

FIRST ANNUAL REPORT
OF THE
FEDERAL RESERVE BOARD

FOR THE PERIOD ENDING
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ANNUAL REPORT OF THE FEDERAL RESERVE BOARD.

FEDERAL RESERVE BOARD,
Washington, D. C., January 15, 1915.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

SIR: Less than six months have elapsed since the Federal Reserve Board entered upon its duties, but so much of fundamental importance and interest has taken place in the transformation of our banking system during this period that it seems advisable not to delay for a twelvemonth the report which, under the terms of section 10 of the Federal reserve act, this Board is required annually to present.

The first steps, particularly the fundamentals of the regional structure of the new system, had already been provided for by the Reserve Bank Organization Committee when the members of this Board took the oath of office on the 10th of August, 1914. The country had been divided into 12 districts and in each of these districts a city had been designated by the Reserve Bank Organization Committee as the location for a Federal Reserve Bank. Some dissatisfaction with the conclusions of this committee had been expressed by affected districts, but this Board, though fully alive to the vital bearing which the proper districting of the country would have upon the successful operation of the Federal Reserve System, thought it best to postpone a consideration of this question in order not to delay the organization of the Federal Reserve Banks. This decision was confirmed by recognition of the extraordinary conditions then obtaining throughout the country and the urgent need of bringing to the relief of the business and banking community in a time of great financial stress the facilities of the new banking system. The Board accordingly addressed itself with energy from the very beginning to the further steps to be taken in preparation for an early launching of the new system.

The difficulties of the undertaking were of course greatly aggravated by the economic disturbances occasioned by the European war which extended to every part of the country and fear was expressed by many that the new system could not safely be put into operation before the 1st of January, 1915. Nevertheless, conditions were so far controlled and steadied by the series of unusual relief measures described below, and the work of organization was so far advanced that the Board on October 26 issued notice to the member banks of the Federal Reserve System calling upon them to pay in their first installment of capital stock as of date of November 2. At about the same time the Secretary of the Treasury, acting under the authority conferred upon him by section 19 of the Federal reserve act, fixed November 16 as the date for opening the Federal Reserve Banks and for readjusting the reserves of the member banks in accordance with the new requirements established therein.

The work of the Board may therefore be divided for the purposes of review into two periods: (1) previous to November 16, covering the preliminary steps in the organization of the new system, together with such incidental, though highly important responsibilities as were assumed by the members of the Federal Reserve Board in the effort to deal with the grave situation precipitated by the European war; (2) from November 16 to date, covering the early operations of the several Federal Reserve Banks.

EARLY PROBLEMS OF BOARD.

The condition with which the Board was confronted when it began its work on the 10th of August had such a considerable bearing upon the policy pursued that it is well worthy of further notice. Seldom, if ever, has the banking and business community of the country found itself in a situation of such uncertainty and perplexity. The outbreak of hostilities in Europe led immediately to a serious rupture of international financial relationships, not only in the affected areas of Europe, but throughout the whole commercial world. The United States was directly and profoundly affected by the suspension of communication with Europe, involving as its most serious consequences the temporary breaking down of the export trade and the collapse of the financial markets, with resulting shock to the credit system. There had been extraordinary efforts on the part of European holders of American securities to realize by sales in the New York market. The securities markets were badly demoralized, prices fell with alarming rapidity, and the country was exposed to a serious and disastrous drain of gold.

The whole situation demonstrated afresh, and to a striking degree, the dependence of our banking system upon the call-loan market because of the large proportion of the country's banking reserves which were invested in call loans protected by stock-exchange collateral. Stock exchanges throughout the country closed, and call loans were thus made unavailable. Emergency currency was issued by the Secretary of the Treasury and clearing-house certificates in large volume were issued by clearing-house associations in the principal financial centers. Moreover, the tendency to hoard cash, frequently experienced in former periods of stringency, was again being manifested by country banks, some of which curtailed accommodation to an extreme degree, thereby adding greatly to the embarrassments of their customers and city correspondents. Much doubt was expressed as to the ability of borrowers to meet their maturing obligations, securities of high grade were unmarketable, while a situation existed in the foreign-exchange market which was altogether unprecedented. The conditions thus briefly outlined created an impression of profound alarm throughout the business community and gave rise to frequent expressions of the belief that the organization of the reserve system should be deferred until the return of more normal conditions, both for the success of the system and in order that the existing situation might not be complicated and aggravated by the injection of new and incalculable elements into it.

The board immediately after taking office undertook as nearly as possible to ascertain the exact basis for this view and secured from

a great variety of sources expressions of opinion with reference to the policies that would best be pursued in the face of the situation. Fruitful and interesting as these expressions were, there was nevertheless so much diversity of opinion that the Board in the end found that it would have to be guided by its own estimate of conditions and its own judgment as to the course to be pursued. As the result of the most careful analysis that it could make, it concluded to proceed forthwith with the organization of the new banks—that is, as early as was consistent with their stability and efficiency—and with the selection of competent operating staffs. The Board was also, however, firmly of the opinion that in undertaking thus early to establish the Federal Reserve Banks it would be necessary to enlist the hearty cooperation of all the member banks in two matters which were deemed of fundamental importance: (1) payment by the member banks in gold out of their own vaults of the reserves they were required to contribute to the new banks, thus diffusing the burden of providing the cash resources of the Federal Reserve Banks; (2) the adoption of a discount policy which would prevent the accumulated strength of the banks from being dissipated and protect their resources from being used to finance operations not calculated to add to the strength or solidity of general banking conditions.

CHOICE OF DIRECTORS.

Before the banks could be set in actual operation, however, it was necessary for the Board to complete the organization prescribed in the Federal reserve act by the appointment of three Government directors in each of the several institutions. Pursuant to the requirements of law, the Reserve Bank Organization Committee, consisting of the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, had already taken preliminary steps, resulting in the election by the banks of six directors in each Federal reserve district, and the results of these elections were reported to the Federal Reserve Board upon its organization.

There remained to be appointed by the board three Government directors for each district, the first of whom was to be designated Federal Reserve Agent and Chairman of the board of directors, the second as Deputy Reserve Agent and Vice-Chairman. Particular importance was felt to attach to the choice of all the Government directors, and especially of the Federal Reserve Agents. The Federal reserve act specifically designates the Federal Reserve Agent as the representative of the Federal Reserve Board at the bank to which he is accredited, and invests him with very large responsibilities. It was not, in the opinion of the Board, the intent of the act to constitute the Federal Reserve Agent the operating head of the bank, but, rather, that he should be vested with the function of promoting the general interests and purposes of the system, assuring himself and this Board of the sound and impartial administration and efficient operation of the bank to which he was accredited, and giving both to the Federal Reserve Board and to the executive officers and his fellow directors of the bank, over whom he had been appointed Chairman, the benefit of his advice and knowledge. The office is undoubtedly one which calls for exceptional qualifications, and is, therefore, difficult to fill, since by the very terms of the act, "tested banking ex-

perience" is made a prerequisite, while consideration for the general welfare of the bank's administration requires that the incumbent be a man of solidity, independence, and tried character.

Believing that the choice of the Government directors was a matter of fundamental importance and that errors made in their selection would produce serious consequences in the later working of the banks, the Board deemed it essential to scrutinize every name submitted for appointment or suggested from any source, with the utmost care. The process was one which required time and necessitated visits by members of the Board to various and distant parts of the country, as well as the invitation of competent advisors to Washington for consultation. As the outcome of these investigations and deliberations, the Board announced to the public at different dates early in October the three selections made for Government directors for each of the reserve banks, or 36 in all.

In Exhibit G, hereto attached, will be found a complete list of the directors of the Federal Reserve Banks.

In order to obtain persons of satisfactory banking experience, as required by law, it was found necessary to give to Federal Reserve Agents salaries commensurate with, or approximating, those prevailing in the banking community in each district for men of similar attainments, abilities, and experience. In a number of cases it was found possible to attract to the service of the Reserve Banks men of high qualifications at a rate of compensation substantially lower than they had been receiving or were in a position to obtain. The action of the appointees in accepting office on short notice and at the compensation established was the more to their credit in that in not a few cases it was necessary for them to incur substantial financial sacrifice because of the unfavorable conditions under which they were obliged to dispose of their holdings of bank stock, the Federal reserve act making it mandatory that each Federal Reserve Agent and each director of Class C should divest himself of ownership of this class of securities. A list of the compensation thus established for each Federal Reserve Agent, as well as a list of salaries of governors of reserve banks submitted to the Federal Reserve Board by the several member banks and approved in accordance with law, is herewith submitted as a part of Exhibit G.

As soon as the directors of the several banks had been chosen, they proceeded to select the nucleus of a suitable staff, in order that the banks might be ready to begin active operations when qualified to do so. The Board particularly enjoined upon them the choice of a suitable chief executive officer in each institution, with the suggestion that this officer be given the title of governor in order to differentiate his functions from those of the president of a member bank. A tentative plan of organization, which has been approximately conformed to in the establishment of each bank, was, moreover, suggested, and is hereto attached as part of Exhibit C.

PURCHASE OF PAPER.

Recognizing that, in view of the urgent character of the situation regarding the establishment of the banks, it was not possible to formulate in advance of their opening a complete set of regulations with reference to their conduct and operation, the Board determined to confine itself in the beginning to those matters which were

deemed absolutely essential to setting the banks in motion upon a basis of reasonable efficiency. It was felt that the regulations relating to discount operations and commercial paper in general were fundamental and that they should be prepared and issued at once. The result was the preparation of a letter addressed to all Federal Reserve Agents, sent to them under date of November 10 as Circular No. 13, in which the board set forth its views with reference to the policy deemed advisable to be followed by the banks in the beginning. It was recommended that the Federal Reserve Banks confine themselves strictly to dealings in short-term, self-liquidating paper growing out of commercial, industrial, and agricultural operations, in the restricted senses of the terms, and that particular care be taken not to discount or purchase paper which had been issued primarily for the purpose of providing capital investment for any business. In Exhibit E, hereto attached, is given a complete file of the regulations and circulars thus far issued by the Federal Reserve Board. The full text of Circular 13, aforesaid, with the accompanying regulations, will be found in its proper place in this exhibit.

As already noted, it was deemed essential that, so far as possible, the capital and reserves to be paid into the Federal Reserve Bank at the time of organization should be taken from its own vaults by each of the contributing member banks. Inasmuch as the act provided that the capital should be paid in gold or gold certificates, it was to be expected that the bulk of such payments would, in any event, be made from the vaults of the member banks. Reserves, however, might of course be paid in any form of lawful money and the act itself had expressly provided that one-half of the reserve installments might be received by the Federal reserve banks in the form of rediscounted paper. It was, therefore, thought proper to appeal to the sense of common interest and spirit of cooperation of the member banks, in order to induce them to refrain from establishing reserves through some means other than that of a direct deposit of cash from their own vaults, and to pay in, so far as possible, the sums that were due from them to the Federal Reserve Banks on reserve account in the form of gold or gold certificates. With this in mind, the Board transmitted to the member banks on October 28 a circular (No. 10) in which the banks were advised and urged to make their payments in gold or its equivalent taken from their own vaults. As a special inducement, the Federal Reserve Banks were authorized to pay the express charges upon cash amounts thus remitted to them by member banks.

There was, of course, at no time any provision of law prohibiting member banks from drawing upon their correspondent banks for the means wherewith to make these payments, but it was believed that they would be willing to forego the exercise of this right and events fully justified this belief.

On Monday, the 16th of November, the date already fixed by the Secretary of the Treasury, as above indicated, the new banks opened their doors for business. The statement issued on the following Saturday showing the condition as of the evening previous, indicates how fully the member banks had complied with the reserve suggestions that had been made to them.

The statement referred to will be found tabulated, with the succeeding weekly statements issued by the board in accordance with

law, in Exhibit K, hereto attached, and from it will be seen that, at the end of the first week's operations, there had been paid into the reserve banks a total of \$227,880,000, of which a very large percentage was either in gold or gold certificates. It should be added that this great transfer of funds was accomplished without the slightest danger or halt to business, and without any inconvenience to the banking community. Subsequent to the payment of the reserves, inquiry was made of each Federal Reserve Agent regarding the method of paying reserves adopted by each bank. The results of this inquiry are presented in tabulated form in Exhibit L.

As has already been observed, doubt had been expressed in various quarters whether it would be practicable to open the new banks before the new year. There was also criticism in some quarters because they were not opened earlier than they actually were. The fact is that the banks were opened at the earliest practicable moment. Events have since shown that the opening of the institutions was wisely timed to synchronize with the restoration of activity in our export trade. Subsequent development showed that it was possible for the Federal Reserve Banks to begin business with substantially the whole of their reserve deposits in gold and without pressure on general business or credit conditions.

DISCOUNT POLICY.

With the system thus established, the question of a discount policy immediately became urgent. The board had been appealed to by the authorized representatives of the several Federal Reserve Banks for some 10 days prior to the official date set for the opening of the institutions, to make suggestions to them with regard to their discount policy, for it was generally appreciated that the adoption of a fairly uniform and consistent policy to be pursued by all the banks would go far to insure the smooth working of the system. Under the provisions of paragraph (d) of section 14 of the Federal reserve act, the Federal Reserve Board is authorized to review and determine the rates of discount to be charged by each Federal Reserve Bank. The act gives power to each bank:

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.

In response to a telegraphic inquiry, each bank submitted its views with respect to the rate of discount thought to be advisable for its district. Upon tabulation and comparison of these results it was found that they did not vary greatly, the rates ranging from 5 to 7 per cent for 90-day paper. A study of the existing state of affairs satisfied the Board that at the start and until the banks could get a firm footing it should act with prudence and conservatism, and it was consequently voted to fix the rates of discount at from $5\frac{1}{2}$ to $6\frac{1}{2}$ per cent. The rates thus initially established were subsequently lowered from time to time upon application by the respective banks, the lowest rate thus far approved being $4\frac{1}{2}$ per cent for 30-day paper. A complete tabulation of all rates of discount thus approved for each of the banks will be found in Exhibit M, hereto attached.

READJUSTMENT OF RESERVES.

Reference may be made to another feature of the Federal reserve act in connection with the money market conditions prevailing at the time. Section 19 of the Federal reserve act provided for a readjustment of member bank reserves upon a new and lower basis, cutting the percentage of required reserves in central reserve cities from 25 to 18 per cent of outstanding demand deposits and 5 per cent of outstanding time deposits, the required percentage in reserve cities from 25 to 15 per cent demand deposits and 5 per cent of time deposits, the percentage of reserve in country banks from 15 to 12 per cent of demand deposits and 5 per cent of time deposits. This readjustment by the terms of the law took effect immediately upon the establishment of the new banks, i. e., on November 16. From the beginning of the war in Europe there had been an abnormal reserve situation in most of the financial centers, New York banks particularly being most of the time considerably below their reserve requirements because of the heavy drafts made upon them by interior banks and by the public.

The change in reserve requirements, however, brought a material change in this condition and released, not only in New York but throughout the country, a very considerable amount of funds which had previously had to be held idle by the banks in order to bring or keep themselves within the requirements of the law. Precisely what amount of reserves was thus released throughout the country has not been accurately estimated and probably can not be, owing to the fact that reserve accounts in the existing system of correspondent banks are so closely and complexly intertwined. It is, however, an undoubted fact that the release of actual cash was very large and that the increase of lending power on the part of member banks was correspondingly larger. Member banks were thereby enabled to extend loans to their customers very much more freely, with a commensurate decline of discount rates as a consequence. While hesitation in making loans was shown by many of the banks during the weeks preceding November 16, and the prevailing rates on commercial paper did not go below 6 per cent in New York, and averaged considerably higher in many parts of the country, the opening of the reserve system enabled the banks in the larger centers, in view of the very great relief given to them through the release of reserves, to reduce this rate, and within two weeks after the new banks had come into existence prevailing interest rates for the best paper fell as low as $3\frac{1}{2}$ and 4 per cent, while bank acceptances (which had been legalized by the Federal reserve act) were marketed at a still lower rate. In some parts of the South banks were able to obtain accommodation at rates as low as $4\frac{1}{2}$ per cent, and in certain instances lower rates have been reported.

The reduction of reserve requirements was only a part, however, of the beneficial effects of the new system. Appreciation of the fact that when the new lending power should all have been absorbed there would still remain the great credit potentialities of the Federal reserve banks, furnished a basic element of confidence which helped to lower the abnormally high rate of interest that had existed.

When the financial anxiety which prevailed during the latter part of the past summer and the difficulty which was then experienced in getting banking accommodation at reasonable rates, even upon

security of undoubted solidity, are recalled, the substantial improvement which has taken place since becomes evident and is a remarkable tribute not only to the recuperative power of American commerce and industry but also and largely to the beneficial operation of the new banking system. Those whose habit it is quickly to forget the past, may think that this swift recovery was something automatic, but the most casual survey shows that it was the added strength brought to our banking organization through the establishment of the new system that has made possible the notable reduction in interest rates which began in the latter part of November.

Because of the greater ease and material relief thus afforded the member banks, they were easily able to meet the demands of their customers from their own resources or those of their correspondents, and there was consequently little occasion to resort to the Federal reserve banks for accommodation. It was therefore considered safe to reduce the discount rate of Federal reserve banks, and reductions were successively made upon application until the low point was reached on December 23, when a rate of $4\frac{1}{2}$ per cent for 30-day maturities was approved for the Federal reserve bank of New York. Corresponding reductions were subsequently approved for other Federal Reserve Banks.

It should, in a word, be emphasized that the effect of the Federal Reserve Banks and the reserve system as a whole on discount rates is by no means fully disclosed in the rates and the transactions of the Federal Reserve Banks themselves.

GOLD EXCHANGE FUND.

At this point and in this connection, a review may suitably be made of the series of relief measures which were undertaken, and in which the Federal Reserve Board has been an active factor, for the purpose of improving and helping the situation in which the country found itself in the weeks and months preceding the establishment of the Federal reserve banks, as a result of the European war. One of the earliest and most trying consequences of the war was the development of a highly abnormal and artificial condition in the foreign exchange market.

This situation was due essentially to the fact that a large current balance was at the time owing to Europe, foreign holdings of American securities had been placed on the market, foreign credit facilities had been withdrawn, and our export trade had suffered a serious shock from the disorganization of shipping and the breaking down of European credit machinery immediately after the outbreak of the war. Furthermore, a large amount of American securities had been issued payable in Europe, and were about to mature.

These conditions exposed our banks to a drain of gold severe enough to endanger our entire banking structure. This, on the other hand, made it difficult for those who had to discharge obligations due in Europe to procure gold or remittances at prices equivalent to the shipment of gold. The consequence was that rates for drafts and cable transfers rose to prices which were equivalent to a substantial premium on gold.

In order to cope with this extraordinary situation, it was felt that joint action on a comprehensive plan would become necessary. The

Federal Reserve Board, in conjunction with the Secretary of the Treasury, therefore, took the initiative in calling, September 4, a conference of representatives of the clearing houses of all the reserve cities. The conference had a twofold purpose. On the one hand, it sought to establish, so far as that could be done, the aggregate amount of the actual current indebtedness of the United States to Europe, and, on the other hand, to devise a means of cooperation in dealing with the situation.

The investigation undertaken by the Federal Reserve Board and the conference above mentioned disclosed the opinion that the current indebtedness of the United States to foreign countries was to be stated at approximately \$500,000,000, a sum the maturity of which was spread over a period of months. The conference also resulted in the formulation of a plan of relief. A committee of bankers appointed at this conference subsequently recommended a plan for the formation of a gold fund of \$100,000,000, which was approved by the Board on September 19, and a letter was sent to the presidents of the clearing house associations throughout the country under date of September 21, 1914, in which subscriptions aggregating this sum were asked. The Federal Reserve Board had been requested to allot the pro rata of the contributions to be made to each clearing-house district, and such allotment was made. Action upon these allotments was prompt and effective, and a total of over \$108,000,000 was subscribed.

As had been expected, the beneficial effect of the establishment of this fund became evident almost immediately, notwithstanding that only a comparatively small percentage of the amount subscribed was actually called for, and not more than \$10,000,000 was actually exported to furnish a basis for selling foreign exchange. By the time of the opening of the Federal Reserve Banks, the premium had disappeared and the danger of immediate gold exports had been removed.

At the end of September, however, there still existed a disruption of trade, the cotton market was still completely disorganized, sales and shipments of the staple had stopped, the cotton exchanges remained closed both in the United States and in England, and it appeared impossible at that time to foretell what bearing these and other abnormal conditions would have upon the future development of the balance of international payments. The desire was consequently expressed by leading bankers that means be found for discussing and further dealing with these pending problems. It was therefore suggested that a free exchange of views between representatives of Great Britain and the United States—the two countries primarily involved—would be to their mutual advantage if it could be arranged.

At the instance of the Secretary of the Treasury, an invitation was therefore extended to the British Government to send representatives to this country. The purpose of this invitation was to secure the exercise of the good offices of the two Governments concerned in bringing about a better understanding between the bankers of the two countries and the restoration as speedily as possible of normal conditions of exchange. The British Government designated Sir George Paish and Basil P. Blackett, Esq., as its representatives. These gentlemen proceeded to Washington and on October 23 held a first conference with the Secretary of the Treasury and this Board. Subsequently other conferences (some of them attended by repre-

representatives of bankers from the main financial centers of the country) were held and the situation was discussed in great detail. Meanwhile, more normal conditions of commerce had been reestablished and negotiations which led to the adoption of the so-called cotton-loan fund plan, to which reference will be made hereafter, had produced most beneficial results. It had become possible to reopen the cotton exchanges both in the United States and in England, and the staple which has so vital a bearing upon the volume of our trade balance had begun to move from producers to consumers, both at home and abroad.

In these circumstances the occasion for further negotiations disappeared, and on January 7, 1915, it was officially announced that conditions had so far righted themselves that any further negotiations for the solution of the problems involved could be left to private initiative.

COTTON LOAN FUND.

Almost immediately after the outbreak of war, it was seen that unless hostilities should terminate within a very much shorter period than seemed likely, serious injury would be inflicted upon the cotton-producing States. As early as August 26, 1914, the Secretary of the Treasury had called a conference in Washington of representatives of cotton producers, manufacturers, bankers, merchants, and railroad men, in which the Board participated. As is well known, about 60 per cent of the total cotton production of the United States is annually sent abroad. An unusually large acreage had been planted, the season had been favorable, and a very large crop was approaching maturity. These circumstances would in any event have depressed the price of cotton, even under ordinary conditions. The closing of the cotton exchanges, both in the United States and in England was, however, precipitated by the chaotic conditions following the sudden interruption of the movement of cotton and the apprehension that, with most of the great cotton-consuming countries involved in war, a normal demand for the staple could not be expected. Prices collapsed, quotations were unobtainable, and with the markets utterly demoralized, sales were made sporadically at various points in the South at 5 cents per pound—and even lower have been reported. As the cotton planter is so largely dependent upon credit in the raising of his crop, it was necessary to provide some means of assisting him to secure such accommodations as he might require to meet the obligations he would ordinarily have provided for by the sale of his product in the open market.

Various plans of relief were brought to the attention, both of this Board and of the Secretary of the Treasury by bankers and business men, among them a suggestion for the establishment of a cotton-loan fund somewhat similar in character and management to the gold-exchange fund. Many conferences were held regarding the problem, with the ultimate result that the banks of the city of New York agreed to pledge a subscription of \$50,000,000 to such a fund, provided that an equal amount be raised through the clearing houses in other than cotton-producing States. The plan provided that to the \$100,000,000 thus to be raised should be added a further sum of \$35,000,000 to be contributed by banks in the cotton-producing States, provided that the \$100,000,000 should be called for in proportion as the \$35,000,000 should be subscribed and paid in. The

Board was asked to pass upon this plan and gave it official sanction on October 24, 1914. Details of this cotton plan will be found in Exhibit N, hereto attached.

During these negotiations the Federal Reserve Board became convinced that, as in the case of the gold fund, it would be impossible to raise the money necessary to relieve the cotton situation under any plan devised simply for the general good, unless the members of the Board, even though not acting in their official capacity, should give their support and sanction to the undertaking. While very reluctant to assume any additional responsibilities, the members of the Board, acting in their individual capacity, felt impelled by the same sense of public duty which had actuated them in the case of the gold fund to respond to the call and to act as the central committee of the cotton loan fund, being satisfied that the necessities of the case demanded such action, and that public opinion would approve this step.

The opening of the Federal Reserve Banks on November 16 released a large amount of reserve funds, thereby enabling member banks to make new loans and grant extensions which otherwise would have been impossible. It became evident that the formation of the cotton fund, like that of the gold fund, had rendered material service by restoring confidence, thus stabilizing values and establishing a basis for extension of credit on cotton as collateral. With the cotton fund at hand to supply long-time loans and with short-term credit much more freely extended by member banks in view of the reduction of their reserve requirements, it was possible for the Federal Reserve Banks to begin operations in full confidence that the provision thus made for safeguarding the situation would relieve them from undue strain, while fully protecting such cotton producers as are willing to pay a moderate rate of interest for long time loans on cotton. As with the gold exchange fund, the help extended was largely that which comes from cooperative effort and from the knowledge on the part of the community that there is a source of assistance which may confidently be looked to. In such situations, the beneficial effects can not be measured by the actual amounts that are loaned or the tangible results that are obtained, but they are none the less real and of large consequence.

CURRENCY SITUATION.

A phase of the banking and currency situation deserves to be especially noted because of the light it throws upon the extent of the demands for circulating notes to which the Federal Reserve Banks may be subjected during their initial period of operation. As has been shown in the annual report of the Secretary of the Treasury, one immediate result of the war was the issue in many cities of clearing-house certificates. Furthermore, a large volume of emergency currency was issued by the Secretary of the Treasury, under the provisions of the act of May 30, 1908, which had been amended and extended by the Federal reserve act, and which was still further amended by Congress early in August so as to allow the freer issue of notes in the manner indicated.

The total amount of the emergency currency issued aggregated about \$380,000,000. The channels of circulation were thus filled before the end of the summer, notwithstanding the fact that large

amounts of lawful money had been withdrawn and hoarded both by banks and individuals. Under these conditions it seemed reasonably certain that the Federal Reserve Banks upon their organization would not be instantly called upon for a substantial issue of Federal reserve notes. This view was all the more justified by the fact that many banks had placed their best paper with the national currency associations as security for emergency currency, and by the further circumstance that the tax on this currency at the lower rate established by Congress would not, for several months approximate the rate of discount which probably would be charged by Federal Reserve Banks. With the organization of the Federal Reserve Banks the pressure for note accommodation passed away almost as quickly as it had come. Gold reappeared in circulation at an early date and the retirement both of the clearing-house certificates and of the emergency currency was begun. In those cities where rates of interest on clearing-house certificates were very high, the Federal Reserve Banks materially aided the retirement of such emergency certificates.

The emergency currency issued under the act of May 30, 1908, as amended, is now being rapidly retired by natural processes. Some \$280,000,000 have already been withdrawn, thus leaving in circulation less than \$100,000,000 at the date of this report. It is expected that with the lower rates of discount now prevailing at the Federal Reserve Banks and with the continued increase in the rate of taxation to which emergency currency is made subject, there will be a gradual conversion of such currency into Federal reserve notes so far as the existing notes are not redundant. Had the Federal Reserve Banks been in operation at the beginning of August they would naturally have supplied the great volume of currency which was called for, and they would have derived the profit for the service rendered.

OPEN-MARKET OPERATIONS.

The Federal reserve act provides in section 14 for open-market operations by Federal Reserve Banks, to be engaged in whenever such employment of their free funds would appear desirable. For reasons already given, the Board did not believe that it was necessary at the outset to make provision for the exercise of these functions. As soon, however, as the first pressure connected with the establishment of the system had passed, the duty of investigating and preparing for open-market operations was taken up, and the banks were on December 18 given authority to purchase Government bonds within the limits of prudence, as they might see fit.

On December 23, copies of a tentative set of regulations relating to the purchase of certain warrants, revenue bonds, etc., issued by States, municipalities, and other political subdivisions, were likewise transmitted to the banks.

Drafts of regulations governing the purchase of acceptances in the open market have been prepared and will shortly be issued. Other open market operations will be provided for by regulation as rapidly as possible. When this has been accomplished, there will be ample employment for all funds which experience may demonstrate the Federal Reserve Banks can safely and properly invest, at times when their funds should not be absorbed in responding to strictly agricultural, commercial, or industrial demands.

PLACE OF RESERVE BANKS.

The question, however, naturally suggests itself and must be frankly faced: What is the proper place and function of the Federal Reserve Banks in our banking and credit system? On the one hand, it is represented that they are merely emergency banks to be resorted to for assistance only in time of abnormal stress; while on the other, it is claimed that they are in essence simply additional banks which should compete with the member banks, especially with those of the greatest power. The function of a reserve bank is not to be identified with either of these extremes, although occasions may arise when either of such courses may be imperative. Its duty plainly is not to await emergencies but by anticipation, to do what it can to prevent them. So also if, at any time, commerce, industry or agriculture are, in the opinion of the Federal Reserve Board, burdened unduly with excessive interest charges, it will be the clear and imperative duty of the Reserve Board acting through the discount rate and open market powers, to secure a wider diffusion of credit facilities at reasonable rates. The Federal Reserve Banks are the holders of a large part of the banking reserves of the nation, the foundation of its banking structure. Nothing should be permitted in the operation of the Reserve Banks which would weaken this foundation. The resources of a Reserve Bank, to be useful for its peculiar purposes, should always be readily *available*. It follows, therefore, that they should be mainly invested in such short-term liquid investments as can be easily converted into cash as occasion may require. This conception of a Reserve Bank, moreover, implies that its investments should be marshaled in a steady succession of maturities, so that it may at all times as nearly as possible prove equal to the situation.

The ready availability of its resources is of supreme importance in the conduct of a Reserve Bank. Only then can it become a safe and at the same time flexible instrument of guidance and control, a regulator of interest rates and conditions. Only then will it constantly carry the promise of being able to protect business against the harmful stimulus and consequences of ill-advised expansions of credit on the one hand, or against the menace of unnatural restrictions and unnecessary contractions on the other, with exorbitant rates of interest and artificial stringencies. It should at all times be a steadying influence, leading when and where leadership is requisite, but never allowing itself to become an instrument for the promotion of the selfish interest of any private or sectional group, be their aims and methods open or disguised. It should never be lost to sight that the Reserve Banks are invested with much of the quality of a public trust. They were created because of the existence of certain common needs and interests, and they should be administered for the common welfare—for the good of all.

