

FEDERAL RESERVE BULLETIN

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SUBSCRIPTION PRICE OF BULLETIN.

May and June issues of the Federal Reserve Bulletin have been distributed without charge. This distribution will be continued to member banks of the system and to the officers and directors of Federal Reserve Banks. In sending the Bulletin to others the Federal Reserve Board feels that a subscription price should be required. It has accordingly fixed this price at \$2 per annum. Single copies will be sold at 20 cents. Remittances should be made to the Federal Reserve Board.

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FEDERAL RESERVE BULLETIN

VOL. 1

JUNE 1, 1915

No. 2

WORK OF THE BOARD.

During the month of May the work of the Federal Reserve Board has included four important elements:

(1) The development and perfecting of the system of clearance between Federal Reserve Banks through the establishment of a gold settlement fund at Washington.

(2) The working out and perfecting of a circular relating to the conditions of admission of State banks into the Federal reserve system, shortly to be issued.

(3) Visits to several of the reserve banks by members of the Board, followed by conferences with the officers of these institutions while the visiting members of the Board were on the ground.

(4) Participation in the Pan American Financial Conference which convened at Washington on May 24.

In addition to these principal lines of activity, the Board has, of course, been carrying on the usual routine work of administration, and has been granting applications for the right to exercise the functions of trustee, executor, etc., as well as requests for authority to accept drafts and bills of exchange running not more than six months, up to an amount not to exceed 100 per cent of the capital and surplus of the applying bank.

An especially interesting feature of the month's work has been the announcement of the decision of the Board in the redistricting cases which had been appealed to it from the Reserve Bank Organization Committee. The work of preparing the decisions in these cases had been accomplished before the beginning of May, but the publication of them occurred on May 4.

In the course of carrying to completion the work of drafting provisions for the gold settlement fund, there occurred at Washington on

May 6-7 a conference with governors of Federal Reserve Banks constituting a committee on clearance, who had been interested in the preparation of the plan of settlement and its going into operation on a satisfactory basis. During this conference further discussion of the technical details of the settlement plan occurred between members of the Federal Reserve Board and representatives of the several banks. The success of the plan was therefore assured, in advance, by reason of the hearty cooperation of the governors of the Federal Reserve Banks who had been interested in it.

On May 27 the Board, in further development of the plans for the gold settlement fund, adopted a resolution providing as follows:

Whereas Under the provisions of Regulation L, series of 1915, adopted by the Federal Reserve Board, it is necessary, in order to transfer title to the gold order certificates deposited in the Gold Settlement Fund, that they be indorsed by the Federal Reserve Board;

Now therefore be it resolved, That this indorsement by the Federal Reserve Board, to be valid and binding, must have the signatures of two members of said Board, and

Be it further resolved, That the Governor and Vice Governor, or in the absence of either or both of them, Mr. Warburg, Mr. Harding, or Mr. Miller, in their place or stead, be and they are hereby authorized to indorse such gold order certificates, for and in behalf of the Federal Reserve Board.

The Pan American Conference began on May 24 and proceeded during the succeeding week. An analysis of the results of this conference will be made in a later number of the Bulletin.

During the month the printing of the additional supply of Federal reserve notes, authorized some time ago, proceeded rapidly, and the stock of such notes in the hands of the Board is rapidly approaching the prescribed figure.

OPERATION OF FEDERAL RESERVE SYSTEM.

Hon. W. P. G. Harding, a member of the Federal Reserve Board, delivered the following address before the Texas Bankers' Association Convention, at Waco, Tex., on May 18, 1915:

I shall not attempt any discussion of the Federal reserve act from its broadest viewpoints, but shall confine myself to certain phases of its operation that are of particular interest to member banks, and in endeavoring to stress some of the benefits of the system, I shall not seek to evade a discussion of certain features to which objection has been made, particularly, by the smaller banks.

The profits arising from exchange charges have always been dear to the hearts of bankers, for the reason that transactions against which these charges are made are quickly closed up and involve no long tying up of funds. Profits from this source, however, are constantly becoming smaller, so that in the case of many banks, in the larger towns especially, they have so diminished that the exchange account shows a loss instead of a gain. I can remember the time when banks in Alabama charged a premium of one-half of 1 per cent for their checks upon financial centers, while they would buy at the same time sight drafts upon the same cities at the same rate of discount, thus netting a clear 1 per cent. I presume that there was a time when rates equally as high prevailed in Texas. Some of these same banks are now glad to make a net profit of one-tenth of 1 per cent, and in many cases this profit is derived only from the purchase of bills drawn against cotton when that commodity is moving actively, or from the collection of and remittance for bills-of-lading drafts drawn against shipments of goods.

Theoretically, exchange may be defined as the rate at which the documentary transfer of funds is made, so that if the debits reciprocally due by two places be equal, the exchange will be at par, but when greater in one than in the other, the exchange will be against that place which has the larger remittances to make and in favor of the other. It is customary for the seller of goods to forward them at the expense of the purchaser, who is supposed to pay for them in funds current at the place of residence of the seller. Thirty years ago it was the practice for settlements to be made between parties living in different towns, by draft on New York or some other financial center, by post office

money order, or by shipments of currency by express. In those days the rate of exchange was governed to a great extent by express rates, especially when the amount involved was large, for the remitter would not pay a bank a higher rate for its check than it would cost him to forward the actual funds by express. Merchants would go to their local bank and purchase drafts in favor of their creditors, paying the bank the agreed premium. As the business of the country developed, the local merchant gradually acquired the habit of sending his own check, drawn upon his local bank, to his creditor in New York, Chicago, or St. Louis, who would deposit the check in his own bank, which would, in turn, forward it for payment. The local merchant found that by doing this he could avoid paying a premium for a bank draft drawn upon the city where his debt was due. The city dealer found that he could in most cases, prevail upon his own bank to accept his country checks on deposit without making any deduction, so he soon became accustomed to this method of settlement. In the course of time, when many remittances were being made in this way, the burden upon the banks in the financial centers became very great, and to protect themselves, the crediting bank would impose a charge on country checks deposited with it, so that the cost of remitting funds for settlement of goods purchased had been shifted from the local merchant to the dealer or jobber in the cities. In many cases, however, this cost is borne by neither of the parties to the transaction, but is still absorbed by the city bank which has the dealer's account, although there seems hardly more reason for it to be taxed with the cost of transfer of funds from the buyer to the seller, than for it to pay freight upon the goods purchased.

The banker in the smaller towns naturally looks with favor upon this method of settlement, as he exacts his exchange charge from the bank from which he receives the check, and his bank has enjoyed an increased deposit during the time the check has been outstanding. Many abuses have crept in, however, and it frequently happens, particularly where the drawer knows that his check will be outstanding four or five days, that he will forward it before he actually has funds in bank to meet it, relying upon his ability to make the account good by the time the check is returned for payment. The merchant in the small town, therefore, prefers to continue this method of settlement, as it frequently saves him an interest charge. It often happens also that

in cases where the bank in the larger city makes a charge against its depositor more than ample to cover actual cost of collecting a country check, that it seeks to retain all or a part of this as a net profit, and is frequently enabled to do so by taking advantage of competitive conditions in an intermediate town where it has a reciprocal account, so that the expense is in many cases borne by a bank in some local center which is willing to take business at a loss to prevent a competitor from getting it. The ideal arrangement which the bank in the small town, or the real country bank, likes to make, and one which it is frequently able to make, is to charge its correspondent bank located in a financial center of its own State, exchange at the rate of 25 cents per hundred on all checks received for collection, at the same time clearing through the same correspondent all checks payable outside of its own town without any expense whatever. I believe, however, that arrangements of this kind are becoming harder to make, and that the greater part of exchange charges now being made in this country are borne by the sellers of goods. It may be that their profits are sufficient to admit of their bearing this expense, and I have always been impressed with the logic of a contention made by a country merchant when I was a bank clerk in Alabama more than 30 years ago.

It seems that on one occasion he sent his own check on the local bank to a New Orleans merchant in payment of some sugar, instead of following what was then the prevailing custom of going to the bank and buying its draft on New Orleans. This check was deposited in a New Orleans bank, who sent it for collection to the rival bank so that the bank on which the check was drawn made no profit out of the transaction. The cashier asked this merchant what he meant by sending his local check as far away as New Orleans, and suggested that he come in as usual and buy a bank draft. The merchant replied that whenever the New Orleans merchants would pay the freight on their goods shipped to him that he would be willing to pay the freight on their money. Sellers of goods all over the country have for several years past been paying freight on the money paid them for their goods, and the volume of local checks that are transmitted in the mails every day now reaches enormous proportions; certainly \$200,000,000 would not be a high estimate. When the Federal reserve act was being debated in Congress, representa-

tives of those who have been paying exchange charges on checks sent them in payment of goods sold exerted their influence in favor of free check collections, and shortly afterwards representatives of more than 2,000 country banks went to Washington and appeared before the committee having the bill in charge and entered a vigorous protest against being deprived of what they regarded as a legitimate profit. The result was that this paragraph was included in section 16 of the bill as enacted, and is now part of the law:

"Every Federal Reserve Bank shall receive on deposit at par from member banks or from Federal Reserve Banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal Reserve Bank checks and drafts drawn by any depositor in any other Federal Reserve Bank or member bank upon funds to the credit of said depositor in said Reserve Bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal Reserve Bank, and the charge which may be imposed for the service of clearing or collection rendered by the Federal Reserve Bank."

It seems to have been the idea in Congress that country banks would be appeased by the provision that they might make a charge against those of their patrons whose checks were cleared through the Federal Reserve Bank. In other words, if Mr. Brown, of Abilene, should draw his check upon the Citizens National Bank of Abilene, in favor of Smith & Co., of Chicago, for \$100, and that check should be returned to the Abilene bank for payment through the Federal Reserve Bank of Dallas, it was thought that the Abilene bank could charge Mr. Brown 15 cents for having paid his check in Chicago funds. The fact, however, was evidently overlooked that Mr. Brown would not look with favor upon this charge, which, if persisted in, would result in the loss by the Citizens National Bank of Mr. Brown's account. Neither is the permission given "to charge for exchange sold to patrons" any more satisfactory to the small bank, for the reason that their patrons have long since gotten out of the habit of buying bank drafts and make a practice of remitting their own checks. It seems, therefore, in actual practice that the

only charge allowed is for "the actual expense incurred in collecting and remitting funds," which must seem a mere pittance to banks that have been charging 25 cents per hundred. Yet the Federal Reserve Banks are required to "receive on deposit at par from member banks or from Federal Reserve Banks checks and drafts drawn upon any of its depositors," and the Federal Reserve Board is charged with the duty of carrying out the law.

It has been the earnest desire of the Board to cause as little hardship as possible in making these changes, and after a careful study of the whole subject, and after many conferences with representatives of all Federal Reserve Banks and officers of member banks, a plan has been agreed upon which will be gradual in its operation, and which will, it is thought, in the course of time prove effective. Each Federal Reserve Bank, in accordance with this plan, has notified its member banks that a check clearing system will be established, but that for the present the system will be a voluntary one, and no bank will be required to be a party to it except of its own free will and accord. In order best to describe the workings of this plan, I will assume that the member banks in Dallas, Fort Worth, Waco, Austin, Houston, San Antonio, Paris, Galveston, Sherman, and El Paso assent, and agree to permit the Federal Reserve Bank of Dallas to charge against their respective accounts as soon as received checks upon each bank which may come into the hands of the reserve bank. Such checks will be immediately forwarded to banks upon which drawn, for credit, and any checks not good are to be returned to the Federal Reserve Bank and recredited by it. Each of the banks agreeing to the plan must carry with the Federal Reserve Bank, in addition to its required reserve, an amount sufficient to provide for the debiting against its account of these checks. We will assume that there are 40 banks which agree to this plan at the start. Any one of these 40 banks having checks upon the other 39 banks will forward them all to the Federal Reserve Bank of Dallas, and receive immediate credit. It will, of course, have to stand an immediate debit on the books of the Federal Reserve Bank of all checks drawn upon itself received by the Reserve Bank from the other 39 banks, so that the net result to any one bank is merely a balance, and it will at the same time have been inconvenienced by having to write only one remittance letter instead of a great many, and by receiving only

one incoming letter from the Federal Reserve Bank, instead of perhaps 39.

Parties receiving checks upon any of these 40 banks will soon appreciate the fact that they are collectible at once, without charge, and, therefore, are as desirable as checks on New York, Chicago, or St. Louis have been hitherto. There will thus be established a preference for checks drawn on these banks, and parties remitting in payment of bills checks on banks not connected with this clearing plan will soon be brought to realize that checks drawn on banks in the clearing system are preferred. If a merchant in Sherman finds that by reason of his bank being a member of the clearing system that his checks are received without question, he will appreciate the facility given him, but if a merchant in Texarkana, for instance, finds that by reason of his bank not being a member of the clearing system, he is charged exchange upon the checks that he sends out, while his competitor in Sherman or Waco is exempt from such charge, he will soon, no doubt, exert enough pressure upon his own bank to induce it to become a member of the clearing system. If Galveston, Austin, and Fort Worth, as well as Dallas, should all be members of the clearing system, merchants in all these towns would enjoy the same advantage, and in the course of time the banks in Amarillo, for instance, would find that they would lose business by remaining out, and would, I think, as a matter of business necessity, finally become members of the clearing system. The Federal reserve act does not, of course, become entirely effective as far as its reserve requirements are concerned until three years from November 16, 1914, or until November 16, 1917, after which time the entire reserve of a member bank must be partly in its own vaults and partly with the Federal reserve bank of its district. It is thought that during this time there will be a gradual accession to the number of banks assenting to the new clearing plan, and after the fall of 1917 it is not believed that many banks who have customers sending their checks to distant points will fail to become members of the clearing section. As balances with other member banks will then no longer count as reserve, surplus funds will be loaned, rather than kept with other banks to control collections.

We ought to look this matter squarely in the face, and should realize that we must give and take, that we could not in any event have expected permanently to be able to make a

charge of from 15 to 25 cents per hundred on checks sent us for collection, at the same time collecting all of our out-of-town checks without any cost whatever. The banks in the smaller towns will learn, as the city banks have already learned, to make up losses in exchange by adding to their volume of business, and while at first thought many of you may feel that there is little chance of increasing the volume of business in your own towns, I am sure that as the workings of the Federal Reserve System become better known, and the safeguards it offers are more fully appreciated, that any money now being hoarded in your communities will come into sight and be deposited with you, and with the development of your section your business will expand in a healthy way. You have been given facilities, whether you borrow your money from the Federal Reserve Bank or not, of getting all the rediscounts to which you are entitled at lower rates than ever before. You will soon realize that there is no longer occasion for you to hoard money by carrying abnormally large reserves, and before the new reserve requirements under the act are fully effective I am sure that you will all have found that you can more than recoup your losses in the way of exchange profits by the gains derived through a greater volume of business.

What I have just said relates to the clearing of checks between banks in the same Federal reserve district, but the broader question of exchanges between the respective Federal Reserve Banks has also been considered by the Federal Reserve Board. It is proposed to obviate as far as possible the necessity for an actual transfer of currency from one Federal reserve district to another, and I think we have seen for the last time the stringency which has been recurring every fall during the active crop-moving period. Member banks will no longer be obliged to undergo the expense of nor to suffer the inconvenience due to delays attached to shipping in currency from the old reserve cities, but their currency requirements will instead be abundantly and quickly supplied at a minimum cost by their Federal Reserve Bank. The money that you will use in handling the crop next fall will consist largely of Federal reserve notes, which will stay in circulation as long as needed, and when the crop movement is over and the notes become redundant they will find their way back to the Federal Reserve Bank, where they will be retired. The abnormally high rates to which we have become accustomed during the closing months of the

year will no longer obtain, nor will there be the usual demoralization of rates in the early spring due to the heavy flow of redundant currency into the great financial centers. Your cotton drafts can, if you wish, still continue to take their usual course, and I presume that you will prefer to send them direct in order to avoid delays in transit. You can, however, instruct your correspondent bank to make deposit with the nearest Federal Reserve Bank for the credit of your Federal Reserve Bank for your use, and you can order Federal reserve notes from your own Federal Reserve Bank against such deposits as made. Many years will doubtless elapse before uniform interest rates prevail throughout the country. Under present conditions money will continue to command higher rates in Houston, Dallas, and Waco than it will in New York, Chicago, or Boston, but the rates will certainly be stabilized and extreme fluctuations will cease.

Section 16 of the Federal reserve act provides that—

"The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal Reserve Banks and their branches, and may, at its discretion, exercise the functions of a clearing house for such Federal Reserve Banks, or may designate a Federal Reserve Bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks."

The Board has accordingly, after conferences with the Federal reserve agents and the governors of the several Federal Reserve Banks, decided to establish a gold settlement fund, to be carried in the Treasury at Washington, and to which each Federal Reserve Bank shall contribute \$1,000,000 in gold, gold certificates, or gold order certificates, in addition to an amount at least equal to the net indebtedness due to all Federal Reserve Banks as of May 24. Each Federal Reserve Bank will be required to keep at all times in this fund a balance of not less than \$1,000,000, and this balance will count as a part of its lawful reserve. At the close of business each Wednesday night (or when Wednesday is a holiday, Tuesday night) each Federal Reserve Bank will telegraph to the Federal Reserve Board the amounts, in even thousands, due to the other Federal Reserve Banks as of that date, and on each Thursday the settling agent of the Federal Reserve Board will make the proper debits and credits in the

accounts of each Federal Reserve Bank with the fund, telegraphing each bank the amounts, in even thousands, of credits to its settlement account, giving the names of each bank from whom received, and also giving the net debit or credit balance in the weekly settlement. Proper debits and credits will then be made upon the books of each Federal Reserve Bank. In case the debit settlement balance of any Federal Reserve Bank should be in excess of the amount to its credit in the gold settlement fund, such deficiency must be immediately covered either by the deposit of gold, gold certificates, or gold order certificates in the Treasury or any subtreasury, or by credit operations, which term includes rediscounts with other Federal Reserve Banks which have an excess balance in the gold settlement fund. Excess balances may remain in the fund to the credit of the banks to whom they are due, or they may, if desired, be refunded by the return to the reserve bank of gold order certificates, properly indorsed, or of gold certificates payable to bearer, and, whenever practicable, payments will be made by the nearest subtreasury.

I am violating no confidence when I say that the Federal Reserve Board desires earnestly to have the State banks become members of the Federal Reserve System. The Board feels that the membership of the State institutions is essential to the coordinated banking system that it wishes to establish, and realizes that there can be but one credit system of nation-wide extent. It fully appreciates that the strength of the Federal Reserve System must be gauged by the quality of its members, rather than by number, and it will use all the broad discretionary powers vested in it by the Federal reserve act to bring about this coordination. It seeks to establish only such reasonable standards of admission as will be generally recognized as necessary to protect the Federal Reserve System against the admission of banks which would be a source of weakness rather than of strength, and it intends to prescribe only such regulations governing their conduct as members as will insure a reasonable conformity to the fundamental principles deemed essential to the success of the new banking system. The banks of this country are beginning to realize that membership in the Federal Reserve System carries with it privileges and guarantees of great value, not only to themselves but to their customers as well. It is believed that membership in the system will come to be regarded as a test of banking solid-

ity, and that membership, giving as it does full access to the facilities and resources of the system, will add to the prestige of even the strongest institutions, so that in the course of time the public will, instead of drawing a distinction as heretofore between national banks and State banks, will distinguish rather between banks which belong to the Federal Reserve System and the banks which do not belong, so that ultimately little importance will attach to the terms "National banks" and "State banks," and banks will be classified as "member banks" or "nonmember banks."

Section 9 of the Federal reserve act requires that State banks becoming members of the Federal Reserve System must comply with certain general requirements which now apply to national banks. The minimum capital permitted is \$25,000, and this requirement as to capital is raised according to the population of the town in which the bank is located, so that in cities of more than 50,000 inhabitants the minimum capital allowed will be \$200,000. State banks becoming members must also conform to the provisions of law governing national banks regarding the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition of purchases of or loans upon their own stock, the withdrawal or impairment of capital, and the payment of unearned dividends. The Board is not disposed to make any hard and fast rules respecting loans upon real estate or mortgages by State banks who wish to become members. It will seek rather to provide reasonable limitations, so that loans or investments of this character will not be so excessive in amount as to endanger the bank's liquid condition.

