize the existing situation by prevention of further expansion?

   (c) To bring about a discriminating deflation by reducing the total volume of credit?

2. Can a substantial reduction in the volume of credit be effected without injury to the legitimate business of the country and without curtailment of essential production?

3. To what extent has one or more of these objects been attained in each District and in the country at large?

4. To what extent is it necessary to distinguish between the immediate objective of the policy of credit control and the remoter objective, such as reduction in the cost of living?

   What is the proper conception of the "normal credit condition" which the Federal Reserve Banks should seek to bring about?

   Note: Obviously if "liquidation" or "stabilization" of the existing credit situation are to be regarded as the objectives of the Federal Reserve policy of credit control, a condition which can be regarded as "normal" will be attained very much more quickly than if the objective is a reduction in considerable amount of the total volume of credit.

5. Methods of credit control. Consideration of the efficacy of different methods of credit control.

   (a) Horizontal increase of rates, especially of commercial rates; a canvass of the experience of banks which have put into effect a 7% commercial rate, to wit, New York, Boston, Chicago, and Minneapolis.

(b) Progressive rate schedules starting with 6% as a basic rate; a canvass of the experience of Federal Reserve Banks of Kansas City, Dallas, St. Louis, and Atlanta.

(c) Other methods of dealing with the situation, such as the implication that increased offerings by member banks will force higher rates or recourse to the progressive rate; a canvass of the experience of the Federal Reserve Banks of Cleveland, Philadelphia, Richmond, and San Francisco.

(d) Restricting issues of Federal Reserve notes to Federal Reserve Banks as a potential means of enforcing credit control; canvass of English experience and views.

6. Inter-Reserve Bank rediscounts as related to the problem of credit control. Is the existing policy and practice with respect to such rediscounts satisfactory and sound?

(a) To effect an approximate equalization of reserves?

(b) At the same rate fixed for its member banks by the bank granting the accommodation?

Note: When recourse was first had to inter-bank rediscounts it was thought that the value of a Federal Reserve Bank's endorsement was entitled to recognition in the form of a reduced discount rate. More recently this idea has been abandoned and rediscount transactions between Federal Reserve Banks are made at the rates established for member banks by the Federal Reserve Bank extending the accommodation. The question now arises, however, whether a Federal Reserve Bank which has been able to maintain high reserves by reducing the demands for accommodations from its own member banks, which are its depositors, should be required to extend accommodations to member banks in other Districts through the medium of their Federal Reserve Banks at the same rates as are established for their own members.

II. LOANS SECURED BY LIBERTY BONDS AND VICTORY NOTES.

1. Is there any moral obligation resting upon any of the Federal Reserve Banks to establish rates lower than commercial rates for paper of this classification?

2. Would liquidation of loans of this class be retarded or promoted by the establishment of lower rates?

3. If lower rates are deemed desirable, would it be equitable and practicable to have such rates apply to original subscribers only?

4. Should member banks' collateral notes be fully secured, taking market value instead of face value as a basis?

5. If so, how and when could the new policy be put into effect with a minimum of friction?

III. FEDERAL RESERVE NOTE ISSUES.

1. Is the note-issue policy of the Federal Reserve System subject to legitimate criticism?

2. What connection is there between changes in the volume of credit and the volume of currency?

3. Is there any difference in trelation to effect upon prices between the volume of credit and the volume of currency?

4. Can the note-issue policy of the Federal Reserve System be properly charged with any important responsibility for inflated prices, if so, what has been the responsibility and in what way does the issue of Federal Reserve notes promote or assist inflation?

5. Can the accepted principles of bank-note-currency regulation, applicable in normal circumstances when the commerce of the world is conducted on a gold standard, be safely taken as a guide in the abnormal circumstances now existing, when the gold standard is virtually suspended, except in the United States and Japan?

6. In connection with the policy of credit control should the present note-issue policy of the Federal Reserve System be changed and restrictions be thrown around the issue of Federal Reserve notes?

7. If the issue of Federal Reserve notes should be restricted, what form should the restriction take and what effect would different methods of restriction have?

   (a) Imposition of charges against Federal Reserve notes upon the uncovered part of circulation issued to them at a given rate, for example, a fixed rate of 5% or a rate varying with the commercial rate.

   (b) Would it be practicable to establish for each member bank a so-called normal currency limit and to impose charges upon member banks calling for notes in excess of their limit?

   (c) Would it be advisable while continuing to have the Federal Reserve Banks pay all transportation charges on incoming currency, to have shipments of outgoing currency made at the expense of the consignees?

   (d) Restrictions by definition of the character of the paper acceptable as collateral by the Federal Reserve Agent against the issue of Federal Reserve notes. Should member banks' collateral notes or customers' notes secured by Government obligations be taken as collateral for Federal Reserve notes?

(e) Limitation of the total volume of Federal Reserve notes by the Federal Reserve Board, the maximum amount being fixed pro rata for each Federal Reserve Bank. (The Federal Reserve Board has statutory power to accept in part or to reject entirely all applications for Federal Reserve notes.)

Would restriction of note issues in any of the above mentioned ways operate to promote a better control of credit, and if so, what would be the effect upon the commerce and business of the country?

It is respectfully suggested that the President of the Federal Advisory Council assign to each member of the Council a part of the foregoing program for his special study and consideration in order that each member may come prepared to discuss the particular topics assigned to him. At the conclusion of the individual discussions a general discussion should follow.