The more complete adaptation of the credit mechanism and facilities of the country to the needs of industry, commerce, and agriculture—with all their seasonal fluctuations and contingencies—should be the constant aim of a Reserve Bank's management. To provide and maintain a fluid condition of credit, such as will make of the Reserve Banks at all times and under all conditions institutions of accommodation in the larger and public sense of the term is the first responsibility of a Reserve Bank.

It should not, however, be assumed that because a bank is a Reserve Bank its resources should be kept idle for use only in times of difficulty, or, if used at all in ordinary times, used reluctantly and sparingly. Neither should it be assumed that because a Reserve Bank is a large and powerful bank *all* its resources should be in use all the time or that it should enter into keen competition with member banks, distributing accommodation with a free and lavish hand in undertaking to quicken unwisely the pace of industry. Such a policy would be sure, sooner or later, to invite disaster. Time and experience will show what the seasonal variations in the credit demands and facilities in each of the Reserve Banks of the several districts will be and when and to what extent a Reserve Bank may, without violating its special function as a guardian of banking reserves, engage in banking and credit operations. The Reserve Banks have expenses to meet, and while it would be a mistake to regard them merely as profit-making concerns and to apply to them the ordinary test of business success, there is no reason why they should not earn their expenses, and a fair profit besides, without failing to exercise their proper functions and exceeding the bounds of prudence in their management. Moreover, the Reserve Banks can never become the leading and important factor in the money market which they were designed to be unless a considerable portion of their resources is regularly and constantly employed.

There will be times when the great weight of their influence and resources should be exerted to secure a freer extension of credit and an easing of rates in order that the borrowing community shall be able to obtain accommodation at the lowest rates warranted by existing conditions and be adequately protected against exorbitant rates of interest. There will just as certainly, however, be other times when prudence and a proper regard for the common good will require that an opposite course should be pursued and accommodations curtailed. Normally, therefore, a considerable proportion of its resources should always be kept invested by a Reserve Bank in order that the release or withdrawal from active employment of its banking funds may always exercise a beneficial influence. This is merely saying that to influence the market a Reserve Bank must always be in the market, and in this sense Reserve Banks will be active banking concerns when once they have found their true position under the new banking conditions.

It would be a mistake, therefore, and a serious limitation of their usefulness to regard the Reserve Banks simply as emergency banks. Regulation in ordinary times, as well as protection in extraordinary times, may be expected to become the chief service which these institutions will perform. The Federal Reserve Board is fully alive to its opportunity and responsibilities in this respect, but it must counsel patience in awaiting the fruition of the new system. It will take time for the new banks to develop the technique of control and skill and experience in its application. The ascertainment of the correct base from which comprehensive operations should begin; the establishment of a normal level from which expansions and contractions will freely take place will have a most important bearing upon the future development and success of the system. Impatience to show results should not be permitted to tempt those in charge of the Reserve Banks into precipitate and unwise action.

The vast and complex structure of modern banking and credit systems is one of extreme delicacy of balance and adjustments, and it must never be overlooked that it is highly sensitive to all manner of disturbances, as recent events have painfully demonstrated. The banking systems of the larger nations are closely related to one another, and financial distress or collapse at one point quickly transmits shock to all others. Safety for us in critical times will depend on the confidence our system commands, the strength of its reserves, and its power to bring them into action promptly and effectively if needed.

In dealing with new districts and entirely changed banking methods, time and experience alone can supply the data necessary for charting the course to be pursued. This consideration, if nothing else, would suggest the greatest patience and prudence even if the European horizon were less clouded than it is to-day. None the less, the Board realizes that where extraordinary conditions warrant extraordinary measures, it is the foremost duty of the Board and the banks to act promptly and boldly.

CLEARING OF CHECKS.

The Federal reserve act, in sections 13 and 16, provides in general language for the collection and clearing of checks without, however, undertaking to define more precisely the exact extent or character of these operations. It does, however, prescribe the character of the items that may be received on deposit by Federal Reserve Banks and clearly contemplates the performance of certain clearing functions by such banks for their members. It also contemplates clearings of undefined extent among the several Reserve Banks and authorizes the Board itself to act as a clearing house for the several Reserve Banks, or to designate one of these banks to perform this service.

From the beginning, the Board has regarded the organization of these clearing functions as one of the most important responsibilities with which it is charged under the act, as well as one of its most difficult and intricate problems. The whole scheme involves very considerable and thoroughgoing innovations in existing methods, however substantial the benefits that will accrue from a well organized system of clearings national in its scope. The Board has, therefore, deemed it wise to move carefully in a matter involving dislocation in established practices and arrangements and depending for its success, in a large degree, upon the harmonious cooperation of the several banks involved.

It was the general opinion of the directors of the several Federal Reserve Banks, expressed at their conference held just before the opening of these banks, that transit and clearing operations should be restricted to easily manageable proportions in the beginning. Since the opening, a few of the Reserve Banks, acting in accordance with authority granted them by the Board, have in greater or less degree widened the scope of their clearing activities. At this time the whole matter is still to be regarded as in a condition of development, but with sufficient experimentation going on to materially assist the Board in reaching sound conclusions.

It must be remembered that the problem presented to the Board is one of great novelty and calls for the application of a high degree of technical skill in order that there may not result undue disturbance

and violent derangement of customary commercial and banking methods. Committees representing the executive officers of the various banks are studying the subject, and the Board is giving much of its own time and thought to an analysis and comprehension of the many elements involved in the question. It is believed that substantial progress will be made in the near future in the development and formulation of an effective plan for the solution of this problem.

Habit of long standing in the American business world has established the check in its preference as the most important and convenient constituent in the circulating medium. To give it wider currency and a freer flow to and from every part of the country, so far as this can be done without opening the way to abuses, is in line with the further development and requirements of the American business system and will receive the most careful attention of the Board.

ADMISSION OF STATE BANKS.

From the opening of the new banks, the Federal Reserve Board has been keenly anxious to settle the conditions upon which State banks may be admitted into the system. The Federal reserve act especially provides for such admission, and it has been supposed in many quarters that the process of admission would involve few difficulties. Investigation has shown that owing to the differences in State laws, the comprehensive character of the charters enjoyed by some State banks, and the complex conditions of competition between such institutions and their national competitors, the determination of these conditions was far from being easy if an equitable adjustment was to be found. A problem of somewhat similar difficulty was presented by the provisions of the Federal reserve act authorizing the board to make regulations under which national banks might exercise the functions of trustee, executor, etc. Both these subjects have been, and are, under very careful investigation, and conferences have been had with both National and State bankers, while competent legal advice has also been sought. It is expected that at least a tentative solution of the problems at issue may be arrived at in the near future.

Since the passage of the Federal reserve act, there have been converted into National banks 93 State banks and trust companies, with a capital and surplus of \$9,151,306. There have been admitted to the system as members thereof 9 State banks and 4 trust companies, the aggregate capital and surplus of the 13 institutions being \$17,884,000. Those State institutions which have already been admitted to the system have entered upon the understanding that they are to accept any regulations the Board may make regarding the conduct of the business of member banks. There are pending at the present time applications from 51 State banks and trust companies. These applicants have preferred to await the issuance of regulations governing the admission of State banks.

FEDERAL ADVISORY COUNCIL.

The 12 members of the Advisory Council are selected by the boards of directors of the Federal Reserve Banks. When the list was completed the Federal Reserve Board sent out an invitation to the

members to meet, which they did in Washington on December 15 and 16. At this meeting the members of the Council indicated their views on some pending questions and took others under advisement to be reported upon later. The membership and organization of the Council are described in Exhibit F.

ADMINISTRATION.

In organizing its staff the Board has sought to observe economy and to keep the personnel within the narrowest limits consistent with efficiency. The Reserve Bank Organization Committee had established a staff of about 75 persons, and the Board determined to take over as a nucleus of its own force such members of this staff as were deemed necessary for the conduct of its work. After careful investigation, a total of about 40 persons were thus transferred and given a permanent status in the Board's organization. There had been many applicants for appointments to the staff of the Board, the total aggregating more than 1,200, and in order to give applicants in places distant from Washington an equal opportunity and provide fairly for a distribution of such appointments as might later be made, an examination conducted (on a basis prescribed by the Board) by the Civil Service Commission was given on behalf of the Board on December 9. Returns from this examination had not been received up to December 31, but future appointments will be made from the list of eligible persons established as a result of this examination, save in so far as there may be a need for officers of highly special or technical attainment. In Exhibit C, hereto attached, will be found a complete report prepared by the Secretary of the Federal Reserve Board, in which are given the names, salaries, and other details relating to the staff at the main offices in Washington.

As at present organized the Board's staff comprises four divisions—one dealing with correspondence, one with bank audit and examination, one with reports and statistics and a law department in charge of a general Counsel. The Board has appointed two administrative officers, to be known as Secretary and Assistant Secretary, and has appointed to these positions, respectively, H. Parker Willis, as the former, and Sherman P. Allen, as the latter. The general management of the staff of the Board is under the direction of the Secretary's office. The Board appointed as counsel M. C. Elliott, previously the Counsel of the Organization Committee. Apart from the Correspondence Division, the name of which sufficiently indicates the nature of its duties, the Board's work is now carried on by the Division of Audit and Examination and the Division of Reports and Statistics. A discussion of the functions of the former division will be found in Exhibit C.

A uniform accounting system has been adopted by the banks and one of its results is the furnishing of daily statements which are forwarded to Washington, and detailed lists of all bills purchased and discounted. From this it will be possible to make credit analyses which will serve to show the distribution of the funds of the Federal Reserve Banks among the different classes of business which are applying for them. This work will fall to the Division of Reports and

Statistics. Neither that division nor the Division of Audit and Examination is as yet fully organized, but they will be developed rapidly as the system expands and its wants become definitely recognized.

EXPENSES OF BOARD.

An assessment of four-tenths of 1 per cent was levied on the capital of the Reserve Banks to meet the estimated expenditures of the Board during the six months beginning November 1, 1914, on which date the total capital was \$107,760,100. The money derived from this assessment is deposited with the Treasurer of the United States, subject to check by the Governor of the Board, countersigned by the Secretary.

In preparing the estimates for the first six months, it was necessarily difficult to foretell the expenses of every kind and nature incident to the development of the system, but it is believed that the levy made will be sufficient to cover all expenses for the period named. It should be observed in connection with this statement of expenses that nearly 50 per cent of the total assessment upon the Federal Reserve Banks has been for the preparation of a large supply of Federal reserve notes. This expense will probably not need to be repeated in the near future. The following statement will show the receipts and expenses of the Board to date:

Estimated expenses for six months beginning November 1, 1914, including \$208,560.25 for purchasing paper, making dies, and printing and engraving Federal reserve notes; also salaries of the members of the board from August 10 and of its secretary and assistant secretary from September 14 to October 31, 1914, and for liabilities incurred incident to the organization of the board and of the Federal reserve banks.....		\$431, 040. 00
Total capital of reserve banks November 1, 1914.....	107, 760, 100. 00	
Assessment, four-tenths of 1 per cent.....	431, 040. 00	
Amount received on account of above assessment up to December 31, 1914.....	259, 613. 87	
Disbursements to December 31, 1914.....	52, 833. 93	
Balance with the Treasurer of the United States to the credit of the board December 31, 1914.....	206, 779. 94	
Expenses of the board to December 31, 1914: ¹		
Salaries.....	45, 256. 14	
Equipment (including furniture, adding machines, typewriters, etc.).....	6, 034. 59	
Miscellaneous.....	2, 689. 45	
Printing.....	3, 171. 33	
Stationery.....	2, 027. 36	
Postage.....	51. 00	
Total.....	59, 229. 87	

The Reserve banks are still in the first stage of growth and both the volume of business which they can develop and the expenses which their operation will entail are matters of estimate. Much of the expense thus far incurred by the banks has been for their initial organization, including such items as equipment, note issues, etc., and owing to the fact that the banks were necessarily opened before complete regulations governing their operation could be framed and before their functions could be fully developed, their staffs had to be organized on the basis of prospective rather than immediate needs.

¹ This includes actual disbursements and liabilities incurred for which vouchers have not been presented.

The Board is, therefore, not able at this time to make a definite report on the normal expenses of the reserve banks.

CONCLUSION.

Five months have elapsed since the introduction into our financial system of the most far-reaching change that has been made in the field of American banking since the passage of the National Banking Act. Less than two months have gone by since the Federal Reserve Banks actually opened for business. The system, however, is in operation and has already produced results of the most noteworthy character. There is much yet to be done, but the work can not be regarded as experimental in the sense that there is any uncertainty as to the outcome. The only question is as to how rapidly it will be possible to develop the full capabilities and resources of the Federal reserve system. Its potentialities are vast and should contribute immeasurably in the future to the solidity, stability, and flexibility of the American credit system.

W. G. McADOO,
Secretary of the Treasury,
Chairman.
JOHN SKELTON WILLIAMS,
Comptroller of the Currency.

C. S. HAMLIN, *Governor.*
F. A. DELANO, *Vice Governor.*
P. M. WARBURG.
W. P. G. HARDING.
A. C. MILLER.

EXHIBITS.

EXHIBIT A.

[Public—No. 43—63d Congress.]

[H. R. 7837.]

AN ACT To provide for the establishment of Federal reserve banks, 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.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. 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. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS.

SEC. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, acting as "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. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus

of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this act.

Any national bank failing to signify its acceptance of the terms of this act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this act to become a member bank or fail to comply with any of the provisions of this act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank act, or under the provisions of this act, shall be thereby forfeited. Any noncompliance with or violation of this act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than \$25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than \$4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United

States upon voucher approved by the Secretary of the Treasury, and the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES.

SEC. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

FEDERAL RESERVE BANKS.

SEC. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this act.

When the minimum amount of capital stock prescribed by this act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record, and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors by-laws not inconsistent with law, regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed.

Seventh. 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.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this act.

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.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and class B shall be chosen in the following manner:

The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The

candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

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, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of Class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers, or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank it shall be the duty of the directors of classes A, B, and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

SEC. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus, or as additional banks become members, and may be decreased as member banks

reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates, it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

SEC. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SEC. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom, shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

SEC. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of

the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

Provided, however, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal reserve act and by the national banking act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.

SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking act.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the

Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD.

SEC. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly, together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said board.

The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the president as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed

by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.

Nothing in this act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

SEC. 11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly or not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

FEDERAL ADVISORY COUNCIL.

Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors, subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may, in addition to the meetings above provided for, hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS.

Sec. 13. 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 or other Federal reserve banks, payable upon presentation.

Upon the indorsement of any of its member banks, with a waiver of demand, notice, and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the

right to determine or define the character of the paper thus eligible for discount, within the meaning of this act. Nothing in this act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise, from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank to be ascertained and fixed by the Federal Reserve Board.

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. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months' sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal reserve act.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

OPEN-MARKET OPERATIONS.

SEC. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States,

including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) 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;

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.

SEC. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds shall be deposited in the continental United States in any bank not belonging to the system established by this act: *Provided, however,* That nothing in this act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES.

SEC. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills, accepted for rediscount under the provisions of section thirteen of this act, and the Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal reserve bank

through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money, or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasury, otherwise than for redemption, may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board, and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing with the Federal reserve agent its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount, with the approval of the Federal reserve agent, under regulations to be prescribed by the Federal Reserve Board.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank sub-

ject to the order of the Comptroller of the Currency for their delivery, as provided by this act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, and so forth, and regulations relating to such examination of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four, Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this act may be used in the discretion of the Secretary for the purposes of this act, and should the appropriations heretofore made be insufficient to meet the requirements of this act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however,* That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

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.

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.

SEC. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking associations shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds is hereby repealed.

REFUNDING BONDS.

SEC. 18. After two years from the passage of this act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal

Reserve Board may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this act by the Federal reserve bank.

Provided further, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal Reserve bank purchasing the same, and such Federal reserve bank shall thereupon deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this act, any Federal reserve bank making such deposit in the manner provided by existing law shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

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 two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form, as he may prescribe, in denominations of one hundred dollars or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest, payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES.

Sec. 19. Demand deposits within the meaning of this act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults, for a period of thirty-six months after said date, five twelfths thereof, and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member banks as reserves not exceeding one-half of each installment, eligible paper as described in section fourteen, properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this act except by permission of the Federal Reserve Board.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this act the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserve shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this act.

SEC. 20. So much of sections two and three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, is hereby repealed. And from and after the passage of this act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

BANK EXAMINATIONS.

SEC. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member

banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

SEC. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank. No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Except as provided in existing laws, this provision shall not take effect until sixty days after the passage of this act.

SEC. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

LOANS ON FARM LANDS.

SEC. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES.

SEC. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the

said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on, and the amount of capital set aside for the conduct of its foreign business. The Federal Reserve Board shall have power to approve or to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate, or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish foreign branches shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

SEC. 26. All provisions of law inconsistent with or superseded by any of the provisions of this act are to that extent and to that extent only hereby repealed: *Provided*, Nothing in this act contained shall be construed to repeal the parity provision or provisions contained in an act approved March fourteenth, nineteen hundred, entitled "An act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve borrow gold on the security of United States bonds authorized by section two of the act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

SEC. 27. The provisions of the act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this act: *Provided, however*, That section nine of the act first referred to in this section is hereby amended so as to change the tax rates fixed in said act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.

SEC. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

SEC. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

SEC. 30. The right to amend, alter, or repeal this act is hereby expressly reserved.

Approved, December 23, 1913.

EXHIBIT B.

I.

[Public—No. 163—63d Congress.]

[S. 6192.]

AN ACT To amend section twenty-seven of an act approved December twenty-third, nineteen hundred and thirteen, and known as the Federal reserve act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section twenty-seven of the act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve act, is hereby amended and reenacted to read as follows:

“SEC. 27. The provisions of the act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this act: *Provided, however*, That section nine of the act first referred to in this section is hereby amended so as to change the tax rates fixed in said act by making the portion applicable thereto read as follows:

“National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes: *Provided further*, That whenever in his judgment he may deem it desirable, the Secretary of the Treasury shall have power to suspend the limitations imposed by section one and section three of the act referred to in this section, which prescribe that such additional circulation secured otherwise than by bonds of the United States shall be issued only to national banks having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of the capital stock of such banks, and to suspend also the conditions and limitations of section five of said act except that no bank shall be permitted to issue circulating notes in excess of one hundred and twenty-five per centum of its unimpaired capital and surplus. He shall require each bank and currency association to maintain on deposit in the Treasury of the United States a sum in gold sufficient in his judgment for the redemption of such notes, but in no event less than five per centum. He may permit national banks, during the period for which such provisions are suspended, to issue additional circulation under the terms and conditions of the act referred to as herein amended: *Provided further*, That the Secretary of the Treasury, in his discretion, is further authorized to extend the benefits of this act to all qualified State banks and trust companies, which have joined the Federal reserve system, or which may contract to join within fifteen days after the passage of this act.”

Approved, August 4, 1914.

II.

[Public—No. 171—63d Congress.]

[S. 4966.]

AN ACT Proposing an amendment to section nineteen of the Federal reserve act relating to reserves, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section nineteen, subsections (b) and (c) of the act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve act, be amended and reenacted so as to read as follows:

"(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults for a period of thirty-six months after said date, six-fifteenths thereof, and permanently thereafter five fifteenths.

"In the Federal reserve bank of its district for a period of twelve months after the date aforesaid, at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

"For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in central reserve cities, as now defined by law.

"After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank or in both, at the option of the member bank.

"(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults, six-eighteenths thereof.

"In the Federal reserve bank, seven-eighteenths.

"The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

"Any Federal reserve bank may receive from the member banks as reserves not exceeding one-half of each installment, eligible paper as described in section thirteen properly indorsed and acceptable to the said reserve bank.

"If a state bank or trust company is required or permitted by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company or with a national bank, such reserve deposits so kept in such State bank, trust company, or national bank shall be construed within the meaning of this section as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this act except by permission of the Federal Reserve Board.

"The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purposes of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

"In estimating the reserves required by this act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the bank deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

"National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this act."

Approved, August 15, 1914.

EXHIBIT C.

ORGANIZATION OF THE FEDERAL RESERVE BOARD.

I.

PERSONNEL.

Following is the text of a report rendered by the secretary of the Federal Reserve Board with reference to the organization of the permanent staff:

WASHINGTON, D. C., November 13, 1914.

"To the FEDERAL RESERVE BOARD:

"The secretary of the Federal Reserve Board submits to the Federal Reserve Board a report of his action taken under the direction of the board and in accordance with the report of the committee on staff and on organization approved by the board.

"The reserve bank organization committee had in its employment just prior to November 2, when the work was taken over by the Federal Reserve Board, 72 individuals.

"Under the scheme of a skeleton organization to be developed in accordance with the growth of business, the Federal Reserve Board assembled from the above-named force and began its work on November 2 with a force of 40 individuals. There has been added through temporary employment 1 assistant counsel, 1 female stenographer, 2 typists, and 1 clerk skilled in typewriting, thus increasing the force to 45 people, divided as follows:

"*Private secretaries.*—Mr. Adelson to Mr. Harding, Mr. Chapman to Mr. Warburg, Mr. De La Mater to Mr. Delano, Mr. Foulk to Mr. Hamlin, Mr. Gidney to Mr. Miller, Mr. Stauffer to Mr. Williams.

"*Stenographers to members.*—Mr. Eddy to Mr. Harding, Mr. Titus to Mr. Hamlin, Mr. Ball to Mr. Delano, Miss Waters to Mr. Warburg, Miss Peiffer to Mr. Williams.

"*Counsel's office.*—Mr. Harrison, assistant counsel; Mr. Bradley, secretary to Counsel Elliott.

"*Secretary's office.*—Mr. Stuart, secretary to Secretary Willis, Mr. Burklin, stenographer.

"*Stenographers.*—Mrs. Woodford, Mrs. Croghan, Mrs. Starr, Mrs. Richardson, Mrs. Marvin, Miss Doocy, Miss Mickley, Mr. Moran.

"*Clerks.*—Mr. Kitzmiller (file clerk), Mr. Jemison (file clerk), Mr. Fountain (bookkeeper, temporary), Miss Townsend (skilled in typewriting), Mr. Shea (mail messenger).

"*Typists.*—Miss Milliken, Mrs. Clark.

"Mrs. Rice, multigraph operator.

"Miss Meyers, mimeograph operator and typist.

"Miss Oberndorfer, telephone operator.

"*Messengers.*—J. De Haven, W. Evans, W. Fletcher, I Fantroy, F. Killingsworth, H. Nicholson, T. Robinson, C. Johnson.

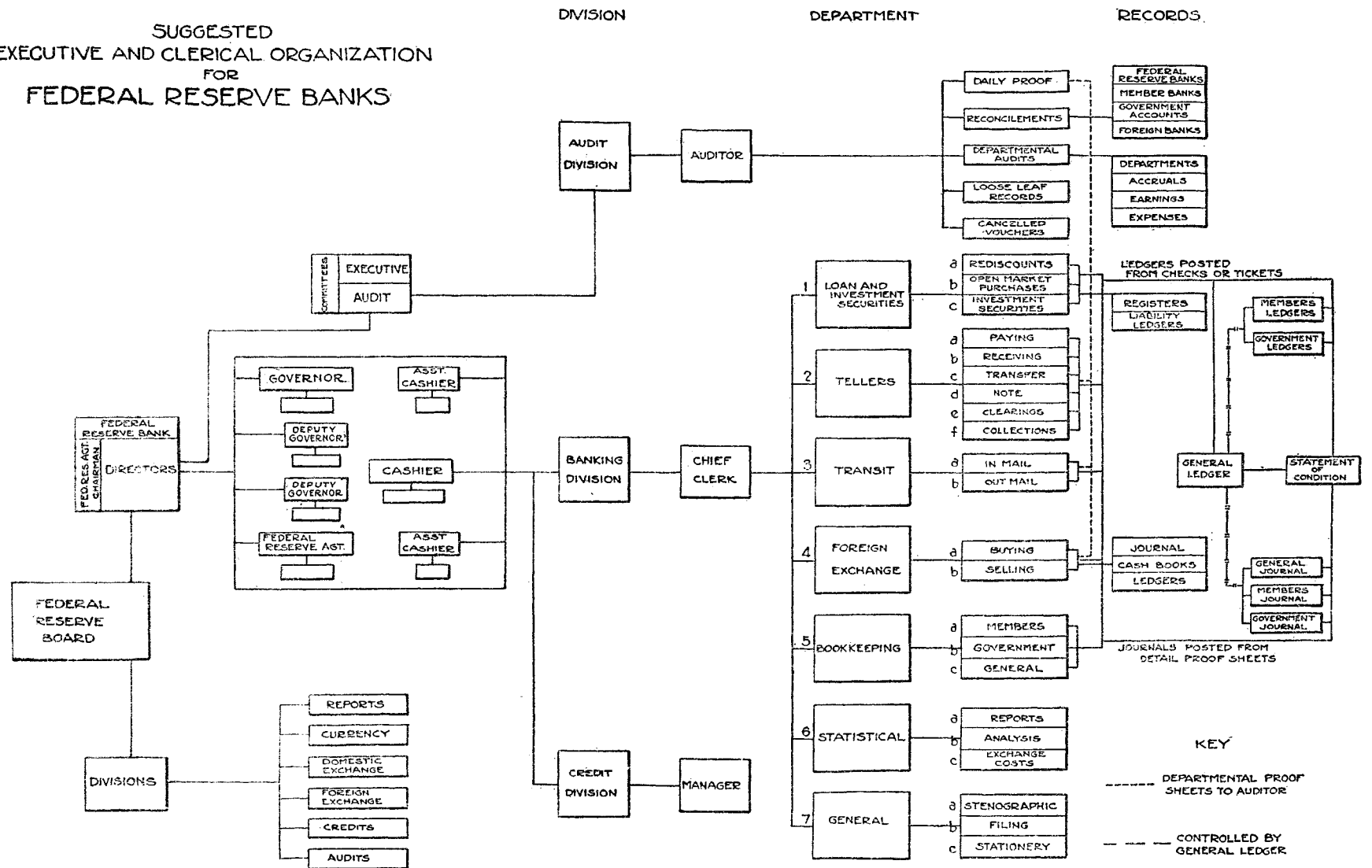
"*Charwomen.*—F. Thomas, M. Romero, A. Fisher.

"Total of 45 employees on roll.

TOTAL PAY ROLL.

	Aggregate salaries on an annual basis.
6 private secretaries, at \$2,500 per year.....	\$15, 000
4 stenographers to Members, at \$1,200 per year.....	4, 800
1 stenographer to Mr. Hamlin, at \$1,400.....	1, 400
1 assistant to counsel, at \$2,400 per year.....	2, 400
1 secretary to counsel, at \$1,500 per year.....	1, 500

SUGGESTED EXECUTIVE AND CLERICAL ORGANIZATION FOR FEDERAL RESERVE BANKS



	Aggregate salaries on an annual basis.
2 stenographers, Secretary's Office, \$1,400 and \$1,200-----	\$2, 600
2 file clerks, at \$1,800 and \$1,080-----	2, 880
1 bookkeeper, at \$1,600 (temporary)-----	1, 600
1 chief stenographer, at \$1,800-----	1, 800
7 stenographers, at \$1,000-----	7, 000
2 typists, at \$1,000-----	2, 000
1 machine operator, at \$900-----	900
1 machine operator and typist, at \$1,000-----	1, 000
1 telephone operator-----	600
1 clerk skilled in typewriting, at \$800-----	800
1 stenographer, at \$900-----	900
8 messengers at \$600-----	4, 800
1 mail messenger, at \$600-----	600
3 charwomen, at \$240-----	720
	<hr/> \$53, 300
Board:	
5 members, at \$12,000 per year-----	60, 000
1 member, at \$7,000 per year-----	7, 000
Counsel-----	7, 500
Secretary-----	6, 000
Assistant Secretary-----	4, 500
	<hr/> 85, 000
Total -----	<hr/> 138, 300
Joseph A. Broderick, chief of Division of Audit and Examination, with duties in the field-----	6, 000
H. Y. Brooke, special examiner-----	3, 600
	<hr/> 147, 900

"The reduction in the number of those employed when the Federal Reserve Board took over the work of the organization committee left about 30 persons to be placed upon a list of those eligible for temporary reemployment pending the establishment of an eligible list through the application of an approved test of fitness. Two of these were dropped from the list. Two have been reemployed in the Division of Insolvent Banks of the Treasury Department, as follows: Miss Barnard and Miss Collison.

"Seven have been temporarily reemployed by the Comptroller of the Currency in the Division of Issue, Federal reserve notes, as follows: Mrs. Harris, Miss Haskins, Mrs. Lewis, Miss Wofford, Miss Monney, Mr. De Motte, and Mrs. Wedderburn.

"Those reemployed by the Federal Reserve Board have been taken in order of their standing on the rolls of the organization committee. Their names are Mrs. Clark, Miss Milliken, typists, and Miss Townsend, clerk, with knowledge of stenography and typewriting.

"One clerk, Mr. Underwood, declined employment at the rate of \$67.66 per month, proposed as a beginning salary.

"This leaves available for reemployment the following, who are listed male and female, in order of rating:

"Female: Mrs. Walker, Miss Cocoran, Mrs. Taylor, Mrs. Overby, Miss Smith, Mrs. Ferguson, Mrs. Blackstone, Mrs. Blanchard, Mrs. Thompson, Mrs. Colmesneil, Mrs. Campbell. Male: Mr. Hoover, Mr. Thompson, Mr. Keller, Mr. Christian, Mr. Castle."

"The board by resolution of October 20, 1914, has authorized the Comptroller of the Currency to establish a 'reimbursable roll' for the purpose of caring for Federal reserve notes and left it to the comptroller's discretion to select his personnel for this staff. The personnel of the bureau in question being left to the discretion of the Comptroller of the Currency, is consequently outside of the jurisdiction of this office.

"H. PARKER WILLIS, *Secretary.*"

From this report it will be seen that a staff of 40 persons was taken over from the organization committee's staff, which had numbered 72.