The important question of examinations has been fully considered by the Board. As admission to the system will be regarded as evidence of a bank's strength, the Board must necessarily have accurate and reliable information regarding the condition of an applying bank and the character of its management. Examinations must, therefore, be under the direction of the Board, but it will as far as possible avoid imposing additional expense upon a bank by adopting a method of joint or supplementary examination in cooperation with State banking authorities. It will use examiners and auditors in the employ of the respective Federal Reserve Banks in supplementing the examinations conducted by the banking departments of the several States, and in passing upon applications for member-

ship the Board will appreciate the cooperation of the State banking authorities.

The membership of State banking institutions in the Federal Reserve System differs from that of national banks in being optional, and the Board has felt from the start that the directors of State banks should be given the right to terminate their banks' membership in case they should deem it advantageous to do so. The Board does not believe that State banks after becoming members will wish to withdraw from the system which offers so many advantages, but at the same time it recognizes the responsibilities attached to the management of the State banks, and having received ample assurances from high legal authorities as to its powers it will, I think, reach the conclusion that the State bank members may, with reasonable limitations as to the maximum withdrawal of capital and reserves during any one year, surrender their membership should they elect to do so. I am sure that the Board will define its position in this matter clearly within a very short time.

Permit me, in closing, to impress upon you all the fact that we are living in a critical period of the world's history. The sun never sets upon the lands that are sending troops to engage in the most stupendous conflict of all the ages, and the toll in human lives and in destruction of property is enormous. The money cost of this war and the indebtedness of the nations party to it are beyond the comprehension of the average mind. No one can predict the duration of this titanic struggle nor its ultimate outcome, nor can we foretell what readjustments of capital must be made between the nations after the restoration of peace. We were able last summer to withstand the shock occasioned by the outbreak of war by putting into circulation over \$300,000,000 of emergency currency, now practically all retired or in process of retirement. After June 30, however, the law will no longer permit such issues, and such currency expansion as may be necessary in future will be in the form of Federal reserve notes. The Federal Reserve Banks can ultimately provide, even without the State banks as members, an emergency issue more than three times as large as the maximum outstanding last year, but it can extend direct aid to member banks only. Those of you who control the destinies of State banks are earnestly invited to bring your institutions under the protecting ægis of the Federal Reserve System, and I confidently believe that in doing so not only will you promote your own interests but you will perform at the same time a patriotic act by adding to the power of the world's strongest banking system.

Form for Discount Rates.

That the recommendations in connection with discount rates from the 12 Federal Reserve Banks may be uniform, the Federal Reserve Board has prepared the following form for such recommendations. It is to be forwarded to reach the Board not later than Thursday morning of each week:

Date ———, 1915.

FEDERAL RESERVE BOARD,

Washington, D. C.

SIR: I have the honor to forward the recommendation that no change be made in the existing discount rates for the Federal Reserve Bank of ——— for the week ending Thursday ———, 1915.

Respectfully,

Federal Reserve Agent.

I have the honor to request that the following rates be approved by the Federal Reserve Board for the Federal Reserve Bank of ——— to become effective Friday morning, ———, 1915:

RECOMMENDED RATES.

Maturities, in days.			Agricultural and live-stock paper over 90.	Acceptances.
30.	31 to 60.	61 to 90.		
.....
.....
.....

PRESENT RATES.

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.....
.....

Respectfully,

Federal Reserve Agent.

Acceptances to 100 per cent.

Below is given a list of member banks authorized to accept up to 100 per cent of their capital and surplus under circular 12, regulation K:

First National Bank, Boston, Mass.
 National Shawmut Bank, Boston, Mass.
 American Exchange National Bank, New York City.
 Merchants Exchange National Bank, New York City.
 Bank of New York, N. B. A., New York City.
 Merchants National Bank, Richmond, Va.
 Commercial National Bank, New Orleans, La.
 First National Bank, Chicago, Ill.
 Anglo and London Paris National Bank, San Francisco, Cal.
 Bank of California, N. A., San Francisco, Cal.
 Crocker National Bank, San Francisco, Cal.
 First National Bank, San Francisco, Cal.
 Wells-Fargo Nevada National Bank, San Francisco, Cal.

INFORMAL RULINGS OF THE BOARD.

Below are reproduced letters sent out from time to time over the signatures of the officers of the Federal Reserve Board, which contain information believed to be of general interest to Federal Reserve Banks and member banks of the system:

Paper of Financing Companies.

In answer to your letter of November 17 and subsequent communication of November 20, you are advised that the question, how to deal with paper issued by finance companies, has been carefully considered and that the Board is of opinion that collateral trust notes of the kind you describe ought not to be accepted by Federal Reserve Banks as a basis for discounts.

The Board feels that paper of the kind referred to does not afford sufficient evidence of the nature of the transaction which gave rise to it, while the obligation itself presented by one of these finance companies is certainly not inherently a commercial one. You are therefore informed that it is not considered desirable to encourage the offering of such paper by member banks.

DECEMBER 18, 1914.

Loans for Agricultural Purposes.

You are right in supposing that the 25 per cent limit applies only to the proceeds of loans used for agricultural purposes or based on live stock, provided the maturities of these notes exceed three months. In other words, the limitation applies only to paper having maturity in excess of 90 days.

As to the question whether notes bearing the indorsement of nonmember banks are eligible for rediscount, you are advised that the matter is one that is now under very careful consideration for the purpose of establishing general regulations regarding the relation of State banks to the new system in various connections.

The question you raise as to whether the direct note of a member bank can be rediscounted has already been fully covered in other connections, as I believe that we have sent you copies of replies to other Federal reserve agents dealing with this point—the

answer being in the negative, i. e., that such direct notes can not be rediscounted.

Live stock, the Board thinks, should include not only beef cattle, but horses and mules.

JANUARY 2, 1915.

Agricultural Loan Mortgages.

You are advised that in the opinion of the Board the Federal reserve act certainly does not require the taking of chattel mortgages as security for loans based on agricultural operations. In the dealings of the Federal Reserve Banks with member banks, the statement of the member bank that the loan is desired for agricultural operations must, under ordinary circumstances at least, necessarily be accepted as to the purpose for which the funds are acquired. So, also, from the standpoint of the member bank itself, it would seem clear that if the act is to be of any real service to the agricultural community, it would not seem practicable to enter into an exhaustive inquiry as to whether any minute part of the loan has been or may be used directly or indirectly for the support of the farmer while preparing the soil for cultivation or for feeding his cattle. It would, on the contrary, seem to be sufficient if the direct primary purpose of the loan is for the purpose of carrying on the ordinary operations of agriculture.

You further ask whether in section 13 of the Federal reserve act, in dealing with six-months' agricultural paper, the words "based on" should be considered synonymous with "secured by." The language of the act is—

"provided that notes, drafts, and bills drawn or issued *for* agricultural purposes or *based on* live stock," etc.

The Board does not understand that such agricultural paper must be directly secured by agricultural products. It would seem to be sufficient if they are genuinely based upon transactions entered into for the purposes of agricultural operations.

In conclusion, I would state that these questions must be handled with general banking prudence, using all the knowledge of local conditions which the directors of the bank must possess.

JANUARY 9, 1915.

Cotton-mill Paper.

At a meeting of the Board yesterday Mr. ——— brought up the matter of discounts by your bank, upon the indorsement of member banks, of notes made by cotton mills whose statements do not show an excess of quick assets over current liabilities.

I am authorized and directed by the Board to say that the new discount regulations were not intended to reverse the ruling previously made by the Board in the matter of discounts of cotton-mill paper by your bank, and your directors are authorized to discount such paper as heretofore where general conditions are satisfactory, and where the statement of the cotton mill shows that the plant is not mortgaged, and that the deficiency between capital and plant account does not amount to more than \$5 per spindle.

FEBRUARY 11, 1915.

Time Deposits and Savings Accounts.

Receipt is acknowledged of your letter of February 2, referring to the interpretation of the term "Time deposits."

In your letter you quote from Circular No. 6, series 1915. In this connection your attention is called to regulation E, which was attached to the circular above referred to, and in which the distinction between time deposits, time certificates of deposit, and savings accounts is made clear.

All deposits are subject to full reserve except the following:

1. "Time deposits—open accounts." This refers to accounts which are subject to check but that under written agreement "neither the whole or any part of such deposit" may be withdrawn except on a given date on written notice given in advance, in no case less than 30 days. In this connection it will be noted that the date of payment must be fixed before such accounts may be classed as time deposits.

2. "Time certificates of deposits" refers to those deposits which are evidenced by certificates (a) which have a fixed maturity; (b) which are payable after lapse of specified number of days; (c) or upon written notice given at least 30 days before the date of repayment.

3. "Savings accounts." This item refers to accounts which are evidenced by (a) pass book, certificate of deposit, or similar form of receipt, which must be presented to the bank whenever a deposit or withdrawal is made; and (b) which accounts are subject to printed regulations

which were accepted by the depositor at the time the account was opened under which the depositor may be required by the bank to give notice of intended withdrawal not less than 30 days before the withdrawal is made.

The pass book which you inclosed refers to accounts which may be classed as savings accounts, provided that such deposits are not subject to check. If, however, the depositor has the privilege of drawing checks on the account in your interest department, under regulation E issued by the board, your bank will be required to carry full 12 per cent reserve against such accounts. If withdrawals can only be made upon the presentation of pass books, such accounts may be classed as "time savings accounts" upon which it will be necessary to carry but 5 per cent reserve.

FEBRUARY 4, 1915.

Stock Notice to Banks.

It is believed that a system of notifying member banks of the approval of applications for stock which will be more satisfactory to the Federal Reserve Banks can be adopted. It has heretofore been the practice of the Federal Reserve Board to send a notice of call for the payment of the first installment of subscription directly to the member bank, and at the same time advising the Federal reserve agent of the district of this action. This system will be more satisfactory to all if the member banks receive notice of the approval of their applications for stock directly from the Federal Reserve Banks, and to accomplish this the following procedure will in the future be observed:

Under the law new banks can be required to pay one-half of their subscription at the time of taking out stock. Upon the receipt of notice from the Board of the allotment of stock to such banks the Federal reserve agents can notify the banks and require the necessary payments to place them on the same footing as those which originally entered the system, until May 2, 1915, when the third installment is payable, and then require payment in full of the required 3 per cent.

The Board has been advised that in the issuance of additional stock member banks very frequently prefer to pay one-half of their subscription at the time the stock is issued, thereby avoiding the inconvenience of three small payments. Under the law this can not be required, but the option should, it would seem, be given. Therefore, upon receipt of notice from the Board of allotment of additional stock,

the Federal reserve agents should advise the applicant banks and extend to them the option of paying the installment necessary to place it on the same footing as other stock held by them.

It is believed if the foregoing procedure is followed, so that all stock will be upon the same footing as regards payments, the work of keeping accounts will be greatly simplified both for the Federal Reserve Banks and for the Federal Reserve Board.

MARCH 10, 1915.

Adjustment of Stock Ledgers.

In order to obviate the necessity for daily adjustment of the stock ledger accounts and the consequent confusion which results from continuous changes in the stock holdings of member banks occasioned by the increase or decrease of their capital or surplus, you will please request all member banks to file their applications quarterly—that is, on the 1st day of January, April, July, and October of each year—in all cases where additional stock is to be applied for, or where member banks desire to surrender and cancel a part of the stock held.

In making applications for additional stock or for surrender of stock, banks should exercise care to see that the blanks are properly filled in, using as a basis the total capital and surplus at the time of their last previous stock allotment, and stating the total of all increases and decreases in capital or surplus, separately, so that the total at the date of the prior allotment plus the increases and less the decreases, will equal the total capital and surplus as of date of application.

Those national banks which have increased or decreased their surplus since the last report of condition to the Comptroller of the Currency, should send a certificate to that effect to the Comptroller contemporaneously with filing their applications with the Federal Reserve Bank, in order that the records of the Comptroller's office may be in accord with those of the Federal Reserve Board.

In the case of changes in capital, this additional certificate will be unnecessary, in view of the fact that the Comptroller's approval must be obtained prior to any such change, and the records of his office must necessarily conform in such case.

MARCH 13, 1915.

Mortgages Secured by Live Stock.

The Federal Reserve Board has received a letter under date of March 9 from Mr. R. L. Van Zandt, in which he asks whether paragraph 3 of Circular No. 3 covers a bill specifically secured by a chattel mortgage on cattle.

The Board is of the opinion that there is nothing to require a mortgage on cattle, and that the question whether such paper is self-liquidating when so secured is a matter that can be settled very much better at your bank than here, inasmuch as it is a matter of local usage and custom as to which we have no reliable information. The requirement in the case is merely that the general principles of the regulation referred to be observed according to the best judgment of the officers in charge.

MARCH 17, 1915.

Discount of Renewal Notes.

Your letter of March 15 raises a very interesting question of principle in the operation of a Reserve Bank, to wit, the question whether it is proper for a Reserve Bank to discount a note which is obviously a renewal. Broadly stated, the question can not be answered by an invariable "yes" or "no." A renewal as such is neither "eligible" nor "ineligible." There are good renewals and bad renewals; and it is a matter for banking judgment to determine the merits of each particular case by a knowledge of the circumstances in which both the original loan and the renewal have been made. It is clear that paper successively renewed for the purpose of providing a permanent addition to working capital or for the purpose of financing fixed investments is not eligible for rediscount by a Federal Reserve Bank; on the other hand, paper that is unquestionably self-liquidating, even though the transaction which gives rise to it does not liquidate itself within the limits of a 90-day maturity, might be discounted by a Federal Reserve Bank even though it appeared that it was renewal paper. There are many processes of production which take a longer time than 90 days; and while no Federal Reserve Bank should ever enter into an agreement for the renewal of discounted paper, nevertheless in cases where the "process of production and distribution" covers a period longer than 90 days there is no reason why a borrower should not renew his 90-day borrowing; and, in such

case, there is no reason why a member bank should not purchase the paper and a Federal Reserve Bank discount it if it is otherwise satisfactory and at the then prevailing rate. It would be a mistake for a Federal Reserve Bank as a matter of principle to refuse to buy paper based on transactions of this kind. At the same time they must be counseled to exercise great care in scrutinizing the paper and transactions that have given rise to it, in order to determine whether it is of the character above described as legitimate and not used as a screen for financing fixed investments or for the purpose of providing additional working capital. As the circulars and regulations of the Federal Reserve Board have undertaken to state the fundamental principle, it is the liquidity of the paper that must be looked to to determine its eligibility, and liquidity should not be tested by standards that are too narrow, arbitrary, or inflexible. Such mechanical rules must not be allowed to take the place of a discriminating banking judgment.

APRIL 27, 1915.

Undivided Interests as Security.

In answer to your letter of May 3, relative to a loan secured by a mortgage upon one share of an undivided interest in a piece of farm property, you are advised that the Board agrees with the views you have expressed.

The mortgage on such share of an undivided interest would be very hard to reduce to possession in case it should become necessary to sell out the collateral, and moreover, the question would have to be investigated pretty carefully whether the remaining nine-tenths of the holders could not mortgage the property, provided that as we take it, it is now unencumbered.

These cases must, of course, be judged on their own merits, but looking at the question merely as a matter of principle, as it is brought before the Board, to lend on this type of paper does not appear to be advisable.

MAY 7, 1915.

Approved Reserve Agents.

Replying to your letter of April 20 as to whether or not it is necessary for State banks which are members of a Federal reserve bank to have approved reserve agents, I beg to advise you that there is nothing in the Federal reserve act which requires a member bank to carry any part of its reserves with an approved

reserve agent. It is, however, permitted under the terms of the Federal reserve act to carry part of its required reserve with approved reserve agents; but this is optional with a bank and not mandatory upon it. I quote the following from an opinion of counsel of the Federal Reserve Board:

"If the laws of South Carolina permit or require State banks to carry a part of their reserve with national banks, reserve so carried in accordance with the State law may be counted as reserve under the Federal reserve act, and it is unnecessary for the State bank to have such national bank approved as its reserve agent unless the laws of South Carolina so require. If the laws of South Carolina do not permit or require State banks to carry a part of their reserve with national banks a State bank might, under the previous paragraphs of section 19, have a national bank in a reserve or central reserve city approved as its reserve agent and balances carried with such approved reserve agent might be counted as reserve under the Federal reserve act, but might not be treated as reserve by the State authorities.

"It, therefore, seems unnecessary for a State bank to have a national bank approved as its reserve agent unless the laws of the State in which it is incorporated make this requirement."

MAY 15, 1915.

Notes for Commercial Fertilizer.

One of the Georgia member banks has made to the Federal Reserve Board the following suggestion:

I learn that the Reserve Board has under consideration the question of admitting to rediscount notes given by farmers for commercial fertilizer, and having more than three but less than six months to run.

I want to suggest that unless a note given by a farmer for commercial fertilizer, to be used under his growing crop, constitutes an agricultural paper under the terms of the reserve bank act, I can not understand what character of paper would come under such description.

Below is the decision of the Board in the matter:

I inclose you a copy of a letter with the suggestion that you transmit to the writer a reply indicating that the Board's feeling is that a farmer's six-months' note of the kind herein referred to, discounted and indorsed by a member bank, is to be regarded as agricultural paper eligible for rediscount by Federal Reserve Banks.

IMPORTS AND EXPORTS OF GOLD.

The Federal Reserve Board since January 1 of the present year has been in receipt of weekly telegraphic reports from collectors of customs showing the imports and exports of gold ore, bullion, and coin. The tables below show the totals for the 17 weeks from January 1 to April 30 (brought into accord with the figures of the Bureau of Foreign and Domestic Commerce), and in addition for each of the three weeks during the month of May, for which telegraphic advices have been received. Of the total of about 79.5 million dollars of gold imported into this country during the first 20 weeks of the present year, 39.5 millions are shown to have come by way of Ogdensburg (St. Lawrence district), 18.7 millions via New York, and 14.5 millions by way of San Francisco, the imports through these three gateways constituting almost 92 per cent of the total gold imports into this country. Comparisons with previous years are possible only for the first four months of the year.

The Bureau of Foreign and Domestic Commerce gives the total gold imports during January-April, 1915, as 61.4 million dollars, compared with 25.0 million dollars during the same period in 1914 and 19.9 million dollars in 1913. Over 60 per cent (37.7 million dollars) of the imported gold came from Canada, about 5.6 millions from European countries, 5.5 millions from Japan, 5.1 millions from China, and 3.3 millions from Mexico.

The exports of gold during the first 20 weeks of the present year are shown to have been less than 4.5 million dollars in value, almost 95 per cent leaving the country via New York. Gold exports for the first 4 months of the present year totaled less than 3.5 million dollars, compared with 19.0 million dollars exported during the corresponding period in 1914 and 50.7 million dollars in 1913. Practically all the gold exported was consigned to Central America, the West Indies, and South American countries, over two-thirds of the total gold exports going to Cuba.

Imports of gold, by customs districts, Jan. 1 to May 21, 1915.

[In thousands of dollars.]

	Maine and New Hampshire.	Maryland.	New York.	Porto Rico.	Florida.	New Orleans.	Arizona.	El Paso.	Alaska.	San Francisco.	Southern California.	Washington.	Buffalo.	Dakota.	Michigan.	St. Lawrence.	Vermont.	Total.
<i>Jan. 1 to Apr. 30.</i>																		
Ore and base bullion.....	1		49		141	45	42		42	7	1,297	1,338	80	524				3,566
Bullion, refined.....			3,837		7	289	1,082	490	5,951		288					1,952		13,896
United States coin.....			3,080	1	7				21		6		5			31,210	3	34,333
Foreign coin.....		50	3,616		10				5,480							495		9,651
Total.....	1	50	10,582	1	24	141	334	1,124	490	11,494	7	1,591	1,343	80	524	33,657	3	61,446
<i>For week ending May 7.</i>																		
Ore and base bullion.....			2		15	28	3					82	65		56			251
Bullion, refined.....			219		3	2			40		80					640		984
United States coin.....			2,501						498									2,501
Foreign coin.....			6															504
Total.....			2,728		3	15	30	3	538		162	65		56		640		4,240
<i>For week ending May 14.</i>																		
Ore and base bullion.....					3	73	6				50	192		26				350
Bullion, refined.....			140			20	14		184									358
United States coin.....			22															22
Foreign coin.....			36						2,246									2,282
Total.....			198		3	93	20		2,430		50	192		26				3,012
<i>For week ending May 21.</i>																		
Ore and base bullion.....			9				5				55	149		54				272
Bullion, refined.....			167				3		81									251
United States coin.....			5,030										4			5,223		10,257
Foreign coin.....		50	5															55
Total.....		50	5,211				8		81		55	153		54		5,223		10,835
<i>Jan. 1 to May 21.</i>																		
Ore and base bullion.....	1		60		159	146	56		42	7	1,484	1,744	80	660				4,439
Bullion, refined.....			4,363		10	311	1,099	490	6,256		368					2,592		15,489
United States coin.....			10,633	1	7				21		6		9			36,433	3	47,112
Foreign coin.....		100	3,663		10				8,224							495		12,439
Total.....	1	100	18,719	1	27	159	457	1,155	490	14,543	7	1,858	1,753	80	660	39,520	3	79,533

Exports of gold, by customs districts, Jan. 1 to May 21, 1915.

[In thousands of dollars.]

	Maine and New Hamp- shire.	New York.	Hawaii.	Alaska.	San Fran- cisco.	Wash- ington.	Buffalo.	Michi- gan.	Du- luth and Su- perior.	St. Law- rence.	Ver- mont.	Total.
<i>Jan. 1 to Apr. 30.</i>												
Ore and base bullion.....				1		118						119
United States mint or assay office bars.....							3			4		7
Bullion, refined.....	2			2		2	17		1		6	32
United States coin.....		2,328	14		4	31	3	1		4		2,385
Foreign coin.....		935					5					940
Total.....	2	3,263	14	3	4	151	28	1	1	10	6	3,483
<i>For week ending May 7.</i>												
United States coin.....		646	2									648
<i>For week ending May 14.</i>												
United States coin.....		175			2							177
<i>For week ending May 21.</i>												
United States mint or assay office bars.....										1		1
United States coin.....		132			10							142
Total.....		132			10					1		143
<i>Jan. 1 to May 21.</i>												
Ore and base bullion.....				1		118						119
United States mint or assay office bars.....							3			5		8
Bullion, refined.....	2			2		2	17		1	2	6	32
United States coin.....		3,281	16		16	31	3	1		4		3,352
Foreign coin.....		935					5					940
Total.....	2	4,216	16	3	16	151	28	1	1	11	6	4,451

Standing Committees, Federal Reserve Board.

- (1) *Committee on Federal Reserve Board Organization and Expenditures.*

Mr. DELANO, Chairman; Mr. HARDING, Mr. MILLER.

- (a) Subcommittee, Organization and Staff:

Mr. Delano, Mr. Harding.

- (b) Subcommittee, Budget and Expenditures:

Mr. Delano, Mr. Miller.

- (2) *Committee on Audit and Examination.*

Mr. WILLIAMS, Chairman; Mr. DELANO, Mr. WARBURG.

- (3) *Committee on Operation of Federal Reserve Banks.*

Mr. HAMLIN, Chairman; Mr. WARBURG, Mr. HARDING, Mr. DELANO, Mr. MILLER.

- (a) Subcommittee on Operation: Mr. Hamlin, Mr. Warburg, Mr. Harding, Mr. Miller, Mr. Delano.

- (b) Subcommittee on Discount Operations: Mr. Warburg, Mr. Delano, Mr. Harding, Mr. Miller.

- (4) *Committee on Reports and Statistics.*

Mr. MILLER, Chairman; Mr. DELANO, Mr. WILLIAMS.

- (5) *Committee on Legal Matters.*

Mr. HAMLIN, Chairman; Mr. WARBURG, Mr. HARDING.

- (6) *Committee on Admission of State Banks.*

Mr. HARDING, Chairman; Mr. WILLIAMS, Mr. WARBURG.

- (7) *Committee on Issue and Redemption.*

Mr. DELANO, Chairman; Mr. WILLIAMS, Mr. MILLER.

- (8) *Executive Committee.*

The GOVERNOR, the VICE GOVERNOR, Mr. WARBURG.

Government Rate for Official Telegrams.

Both the Postal Telegraph Cable Co. and the Western Union Telegraph Co. will accept telegrams from Federal reserve agents when they relate to the official business of the Federal Reserve Board. Such telegrams should be indorsed "Official business, Government rate, charge Federal Reserve Board."

Messages from Federal Reserve Banks will be accepted by the telegraph companies at Government rates when indorsed "Official business, Government rate, collect." Such messages will be billed to the Federal Reserve Board at Washington, D. C.

CIRCULARS AND REGULATIONS.

The circular and regulation given below were issued by the Board on May 8.

CIRCULAR NO. 13, SERIES OF 1915.

WASHINGTON, May 8, 1915.

CLEARINGS BETWEEN FEDERAL RESERVE BANKS.

Section 16 of the Federal reserve act authorizes the Federal Reserve Board, at its discretion, to exercise the functions of a clearing house for the Federal Reserve Banks.

Pursuant to the authority of this section the Federal Reserve Board has devised a plan for the establishment of a gold fund for the weekly settlement of balances arising out of transactions among the 12 Federal Reserve Banks, to be operated under the direction of the Federal Reserve Board with the cooperation of the Treasury Department.

The regulation governing the establishment and operation of this fund is issued herewith.

REGULATION L, SERIES OF 1915.

WASHINGTON, May 8, 1915.

CLEARINGS BETWEEN FEDERAL RESERVE BANKS.

I. Statutory provisions under section 16.

"The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal Reserve Banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal Reserve Banks, or may designate a Federal Reserve Bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks."

II. General provisions.

In the exercise of the functions of the clearing house authorized under the provisions of section 16, quoted above, the Federal Reserve Board and the Federal Reserve Banks will be governed by and subject to the following regulations and the Federal Reserve Board will be the custodian of the funds hereinafter termed the "gold settlement fund." The Board will appoint a settling agent, who shall keep the necessary records and accounts.

III. Deposits in the gold settlement fund.

(a) Each Federal Reserve Bank shall, not later than May 24, 1915, forward to the Treasury or the nearest sub-treasury, for credit to the account of the gold settlement fund, \$1,000,000 in gold, gold certificates, or gold order

certificates, and, in addition, an amount at least equal to its net indebtedness due to all Federal Reserve Banks.

(b) The Treasurer of the United States or Assistant Treasurer will, in accordance with arrangements made with the Treasury Department, advise the Federal Reserve Board, by mail or telegraph, of the receipt of all funds deposited on account of the gold settlement fund, and the Treasurer will issue and deliver to the Federal Reserve Board gold order certificates made "payable to the order of the Federal Reserve Board" covering the sum so deposited.

(c) Each Federal Reserve Bank shall maintain a balance in the gold settlement fund of not less than \$1,000,000.

(d) Excess balances may, at the convenience of each Federal Reserve Bank, remain deposited with the gold settlement fund.

IV. Custody of funds.

(a) A safe in the Treasury vault will be set apart for the exclusive use of the Federal Reserve Board.

(b) To open the Treasury vault, the presence of two persons designated by the Secretary of the Treasury is required. The combination of the safe set apart for the use of the Board will be controlled by two persons designated by the Board.

(c) A vault record shall be kept, giving a memorandum of all entrances to the safe, by whom made, for what purpose, and the certificates deposited or withdrawn. Each entry on the vault record book shall be signed by the persons having access to the safe.

V. Accounts.

In its relations with other Federal Reserve Banks each Federal Reserve Bank shall keep an account showing balances "due to" other Federal Reserve Banks representing the proceeds of items which it has actually collected, and payments and transfers which have been made to it for the account of such other Federal Reserve Banks; and an account showing balances "due from" other Federal Reserve Banks representing the proceeds of items which it has sent to such other Federal Reserve Banks, and payments and transfers which have been made to such other Federal Reserve Banks for its account.

VI. Procedure.

(a) At the close of business each Wednesday night, each Federal Reserve Bank shall telegraph to the Federal Reserve Board, confirming such telegram by mail, the amounts in even thousands due to each other Federal Reserve Bank as of that date, as indicated by its "due to" account provided for in Rule V. If Wednesday is a holiday in the State in which a Federal Reserve Bank is located, then such bank shall telegraph as herein provided on Tuesday, at the close of business.

(b) The settling agent shall, on each Thursday, make the proper debits and credits in the accounts of each Federal Reserve Bank with the gold settlement fund, and shall telegraph to each bank the amounts, in even thousands, of credits to its settlement account, giving the name of each Federal Reserve Bank from which each of its credits was received and also its net debit or credit balance in the weekly settlement.

(c) Each Federal Reserve Bank shall, on receipt of the telegram from the settling agent, debit the "due to" Federal Reserve Banks' accounts, and shall credit the gold settlement fund; and shall credit the "due from" Federal Reserve Banks' accounts and charge the gold settlement fund. The difference between the total debits and credits shall equal the net debit or credit to the gold settlement fund, as advised in the telegram from the settling agent.

VII. *Deficits.*

(a) Should the debit settlement balance of any Federal Reserve Bank be in excess of the amount of its credit in the gold settlement fund, such deficit must be immediately covered either by the deposit of gold, gold certificates, or gold order certificates in the Treasury or nearest sub-treasury, or by credit operations with other Federal Reserve Banks which have an excess balance with the gold settlement fund. Any delay in covering such deficit shall be subject to such charge as the Federal Reserve Board may impose.

(b) As required in III (c) of this regulation, each Federal Reserve Bank shall maintain a balance in the gold settlement fund of not less than \$1,000,000. Should the credit balance of any Federal Reserve Bank in such fund fall below \$1,000,000, such bank shall restore its balance to that amount in either manner indicated under VII (a) of this regulation on or before Tuesday of the following week.

VIII. *Excess balances.*

Any excess balance shall, on request, either by telegraph or letter, of the Federal Reserve Bank to which it is due, be refunded by the return to the Reserve Bank of the gold order certificates held by the gold settlement fund, properly indorsed, or by the indorsement and delivery to the Treasurer of a like amount of such certificates, for which he will give in exchange bearer gold certificates, which the Federal Reserve Board may send by registered mail, insured, to the banks, if they want funds other than gold order certificates, or in lieu of such payment, the Treasurer may by wire or mail direct payment to be made by a subtreasury office through the medium of the general account, provided funds are held in such office available for the purpose. Gold order certificates will, when presented at the office of the Treasurer of the United States or any subtreasury, bearing the signatures of duly authorized officers of the Federal Reserve Bank, be payable in gold or gold certificates. If the Treasury finds it necessary

to ship from one point to another in order to have the gold or gold certificates available at the subtreasury to which such gold order certificates are presented, the Federal Reserve Board will, for the account of the gold settlement fund, refund any expense incurred by the Treasury in making such shipments.

IX. *Reserve.*

Each Federal Reserve Bank shall count as a part of its legal reserve the funds standing to the credit of its account on the books of the gold settlement fund.

X. *Expenses.*

Cost of operation of and shipment of currency by the gold settlement fund shall be apportioned by a semiannual accounting among the 12 Federal Reserve Banks on a basis to be hereafter determined by the Board after consultation with the Federal Reserve Banks.

XI. *Audit.*

At least once in each three months an audit shall be made of the gold settlement fund by a representative of the Federal Reserve Board and a representative appointed by the Federal Reserve Banks.

XII.

The Federal Reserve Board reserves the right to add to, alter, or amend these regulations.

Aldrich-Vreeland Currency Outstanding.

There was on May 20 Aldrich-Vreeland currency outstanding to the amount of \$3,539,600.78. States in which the currency is held, with the amounts, are as follows:

Alabama.....	\$214, 250. 00
California.....	361, 140. 00
Florida.....	264, 000. 00
Iowa.....	433, 150. 00
Kentucky.....	25, 000. 00
Louisiana.....	245, 450. 00
Missouri.....	30, 000. 00
New Jersey.....	35, 000. 00
New Mexico.....	85, 950. 00
North Carolina.....	72, 500. 00
Pennsylvania.....	413, 872. 98
South Carolina.....	308, 787. 80
Tennessee.....	150, 000. 00
Texas.....	875, 500. 00
Wisconsin.....	25, 000. 00
Total.....	3, 539, 600. 78

DISTRIBUTION OF ALDRICH-VREELAND CURRENCY.

(Compiled by the Comptroller of the Currency.)

Aldrich-Vreeland Act circulation approved, classified as to kind of security—Original applications.

States.	Portions secured by—									
	Circulation approved.	Per cent.	State and county bonds.	Per cent.	Miscellaneous securities.	Per cent.	Commercial paper.	Per cent.	Warehouse receipts.	Per cent.
Maine.....										
New Hampshire.....	\$352,000		\$86,500	24	\$175,500	49	\$80,000	27		
Vermont.....										
Massachusetts.....	28,674,500		3,338,200	11	12,324,050	43	13,012,250	46		
Rhode Island.....										
Connecticut.....	1,251,000				645,000	51	606,000	49		
Total New England States.....	30,277,500		3,424,700	11	13,144,550	43	12,708,250	46		
New York.....	11,564,000		1,408,230	12	5,088,050	44	5,067,720	44		
New York City.....	144,925,980		24,458,176	16	55,294,153	38	65,223,631	46		
New Jersey.....	1,980,000		354,000	43	810,000	40	316,000	17		
Pennsylvania.....	24,461,750		944,845	4	13,351,905	54	10,155,000	42		
Delaware.....										
Maryland.....	8,168,000		1,567,200	19	1,440,700	17	5,161,100	64		
District of Columbia.....	637,000		65,000	10	268,000	42	304,000	48		
Total Eastern States.....	191,777,710		29,297,451	15	76,252,808	40	86,227,451	45		
Virginia.....	6,458,100		937,950	14	708,100	12	4,707,050	72	\$105,000	2
West Virginia.....	323,000						328,000	100		
North Carolina.....	4,037,450		1,166,565	29	41,625	1	2,315,535	57	513,725	13
South Carolina.....	3,285,380		111,900	3	69,350	2	2,596,230	79	507,900	16
Georgia.....	6,289,625		355,000	5	6,200		5,478,650	87	440,775	8
Florida.....	1,368,500		296,000	21	10,500		778,875	58	283,125	21
Alabama.....	4,662,400		892,650	19	181,000	4	3,486,150	75	102,600	2
Mississippi.....	1,572,000		838,125	53	129,000	8	580,875	37	24,000	2
Louisiana.....	4,155,000		518,765	12	414,750	10	2,830,485	69	391,000	9
Texas.....	18,136,300		1,068,950	6	346,050	2	16,477,200	91	244,100	1
Arkansas.....	624,000				43,750	7	464,250	74	116,000	19
Kentucky.....	5,150,400		732,600	14	1,214,200	23	3,203,600	63		
Tennessee.....	4,968,100		410,750	8	607,200	12	3,943,650	80	6,500	
Total Southern States.....	61,030,255		7,329,255	11	3,771,725	5	47,185,550	80	2,743,725	4
Ohio.....	16,984,500		3,669,000	21	1,965,600	11	11,349,900	68		
Indiana.....	719,500		121,334	16	225,000	31	373,166	53		
Illinois.....	27,825,000		5,114,500	18	3,996,500	15	18,714,000	67		
Michigan.....	2,414,000		1,310,000	54	6,000		1,098,000	46		
Wisconsin.....	4,864,000		720,100	14	1,195,900	24	2,948,000	62		
Minnesota.....	12,416,500		737,500	6	5,805,000	46	5,874,000	48		
Iowa.....	3,018,400		143,500	4	45,000	1	2,829,900	95		
Missouri.....	13,173,000		448,000	3	562,000	4	12,163,000	93		
Total Middle States.....	81,414,900		12,263,934	15	13,801,000	16	55,349,966	69		
North Dakota.....	150,000						150,000	100		
South Dakota.....										
Nebraska.....	2,083,000		54,000	2			2,029,000	98		
Kansas.....	842,000		63,000	7	10,000	1	769,000	92		
Montana.....										
Wyoming.....										
Colorado.....	1,395,000		325,875	23	746,700	54	322,425	23		
New Mexico.....	297,500						297,500	100		
Oklahoma.....	1,313,700		119,000	9	16,200	1	1,146,500	88	32,000	2
Total Western States.....	6,081,200		561,875	8	772,900	12	4,714,425	80	32,000	
Washington.....	530,000		245,000	46			285,000	54		
Oregon.....	2,053,000		895,904	43			1,157,096	57		
California.....	13,110,250		212,000	1	1,186,750	9	11,711,500	90		
Idaho.....										
Utah.....	127,500						127,500	100		
Nevada.....										
Arizona.....	41,900				41,900	100				
Alaska.....										
Total Pacific States.....	15,862,650		1,352,904	8	1,228,650	7	13,281,096	85		
Total United States.....	386,444,215		54,230,119	14	109,386,633	28	220,466,678	57½	2,360,785	½

Aldrich-Vreeland Act circulation approved, by States and reserve cities.

States.	Total number of banks.	Banks receiving circulation.	By States.	By reserve cities.	States.	Total number of banks.	Banks receiving circulation.	By States.	By reserve cities.
Maine.....	69				Ohio.....	377	57	\$16,984,500	\$11,834,000
New Hampshire.....	56	6	\$352,000		Indiana.....	254	9	719,500	
Vermont.....	48				Illinois.....	465	20	27,825,000	27,070,000
Massachusetts.....	172	47	28,674,500	\$24,944,500	Michigan.....	100	7	2,414,000	1,926,000
Rhode Island.....	19				Wisconsin.....	131	16	4,864,000	3,960,000
Connecticut.....	76	10	1,251,000		Minnesota.....	274	18	12,416,500	11,861,000
Total Northeastern States.....	440	63	30,277,500	24,944,500	Iowa.....	343	56	3,018,400	1,410,000
New York City.....	38	32	144,975,960	144,975,960	Missouri.....	130	24	13,173,000	12,976,000
New York.....	441	39	11,564,000	3,045,000	Total Middle States..	2,074	207	81,414,900	71,037,000
New Jersey.....	202	7	1,980,000		North Dakota.....	149	1	150,000	
Pennsylvania.....	837	54	24,451,750	21,957,750	South Dakota.....	106			
Delaware.....	25				Nebraska.....	220	12	2,083,000	1,994,000
Maryland.....	101	18	8,169,000	7,888,000	Kansas.....	213	13	842,000	469,500
District of Columbia.....	13	12	637,000	637,000	Montana.....	61			
Total Eastern States.....	1,657	162	191,777,710	178,503,710	Wyoming.....	32			
Virginia.....	135	40	6,458,100	3,271,000	Colorado.....	125	5	1,395,000	1,395,000
West Virginia.....	118	3	323,000		New Mexico.....	38	7	297,500	
North Carolina.....	75	48	4,037,450		Oklahoma.....	346	52	1,313,700	182,500
South Carolina.....	55	52	3,285,380		Total Western States..	1,290	90	6,081,200	4,041,000
Georgia.....	114	79	6,289,625	3,150,000	Washington.....	78	2	530,000	490,000
Florida.....	53	13	1,368,500		Oregon.....	84	9	2,053,000	1,770,000
Alabama.....	90	65	4,662,400		California.....	262	48	13,110,250	10,435,000
Mississippi.....	38	18	1,572,000		Idaho.....	55			
Louisiana.....	32	19	4,155,000	2,370,000	Utah.....	23	2	127,500	
Texas.....	519	353	18,136,300	6,349,000	Nevada.....	10			
Arkansas.....	58	8	624,000		Arizona.....	13	1	41,900	
Kentucky.....	142	41	5,150,400	2,947,000	Alaska.....	2			
Tennessee.....	116	40	4,968,100		Total Pacific States..	527	62	15,862,650	12,695,000
Total Southern States.....	1,545	779	61,030,255	18,087,000	Hawaii.....	5			
					Total United States..	7,538	1,363	386,444,215	309,308,210

Gold Settlement Fund.

The operation of the gold settlement fund in Washington became an actuality with settlements between the twelve Federal Reserve Banks made on Thursday, May 27. At this time the gold deposits, as represented by receipts from the Treasurer of the United States for the fund, were \$18,450,000.

Earlier in the month the Federal Reserve Board had sent out to the twelve banks the following letter:

The Board herewith encloses a regulation concerning the operation of the gold settlement fund, and also instructions containing a list of dates on which the various steps are to be taken leading up to the establishment and the beginning of the operations of this fund.

The question of transfers between Federal Reserve Banks has been fully discussed with a committee of governors on "clearings" and the report of that committee, dated May 6, 1915, is hereto appended. The Board is in accord with the principles and recommendations contained in this report and suggests that each bank proceed promptly to prepare the necessary schedules and whatever instructions may be thought appropriate for its own member banks.

Forms to be used for the transfers are in course of preparation by the above-named committee and will be transmitted to you in due course.

Inclosed, herewith, is a revised time schedule regulating the time allowance to be applied in crediting or debiting accounts in connection with transfers between member banks.