The board in view of the very large number of applicants for positions (some 1,250), felt that some equitable method must be found of selecting those worthy of consideration, many of whom lived far away from Washington. As a result of considerable study of the question, the board voted, under date of October 5,

to invite the Civil Service Commission to make suggestions and recommendations as to the kind of examinations which might properly be instituted for the purpose of selecting the personnel. The recommendations of the Civil Service Commission were accepted with some modifications, and the board determined to avail itself of the Civil Service Commission's machinery for carrying on its examinations, it being understood that this was done without being in any way bound by civil service rules or restrictions, as these had been specifically exempted under section 10, paragraph 1 of the Federal reserve act. Under this arrangement examinations for fitness were announced for December 9 in approximately 400 cities to such applicants as desired to avail themselves, it being explained to them by notice that the number of possible vacancies was few, while the number of applicants was many. The actual number of those presenting themselves for examination was 461, and as a result of this examination a total eligible list of about 237 names has been obtained and classified as follows: Messengers, bookkeepers, stenographers and typewriters, clerks.

The Federal Reserve Board had on December 31, 1914, the following staff of employees. This list includes all those upon its rolls except the members of the board.

Permanent:

H. Parker Willis, secretary, New York.....	\$6,000
Sherman P. Allen, assistant secretary, Vermont.....	4,500
Milton C. Elliott, counsel, Virginia.....	7,500
Joseph A. Broderick, chief of division of audit and examination, New York.....	6,000
Morris Jacobson, chief of division of statistics, New York.....	3,600
William M. Imlay, disbursing officer, Maryland.....	2,000
Hadley Y. Brooke, examiner in the field, Alabama.....	3,600
Private secretaries to members—	
Louis C. Adelson, Alabama.....	2,500
W. T. Chapman, New York.....	2,500
John De La Mater, Illinois.....	2,500
Oliver E. Foulk, Missouri.....	2,500
Ray M. Gidney, California.....	2,500
George E. Stauffer, Pennsylvania.....	2,500
Stenographers to members—	
Randolph P. Titus, New York.....	1,400
Charles H. Ball, North Carolina.....	1,200
Walter L. Eddy, Rhode Island.....	1,200
Alvan L. Fowler, jr., Maryland.....	1,200
Louise E. Peiffer, Ohio.....	1,200
Lucy G. Waters, District of Columbia.....	1,200
Stenographers in secretary's office—	
Nelson Stuart, New York.....	1,400

Temporary:

Reyburn R. Burklin, Texas.....	1,200
Donald W. Cook, District of Columbia.....	900

COUNSEL'S OFFICE.

Permanent:

George L. Harrison, assistant counsel, Massachusetts.....	2,400
C. S. Bradley, stenographer, Maryland.....	1,500
Stenographers—	
Beatrice C. Woodford, in charge, New York.....	1,800
Ollie M. Croghan, New York.....	1,000
Mary W. Marvin, Colorado.....	1,000
Helen J. P. Starr, Ohio.....	1,000
Mabel Mickley, Pennsylvania.....	1,000
L. C. Richardson, Maryland.....	1,000
Helena T. Doocy, District of Columbia.....	1,000
P. C. Moran, District of Columbia.....	900
File clerks—	
H. W. Kitzmiller, Ohio.....	1,800
W. W. Jemison, Delaware.....	1,200
Clerks—	
Nellie G. Myers, Ohio.....	1,000
Margaret A. Rice, District of Columbia.....	900
John V. Shea, Connecticut.....	720
Pauline Oberndoerfer, District of Columbia.....	600

Permanent—Continued.

Messengers—

Frank H. Killingsworth, captain, South Carolina	\$660
Thomas L. Robinson, Virginia	600
Harvey S. Nicholson, New Jersey	600
Carlisle Johnson, District of Columbia	600
Wilson Fletcher, District of Columbia	600
Irving Fantroy, District of Columbia	600
William Evans, jr., District of Columbia	600
John De Haven, Kentucky	600

Temporary:

Stenographers—

Louis D. Wine, District of Columbia	1,000
Nannie T. Steger, Virginia	1,000
M. Grace Townsend, Illinois	800

Clerks—

Inez M. Clark, California	1,000
Nannette Milliken, District of Columbia	1,000
Frank V. Grayson, District of Columbia	600
James Hoover, Maryland	600

3 charwomen, at \$240 each..... 720

Total..... 89,500

The total number of employees of the Federal Reserve Board on December 31, 1914, according to States was as follows:

Permanent: District of Columbia, 9; New York, 8; Ohio, 4; Maryland, 4; California, 2; Virginia, 2; Alabama, 2; Pennsylvania, 2; Connecticut, 1; Vermont, 1; North Carolina, 1; Rhode Island, 1; Illinois, 1; Missouri, 1; Massachusetts, 1; Delaware, 1; Colorado, 1; South Carolina, 1; Kentucky, 1; New Jersey, 1. Total, 45.

Temporary: District of Columbia, 5; Texas, 1; Illinois, 1; Virginia, 1. Total, 8.

Grand total, 53. Three charwomen not included.

The following letter, which shows the skeleton organization of the Federal Reserve Board, on taking over the work of the Reserve Bank Organization Committee, was sent to each member of the organization committee force not retained by the board.

"In taking over on Monday, November 2, 1914, the work which has been done by the employees of the Reserve Bank Organization Committee the Federal Reserve Board has determined to assemble only a small clerical force distributed as follows:

"Offices of members of board: Private secretaries, 6; stenographic clerks, 5; messengers, 5; total, 16. Secretary's office: Secretary, 1; assistant secretary, 1; stenographic clerks, 3; messenger, 1; total, 6. Correspondence Division: Chief stenographer, 1; stenographers, 8; file clerks, 2; machine operators, 2; clerk to disbursing officer, 1; messengers, 2; telephone operator, 1; bookkeeper, 1; total, 18. Counsel's office: Counsel, 1; stenographer, 1; messenger, 1; total, 3.

"It is contemplated that a division of reports and statistics will be created in the near future with a force at the beginning consisting of a chief of division, a stenographer, and a messenger; and in like manner a division of examination and audit with a force at the beginning consisting of a chief of division, a stenographer, and a messenger.

"The board regrets that in this preliminary organization there is no place to which you can be appointed. Arrangements are being made to apply a test of efficiency to those who have made application to the board for employment as messengers, clerks, stenographers, bookkeepers, etc. Pending the application of this test and the determination of its result the board will probably find it necessary to employ temporary assistance and it will be very glad to keep in its files your address and telephone number that you may be offered such temporary employment when necessity for it arises.

"Respectfully,

"H. PARKER WILLIS, *Secretary.*"

The Federal reserve act has provided for the care and shipment of Federal reserve notes through the Comptroller's office, it being the intention of the act, as expressed in section 11, paragraph (d), that the Comptroller should attend to this phase of the work and render an account therefor to the Federal Reserve Board, the same to be paid by it from its funds obtained from levy on the banks.

Acting in accordance with this provision, the Comptroller of the Currency on October 31 presented to the Board a plan for the establishment of a reimbursable roll of employees whose functions it would be to perform the duty of obtaining, shipping, and caring for Federal reserve notes. The Board received the plan and ordered it placed on file, authorizing the Comptroller to continue, as provided by the act, to direct the disposition of the notes. Under this authority, the Comptroller of the Currency created a bureau or division, originally including a staff of 7 persons, but since increased to 22 persons. Disbursements for the maintenance of this division have been made as follows on statements authorized and approved by the Comptroller: November 16, \$521.34; November 30, \$845.82; December 15, \$842.19; December 31, \$818.52.

This Division of the Comptroller's office had up to December 31, 1914, received, counted, and stored Federal reserve notes to the amount of \$193,260,000, and of this amount it had delivered to the 12 Federal reserve banks on the order of the Federal Reserve Board notes to the amount of \$37,540,000.

CLASSIFICATION OF FUNCTIONS.

The organization of the board was carried further by establishing, under the direction of the secretary's office, three divisions, the first entitled "Correspondence Division," the second "Division of Audit and Examination," and the third "Division of Reports and Statistics." Supervision of the Correspondence Division comes directly under the office of the Secretary, while Mr. Joseph A. Broderick, of New York, was appointed Chief of the Division of Audit and Examination, and Mr. Morris Jacobson, of Washington, D. C., associate statistician for the Interstate Commerce Commission, was placed in charge of the Division of Reports and Statistics by an arrangement with the commission which permitted him to enter the service of the board for a specified period. Acting upon the recommendations of Mr. Broderick, further organization and functions were provided for the Division of Audit and Examination, as follows:

DIVISION OF AUDIT AND EXAMINATION.

The functions of the Division of Audit and Examination as determined by the board were provided for as follows:

1. EXAMINATION AND AUDIT OF FEDERAL RESERVE BANKS.

- (a) Federal reserve banks.
- (b) Books and accounts of Federal reserve agents.

(a) *Federal reserve banks.*

Section 11, paragraph A, authorizes and empowers the Federal Reserve Board "to examine at its discretion the accounts, books, and affairs of each Federal reserve bank."

Section 21, paragraph 5, provides that the "Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of 10 member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank."

The law provides for an examination of each Federal reserve bank at least once a year, but it is proposed that examinations shall be held ordinarily twice each year, covering a thorough investigation of rediscounts, collateral loans, investments, and open-market transactions, particular attention being paid to compliance with the provisions of the Federal reserve act and regulations promulgated by the Federal Reserve Board.

Paper accepted for rediscount should be analyzed in order to determine its eligibility under the regulations issued. Inquiry should also be made as to the condition of member banks offering paper for rediscount. Every examination should cover a complete audit of the bank and a report made to the Federal Reserve Board as to the condition of each bank, competency of management, adequacy of records, and attention given by the directors to the affairs of the reserve bank. Attention should be called to any unsafe or unsound condition, or any vicious tendency that might appear in any department of the bank.

(b) Federal reserve agent.

Section 11, paragraph I: The Federal Reserve Board shall be authorized "to require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money, or property of any kind deposited in the hands of such agents, * * * and make all rules and regulations necessary to enable said board effectively to perform the same."

The records and accounts of the Federal reserve agent in each Federal reserve district shall be examined at least quarterly, and a complete report made to the Federal Reserve Board. The examination shall cover a verification of the money, Federal reserve notes, and collateral in the hands of the Federal reserve agent.

2. SPECIAL EXAMINATIONS OF MEMBER BANKS OR BANKS APPLYING FOR MEMBERSHIP.

(A) Member banks.

Section 11, paragraph A: The Federal Reserve Board shall be authorized "to examine at its discretion the accounts, books, and affairs of each Federal reserve bank and of *each member bank*."

It is expected that the exercise of this function will be confined to special examinations or investigations to be made only when deemed necessary by the Federal Reserve Board, or with the approval of the board upon a request by any Federal reserve bank. The primary purpose of such examination should be to ascertain the condition of a member bank or of the lines of credit which are being extended by it.

The Federal reserve act also grants authority to the Comptroller of the Currency and to the Federal reserve banks the right to examine member banks. Therefore, in order to prevent confusion and secure cooperation and coordination with the examinations of national banks by the examiners on the staff of the Comptroller of the Currency and in order to avoid duplication in examinations a plan has been suggested, details of which are embodied in the report of a special committee on this subject appointed by the comptroller, acting with a committee of your board, to suggest a means of standardizing the salaries of national-bank examiners and the method of assessing banks for the cost of such examinations. A copy of that portion of the report relating to the matter above referred to is attached to this memorandum.

(B) State institutions applying for membership.

Section 9, paragraph 2: "The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks * * * to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board."

The examination of such institutions shall be made when ordered by the Federal Reserve Board. It is recommended, however, that all such applications shall be referred to the Division of Audit and Examination, which shall communicate with the reserve bank of the district and with the State banking authorities. In connection with this inquiry, the Division of Audit and Examination shall be authorized to call for such supplemental information as may be deemed necessary; for example, the following:

- (1) A copy of report of the last examination by State authorities.
- (2) Loans over a stated amount.
- (3) Real-estate investments, loans secured by real-estate collateral, loans secured by stock of real-estate corporations, real-estate mortgages, with data as to maturities.
- (4) The business, firm, and corporation affiliations of officers and directors.
- (5) A detailed statement of investments.

(C) Special examinations—State banks and trust-company members.

Section 21, paragraph 1: The Federal Reserve Board "may authorize examination by the State authorities to be accepted in the case of State banks and trust companies, and may at any time direct the holding of a special examina-

tion of State banks or trust companies that are stockholders in any Federal reserve bank."

The intent of the law seems to be to accept the examination made by State authorities wherever it can be done without discrimination. It should therefore be a function of this division to investigate the examining methods of State authorities, in order to ascertain whether or not the standard of examinations is such as to be acceptable to the Federal Reserve Board.

It will be necessary to request State authorities to furnish the Federal reserve banks information as to the condition of each State institution that is a member of the Federal reserve system. Whenever a special examination is necessary by either the Federal Reserve Board or a Federal reserve bank it is usually desirable that such examination should be made in connection with an examination made by State authorities.

3. SPECIAL INVESTIGATIONS.

Special investigations will be held only when deemed advisable or ordered by the reserve board, either when warranted by general business or other conditions. Applications for the establishment of domestic or foreign branches or of member banks to exercise trust company powers shall be investigated by this division.

4. CREDIT BUREAUS.

The establishment of credit bureaus in Federal reserve banks and of a central credit bureau at Washington is so closely related to examinations that it is desirable that the Division of Audit and Examination shall be responsible for the development of the system. The purpose of the credit bureau is to collect and record data concerning member banks and the standing of individuals, firms, and corporations discounting at and borrowing from these banks or selling paper to them. Furthermore, it is very desirable that credit bureaus be established in each Federal reserve bank, under the joint supervision of the Federal reserve agent and the governor of the bank, in order that material may be there collected, recorded, and indexed for the benefit of the board of directors or executive committee passing upon the paper offered for rediscount and open for inspection by examiners of the Federal Reserve Board.

Under the accounting system which has been adopted reports of various loans made are reported daily to the Washington office. It is proposed a few months hence to require a further weekly report giving the aggregate liability of the makers or payers of the paper rediscounted. This data will then be analyzed at the Washington office and recommendations made which will assist the credit bureaus of the different districts. It will be necessary to establish a system of cooperation and interchange of information between the district credit bureaus and also establish cooperation between national-bank examiners and the Federal reserve banks in each district. This subject is more fully covered in the report of the committee of examiners to the comptroller and the Federal Reserve Board, to which reference is now made.

5. REPORTS AND STATEMENTS.

Various detailed and periodical reports are forwarded to the Federal Reserve Board by the reserve banks. Information as to rediscounts and loans is received daily and the figures recorded on the records of the Division of Reports and Statistics. Loan reports will require careful analysis. The work of the Division of Reports and Statistics and that of the Division of Audit and Examination are so closely related that it is essential that close cooperation shall exist between the two.

6. AUDIT.

The board will determine later whether it will include under the Division of Audit and Examination a department for audit of bills for its own purchase of material or disbursements.

STAFF OF THE DIVISION OF AUDIT AND EXAMINATION.

The board does not contemplate making general examinations until January, 1915. The number of men who will be required on this work will depend entirely upon the extent of the special examinations and investigations demanded,

and it is expected to draw upon the staff of the Comptroller of the Currency for assistance in these examinations.

For the routine work of examination three to four Federal reserve examiners and, say, two assistant examiners will be necessary. An auditing clerk will be required to pass upon the bills for disbursement; a report clerk to analyze the reports made by the Federal reserve banks and record loan data on the credit bureau records will be needed. At least one stenographer will be required for the use of the division."

EXAMINATION OF MEMBER BANKS.

I. Section 11, paragraph —: The Federal Reserve Board shall be authorized (a) "To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and of each member bank."

II. Section 21, paragraph 1, provides that "The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary. The Federal Reserve Board may authorize examination by State authorities to be accepted in case of State banks and trust companies."

III. Section 21, paragraph 3, provides that "In addition to the examination made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board provide for special examination of member banks within its district. * * * Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them."

The law requires that two examinations of every member bank shall be made in each calendar year by examiners appointed by the Comptroller of the Currency. An exception is made, however, of State banks and trust companies where the Federal Reserve Board has authorized the acceptance of examinations by State authorities. It will be seen further that the Federal reserve act gives to the Federal Reserve Board the power to examine each member bank, and also that each Federal reserve bank has the power to examine its member banks.

At present many banks supplement Federal or State examination by independent examinations by clearing-house examiners, public accountants, or directors. State institutions are examined by State bank examiners, and under the laws of some States compulsory examinations by directors are also required.

If advantage is taken of the right to examine member banks by all of the authorities upon whom the power is conferred it will place member banks under continuous examination at a tremendous expense, cause duplication and confusion, and defeat the purpose which the law is intended to serve. The law contemplates not an increase in examinations, but rather an increase in the effectiveness of examinations in both city and country districts.

SUGGESTIONS AS TO EXAMINATIONS—MEMBER BANKS.

(a) *National bank examinations.*—It is plainly the intent of the law that all *regular examinations* of member banks shall be made by national bank examiners. The act permits the Federal Reserve Board to accept examinations by State authorities as to State banks and trust companies admitted to the Federal reserve system.

The primary purposes of all examinations are to ascertain that the institutions are solvent, that business is being conducted in accordance with the law, and to correct unsafe and unsound tendencies.

(b) *Federal reserve bank examinations.*—The primary purpose of such examinations is to "*inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them.*"

In order to determine the line of rediscount which may be safely and wisely extended, the Federal reserve bank in each district will be interested in obtaining detailed information concerning each member bank, as to financial condition, character of management, competency of officers and directors, care exercised in granting and checking credits, customs in extending accommodation to directors and officers, or to corporations which they may own, control, or be interested in, and relations with large borrowers.

The necessary information could be obtained by the national bank examiners in connection with the regular examination. If the plan of cooperation is approved, it is suggested that the Federal reserve agent be furnished with—

1. Record of loans over a stated amount as shown at each examination, in order that the data may be recorded on the credit bureau records and made available for future reference.

2. Such other information as may be desired by the Federal reserve bank.

3. Copies of the reports of examinations of member banks, upon request made to the supervising national bank examiner of the district. These copies to be later returned to the supervising examiner.

Under the proposed plan of cooperation between the Federal reserve banks and the national bank examination system information will be obtained by the examiners for the use of each Federal reserve bank. On the other hand, the records will be available to the examiners for use at subsequent examinations. Each bank will have a record of the business, firm, and corporation affiliations of directors and officers of each member bank, credit information concerning member banks and the standing of borrowers, and record of failures and bankruptcies. The loan lists, after being recorded on credit bureau records, will be returned for use at following examinations.

If a special examination by an examiner appointed by a Federal reserve bank is thought to be necessary it should be made, whenever possible, in connection with the regular examination made by national or State examiners, but under no circumstances without the approval of the Federal Reserve Board.

(c) *Federal Reserve Board—Examination of member banks.*—The exercise of this function should be confined to special examinations or investigations, to be made when and as deemed necessary by the Federal Reserve Board, or with the approval of the board upon a request made by any Federal reserve bank. It will frequently be desirable to have the examination made by national-bank examiners acting under assignment or instructions from the Comptroller of the Currency in cooperation with the Federal Reserve Board.

EXPENSES OF EXAMINATION.

Federal Reserve Board examinations.—Section 10 of the Federal Reserve act provided that "The Federal Reserve Board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees."

It is apparent that the expenses of examinations made by direction of the Federal Reserve Board must be provided for in the semiannual assessment above referred to. In connection with the preliminary examination of State institutions seeking admission it may be possible to charge the institutions investigated the actual expenses incurred.

December 3, 1914.

EXHIBIT D.

STATUS OF FEDERAL RESERVE BOARD.

Secretary McAdoo on December 19 made public the following opinion from the Attorney General:

OFFICE OF THE ATTORNEY GENERAL,
Washington, D. C.

The honorable the SECRETARY OF THE TREASURY,
Washington, D. C.

SIR: I have the honor to acknowledge your letter of October 29, 1914, wherein you request my opinion (a) whether accounts of moneys derived from the semiannual assessment to be levied on Federal reserve banks by the Federal Reserve Board are subject to audit by one of the auditors of the Treasury Department, and (b) as to the status of the Federal Reserve Board, particularly with reference to the Treasury Department.

Section 10 of the "Federal reserve act" of December 23, 1913 (the act authorizing the assessment), provides:

"The Federal Reserve Board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus,

an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levy of such assessment, together with any deficit carried forward from the preceding half year."

The answer to your first question depends on whether the moneys so levied by the Federal Reserve Board are, when received, "public moneys." If so, they are clearly to be audited under sections 7 and 10 of the act of July 31, 1894 (28 Stat., 207), either by the auditor provided for in the first paragraph of said section 7 or by the auditor provided in the fifth paragraph, such paragraphs (so far as material) reading as follows:

First. "The Auditor for the Treasury Department shall receive and examine all accounts of salaries and incidental expenses of the office of the Secretary of the Treasury and all bureaus and offices under his direction, all accounts relating to * * * and all other business within the jurisdiction of the Department of the Treasury and certify the balances arising thereon to the Division of Bookkeeping and Warrants."

Fifth. "The Auditor for the State and other departments shall receive and examine all accounts of * * * and accounts of all boards, commissions, and establishments of the Government not within the jurisdiction of any of the Executive Departments. He shall certify the balances arising thereon to the Division of Bookkeeping and Warrants."

Section 10 (so far as material) provides for a Division of Bookkeeping and Warrants, and that—

"Upon the books of this division shall be kept all accounts of receipts and expenditures of public money," etc.

Reference is also to be made to the act of February 19, 1897 (29 Stat., 550), reading (so far as material) as follows:

"All books, papers, and other matters relating to the office or accounts of * * * commissions, boards, and establishments of the Government in the District of Columbia, shall at all times be subject to inspection and examination by the Comptroller of the Treasury and the Auditor of the Treasury authorized to settle such accounts, or by the duly authorized agents of either of said officials."

(This statute plainly applying to boards, etc., located within the District of Columbia, rather than to boards of the District government, and the Federal Reserve Board being located within the District.)

I am of opinion that moneys received by the Federal Reserve Board, under section 10 of the act of December 23, 1913, are "public moneys" within the meaning of these auditing statutes, for the following reasons, among others:

(1) The assessments are levied by a board whose members, in respect to appointment, tenure, duties, and compensation, meet all requirements of the definition "public officers" and "officers of the United States".

(2) The assessments are levied by such officers pursuant to the provision of a Federal statute and are devoted to the payment of official salaries and the expenses of this official board.

(3) These moneys after collection, are no longer the property of the paying banks, and must be viewed as moneys belonging to the United States, and therefore public moneys as defined by the Supreme Court of the United States in *Branch v. United States*, 100 U. S., 673. In *United States v. Bromley* 12 How., 88, it was held that postal collections from stamp sales are public revenues:

"The revenue of the Post Office Department being raised by a tax on mailable matter conveyed in the mail and which is disbursed in the public service, is as much a part of the income of the Government as moneys collected for duties on imports."

The analogy is marked for the reason that in like manner as the money assessed by the Federal Reserve Board is for the special purpose of meeting the salaries and expenses of the board, so the use of the postal collections is confined to sustaining the specific service by and in which they are collected.

(4) Other provisions of the Federal reserve act (secs. 11-c and 16), dealing with the interest charges, taxes, and penalties, can only be satisfied by deposit in the Treasury of the levies, taxes, and penalties so imposed, and there seems to be no logical ground for distinction between such assessments and the ones in question. The idea of necessary public control is also strengthened by the requirements of Revised Statutes, section 3639.

The moneys received by the Federal Reserve Board under section 10 of the act of December 23, 1913, being thus, in my opinion, public moneys, and consequently subject to audit by one of the auditors of the Treasury Department,

the question is then directly presented under which paragraph of the act of July 31, 1894, *supra*, the audit is to be made. This involves the further question on which you have asked my opinion, namely, whether the Federal Reserve Board is an independent board, commission, or Government establishment, or whether it is a bureau, office, or division, or otherwise a part of the Treasury Department.

That the Federal Reserve Board is a "board" or "establishment" of the Government within the meaning and intent of those words as used in the fifth paragraph of section 7 of the act of July 31, 1894, is plain from the provisions of the Federal reserve act and the explanation of the status of the board contained in the reports accompanying the original bills in Congress. This conclusion is sustained by reason and analogy when reference is had to the considerable number of boards or establishments of far less general or national scope which have been so esteemed and uniformly treated. (See Report of Joint Commission to Inquire into Executive Departments, Oct. 9, 1893. House Reports, 1st sess. 53d Cong., Report No. 88.)

Consideration of the history of the Federal reserve bank act, of the general scheme of the whole act, of the functions to be performed by the Federal Reserve Board, and of the method of their performance, leads me to the clear opinion that the board is an independent board or Government establishment.

The Federal Reserve Board is not merely a supervisory, but is a distinctly administrative board with extensive powers. It is described as follows in the report of the Committee on Banking and Currency to the House of Representatives (63d Cong., 1st sess., Report No. 69) :

Page 16: "In order that these banks may be effectively inspected and in order that they may pursue a banking policy which shall be uniform and harmonious for the country as a whole, the committee proposes a general board of management intrusted with the power to overlook and direct the general functions of the banks referred to. To this it assigns the title of 'The Federal Reserve Board.'" * * *

Page 18: "The only factor of centralization which has been provided in the committee's plan is found in the Federal Reserve Board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relationships between Federal reserve banks and between them and the Government itself."

Page 42: "Section 11. In this section provision has been made for the creation of a general board of control acting on behalf of the National Government * * *."

The report of Senator Owen from the Senate Committee on Banking and Currency (63d Cong., 1st sess., Report 133, part 2) says merely :

"The Federal Reserve Board, consisting of the Secretary of the Treasury and six members appointed by the President of the United States and confirmed by the Senate for terms of six years, are given the following powers:" (Here follows an enumeration of powers.)

The broad functions outlined in these reports are assigned to the board in 12 subdivisions of section 11 of the act giving to it certain powers and authority, and in various other sections containing specific grants of authority to exercise about 40 other powers. Moreover, in subdivision (i) of section 11 the all-embracing requirement appears that "said board shall perform the duties, functions, or service specified in this act and make all rules and regulations necessary to enable said board effectively to perform the same."

The act further contains no express provision that the Federal Reserve Board shall be considered as a bureau, division, or office of the Treasury Department, a significant omission in view of the fact that Congress had under consideration a bureau of that department when, in section 16, it amended the Revised Statutes relative to that "bureau," of which the Comptroller of the Currency was the "chief officer"; and the provision in section 10 that "the Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board"—a provision added to the House bill by the Senate committee—would be highly superfluous if the board were a bureau of that department for which the Secretary already possessed complete authority to assign offices in his own departmental buildings.

The history of the bill develops the following facts of significance :

In section 11 of H. R. 7837 (sec. 10 of the act), it is provided :

"The manager of the Federal Reserve Board, subject to the supervision of the Secretary of the Treasury and Federal Reserve Board, shall be the executive officer of the Federal Reserve Board."

This clearly contemplated that the Secretary of the Treasury and the Federal Reserve Board were distinct entities.

In the act as passed (sec. 10) the supervision of the Secretary of the Treasury is stricken out, leaving the governor (manager) subject only to supervision of the board.

In section 16 of H. R. 7837 (sec. 16 of the act) it is provided:

"The Secretary of the Treasury shall, subject to the approval of the Federal Reserve Board, from time to time apportion the funds of the Government among the said Federal reserve banks, distributing them, as far as practicable, equitably between different sections. * * *

This also clearly contemplated the Secretary and the board as coordinate officials. The whole provision was stricken from the act as passed, but nothing was substituted for it.

In section 11 of H. R. 7837 (sec. 10 of the act) the Comptroller of the Currency was to perform his duties "under the general direction of the Secretary of the Treasury acting as chairman of the Federal Reserve Board."

In the act as passed the words "acting as chairman of the Federal Reserve Board" were stricken out, showing an intention to distinguish clearly between placing the comptroller under the Secretary as head of the Treasury Department and the Secretary as ex officio chairman of the board.

The most significant change made in H. R. 7837 by the act as passed was the insertion in section 10 of the act of the following clause:

"Nothing in this act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury such powers shall be exercised subject to the supervision and control of the Secretary."

It is evident that, while the purpose of this clause was, amongst other things, to insure the preservation and supremacy of all existing powers of the Secretary of the Treasury in all cases where it might be claimed that such powers overlapped or conflicted with those of the Federal Reserve Board, nevertheless by this very provision the act clearly recognized the existence of powers of the board independent of the Secretary in cases where no such conflict existed.

Very respectfully,

(Signed)

T. W. GREGORY,
Attorney General.

EXHIBIT E.

CIRCULARS AND REGULATIONS FEDERAL RESERVE BOARD.

Regulation No. 1.]

FEDERAL RESERVE BOARD,
Washington, August 28, 1914.

PROCEDURE IN APPEALS FROM DECISION OF THE RESERVE BANK ORGANIZATION COMMITTEE.

1. *Petitions for changes in designation of Federal reserve cities.*—Petitions for review of the action of the reserve bank organization committee in designating Federal reserve cities must be signed by duly authorized officers of a majority of the member banks located in the city requesting a review.

Such petitions must set forth briefly the grounds and reasons relied upon for such review.

Within five days after mailing said petition the petitioner shall file 20 copies of a brief setting forth fully the grounds relied upon for a review of the action of said reserve bank organization committee.

The secretary of the board shall notify all member banks in the Federal reserve city of the district in question that such petition has been filed, and shall request such banks to designate a representative to act for such city at the hearing thereon. He shall also send to the representative of such banks, when designated, a copy of the brief filed by the petitioner, and said representative shall be given seven days within which to file 20 copies of his brief in reply.

The Federal Reserve Board will thereupon fix a date for the hearing of oral arguments by counsel, which arguments will be limited to one hour on each side.

The board will not hear testimony, but the parties will be limited to the record before the organization committee.

The record need not be printed, but reference may be made in the briefs by page to the report filed by the organization committee with the Senate of the United States and ordered printed, and may likewise be made by page and volume to the typewritten testimony of the witnesses appearing before the organization committee at the hearings held by the committee.

2. *Petitions for changes in the geographical limits of Federal reserve districts.*—Petitions for review of the determination of Federal reserve districts by the organization committee must be signed by duly authorized officers of at least two-thirds of the member banks in the territory which the petition asks to have taken out of one district and annexed to another.

Proceedings as to notice, filing of briefs and arguments shall be the same as for petitions for changes in the designation of Federal reserve cities, except that the board of directors of the Federal reserve bank and not the member banks in the Federal reserve city shall select the representative to appear and answer the petition. Class A and B directors elected may act, pending appointment of Class C directors, in the selection of such representative.

At all hearings held hereunder all questions of law or fact, including jurisdiction and powers of the Federal Reserve Board, may be argued.