The documents referred to in the letter follow:—

Instructions to Federal Reserve Banks relative to the establishment of the gold settlement fund:

(1) At close of business Wednesday, May 19, 1915, each Federal Reserve Bank will telegraph to the Federal Reserve Board the amounts in even thousands due to each other Federal Reserve Bank as of that date.

(2) Thursday, May 20, settling agent will telegraph to each bank the amounts of credits to its settlement account, giving the name of each bank from which such credits were received, also net debit or credit balance in settlement. A confirmation will be sent by mail.

(3) Each bank will be expected to forward to the nearest subtreasury not later than Monday, May 24, 1915, in gold, gold certificates, or gold order certificates properly indorsed, at least \$1,000,000, and in addition an amount equal to its net debit balance as telegraphed by the settling agent. Transfers of gold or gold certificates should be credited to the account of "Gold bullion and U. S. coin" and "U. S. gold certificates," and charged to the item "Gold settlement fund" on the books of the Federal Reserve Banks.

(4) As soon as all transfers have been effected each Federal Reserve Bank will be advised by telegraph, at which time the transfer entries should be made on the books of the bank. Each Federal Reserve Bank will then debit the *due to* Federal Reserve Banks' accounts and credit the settlement fund, and will credit the *due from* Federal Reserve Banks' accounts and charge the settlement fund.

(5) The second settlement will be made on May 27 and figures telegraphed as at close of business on May 26, and at weekly intervals thereafter.

MAY 8, 1915.

REPORT OF THE COMMITTEE OF GOVERNORS.

WASHINGTON, D. C., May 6, 1915.

To the Federal Reserve Board:

The committee of governors, appointed to consider collection matters, believes that, in the interest of sound banking practice, transfers of funds by member banks through the Federal Reserve Banks should be encouraged, and that it will both induce and facilitate such transfers if standard forms be prepared by all the Federal Reserve Banks and distributed among their members for general use. They recommend that such forms be prepared, and, if desired, suggestions for these forms will be submitted by the committee.¹

The committee on clearing further recommends that no stated charge be fixed for inter-district mail transfers to be made by Federal Reserve Banks for their members, but that, inasmuch as conditions vary greatly in the several districts, and will fluctuate with the seasons, each Federal Reserve Bank be allowed to arrange its own schedule of charges to be based upon the cost of the service rendered, and adequate to protect it in its dealings with its members. The cost of such transfers should

¹ A joint committee of the Board and the Federal Reserve Banks has since prepared a set of forms which will be sent out shortly.

not exceed the expense of shipping currency to the nearest subtreasury city.

It further recommends that a protective charge is advisable upon all telegraphic transfers for members, and that such charge, when made, shall include cost of telegraphing and the interest on the sum transferred at a minimum rate of 2 per cent, for the time required by a Reserve Bank to make the transfer by mail in accordance with the schedule hereto annexed.

Whenever a charge for mail transfers is imposed, the protective charge for telegraphic transfer shall be in addition thereto.

(Signed) J. B. McDUGAL,
Chairman.

Average time (in days) to destination between Federal Reserve Banks.

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.
Boston.....	11	11	2	2	3	2	2	3	3	3	3	6
New York.....	11	11	2	1	2	2	2	2	2	2	2	6
Philadelphia.....	11	11	1	1	2	2	2	2	2	2	2	6
Cleveland.....	12	12	11	2	2	11	12	2	2	2	2	5
Richmond.....	12	11	11	2	2	2	2	2	2	2	2	6
Atlanta.....	13	12	12	2	2	12	12	2	2	2	2	5
Chicago.....	12	12	12	1	2	11	1	1	1	1	1	4
St. Louis.....	12	12	12	2	2	2	11	2	2	2	2	4
Minneapolis.....	13	12	12	2	2	2	11	2	2	2	2	4
Kansas City.....	13	12	12	2	2	2	11	1	2	2	2	4
Dallas.....	13	13	13	3	3	2	12	12	3	12	4	4
San Francisco.....	6	16	6	5	6	5	14	14	4	4	4	4

¹ Indicates that items on the point at the top of the column may, at the option of the Federal Reserve Bank, be taken for immediate credit at par or at the market rate of exchange.

Trustee Powers.

Applications from the following banks for permission to act under section 11 (k) of the Federal reserve act have been approved since the May issue of this Bulletin, as follows:

Trustee, executor, administrator, and registrar of stocks and bonds.

DISTRICT NO. 1.

Merchants National Bank, New Haven, Conn.
National Traders Bank, New Haven, Conn.
Massasoit-Pocasset Bank, Fall River, Mass.
Peoples National Bank, Marlborough, Mass.
Mechanics National Bank, New Bedford, Mass.
Agricultural National Bank, Pittsfield, Mass.
Peoples National Bank, Brattleboro, Vt.
Citizens National Bank, Poultney, Vt.

DISTRICT NO. 5.

Peoples National Bank, Charleston, S. C.
National Bank of Charlottesville, Charlottesville, Va.
Citizens National Bank, Covington, Va.

DISTRICT NO. 6.

First National Bank, Anniston, Ala.
LaGrange National Bank, LaGrange, Ga.
National City Bank, Mobile, Ala.

DISTRICT NO. 7.

Rockford National Bank, Rockford, Ill.
Farmers National Bank, Valparaiso, Ind.

DISTRICT NO. 8.

Henderson National Bank, Henderson, Ky.
Morganfield National Bank, Morganfield, Ky.
Citizens National Bank, Tell City, Ind.

DISTRICT NO. 10.

Colorado National Bank, Denver, Colo.
New England National Bank, Kansas City, Mo.

Trustee.

DISTRICT NO. 1.

Old Lowell National Bank, Lowell, Mass.

DISTRICT NO. 6.

Colquitt National Bank, Colquitt, Ga.
(Trustee for sinking fund of City of Colquitt, Ga.)

Trustee, executor, and administrator.

DISTRICT NO. 1.

Indian Head National Bank, Nashua, N. H.

DISTRICT NO. 6.

First National Bank, Quitman, Ga.

DISTRICT NO. 7.

First National Bank, Boyne City, Mich.

DISTRICT NO. 8.

Nokomis National Bank, Nokomis, Ill.

Registrar of stocks and bonds.

DISTRICT NO. 2.

First National Bank, Albany, N. Y.
Nassau National Bank, Brooklyn, N. Y.
Bank of New York, N. B. A., New York City.
Chase National Bank, New York City.
First National Bank, Saratoga Springs, N. Y.
National Newark Banking Co., Newark, N. J.

Trustee and registrar of stocks and bonds.

DISTRICT NO. 4.

Huntington National Bank, Columbus, Ohio.

Trustee and executor.

DISTRICT NO. 11.

First National Bank, Bonham, Tex.
First National Bank, Granger, Tex.

Trustee, executor, and registrar of stocks and bonds.

DISTRICT NO. 11.

First National Bank, Mexia, Tex.

ACCEPTANCES.

Acceptances, by classes, held by the Federal reserve banks each week.

Date.	Member banks' accept- ances.	Nonmember banks' acceptances.		Private bankers.	Total.
		Trust companies.	State banks.		
1915.					
May 3.....	\$5,038,000	\$3,189,000	\$10,000	\$110,000	\$13,347,000
May 10.....	5,226,000	5,367,000	10,000	110,000	10,713,000
May 17.....	5,764,000	5,601,000	10,000	110,000	11,485,000
May 24.....	5,144,000	4,022,000	10,000	110,000	9,286,000

Acceptances indorsed by member banks: Member bank acceptances, \$596,000; trust company acceptances, \$52,000; total, \$648,000.

Distribution of acceptances held by Federal reserve banks, as per schedules received by the Federal Reserve Board, on May 17, 1915, by classes of acceptors and sizes.

Class of acceptors.	To \$5,000.		Over \$5,000 to \$10,000.		Over \$10,000 to \$25,000.		Over \$25,000 to \$50,000.		Over \$50,000 to \$100,000.		Over \$100,000.		Total.		Per cent of total.
	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	
Member banks.....	45	\$173,174	62	\$494,054	137	\$2,272,041	44	\$1,619,468	11	\$943,172	2	\$272,000	301	\$5,773,909	50.27
Trust companies.....	61	208,135	88	638,933	119	2,184,451	35	1,296,196	13	962,064	2	298,130	318	5,591,909	48.68
State banks.....					1	10,046							1	10,046	.09
Private banks.....			2	20,000	6	89,896							8	109,896	.96
Grand total.....	106	381,309	152	1,152,987	263	4,560,434	79	2,915,664	24	1,905,236	4	570,130	628	11,485,760	
Per cent of total.....		3.32		10.04		39.70		25.39		16.59		4.96			100.00

Amounts of acceptances held by the several Federal reserve banks at close of business on the following Fridays: Apr. 30, May 7, May 14, and May 21, 1915.

[In thousands of dollars.]

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total.
Acceptances maturing within 30 days:													
Apr. 30.....	571	3,432	796	1,006			968		279	16		407	7,475
May 7.....	493	2,935	578	455			865	25	238	23		432	6,044
May 14.....	588	2,464	567	235			528	25	138	23		395	4,983
May 21.....	569	1,776	360	154			451	25	76	57		491	3,959
Acceptances maturing after 30 days but within 60 days:													
Apr. 30.....	792	1,540	330	122			444	65	56	67		719	4,135
May 7.....	867	1,549	355	140			419	65	81	85		719	4,280
May 14.....	950	1,790	228	185			519	100	116	286		647	4,821
May 21.....	856	1,618	233	108			434	300	133	304		543	4,589
Acceptances maturing after 60 days but within 90 days:													
Apr. 30.....	473	764	357	70			125	60	60	233		60	2,202
May 7.....	602	606	332	45			100	35	35	241		35	2,033
May 14.....	586	194	268							68			1,116
May 21.....	653	373	271	16				18	13	308		124	1,776
Total:													
Apr. 30.....	1,836	5,736	1,483	1,198			1,537	125	395	316		1,186	13,812
May 7.....	1,962	5,092	1,265	640			1,384	125	354	349		1,186	12,357
May 14.....	2,124	4,448	1,063	420			1,047	125	254	377		1,042	10,900
May 21.....	2,078	3,767	864	338			885	343	222	669		1,158	10,524

THE REDISTRICTING DECISION.

Shortly after its organization, the Federal Reserve Board received petitions from banks located in several of the Federal reserve districts, asking the transfer of designated portions thereof to other districts. These petitions were filed under section 1 of the Federal reserve act, which provides for an appeal from the decision of the Organization Committee to the Board, in the following language:

As soon as practicable * * * the Reserve Bank Organization Committee shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. * * *

The Board, recognizing the general desire for the establishment of the Federal reserve banks at as early a date as practicable, determined to defer the investigation and hearing of these petitions until a later date, announcing, however, that the action taken with reference to the banks would not prejudice the decision to be arrived at later, when the petitions should come up for definite determination.

When the first pressure of work attending the organization of the banks was over, dates were set for the hearing of the petitions, and during the months of January and February, 1915, all that had then been filed were heard by counsel. A detailed list of the dates set for the hearings and a statement of other facts relating to the proceedings were printed in the First Annual Report of the Board (p. 192). Subsequently the petition of certain banks in Tennessee for transfer from district No. 6 to district No. 5 was withdrawn, at least for the

time being. This left the following cases pending before the Board.

(1) The petition of certain banks in northern New Jersey for transfer from district No. 3 to district No. 2.

(2) The petition of certain banks in West Virginia for the transfer of the counties of Wetzel and Tyler from district No. 5 to No. 4.

(3) The petition of certain banks in Oklahoma for transfer from district No. 11 to district No. 10.

(4) The petition of certain banks in Nebraska and Wyoming for transfer from district No. 10 to No. 7.

(5) The petition of the city of Baltimore to be designated as the headquarters of district No. 5 in place of Richmond, Va.

(6) The petition of the city of Pittsburgh to be designated as the headquarters of district No. 4 in place of Cleveland, Ohio.

Meantime, on March 13, certain banks in southern Wisconsin had filed a petition for transfer from district No. 9 to district No. 7, and still more recently, on May 10, certain banks in Connecticut filed a petition for transfer from district No. 1 to district No. 2. These last two petitions, however, were received at a time when the Board had either decided or was on the point of deciding the cases already presented. They were consequently not included in the action finally taken, but were reserved for later hearing and adjudication.

When the arguments and briefs relating to the petitions already enumerated were in hand, they were apportioned to committees of the Board. These committees reviewed the testimony and filed reports making recommendations with regard to the best method of disposing of the subjects referred to them. Action would then have been taken had it not been for the necessary absence of some members of the Board. This necessitated a postponement of action during the latter part of March and the whole of April. It was then voted to take definite action respecting the pending cases which had been heard at some time during the week beginning May 3. In

accordance with this determination the Board on May 4 passed the following resolution:

Be it resolved, That the recommendations of the respective committees be adopted and approved, and that the petitions of the banks in southern Oklahoma, northern New Jersey, Tyler and Wetzel Counties, West Virginia, be granted; and,

Be it also resolved, That the petition of the banks of Wyoming and Nebraska be denied; and,

Be it further resolved, That action on other pending petitions be deferred until further experience in the actual operation of the several districts, especially in the light of the new clearing system which is about to go into effect, and of the extent to which State banks take membership in the Federal reserve system, shall have provided the Board with the necessary data for a conclusion, it being the opinion of the Board that action on petitions relating to changes in cities designated as the location of Federal reserve banks should be deferred until the Board shall have reached a conclusion from experience as to any further readjustments in the boundaries of the several districts, or in the number of districts, which may be desirable in the operation and development of the Federal reserve system.

It will be seen that the Board in this decision denied one of the petitions—that of Nebraska and Wyoming—deferred action on two, those of the cities of Baltimore and Pittsburgh, for future consideration, and granted three, those of the banks of New Jersey, West Virginia, and Oklahoma.

In order to make plain exactly what changes in the previous districts were made effective by the granting of these three petitions, the accompanying map has been drawn, and is herewith presented for the purpose of showing the boundaries of the twelve districts as they stand to-day. Inasmuch as the map is drawn upon too small a scale to admit of the clear representation of counties, there is hereto appended a list of counties in each of the States affected by the redistricting.

The names and capitalization of the banks in these transferred territories are likewise given.

NEW JERSEY.

Counties transferred to district No. 2.

Bergen.	Morris.
Essex.	Passaic.
Hudson.	Somerset.
Hunterdon.	Sussex.
Middlesex.	Union.
Monmouth.	Warren.

Counties remaining in district No. 3.

Atlantic.	Gloucester.
Burlington.	Mercer.
Camden.	Ocean.
Cape May.	Salem.
Cumberland.	

OKLAHOMA.

Counties transferred to district No. 10.

Beckham.	Kiowa.
Caddo.	Latimer.
Carter.	Le Flore.
Comanche.	Love.
Custer.	McClain.
Garvin.	Murray.
Grady.	Pittsburg.
Greer.	Pontotoc.
Harmon.	Roger Mills.
Haskell.	Stephens.
Hughes.	Tillman.
Jackson.	Washita.
Jefferson.	

Counties remaining in district No. 11.

Atoka.	Johnston.
Bryan.	McCurtain.
Choctaw.	Marshall.
Coal.	Pushmataha.

WEST VIRGINIA.

In West Virginia the counties of Wetzel and Tyler were transferred from district No. 5 to district No. 4.

NEW JERSEY.

List of banks transferred to district No. 2.

Name of bank.	Location.	Capital and surplus.
Farmers National.....	Allentown.....	\$100,000
First National.....	Arlington.....	81,000
Seacoast National.....	Asbury Park.....	175,000
Atlantic Highlands National.....	Atlantic Highlands.....	100,000
First National.....	Beleville.....	225,000
Do.....	Belmar.....	75,000
Belvidere National.....	Bellvidere.....	175,000
Warren County National.....	do.....	100,000

NEW JERSEY—continued.

List of banks transferred to district No. 2—Continued.

Name of bank.	Location.	Capital and surplus.
Bernardsville National.....	Bernardsville.....	\$50,000
First National.....	Blairstown.....	50,000
Peoples National.....	do.....	75,000
Bloomfield National.....	Bloomfield.....	150,000
Citizens National.....	Bloomsbury.....	25,000
Boonton National.....	Boonton.....	200,000
Bound Brook National.....	Bound Brook.....	60,000
First National.....	do.....	125,000
Do.....	Bradley Beach.....	27,500
Do.....	Branchville.....	50,000
Do.....	Butler.....	110,000
Citizens National.....	Caldwell.....	41,000
Caldwell National.....	do.....	50,000
Califon National.....	Califon.....	31,000
Carlstadt National.....	Carlstadt.....	60,000
Clinton National.....	Clinton.....	150,000
First National.....	do.....	70,000
Do.....	Cranbury.....	150,000
Closter National.....	Closter.....	50,000
National Union.....	Dover.....	375,000
First National.....	Dunellen.....	40,000
Do.....	East Newark.....	35,000
Do.....	Eatontown.....	33,000
National State.....	Edgewater.....	50,000
Citizens National.....	Elizabeth.....	1,000,000
First National.....	Englewood.....	150,000
Flemington National.....	Englishtown.....	58,500
Hunterton County National.....	Flemington.....	200,000
First National.....	do.....	200,000
Central National.....	Fort Lee.....	49,000
First National.....	Freehold.....	100,000
National Freehold Banking Co.....	do.....	150,000
First National.....	do.....	100,000
Union National.....	Frenchtown.....	160,000
First National.....	Garfield.....	64,000
Do.....	Guttenburg.....	75,000
Hackensack National.....	Hackensack.....	200,000
Peoples National.....	do.....	300,000
Hackettstown National.....	Hackettstown.....	250,000
Peoples National.....	do.....	100,000
Hardyston National.....	Hamburg.....	85,000
First National.....	High Bridge.....	30,000
Do.....	Hoboken.....	660,000
Second National.....	do.....	400,000
First National.....	Hope.....	32,000
Irvington National.....	Irvington.....	145,000
First National.....	Jameburg.....	75,000
Do.....	Jersey City.....	1,200,000
Hudson County National.....	do.....	750,000
Merchants National.....	do.....	250,000
Keansburg National.....	Keansburg.....	27,500
Peoples National.....	Keyport.....	60,000
Amwell National.....	Lambertville.....	157,000
Lambertville National.....	do.....	200,000
Little Falls National.....	Little Falls.....	30,000
First National.....	Lodi.....	35,000
Citizens National.....	Long Branch.....	250,000
First National.....	do.....	150,000
Do.....	Lyndhurst.....	55,000
Do.....	Madison.....	85,000
Manasquan National.....	Manasquan.....	75,000
Farmers & Merchants National.....	Matawan.....	150,000
Metuchen National.....	Metuchen.....	55,000
First National.....	Milford.....	45,000
Do.....	Milburn.....	87,000
Essex National.....	Montclair.....	187,500
First National.....	do.....	150,000
National Iron.....	Morristown.....	250,000
First National.....	do.....	400,000
Citizens National.....	Netcong.....	50,000
American National.....	Newark.....	375,000
Broad-Market National.....	do.....	270,000
Essex County National.....	do.....	2,000,000
Manufacturers National.....	do.....	750,000
Merchants National.....	do.....	1,000,000
National Newark Banking Co.....	do.....	2,000,000
National State Bank.....	do.....	750,000
North Ward National.....	do.....	500,000
Union National.....	do.....	3,000,000
National Bank of New Jersey.....	New Brunswick.....	500,000
Peoples National.....	do.....	250,000
Merchants National.....	Newton.....	190,000
Sussex National.....	do.....	400,000
Ocean Grove National.....	Ocean Grove.....	50,000
Orange National.....	Orange.....	300,000
Second National.....	do.....	300,000

NEW JERSEY—continued.