FEDERAL RESERVE BOARD,
By CHARLES S. HAMLIN, Governor.

Regulation No. 2.]

FEDERAL RESERVE BOARD,
Washington, November 10, 1914.

That part of section 13 of the Federal reserve act which relates to rediscount operations of Federal reserve banks reads as follows:

"Upon the indorsement of any of its member banks, with a waiver of demand, notice, and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act. Nothing in this act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than 90 days: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

"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. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

"The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

"Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus."

Section 19 of the Federal reserve act, relating to reserves, reads in part as follows:

"Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank."¹

The announcement to be made by the Secretary of the Treasury on November 16 will bring into operation these two sections, and it is accordingly necessary that the several Federal reserve banks shall be advised of the characteristics that must be possessed by paper offered for rediscount to be acceptable under the terms of the act.

While section 13 provides that the Federal Reserve Board shall have the right to determine or define the character of the paper thus eligible for discount within the meaning of the act, the section referred to defines in general terms the elements which such paper must possess in order to be eligible.

All paper offered for discount under this section to any Federal reserve bank must conform to the following requirements:

First. It must be indorsed by a National or State bank or trust company which is a member of the Federal reserve bank to which it is offered for rediscount.

Second. Such bank must, with its indorsement, waive demand notice and protest.

Third. Paper so offered shall be in the form of notes, drafts, or bills of exchange arising out of commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes.

Fourth. If in the form of acceptances, they must be based on transactions involving the importation or exportation of goods and must have a maturity at the time of discount of not more than three months to run. They must furthermore be indorsed by at least one member bank, and the total amount offered shall in no event exceed one-half the paid-up capital stock and surplus of the bank offering same.

Fifth. The aggregate of notes and bills bearing the signatures or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed 10 per cent of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Subject to these limitations, it devolves upon the Federal Reserve Board to determine or define for the several Federal reserve banks (1) notes, drafts, and bills of exchange eligible for rediscount; (2) bank acceptances eligible for rediscount.²

The limitations relating to rediscount operations, contained in section 13 of the act, may be divided into two classes: First, those positive limitations under which such notes, drafts, and bills of exchange may be accepted for rediscount; and, second, those limitations specifically stating what paper shall be excluded.

If we begin with the latter, we find the very clear provision excluding all notes, drafts, and bills of exchange which are "issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities (except bonds and notes of the Government of the United States)." This clause does not require comment.

The act further excludes notes, drafts, and bills of exchange covering "merely investments."

Any funds employed in agriculture, commerce, or industry are quasi investments, and the emphasis is, therefore, to be laid on the word "merely" in this connection.

From this point of view are to be excluded all bills whose proceeds have been or are to be used in permanent or fixed investments of any kind. "Agricultural, industrial, or commercial purposes" can not, therefore, be held to include investments in land, plant, machinery, permanent improvements, or transactions of a similar nature.

¹ Attention is called to the fact that the error in the original act which refers to eligible paper, referred to in section 14, has been corrected by amendment approved Aug. 15, 1914, and this section now reads:

"Any Federal reserve bank may receive from the member banks as a reserve, not exceeding one-half of each installment, eligible paper as described in section thirteen properly indorsed and acceptable to the Federal reserve bank."

² Bank acceptances eligible for rediscount are defined in regulation No. 6.

The purchase of commodities for purposes which are merely speculative and not connected with an ultimate process of manufacturing or distribution would constitute a "mere" investment, and bills covering such investments are accordingly not eligible for rediscount.

In order to be eligible for rediscount bills must "arise out of actual commercial transactions," and "the proceeds must have been used or they are to be used for agricultural, industrial, or commercial purposes."

In like manner "notes, drafts, and bills of exchange secured by staple agricultural products or other goods, wares, or merchandise" are eligible for rediscount provided they arise out of "actual commercial transactions" covering some particular stage in the process of production and distribution.

They are not eligible when drawn to cover merely speculative investments.

CHARLES S. HAMLIN, *Governor*.

Regulation No. 3.]

FEDERAL RESERVE BOARD,
Washington, November 10, 1914.

Whenever a member bank shall offer for rediscount any note, draft, or bill of exchange bearing the indorsement of such member bank, with waiver of demand notice and protest, the directors or executive committee of the Federal reserve bank may, until January 15, 1915, accept as evidence that the proceeds of such note, draft, or bill of exchange were or are to be used for agricultural, industrial, or commercial purposes (and that such notes, drafts, or bills of exchange in other respects comply with the regulations of the board) a written statement from the officer of the applying bank that of his own knowledge and belief the original loan was made for one of the purposes mentioned, and that the provisions of the act and regulations issued by the board have been complied with.

CHARLES S. HAMLIN, *Governor*.

Regulation No. 4.]

FEDERAL RESERVE BOARD,
Washington, November 10, 1914.

From and after January 15, 1915, all notes, drafts, or bills of exchange offered for rediscount shall show on their face, or by indorsement, a statement substantially to the following effect:

"Eligible for rediscount with Federal reserve banks under regulations of the Federal Reserve Board Circular No. 13—

"Credit file No. ———.

"District No. ———.

"Name of member bank ———."

The credit file number shall refer to evidence in possession of the member bank that the proceeds of such notes, drafts, or bills of exchange, under the terms of the loans made or to be made, were, or are to be, used for agricultural, industrial, or commercial purposes, as required by section 13 of the Federal reserve act and as imposed by regulation No. 2 of the Federal Reserve Board, and such credit files shall be open to inspection by any examiner appointed by the Comptroller of the Currency or selected by the Federal reserve bank discounting same, and copies of such files, or any part thereof, shall be furnished to the officers of the Federal reserve bank upon request.

The credit files referred to should contain not only evidence of the purpose or purposes for which such loans are made but also full and complete information as to the financial responsibility of the borrower, including a short general description of the character of the business, balance sheet, and profit and loss account of the borrower. Assets should be divided into permanent or fixed investments, slow assets, and quick assets. On the liability side should be shown capital, long-time loans, and short-term loans. Short-term loans should be in proper proportion to quick assets, and the statement should contain satisfactory evidence that short-term paper is not being sold against permanent or slow investments. The statement should, furthermore, show the maximum aggregate amount up to which the concern supplying this paper expects to borrow on short credit or sale of its paper, and the individual, firm, or corporation giving the statement should obligate himself or itself to obtain the member bank's consent before exceeding the agreed limit. The affixing of the stamp stating such

paper to be eligible for rediscount will be considered a solemn and binding declaration by the member bank that the statement has been examined from this point of view and that the paper bought complies with all the requirements of the law and of the regulations hereby imposed.

CHARLES S. HAMLIN, *Governor*.

Regulation No. 5.]

FEDERAL RESERVE BOARD,
Washington, November 10, 1914.

Whenever notes, drafts, or bills of exchange offered for rediscount have a maturity of more than three but less than six months, and the Federal reserve bank has been satisfied in the manner provided by regulation No. 2 that the proceeds of loans applied for are used or are to be used for agricultural purposes or are based upon live stock, such notes, drafts, and bills of exchange may, until further notice, be accepted for rediscount in an aggregate amount not exceeding 25 per cent of the paid-in capital of the Federal reserve bank accepting same.

CHARLES S. HAMLIN, *Governor*.

Regulation No. 6.]

FEDERAL RESERVE BOARD,
Washington, November 10, 1914.

Whenever bank acceptances are offered for rediscount it must appear on the face of such acceptances that the proceeds thereof were used or are to be used in connection with a transaction involving the importation or exportation of goods; that is to say, it must appear that there has been an actual bona fide sale which involves the transportation of goods from some foreign country to the United States or from the United States to some foreign country.

CHARLES S. HAMLIN, *Governor*.

Regulation No. 7.]

FEDERAL RESERVE BOARD,
Washington, November 11, 1914.

Section 19 of the Federal reserve act provides in part as follows:

"Demand deposits within the meaning of this act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment."

Time deposits.—The term "time deposits" is interpreted to include any deposits subject to check upon which the bank has the right by written contract entered into with the depositor at the time the deposit was made to require from such depositor not less than 30 days' notice before such deposit or any part thereof may be withdrawn. Any agreement, written or verbal, entered into by a member bank with a depositor not to enforce the terms of such contract of deposit shall be construed as vitiating the contract, and any member bank reporting as time deposits any deposits on which it has not the right to require not less than 30 days' notice before withdrawal may be subject to the penalties prescribed by section 5209 of the Revised Statutes of the United States.

Savings accounts.—The term "savings accounts" shall be held to include those interest-bearing accounts which are carried with the bank under written agreement on the part of the bank to pay a specific rate of interest, which rate is to be paid to all other depositors having similar accounts and where the depositor is required to present his pass book with each check drawn. Savings accounts shall not be held to include any ordinary checking accounts where presentation of the pass book with the check is not required.

In the case of State banks and trust companies located in States whose laws require that funds accruing from savings accounts shall be invested in any particular class of securities, only those accounts whose balances are so invested and which are handled so as to comply with the technical requirements of the State laws shall be held to be savings accounts within the meaning of this act.

CHARLES S. HAMLIN, *Governor*.

Regulation No. 8.]

FEDERAL RESERVE BOARD,
Washington, November 23, 1914.

Each Federal reserve agent shall be required to execute a bond with acceptable security running to the United States in the penal sum of \$250,000, and each deputy Federal reserve agent shall be required to execute a like bond in the penal sum of \$150,000.

Treasury Department Form No. 280 has been approved and adopted by the Federal Reserve Board, with the necessary conditions inserted, so that the bond to be executed will be in the form following:

"Know all men by these presents that we, _____, of _____, as principal, and _____, as surety, are held and firmly bound unto the United States of America in the full and just sum of _____ thousand dollars (\$_____), lawful money of the United States, for which payment, well and truly to be made, we bind ourselves, jointly and severally, our joint and several heirs, executors, and administrators, successors, and assigns firmly by these presents.

"Sealed with our seals and dated this _____ day of _____, in the year one thousand nine hundred and _____.

"The condition of the foregoing obligation is such that whereas under the authority of the act of Congress approved December 23, 1913, and known as the Federal reserve act, the said _____ has been duly appointed by the Federal Reserve Board a class C director, and has been designated as Federal reserve agent of the Federal reserve bank of _____, and whereas the said _____ has executed his oath of office and entered upon his duties as _____.

"Now, therefore, if the said _____ shall well and truly execute and discharge all the duties of said office according to the laws of the United States and the regulations of the Federal Reserve Board made in conformity therewith, safely keeping and correctly accounting for and delivering to the party or parties entitled thereto all moneys, notes, securities, and other funds coming into his hands from time to time, without loaning, using, depositing in bank, or exchanging for other funds, except as allowed by law, then this obligation to be void and of no effect; otherwise to remain in full force and virtue.

"Sealed, signed, and delivered in the presence of—

"_____
"_____.

"_____
"_____.

CHARLES S. HAMLIN, Governor.

Regulation No. 9.]

FEDERAL RESERVE BOARD,
Washington, December 31, 1914.

LOANS ON FARM LANDS.

Section 24 of the Federal Reserve Act provides that—

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding 50 per cent of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to 25 per cent of its capital and surplus, or to one-third of its time deposits, and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same."

National banks not located in central reserve cities may, therefore, now legally make loans secured by mortgages on real estate within the following limitations:

1. The real estate security must be farm land.
2. It must be improved.
3. There must be no prior lien; in other words, the lending bank must hold an absolute first mortgage or deed of trust.
4. The property must be located in the same Federal reserve district as the bank making the loan.
5. The amount of the loan must not exceed 50 per cent of the actual value of the property upon which it is secured.
6. The loan must be for a period not longer than five years.
7. The maximum amount of loans which a national bank may make on real estate under the terms of the act shall be limited to an amount not in excess

of one-third of its time deposits at the time of the making of the loan, and not in excess of one-third of its average time deposits during the preceding calendar year; provided, however, that if one-third of such time deposits as of the date of making the loan, or one-third of the average time deposits for the preceding calendar year, shall have amounted to less than one-fourth of the capital and surplus of the bank as of the date indicated, in such event the bank shall have authority to make loans upon real estate under the terms of the act to the extent of one-fourth of the bank's capital and surplus as of the date of making the loan.

In order that real estate loans held by a bank may be readily classified, a statement signed by the officers making a loan and having knowledge of the facts upon which it is based must be attached to each note secured by a first mortgage on improved farm land, certifying in detail as of the date of the loan that all the requirements of law have been duly observed.

The board calls attention to the closing paragraph of section 24 of the act, which provides that "the Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section," and gives notice that the foregoing regulations are subject to the authority of the board to revise the list of cities in which national banks shall not be permitted to make real estate loans in the manner above provided.

CHARLES S. HAMLIN,
Governor.
H. PARKER WILLIS,
Secretary.

FEDERAL RESERVE ACT—DUTIES AND POWERS OF THE ORGANIZATION COMMITTEE.

Circular No. 1.]

RESERVE BANK ORGANIZATION COMMITTEE,
Washington, D. C., February 14, 1914.

In view of the large number of inquiries received from both national and State banks as to the proper interpretation of various sections of the Federal reserve act, it is deemed advisable to explain, as briefly as the circumstances will permit, the operation of this act in so far as it relates to the duties and powers of the organization committee and the method of procedure adopted by the committee. For convenience, these duties are considered in their chronological order.

First, Section 2 of the Federal reserve act provides as follows:

"Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within 60 days after the passage of this act, its acceptance of the terms and provisions hereof."

It will be observed that under the provisions of this section *all* national banks are *required*, and all other eligible banks are *permitted*, to signify their acceptance of the provisions of this act within 60 days from its passage. Banks should not confuse this notice to the committee with the formal application for stock to be filed later.

To facilitate compliance with this provision of the act, the committee has forwarded to all national banks a prescribed form of resolution to be adopted by the boards of directors of such banks, and upon request from State banks is forwarding a prescribed form of resolution for use by such banks. When certified copies of such resolutions have been received and filed no other action by applying banks is necessary until the locations of the several Federal reserve banks have been established by the committee, and the districts to be served by such banks have been defined.

The Committee is now engaged in holding hearings in various parts of the United States in order to have before it as much information as possible to enable it to properly determine the locations of such banks and the districts to be served.

Section 2 further provides as follows:

"When the organization committee shall have designated the cities in which Federal reserve banks are to be organized and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within 30 days after notice from the organization committee to subscribe to the capital stock of such Federal reserve bank in

a sum equal to 6 per cent of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months, and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates."

This section should be read in connection with section 4 of the Federal reserve act, which reads as follows:

"When the organization committee shall have established Federal reserve districts as provided in section 2 of this act a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this act."

It will be observed from the foregoing that the Comptroller of the Currency will cause to be forwarded to those banks which have signified their intention to become members of Federal reserve banks a form of application to be executed by such banks after the districts have been laid out and the location of the Federal reserve banks definitely established by the organization committee. These forms will be forwarded in due course, and, in accordance with the further provisions of the act, when the minimum amount of stock for any Federal reserve bank has been subscribed the committee will designate five banks to execute the necessary organization certificate. Subscriptions to stock will therefore not be called by the committee until after these preliminary steps have been taken.

National banks as members.—Attention is called to the fact that all national banks are required to signify within 60 days from the passage of the Federal reserve act whether or not they accept the provisions of the act and intend to subscribe to the stock of the Federal reserve banks when organized.

That within 30 days after the organization committee has announced the designation of cities in which Federal reserve banks are to be organized, fixed the geographical limits to be served, and notified such national banks, all such national banks are required to subscribe to the capital stock of such Federal reserve banks. These provisions are clearly set forth in the Federal reserve act, and the committee will expect and require a strict compliance therewith.

A number of banks appear to be under the misapprehension that they are allowed 12 months' time in which to accept the provisions of the Federal reserve act. This limitation, which is manifestly intended to cause automatically a forfeiture of the charters of those banks failing to comply with the provisions of the act, must not be construed as extending the time specifically set out in the act within which such banks must take the action above outlined.

State banks as members.—The provisions relating to membership by State banks are, under the terms of the act, entirely optional. State banks are not required to signify within any given time their intention to become members, but are permitted to do so if they desire to become members as soon as Federal reserve banks are originally organized.

Two methods are prescribed by the Federal reserve act by which such banks may become members of the Federal reserve system. First, under section 8, by conversion of State banks into national banks, in which case the laws applicable to national banks become immediately operative as soon as such conversion is completed. Second, under section 9 State banks may become members, as State banks, retaining their State charters, in which case such banks are subject, specifically, to the provisions of the Federal reserve act contained in section 9, and to such other provisions of the act as are clearly applicable. Banks becoming members as State banks, therefore, may exercise those powers conferred by their State charters which are not in conflict with the specific provisions of the Federal reserve act.

State banks and trust companies signifying their intention to become members of the Federal reserve system before the organization of the Federal reserve banks will be permitted to participate in the selection of directors of said reserve banks, as prescribed by the Federal reserve act.

The committee has prescribed the regulations under which State banks and trust companies may become members, and a copy of such regulations, with the forms approved for use by such banks, will be furnished upon request of any State bank desiring to apply for membership in a Federal reserve bank.

M. C. ELLIOTT,
Secretary Reserve Bank Organization Committee.

Circular 2.]

RESERVE BANK ORGANIZATION COMMITTEE,
Washington, D. C., May 6, 1914.

SIR: In answer to a number of inquiries received and in order to expedite the organization of the several Federal reserve banks, your attention is called to the steps still to be taken before such banks can be fully organized, and particularly to the method of election of class A and class B directors by the member banks.

EXECUTION OF ORGANIZATION CERTIFICATE.

Section 4, paragraph 2, reads as follows:

"When the minimum amount of capital stock prescribed by this act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state," etc.

In accordance with this provision the committee will, not later than May 9, designate five banks in each district to execute the organization certificate provided for. To facilitate the incorporation of such banks the representatives of the banks so designated will be requested to meet promptly in the Federal reserve city of their respective districts so that the certificate which has been prepared by the committee may be executed and filed with the Comptroller of the Currency. When this has been done all subscribing banks, under the committee's interpretation, will be treated as member banks, and the election of electors and the nomination of directors may be immediately proceeded with.

ELECTION OF DIRECTORS.

A later paragraph of section 4 of the Federal reserve act reads in part as follows:

"The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee, shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number, by the chairman."

GROUPING OF BANKS.

In accordance with the above provision the organization committee will divide the banks of your district into three groups.

Group No. 1 will contain approximately one-third of the aggregate number of banks in your district and will be composed of banks of the largest capitalization.

Group No. 2 will include approximately one-third of the aggregate number of banks in your district and will embrace the banks having the next largest capitalization.

Group No. 3 will include approximately one-third of the aggregate number of banks in your district, being composed of those having the smallest capitalization.

While, under the terms of the statute, banks can not be officially grouped until the Federal reserve banks are incorporated, that is to say, until the organization certificate has been filed with the Comptroller of the Currency, an analysis has been made of those banks which have signified their intention to subscribe and for your information there is attached hereto as "Exhibit A"

a tentative analysis which will show, with slight variation, the group to which the banks of each of the several districts will be assigned.

DISTRICT RESERVE ELECTORS.

Section 4, continuing, reads as follows:

"At a regularly called meeting of the board of directors of each member bank in the district, it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups, and shall transmit one list to each elector in each group."

As all banks are required to send in their subscriptions not later than May 8, it is expected that the organization certificate will be filed with the Comptroller of the Currency by the several Federal reserve banks immediately thereafter, and it is, of course, desirable that the class A and class B directors should be regularly elected as soon thereafter as possible, and the class C directors appointed by the Federal Reserve Board.

Accordingly, if the member banks will arrange to hold meetings of their directors promptly, after the Federal reserve banks are incorporated, for the purpose of electing district reserve electors, and nominating candidates for class A and class B directors, the organization of the Federal reserve banks will be greatly facilitated.

The manifest purpose of electing district reserve electors is to obviate the necessity of convening the boards of the various member banks in order to vote on the nominees and as no elector should represent more than one bank it is suggested that each member bank select one of its own officers or directors to act in this capacity.

NOMINATION OF CANDIDATES.

Section 4, continuing further, reads as follows:

"Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within 15 days after its completion, be furnished by the chairman to each elector."

Under the Federal reserve act the organization committee, prior to the selection of class C directors, performs the duties and has the authority of the class C director who is chairman of the board of each Federal reserve bank.

Under the provisions of section 4, directors of class A shall be chosen by and be representative of the stockholding banks.

Directors of class B shall, at the time of their election, be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The elector does not select the nominees whose names are to be placed on the ballot for class A and class B directorships, but the sole duty of the elector is to vote on the candidates after they have been nominated.

At the same meeting at which the district reserve elector is elected, each member bank may by its board of directors, nominate for its respective group, one candidate for class A and one candidate for class B directors.

Candidates for class A should be residents of the district and should be representative of the banks of the district. They may be officers, directors, or stockholders of any of the member banks located in the district and need not necessarily be officers, directors, or stockholders of any bank of the particular group of banks placing them in nomination, or of any other bank.

In like manner, directors of class B must be residents of the district and must be engaged in commerce, agriculture, or some other industrial pursuit. Accordingly, if any attorney, physician, or other professional man is placed in nomination, it must appear that such nominee is also engaged in one of the pursuits specified by the statute. Class B directors can not be stockholders, officers, or directors in any bank.

Forms will be mailed to each member bank in each district for use in reporting to the organization committee (which, until the selection of the chairman of the board of each Federal reserve bank by the Federal Reserve Board, shall act in the place of the said chairman) the name of the district reserve elector, and the nominees of class A and class B directors.

When these forms shall have been received by the organization committee a list will be prepared of all district reserve electors and mailed to each elector in each district in compliance with the statute.

A form of ballot has also been prepared which will show the candidate for class A and the candidate for class B directors of each group, and this ballot will be sent in due course to each district reserve elector, in order that his vote may be cast in accordance with the provisions of the statute.

Each district reserve elector will indicate on this ballot his first, second, and third choices for one director of class A, and his first, second, and third choices for one director of class B.

The ballot furnished will show all nominees of the group and the name of the bank nominating each candidate.

Each group will elect one class A and one class B director. The electors will therefore vote only on the nominees of their own group, and not on all the nominees of their district.

When these ballots have been received by the organization committee, a poll will be made and the result of the election announced as early as practicable.

When this announcement has been made and the Federal Reserve Board has named the three class C directors in each district, the board of directors of each Federal reserve bank will be immediately convened and organized, and this board will then adopt such by-laws and elect such officers as may be deemed necessary.

The board of directors of each Federal reserve bank will also arrange for proper banking quarters and for the employment of the necessary clerical force in order to place the banks in operation as early as possible.

The organization of the Federal reserve banks in those districts whose member banks act promptly will not be held back and delayed to keep pace with the organization of banks in other districts whose member banks are slow in taking action and in making their returns to the organization committee.

It will be observed from the foregoing that the cooperation and prompt action of the member banks is important in order to have the Federal reserve banks ready for business at the earliest date practicable.

Respectfully,

M. C. ELLIOTT,

Secretary Reserve Bank Organization Committee.

EXHIBIT A.—*Tentative analysis showing probable groups or divisions of member banks by districts.*

District No.	Federal Reserve city.	Group No. 1.		Group No. 2.		Group No. 3.	
		Number of banks.	Aggregate capital and surplus of each member bank.	Number of banks.	Aggregate capital and surplus of each member bank.	Number of banks.	Aggregate capital and surplus of each member bank.
1	Boston.....	148	\$250,000 or more.	148	Less than \$250,000 but more than \$120,000.	148	\$120,000 or less.
2	New York.....	160	\$190,000 or more.	159	Less than \$190,000 but more than \$70,000.	159	\$70,000 or less.
3	Philadelphia.....	253	\$190,000 or more.	252	Less than \$190,000 but more than \$75,000.	252	\$75,000 or less.
4	Cleveland.....	257	\$150,000 or more.	255	Less than \$150,000 but more than \$60,000.	255	\$60,000 or less.
5	Richmond.....	160	\$140,000 or more.	158	Less than \$140,000 but more than \$60,000.	158	\$60,000 or less.
6	Atlanta.....	126	\$130,000 or more.	124	Less than \$130,000 but more than \$60,000.	124	\$60,000 or less.
7	Chicago.....	319	\$120,000 or more.	319	Less than \$120,000 but more than \$55,000.	319	\$55,000 or less.
8	St. Louis.....	151	\$100,000 or more.	151	Less than \$100,000 but more than \$50,000.	151	\$50,000 or less.
9	Minneapolis.....	230	\$60,000 or more.	230	Less than \$60,000 but more than \$30,000.	230	\$30,000 or less.
10	Kansas City.....	279	\$75,000 or more.	277	Less than \$75,000 but more than \$40,000.	277	\$40,000 or less.
11	Dallas.....	245	\$100,000 or more.	244	Less than \$100,000 but more than \$50,000.	244	\$50,000 or less.
12	San Francisco...	172	\$120,000 or more.	170	Less than \$120,000 but more than \$55,000.	170	\$55,000 or less.

RESERVE BANK ORGANIZATION COMMITTEE,
Washington, D. C.

SIR: In the circular dated May 6, 1914, in particular reference to the election of class A and class B directors of Federal reserve banks the following sentence appears at the bottom of page 2:

"Class B directors can not be *stockholders*, officers, or directors in any bank."

This sentence should read as follows:

"No director of class B shall be an officer, director, or *employee* of any bank."

Respectfully,

M. C. ELLIOTT, *Secretary*.

Circular No. 3.]

FEDERAL RESERVE BOARD,
Washington, August 25, 1914.

SIR: You are requested to furnish the following information on the accompanying form for the use of the reserve bank organization committee and the Federal Reserve Board in connection with the organization of the Federal reserve banks.

This information is not intended for publication, but for the use of the board.

Please supply carefully the information called for on pages 2, 3, and 4 and return this blank promptly in the inclosed addressed envelope, which requires no postage. Your immediate attention to this request will facilitate the determination of the questions involved and will, it is hoped, enable the board to develop plans to accomplish the results desired with the least inconvenience.

Respectfully,

M. C. ELLIOTT,
Secretary Reserve Bank Organization Committee,
Secretary pro tempore Federal Reserve Board.

NONRESERVE CITY BANKS.

Statement of condition of _____ National Bank of _____ at the close of business on the 31st day of August, 1914.
(City and State.)

LIABILITIES.

Capital stock, surplus, and undivided profits.....	\$
Time deposits (including all deposits not payable for 30 days or more, and all deposits which are subject to 30 days' notice—that is, upon which the bank may require 30 days' notice before withdrawal).....	
Demand deposits.....	
Bills payable.....	
Circulation outstanding:	
Secured by United States bonds.....	
Secured otherwise than by United States bonds.....	
Bank balances.....	
All other liabilities.....	
Total.....	

RESOURCES.

Loans, discounts, and overdrafts.....	
Bonds and other securities.....	
Banking house, real estate, furniture, and fixtures.....	
United States bonds to secure circulation.....	
United States bonds to secure deposits.....	
Balances with approved reserve agents and counted as reserve (give name of city and amount carried in each city):	
Five per cent redemption fund.....	
Cash items.....	
Cash:	
Gold or gold certificates.....	
National bank notes.....	
United States legal tender notes.....	

Cash—Continued.

Silver and silver certificates.....
 Minor coin.....
 All other assets.....

Total.....

Statement of condition of ——— National Bank of ——— as it will appear
 (City and State.)
 if first installment of 1 per cent of capital and surplus had been paid on
 subscription to the stock of the Federal reserve bank of its district on same
 date as is shown in statement of condition on opposite page; and if new
 reserve requirements had at that time gone into effect, and transfer of pro-
 portionate amount of reserve had been made to the Federal reserve bank of
 its district.

NOTE.—While capital stock payments and reserve transfers need not be made simul-
 taneously, for the purposes of this statement it will be assumed they will be so made.

LIABILITIES.

Capital stock, surplus, and undivided profits.....
 Time deposits.....
 Demand deposits.....
 Bills payable.....
 Circulation outstanding:
 Secured by United States bonds.....
 Secured otherwise than by United States bonds.....
 Bank balances.....
 All other liabilities.....
 Total.....

RESOURCES.

Loans, discounts, and overdrafts.....
 Bonds and other securities.....
 Banking house, real estate, furniture, and fixtures.....
 United States bonds to secure circulation.....
 United States bonds to secure deposits.....
 Reserve balances:
 With Federal reserve bank (not less than one-sixth of total reserve
 required).....
 With approved reserve agents (give names of cities)——
 Five per cent redemption fund.....
 Cash items.....
 Cash:
 Gold or gold certificates.....
 National bank notes.....
 United States legal tender notes.....
 Silver and silver certificates.....
 Minor coin.....
 Federal reserve bank stock (amount of first installment—that is, 1 per
 cent of your capital and surplus).....
 All other assets.....
 Total.....

STOCK SUBSCRIPTIONS.

Please state from what city or cities you would probably withdraw bal-
 ances in order to pay the first installment of your subscription to the
 capital stock of the Federal reserve bank of your district, giving
 amount, if any, that you would probably withdraw from each city.....
 Please state what amount of the first installment of your subscription to
 capital stock you would probably pay in gold or gold certificates out of
 funds in your own vaults.....

RESERVE BALANCES.

Please state what amount, if any, you would probably withdraw from approved reserve agents in order to make transfer of required reserve to the Federal reserve bank of your district if call were made and new reserve requirements became effective at any time within 30 days from date _____

Please give names of cities from which such withdrawals would probably be made, showing amount you would probably withdraw from each city _____

Please state what amount you would probably transmit from your own vaults in cash to the Federal reserve bank to meet new reserve requirements _____

Please state what amount, if any, you would probably desire to rediscount with the Federal reserve bank of your district in order to pay part of your reserve in eligible paper _____

NOTE.—In answering the foregoing questions it may be assumed that payment of subscription and transfer of reserve are made simultaneously.

I, _____, of the above-named bank, do solemnly swear (or affirm) (Cashier or president.) that the foregoing statement is true, and fully and correctly represents the true state of the several matters therein contained, to the best of my knowledge, information, and belief.

_____, {Cashier.
_____, {President.

(Name of bank.)

(City and State.)

STATE OF _____, County of _____:

SWORN to and subscribed before me this _____ day of _____, 1914; and I hereby certify that I am not an officer or a director of this bank.

[SEAL.] _____, Notary Public.

REPORTS OF THE GOLD FUND PRELIMINARY COMMITTEE.

Circular No. 4.]

WASHINGTON, D. C., September 4, 1914.

To the honorable the Secretary of the Treasury and the Federal Reserve Board.

SIRs: The committee appointed by the conference of bankers appreciates the desirability of relieving the present international-exchange situation and particularly of regulating the outflow of gold. The committee at the same time realizes the necessity of promptly meeting the obligations of banks, corporations, and individuals to Europe, thereby maintaining the high credit of this country and demonstrating its ability to meet its obligations.

For this purpose and with this object in view, this committee recommends to the Federal Reserve Board the following plan:

That the banks of this country, especially those located in reserve and central reserve cities, be requested to contribute to a gold fund of \$150,000,000, of which \$25,000,000 to be immediately paid into the depository of the Bank of England in Canada, for which a participation deposit receipt will be furnished to each contributing bank. The remainder of the contributed amounts to be subject to call by the New York committee through the local committees of the respective cities and to be paid for in New York exchange.

Said New York committee to be appointed by the New York Clearing House Association and said local committees to be appointed by the clearing-house associations of the respective contributing cities. The committee appointed by the New York Clearing House Association to be charged with the duty of handling the said fund, of fixing the price at which foreign exchange is to be bought and sold, and is to make requisition from time to time upon the respective contributing cities through the local committees thereof. Said local committees shall have supervision in the respective cities of the shipments and general withdrawals of gold.

This committee recommends that the Federal Reserve Board take steps to ascertain the amount of gold that will be contributed by the banks in the respective cities and that it use its influence to have the said banks contribute their proper pro rata.

Respectfully,

JAMES B. FORGAN.
S. WEXLER.
BENJ. STRONG, JR.
THOMAS P. BEAL.
L. L. RUE.

WASHINGTON, September 19, 1914.

To the honorable the Secretary of the Treasury and the Federal Reserve Board.

GENTLEMEN: Referring to the recommendations contained in our communication of September 4:

We have, in compliance with your suggestion, given further consideration to the present international exchange situation, taking into account the changed conditions arising from the completion of plans for meeting the obligations of the city of New York payable in Europe.

This committee is of the opinion that the continuance of the high credit of this country abroad will be demonstrated, and that normal conditions of the foreign exchange market will best be reestablished by the prompt creation of a large gold fund for export if necessary, as suggested in our former report. We therefore recommend that the central reserve and reserve city banks of the United States (both national and State institutions) be requested to contribute to a gold fund of \$100,000,000 instead of \$150,000,000, as originally proposed. Of this amount, \$25,000,000 should be made immediately available. The administration of the fund should be conducted by a resident committee in the city of New York, where the principal foreign exchange transactions of the country take place, and we suggest that the recommendation of the Clearing House Association of the City of New York for the appointment of the following gentlemen as such committee be approved, namely: Albert H. Wiggin, chairman; William Woodward, J. S. Alexander, Francis L. Hine, Benjamin Strong, jr., F. A. Vanderlip.

We propose to arrange the details of the plan of administration with the New York committee so that the requirements of all parts of the United States for foreign exchange will be fairly and impartially dealt with; and we suggest, in the event of any complaint on the part of any contributor to the fund in connection with the distribution or use thereof, your board shall appoint a committee of bankers to pass upon any such question, whose decision, under such rules and regulations as you may prescribe, shall be final.

We further recommend that the national and State banking institutions in the central reserve and reserve cities of the United States be requested by you to contribute to this fund, due regard being given to their present holdings of gold as recently ascertained by your direction.

As recommended in our report of September 4, we believe that a committee representing the clearing-house association of each central reserve and reserve city should apportion in its district the amounts and supervise the payments of gold or gold certificates for the creation of this fund, and we therefore suggest that you address a letter to the chairman of the clearing-house committee in each of those cities recommending the appointment of such a committee, urging prompt cooperation in this plan and stating the amount of gold which you may consider to be the proper quota to be furnished by that city.

In order to facilitate the transfer of gold or gold certificates to New York by the contributing banks, it is recommended that they be permitted to deposit their contributions with the nearest subtreasury of the United States, and that all expenses incident to transfers, whether made through subtreasuries or otherwise, shall be an expense of the fund and shall not be borne by the respective contributors.

The committee representing the New York Clearing House Association should have authority to call upon the contributors for gold or gold certificates from time in installments as required (provided, that the contributors shall not be called upon to pay any portion of an installment which may make their investment in the fund at any one time exceed 25 per cent of their original contribution), to arrange for shipments of gold to other countries, to sell exchange and cable transfers against such shipments at such prices as they may fix, to de-

termine to whom and under what conditions foreign exchange may be sold, to distribute the proceeds of such sales among the contributing banks in New York funds, and to fix a date for the termination and final settlement of the fund. We, therefore, recommend that the gold or gold certificates be deposited in trust for the contributors in the vaults of the Clearing House Association of the City of New York, subject to the control of the New York committee, and that such committee issue to each contributing bank a certificate evidencing its contribution. The proceeds of sales of exchange may then be distributed by the committee among the contributing banks in New York funds and the amount of such repayment indorsed upon each certificate.

We have recommended that contributors to the fund be confined to the banks and trust companies in the central reserve and reserve cities, so that banks which are members of the Federal reserve system may make their payments at the time of the organization of the Federal reserve banks out of their own cash.

We attach forms for pledges to be signed by contributing institutions and certified resolutions to be passed by their boards of directors or trustees. In case the plan should meet with your approval, we respectfully suggest that you inclose copies of these forms in your letter to be addressed to the presidents of the clearing-house associations.

Respectfully submitted.

(Signed)

JAS. B. FORGAN, *Chicago*,
LEVI L. RUE, *Philadelphia*,
BENJAMIN STRONG, Jr., *New York*,
THOMAS P. BEAL, *Boston*,
SOL WEXLER, *New Orleans*,
Committee.

— — — — —, September —, 1914.

The undersigned banks and trust companies hereby subscribe to a fund of \$100,000,000, to be payable in gold or gold certificates, and to be held and administered in accordance with the terms of a report dated September 19, 1914, made by a committee representing central reserve and reserve city banks of the United States, a copy of which report is attached hereto. The amount pledged for contribution by each of the undersigned institutions is set opposite the signature of a duly authorized officer thereof affixed hereto, and such pledge is made by authority of a resolution of the board of directors or board of trustees (or a duly authorized committee thereof) of each of the undersigned.

Name of bank or trust company.	Amount of pledge.
.....
.....
.....
.....
.....
.....
.....

Circular No. 5.]

LETTER TO PRESIDENTS OF CLEARING HOUSE ASSOCIATIONS RELATIVE TO GOLD FUND.

The President Clearing House Association, _____:

At the invitation of the Secretary of the Treasury and the Federal Reserve Board a conference of delegates from clearing house associations was held at the Treasury Department in Washington on September 4 for the purpose of considering problems growing out of the extraordinary derangement of our

foreign exchange markets following the outbreak of the European war. This conference, after a day's deliberation, appointed a bankers' committee, charged with the duty of recommending to the board a plan for dealing with this situation. The committee so named submitted on September 4 its first report, which advised the creation of a gold fund of \$150,000,000. This recommendation, owing to changes in the situation, was modified in a subsequent report, dated September 19, favoring the creation of a gold fund of \$100,000,000, to be contributed by the banks and trust companies located in central reserve and reserve cities.

The board has carefully considered the committee's report, and concurs in its conclusions and recommendations. The board is convinced of the necessity of any adequate plan of national cooperation to meet a situation which is of national dimensions, and it has no hesitation, therefore, in giving its approval to the plan proposed by the committee, and recommends your earnest cooperation.

The board shares the committee's belief that the creation of a large gold fund at this juncture will have a far-reaching effect for good and will prove an effective factor in restoring confidence, in bringing relief, in protecting and strengthening the country's credit, and in facilitating the exportation of our products.

The board therefore recommends that your association appoint a committee to secure from the national banks and State banking institutions of your city subscriptions aggregating \$—— to the proposed gold fund. The board regards this amount as the fair quota to be raised in your city, based upon the holdings of gold and gold certificates by the central reserve and reserve cities as recently ascertained. The allotments provide a fair margin above the total amount named. Any sums pledged in excess of \$100,000,000 will be applied to a pro rata reduction of all subscriptions to the fund.

Forms of subscriptions and certified resolutions to be executed by participating institutions have been prepared by the bankers' committee and are forwarded herewith. This board recommends that the sums specified be pledged as promptly as possible and that you send the pledges and resolutions, duly executed, to the secretary of the Federal Reserve Board at Washington, D. C., in order that they may be available for the committee not later than October 1.

For the terms and conditions upon which the subscriptions to the proposed gold fund are made your attention is particularly called to the report and plan signed by the bankers' committee and handed to you herewith.

Respectfully,

C. S. HAMLIN,
Governor Federal Reserve Board.

I am in accord with the views of the Federal Reserve Board and recommend the adoption by the banks of the proposed plan.

W. G. MCADOO,
Secretary of the Treasury.

WASHINGTON, D. C., *September 21, 1914.*
(1 inclosure.)

——— BANK,
———, *September —, 1914.*

On motion it was resolved that the president, vice president, cashier, or treasurer, or any one of them, be, and he hereby is, authorized, in behalf of this bank (company) to subscribe —— dollars, payable in gold or gold certificates, to a gold fund to be created and administered in accordance with the terms set forth in the report of the committee, dated September 19, 1914, appointed by the delegates to the conference of clearing-house associations of the central reserve and reserve cities held in Washington on September 4, which committee recommended that a gold fund of \$100,000,000 be contributed by the banks (both National and State institutions) located in such cities, said report having been approved by the Federal Reserve Board, as set forth in their letter of September 21, 1914.

I hereby certify that the above is a true extract of the minutes of a meeting of the board of directors or trustees or of a duly authorized committee thereof of the ——, held ——, September —, 1914.

[SEAL.]

———,
Secretary of the Board.

Circular No. 6.]

FEDERAL RESERVE BOARD,
Washington, D. C., October 5, 1914.

In order to promote a desirable uniformity in the organization of the Federal reserve banks, the Federal Reserve Board presents for consideration by the boards of directors a draft of tentative by-laws and a chart giving the outline of a tentative organization for the banks. Neither the by-laws nor the chart have been finally approved by the Federal Reserve Board. They represent the work of certain experts who were appointed by the organization committee to examine into the details of organization. They are, therefore, offered simply as a basis for further suggestions to be made by the boards of directors of the Federal reserve banks.

When full consideration has been given to them, and such suggestions or modifications as may be recommended have been transmitted to the Federal Reserve Board, the board will appoint a subcommittee to formulate standard by-laws to be recommended to the several boards of directors, subject to their approval. In like manner the board will, after full consideration of all suggestions that may come to it from the several boards, present a standard form of organization to be followed, so far as practicable, by each bank.

The organization chart, already mentioned, is inclosed.

The tentative draft of by-laws referred to above, follows:

BY-LAWS OF THE FEDERAL RESERVE BANK OF

PREAMBLE.

As provided in its certificate of organization, dated —, the name of this bank shall be the Federal Reserve Bank of —, and it shall do business in the city of —, State of —, and serve the territory known as Federal reserve district —. It was duly authorized to commence business by the Comptroller of the Currency, under date of —.

ARTICLE I.—*Directors.*

SECTION 1. *Number and quorum.*—The number of directors shall be nine. A majority of the directors shall constitute a quorum.

SEC. 2. *Classes.*—The board of directors, as provided by law, shall be divided into three classes—A, B, and C. At its initial meeting each class shall designate one member of its class whose term of office shall expire one year after the first day of January nearest the date of such initial meeting; in like manner, one whose term shall expire in two years, and one in three years. Thereafter, the term of office of each director shall be three years.

SEC. 3. *Vacancies.*—Vacancies shall be filled and successors elected in the manner provided by law.

SEC. 4. *Meetings.*—There shall be a stated meeting of the board every —, at — o'clock a. m., or, if that day be a holiday, on the first preceding day not a holiday.

The chairman of the board shall be empowered to call a special meeting at any time, or upon the written request of any three directors, or whenever requested so to do by the president.

SEC. 5. *Powers.*—The board of directors shall, subject to the approval of the Federal Reserve Board, fix the compensation and define the duties (other than those herein provided for) of officers, clerks, and employees of the bank. It shall duly provide for the expenses of the Department of Federal Reserve Agent and for the pro rata amount of expenses of the Federal Reserve Board and the Federal Advisory Council.

SEC. 6. *Order of business.*—The following shall be the order of business at each regular meeting of the board:

1. Reading or inspection of minutes of the last regular meeting.
2. Report of the governor, including information concerning banking and business conditions in the district.
3. Report of the secretary-treasurer, or cashier, including detailed summary of all business transacted since last regular meeting and statement of present condition, the latter to include—
 - (a) All official correspondence received from Federal Reserve Board.
 - (b) Statement of all loans, rediscounts, investments, and purchases.
 - (c) Weekly statement of condition of Federal Reserve Board.

- (d) Summary of condition of member banks.
- (e) Minutes of meetings of boards of directors of branches, if any.
- 4. Committee reports.
- 5. Unfinished business.
- 6. Discount policy and formulation of report to Federal Reserve Board on reasons for same.
- 7. New business.

ARTICLE II.—*Executive committee.*

SECTION 1. *How constituted.*—There shall be an executive committee consisting of the governor, the Federal reserve agent, and one director of class A or B. Such director shall be elected by the board to serve for a period not to exceed _____ months, and his successors shall be chosen in rotation until each member of classes A and B shall have served or shall have been given an opportunity to serve. The board shall elect each month an alternate for service on the executive committee, who shall be authorized to act in the absence or disability of the member first chosen.

SEC. 2. *Meetings.*—The executive committee shall hold meetings upon call of the chairman and shall cause to be kept minutes of all such meetings held by it, which shall be read and approved by members of the board at the next succeeding meeting of the board.

SEC. 3. *Powers.*—Subject to the regulations of the board of directors and of the Federal Reserve Board, the executive committee shall have the following powers:

- 1. To pass upon all commercial paper submitted for discount.
- 2. To initiate open market transactions.
- 3. To recommend to the board of directors, from time to time, changes in the discount rates.
- 4. To buy and sell securities.
- 5. To apply for and provide for the security of such Federal reserve notes as may be necessary for the general requirements of the bank.
- 6. To employ clerks and other subordinates, to define their duties, and to fix their compensation.

ARTICLE III.—*Officers.*

SECTION 1. The officers to be chosen by the board of directors shall be a governor, a first and a second vice governor,² a secretary-treasurer,³ and such other officers as the board may from time to time determine. They shall hold office during the pleasure of the board.

SEC. 2. *Chairman.*—The chairman of the board shall preside at all meetings thereof. He shall, together with the officers of the bank, have supervision of all credit records and data concerning member banks and borrowers which may be compiled from reports and examinations of such banks. All reports and statements made to the Federal Reserve Board shall be submitted to the chairman and shall be countersigned by him as Federal reserve agent. All examinations of member banks made on behalf of the Federal Reserve Board shall be conducted under his general direction as such agent.

SEC. 3. *Deputy Federal reserve agent.*—In the absence or disability of the chairman, as such, or as Federal reserve agent, his powers shall be exercised and his duties performed by the deputy Federal reserve agent. Subject to the rules and regulations of the Federal Reserve Board and the direction of the Federal reserve agent, such deputy shall represent the bank in examinations of member banks and shall perform such other duties as may be assigned to him. In case of the absence or disability of both the Federal reserve agent and his deputy, the third member of class C of the board of directors shall act as chairman and Federal reserve agent pro tem.

SEC. 4. *The governor.*—The governor shall have general charge of the bank and shall preside at all meetings of the executive committee, subject, however, to such rules and regulations as may be incorporated herein or from time to time promulgated by the board of directors. He shall have power to make any and all transfers of securities of the bank which may be authorized to be sold

¹ The board may fix an appropriate term.

² The number of vice governors will depend upon the size of the bank and the character of its work.

³ The title of cashier may be preferred.

by the executive committee and shall, jointly with the secretary-treasurer, sign all certificates of stock of the bank.

In all cases where the duties of subordinate officers and agents of the bank are not specifically prescribed by the by-laws or the board of directors, they shall be the duties specified by and instructions of the governor. The governor may, with or without the advice of the executive committee, suspend or remove any employee of the bank, subject, however, to a hearing before said committee.

The secretary-treasurer shall have custody of the seal of the bank, with power to affix the same to certificates of stock and other instruments, as may from time to time be required.

SEC. 5. *The vice governors.*—In case of the absence or disability of the governor, his powers shall be exercised and his duties discharged by the first vice governor, and, in the absence or disability of the latter, by the second vice governor. In the event of the absence or disability of all three the board of directors shall, by a majority vote of its members, appoint a director governor pro tem.

ARTICLE IV.—*Counsel.*

SEC. 6. *The secretary-treasurer.*¹—The secretary-treasurer shall carry out the instructions of the board of directors regarding the custody of all moneys received and paid out on account of the bank. He shall, jointly with the governor, have custody of all investments of the bank. He shall keep the minutes of all board meetings and of all committees of the board.

SECTION 1. The board of directors shall, upon such terms as it may prescribe, appoint a counsel who shall represent the bank in such matters as may be assigned to him, and shall approve all legal instruments.

ARTICLE V.—*Auditor.*

SECTION 1. The board shall appoint an auditor, who shall be subject to its direction and to that of the Federal reserve agent, and shall make a weekly report direct to the board of directors of the Federal reserve bank, giving a full statement of conditions based upon his audit. The auditor shall have charge of the internal auditing of the bank, the reconciliation of accounts, the periodical examination of branches, and, in general, the audit of all transactions, expenses, receipts, and disbursements.

ARTICLE VI.—*Bonds.*

Subject to the rules and regulations of the Federal Reserve Board, the board of directors shall provide all bonds necessary to cover officers and clerks of the bank.

ARTICLE VII.—*Branches.*

All branches established by the board shall conduct business in the manner prescribed for the main office and pursuant to such by-laws, rules, regulations, and directions as may from time to time be promulgated by the directors and officers of the bank but subject to the approval of the Federal Reserve Board.

ARTICLE VIII.—*Information.*

SECTION 1. All persons employed by the bank shall keep inviolate its business affairs and concerns and shall not disclose or divulge the same to any unauthorized person whomsoever. Any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

SEC. 2. The action or policy of the board and of the executive committee shall not be expressed by any individual member, except by its duly authorized officers after formal action by the whole board.

SEC. 3. For the information of member banks and the public there shall be maintained in the office of the secretary-treasurer a bulletin board, upon which shall appear the current rates of discount established by the directors and such other information as they may deem it desirable to make public.

¹ The title of cashier may be preferred.

ARTICLE IX.—*Certificates of stock.*

All certificates of stock shall be signed by the president and secretary treasurer and bear the corporate seal.

ARTICLE X.—*Transfers.*

No transfer shall be permitted, except upon the surrender of the outstanding certificate of stock or scrip, and no new certificate shall be issued until the former certificate is canceled; but the board of directors may authorize the issue of a duplicate in place of a lost certificate, taking a satisfactory bond of indemnity. It shall be the duty of the Federal reserve agent to register the stock or scrip of the bank.

ARTICLE XI.—*Amendments.*

These by-laws may be amended at any regular meeting of the board by a majority vote of the entire board; provided, however, that a copy of such amendment shall have been delivered to each member at least 10 days prior to such meeting.¹

Circular No. 6a.]

DRAFT OF BY-LAWS RECOMMENDED BY THE COMMITTEE ON LEGAL MATTERS AND PROCEDURE APPOINTED AT THE CONFERENCE OF DIRECTORS OF FEDERAL RESERVE BANKS WITH THE FEDERAL RESERVE BOARD ON OCTOBER 20, 1914.

BY-LAWS OF THE FEDERAL RESERVE BANK OF ———.

ARTICLE I.—*Directors.*

SECTION 1. *Quorum.*—A majority of the directors shall constitute a quorum for the transaction of business, but less than a quorum may adjourn from time to time until a quorum is in attendance.

SEC. 2. *Vacancies.*—As soon as practicable after the occurrence of any vacancy in the membership of the board the chairman of the board shall take such steps as may be necessary to cause such vacancy to be filled in the manner provided by law.

SEC. 3. *Meetings.*—There shall be a regular meeting of the board every ——— at ——— o'clock — m., or if that day be a holiday on the first preceding full business day. The chairman of the board may call a special meeting at any time, and shall do so upon the written request of any three directors or of the governor. Notice of regular and special meetings may be given by mail or by telegraph. If given by mail, such notice shall be mailed at least ——— days before the date of the meeting. If given by telegraph, such notice shall be dispatched at least ——— days before the date of the meeting. Notice of any meeting may be dispensed with if each of the directors shall in writing waive such notice.

SEC. 4. *Powers.*—The business of this bank shall be conducted under the supervision and control of its board of directors, subject to the supervision vested by law in the Federal Reserve Board. The board of directors shall appoint the officers and fix their compensation.

The board may appoint legal counsel for the bank, define his duties, and fix the compensation.

SEC. 5. *Special committees.*—Special business of the bank may be referred from time to time to special committees, which shall exercise such powers as the board may delegate to them.

SEC. 6. *Order of business.*—The board may from time to time make such regulations as to order of business as may seem to it desirable.

ARTICLE II.—*Executive committee.*

SECTION 1. *How constituted.*—There shall be an executive committee consisting of the governor, the Federal reserve agent, and one or more directors chosen

¹ After the by-laws have been adopted and in order to retain uniformity it is suggested that so far as possible there shall be no permanent changes in by-laws except on approval of a general committee on by-laws representing all the Federal reserve banks.

from classes A or B; the member or members of the committee chosen by the board shall serve during the pleasure of the board or for terms fixed by it. Not less than three members of the committee shall constitute a quorum for the transaction of business, and action by the committee shall be upon the vote of a majority of those present at any meeting of the committee.

The committee shall have power to fix the time and place of holding regular or special meetings and the method of giving notice thereof.

Minutes of all meetings of the executive committee shall be kept by the secretary, and such minutes or digests thereof shall be submitted to the members of the board of directors at its next succeeding meeting. Such minutes shall be read to the meeting if required by any member of the board.

SEC. 2. *Powers.*—Subject to the supervision and control of the board of directors, as set forth in Article I, section 4, the executive committee shall have the following powers:

- (a) To pass upon all commercial paper submitted for discount.
- (b) To initiate and conduct open-market transactions.
- (c) To recommend to the board of directors from time to time changes in the discount rate.
- (d) To buy and sell securities.
- (e) To apply for and provide for the security of such Federal reserve notes as may, in the judgment of the committee or of the board, be necessary for the general requirements of the bank.
- (f) To employ or to delegate to officers of the bank authority to employ clerks and other subordinates and to define their duties and to fix their compensations.
- (g) To approve bonds furnished by the officers and employees of the bank and to provide for their custody.
- (h) In general, to conduct the business of the bank, subject to the supervision and control of the board of directors.

ARTICLE III.—*Officers.*

SECTION 1. The board of directors shall appoint a governor, a deputy governor, a secretary, and a cashier, and shall have power to appoint such other officers as the board may from time to time determine to be necessary and appropriate for the conduct of the business of the bank. The offices of deputy governor, secretary, and cashier, or any two of them, may be held by one person, in the discretion of the board. The officers chosen by the board shall hold office during the pleasure of the board.

SEC. 2. *Federal reserve agent.*—The Federal reserve agent, as chairman of the board, shall preside at meetings thereof. Copies of all reports and statements made to the Federal Reserve Board shall be filed with the Federal reserve agent.

SEC. 3. *Deputy Federal reserve agent.*—In the absence or disability of the Federal reserve agent his powers shall be exercised and his duties performed by the deputy Federal reserve agent, who may perform such other services as shall be prescribed by the board of directors not inconsistent with his duties as provided by law.

SEC. 4. *The governor.*—Subject to the supervision and control of the board of directors, the governor shall have general charge and control of the business and affairs of the bank, and he shall be the chairman of the executive committee. He shall have power to make any and all transfers of securities or other property of the bank which may be authorized to be sold or transferred by the executive committee or by the board. The governor shall have power to prescribe the duties of all subordinate officers and agents of the bank where such duties are not specifically prescribed by law or by the board of directors or by the by-laws. The governor may suspend or remove any employee of the bank.

SEC. 5. *The deputy governor.* In case of the absence or disability of the governor his powers shall be exercised and his duties discharged by the deputy governor, and in case of the absence or disability of the deputy governor the board shall appoint one of the other directors governor pro tem. The duties of the deputy governor shall otherwise be such as may be prescribed by the board of directors or by the governor. In case the board shall deem that the business of the bank requires the appointment of one or more assistant deputy governors, it shall have authority to appoint such assistant deputy governor or governors and shall prescribe and define his or their duties.

SEC. 6. *The secretary.*—The secretary shall keep the minutes of all meetings of the board and of all committees thereof. He shall have custody of the seal of the bank, with power to affix same to certificates of stock of the bank, and

by authority of the board or the executive committee to such other instruments as may from time to time be required. The board of directors may, in the absence or disability of the secretary, or upon other occasion where in the discretion of the board greater convenience can be attained, appoint a secretary pro tem or empower one or more officers to affix the seal of the bank to certificates of stock or other instruments. The secretary shall perform such other duties as may from time to time be prescribed by the board of directors, the executive committee, or the governor.

SEC. 7. *The cashier.*—The cashier and at least one other officer designated by the board of directors shall have the joint custody of all moneys, investments, and securities of the bank, subject to such rules as the board may adopt for their safety. He shall perform such other duties as may be assigned to him from time to time by the executive committee, the board of directors, or the governor.

ARTICLE IV.—*Certificates of stock.*

SECTION 1. *Signature.*—All certificates of stock, or of payment of or on account of stock subscriptions, shall be signed by the governor or a deputy governor and the secretary or cashier, or such other officers as may be prescribed by the board, and such certificates shall bear the corporate seal.

ARTICLE V.

SECTION 1. *Business hours.*—The bank shall open for business from — o'clock to — o'clock on each day except Sundays or days or parts of days established as legal holidays.

ARTICLE VI.—*Amendments.*

These by-laws may be amended at any regular meeting of the board by a majority vote of the entire board: *Provided, however,* That a copy of such amendment shall have been delivered to each member at least ten days prior to such meeting.

Circular No. 7.]

FEDERAL RESERVE BOARD,
Washington, D. C., October 14, 1914.

In order to promote a desirable uniformity in the organization of the Federal reserve banks, the Federal Reserve Board presents for consideration by the boards of directors drafts of a system of accounting for the banks. These have not been finally approved by the Federal Reserve Board. They represent the work of certain experts who were appointed by the organization committee to examine into the details of organization. They are, therefore, offered as a basis for discussion.

When full consideration has been given to them and such suggestions or modifications as may be recommended have been transmitted to the Federal Reserve Board, the board will appoint a subcommittee to recommend a standard accounting plan to the several boards of directors, subject to their approval.

SYSTEM I.

The system of accounting to be chosen, and the extent to which the machines are used in it, will depend upon the scope and activity which the reserve banks are to have from the beginning, and, in the event that they are assigned large clearing functions, it will necessarily be a matter of extreme importance in assuring the smooth working of the system, the accurate and prompt collection of items, and the development of reports and statistics comparable in character and truly reflecting the internal conditions of each of the several institutions. The accounting system as subsequently outlined may be made a fundamental factor in providing the means for a careful estimate of credit conditions throughout the country, as it provides for a daily transmission, if desired, of detailed reports to the Federal Reserve Board at Washington, in order that that board may be constantly in touch with the operations of each bank and the comparative condition of all the banks. In this way the board will be enabled to act with full knowledge as to rates of discount and to advise the several banks concerning the lines of paper that are outstanding throughout the country.

In designing the plan, these points have been observed :

(a) Particular care has been taken to introduce the most modern systems, using machinery wherever possible, thereby securing the advantages of mechanical accuracy as compared with the method of maintaining records by hand.

(b) The majority of the forms have been constructed to carry their respective items from the time of receipt to final disposition. There is also a system of control throughout, with the result that their use will materially reduce labor and increase efficiency.

(c) The entire accounting system has purposely been made elastic, so that it will fulfill the needs of the largest as well as the smallest Federal reserve bank, and as the banks grow it will not be necessary to revise the accounting plan.

(d) There has been constant recognition of the desirability of keeping the Federal Reserve Board in daily contact with the Federal reserve banks.

(e) The system is adapted for use with any of the standard typewriting and adding machines now on the market.

MAIL TELLER.

As there will in all probability be a large accumulation of mail from member banks, consisting of remittances for credit, collections, etc., between the hours of 2.30 p. m. and 8.30 a. m., this department has been designed as the first operating unit, looking to the avoidance of congestion in the morning.

The work of the mail teller will begin, say, at midnight, and will consist in handling incoming mail up to 5 a. m., the result being :

1. Preparation for morning clearance of such items as will be payable through the clearing house (Federal reserve or otherwise).

2. Delivery to the transit department in one total of such items as may have been received payable out of town.

3. Delivery to the distributing desk in one total of such credits and debits as relate to the accounts appearing upon the books of the Federal reserve bank.

4. Delivery to the note teller in one total of such miscellaneous items not covered in the three subdivisions outlined.

The block system will be used in this, as in all other departments, the sectional proofs of the work being accomplished by means of blocks, with the result that the ultimate proof of the department will consist only of interlocking balances.

Form MT 1.—This will be the block sheet of the department, to be used as previously outlined.

Forms MT 2, 3, and 4.—These varicolored slips to be used in correctly routing the different batches of debits and credits after they are proved upon each block.

Forms Nos. 3 and 4 will cover the majority of the work leaving the department, and consequently are imprinted "Transit department" and "Note teller," while Form MT 2 is to be used for such miscellaneous items as may necessarily be forwarded to other departments.

Form MT 5.—This is a proof sheet for the department, the figures for which will be obtained from a recapitulation of the block sheets.

Form MT 6.—This is a suggested envelope which will inclose items intended for presentation to the different members of the clearing house.

CLEARING-HOUSE DEPARTMENT.

This department will be the successor of the mail teller, its work consisting in handling incoming mail received subsequent to 5 a. m., the plan of operation of the two departments being identical, except that the supervision and proof of incoming exchanges from the clearing house will also be handled by this department.

The forms will consist of the following :

Form CH 1.—This will be the block sheet for the department.

Forms CH 2, 3, 4, and 5.—These varicolored slips will be used in correctly routing the batches of items from each block sheet after its proof.

Form CH 6.—This is the proof sheet of the department, the figures for which will be obtained by a recapitulation of all the blocks.