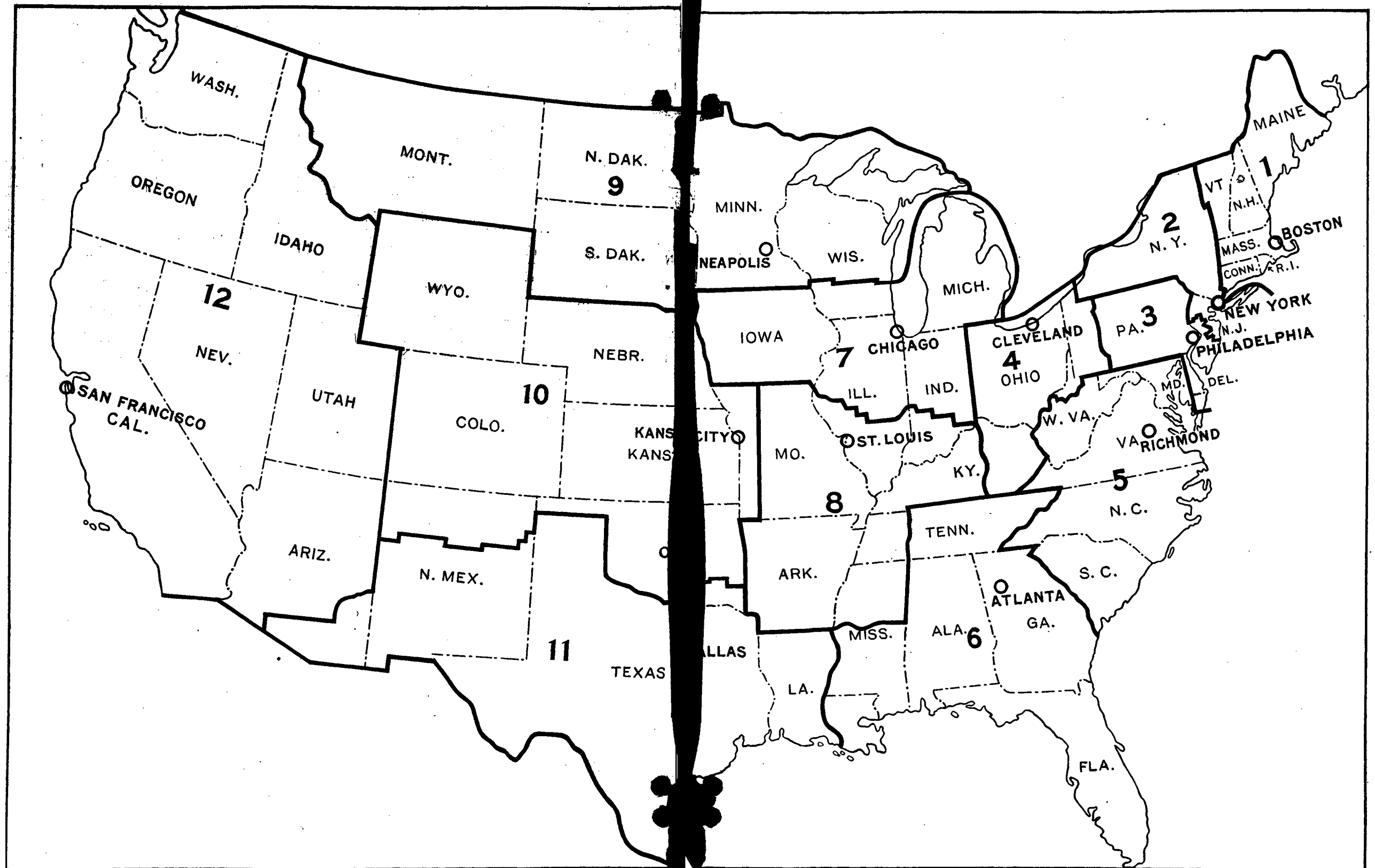
List of banks transferred to district No. 2—Continued.

Name of bank.	Location.	Capital and surplus.
Passaic National.....	Passaic.....	\$550,000
First National.....	Paterson.....	1,100,000
Paterson National.....	do.....	600,000
Second National.....	do.....	350,000
First National.....	Perth Amboy.....	300,000
Phillipsburg National.....	Phillipsburg.....	500,000
Second National.....	do.....	150,000
City National.....	Plainfield.....	300,000
First National.....	do.....	300,000
Rahway National.....	Rahway.....	150,000
First National.....	Ramsey.....	45,000
Second National.....	Red Bank.....	225,000
First National.....	Ridgefield Park.....	60,000
Do.....	Ridgewood.....	110,000
Do.....	Rockaway.....	30,000
Do.....	Roosevelt.....	50,000
Do.....	Roselle.....	65,000
Rutherford National.....	Rutherford.....	150,000
First National.....	Sea Bright.....	32,500
Do.....	Secaucus.....	25,000
Do.....	Somerville.....	250,000
Second National.....	do.....	100,000
First National.....	South Amboy.....	125,000
Do.....	South River.....	125,000
Do.....	Spring Lake.....	75,000
Do.....	Summit.....	100,000
Farmers National.....	Sussex.....	200,000
First National.....	Tenafly.....	50,000
Do.....	Town of Union.....	125,000
Do.....	Washington.....	250,000
National Bank.....	Westfield.....	123,948
Peoples National.....	do.....	80,000
National Bank of North Hudson.....	West Hoboken.....	115,000
First National.....	West Orange.....	120,000
Do.....	Westwood.....	47,000
Do.....	Whitehouse Station.....	47,000
Do.....	Woodbridge.....	40,000
Total.....		32,071,448

OKLAHOMA.

List of banks transferred to district No. 10.

Name of bank.	Location.	Capital and surplus.
The First National Bank.....	Ada.....	\$60,000
Merchants & Planters National.....	do.....	60,000
First National.....	Addington.....	26,722
Do.....	Alex.....	45,000
Do.....	Allen.....	30,000
City National.....	Altus.....	54,500
First National.....	do.....	67,250
Do.....	Anadarko.....	60,000
National Bank of.....	do.....	30,000
First National.....	Apache.....	30,000
Do.....	Arapaho.....	30,000
Ardmore National.....	Ardmore.....	120,000
First National.....	do.....	200,000
State National.....	do.....	110,000
First National.....	Berwyn.....	30,000
Do.....	Bterir.....	25,000
Do.....	Blanchard.....	50,000
Calvin National.....	Calvin.....	28,000
First National.....	do.....	30,000
The Chickasha National.....	Chickasha.....	113,500
Citizens National.....	do.....	90,000
First National.....	do.....	260,000
Oklahoma National.....	do.....	125,000
First National.....	Clinton.....	35,000
Oklahoma State National.....	do.....	27,750
First National.....	Comanche.....	30,000
Cordell National.....	Cordell.....	35,000
Farmers National.....	do.....	28,500
State National.....	do.....	33,500
First National.....	Custer City.....	30,000
Peoples State National.....	do.....	30,000
First National.....	Davis.....	60,000
City National.....	Duncan.....	42,000



MAP SHOWING FEDERAL RESERVE DISTRICTS WITH CHANGES BY FEDERAL RESERVE BOARD.

OKLAHOMA—continued.

List of banks transferred to district No. 10—Continued.

Name of bank.	Location.	Capital and surplus.
Duncan National.....	Duncan.....	\$50,000
First National.....	do.....	60,000
Do.....	Eldorado.....	40,000
Do.....	Elk City.....	56,000
Francis National.....	Francis.....	30,000
First National.....	Frederick.....	72,000
National Bank of Commerce.....	do.....	90,000
First National.....	Gotado.....	27,700
Do.....	Grandfield.....	30,000
Farmers National.....	Hammon.....	27,650
First National.....	Hartshorne.....	75,000
National Bank of.....	Hastings.....	28,500
First National.....	Heavener.....	31,000
State National.....	do.....	25,000
City National.....	Hobart.....	33,500
Farmers & Merchants National.....	do.....	60,000
First National.....	do.....	30,000
American National.....	Holdenville.....	30,000
Farmers National.....	do.....	27,500
First National.....	do.....	30,000
City National.....	Hollis.....	25,000
National Bank of Commerce.....	do.....	30,000
State National.....	do.....	25,000
Farmers National.....	Hydro.....	25,050
First National.....	do.....	27,500
Keota National.....	Keota.....	28,500
First National.....	Kiowa.....	38,000
Peoples National.....	do.....	27,500
City National.....	Lawton.....	100,000
First National.....	do.....	110,000
First National.....	Lindsay.....	50,000
Do.....	Lone Wolf.....	34,000
Do.....	Mangum.....	75,600
Mangum National.....	do.....	80,000
First National.....	Marietta.....	75,000
Marietta National.....	do.....	100,000
The National Bank of.....	Marlow.....	29,200
State National.....	do.....	28,750
Farmers National.....	Maysville.....	27,500
First National.....	do.....	32,500
American National.....	McAlester.....	125,000
City National.....	do.....	55,000
First National.....	do.....	135,000
Do.....	Mingo.....	30,000
Do.....	Mountain View.....	30,000
Do.....	New Wilson.....	25,000
Do.....	Okustee.....	30,000
Do.....	Pauls Valley.....	150,000
National Bank of Commerce.....	do.....	60,000
Pauls Valley National.....	do.....	30,000
First National.....	Poteau.....	42,500
National Bank of.....	do.....	60,000
The Chickasaw National.....	Percell.....	75,000
Union National.....	do.....	33,000
First National.....	Quinton.....	30,000
Do.....	Ringling.....	50,400
Farmers & Merchants National.....	Roff.....	37,500
First National.....	do.....	36,000
Do.....	Rush Springs.....	36,000
Do.....	Ryan.....	60,000
Beckham County National.....	Sayre.....	27,500
First National.....	do.....	32,500
Do.....	Sentinel.....	27,500
Do.....	Snyder.....	27,500
Do.....	Spiro.....	29,000
American National.....	Stigler.....	30,000
First National.....	do.....	60,000
Do.....	Stonewall.....	42,000
Do.....	Stratford.....	27,500
Do.....	Stuart.....	29,000
Park National.....	Sulphur.....	30,000
First National.....	Talihna.....	26,250
Temple National.....	Temple.....	27,500
First National.....	Thomas.....	30,000
First National.....	Verden.....	26,500
National Bank of.....	do.....	30,000
First National.....	Walters.....	30,000
Walters National.....	do.....	40,000
First National.....	Washington.....	26,000
Do.....	Waurika.....	27,650
Waurika National.....	do.....	25,500

OKLAHOMA—continued.

List of banks transferred to district No. 10—Continued.

Name of bank.	Location.	Capital and surplus.
First National.....	Weatherford.....	\$28,500
German National.....	do.....	60,000
American National.....	Wetumka.....	30,000
First National.....	do.....	35,500
Latimer County National.....	Wilburton.....	29,000
First National.....	Wynnewood.....	100,000
Southern National.....	do.....	80,000
Total.....		5,994,873

WEST VIRGINIA.

List of banks transferred to district No. 4.

Name of bank.	Location.	Capital and surplus.
First National.....	Middlebourne.....	\$39,500
Do.....	New Martinsville.....	75,000
Farmers and Producers National.....	Sistersville.....	136,000
First National.....	do.....	165,000
Peoples National.....	do.....	115,000
Total.....		530,500

The pending cases divide themselves into two broadly distinguishable classes, the one involving extensive revision of the work already done and requiring for its elucidation and proper determination knowledge which could come only from experience and observation of the actual working of the several Federal reserve banks; the other involving simpler and less extensive interests and requiring less detailed information as to the whole problem of districting.

The Board's announcement on the whole subject, while going as far as it has been deemed practicable under existing conditions to take action, is not at all to be regarded as final and was not intended to be so. The right to act further on the matter is reserved for future exercise as that may be necessary and at any time. Although there has been no express statement to that effect, it is a clear inference from the opinion handed down that future action will depend very much upon the course of events in the districts as they are now made up, and will be determined by the conditions that are disclosed in the operations of the banks.

LAW DEPARTMENT.

The following opinions of counsel for the Federal Reserve Board have been authorized for publication by the Board since the last edition of the Bulletin.

Discount of Acceptances "Based on the Importation or Exportation of Goods."

Federal reserve banks may, under section 13 of the Federal reserve act, discount acceptances based on the shipment of goods (a) between the United States and any foreign country, (b) between any two or more foreign countries, and (c) between the continental United States and Porto Rico, the Philippines, or the Canal Zone; but not acceptances based on the shipment of goods between the continental United States and Hawaii or between any two parts of the continental United States.

SIR: I have been asked for an opinion on the proper interpretation of that part of section 13 of the Federal reserve act which reads: "Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods," with a view to determining whether the words "importation or exportation of goods" include (1) shipments between countries other than the United States, and (2) shipments between the continental United States and possessions of the United States.

The first principles of statutory construction require that language which is clear and unambiguous be given its ordinary and natural significance. The legislative meaning is first to be sought in the words used and if they are clear, the letter of the law controls, unless in extraordinary cases such a natural construction would result in an obvious or absurd error. *United States v. Goldenberg*, 168 U. S. 95, 102; *United States v. Union Pacific Railroad Co.*, 91 U. S. 72, 79; *Lake County v. Rollins*, 130 U. S. 662. "The legislature must be presumed to use words in the known and ordinary signification, unless that sense be repelled by the context," *Levy v. McCartee*, 6 Peters, 102, 110. In *Martin v. Hunter*, 1 Wheat. 304, 326, it is said that "where a power is expressly given, in general terms, it is not to be restrained to particular cases unless that construction grow

out of the context, expressly, or by necessary implication. The words are to be taken in their natural and obvious sense, and not in a sense unreasonably restricted or enlarged."

In accordance with the decisions in these and other cases, unless such a result is absurd or obviously contrary to the intent of Congress, as shown by other parts of the act, the natural and usual significance must be attached to the words "importation" and "exportation." The question, therefore, arises, what is their ordinary and popular meaning?

In discussing this subject the correlative terms, "export," "exportation," "import," "importation," and the like will be treated as synonymous.

The Century Dictionary and Cyclopedia defines "export" as "That which is exported, a commodity carried from one place or country to another," and "exportation" as, "The act of conveying or sending to a distance, especially to another state or country commodities in the course of commerce." The same authority defines "exporter" as, "One who ships goods, wares, and merchandise of any kind to a foreign country or distant place for sale." The New Standard Dictionary defines "export" as, "That which is exported; in general, goods or any article of trade or merchandise sent from one country to another; properly, as used in the United States Constitution, goods sent to a foreign country."

If these broad definitions are applied, it is manifest that the words "importation" and "exportation" will include shipments between countries other than the United States. It is necessary, therefore, to determine whether the natural significance of these terms must be restricted because of the judicial construction of similar words as used in the Federal Constitution and in various acts of Congress.

The word "import," as used in tariff statutes of the United States, invariably refers to imports to the United States from a foreign country, and it might be argued that when the

words "exportation" and "importation" are used in the Federal reserve act they must be given a corresponding significance—that is, they must be held to refer only to exports from and imports into the United States from a foreign country, and not also to shipments between countries other than the United States.

This argument, however, is not convincing, because of the fact that the word "import" as used in tariff laws must necessarily refer to shipments into the United States. "The power of Congress to levy and collect taxes, duties, and excises is co-extensive with the United States," *Loughborough v. Blake*, 5 Wheat, 317. To levy a duty or tax of any sort, a sovereign must have jurisdiction over the article taxed. This narrower construction of the word "import" was, therefore, necessary, in order to give the tariff laws any effective operation. The United States could have no possible jurisdiction over a transaction between Buenos Aires and London, for instance, and to attempt to tax such an import would be ineffectual.

But even in these tariff laws where the meaning of "import" must necessarily be limited to imports into the United States, Congress has almost invariably provided in terms that the imports be from a foreign country into the United States. In the first tariff act, passed by Congress on July 4, 1789, it was enacted, "That * * * duties * * * be levied on the following goods, wares, and merchandise imported into the United States from any foreign port or place," and it is to be noted that practically every tariff law passed by Congress since that time has contained some similar provision.

It might be contended that this restriction limiting dutiable imports to articles brought from a foreign country to the United States was intended to preclude any consideration of articles imported into one State from another State of the Union. But such intention is rebutted by the fact that the Constitution as construed by the Supreme Court of the United States, does not give Congress the power to lay an impost on goods imported from another

State. The Constitution gives to Congress the general power "to levy and collect taxes, duties, imposts, and exercises," but "imposts" has been construed in *Woodruff v. Parham*, 8 Wall., 123, to mean a duty, custom, or tax levied on articles brought into the United States and the words "imports" and "exports" as used in the Constitution, are uniformly held to refer only to goods imported from foreign countries into the United States, and not to articles carried from one State to another. *Pittsburgh Coal Co. v. Louisiana*, 156, U. S. 590, 600; *Brown v. Houston*, 114 U. S. 622, 628.

It seems clear, therefore, that "import" or "export" as used in Federal tariff statutes must of necessity refer to transactions to or from the United States.

On the other hand, in the Federal reserve act—which is not a tariff measure, but which is, on the contrary, a law in which the words "importation" and "exportation" could consistently refer to transactions between two foreign countries other than the United States—Congress has failed to put any restrictive limitation, evidently intending that the words used be given their normal and natural significance, the meaning generally understood when used in ordinary commercial parlance. The lexicons all agree in defining "export" as an article or commodity carried from one country to another, and nowhere except in cases construing the Constitution and the tariff laws is there any suggestion that "import" necessarily means an article shipped from a foreign country to the country or jurisdiction of the person or legislature using the word.

When used in the Federal Constitution or in the tariff laws made in pursuance thereof, the words "import" and "export" must necessarily be given the narrower construction, for the reason already stated; that is, the United States has no jurisdiction to impose a tax or impost on any article not within the confines of the United States. But in the case of a Federal banking law, where there is nothing in the context nor in the spirit of the act to demand a narrower or limited interpretation, the words

should be given their full significance. All the cases previously cited on the laws of statutory construction demand this result.

But even if the literal meaning of the phrase "importation or exportation" be considered doubtful, a liberal construction in accordance with the general intent of Congress would necessitate this same result. It must be remembered that the Federal reserve act is remedial and constructive legislation by which Congress clearly intended to eliminate certain patent evils in conditions as they existed at the time of enactment, and to establish on a broad, comprehensive, and firm basis a unified system of banking. The language "to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes," contained in the title of the act, shows that it is remedial, and as such should be broadly and liberally construed in order to accomplish the advancement of the remedies contemplated. (24 Am. and Eng. Encl. 887, and cases cited.)

It may be reasonably assumed that Congress not only wanted to create a discount market for acceptances, but at the same time intended to establish a system which would facilitate the trade and commerce of the people of the United States, no matter where that trade or commerce originated or what its destination. Acceptances having become a recognized incident of trade as between nations the establishment of a wider market in this country for such paper was apparently one of the objects of the act.

Both the Senate bill and the conference agreement permitted the discount of acceptances, based not only on foreign but also on domestic shipments. The latter, however, were struck out on the floor, probably because of the fear that a general domestic acceptance business might be abused by the smaller banks which were unfamiliar with this class of investment and that for the present at least, such investments might prove a detriment not only to such banks but to the entire system. The elimination, however, of acceptances based on

domestic shipments could not have been intended to restrict or limit the field of acceptances based on the "importation or exportation of goods," that phrase remaining precisely the same as it was prior to the elimination of domestic acceptances and just as it read when the intent was to include acceptances based on shipments of any kind.

It seems, therefore, that by all the ordinary rules of statutory construction, giving to the words the natural and ordinary import, which is strongly corroborated by the purposes, spirit, and history of the act, this portion of section 13 was intended to, and actually does, permit the discount of acceptances based on the importation and exportation of goods, not only to and from the United States, but also between other countries, separate and apart therefrom.

SHIPMENTS BETWEEN THE CONTINENTAL UNITED STATES
AND ITS POSSESSIONS.

The second question raised is whether the clause "acceptances which are based on the importation or exportation of goods," should include acceptances based on shipments between the continental United States and its possessions, viz, Porto Rico, Hawaii, Canal Zone, and the Philippines.

It is, of course, not to be disputed that if, as contended above, imports and exports to and from countries other than the United States are a satisfactory basis for acceptances, then acceptances based on shipments between any of these possessions and another country, other than the United States are eligible, a fortiori. This leaves to be considered the one question just stated.

The definitions given in the standard dictionaries refer to shipments from one country to another country or to a "distant place," and such a general understanding of the words in question would certainly seem to be sufficiently comprehensive to include transactions between the United States and any of its island possessions, though they are not foreign territory in a political sense.

To permit the discount of acceptances based on the importation or exportation of goods

from and to the possessions of the United States, it must be shown (1) that these words, as generally known and understood and as intended by the Federal reserve act, do not necessarily refer to shipments to and from a *foreign* country, and (2) that shipments to and from these possessions are not domestic shipments.