Form CH 7.—This is a block sheet to be used in effecting the proof of incoming exchanges from the clearing house.

Form CH 8.—This is a proof sheet for the assembling of an individual proof of the morning exchanges received from the clearing house, the figures being subsequently passed through the proof of the distributing desk.

Form CH 9.—This is a suggested envelope which will inclose items intended for presentation to the different members of the clearing house.

DISTRIBUTING DESK.

For the concentration of figures, avoidance of errors, facilitation of work in the tellers' cages, and simplicity of posting for the general ledger, this department has been instituted in order that the different tellers after the proof of each block may route to it such items as may have been received, both debits and credits, affecting accounts appearing upon the books of the Federal reserve bank.

The advantages of the distributing desk are many, and it will be found of particular value as to apparent overdrafts, by the quick concentration in the bookkeepers' hands of such debits and credits as may affect the accounts, but which, under ordinary circumstances, would not reach the bookkeeper until the close of the day's business.

The forms of the department are as follows:

Form DD 1.—This is a block sheet to be used in establishing sectional proofs of debits.

Form DD 2.—This is a block sheet to be used in establishing sectional proofs of credits.

Form DD 3.—This is a proof sheet for the department, the figures of which will be obtained from a recapitulation of the block sheets.

PAYING TELLER.

The principal duties of the paying teller will be to make such cash disbursements over the counter as may be necessary, effect the settlement of the clearing-house balances, examine checks for correct signatures, arrange for the shipment of money to member banks, provide for the forwarding of mutilated currency for redemption to the Treasurer of the United States at Washington, and likewise provide for the redemption of Federal reserve notes with the Federal reserve agent.

The paying teller will be responsible only for such cash as may be allotted to him, the principal cash reserves of the bank being under the joint control of other officers or directors.

The forms of the department are:

Form PT 1.—This will be used in arranging shipments of money to member banks. Its explanation is as follows:

Slip No. 1: Notification to the member bank that its account has been charged and that the shipment has gone forward.

Slip No. 2: Carbon copy of original advice, which will be inclosed with the shipment of money.

Slip No. 3: Acknowledgment from member bank of receipt of the shipment.

Slip No. 4: Tracing slip, to be retained as a follow-up, looking to the receipt of the acknowledgment.

Slip No. 5: Debit to member bank's account.

Form PT 2.—This will be used in forwarding mutilated currency to the Treasurer of the United States at Washington. Its explanation is as follows:

Slip No. 1: Advice to the Treasurer of the United States descriptive of the forwarding of the currency.

Slip No. 2: Carbon copy of original advice, to accompany the shipment.

Slip No. 3: Debit to "Redemption account."

Slip No. 4: Credit to "Redemption account."

All of the above slips will be made use of upon the day the money is shipped, with the exception of slip No. 4, which will be retained awaiting the return of the equivalent currency from Washington. The outstanding slips will, of course, prove to the controlling account upon the general ledger.

Form PT 3.—To be used in forwarding mutilated Federal reserve notes to the Federal reserve agent, its explanation being:

Slip No. 1: Application to the Federal reserve agent for the issuance of new currency.

Slip No. 2: Acknowledgment from the Federal reserve bank to the Federal reserve agent of receipt of the new currency.

Slip No. 3: Debit to "Federal reserve notes."

Slip No. 4: Credit to "Federal reserve notes."

Slips Nos. 1, 2, and 3 will be attached and delivered to the Federal reserve agent with the mutilated currency, slip No. 3 being provided upon its reverse side with a form of acknowledgment from the Federal reserve agent of the receipt of the mutilated currency. When the new currency is delivered to the Federal reserve bank it will be accompanied by an acknowledgment of its receipt by the Federal reserve bank. Upon delivery of the new currency to the bank slip No. 4 will be used as a credit to "Federal reserve notes."

Form PT 4.—This will be used by the Federal reserve bank in forwarding Federal reserve notes for cancellation to the Federal reserve agent, its explanation being:

Slip No. 1: Instructions to the Federal reserve agent, as to the cancellation of the described Federal reserve notes.

Slip No. 2: Debit to "Federal reserve notes."

As the notes are delivered to the Federal reserve agent they will be accompanied by slips Nos. 1 and 2, slip No. 1 being a record of the transaction for the Federal reserve agent, while slip No. 2 is for use in reducing the outstanding Federal reserve notes, provision having been made upon its reverse side for a form of acknowledgment of the receipts of the notes by the Federal reserve agent.

Form PT 5.—This is a form to be used in effecting the "Stop payment" of checks.

Form PT 6.—This will be used when the notification for stopping payment has not been received upon the form provided for the purpose.

Form PT 7.—This is for use in acknowledging receipt of the regular form of "Stop payment" notice.

Form PT 8.—A loose-leaf record upon which will be inscribed under the name of the member bank a complete description of the checks upon which it is desired to stop payment.

Forms PT 9, 10, 11, 12, and 13.—Varicolored slips to be used in routing the different batches of items to the several departments.

Form PT 14.—Proof sheet for the department, upon which will be assembled the total figures of the day. Upon the reverse side of the sheet provision has been made for the accumulation of the different debits and credits to the several departments.

Form PT 15.—This will be used for the occasional necessity of certifying checks of member banks, its explanation being:

Slip No. 1: Notification to member bank of the fact that its account has been charged, covering the certification of a specific check.

Slip No. 2: Debit to the member bank's account.

Slip No. 3: Credit to certified checks.

Form PT 16.—When the certified checks are returned to the bank for redemption, they will pass through the controlling account upon the general ledger and then be forwarded to the auditing department in order that their control may be in agreement with the general ledger. The auditing department will then affix this form to the checks and deliver them to the bookkeeping department to be inclosed with the daily statement.

This is a proposed sheet which will be prepared by the paying teller each morning and will be delivered to the secretary-treasurer for examination, its purpose being to place the officials of the bank in touch with the condition of the cash of the bank.

RECEIVING TELLER.

This department will receive deposits from member banks located within the city in which the Federal reserve bank is situated, and will also account for shipments of currency received from other Federal reserve banks and member banks.

The forms of the department are as follows:

Form RT 1.—That is for use in handling shipments of currency received for credit of member banks, its explanation being:

Slip No. 1: Advice to the member bank descriptive of the receipt of the currency and the amount placed to their credit.

Slip No. 2: Credit to the member bank's account.

Forms RT 2, 3, 4, 5, and 6.—These are varicolored slips to be used in routing the different classes of items to the several department.

Form RT 7.—A block sheet for the sectional proof of the day's work.

Form RT 8.—This is a proof sheet, the figures for which will be obtained from a recapitulation of the block sheets.

NOTE TELLER.

The duties of this department will consist of the presentation and collection of notes, drafts, and checks drawn upon nonmembers of the clearing house, all of which are payable within the radius covered by the messengers of the Federal reserve bank.

The runners or messengers will be under the control and form a part of this department.

The forms are as follows:

Form NT 1.—This is a proposed block sheet for the proof of the messengers' routes, upon one side of which are listed the individual items comprising the route and upon the reverse side the checks, currency, etc., which have been received in payment. The initial "N" is indicative of a cash item charged to the note teller and which has been returned by the messenger unpaid. The initial "C" is indicative of collection items (not cash) which have been returned unpaid by the messengers.

The total of the items as appearing upon each side of the block must be in agreement and constitute, as previously outlined, a proof of the messengers' routes.

Form NT 2.—A block sheet for the distribution to the different departments of the checks, currency, etc., which have been received in settlement of items charged to the note teller. A recapitulation of these blocks constitutes a proof of the day's work.

Forms NT 3, 4, 5, 6, and 7.—These are varicolored slips to be used in routing items to the different departments after they are proved upon the block sheets.

Form NT 8.—This is for use in charging back and returning cash items which are unpaid after presentation. Its explanation is as follows:

Slip No. 1. Letter accompanying the item.

Slip No. 2. Debit to the member bank.

Slip No. 3. To be placed in a chronological file awaiting the return of the acknowledgment postal.

Slip No. 4. A postal card to be attached to the item when it is charged back and which will be dated, signed, and returned by the member bank as an acknowledgment of receipt.

Form NT 9.—In the event of the postal card as outlined in NT 8 not being regularly returned, *Form NT 9*, being a postal tracer, will be used.

Form NT 10.—This is a proof sheet for the department, the figures of which will be obtained from a recapitulation of the block sheets, as outlined in *Form NT 2*.

TRANSIT DEPARTMENT.

The transit department should be equipped with steel racks, providing suitable compartments for each member bank of its district, together with 11 other compartments, larger in size, for the other Federal reserve banks.

These compartments will be divided into units for the purpose of evenly distributing the volume of business.

The handling and proof of the transit items will be obtained in the following manner:

(a) Items received by the different departments will be charged to the transit department in batches, accompanied by slips designating the teller forwarding them and the amount of each batch.

(b) Accumulated batches will be assorted to the different units listed and proved under the sectional proof of the block system.

(c) A recapitulation of the block sheets will constitute a proof of the interlocking balances with the tellers, and produce the figures to which each unit must prove.

(d) The proof of each unit will be obtained by adding together the totals appearing upon the carbon copies of the remittance letters in process of being forwarded.

The forms of the department are:

Form T 1.—A form to be used by member banks in their relations with Federal reserve banks when forwarding for credit such items as they may receive drawn upon member banks located within the Federal reserve city. The top sheet will accompany the checks, while the carbon will be retained by the member banks to be used as a debit to their reserve account with the Federal reserve banks.

It will be noted that this form, as well as Forms Nos. T 2, 3, 4, 5, 6, 7, 8, and 9, has been equipped with a form of acknowledgment as well as a "follow-up," the acknowledgment to be dated, signed, and returned by the receiving bank, and the "follow-up" to be placed in chronological file under the date upon which the acknowledgment should be received; this will enable the banks to trace intelligently any overdue cash letters.

Attention is called to the fact that the reverse side of sheet No. 1 of forms Nos. T 1, 2, 3, 4, 5, 6, 7, 8, and 9 is to be carbonized; consequently it will not be necessary to place the usual carbon paper between the original and duplicate parts of the form.

Form T 2.—To be used by member banks in forwarding for credit such items as they may receive which are drawn upon—

(a) Member banks located within their own district, but without the local radius, to be determined by the Federal Reserve Board.

(b) Federal reserve banks of other districts.

(c) Member banks of other Federal reserve districts.

Form T 3.—To be used by Federal reserve banks in their relations with member banks located in their own city, but which because of inaccessibility may not clear through the clearing house (Federal reserve or otherwise), necessitating the items being forwarded to them by mail for collection. The top sheet will accompany the checks, while the second sheet or duplicate will be the debit to the member bank's account.

Form T 4.—This is identical with Form T 5, except that it is intended to cover instances where there will not be many checks to forward.

Form T 5.—To be used in forwarding items drawn upon member banks located without the city in which the Federal reserve bank is situated, the top sheet accompanying the checks and the second sheet or duplicate being the debit to member bank's account.

Form T 6.—This is identical with Form T 5, except that it is intended to cover instances where the number of checks to be forwarded are fewer in number.

Form T 7.—For use of the Federal reserve banks in forwarding items to each other, the top sheet accompanying the checks, while the second sheet, or duplicate, will be a debit to "Transit account."

Form T 8.—For use of the Federal reserve banks in forwarding Federal reserve notes to each other. The top sheet will accompany the notes, while the duplicate will be a debit to "Transit account."

Form T 9.—For use of Federal reserve banks in returning to each other unpaid cash items, the original sheet accompanying the items, while the duplicate sheet is a debit to "Transit account."

Form T 10.—A claim ticket to be used in adjusting discrepancies in cash letters, such as incorrectness in listing, noninclosure of items, etc.

Form T 11.—To be used in confirming the action of correspondents, in supplying missing indorsements.

Form T 12.—A form of postal tracer to be used in tracing overdue cash letters. The pink, or duplicate, sheet will be retained in a chronological file, as a follow-up, looking to the receipt of a reply to the tracer.

Form T 13.—For use of member banks in returning unpaid cash items to the Federal reserve banks.

Forms T 14, 15, and 16.—Vari-colored slips to be used in routing batches of items to the different departments.

Form T 17.—A form of block sheet for use in establishing sectional proofs of the day's work.

Form T 18.—Proof sheet of the department, the figures for which will be obtained from a recapitulation of the block sheets.

It is quite possible that an electric indorsing machine can be used to good advantage in the transit department, and this thought should receive consideration.

COLLECTION DEPARTMENT.

The following forms have been designed for regional banks, in handling such items as may be forwarded to them for collection only:

Form COLL 1.—This is intended for notes payable within the radius covered by messengers of the Federal reserve banks. Its description follows:

Slip No. 1: Advice of disposition to member banks.

Slip No. 2: Credit to member bank (if paid).

Slip No. 3: Permanent record (to be filed chronologically, as to day of receipt, under name of member bank).

Slip No. 4: Maturity slip, serving the same purposes as the ordinary "tickler."

Form COLL 2.—This is designed for notes payable without the district covered by messengers of the Federal reserve bank, necessitating the items being forwarded to corresponding banks for collection. Its explanation follows:

Slip No. 1: Letter inclosing item to corresponding bank.

Slip No. 2: Acknowledgment of receipt from corresponding bank.

Slip No. 3: Maturity slip, to be used in following up returns.

Slip No. 4: Permanent record, to be filed chronologically, as to day of receipt, under the name of member bank.

Slip No. 5: Advice of disposition to member bank.

Slip No. 6: Credit to member bank (if paid).

Slip No. 7: Debit to corresponding bank (if paid).

Form COLL 3.—This will cover drafts and special items (exclusive of coupons), requiring specific advice of payment and which are paid upon the day of presentation. Its explanation follows:

Slip No. 1: Advice of credit to member bank.

Slip No. 2: Credit to member bank.

Form COLL 4.—This will be for items, other than notes, which are payable without the district covered by messengers of the Federal reserve bank. Its explanation follows:

Slip No. 1: Letter accompanying item to corresponding bank.

Slip No. 2: Tracing slip, to be used in following up returns.

Slip No. 3: Permanent record, to be filed chronologically, as to day of receipt under the name of member bank.

Slip No. 4: Advice of disposition to member bank.

Slip No. 5: Credit to member bank (if paid).

Slip No. 6: Debit to corresponding bank (if paid).

Form COLL 5.—This is for use in returning unpaid items, payable within the district covered by messengers of the Federal reserve bank. Its explanation follows:

Slip No. 1. Letter to member bank returning the item unpaid.

Slip No. 2. Carbon copy for files.

Form COLL 6.—Postal acknowledgment of the receipt of items entered for collection.

Form COLL 7.—This has been constructed for items (documentary or otherwise) requiring special care and which will be held indefinitely awaiting payment. Its explanation follows:

Slip No. 1. Acknowledgment of receipt to member bank.

Slip No. 2. Advice of credit to member bank.

Slip No. 3. Credit to member bank.

It will be noted that on slip No. 3 of the above form space has been allotted for notations descriptive of the progress being made looking to the ultimate disposition of the items.

Form COLL 8.—This is a postal form of tracer, to be used in tracing the disposition of items forwarded to corresponding banks for collection. The pink slip attached is a carbon of a postal and will be filed chronologically under the approximate day upon which a reply to the tracer should be received.

Form COLL 9.—This form is to be used in requesting the return of items forwarded to corresponding banks for collection. The yellow sheet attached is a carbon copy and record of the original.

Form COLL 10.—This is intended to reduce letter writing to a minimum, the form being designed as a departmental advice to member banks concerning their collections.

Form COLL 11.—This is the block sheet for the department, and will be used in accordance with the block system of proof throughout the bank.

Forms COLL 12 and 13.—These are slips to be used in routing debits and credits to the different departments and upon which will be inscribed the total amount of each batch. Form No. 12 is for credits and Form No. 13 is for debits, the difference in color being indicative of the different classes.

Form COLL 14.—This is a proof sheet for the department and upon which will be inscribed a recapitulation of the day's work obtained from the block sheets.

LOANS AND DISCOUNTS.

As rediscounting for member banks and the proposed purchase of domestic bills of exchange, etc., in the open market may be extensive, it is thought that

the application of forms to machinery will materially facilitate the work of the department, and with this in view the following plan has been designed:

Unearned discount.—It is suggested that the Federal reserve banks, instead of following the usual practice of crediting to "Current earnings" such discount as may have been collected, adopt the plan of placing the discount in an account to be known as "Unearned discount," and each day this balance will be charged with the actual discount earned and the amount thus obtained credited to "Current earnings" under the subdivision of "Discount."

This would mean that the statement of the bank would always appear upon a liquidating basis, and from an analytical point of view would materially assist in showing the true percentage of earnings to loanable funds.

Liability.—While the usual method of ascertaining the amount of liability is from detailed statistics compiled in book records, it will be noted that such entries in the liability ledgers cause a duplication of work, entailing unnecessary labor in keeping them in a state of efficiency, while under the proposed plan full details concerning liability are obtained at the same time that the bookkeeping entries, advices, etc., are typewritten by the stenographer.

For the purpose, however, of ready availability of figures concerning the total liability of concerns under the classifications of "Payer" and "Indorser" a skeleton ledger in loose-leaf form will be maintained, the entries in which will be posted in total only, and the entire liability of which must be in proof with the controlling balances on the general ledger.

As the Federal reserve banks will be principally interested in the credit standing of the payer and the last indorser, and as it is very desirable to maintain only such figures of liability as may be subject to proof, it is suggested that the liability records of the Federal reserve banks consist of payer and indorser instead of drawer, acceptor, and indorser, as the establishment of liability figures under the latter three classifications would not be possible of proof and would result in a lack of confidence as to the accuracy of such figures.

In the event, however, of it being considered necessary to maintain liability figures other than that of payer and the last indorser, this may be done by inserting additional sheets in the skeleton loose-leaf liability ledger, the postings in the accounts to be executed in red ink, which would be indicative of the fact that such figures are not to be included in the proof of liability.

It is the purpose of this plan to provide the Federal Reserve Board at Washington with a continuous record, in detail, of all notes or bills of exchange discounted for member banks or purchased in the open market, these continuous records to be executed at the same time the forms are written, without any additional labor upon the part of the Federal reserve banks, such continuous records being mailed to the Federal Reserve Board at the conclusion of each day's business, and which will be used by the credit bureau at Washington for the accumulation of such credit information as they may desire. This will enable the Federal Reserve Board at Washington to be in close touch with that portion of the business of the Federal reserve banks and place it in a position to accumulate automatically from 12 different sources most valuable statistics concerning the credit standing of the borrowers from the Federal reserve system.

In Forms BD 2, 3, 5, and 6 it will be seen that two of the last vari-colored slips have been allotted for liabilities, the thought being that the slips in question, after being posted in total in the skeleton liability ledger, will be filed in a steel cabinet under an alphabetical arrangement of the names of the debtors.

The result of this would be an accumulation into one compartment, properly indexed, of the entire concentrated liability (except foreign exchange) of any concern, the controlling figures of which would be in the skeleton liability ledger, which, as previously outlined, would be posted in totals only.

As fast as the liabilities, represented by the slips, are liquidated, either at or before maturity, the slips are taken from the steel cabinet and filed in usual course by the filing department, so that the retention of the slips in this way furnishes a permanent record which may be consulted at any time.

It will be observed that this method will leave in the liability files only "live" matter of a current nature, consequently they will not be cluttered by a mass of records relating to past liabilities while the easy maintenance of the subsidiary skeleton liability ledger will furnish immediate information, in total, as to the past and present liability of any concern.

Tickler.—The last slip of the forms bears the designation of "Maturity slip" and its use will be that of providing the department with the information usually contained in a book "tickler." The slips will be filed chronologically

under the "Maturity of the notes," with the result that the maturities of each day are accumulated in one compartment, properly indexed, and in the right-hand corner of which the total amount maturing is immediately available.

As the day of maturity is reached, the city slips are taken from the maturity file and checked to the city notes delivered to the note teller, likewise the country slips are checked to the forms covering country notes in possession of the collection department. It will, therefore, be seen that the slips have served the purpose of the usual book "tickler" in every possible way, both as to available information and the checking of missorted items.

The maturity slips then will be used to reduce the liability of the different concerns in the skeleton liability ledger, and to retire from the liability files the matured liabilities, keeping, as outlined before, only "live" records in the liability files.

Statistics.—Maturities falling due within 30, 60, or 90 days and after, can easily be obtained from the discount clerk, who will compute the figures from the totals appearing in the upper right-hand corners of the indexes, in the maturity file.

Attention is called to the fact that it is not practical to carry the above statistics upon the general ledger, inasmuch as daily adjustments would be obligatory. It is, however, feasible to have the maturities of the items show under the classifications of the different months of the year, such as the maturities falling due in January, February, etc.

All of the forms have been provided with space which may be used to either place, automatically, upon the general ledger the month of maturity, or the industry, etc., affected.

Continuous records.—As outlined before, it is suggested that the record of all notes discounted for or loans made to member banks, or paper purchased in the open market, be transcribed upon what is known as a "continuous record," this record furnishing an exact description of the note and being written in the same operation that the manifolded entries are being prepared by the stenographer.

These "continuous records" will be made use of in advising the Federal Reserve Board at Washington and in the interrelations between the Federal reserve agents and the Federal reserve banks.

Accounts.—For the purpose of distinguishing between the classes of bills discounted, the following titles have been assigned: Bills discounted—customers; bills discounted—bought.

Form BD 1.—For use of member banks in empowering proper officials to rediscount with the Federal reserve banks.

Form BD 2.—This is intended to cover notes discounted for member banks which are payable within a radius covered by the Federal reserve bank's messengers. Its explanation is as follows:

- Slip No. 1: Debit to "Bills discounted—customers."
- Slip No. 2: Credit to "Bills discounted—customers."
- Slip No. 3: Advice of credit to member bank.
- Slip No. 4: Credit to member bank's account.
- Slip No. 5: Credit to "Unearned discount."
- Slip No. 6: Indorser's liability.
- Slip No. 7: Payer's liability.
- Slip No. 8: Maturity slip.

All of the slips comprising the form are made use of upon the day of discount, either in bookkeeping entries, advices, or for the establishment of liability, with the exception of slip No. 2, being a credit to bills discounted—customers, which remains attached to the note and is filed away with it awaiting maturity.

Form BD 3.—This is identical with Form BD 2, with the exception that it is designed to cover notes discounted for member banks, which would be payable without the radius covered by messengers of the Federal reserve banks, consequently it would be necessary to forward them to other institutions for collection. The explanation of the form follows:

- Slip No. 1: Debit to "Bills discounted—customers."
- Slip No. 2: Letter to corresponding bank inclosing the item for collection.
- Slip No. 3: Acknowledgment from corresponding bank as to the receipt of the note.
- Slip No. 4: Credit to "Bills discounted—customers."
- Slip No. 5: Debit to the collecting bank.
- Slip No. 6: Advice of credit for the member bank.

- Slip No. 7: Credit to the member bank.
- Slip No. 8: Credit to "Unearned discount."
- Slip No. 9: Indorser's liability.
- Slip No. 10: Paper's liability.
- Slip No. 11: Maturity slip.

As to slips Nos. 2, 3, 4, and 5, slips Nos. 2 and 3 would be attached to the note when forwarded to the corresponding bank for collection, while slips 4 and 5 would be retained by the collection department of the Federal reserve bank and filed by it in a maturity file under the due date of the item, at which time they would be proved to the controlling slips in the discount department, then being separated, would form the credit to "Bills discounted—customers" and a debit to the collecting bank.

It will be noted that slips 2, 3, 4, and 5 were typewritten when the item was first handled by the discount department, consequently it was delivered to the collection department with the necessary forms to carry it to its final disposition, with the exception of the day of forwarding, together with the name of the collecting institution, both of which will be transcribed on the form by the collection department.

As the country notes will be delivered to the collection department the day following their discount, provision has been made upon the reverse side of the maturity slips for an acknowledgment of the receipt of the items by the collection department.

Form BD 4.—This is a continuous record, in loose-leaf form, forwarding to the Federal Reserve Board at Washington exact details of the bills discounted for member banks.

Form BD 5.—This is similar to Form BD 2, with the exception that it is intended to cover bills discounted—bought, being purchases made in the open market instead of items discounted for member banks and which are payable within the district covered by messengers of the Federal reserve banks.

Form BD 6.—This is similar to Form BD 3, with the exception that it has been designed to cover country notes purchased in the open market rather than discounted for member banks.

Form BD 7.—This is identical with Form BD 4, except that it is designed to advise the Federal Reserve Board at Washington of the exact description of bills purchased in the open market rather than discounted for member banks.

Form BD 8.—This is a draft of an alphabetical index to be used in separating the liability of debtors. That portion of the index descriptive of the name of the concern will be modeled after the usual form of indexes, permitting the changing of names at leisure.

Form BD 9.—This is a draft of an index to be used in apportioning the brokers' slips in the liability files, the purpose of placing such brokers' slips in the liability files being merely to enable a proof of liability to be established, as, of course, there will be no liability attached to the brokers unless they be compelled to indorse the commercial paper sold to the Federal reserve banks.

Form BD 10.—A chronological index, to be used in apportioning the maturity slips under the maturity of the notes, the upper right-hand corner being glazed with a coating of celluloid or something of a similar nature.

Form BD 11.—Designed for collateral loans supported by Government bonds, warehouse receipts for merchandise, etc. Its explanation follows:

- Slip No. 1: Debit to "Collateral loans."
- Slip No. 2: Credit to "Collateral loans."
- Slip No. 3: Advice to member bank.
- Slip No. 4: Credit to member bank.
- Slip No. 5: Credit "Unearned discount."
- Slip No. 6: Indorser's liability.
- Slip No. 7: Payer's liability.
- Slip No. 8: Maturity slip.

While it is assumed the Federal reserve banks will, in addition to making collateral loans supported by United States Government bonds, be obliged to make other loans supported by collateral, such as warehouse receipts, etc., covering merchandise, it is thought that loans of this character should be somewhat restricted and in every case bear a maturity.

It may be well to note in addition to the above that there will be instances in which the Federal reserve banks will rediscount items supported by collateral, so that the accounts "Collateral loans secured by United States Government bonds" and "Collateral loans—merchandise" would not be indicative of all the collateral loans made.

Form BD 12.—A continuous record, in loose-leaf form, forwarding to the Federal Reserve Board at Washington exact details of the collateral loans made each day.

Form BD 13.—This is a card record for collateral loans supported by Government bonds, the card being descriptive of the collateral and allowing space for substitutions, etc.

Form BD 14.—This is a card record of collateral loans supported by warehouse receipts for merchandise, etc., the card being descriptive of the collateral and allowing for payments covering withdrawals.

Form BD 15.—For use in rediscounting with other Federal reserve banks and supports a controlling balance upon the liability side of the general ledger known as "Rediscounts with other Federal reserve banks." Its explanation follows:

Slip No. 1: Credit to "Rediscounts with other Federal reserve banks."

Slip No. 2: Debit to the discounting Federal reserve bank.

Slip No. 3: Letter inclosing item to discounting Federal reserve bank.

Slip No. 4: Acknowledgment of receipt from discounting Federal reserve bank.

Slip No. 5: Maturity slip.

Slip No. 6: Debit to "Rediscounts with other Federal reserve banks."

Slip No. 7: Credit to "Bills discounted." * * *

All of the above slips are made use of upon the day the items are forwarded for rediscount, with the exception of slips Nos. 5, 6, and 7, being, respectively, a maturity slip, and the subsequent liquidating entries. Slip No. 5, descriptive of the maturity, will be filed chronologically in a separate maturity file covering items "Rediscounted with other Federal reserve banks," so that the total of the slips in this file will at all times prove the controlling balance upon the general ledger. Slips Nos. 6 and 7 will be substituted in place of the note and held awaiting maturity, at which time they will be separated and the debit to "Rediscounts with other Federal reserve banks" will be charged to the note teller and the credit to "Bills discounted" forwarded to the general ledger.

The original maturity slip in the regular maturity file need not be disturbed in this instance, as the reduction of bills discounted does not take place until the maturity of the items, consequently it is necessary that they be left where originally placed, viz, the regular maturity file, in order that it will be in agreement with the controlling balances.

An adjustment of unearned discount would, of course, be necessary upon receipt of the advice of credit.

Form BD 16.—This form is to be used in handling items rediscounted for other Federal reserve banks, and which are payable within the district covered by the messengers of the Federal reserve bank discounting the items.

It provides a controlling balance upon the "Resources" side of the general ledger, to be known as "Rediscounts for other Federal reserve banks." An explanation of the form follows:

Slip No. 1: Debit to "Rediscounts for other Federal reserve banks."

Slip No. 2: Credit to "Rediscounts for other Federal reserve banks."

Slip No. 3: Advice of credit to Federal reserve bank of ———.

Slip No. 4: Credit of Federal reserve bank of ———.

Slip No. 5: Credit to "Unearned discount."

Slip No. 6: Liability slip of Federal reserve bank of ———.

Slip No. 7: Maturity slip.

Form BD 17.—This is identical with Form BD 16, with the exception that it is intended to cover notes rediscounted for other Federal reserve banks which are payable without the district covered by messengers of the Federal reserve bank. Its explanation follows:

Slip No. 1: Debit to "Rediscounts for other Federal reserve banks."

Slip No. 2: Letter forwarding the item for collection.

Slip No. 3: Acknowledgment of its receipt.

Slip No. 4: Credit to "Rediscounts for other Federal reserve banks."

Slip No. 5: Debit to collecting bank.

Slip No. 6: Advice of credit to the Federal reserve bank of ———.

Slip No. 7: Credit to the Federal reserve bank of ———.

Slip No. 8: Credit to "Unearned discount."

Slip No. 9: Liability of Federal reserve bank of ———.

Slip No. 10: Maturity slip.

Form BD 18.—A continuous loose-leaf record to be forwarded to the Federal Reserve Board at Washington, D. C., by the Federal reserve bank discounting items for another Federal reserve bank.

Form BD 19.—A sample loose-leaf sheet, to be used in effecting the daily accrual of earned discount, the resulting figures to be used in a debit to "Unearned discount" and a credit to "Discount."

FEDERAL RESERVE NOTES.

It is proposed that when a Federal reserve bank wishes to issue Federal reserve notes, it will reduce bills discounted and debit a controlling balance in its resources to be known as "With Federal reserve agent to secure Federal reserve notes." After the Federal reserve notes have been received from the Federal reserve agent, which it is assumed will be the same day, the Federal reserve notes will be placed in the assets of the bank, their offset being a credit to "Federal reserve notes."