As already shown, the word "import" as used in the Constitution and tariff laws, has been construed by the Supreme Court to refer to imports from foreign countries. In the tariff laws this has necessarily been so because these laws specifically require that the imports be from a foreign country. The word as used in the Constitution, however, not being expressly limited, has been construed to refer to imports from a foreign country and not to articles shipped from one State to another, for various reasons. A study of the discussions in the Constitutional Conventions and of the history of the formation of the Constitution showed that there was no intention in the minds of the framers of that instrument to refer to anything but foreign imports and exports, and the Supreme Court has, in various decisions reciting the history and development of the Constitution and the evils to be obviated by it, decided that "export" and "import" mean exports and imports to and from foreign countries and not between States. But in all those cases the particular circumstances under which the words were used were stated at length to show why this narrower interpretation was necessary in each instance. *Woodruff v. Parham* 8 Wall. 123; *Brown v. Houston*, 114 U. S. 622. In other words, the burden of limiting the natural meaning of the words was clearly recognized by the court. Justice Brown in referring to this well-settled construction of the words as used in the Constitution, said, in *Dooley v. United States*, 183 U. S. 151, 153:

While the words "import" and "export" are sometimes used to denote goods passing from one State to another, the word "import," in connection with the provision of the Constitution that "no State shall levy any imports

or duties on imports or exports," was held in *Woodruff v. Parham*, 8 Wall. 123, to apply only to articles imported from foreign countries into the United States,

thus implying that they are used in other than the constitutional sense. As previously explained, there is no necessity for forcing a restricted construction on this phrase as used in the Federal reserve act, and in consequence there would seem to be no justification for reading the word "foreign" into its definition as applied to this act.

It might be contended that to follow out this argument logically would lead to the conclusion that a shipment of goods from one State of the United States to another State of the United States would be an "importation or exportation of goods," a result clearly not contemplated by Congress. The answer is found in the history and development of the act before its passage.

The House bill provided for the discount of acceptances based on the "exportation or importation of goods." The Senate bill amended this provision to read "importation or exportation or domestic shipment of goods," evidently intending to cover shipments to and from any points wherever located. As the act read when finally passed, "domestic shipments" were eliminated. It is evident, therefore, that Congress intended to make eligible acceptances based on all except domestic shipment of goods.

This raises the second point: Is a shipment from the Continental United States to one of the island possessions of the United States a domestic shipment? The *Century Dictionary* and *Cyclopedia* defines "domestic commerce" as "commercial transactions within the limits of one nation or State," and in 14 Cyc. 829, quoting *In re Roofing Contractors Association*, 9 Pa. Dist. 569, 570, domestic trade is referred to as, "the exchange or buying or selling of goods within a country." The difficulty, however, is that the term "United States" has various different meanings dependent upon whether it is used in a geographical, commercial, or governmental sense, or whether it is in-

tended to describe the States of the Union as such.

The term "United States" as used in the uniformity clause of the Constitution has been held in the insular cases not to extend to the unorganized territorial possessions of the United States. On the other hand, in dealing with foreign sovereignties it is generally understood to have a broader meaning than when used in the Constitution. It then includes all territories subject to the jurisdiction of the Federal Government, whether it is merely territory appurtenant to the United States or whether it is an incorporated part of the United States.

This question of the status of our territorial possessions has been the subject of extended discussions before the Supreme Court, and though it is now generally admitted that these possessions are not foreign in an international sense, nevertheless they may be foreign to the United States in a domestic sense. *Downes v. Bidwell*, 182 U. S. 244. In the case of *Dorr v. United States*, 195 U. S. 138, 143, the Supreme Court, in speaking of the extent and limitations of the Constitution as applied to our possessions, said:

The limitations which are to be applied in any given case involving territorial government must depend upon the relation of the particular territory to the United States concerning which Congress is exercising the power conferred by the Constitution. That the United States may have territory which is not incorporated into the United States as a body politic we think was recognized by the framers of the Constitution in enacting the article already considered, giving power over the Territories, and is sanctioned by the opinions of the justices concurring in the judgment in *Downes v. Bidwell*, supra.

In other words, the United States may own territory which is subject to the control of Congress under the territorial clause of the Constitution but which is not an integral part of the United States until Congress sees fit to make it such and to extend to it the operation of the Constitution and laws of the United States. The doctrine that the Constitution

does not follow the flag, ipso facto, seems well settled now by numerous cases of the Supreme Court. See *Downes v. Bidwell*, supra; *Hawaii v. Mankichi*, 190 U. S. 197. It is, of course, admitted in all these cases that Congress may, if it chooses, incorporate into the Union any Territories belonging to the United States. Until it does so, however, it seems, from the cases cited, that Territories of the United States, though subject to the jurisdiction of Congress, are not domestic in a national sense, and that shipments to and from such Territories are not to be considered domestic shipments within the meaning of the Federal reserve act.

It may be well to consider, separately and briefly, the cases of Porto Rico, the Philippines, Canal Zone, and Hawaii to determine whether Congress has so acted as to make them an integral part of the United States.

Porto Rico.—Porto Rico is not foreign territory within the meaning of the Dingley Tariff Act, approved July 24, 1897, taxing articles imported into the United States from "foreign countries." *De Lima v. Bidwell*, 182 U. S. 1, decided May 27, 1901. In another case—*Downes v. Bidwell*—decided the same day, the Supreme Court held that the Foraker Act of April 12, 1900, which levied certain duties on articles coming into the United States from Porto Rico, and on goods shipped from the United States to Porto Rico, was valid—even though a tax or burden on shipments between different parts of the United States is unconstitutional—because "Porto Rico is a territory appurtenant and belonging to the United States, but not a part of the United States within the revenue clauses of the Constitution."

The duties in question are no longer levied; they were only a temporary assessment, but the status of Porto Rico remains the same, no act of Congress having been passed since then to make it an integral part of the Union. Inasmuch, therefore, as Porto Rico is not a part of the United States, it does not seem, for the reasons considered above, that a shipment between Porto Rico and the United States is a

domestic shipment in the generally accepted meaning of that term—a shipment from one part of the country to another.

Philippine Islands.—In the case of *Fourteen Diamond Rings v. United States*, 183 U. S. 176, it was held that the Philippines are not a "foreign country" in the meaning of the tariff act of 1897, imposing a duty on imports from foreign countries. The court went on to say that "In this respect there is no distinction between the Philippines and the Islands of Porto Rico. Neither of them is a foreign country within the terms of that act."

In the later case of *Dorr v. United States*, supra, it was held that the Philippines were not incorporated into the United States by the mere treaty of cession, and, as the court said:

The legislation upon the subject shows that not only has Congress hitherto refrained from incorporating the Philippines into the United States, but in the act of 1902, providing for temporary civil government (32 Stat. 691), there is express provision that section eighteen hundred and ninety-one of the Revised Statutes of 1878 shall not apply to the Philippine Islands. This is the section giving force and effect to the Constitution and laws of the United States, not locally inapplicable, within all the organized Territories, and every Territory thereafter organized, as elsewhere within the United States.

The Philippines, like Porto Rico, are therefore not an integral part of the United States, and, as Justice White said in *Downes v. Bidwell*, supra, "it is foreign to the United States in a domestic sense because not incorporated into the United States." Being generally understood to be foreign to the United States in every sense except an international one, there is no justification for the conclusion that shipments to and from the Philippines are domestic.

Hawaii.—Though the Hawaiian Islands were not made an integral part of the United States by the mere act of Congress annexing them (30 Stat. 750, *Hawaii v. Mankichi*, supra), nevertheless, by the act of Congress of June 14, 1900, 31 Stat. 141, they were formally

incorporated. By this act the Constitution and all Federal laws were given "the same force and effect in Hawaii as elsewhere in the United States," and Justice White, in the case cited, said that by this act "the islands were undoubtedly made a part of the United States in the fullest sense."

This distinction between Hawaii and the Philippines and Porto Rico is recognized by all the branches of the Government. Porto Rico and the Philippines are under the jurisdiction of the Bureau of Insular Affairs in the War Department, but Hawaii is not. Hawaii, like Alaska, is represented in Congress by a Territorial Delegate, whereas the Philippines and Porto Rico merely send "Resident Commissioners" to Washington.

Under all the facts, therefore, Hawaii must be considered as an integral part of the United States. Consequently any shipment between Hawaii and the continental United States must be considered a domestic shipment, and as such can not form the basis of an acceptance eligible for discount by Federal Reserve Banks. In other words, it does not seem possible to differentiate transactions with Hawaii from those with any part of the continental United States. Hawaii's relation to the United States seems precisely analogous to that of Alaska.

Canal Zone.—The status of the Canal Zone is unique. The United States has, in effect, an easement 10 miles wide across the Republic of Panama. It is foreign territory, subject to the control and supervision of this Government. The tariff act of 1913, imposing duties on imports "into the United States or into any of its possessions (except the Philippine Islands and the islands of Guam and Tutuila)" does not apply to the Panama Canal, even though it is not expressly excepted from the term "possessions," as is the case with the Philippines. By an act dated March 2, 1905, 33 Stat. 843, Congress specifically stated that "all laws affecting imports of articles, goods, wares, and merchandise, and entry of persons into the United States from foreign countries,

shall apply to articles, etc., coming from the Canal Zone and seeking entry into any State or Territory of the United States or the District of Columbia," showing that in no way is the Canal Zone considered an integral part of the United States. Indeed it is not even territory owned by the United States, but rather territory merely under its jurisdiction and control. Strictly speaking, it is a dependency. As such it is less a part of the United States than Porto Rico, and shipments to and from it could hardly be considered domestic shipments in the light of the previous discussion.

To summarize, it would seem that the Federal Reserve Banks may, under section 13, discount acceptances based on the shipment of goods (a) between the United States and any foreign country, (b) between any two or more foreign countries, and (c) between the continental United States and Porto Rico, the Philippines, or the Canal Zone; but not acceptances based on the shipment of goods between the continental United States and Hawaii or between any two parts of the continental United States.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. C. S. HAMLIN,

Governor Federal Reserve Board.

Forward Discount Rates.

Federal Reserve Banks may, under the established right to fix discount rates for acceptances or other eligible paper, fix a forward rate; that is, a rate to apply at a future time. Such a rate is calculated to accommodate trade and commerce as required by the act, and will tend to obviate speculation due to fluctuating rates.

MAY 18, 1915.

SIR: The question of the right of Federal Reserve Banks to establish forward discount rates to cover acceptances or other eligible paper has been duly considered by this office, as requested.

In an opinion^a filed with the Board dated November 19, 1914, the question of the right

of Federal Reserve Banks to establish discount rates, subject to review by the Federal Reserve Board, was considered at some length.

It is not deemed necessary to review in detail the conclusions reached in that opinion, but so far as pertinent to the question now under consideration authorities were cited to show that Congress has the power to delegate the right to fix discount rates to an administrative body and that this right has been vested in the Federal Reserve Banks subject to review and determination by the Federal Reserve Board.

The provisions of law which it is necessary to consider in determining the question under consideration are as follows:

Section 14, subsection (d), in defining one of the powers of Federal Reserve Banks, provides as follows:

To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank for each class of paper, which shall be fixed with a view of accommodating commerce and business.

Section 4 provides in part as follows:

Every Federal Reserve Bank shall be conducted under the supervision and control of a board of directors. The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law. Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks, and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Analyzing these provisions, it appears that the only limitations to which discount rates are subject are as follows:

(a) That they shall be fixed by the Federal Reserve Bank with the view of accommodating trade and commerce.

(b) That there shall be no discrimination as between member banks.

^a See Federal Reserve Bulletin, May 1, 1915.

(c) That they shall be subject to review and determination by the Federal Reserve Board.

Considering the question submitted in the light of these restrictions, it appears—

(1) That the purpose of fixing a forward rate, that is, a rate to apply at some future date, is primarily to accommodate trade and commerce and to prevent those dealing in legitimate transactions from being subject to the speculative influence of fluctuating rates. For example, a commercial transaction may be safely engaged in if the purchaser, or one who is assisting the purchaser to finance such a transaction, can have the assurance that an acceptance or other eligible paper possessing the necessary qualifications can be discounted or sold at a future date at a fixed rate, whereas if the rate is undetermined the element of speculation necessarily enters into the transaction.

(2) If the rate is so fixed as to be equally applicable to all member banks, no element of discrimination is involved.

(3) If the Federal Reserve Bank fixes a rate at which it will discount or purchase various classes of paper at the present time and in so doing announces that the rate on any particular class of paper will not be increased beyond a fixed maximum for a specified number of days, and if the Board approves such rate, or if the maximum thus fixed by the Federal Reserve Bank is no greater than the maximum rate previously approved by the Board, it will have exercised its right of review and the rates will thereupon become definitely established in accordance with the provisions of law applicable thereto.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To HON. CHARLES S. HAMLIN,
Governor Federal Reserve Board.

Discount of Acceptances Indorsed by Member Banks Located in Another District.

Federal Reserve Banks may, under the provisions of section 13, discount acceptances based on the importation or exportation of goods, provided they have a maturity at time of discount of not more than three months, and provided further, that they are indorsed by a least one mem-

ber bank. It is immaterial whether this member bank is located in the district of the Federal Reserve Bank which is making the discount or in any other district, the term "member bank" being broad enough to include member banks wherever located.

Such discounts, being made under the provisions of section 13, are eligible as collateral security for Federal reserve notes issued under the provisions of section 16.

APRIL 30, 1915.

SIR: The question has been raised whether a Federal Reserve Bank may, under section 13 of the Federal reserve act, discount acceptances indorsed by a member bank located in a district other than that of such reserve bank; and, if so, is the paper thus discounted eligible to be used as collateral security for Federal reserve notes issued under section 16.

The act provides that—

Any Federal Reserve Bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank.

It is to be noted that an acceptance to be eligible for discount under this provision of the act must (1) be based on the importation or exportation of goods, (2) have a maturity at time of discount of not more than three months, and (3) be indorsed by at least one member bank.

The third requirement is the one to be specially considered in this connection. Does "member bank" mean a member of the particular Federal Reserve Bank, or does it import a more general significance and mean a bank which is a member of the Federal reserve system? If it is the latter, then no doubt any Federal Reserve Bank may discount acceptances for any member bank, irrespective of the district in which it is located.

Section 1 of the Federal reserve act states that—

The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this act,

and, applying this definition to the section in question, it would seem clear that in consider-

ing the eligibility of acceptances for discount by a particular Federal Reserve Bank, it is immaterial in what district the indorsing member bank is located. As long as it is a member of some one Federal Reserve Bank, it is a "member bank" as defined by the act itself.

This conclusion is further supported by the fact that Congress, in defining eligible paper other than acceptances, required specifically that the indorsement must be by "any of *its* member banks," thus expressly referring to the members of a certain Federal Reserve Bank. The fact that this restriction was omitted in fixing the qualities of eligible acceptances indicates that Congress intended that there should be a broad market for this class of paper and that a Federal Reserve Bank should not be limited to acceptances indorsed by its own member banks.

The same construction of the term "member bank" has been accepted by the Board in relation to the power of a Federal Reserve Bank to receive deposits of "checks and drafts upon solvent member banks."

Granting, therefore, that a Federal Reserve Bank may, under the provisions of section 13, discount acceptances indorsed by a member bank of another district, may such paper be put up as collateral for Federal reserve notes?

It is clear that paper bought in the open market under the provisions of section 14 is not eligible as collateral security unless it conforms to the provisions of section 16, defining eligible collateral. That section provides in part that—

The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of section 13 of this act.

If, therefore, a Federal Reserve Bank receives acceptances for discount under the provisions of section 13 in the manner indicated above, such paper may be used as collateral for Federal reserve notes. The sole requirement is that the collateral shall be notes and bills—terms which are broad enough to include acceptances in this connection—accepted for rediscount under the provisions of section 13. The fact

that the same paper might have been purchased in the open market, with or without the indorsement of a member bank, is immaterial if in fact the paper was accepted for discount under section 13.

As previously indicated, acceptances indorsed by a member bank of another district may be so discounted, and if so they may be put up as collateral security under the terms of section 16, which define eligible collateral.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. C. S. HAMLIN,

Governor Federal Reserve Board.

Purchase of United States Bonds by Federal Reserve Banks.

Federal Reserve Banks have an unlimited right to purchase United States bonds in the open market. They may also, under the provisions of section 18, be permitted or required, after December 23, 1915, to purchase bonds bearing the circulation privilege, up to an amount not exceeding \$25,000,000 a year, from member banks which make proper application to the Treasurer of the United States. In order to determine the amount any one reserve bank shall buy under section 18 in any one year, it is necessary to allot to each bank its own proportionate share of the entire sum offered for sale through the Treasurer and deduct therefrom the amount of bonds bearing the circulation privilege bought by such bank in the open market within that year.

APRIL 22, 1915.

SIR: There are two separate and distinct methods provided in the Federal reserve act for the purchase by Federal Reserve Banks of Government bonds.

Under paragraph b of section 14 of the reserve act such banks are authorized to buy and sell bonds and notes of the United States in the open market. There is no restriction placed in that section upon the kind or amount of bonds eligible for purchase in that manner. The authority is absolute and unlimited except in so far as the Federal Reserve Board may make restrictions under its powers to regulate such purchases.

Under the provisions of section 18 the Board may, in its discretion, require the Federal Reserve Banks to purchase United States bonds

bearing the circulation privilege up to an amount not to exceed \$25,000,000 a year from member banks which have made application for such sale with the Treasurer of the United States. This section becomes effective December 23, 1915.

When bonds are offered for sale in this manner each Federal Reserve Bank may be required or permitted to purchase such proportion thereof as its capital and surplus bears to the aggregate capital and surplus of all Federal Reserve Banks: *Provided, however,* That if a Federal Reserve Bank has acquired bonds under section 4 within the same year then such bank shall deduct the amount thus acquired from its proportionate share of the allotment in order to determine the actual amount to be purchased by such bank.

Should the bonds acquired by a Federal Reserve Bank under the general authority of section 4 to exercise powers prescribed in the act—or, more specifically, bonds acquired in the open market under section 14—exceed the amount to which such bank would be entitled under the proportionate allotment, then it can not be required or permitted to purchase any of the bonds offered for sale under section 18.

The disqualification of this particular bank however, would have no effect on the rights and obligations of the other Federal Reserve Banks. Each bank is apportioned a certain definite percentage, determined by the proportion which its capital and surplus bears to the aggregate capital and surplus of all the Federal Reserve Banks, and each individual bank must, if directed by the Board, purchase this, amount, no more and no less, unless it can be shown that it has acquired bonds under section 4 in the manner previously indicated.

It is clear that this \$25,000,000 limitation imposed by section 18 refers only to those bonds offered for sale by member banks through the Treasurer and has no effect whatever on the continuing power of the Federal Reserve Banks to purchase bonds up to any amount in open market. The only consideration to be given in this connection to bonds bought in the open market is that they are merely one of the

elements in determining the amount of bonds which Federal Reserve Banks may be required or permitted to buy under section 18.

It might be noted that there is no specific provision in section 4 for the purchase of any Government bonds, but, in enumerating the powers of a Federal Reserve Bank, under paragraph 7, it is provided that it has authority—

To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this act,

and the reference in section 18 to bonds acquired under section 4 evidently contemplated bonds purchased in the open market under this general authority to exercise the powers specifically conferred by section 14, since there is no other provision in section 4 which can be said to relate to the purchase of bonds.

This might raise the question whether 3 per cent bonds, or bonds not bearing the circulation privilege, bought under section 14, should be included in determining the amount of bonds to be purchased by each bank under section 18. This conclusion does not seem necessary, because it is not believed that bonds not bearing the circulation privilege were intended to be considered in making the deduction which is to determine this amount. Section 18 is intended only to afford a market for bonds bearing the circulation privilege, and the purpose there manifested is to provide a means for the absorption of such bonds by Federal Reserve Banks. The fact that a Reserve Bank may have bought 3 per cent bonds not bearing the circulation privilege in the open market has no relation to and could not be intended to be considered in connection with this question of the absorption or concentration of bonds having that privilege.

To summarize: In order to determine the amount any one reserve bank may be required or permitted to buy under section 18, take the entire sum offered for sale in this manner, allot to each bank its proportionate share, and deduct therefrom the amount of bonds bearing

the circulation privilege bought by such bank in the open market within the year.

Let X equal the amount to be bought by Reserve Bank A, then

$$X = \left\{ \begin{array}{l} \text{Total} \\ \text{amount} \\ \text{for sale.} \end{array} \right\} \times \left\{ \begin{array}{l} \text{Capital and} \\ \text{surplus of A.} \\ \text{Aggregate} \\ \text{capital and} \\ \text{surplus of all} \\ \text{banks.} \end{array} \right\} - \left\{ \begin{array}{l} \text{Amount of bonds} \\ \text{bearing circula-} \\ \text{tion privilege} \\ \text{bought in open} \\ \text{market by A} \\ \text{within the year.} \end{array} \right\}$$

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. C. S. HAMLIN,

Governor Federal Reserve Board.