As the hypothecated notes mature, it will be incumbent upon the Federal reserve banks to either notify the Federal reserve agent of their desire to cancel the equivalent of Federal reserve notes, or, as is most likely, exercise the option of substituting notes with more distant maturities than those already hypothecated.

Form BD 20.—This has been designed to cover both the hypothecation and possible substitution of discounted notes held by the Federal reserve agent to secure Federal reserve notes. Its explanation follows:

Slip No. 1: Debit "With Federal reserve agent to secure Federal reserve notes."

Slip No. 2: Credit to "Federal reserve notes."

Slip No. 3: Maturity slip.

Slip No. 4: Credit "With Federal reserve agent to secure Federal reserve notes."

Slip No. 5: Credit to "Bills discounted * * *."

In hypothecating the notes with the Federal reserve agent it does not appear advisable to retire the liability slips typewritten at the time of the first handling of the note, as the hypothecation does not in any way affect liabilities and as the notes will eventually be returned to the Federal reserve banks for collection, but it will be obligatory, however, to remove the maturity slip from the regular maturity file, stamp it "With Federal reserve agent to secure Federal reserve notes," and then forward it to the filing department to be filed in the permanent record.

In substitution of the maturity slip described in the foregoing paragraph, slip No. 3 of Form BD 20 will be used and filed chronologically in a separate maturity file covering the outstanding notes with the Federal reserve agent, as in this way the bank will be in a position to know at any time the exact notes held by the Federal reserve agent and also will be placed in position to see upon what days substitution of notes will be required.

Form BD 21.—A continuous record, in triplicate, will be obtained from Form BD 20 and delivered with the discounts to the Federal reserve agent by the bank. The first sheet of the continuous record will serve as an application of the Federal reserve bank to the Federal reserve agent, while the duplicate will be the receipt of the Federal reserve agent to the Federal reserve bank, acknowledging the collateral as security, and the triplicate sheet will be the advice of the Federal reserve agent to the Federal Reserve Board at Washington, descriptive of the issuance of Federal reserve notes and the supporting collateral.

Form BD 22.—This is a continuous record, in triplicate, covering the substitution of collateral by the Federal reserve bank with the Federal reserve agent, upon the reverse side of each of which are listed the notes which it is desired to retire, while upon the face of the sheets will be listed the proffered collateral in substitution. The first sheet of the continuous record will be the application of the Federal reserve bank to the Federal reserve agent, the duplicate sheet will be the receipt of the Federal reserve agent to the Federal reserve bank covering the acknowledgment of the collateral received in substitution, while the triplicate will be the Federal reserve agent's advice to the Federal Reserve Board at Washington of the substitution of collateral.

Form BD 23.—This is a draft for the proposed skeleton loose-leaf liability ledger, which will be descriptive of the total indebtedness of concerns under the classification of "Payer" and "Indorser."

Form BD 24.—This is a block sheet to be used in establishing sectional proofs of the day's work.

Forms BD 25 and 26.—Slips to be used in routing the different batches of debits and credits to the general ledger, note teller, and distributing department.

Form BD 27.—A proof sheet for the department, the figures for which will be obtained through a recapitulation of the block sheets.

Form BD 28.—This is a triplicate record, which will be used in the release of collateral by the Federal reserve agent when Federal reserve notes have been tendered to him for cancellation, its explanation being:

Sheet No. 1: Application to the Federal reserve agent for the release of the collateral.

Sheet No. 2: Permanent record for the Federal reserve agent.

Sheet No. 3: Advice to the Federal Reserve Board of the release of the collateral by the Federal reserve agent.

Sheet No. 1 will serve as a permanent record for the Federal reserve bank, while sheet No. 2 will serve the same purpose for the Federal reserve agent, and, in addition, place him in a position to prove the amount of notes being held as collateral; likewise sheet No. 3 will enable the Federal Reserve Board to prove the correctness of "Rediscounts to secure Federal reserve notes," as it appears upon the daily statement of the Federal reserve agent.

BOOKKEEPING DEPARTMENT.

This department will have charge of the maintenance of the accounts of the depositors of the Federal reserve banks.

The usual method of handling such accounts is by means of bound ledgers, supported by monthly statements, descriptive of the different debits and credits entering the accounts, while under the proposed plan the bookkeeper will obtain, by machinery, a daily statement for the depositor, at the same time that he is preparing his loose-leaf ledger sheet, indicative of the day's transactions.

If not too expensive, it is suggested that the canceled checks of each account be returned with the daily statement, inasmuch as it would place them in the possession of the depositors at the earliest possible moment, and would do away with the necessity of filing, and, likewise, the maintenance of steel cabinets in which they must be assorted.

It will be observed that no provision has been made upon the daily statement for a "Key," as this will not be necessary under the general system as outlined in the bank—that of giving specific advices covering the different debits and credits entering the accounts.

The forms of the department will be:

Form B 1.—This is a combined ledger and statement sheet designed for machinery, but which with a slight modification of ruling could be adapted to handwork.

The first duty of the bookkeeper in the morning will be to transcribe upon the top sheet of the form the balance brought forward from the day prior, after which he will deliver the previous day's ledger sheets to the filing department to be filed chronologically in a transfer binder under the name and style of the depositor's account. He will then prove the total of the assembled balances to his controlling account on the general ledger.

It may be well to note at this point that the daily statement to the member banks will not contain the balance appearing to their credit at the close of business each day, but instead will simply be a statement giving the balance of the day prior, together with the debits and credits entering the account, inasmuch as it would hardly be advisable to forward a balance the accuracy of which would not be proved until the following morning. This, however, is a matter of detail, which will best be determined after the first few days of operation, as it is quite possible the nature of the work will enable all the tellers to forward their figures to the general ledger in time to have the controlling balances in proof for the bookkeepers before the conclusion of each day.

After the previous day's balances have been transcribed, the routine of the bookkeeper's work will depend largely upon the time of receipt of the morning mail, exchanges, and other departmental entries.

Form B 2.—To be used in reporting overdrafts to the proper official.

Form B 3.—A form of card index upon which will be accumulated the overdrafts appearing in any particular account.

Form B 4.—A loose-leaf record upon which will be inscribed under the name of the member bank a complete description of the checks upon which it is desired to stop payment.

Form B 5.—This is a form in quadruplicate, which will be used in handling "Transit account," its explanation being:

Page No. 1: Loose-leaf ledger sheet of "Transit account" to be retained as a permanent record by the Federal reserve bank.

Page No. 2: Loose-leaf ledger sheet of "Transit account" for the Federal reserve agent, to be retained by him as a permanent record.

Page No. 3: Advice from Federal reserve agent to the Secretary of the Treasury, which will be signed by the agent after verification and which will be the authority to the Secretary of the Treasury to execute the debits and credits in the gold-reserve balances of the different Federal reserve banks.

Page No. 4: Statement of the account to be forwarded by the Federal reserve bank to the Secretary of the Treasury.

Pages 2 and 3 will be delivered to the Federal reserve agent, page 2, as previously outlined, being his permanent record and page 3 his advice to the Secretary. Page 4 has been designed to afford the Secretary the opportunity of checking the correctness of the Federal reserve agent's figures and also to remove the possibility of confusion in the event of the Federal reserve agent's advice going astray in the mails.

GENERAL BOOKS.

It is proposed that the general ledger, daily statement book, profit and loss ledger, and other ledger records which vitally affect the bank, be segregated from the regular bookkeeping department in order that the controlling figures of the bank be under close observation and not open to the casual examination of clerks.

The general-ledger bookkeeper will also prepare any statements of condition (exclusive of statistics) which may be required by the directors or officials of the bank, Federal reserve agent, or Federal Reserve Board.

Sample pages of the principal books which he will maintain have been drafted, and are explained as follows:

GB 1.—Proposed sheet of a bound book to be styled a "General ledger," and which will contain the controlling accounts of the bank.

GB 2.—Proposed loose-leaf sheet for the "Daily statement book," the figures for which will be obtained from a concentration of general-ledger accounts.

This book will be proved and delivered to the president or secretary-treasurer of the Federal reserve bank each morning not later than 9.30 a. m., in order that they may know the condition of the bank prior to the opening of business.

It will be noted that the leaves of the book are in duplicate, the plan being that the duplicate statement of the condition of the bank will be delivered to the Federal reserve agent for examination, and that he in turn will forward it, the same day, to the Federal Reserve Board at Washington for their information.

On Friday of each week, if it is desired, the figures may be transmitted by telegraph to the Federal Reserve Board for the compilation at their end of the concentrated figures of the 12 different banks.

GB 3.—Sample sheet of a bound book to be known as "Profit and loss ledger."

This will contain the descriptive record of profit and loss account and such other accounts as may be deemed advisable.

GB 4.—To be used in preparing a difference record of the several departments, and will be placed upon the desk of the secretary-treasurer on Monday morning of each week.

GB 5.—A ledger sheet for a subsidiary record giving the details of the short and over differences of the several departments, and must be in agreement with the difference account upon the general ledger.

GB 6.—This form has been designed for use of the directors of the Federal reserve bank at their regular weekly meetings, the plan being that the form will be manifolded so that each director will receive a copy.

GB 7.—This is an expense ledger which will be posted daily and must be in agreement with the general ledger. It will be noted that it has been prepared with the thought of showing every item of expense, although, of course, conditions will arise which may necessitate modifications.

ACCOUNTING DEPARTMENT.

This department will handle the transfer of funds; redeem unpaid cash items which have been cleared through the clearing house; issue letters of advice; prepare for official signature expense vouchers and checks drawn upon other Federal reserve banks; and arrange for the depositing of funds for the credit of the 5 per cent fund of member banks.

It will likewise be intrusted with the custody of contracts and will prepare such statistics of earnings and expenses as may be desired.

It will also handle the analysis of accounts, under whatever method may be determined.

The forms of the department are:

Form AC 1.—This will be used in transferring funds of member banks through other Federal reserve banks, its explanation being:

Top slip, page 1: Advice to Federal reserve bank, requesting the transfer to be made.

Slip No. 2, page 1: Advice to member banks that their account has been charged and the transfer arranged.

Top slip, page 2: Credit to Federal reserve banks of ———.

Slip No. 2, page 2: Debit to member bank's account.

Form AC 2.—This is identical with Form AC 1, with the exception that it is intended to cover a telegraphic transfer of funds, its explanation being:

Top slip, page 1: Advice to Federal reserve bank, requesting the transfer to be made.

Slip No. 2, page 1: Advice to member banks, descriptive of the charge and informing them that the transfer has received attention.

Top slip, page 2: Credit to Federal reserve banks of ———.

Slip No. 2, page 2: Debit to member bank's account.

Form AC 3.—For use in making transfers from one account to another, both of which keep balances with the Federal reserve bank, its explanation being:

Top slip, page 1: Advice to member bank, requesting the transfer.

Slip No. 2, page 1: Advice to the member bank whose account will be credited.

Top slip, page 2: Debit to the member bank, requesting the transfer.

Slip No. 2, page 2: Credit to the member bank whose account is to be credited.

Form AC 4.—This will cover the depositing of funds over the counter for credit of member banks' accounts, its explanation being:

Slip No. 1: Letter of advice to member bank.

Slip No. 2: A duplicate of the above, which will be tendered as a receipt to the bank or individual depositing the funds.

Slip No. 3: Credit to the member bank's account.

Slip No. 4: Auditor's checking slip.

Form AC 5.—Intended to cover the receipt of instructions from member banks to deposit funds with other banking institutions located in the same city in which the Federal reserve bank is situated, its explanation being:

Slip No. 1: Advice to the member bank that their instructions have received attention and also giving the amount charged to their account.

Slip No. 2: Accompanied by a check of the Federal reserve bank, this slip will serve the purpose of a letter of instructions to the institution receiving the funds.

Slip No. 3: Debit to member bank's account.

Form AC 6.—This will be used in arranging deposits with the Treasurer of the United States for the credit of the 5 per cent fund of member banks, its explanation being:

Slip No. 1: Advice to member bank of the amount deposited.

Slip No. 2: Debit to member bank's account.

Form AC 7.—A sample check to be used in redeeming unpaid items which have been cleared through the clearing house:

No. 1: Form of proposed check.

No. 2: Credit to "Returned items."

Form AC 8.—A proposed check to be used in drawing upon other Federal reserve banks, its explanation being:

No. 1: Form of check, together with auditor's stub.

No. 2: Credit to the account of the Federal reserve bank upon whom the check is drawn.

Form AC 9.—A proposed form of expense voucher, which would be descriptive of the particular invoice intended to be covered, its explanation being:

No. 1: Form of check, to which is attached a statement of account.

No. 2: Credit to "Expense check" and debit to "Provision for disbursements."

In this connection it may be suggested that a daily charge to expense, with a corresponding credit to "Provision for disbursements" sufficient to cover the average expense of the bank would tend to indicate more clearly the actual current earnings.

If it is determined to debit expense only at the time of actual disbursement, then, of course, the debit ticket in this instance would be labeled "Expense" instead of "Provision for disbursements."

Form AC 10.—Proposed form of envelope which is intended to inclose such contracts as may be intrusted to the department.

It will be noted that the face of the envelope provides full particulars concerning the contract, dates of payment, and various other details.

Form AC 11.—A tentative form of analysis, which could only be made use of when the actual conditions surrounding the accounts can be determined and likewise after the base of operative expense has been established. It has been tendered simply for the purpose of guidance when the time arrives for its completion.

Form AC 12.—Block sheet for the department to be used in establishing sectional proofs.

Forms AC 13, 14, 15, and 16.—Varicolored slips to be used in routing the different batches to the several departments.

Form AC 17.—A proof sheet upon which will be assembled the figures obtained from a recapitulation of the block sheets.

Form AC 18.—This is a form which will be prepared and delivered to the different departments in order that they may be in touch with the expenses of their respective departments.

SECURITIES DEPARTMENT.

As this department will have charge of the purchase, sale, and custody of such securities as will be classified under the general ledger account known as "Investments," it is suggested that the manager be an officer of the bank.

The department will also have charge of the purchase and sale of securities for the account of member banks; and, in the event of the Federal reserve banks permitting member banks to deposit securities with them for safe-keeping, they will have charge of such custodies.

The preparation of such statistics as may be required concerning the status of the different classes of investments will also be intrusted to the department.

The forms are:

Form S 1.—This will be used in purchasing securities for account of Federal reserve banks, its explanation being:

Slip No. 1: Debit to "Investments."

Slip No. 2: Debit to "Interest accrued receivable—investments."

Form S 2.—This is a continuous record for the Federal Reserve Board at Washington, which will be written at the same time the above form is executed, and which will be forwarded to the board with the thought of placing it in a position to know, with the least possible delay, what investments have been made by the Federal reserve banks.

Form S 3.—This is a loose-leaf book which will be used in maintaining a descriptive balance of the different classes of securities on hand and will be in agreement with the general ledger at all times. Upon the reverse side of the sheet provision has been made for the listing of bond numbers.

Form S 4.—This is a sample page of a bound book which will be used to record purchase and sale of securities for account of member banks.

Form S 5.—Furnishes a summary of the condition of the investments, which will be made to the board of directors of the Federal reserve bank each week.

Form S 6.—A sample loose-leaf sheet to be used in effecting the daily accrual of interest, the resulting figures to be used as a debit to "Interest accrued receivable—investments," and a credit to "Interest—investments."

Form S 7.—In the event of the Federal reserve banks holding securities in safe deposit for account of member banks this form will be used, and is designed to fully describe such custodies, provision having been made for a nominal balance based upon par value and also for the date and other details, etc., of their delivery.

Before filing the form all indices, except those covering the months when interest payments are to be made should be removed, so that at a glance it may be seen what interest payments are due in any month.

In order that a proof of the custodies be possible, it is suggested that a controlling balance be placed upon the general ledger, which will in no way affect the assets or liabilities of the banks, such as, on the debit side, "Custodies," and on the credit side "Custodies due correspondents."

Forms have not been drafted covering the handling of coupons, inasmuch as it is assumed the Federal reserve banks will not burden themselves with their collection.

FOREIGN DEPARTMENT.

In general explanation of the following forms it is suggested that they have been constructed along two distinct lines, viz:

No. 1: That it will be the purpose of branch banks in the original handling of items to so manifold their entries that the regional banks will be obliged to do the least possible work.

No. 2. That the regional banks only will maintain balances abroad, and as a consequence any foreign-exchange transactions originating with branch banks will be for account of their regional banks.

Form FX 1.—Intended for use of regional banks, when forwarding cash items for credit, such items being drawn in the currencies of their respective countries at 10 days' sight and under, together with such long items as may be forwarded for immediate discount.

It will be noted in this form, as well as subsequent Forms Nos. 2, 3, 4, 5, and 6, that provision has been made for a double-accumulating typewriter adding machine, whereby at the completion of the listing of the different items a total is readily obtainable both in foreign currencies and dollars. It may also be added that this necessitates a machine with Sterling equipment.

The first page of Form No. 1 will accompany the original drafts and documents. The second page will be forwarded with the duplicate drafts and documents. The third or first liability sheet is for use of the liability clerk in the regional bank. The fourth or second liability sheet is to be forwarded to the Federal Reserve Board at Washington for the accumulation of their credit record. The fifth serves as remittance register as well as a debit to the foreign bank to whom the items have been sent.

It will be noted that the plan of a remittance register will give full particulars as to the entry, tenor, and amount of the bills, and at the same time assemble them in totals so that the bookkeeper attached to the department is materially assisted in the correct postings of the different accounts. It might also be suggested that the clerk detailed for checking the correctness of discounts, value dates, etc., has all particulars before him.

Attention is called to the fact that provision has been made in the last sheet for a "follow-up" system looking to the prompt acknowledgment of the cash letters, the covering receipts of which have already been attached to the original and duplicate letters forwarding the items abroad.

Form FX 2.—This has been constructed identically with Form FX 1, with the exception that it has been designed to cover the forwarding of exchange to a branch or a correspondent of the institution abroad, providing, as will be noted, a simultaneous advice to the regional bank's correspondent. An example of this would be the forwarding of exchange to the Dresdner Bank in Hamburg for account of Dresdner Bank, Berlin, for credit of the Federal reserve bank in Chicago. The pages of the form will be used as follows:

Page 1: Letter accompanying original drafts and documents abroad.

Page 2: Letter accompanying duplicate drafts and documents abroad.

Page 3: Notification of the forwarding of the items to the foreign bank with whom the checking balance is maintained.

Page 4: Liability sheet for use of the regional bank.

Page 5: Liability sheet to be forwarded to the Federal Reserve Board at Washington.

Page 6: Sheet for remittance register.

Form FX 3.—This is also for use of regional banks and intended to cover the handling of Australian exchange when forwarded to the place of payment for collection, and at the same time for a *realization of the proceeds through negotiation* at London. Explanation of its pages follows, viz:

Page 1: Letter accompanying the original drafts and documents to Australia.

Page 2: Letter inclosing seconds of exchange to London, looking to the negotiation of the items.

Page 3: Liability sheet for use of the regional bank.

Page 4: Liability sheet to be forwarded to the Federal Reserve Board at Washington.

Page 5: Sheet for remittance register.

Form FX 4.—This is identical with Form FX 1, being intended to cover short items drawn at 10 days' sight and under, with the exception that it is designed for the forwarding by branch banks of exchange for account of regional banks and includes a notification to the regional bank of the forwarding of the items.

Form FX 5.—This is similar to Form FX 2, covering the same purpose, with the exception that it includes a notification of the forwarding of the items abroad to the regional bank.

Form FX 6.—This will cover the same ground as Form FX 3, except that it includes a notification to the regional bank of the forwarding of the Australian exchange.

Concerning Forms FX 4, 5, and 6, it will be necessary for the regional banks to execute entries at their end upon receipt of the notification from the branch banks, who will mail the following day the remittance-register sheets, to be placed in the regional bank's binder, awaiting the acknowledgment of credit from the banks abroad.

Form FX 7.—For the purpose of maintaining a controlling balance upon such long items as may be purchased and which will be held without discount to maturity, it is proposed to establish an account upon the general ledger to be known as "Unmatured foreign bills."

This form is intended to cover these bills when forwarded by a Federal reserve bank direct to a correspondent abroad with whom it keeps a checking balance.

Page 1: Letter accompanying the original draft and documents abroad.

Page 2: Letter accompanying the duplicate draft and documents abroad.

Page 3: Serves as an acknowledgment of receipt and provides for a "follow-up."

Page 4: Is an advice of credit to customer.

Page 5: Is a credit to the customer's account.

Page 6: Is a debit to "Unmatured foreign bills."

Page 7: Is a credit to "Unmatured foreign bills."

Page 8: Is a debit to "Due from foreign banks."

It will be noted that the entire record and bookkeeping entries have been executed when first handling the bill. Pages 7 and 8, being attached to one another, are filed in a chronological manner, reflecting the maturity abroad of the item, consequently the bills are charged to the foreign banks at the approximate due date, thereby keeping our books more closely in touch with the balances abroad. It is provided, of course, that nonpayment of the items will be cabled promptly. This résumé also applies to—

Forms FX 8, 10, and 11.—This is identical with the above form, with the exception that it is designed to cover long bills forwarded to branches or correspondents of the Federal reserve bank's correspondent abroad. Its explanation follows:

Page 1: Letter accompanying the original draft and documents abroad.

Page 2: Letter accompanying the duplicate draft and documents abroad.

Page 3: A notification to the regional bank's correspondent that the item has been forwarded to one of its branches or correspondents.

Page 4: Serves as an acknowledgment of receipt and provides for a "follow-up."

Page 5: Advice of credit to customer.

Page 6: Credit to customer's account.

Page 7: Debit to "Unmatured foreign bills."

Page 8: Credit to "Unmatured foreign bills."

Page 9: Debit to "Due from foreign banks."

Form FX 9.—This will cover short items drawn at 1 days' sight and under in the following classifications, viz:

No. 1: When payable and forwarded to places where no relations have been established.

No. 2: When the items are drawn in currencies other than the currency of the countries in which they are payable.

This class of items is quite apt to be very troublesome in handling, usually being drawn upon distant points, and for the purpose of control it is suggested that they be grouped under a general ledger account, to be known as "Foreign collection banks," and it is for this account that Form FX 9 has been constructed. An explanation of the form follows:

Page 1: Accompanies the original draft and documents abroad.

Page 2: Accompanies duplicate draft and documents abroad.

Page 3: Serves as an acknowledgment of receipt and provides for a "follow-up."

Page 4: An advice of credit to the customer.

Page 5: Credit to customer's account.

Page 6: A debit to "Foreign collection banks."

Page 7: Credit to "Foreign collection banks."

Page 8: Debit to "Due from foreign banks."

Form FX 10.—For long bills purchased by a branch bank and forwarded to a direct connection for account of the regional bank maintaining the balance abroad.

It will be noted in the following explanation of the form that the record of the regional bank as well as the member bank has been made at one writing, viz:

Page 1: Letters accompanying the original draft and documents abroad.

Page 2: Letters accompanying the duplicate draft and documents abroad.

Page 3: Provides for an acknowledgment and "follow-up."

Page 4: Advice of credit for branch bank's customer.

Page 5: Credit to branch bank's customer.

Page 6: Debit to "Unmatured foreign bills."

Page 7: Debit to the regional bank for whose account the item is handled abroad.

Page 8: Credit to "Unmatured foreign bills."

Page 9: Notification to regional bank of the forwarding of the bill.

Page 10: Advice of credit from the regional to the branch bank.

Page 11: Credit to the branch bank.

Page 12: Debit to "Due from foreign banks."

Form FX 11.—This is for long bills purchased by branch banks and handled as outlined above, when the items are forwarded to a branch or a correspondent of the banking connection abroad. Its explanation follows:

Page 1: Letter accompanying the original draft and documents abroad.

Page 2: Letter accompanying the duplicate draft and documents abroad.

Page 3: Letter of notification to the foreign bank for whose account the item will be handled.

Page 4: Serves as an acknowledgment and a "follow-up."

Page 5: Advice to the branch bank's customer.

Page 6: Credit to the branch bank's customer.

Page 7: Debit to "Unmatured foreign bills."

Page 8: Debit to the regional bank in whose account the item will be credited when paid.

Page 9: Credit to "Unmatured foreign bills."

Page 10: Letter of notification from the branch to the regional bank of the forwarding of the item.

Page 11: Advice of credit to the branch bank.

Page 12: Credit to the branch bank.

Page 13: Debit to "Due from foreign banks."

Form FX 12.—This is designed for items covered by Form FX 9, except in this case they will be purchased by a branch bank and be handled in accordance with the thought outlined in Forms FX 10 and 11. Its explanation follows:

Page 1: Letter accompanying the original draft and documents abroad.

Page 2: Letter accompanying the duplicate draft and documents abroad.

Page 3: Serves as an acknowledgment and "follow-up."

Page 4: Advice of credit to the branch bank's customer.

Page 5: Credit to branch bank's customer.

Page 6: Debit to "Foreign collection banks."

Page 7: Debit to the regional bank.

Page 8: Credit to "Foreign collection banks."

Page 9: Letter of notification to the regional bank of the forwarding of the item.

Page 10: Advice of credit to the branch bank.

Page 11: Credit to the branch bank.

Page 12: Debit to "Due from foreign banks."

Form FX 13.—This will be a continuous record for items covered by Forms FX 7, 8, and 9, the original of which will go to the liability clerk of the regional bank, while the duplicate will be mailed to the Federal Reserve Board at Washington.

Form FX 14.—This will be a continuous record covering Forms FX 10, 11, and 12, the original of the form being used by the liability clerk of the branch bank, while the duplicate will be forwarded to the Federal Reserve Board at Washington.

Form FX 15.—This will serve as an advice of credit to the member banks covering such items as might be bought by the regional banks and which will

be forwarded abroad on Forms FX 1, 2, and 3. The attached duplicate will be a credit to the member bank's account.

Form FX 16.—As only certain individuals in the foreign department will be authorized to quote rates, this form has been devised for the purpose of supplying the clerks who will receive and deliver exchange, with authenticated rates, so that there will be no confusion incidental to prompt handling.

Form FX 17.—This is a daily balance sheet of the department, which will be prepared by the bookkeeper and delivered to the head of the department daily, in order that he may be in close touch with the condition of balances abroad, without the necessity of examining the foreign ledger. It is understood, of course, that in the left-hand column the names of the correspondents abroad will be printed.

Form FX 18.—This form will serve the purpose of recording special cable words not covered in the codes and which may be required as a notification of prompt payment or nonpayment.

Form FX 19.—This form consists of a debit and credit ticket to be used in the transfer of funds from one foreign account to another, principally because of cable transfers and arbitrage operations.

Form FX 20.—This form serves as a confirmation covering the purchase of cable transfers from institutions through their brokers.

Form FX 21.—The foreign department may require for counter use, as well as for the use of member banks, a supply of drafts, and the form tendered herewith is to supply that want.

Form FX 22.—In arranging for postal remittances ordered by member banks this form has been constructed, the original of which will be forwarded abroad with the necessary instructions. The carbon copy will be retained in a loose-leaf binder, awaiting the return of the receipts.

Form FX 23.—Upon the above receipts being received, they will be returned to the member banks upon this form, the full data being obtained from the duplicate of Form FX 22, which, as previously outlined, will be retained in a binder for the purpose.

The receipts covering postal remittances returned from abroad are usually written in an undecipherable way, and the above forms and method of handling will materially assist in completing the record.

Form FX 24.—(Out. Travelers' record not required.)

Form FX 25.—This has been modeled to relieve as much as possible formal letters being written by the department, as it is felt that many routine matters can easily be covered by this form. The duplicate will serve as a record for the files.

Form FX 26.—This is a series of postal cards to be used in tracing overdue items. The duplicate is filed away under a maturity "follow-up" system, so that all overdue items will receive intelligent and careful tracing.

Form FX 27.—This form will be executed in triplicate and is intended to cover the depositing of funds in institutions in accordance with instructions received from foreign banks. The first sheet is to the bank receiving the funds. The two remaining portions of the form serve as an original and duplicate receipt, the original being forwarded to the bank requesting the depositing of the funds and the duplicate is for the files.

Form FX 28.—(Out.)

Form FX 29.—This is for use in arranging cable transfers and serves as a confirmation and bill (inclusive of cable charges) to the customer, as well as a credit to the foreign bank and a "follow-up" to see that the amount due is received.

Form FX 30.—This covers the offerings of the foreign department, looking to the establishment of lines of credit needed for the purchase and sale of exchange.

Form FX 31.—For use of the liability clerk in the foreign department, and is indicative of the total liability of customers, both as drawer and drawee.

Form FX 32.—For use of the liability clerk in the foreign department, and shows the total of payer's liability under "Unmatured long items."

Forms FX 33 and 34.—This is a suggested "block sheet," together with a tab for use in routing items to different departments.

Form FX 35.—A ledger sheet for the foreign department ledger and from which it will be noted a balance in dollars is obtainable at any time. A balance in foreign amounts is deemed unnecessary, as it would serve no useful purpose except for the reconciliation of the account at stated intervals, at which time the auditing department can easily strike the balance.

Form FX 36.—This is for use of the manager of the foreign department, who will do the trading, or who will influence the trading, and arrange for the establishment of quotations. It has been arranged upon a Chicago basis, but, of course, it may easily be adjusted to whatever center it is determined to have the rates emanate from.

Forms FX 37 and 38.—These sheets are intended to be compiled weekly by the liability clerk of the foreign department, and in turn to be delivered to the manager of the department for the purpose of keeping him in close touch with the liabilities of his clients without the necessity of consulting the liability ledger. It is also suggested, if required, that the originals, or perhaps duplicates, of the form be delivered to the board of directors of the Federal reserve bank at stated intervals.

Form FX 39.—This is designed to cover the receipt of a cable from abroad, concerning which it is necessary to cable a reply and may be of use in relations with member banks as well as for those from whom bills of exchange have been purchased in the open market.

Form FX 40.—This form is somewhat descriptive of its use, and is intended to be a matter of record of the addition of any word in the private cable code.

Form FX 41.—This is an added ledger sheet for the foreign-department ledger, descriptive of the record of purchases and sales of foreign currency over the counter. Its use will enable any examiner to know just how much of any particular foreign currency is being held in the department, together with the dollar value at which it is being carried on the books.

Forms FX 42 and 43.—These are credit and debit tickets descriptive of the different classes of foreign currency bought and sold, and from which the bookkeeper will post to the foreign-currency sheet.