Exchange of two per cent bonds for one-year gold notes and three per cent bonds.

That part of section 18 which provides that the Secretary of the Treasury may, upon application of any Federal Reserve Bank approved by the Board, issue, in exchange for 2 per cent bonds, one-year gold notes and 3 per cent bonds, the gold notes not to exceed one-half of the 2 per cent bonds offered for exchange, becomes effective at once and not after two years from the passage of the act, as is provided for other paragraphs of section 18.

JANUARY 4, 1915.

SIR: I have your letter of January 2 and have carefully examined that part of section 18 of the Federal reserve act which relates to the exchange of United States bonds with the circulating privilege for one-year gold notes of the United States and 30-year 3 per cent gold bonds without the circulating privilege.

After analyzing this whole section and after considering all the circumstances I am inclined to the view that technically the Federal Reserve Board has the right at this time to authorize this exchange and that the opening sentence of this section making certain provisions effective only after two years from the passage of the act, does not relate to the provision under consideration.

As heretofore advised the power to purchase bonds having the circulation privilege and to issue national currency against such bonds is specifically given to the Federal Reserve Banks by other sections of the act.

When section 18 was incorporated in the act it was originally intended, as its title implies, to

provide a method for gradually refunding bonds held at the time by the various national banks. This matter was very carefully considered by the committee of the House and the committee of the Senate and a number of plans were submitted having for their object the ultimate retirement of national bank circulation and the substitution of other notes. At the time of the passage of the act there was approximately \$750,000,000 in national bank circulation outstanding. The bonds securing this circulation mature at the pleasure of the United States Government after 30 years from the date of issue, and it was accordingly estimated that if the Federal Reserve Banks could acquire a minimum of \$25,000,000 a year, they would have in their possession at the maturity of these bonds approximately the entire issue, and the Government would have to deal only with the Federal Reserve Banks instead of with the several thousand national banks in refunding such bonds.

It was recognized, however, that unless the national banks desired to retire their circulation the Federal Reserve Banks would be unable to procure the bonds, and this method was provided of having those national banks desiring to retire the whole or any part of their circulation make application through the Treasurer to sell the bonds for their account, and the Federal Reserve Board was empowered to require Federal Reserve Banks to purchase bonds so offered, and, as suggested by you, it was originally contemplated that the Federal Reserve Banks should thereupon be required to issue Federal Reserve Bank notes against such bonds.

In view of the arguments presented to the committee that this circulation becomes redundant at certain times, it was later determined to permit the exchange of bonds thus acquired with the circulating privilege for obligations of the United States without the circulating privilege.

As stated, this section was originally intended to deal only with the bonds acquired from national banks desiring to retire in whole or in part their national-bank circulation.

The section was amended, however, in conference, so that it now provides—

(a) For the issuance of Federal Reserve Bank notes against bonds acquired under other provisions of the act as well as against bonds acquired under this section; and

(b) For the exchange of any United States 2 per cent gold bonds bearing the circulation privilege, but against which no circulation is outstanding for one-year gold notes of the United States without the circulation privilege to an amount not to exceed one-half of the 2 per cent bonds so tendered for exchange and the 30-year 3 per cent gold bonds, without the circulating privilege, for the remainder of the bonds so tendered.

It is significant that in the first two paragraphs of this section in referring to the bonds which the Federal Reserve Banks may be required to purchase, Congress uses the words "such bonds," manifestly referring to bonds which a national bank desires to sell through the Treasurer in order to reduce its circulation.

In the fifth paragraph of this section, however, it is provided:

Upon the deposit with the Treasurer of the United States of bonds so purchased or any bonds with the circulating privilege acquired under section 4 of this act, any Federal reserve bank * * * shall be entitled to receive * * * circulating notes * * * equal in amount to the par value of the bonds so deposited.

In this paragraph the section for the first time refers to bonds other than those acquired from banks desiring to reduce their circulation, and in the following paragraph the language of the act is—

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue in exchange for United States 2 per cent gold bonds bearing the circulation privilege, but against which no circulation is outstanding one-year gold notes, etc.

The failure, therefore, to restrict this paragraph by any qualifying clause as to the bonds which may be exchanged other than the qualification that they shall be 2 per cent United

States bonds with the circulating privilege, against which no circulation is outstanding, would seem to indicate that the Federal Reserve Board may, in its discretion, authorize the exchange of any such bonds bearing this privilege acquired in any manner by the Federal Reserve Banks, provided such bonds are not deposited as security for circulating notes.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. CHARLES S. HAMLIN,
Governor Federal Reserve Board.

Rights of Member Banks in Northern New Jersey.

Member banks located in that part of New Jersey which is to be transferred from the Philadelphia district to the New York district not later than July 1, 1915, remain members of the Federal Reserve Bank of Philadelphia until the transfer is actually effected, and as such are entitled to all the privileges extended other members of that bank.

All rediscounts made for member banks located in the region to be transferred may be held by the Federal Reserve Bank of Philadelphia until they mature, even though the date of maturity is subsequent to July 1, 1915, or they may be rediscounted with the Federal Reserve Bank of New York.

MAY 21, 1915.

SIR: As requested, I have read and considered the attached letter from the Federal Reserve Bank of Philadelphia, dated May 5, 1915, submitting the following inquiry:

In case any banks in northern New Jersey apply to us for rediscounts between now and July 1, I would inquire whether, in your judgment, we should accommodate them, and I would also inquire whether it would be satisfactory to let us carry any rediscounts which we may have for northern New Jersey banks which mature after July 1 until the notes run off.

While the order has not yet been formally entered, it is my understanding that the transfer of membership from Philadelphia to New York of those banks located in the district to be assigned to New York is to be made not later than July 1. This being true, the banks in northern New Jersey will continue to be members of the Federal Reserve Bank of Philadelphia until that time and will be entitled to any privileges extended to other members.

As to the rediscounts carried at the time that such banks cease to be members of the Federal Reserve Bank of Philadelphia, while the act makes no specific provision in regard to this situation, I can see no legal objection to the Federal Reserve Bank of Philadelphia continuing to hold such rediscounts until they mature. Where a member bank rediscounts with a Federal Reserve Bank eligible paper held by it, the Federal Reserve Bank becomes the owner of such paper and the member bank is contingently liable as indorser. This being true, there would seem to be no justification for assuming that a change in the status of a member bank in its relation to the Federal Reserve Bank should in any way affect the legality of such rediscounts. For example, if a member bank should go into liquidation, the Federal Reserve Bank would have the right to hold and collect any rediscounts held by it and would have a claim against the estate of such liquidating bank for any loss suffered, under the contract of the indorser.

I am of the opinion, therefore, that the Federal Reserve Bank of Philadelphia will be fully justified under the law in extending the privilege of rediscount to the banks referred to as long as they remain members of that bank, and that any rediscounts held at the time when they cease to be members may be retained until collected, or they may be rediscounted by the Federal Reserve Bank of New York for the Federal Reserve Bank of Philadelphia. This latter course would from many aspects seem to be the more desirable since in this case adjustment at maturity by payment or by substitution of other paper could be arranged directly with the Federal Reserve Bank of New York and it would be unnecessary for the Federal Reserve Bank of Philadelphia to send on for collection any rediscounts held.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. CHARLES S. HAMLIN,

Governor Federal Reserve Board.

Qualifications of Federal Reserve Bank Directors.

A director possessing necessary qualifications at the time of his election is not made ineligible to serve out his term

by a change in the geographical limits of his district which results in making him a resident of another district.

MAY 11, 1915.

SIR: This office has been requested to give an opinion on the question of whether or not Mr. La Monte, one of the class C directors appointed by the Board for the Federal Reserve Bank of Philadelphia, may continue to serve after that part of New Jersey in which he resides has been transferred to district No. 2.

Section 4 of the Federal reserve act provides in part that—

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed.

Mr. La Monte had been for two years a resident of district No. 3 at the time he was appointed. The question, therefore, arises whether the fact that after July 1 he will be a resident of district No. 2 renders him ineligible to complete his term of office which expires January 1, 1915.

The term "residence" is not synonymous with that of "domicile" or "citizenship." It has been defined by the courts as "the abiding or dwelling in a place for some continuance of time. There must be a settled, fixed abode or intention to remain permanently at least for a time, for business or other purposes, to constitute a residence." (See American and English Encyclopedia, vol. 24, p. 693, for collection of cases.) It is, however, susceptible of various meanings which depend largely upon circumstances under which the term is used. Its definition has been held to be a mixed question of law and fact. (*Munroe v. Williams*, 37 S. C. 81.) The term "to reside" was held in the case of *People v. Owens*, 29 Colo. 535, to have different meanings as used in different parts of the same instrument.

In order, therefore, to determine the significance to be given to that part of the act above quoted, it is necessary to consider the context and the purpose of this requirement.

The class C directors are selected by the Federal Reserve Board but as directors have the same powers and duties as directors of classes A and B. The qualification that such

directors "shall have been for two years residents of the district for which they are appointed" was manifestly incorporated in order that those selected should be familiar with the local conditions of such district. Mr. La Monte having been qualified in this respect at the time of his election there would seem to be no reason for declaring him ineligible to serve out his term because his residence after July 1 may be technically said to be in district No. 2 instead of district No. 3.

The act does not provide in terms nor by necessary implication that a director shall continue throughout his term of office to be a resident of the district in which the Federal Reserve Bank is located, and there does not appear to be any reason for assuming that this technical change in Mr. La Monte's residence can in any way prove prejudicial to the interests of the Federal Reserve Bank of Philadelphia.

I am, therefore, of the opinion that he may legally continue to serve as a class C director until January 1, 1916.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To HON. CHARLES S. HAMLIN,
Governor Federal Reserve Board.

Federal Reserve Banks as Collecting Agents.

Although there is no express provision in the Federal reserve act authorizing a Federal Reserve Bank to act as agent for another Federal Reserve Bank in the collection of bills, notes, etc., nevertheless section 4, subsection 7, in granting the right to exercise "incidental powers," impliedly authorizes this power, the collection of bills, notes, etc., being incidental to the power to receive deposits, as authorized by section 13.

DECEMBER 30, 1914.

SIR: I have your letter of the 30th instant, in which you ask for an opinion on the following questions:

Whether or not a Federal Reserve Bank is empowered under the provision of the Federal reserve act to act as agent for another Federal Reserve Bank in the collection of maturing notes, drafts, bills of exchange and other evidences of debt purchased under the provisions

of the act by the Federal Reserve Bank, which items are payable within the district of the Federal Reserve Bank to which they are sent.

The exercise of this power would require the collecting bank to act as agent for the forwarding bank in the collection of the items mentioned in your letter since, in such case under the uniform decisions of the court, the agency continues until the items are collected. This right is not specifically included in the powers of the Federal Reserve Banks enumerated in the Federal reserve act. Section 13, in dealing with the subject of collections, provides:

Any Federal Reserve Bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal Reserve Banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member of other Federal Reserve Banks, payable upon presentation.

It will be observed that the language used in the section above quoted does not specifically include notes, drafts and bills of exchange but Federal Reserve Banks are authorized to receive deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal Reserve Banks, payable upon presentation. The question therefore arises, whether or not such notes, drafts, and bills of exchange may be accepted by Federal Reserve Banks in the capacity of agent for other Federal Reserve Banks and the determination of this question is dependent upon whether or not this power may be said to be incidental to those powers which are specifically granted. Section 4, subsection 7, of the Federal reserve act, in defining some of the corporate powers of Federal Reserve Banks, reads as follows:

To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this act, and such incidental powers as shall be neces-

sary to carry on the business of banking within the limitations prescribed by this act.

This language is substantially similar to the language used in section 5136 of the Revised Statutes which deals with the corporate powers of national banks. Section 7 of this section reads as follows:

To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title.

It will be observed that in defining the powers of national banks, as well as in defining the powers of Federal Reserve Banks, Congress has not specifically authorized such banks to act as agent for other banks. The powers enumerated, however, in both instances, are what may be termed contractual powers of a Federal Reserve Bank or a national bank; that is to say, the act defines and limits under what conditions such banks may become indebted to others or may permit others to become indebted to such banks.

In the matter of collection of items mentioned in your letter, however, the relation of debtor and creditor is not established as between the forwarding bank and the collecting bank until the item sent for collection is actually collected; and where the instructions of the forwarding bank are to collect and remit the bank receiving such items has this single duty to perform and the proceeds are not credited to the forwarding bank after collection but are remitted to such bank. If the instructions accompanying such

items are to collect and credit, then the collecting bank collects from the drawee of the draft or the obligor of the note funds which it may receive on deposit, and, consequently, when its agency terminates it exercises a power specifically granted to it, namely, the power to receive deposits. Accordingly, it seems clear that the collection of items referred to by you may be said to be incidental to the power to receive deposits.

Banks very generally act as agents for other banks in making collections of this sort and the right of national banks to perform this duty has, so far as I have been able to learn, never been questioned; on the contrary, there are a number of cases holding that in the matter of collection of items banks, as stated, act only as agents until the item has been actually collected.

This is true even in the case of deposit of checks by individuals with national banks.

The courts have held that even though credit may be given in the pass book for the check upon its deposit, the bank continues as the agent of the depositor until the check has been collected.

It seems to me, therefore, that unless as a matter of policy the Board determines that the Federal Reserve Banks are not ready to act as collecting agents for other Federal Reserve Banks in the collection of the items enumerated by you, there is no reason why this power should not be exercised without exceeding the corporate powers granted by statute, and those incidental to the specific powers granted.

Respectfully,

M. C. ELLIOTT, *Counsel.*

TO HON. CHARLES S. HAMLIN,
Governor Federal Reserve Board.

GENERAL BUSINESS CONDITIONS.

General business and banking conditions are described in reports made by Federal reserve agents for the 12 Federal reserve districts.

Below are given in detail digests of conditions in the various districts substantially as reported by Federal reserve agents.

DISTRICT NO. 1—BOSTON.

Since the 1st of the month there has been a slight hardening tendency in the money market, but this is largely due to the hesitation of banks to invest their money too closely rather than to any appreciable decrease in the supply. A comparison, however, of the statements of the Boston Clearing House shows an increase in loans over the previous month and a decrease in due from reserve agents. The country bank situation is much the same, and those banks are still rediscounting to a considerable extent and show very little change in their condition from the previous month. The savings-bank deposits in this district continue showing increases, which is an evidence of better business conditions.

Money rates are as follows: Banks commercial customers up to six months, 4 to $4\frac{1}{2}$ per cent, with some exceptions below 4 per cent; demand loans to brokers, 3 per cent; note brokers' commercial paper, $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent, largely 4 per cent; year notes, $4\frac{1}{2}$ per cent; savings-bank mortgages, $4\frac{1}{2}$ to 5 per cent; 90-day bank acceptances, $2\frac{1}{2}$ to $2\frac{1}{2}$ per cent; town notes, 3 to $3\frac{1}{4}$ per cent; Boston bank rates to country banks, 4 per cent; Federal Reserve Bank of Boston rates, 4 per cent up to 60 days, $4\frac{1}{2}$ per cent 60 to 90 days.

Exports and imports for the port of Boston for the month of April are as follows: Imports, free, \$15,219,245; dutiable, \$2,786,559. Exports, domestic, \$10,577,596; foreign, \$12,586.

There is a general feeling of optimism in all lines of business in this district, and a slight improvement in most lines, with the possible exception of the shoe and leather trade. Foreign government orders are reported to be coming into this market almost daily and

trades directly influenced are doing a good business.

The situation in the shoe and leather trade has not improved to any noticeable extent since last month. In all sections, very limited trade is reported from regular domestic sources and while the general outlook is for improvement, no marked improvement has yet manifested itself. In this trade war orders are still the principal factor.

There has been considerable improvement in the wool and woolen industries over the past month and, in fact, even apart from war orders the general situation seems to be improved somewhat, both from the mill end as well as in goods, and the general situation in this line is ahead of a year ago. This is noticeably so in worsteds, which have been dull for several months.

The cotton-mill situation seems to be slightly but steadily improving. Most of the mills are running on full time and while the volume of business is reported to be satisfactory there is still room for an improvement in profits, although many mills are reporting a satisfactory profit, having purchased their raw material at lower rates than the present market.

DISTRICT NO. 2—NEW YORK.

Throughout New York State farmers, fruit growers, and dairymen anticipate a good season. Factories producing goods for domestic use are not busy and new orders come in slowly. The manufacture of war supplies continues above capacity and is extending to plants normally engaged otherwise, thus partly offsetting slack domestic trade.

Shipments from the port of New York since January 1 are \$112,000,000 ahead of the corresponding period last year. Builders, real-estate and renting agents find business better. Textiles, dry goods, and mercantile lines generally are in better demand, but it is evident that domestic markets of nearly all kinds, while improving in tendency, are subject to the ups and downs in sentiment as the European war continues.

The number of unemployed is substantially reduced, but many are still out of work. Figures of new incorporations compared with recent years show a considerable falling off. Failures in this district since the first of the year compared with the same period last year have increased 50 per cent in number and 56 per cent in amount. There is less activity in the stock market.

Excess reserves of the New York Clearing House banks on May 15 were \$173,000,000, an increase of \$3,000,000 since May 1. During the same period deposits decreased \$4,000,000 and loans \$2,000,000. Demand for loans is generally light. Rates continue at $3\frac{1}{2}$ to 4 per cent for the best commercial paper.

DISTRICT NO. 3—PHILADELPHIA.

War orders and their influence are undoubtedly helping many industries. General trade, however, upon which in the long run we must depend for our prosperity, is still dull and much below normal. Collections are fair. Retail trade is picking up in some lines, due to less unemployment and to increasing working hours giving increased purchasing power to labor, and also to favorable weather conditions. On the whole, in district No. 3, business is hesitating and concerned over the outlook. Some lines, producing for domestic consumption, are improving very slowly.

Rates for money are easy and loanable funds are plentiful, both call and time money being quoted at from $3\frac{1}{2}$ to 4 per cent; the supply of commercial paper is limited, and a moderate amount is being sold at from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent. The outlook is so uncertain there seems to be a disposition on the part of financial institutions not to lock up their funds in long-time investments. Short maturities are readily taken, but there is little demand for longer dates. Because of trade conditions and depression a large excess of reserves is reported by the banks. A general spirit of caution and economy still persists on the part of producers and consumers of goods and of investors.

Evidence of recovery is given by the decrease in the number of idle cars and increasing freight

business by the railroads, the placing of fair-sized railroad equipment orders; and the ready sale under unfavorable conditions of the Argentine loan and a large bond issue for the Pennsylvania Railroad.

The effect of the war is most conspicuous in the iron and steel industries, and improvement continues. The Delaware River shipyards are running at full capacity. The automobile trade is brisk. The anthracite coal output is slightly under last month's record production, while the bituminous output is not up to normal.

Building operations are increasing, but the lumber business has fallen off. Paints, chemicals, drugs, and wall-paper industries are good and improving.

The hardware business and sales of electrical supplies continue to increase. Leather is quiet, with prices high and firm; footwear is very quiet, with small sales. In wearing apparel (including knit goods, underwear, and dress goods) manufacturers are fairly busy, with the exception of men's and boys' clothing.

The dyestuffs situation is still critical with cloth, carpet, and rug mills, and business in these lines is poor.

Cotton-trade conditions are unsettled, while cotton spinners report increased business. Wool and woolen yarns are much below normal. Silk mills are running full.

Crop conditions are reported good and the outlook satisfactory.

DISTRICT NO. 4—CLEVELAND

Improvement of conditions in district No. 4, as reported in April, is being held, but no additional advance is noted. While our advices seem to indicate no recession in business, there is a slight pause, with fewer orders for new business. Pay rolls are approximately the same as a month ago. Steel mills are running about 5 per cent increase of ingot capacity over 30 days ago. Now that the transportation companies, which consume one-third of the total tonnage of finished iron and steel in the United States, have come back into the market, the indications are that a normal degree of activity should continue in that trade for some months.

The lake season opened a little later than usual, and now that the accumulation of grain in the Northwest has been brought on, it is found there are more vessels than can be supplied with grain, ore, and coal tonnage. Some independent lake carriers will be compelled to dock a number of their vessels unless these conditions improve.

The settlement of the coal strike in eastern Ohio, permitting the return to work of 14,000 miners, is a favorable item in the coal trade, but prices are still unsatisfactory.

The marked decrease in idle cars and the increased volume of railroad traffic east of Chicago are items of improvement in the railroad situation.

The business situation in the extreme southern part of this district is not participating in the general improvement throughout the district, except in certain lines having war orders.

Weather conditions still continue to favor a normal crop of farm products.

Money has a firmer tendency, but there has been no increase in rates.

DISTRICT NO. 5—RICHMOND.

There has been very little change in general business conditions in the fifth reserve district during May. Agriculturally, the month was one of preparation. Hope for the future has been increased in the presence of timely rains and the knowledge that the close of the planting season shows that there is material diversification, especially in sections heretofore almost entirely given over to cotton. The recent softening in the price of this staple has somewhat checked liquidation, which however had proceeded far enough to be of great help not only to the debtors themselves but to their creditor jobbers and merchants. Economy seems to be the watchword, and its practice, while ultimately most beneficial to consumers, has not contributed to the profits of those ministering to their wants.

In consequence, most lines, including retailers, report in comparison with last year this time, a materially diminished volume of business, although from almost every direction

conditions show material improvement over those of three months ago.

The demand for bank credit is very quiet and modest in amount, with the result that local institutions are apparently comfortably able to care for it without recourse to borrowing. Bank loans as a whole reflect more a desire to shift transactions already open than a demand for fresh credit.

Manufacturers and exporters of goods for war purposes are, of course, an exception to the general rule. Diplomatic developments, apparently, have had no effect either upon credit conditions or the demand for funds, for which fact it is possible the presence of the Federal reserve act may in large measure be responsible.

DISTRICT NO. 6—ATLANTA.

Conditions in the sixth district are generally good. The outlook is brighter than at any time since the European war began.

Collections are good over the district and the banks report a considerable decrease in renewal of paper. The city banks have ample loanable funds and are seeking loans. In the mercantile lines, owing to the fact that jobbers and wholesalers did a small volume of business during the past fall and winter, it has had a marked effect on the decreased demand for loans. However, commercial men report trade good; that the merchants' stocks are somewhat depleted, and jobbers and wholesalers are looking forward to heavy buying in the summer and fall. The clearings in Atlanta show, for the first time this year, a slight increase over the same time one year ago.

The cotton mills of the district are running full force, and many overtime, with heavy orders on hand. Reports indicate conditions rapidly assuming normal in the Birmingham iron district.

The naval-stores line appears rather slow in regaining former prices, although the movement is very good. Railroad conditions are improving, but rather slowly. Pay rolls of the various industrial and manufacturing concerns are, generally speaking, normal.

Agricultural conditions appear exceedingly bright, but with a decreased cotton acreage and quite a large reduction in the use of fertilizers. Seasonable weather is now prevailing following an unusually dry spring.

DISTRICT NO. 7—CHICAGO.

Trade development in the seventh district in May has been favorable. Moderate improvement is noticed in the leading industries, especially iron and steel and the metal-working branches, and at more satisfactory prices. The continuation of the serious labor troubles in the building trades at Chicago is a depressing factor there. Movements of crude materials and finished products of factories show steady gain. The outlook for manufacturers, as a whole, is regarded as improved.

Distributive operations maintain their recent advance. The jobbing centers report increasing orders, with dry goods and collateral lines most active at Chicago. Retail trade has responded to more settled weather conditions at interior points.

Winter wheat now promises a record-breaking crop, with widespread rainfall improving soil conditions over a large area of the grain belt. All agricultural products continue in demand at unusually profitable prices to growers, despite lessened spot demands from Europe. A portion of the fruit district in Michigan was injured by a few nights of low temperature, grapes suffering most.

Money conditions remain easy. Commercial paper rates range from $3\frac{1}{2}$ to 4 per cent, with offerings readily absorbed. Bank clearings indicate slight gains.

DISTRICT NO. 8—ST. LOUIS.

General business conditions in this district, especially in the larger cities and manufacturing centers, while still below normal, indicate a continued though slow improvement. The manufacturing industries, except those affected by war orders, show less improvement than the general jobbing interests.

Crop conditions throughout the district continue favorable, although the rainfall for April

was below the average and added to the deficiency for the year. There was enough, however, to allow the breaking of ground and the planting of crops, so that, given sufficient rainfall during the next two months, there is every indication that the harvest will be abundant. Wheat acreage has been materially increased, especially in the cotton States; in some districts more than 100 per cent. The fruit crop is reported for the most part in excellent shape.

There is still little demand for money. This district, particularly the Southern States, has gone through a period of enforced liquidation, and it seems there will be no great demand for funds until after the harvest. Banks as a general rule, hold reserves largely in excess of their legal requirements and are seeking outlets for their surplus funds. There is little commercial paper of the best names available in St. Louis, but what there is is quoted at $3\frac{1}{2}$ to 4 per cent. The bank loan rate in St. Louis is about 5 per cent. Bank loans are quoted outside of St. Louis and Louisville at $6\frac{1}{2}$ to 8 per cent.

DISTRICT NO. 9—MINNEAPOLIS.

Cold and rainy weather, with a snowstorm on May 17, provoked some reports of damage to the Northwestern grain crop. Careful investigations in Minnesota and North and South Dakota indicate that the wheat crop has suffered no damage whatever and that injury from frost is confined to winter rye, flax just coming out of the ground, barley, and oats. On the whole the frost and snow is considered beneficial, as it has killed many of the weeds which are common to the grain fields, and it is not believed that the crop as a whole has suffered any appreciable injury. A small amount of seeding remains to be done in oats, barley, and flax. The last half of May will be mainly devoted to corn planting, which has been delayed by the rains and the cold weather. Weather conditions have been unusual, but have had an excellent effect in giving grain crops good root. Moisture conditions of the entire ninth district are excellent.

Underlying business conditions of the entire Northwest are sound. Manufacturing is somewhat below normal, and the lumber business is off as compared with previous years. Merchandising conditions in the local communities are normal and the distributing houses of the large cities are doing about the same business as in former years. There is no evidence of any real business depression, except in the northern Michigan iron-mining districts and on the iron ranges of northern Minnesota where conditions in the steel business have reflected themselves in a slowing down of mining operations. Northern Minnesota prospects are considerably better this season than a year ago, and there is some improvement in the outlook due to an increase in development work which results from the action of the steel corporation in resuming construction on the large steel plant which is soon to be opened near Duluth.

Banks are in good condition and are meeting the demands upon them without difficulty. Business houses report that collections are fair to good throughout the entire district. There is considerable activity in the stock business of western North and South Dakota and Montana, the noticeable feature of which is the heavy buying of horses for export to Europe by English agents and heavy purchases of a somewhat lighter grade of horses by agents of the Italian Government. Quarantine conditions, due to the hoof-and-mouth disease, have improved, permitting more active shipments from local points to Omaha and Chicago markets.

A healthy spirit of optimism prevails throughout the district, and business men generally are looking forward to a period of good business.

DISTRICT NO. 10—KANSAS CITY.

This district probably was never in better condition so far as purely financial matters are concerned than at the present time. Banks throughout the district have an excess of loanable funds, and interest rates, generally speaking, are below normal; in fact, many banks are resorting to the purchase of outside commercial paper in order to find employment for their

surplus funds, whereas in times past they have experienced difficulty in meeting local demands.

Crop conditions are promising, with an increased acreage of wheat and other cereals. The recent ravages of the Hessian fly are likely to sharply reduce the yield of wheat, and may make a difference of millions of dollars. This loss, however, may be substantially offset by prices ruling higher than normal. Corn is now being planted, with weather and soil in perfect condition. Horticultural prospects are almost perfect, with every promise of an abundant yield. The live-stock market is active, with prices steady to strong, as is also the hog and sheep market.

The lead and zinc mining industry, on account of record prices, is enjoying an unprecedented activity, while the coal-mining industry is normal for this season of the year.

The retail and wholesale trade is not quite up to normal. Collections are slightly better than normal, except such small bills as are dependent upon wages. Building operations are not as extensive as a year ago, and, as a consequence, labor is not so fully employed. The harvest season now approaching will probably give employment to many who are now idle, and the present conditions, insofar as they are dependent upon wage earners, will undoubtedly improve.

DISTRICT NO. 11—DALLAS.

This section of the country appears to have entered upon a period of lighter demand for funds. There is little evidence of the pressure which existed last fall. Wheat and oats will soon be coming into the market and the agricultural promise is good. Higher prices for cotton and sales of cattle, horses, and mules have brought large credits. These have liquidated outstanding liabilities and in many cases left balances.

In the extreme northeastern portion of Texas and lower Oklahoma agriculture is very promising. Bank deposits are large and grain crops will be heavy. Abundant rains have kept the pastures and live stock in good condition.

Local commercial interests are fully up to normal, but industrial plants are more or less affected by adverse conditions.

Eastern Texas, aside from that portion already covered, has had some crop damage from too much rain. Crops here are rather backward and there is demand for money. The lumber conditions are improving. Oil producers report a very low price for crude oil. Conditions are on the whole improving.

Bermuda onions are being shipped in large quantities from southern Texas. Oats are being harvested under ideal conditions. Corn promises a large yield, and cotton, while a little late, is growing rapidly.

There is a rather active demand for money in western Texas. Alfalfa has just been cut for the first time, yielding a good crop. There is again activity in the mining section.

Central Texas has suffered from too much rain, but on the whole agricultural conditions are promising. The wheat outlook is excellent. Corn and cotton are in a favorable position.

DISTRICT NO. 12—SAN FRANCISCO.

Agricultural prospects throughout the twelfth district are exceptionally bright. Unusually late rains in California, while interfering to some extent with early fruits, have been of great benefit and assure large crops. In general, a large increase in grain acreage has been stimulated by the exceptional prices. A fine barley crop, estimated at 1,000,000 bags, is now being harvested in the Imperial Valley. Early fruits, berries, and vegetables are going to market in steadily increasing volume. A considerable balance of the navel orange crop is being marketed at advancing prices, and the Valencia orange crop will begin to move

shortly. Cattle and sheep interests are prospering. Wool sales are being contracted for at good prices. The lumber industry shows no improvement, and it is much depressed. The petroleum industry is at least no more depressed than a few months ago. Copper mining is very active, and exports through Pacific coast ports are at record figures. An interesting incident has been the arrival of a 22,000-ton steamship from New York with a first-cabin list of 400 passengers.

Credit conditions are easy throughout the district. From March 4 to May 1 deposits of national banks in the seven reserve cities gained \$12,000,000. Savings bank deposits, likewise, show important gains. San Francisco hotels report exceptional bookings throughout the summer, indicating continuance of heavy travel. The general feeling seems to be one of mild optimism.

Discount Rates.

Discount rate of each Federal reserve bank in effect on May 26, 1915.

Federal reserve bank.	Date of last change of rate.	Maturities of 30 days and less.	Maturities of over 30 days to 60 days, inclusive.	Maturities of over 60 days to 90 days, inclusive.	Agricultural and live-stock paper over 90 days.
Boston.....	Feb. 3	4	4	4½	5
New York.....	Feb. 18	4	4	4	5
Philadelphia.....	Jan. 28	4	4	4½	5
Cleveland.....	Feb. 6	4	4	4½	5
Richmond.....	Feb. 19	4½	4½	4½	5
Atlanta.....	Apr. 30	4	4	4½	5
Chicago.....	Jan. 23	4	4	4½	5
St. Louis.....	Apr. 22	4	4	4½	5
Minneapolis.....	May 18	4	4	5	5
Kansas City.....	Jan. 28	4	4	4½	5½
Dallas.....	Feb. 4	4	4	4½	5
San Francisco.....	May 8	3½	4	4½	6

Authorized rate for acceptances 2 to 4 per cent.

On March 10 the Federal Reserve Board fixed the following rates for rediscounts between Federal reserve banks: 3½ per cent for maturities of 30 days and less; 4 per cent for maturities of over 30 days to 90 days, inclusive.

*Resources and Liabilities of each of the 12 Federal Reserve Banks and of the Federal Reserve System at close of business on
Fridays, Apr. 30 to May 21.*

[In thousands of dollars.]

RESOURCES:

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total for system.
Gold coin and certificates:													
Apr. 30.....	\$15,935	\$91,940	\$16,865	\$16,170	\$8,399	\$4,745	\$34,607	\$10,382	\$7,535	\$10,715	\$7,885	\$13,050	\$238,228
May 7.....	17,148	95,804	16,904	17,532	8,028	5,027	34,360	10,905	7,608	11,214	8,372	11,134	244,034
May 14.....	16,548	96,824	16,589	17,303	7,708	4,705	34,567	10,905	7,618	11,043	8,538	8,715	241,063
May 21.....	16,025	98,643	18,430	17,329	7,172	4,485	35,858	10,912	7,426	11,050	8,233	7,813	243,376
Legal tender notes, silver certificates, and subsidiary coin:													
Apr. 30.....	1,269	15,321	3,944	729	53	470	2,288	1,214	7	517	701	5	26,518
May 7.....	1,106	21,239	3,651	746	75	245	4,570	1,178	8	476	708	19	34,021
May 14.....	1,130	24,726	3,579	742	79	197	3,712	1,183	4	477	713	19	36,561
May 21.....	1,238	25,487	3,247	741	96	211	3,516	1,215	6	478	575	22	36,832
Bills discounted, and loans:^a													
Apr. 30.....	2,213	6,118	2,104	1,934	6,943	4,780	2,297	730	814	981	5,229	2,443	36,586
May 7.....	2,383	5,501	1,907	1,369	6,775	4,661	2,131	787	860	1,082	5,432	2,602	35,440
May 14.....	2,536	4,851	1,655	1,116	6,877	4,447	1,845	825	758	1,046	5,963	2,816	34,735
May 21.....	2,359	4,189	1,443	1,043	7,191	4,361	1,750	1,016	758	1,292	6,030	3,194	34,626
Investments:^b													
Apr. 30.....	1,899	8,130	2,129	1,980	1	.....	6,457	953	1,659	1,041	.....	1,211	25,469
May 7.....	1,844	9,360	2,354	2,329	1	.....	6,637	998	1,689	1,076	.....	1,996	28,284
May 14.....	2,050	9,408	2,359	2,329	1	.....	6,766	998	1,689	1,076	.....	2,045	28,721
May 21.....	2,195	9,666	2,403	2,424	1	.....	6,806	1,012	1,689	1,076	.....	2,070	29,342
Due from other Federal Reserve Banks, net:													
Apr. 30.....	.....	15,792	667	481	.....	739	.....	1,109	165	.....	.....	.....	9,468
May 7.....	.....	8,494	852	790	1,020	1,386	535	1,532	671	.....	.....	.....	10,139
May 14.....	531	4,045	1,667	976	1,392	1,715	3,713	1,855	747	.....	.....	1,100	13,215
May 21.....	.....	869	459	928	1,465	1,960	1,613	1,262	1,220	.....	.....	1,648	6,650
All other resources:													
Apr. 30.....	550	3,148	199	443	37	349	2,609	1,423	665	650	572	689	11,334
May 7.....	453	2,006	245	229	33	281	2,595	1,284	477	669	225	677	9,175
May 14.....	781	3,098	409	462	49	291	2,596	1,703	387	647	52	1,456	11,971
May 21.....	1,079	2,102	424	371	52	352	2,601	2,505	294	806	84	1,448	11,648
Total resources:													
Apr. 30.....	21,866	140,458	25,908	21,737	15,433	11,083	48,258	15,811	10,845	13,904	14,387	17,398	347,603
May 7.....	22,934	142,404	25,914	22,995	15,930	11,600	50,828	16,684	11,313	14,467	14,737	16,428	361,093
May 14.....	23,576	142,952	26,258	22,928	16,106	11,355	53,199	17,529	11,183	14,289	15,260	16,151	366,266
May 21.....	22,896	140,956	26,406	22,836	15,977	11,399	52,144	17,922	11,393	14,202	14,922	16,195	362,474

^a The amounts of bills discounted for member banks exclusive of acceptances were as follows:

[In thousands of dollars.]

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total for system.
Apr. 30.....	\$377	\$382	\$622	\$735	\$6,943	\$4,780	\$760	\$605	\$419	\$665	\$5,229	\$1,257	\$22,774
May 7.....	421	408	642	729	6,775	4,661	747	662	506	683	5,432	1,416	23,082
May 14.....	413	403	592	696	6,877	4,447	798	700	504	668	5,963	1,774	23,835
May 21.....	281	422	579	705	7,191	4,361	865	673	536	623	6,030	2,036	24,302

For amounts of acceptances held by the several Federal Reserve Banks, see p. 84.

^b "Investments" comprise "United States 2 per cent and 3 per cent bonds on hand," also "Other investments" (municipal warrants and kindred short term securities), as follows:

[In thousands of dollars.]

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total for system.
United States 2 per cent bonds.....	.....	.....	.....	.....	.....	.....	\$2,525	\$242	\$1,025	\$930	.....	\$991	\$5,713
United States 3 per cent bonds.....	.....	.....	.....	\$100	.....	.....	1,000	.....	.....	.....	.....	.....	1,100
Total United States bonds on hand ¹.....	.....	.....	.....	100	.....	.....	3,525	242	1,025	930	.....	991	6,813
Other investments (municipal warrants):													
Apr. 30.....	\$1,899	\$8,139	\$2,129	1,880	\$1	.....	2,932	711	634	111	.....	220	18,656
May 7.....	1,844	9,360	2,354	2,229	1	.....	3,112	756	664	146	.....	1,005	21,471
May 14.....	2,050	9,408	2,359	2,229	1	.....	3,241	756	664	146	.....	1,054	21,908
May 21.....	2,195	9,666	2,403	2,324	1	.....	3,281	770	664	146	.....	1,079	22,529

¹ No change in figures between April 9 and May 21.

Resources and liabilities of each of the 12 Federal Reserve Banks and of the Federal Reserve System at close of business on Fridays, Apr. 30 to May 21—Continued.

LIABILITIES.

Reserve deposits:													
Apr. 30.....	\$16,105	\$131,472	\$21,410	\$17,102	\$7,927	\$5,742	\$43,280	\$13,726	\$8,951	\$9,379	\$7,618	\$12,120	\$294,832
May 7.....	17,801	129,444	19,726	17,036	7,755	5,554	44,269	13,910	8,968	9,786	6,848	12,219	293,316
May 14.....	18,501	127,864	20,034	16,958	7,928	5,584	46,598	14,746	8,809	9,352	6,913	12,236	295,523
May 21.....	16,876	128,962	20,179	16,859	8,249	5,704	45,536	15,134	9,010	9,538	6,722	12,269	295,038
Due to other Federal reserve banks—net:													
Apr. 30.....	2,312				99		78			2,373	2,385	2,238	
May 7.....	352									1,886	2,588	315	
May 14.....										2,155	2,371		
May 21.....	916									1,689	2,169		
Federal reserve notes in circulation—net liability:													
Apr. 30.....					5,077	3,647				37	2,277		11,038
May 7.....					4,875	3,763				41	2,518		11,197
May 14.....					4,807	3,348					3,069		11,224
May 21.....					4,320	3,255				185	3,099		10,859
Capital paid in:													
Apr. 30.....	3,449	6,985	4,498	4,635	2,288	1,673	4,900	2,085	1,894	2,115	2,107	3,040	39,669
May 7.....	4,781	9,944	6,188	5,959	3,252	2,257	6,559	2,774	2,345	2,754	2,780	3,894	53,487
May 14.....	4,800	9,959	6,224	5,970	3,316	2,396	6,601	2,783	2,374	2,782	2,903	3,915	54,023
May 21.....	4,804	9,962	6,227	5,977	3,344	2,410	6,608	2,788	2,383	2,790	2,916	3,926	54,135
All other liabilities:													
Apr. 30.....		2,001			42	21							2,064
May 7.....		3,016			48	26					3		3,093
May 14.....	275	5,129			55	27					10		5,496
May 21.....	300	2,032			64	30					16		2,442
Total liabilities:													
Apr. 30.....	21,866	140,458	25,908	21,737	15,433	11,083	48,258	15,811	10,845	13,904	14,387	17,398	347,603
May 7.....	22,934	142,404	25,914	22,995	15,930	11,600	50,828	16,684	11,313	14,467	14,737	16,428	361,093
May 14.....	23,576	142,952	26,258	22,928	16,106	11,355	53,199	17,529	11,183	14,289	15,266	16,157	366,266
May 21.....	22,896	140,956	26,406	22,836	15,977	11,399	52,144	17,922	11,393	14,202	14,922	16,195	362,474

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