Form FX 44.—This is a labor-saving form which covers an advice to the customer, together with a debit and credit to different accounts.

Form FX 45.—This is identical with Form FX 44, with the exception that the advice to the customer reflects a debit in his account, the manifold entry being a credit to some other account.

Form FX 46.—A suggested form of daily statement for the foreign department, showing its condition in a similar manner to that of the rest of the bank. This daily statement should be in the hands of the administration of the bank each morning at the same time that the daily statement book of the general bank is being examined, so that the two may be compared if necessary.

Form FX 47.—This form has been arranged in order that the regional banks might be equipped to handle strictly collection items payable in foreign countries, and upon which no advance or credit would be made until the actual settlement of the item. Its explanation follows:

Page 1: Accompanies the original draft and documents abroad.

Page 2: Accompanies the duplicate draft and documents abroad.

Page 3: Serves as an acknowledgment of the receipt of the item, together with a "follow-up."

Page 4: Is an advice of credit to the customer.

Page 5: Is a credit to the customer's account.

Page 6: Is a debit to "Due from foreign banks."

Form FX 48.—This is identical with Form FX 47, with the exception that it is intended to cover strictly collection items payable in foreign countries, which may be received by branch banks and which would be forwarded abroad for account of its regional bank. Its explanation follows:

Page 1: Accompanies the original draft and documents abroad.

Page 2: Accompanies the duplicate draft and documents abroad.

Page 3: Serves as an acknowledgment to regional bank of the receipt of the item.

Page 4: Serves as an acknowledgment to branch bank of the receipt of the item, together with a "follow-up."

Page 5: Advice for customer of the branch bank.

Page 6: Credit for customer of the branch bank.

Page 7: Debit to the regional bank.

Page 8: Letter to the regional bank descriptive of the forwarding of the item.

Page 9: Advice for branch bank.

Page 10: Credit for branch bank.

Page 11: Debit to "Due from foreign banks."

Form FX 49.—A sample check to be used by the regional bank in drawing upon their direct connections abroad, and concerning which it will be noted that the original and duplicate advices, together with the credit to the foreign

bank's account, as well as the auditor's checking stub, have been written at the time of the issuance of the check.

Form FX 50.—A sample check to be used by the regional banks in drawing upon a branch or a correspondent of their foreign connection.

Form FX 51.—A sample check for the use of regional banks in drawing their long drafts upon a direct connection abroad.

Form FX 52.—This is the departmental daily proof sheet, upon which is transcribed the totals as obtained from the recapitulation of the "block" sheets.

It will be noted that in each case the accounts described upon the proof sheet represent simply interlocking balances with the general ledger and other departments, so that the proof of the accuracy of the figures is controlled by other departments.

AUDITING DEPARTMENT.

The duties of the auditor will be largely governed by his vested power and authority, but in no sense should his department form an operating unit of the bank.

His functions should be those of verification and control, systematic examinations of the different departments, criticism of discipline and system, and he should have a general knowledge of the earnings and expenses of the bank.

The routine of the auditing department would consist of examinations, verification of correction entries, scrutiny of general-ledger tickets, adjustment of errors, reconciliation of balances, both domestic and foreign, maintaining direct correspondence with member banks, etc., in reply to inquiries affecting the adjustment of accounts, investigations resulting from the marking of mail matter to the auditing department by the officers of the bank who desire special investigations to be made, control with a daily proof and by means of checking to stubs all cashier's checks, expense vouchers, redemption checks, and certified checks; arranging for the handling and reforwarding of national-bank examiners' requests for information, and establishing a proof upon the general ledger.

The forms of the department would be:

Form A 1.—This will be used for the registration of such inquiries as may be received in connection with examinations by bank examiners, directors, etc.

Form A 2.—To be used in forwarding the balance of any account, as at the close of business on a certain day, in response to an authorized request.

Form A 3.—Reconciliation blank to accompany the daily statement which will be forwarded to each account upon the last business day of the month.

Form A 4.—Sample envelope to be inclosed with the above form of reconciliation in order that its return may be made directly to the auditing department.

Form A 5.—Card record for registering the receipt of reconciliements.

Form A 6.—A tracer to be forwarded no later than the 15th of the succeeding month to such accounts as have not reconciled their balance of the month prior.

Form A 7.—A form to be used in decreasing formal letter writing, looking to the adjustment of exceptions, as shown upon the reconciliements.

Form A 8.—Form of reconciliation to be retained by the auditing department and upon which will be inscribed the reconciliation of balances with other Federal reserve agents as well as with foreign banks.

Form A 9.—To be used after the reconciliation of foreign accounts in instructing the foreign department to make entries covering commission charges, postage, etc.

Form A 10.—Auditor's proof of general ledger, the figures for which will be assembled from a recapitulation of the different departmental proof sheets.

Form A 11.—Suggested letterheads for the correspondence of the auditor.

Form A 12.—Card record to be filed chronologically in a special examination file, and upon which will be inscribed the teller or subject to be examined, the salient points to be covered, and the best methods of procedure. This will enable the auditor to make systematic examinations at irregular periods, owing to the fact that upon each day of examination the cards will be replaced in the file in the compartment of a future determined date.

Form A 13.—To be used in requesting special reports from clerks who have made errors, either of commission or omission.

In this connection it is suggested that the secretary-treasurer and an assistant, or any two officers who might be determined upon, meet with the auditor each business morning for the purpose of examining the typewritten reports

which will be the result of using Form A 13, as in this way the designated officials of the bank will be kept in close touch with the clerical force. Possible defects of system will be obtained in this way which it would be difficult to develop in any other manner.

Form A 14.—This will be used in reporting the results of departmental and other examinations.

There will be no cashier-check registers maintained in the department, inasmuch as this work is a duplication of labor, and for the purposes of proof and control the same object will be served by retaining the credit tickets executed at the same time the checks are drawn.

MAIL DEPARTMENT.

This department will receive and distribute all mail matter received between the hours of 9 a. m. and 2.30 p. m., and likewise it will be intrusted with the forwarding to member banks, etc., of all mail matter emanating from the officers and the different departments.

It is suggested that the equipment include steel racks with suitably sized compartments, in which the mail for each member bank may be accumulated (in this way a saving of postage will be made), an electric envelope opener, and an electric envelope sealer.

FILING DEPARTMENT.

The object of this department will be the collection and filing of all mail matter which has accumulated during the day. There are no distinctive forms for the department, but it is suggested that the files be operated upon a plan of assembling into separate compartments, under an alphabetical arrangement of member banks, such mail matter and carbon copies of transactions as may affect each individual bank.

The daily accumulation of ledger sheets from the bookkeeping department, liability slips from the discount department, general ledger tickets, canceled checks from the auditing department, and the proof sheets and block sheets of all departments will likewise be filed and cared for by this department.

MISCELLANEOUS.

The following-described forms are general in character and can not be directly assigned to any particular department:

Form MISC 1.—A sample of check to be used in the different departments, the distinguishing red numbers being indicative of the department originating the transaction. It is suggested that the discount, securities, accounting, and foreign-exchange departments be supplied with their own cashier's checks to bear the distinctive numbers 1, 2, 3, and 4, respectively.

It will be noted that at the time the check is drawn a corresponding credit has also been executed by means of a carbon impression.

An auditor's stub has been affixed to the check, which will protect the signing officer, who upon affixing his signature will detach the stub and place it in a box situated upon his desk. The auditing department will collect the stubs the following morning and check them to their proper entries.

Forms MISC 2 and 3.—These are sample credit and debit tickets, which will be used by the departments in executing entries which have not been covered by other forms.

Form MISC 4.—This is a form of debit ticket which will be used by clerks working after hours and to whom a disbursement of a nominal sum will be made.

Form MISC 5.—This will be used in handling expense incidental to the forwarding or receiving of telegrams for account of member banks, etc., its explanation being:

Slip No. 1: Advice to member bank of the charge.

Slip No. 2: Debit to member bank's account.

Slip No. 3: Credit to "Provision for disbursements."

Form MISC 6.—This will be used by all departments in forwarding registered mail matter to the mail department, the purpose being that each department will obtain a signed receipt from the mail department that the contents of the letters or parcels have been received by them.

Form MISC 7.—A vault record to be used by the different departments and is designed to show the time their particular compartments were closed, as well as the opening and closing of the main doors of the vault.

Form MISC 8.—This is a card to be used by the chief clerk, which is descriptive of applications for employment as well as an employee's record.

Form MISC 9.—A sheet to be used by all departments in reporting to the chief clerk the time of closing of the previous day, together with any debit or credit difference which might have occurred in their general work. Provision has also been made for the reporting of absentees and the reason for absence.

Form MISC 10.—A form to be used by the chief clerk in reporting to the secretary-treasurer the time of closing of all departments on the day prior, together with any debit or credit differences in their work, names of absentees, and the reason for their absence. The data for this form will be supplied from the departmental record as outlined in Form MISC 9.

Form MISC 11.—This will be used by the different departments in requisitioning supplies from the chief clerk. The second sheet of the form is a carbon copy of the requisition, which will be retained by the department, in order that they may be in a position to check the departmental bill which will be rendered, say, semimonthly, by the chief clerk or the purchasing agent.

Form MISC 12.—A card, upon which will be inscribed the signatures of those authorized in the member banks to transact business with the Federal reserve banks.

Form MISC 13.—A card, upon which will be inscribed the signatures of Government officers authorized to transact business with the Federal reserve banks.

FEDERAL RESERVE AGENT.

As the Federal reserve agent will have relations with the Federal reserve bank and the Comptroller of the Currency, and as he likewise will be under the necessity of making certain reports to the Federal Reserve Board at Washington, all of the forms to be used by the agent have been designed to cover his necessary bookkeeping entries as well as to provide for a concentrated advice of his operations to the Federal Reserve Board.

The forms of the agent are:

Form FRA 1.—This is intended to cover the receipt by the Federal reserve agent of Federal reserve notes from the Comptroller of the Currency, its explanation being—

Slip No. 1: Acknowledgment of receipt to the Comptroller of the Currency.

Slip No. 2: Credit "Federal reserve notes from Comptroller of Currency."

Slip No. 3: Debit "Federal reserve notes on hand."

Form FRA 2.—This will be used in forwarding mutilated Federal reserve notes to the Comptroller of the Currency for destruction, its explanation being—

Slip No. 1: Notification to the comptroller of the forwarding of the notes.

Slip No. 2: To accompany the shipment.

Slip No. 3: Credit "Federal reserve notes on hand."

Slip No. 4: Debit "Federal reserve notes from Comptroller of the Currency."

Form FRA 3.—This will be for use of the Federal reserve agent when issuing Federal reserve notes to the Federal reserve bank, its explanation being—

Slip No. 1: Credit to "Federal reserve notes on hand."

Slip No. 2: Debit to "Federal reserve notes in circulation."

Slip No. 3: Debit "Rediscounts to secure Federal reserve notes."

Slip No. 4: Credit "Collateral received from Federal reserve bank, Chicago."

The advice to the Federal Reserve Board at Washington of the issuance of the currency and its supporting collateral, having already been obtained by means of the continuous record, as outlined in the discount section, it will not be necessary to provide this form with a slip covering advice. It will, however, be noted that all of the necessary bookkeeping entries have been written at one operation.

Form FRA 4.—This will be used to cover the depositing of gold or other lawful money by the Federal reserve bank with the Federal reserve agent to reduce the outstanding Federal reserve notes, its explanation being—

Slip No. 1: Credit to "Provision for redemption of Federal reserve notes."

Slip No. 2: Debit "Gold and lawful money to retire Federal reserve notes."

Form FRA 5.—This is a sample loose-leaf ledger sheet to be used by the Federal reserve agent in maintaining such controlling accounts as will be necessary.

It will be noted that a duplicate of the ledger sheet has been provided, with the thought that this will serve the purpose of a concentrated daily statement to the Federal Reserve Board of the condition of the Federal reserve agent's accounts.

For the relations of the Federal reserve agent with the Secretary of the Treasury, covering transactions in "Transit account," see Form B 5 of the book-keeping department.

SECRETARY OF THE TREASURY.

Under the proposed transit plan a certain portion of the gold reserve of the Federal reserve banks will be concentrated at Washington with the Secretary of the Treasury, who will maintain a record descriptive of the balance of the gold reserve of each Federal reserve bank.

The entries in the different balances will be obtained from daily statements received from the Federal reserve agents, who, as previously outlined, will verify the entries and authenticate the daily statements with their signatures.

As it will be advisable for each Federal reserve bank to be acquainted daily with the condition of their gold reserve at Washington, a form, in duplicate, has been provided which will enable the Secretary to retain the top page as a ledger sheet, or permanent record, while the duplicate will be forwarded to the Federal reserve banks.

SYSTEM II.

In the development of this system every effort has been made to simplify and abridge the clerical routine by the use of manifold forms where initial entries could be utilized for a number of purposes; to organize the departments and procedure so that needless duplication of work and records would be avoided; and finally, by the introduction of special departmental settlement forms which would serve both for the departmental proof and the auditor's control, to centralize in the audit division complete control over the daily operations.

A few typical examples will serve to illustrate the extent to which reentry of transactions has been avoided by the use of manifold forms. In the loan department there will be prepared at one writing the loan register entry and the liability ledger voucher from which the debit entries in the liability ledgers will be checked and the credit entries posted upon maturity of the loan. The form devised for use in connection with transfers to banks in other districts will permit of the preparation at one writing of the credit or charge to the regional bank, the office record, and the advice to be sent to the member bank affected. The member banks' form for returning items unpaid provides for the preparation at one writing of the letter of inclosure to the member bank to which the item is returned, authorization to recipient to credit its regional bank, advice to the regional bank of the charge to its account for the item, authorization of the transfer of such charge to the regional bank in whose district the item originated, and, finally, the member bank's record of the return of the item and of its charge to the regional bank from which received. In the bookkeeping department there will be prepared at one writing the regional bank's ledger record of its transactions with the member banks and the statements of account and advices to be sent the member banks. While special attention has been given to arranging these and all other forms accompanying this report so that they can be used with any of the standard adding and typewriting machines now on the market, no radical changes in the accounting system should be necessary were special machines utilized.

In the planning of the departments, the aim has been to restrict them to the smallest number required for the expeditious and correct handling of the work, to group the departments and operations so that conflict of duties and consequent duplication of work would be avoided, and finally, by compelling departments handling funds to account to another department for such funds, to have the departments themselves automatically check each other's work. The extent to which duplication of work and records has been overcome by planning the procedure so that the items will go direct from the department in which they originate to the final recording department, is illustrated by the following:

Upon receipt, checks drawn by member banks on their regional banks will be sorted and listed on proof sheets, the number of the member bank inserted, and

both the proof sheets and the checks forwarded to the bookkeeping department. The proof sheets will be delivered to the journal clerks, who will post the totals shown thereon to the proper accounts in the member bank's journal. The checks themselves will be utilized by the ledger clerks for preparing the ledger record and the daily statement to be sent to the member banks. As the entries in the journal will be compiled from the proof sheets and those on the ledger direct from the items, and a daily comparison made of the two sets of balances, it is obvious that this procedure affords every possible protection against errors—and moreover with only two entries of the item.

The following is a brief description of the proof system by means of which the audit division will be able to maintain complete control over the work of the various departments whose transactions affect the figures in the daily statement of condition. Departmental settlement sheets (Form A-2) have been provided on which the various departments—or subdivisions of departments, in the case of the clearings and transit departments—will be required to balance their work independently but along uniform lines. The upper section of this form is ruled for entry of the debits and credits of the departments to the member banks, Government deposits, general, and other accounts, and the lower section for entry of the interdepartmental debits and credits in respect of items delivered to or received from them, and such other departmental transactions as may arise. Each department receiving items from another department being required to enter them on its settlement sheet to the credit of the department charging them, it is apparent that for each debit and credit in a certain department there should be a corresponding credit or debit in some other department. At the close of business each day the totals of the departmental settlement sheets are to be assembled by the auditor on the general proof sheet. This general proof sheet will at once reveal any errors in the work of the different departments and will serve to centralize in the audit division complete control over the daily operations of the bank by furnishing the means for tracing and verifying all interdepartmental entries. Furthermore, this control will be obtained without unnecessary relisting, for the items will go direct from the various tellers' departments to the bookkeeping department.

CHIEF CLERK.

The chief clerk will be the intermediary between the officers and the clerks engaged in the banking division. All instructions of the officers affecting the clerks in this division are to be issued through the chief clerk, who should be held responsible for the fulfillment of such instructions, and also for the prompt and efficient conduct of the routine work of the division and for the general discipline of the clerks under his jurisdiction.

Subject to the approval of the officer in charge, the chief clerk should arrange for the filling of temporary vacancies occasioned by illness, vacations, etc., and for the purchase of stationery and supplies.

LOAN AND INVESTMENT SECURITIES DEPARTMENTS.

The loan and investment securities departments will comprise the rediscounts department, the open-market purchases department, and the investment securities department. Explanatory of the functions of these departments and the records to be maintained therein, we submit the following:

REDISCOUNTS AND OPEN-MARKET PURCHASES DEPARTMENT.

The rediscounts and open-market purchases departments will be responsible for the proper handling and custody of the notes rediscounted for member banks and the paper purchased in the open market, and also for the maintenance of the books and forms required for recording the transactions and collecting such of the loans as are payable out of town. Briefly, the duties of these departments will include the examination, as to their regularity, of the notes, drafts, etc., received; the calculation of the interest, discount, and maturities; the entering of the paper in the discount registers, maturity records, and liability ledgers; the filing of the paper pending collection, which is to be effected through member banks in the event of the paper being payable out of town, or through the note teller's department if payable in the city in which the regional bank is situated; and the posting of the credits for payments in the liability ledgers.

The forms to be used in the rediscounts and open-market purchases departments being either similar or common to both, the two departments will be dealt with as a unit in the ensuing description of the forms required.

Authority to rediscount (B-1).—This form when executed will be a certificate reciting that the board of directors of the member bank has authorized certain of the officers to rediscount with, sell to, or borrow from their regional bank. A copy of this form is to be executed by each member bank.

Application for loan (B-2).—An application is to be executed on this form by the member bank and submitted to the regional bank with each schedule of notes, drafts, and bills of exchange offered for rediscount.

Schedule of notes, drafts, and bills of exchange offered for rediscount (B-3).—This form, after completion by the member bank, is to be forwarded to the regional bank together with the application for loan, Form B-2.

In order that the regional bank may have sufficient details of the paper offered for rediscount, provision has been made for inclusion in this schedule of the number, name, and location of the offering bank; the name, address, and business of the maker or drawer; the acceptor, indorser, or collateral; where payable; date of note; due date; discount rate; and face amount of note.

Register of rediscounts (B-4); register of open-market purchases (B-5).—As the notes, drafts, or bills are received from the member banks for rediscount, or purchased in the open market, they are to be entered directly from the notes in the respective registers. These registers are arranged so as to show for each item the consecutive index number; the date rediscounted or purchased; date of note; due date; time; rate of discount; amount of note; discount; proceeds; for whom rediscounted or from whom purchased; the maker or drawer; the acceptor, indorser, or collateral; and where payable. The "a" sections of these forms will be classified as to city and country items, and thereafter filed in chronological order according to due dates, while the "b" sections will be placed in binders and will constitute the discount registers proper.

Credit tickets for the proceeds of the notes, etc., rediscounted or purchased in the open market, will be prepared at intervals during the day and forwarded to the bookkeeping department.

At the close of business, tickets covering the day's totals of the rediscounts and open-market purchases, and the discount received on each class of paper, as shown by the respective registers, are to be prepared and forwarded to the bookkeeping department.

City maturity record (B-6); country maturity record (B-7).—After the notes, drafts, etc., have been recorded in the discount registers, they are to be classified as to "city" and "country" items and entered in the proper maturity record under the respective due dates. As the tickets prepared at the time the entries are made in the discount registers will be filed in chronological order according to due dates and will be available for reference, it will be necessary to enter in the city maturity record only the index number and the amount of the note, and in the country maturity record only the index number, the amount of the note, and where payable. For such of the items as are sent to member banks for collection, the date on which the receipt of the item is acknowledge by the collecting bank is to be subsequently added from Form B-13.

At the close of business each day tickets for the totals of the respective maturities are to be prepared and forwarded to the general bookkeeper for credit to the controlling accounts.

The maturity records are to be footed weekly, and from the footings so obtained will be compiled the totals for the 30-day, 60-day, and 90-day paper rediscounted or purchased by the regional bank.

Notes or other items rediscounted for member banks and not paid at maturity are to be charged to the account of the member bank for which rediscounted and returned. Paper bought in the open market not paid at maturity is to be charged to an account entitled "Past due paper," pending payment or other disposition.

Member banks' liability ledger (B-8).—This form is designed to provide a detailed record of the contingent liabilities of each member bank to the regional bank.

A separate sheet will be opened for each member bank on which will be recorded in the "rediscounts" section the date on which the item was rediscounted; its index number; the maker or drawer; the acceptor or indorser; the due date; the discount rate; and the rediscount amount. When paid, the date and amount of the payment will be entered in the "credits" columns and

the amount in the "balance" column reduced accordingly. In the section designated "other liability" will be entered the details of the contingent liability of the member banks as acceptors or indorsers on paper purchased in the open market.

The debit entries are to be posted direct from the notes and proved by comparison with the tickets prepared at the time the entries are made in the discount registers.

Liability ledger—Rediscounts and open market purchases (B-9).—In this record will be entered under the names of the makers or acceptors their liability to the regional bank in respect of notes rediscounted by member banks and paper purchased in the open market.

In addition to the name, address, business, and rating of the borrower there will be entered in this ledger the date on which the note, draft, etc., was rediscounted or purchased; the index number; from whom received; the indorsers; the due date, and the amount of the liability, subdivided as to rediscounts and open market purchases. When paid, the date and amount of the payment will be entered in the "credits" columns and the amount in the "balance" column reduced accordingly.

Should the notes, drafts, etc., be later hypothecated with the Federal reserve agent, this information is to be entered in the "deposited" column on the line containing the description of the paper. When returned by the Federal reserve agent, the date is to be entered in the "withdrawn" column and the amount in the "balance" column reduced accordingly. This balance can be very readily proved by listing the open items.

From the foregoing it will be seen that this ledger will show both the extent of the borrower's liability and the location of the paper—that is, whether it is in the possession of the regional bank or whether it is held by the Federal reserve agent as collateral.

In the event of paper being sold by the regional bank prior to maturity, the date and amount would be posted in the "credits" column and the name of the purchaser recorded in the "sold to" column.

The debit entries are to be posted direct from the notes and proved by comparison with the tickets prepared at the time the entries are made in the discount registers.

Contingent liability record—rediscounts and open market purchases (B-10).—Separate sheets of this form are to be used for each indorser on paper rediscounted or purchased in the open market. The form will be headed with the name of the indorser, his address, business and financial rating, and will show for each item the date on which it was rediscounted or purchased; the index number; the maker or acceptor; the liability amount; the credits for payments; and the balance—representing the net contingent liability.

The debit entries are to be posted direct from the notes and proved by comparison with the tickets compared at the time the entries are made in the discount registers.

Weekly report of borrower's liability (B-11).—It is through the medium of this form, which is to be prepared weekly by the regional banks from the liability ledgers, that the Federal Reserve Board will obtain the data it requires as to the extent and nature of the liabilities of the customers of the member banks to the regional banks and the amount of the paper hypothecated by the regional banks with the Federal reserve agent. Two copies are to be made, one of which is to be forwarded to the board and the other retained by the regional bank. So as to minimize the amount of work involved in the preparation of this report, it is suggested that lines of less than, say, \$10,000 be excluded.

Being designed on the unit plan, it will only be necessary for the Federal Reserve Board to assembled in alphabetical order, according to makers or acceptors, the reports received from the various regional banks in order to ascertain the aggregate liability of each individual borrower for notes rediscounted or purchased by the regional banks.

Weekly report of member banks credit balances and rediscounts (B-12).—This form is somewhat similar to Form B-11, except that it is intended to show, for each member bank, its average credit balance with the regional bank, the amount of notes rediscounted by it with the regional bank, and the contingent liability of the member bank in respect of acceptances or indorsements on paper purchased by the regional bank in the open market.

The data required for the completion of this form will be obtained from the member bank's liability ledger, Form B-8, and from the member bank's ledger Form "G-4a."

*Collection form for notes owned payable in discounting bank's district (B-13).—*The several copies of this form will serve respectively as a letter of inclosure, receiving bank's acknowledgment, charge ticket, and office record of notes owned, which are sent to a member bank for collection. It is to be prepared in quadruplicate and the following disposition made of the various copies:

Original: To be sent to collecting bank with item, as a letter of inclosure.

Duplicate: To be sent with item to collecting bank, by which it will be signed and returned to regional bank. Upon receipt by regional bank, the date of the acknowledgment is to be entered on the country maturity record, Form B-7, and duplicate filed in correspondence file.

TriPLICATE: To be filed by regional bank in note file until maturity, then turned over to the note teller's department. Thereafter the collecting bank will be charged with the amount of the item and triplicate sent forward as an advice of such charge.

Quadruplicate: To be retained by the regional bank in numerical order as a permanent record.

*Collection form for notes owned payable in other districts (B-14).—*This form is to be used in forwarding to other regional banks notes owned which are payable outside the district of the forwarding regional bank; it consists of an original to be sent to the collecting regional bank with the items and a duplicate to be retained by the forwarding bank.

On the due date of the items, the duplicate, or debit sheet, is to be turned over to the note teller's department and used as a charge against the collecting regional bank.

*Record of notes hypothecated with Federal reserve agent (B-15).—*This form, which is to be prepared in duplicate, and is to accompany each lot of notes turned over to the Federal reserve agent as collateral for Federal reserve notes issued, provides for the recording of the serial numbers given the notes by the Federal reserve agent and by the regional bank, and the amounts of the notes hypothecated.

Upon delivery of the notes, the original of this form is to be signed by a representative of the Federal reserve agent as an acknowledgement of the receipt of the notes, and then returned to the regional bank. The duplicate is to be retained by the Federal reserve agent as his record of the transaction.

When the notes are returned to the regional bank by the Federal reserve agent, the date on which they are so returned is to be inserted on both copies; consequently both the Federal reserve agent and the regional bank will be in possession of a complete record of the notes pledged as collateral with the agent and the disposition made of the notes.

*Record of collateral withdrawn from Federal reserve agent (B-16).—*Aside from the fact that it is to be used in withdrawing notes deposited as collateral, this form is somewhat similar to Form B-15. In the case of Form B-16, however, the original is to be retained by the regional bank, while the duplicate is to be signed by the regional bank as an acknowledgment of the receipt of the notes, and thereafter returned to the Federal reserve agent.

*Collateral card (B-17).—*The particulars to be recorded on this form will include the name and address of the borrower; the serial number, amount, date, and other details of the loan; and the quantity, description, and market value of the collateral. Upon payment of the loan and surrender of the collateral, the borrower or his representative is to sign the collateral card in acknowledgement of the receipt of the securities described thereon.

*Record of securities held as collateral (B-18).—*This form will be used for classifying according to issues the securities pledged as collateral. A sheet will be reserved for each issue on which will be entered the name and description of the security, the date pledged or surrendered, the number and name of the loan upon which pledged, the number of bonds or shares pledged or surrendered, and the total par value of the securities pledged, surrendered, and on hand.

Accruals.—To insure the accuracy of the published statements of condition and facilitate the verification of the interest earned on rediscounts and paper purchased in the open market, it is essential that the regional banks should have an accrual system which will permit of the ascertainment of the actual earnings from this source at daily or weekly intervals. By the adoption of the following procedure the amount of interest earned on loans outstanding could be determined daily with very little difficulty:

At the close of business each day the total of the interest collected as shown by the "discount" columns in the register of rediscounts, Form B-4, and the

register of open market purchases, Form B-5, should be credited to the general ledger account entitled "unearned interest." Simultaneously, a charge should be made to this account—the proper earnings account being concurrently credited—for one day's interest on the total of the loans outstanding. To facilitate the computation of this charge, a columnar book containing debit, credit, and balance columns for the loans at each interest rate should be provided, in which should be entered the net increases or decreases in the loans made or paid each day and the revised totals of the loans outstanding at the various interest rates.

Twice a year the balance in the unearned interest account should be proved by listing in a columnar book, under the respective interest rates, the amount and unexpired days for each loan outstanding, and computing therefrom the total interest unearned.

INVESTMENT SECURITIES DEPARTMENT.

To this department will be assigned the custody of the bonds and other securities in which the regional bank has invested and all matters relating to the recording of the purchases, sales, and maturities of such securities, the receiving of securities purchased, and the delivery or redemption of securities sold or matured.

Investment register (B-19).—Separate sheets of this register are to be used for each issue of securities acquired. These sheets will be headed with the name and description of the security, the date of maturity, the rate of interest, and where such interest is payable. For the recording of the individual transactions, columns are provided in which will be entered the date purchased or sold, the basis, and percentage prices; the number, par value, and cost of the bonds, notes, etc., purchased; the number, par value, and selling price or redemption value of the securities sold or redeemed, the balance on hand, and the profit or loss on sales. The reverse of this form is to be utilized for recording the serial numbers of the securities purchased, sold, and redeemed.

TELLERS' DEPARTMENTS.

The following is a list of the tellers' departments:

- Paying teller's department.
- Receiving teller's department.
- Note teller's department.
- Transfer department.
- Clearings department.
- Collection department.

The activities of these departments will be confined almost entirely to the receiving and disbursing of cash and the collection or transmittal of items turned over to them. They will, in consequence, require no permanent records of importance except the proof and settlement sheets, on which will be listed, in amounts only, the items passing through the departments.

PAYING TELLER'S DEPARTMENT.

The paying teller will attend to all payments made over the counter, the certifying of checks, clearing-house settlements, and other duties of a similar nature. He will also be required to pass on the authenticity of the signatures on the drafts, checks, etc., received in his department.

It is proposed also that the paying teller shall supervise the shipping of currency to member banks and the forwarding of mutilated currency for redemption. Should the shipments of currency to member banks prove to be very numerous, however, a special department might be created to take charge of such shipments.

The paying teller should be responsible only for the counter cash, as it is suggested that the reserve cash be placed under the joint control of two officers.

Stop-payment notice (C-1).—This form will be used by the paying teller in acknowledging receipt of a member bank's request to stop payment of a draft drawn by it on the regional bank and in advising the bookkeeping department of such stop payment. The three copies to be prepared will be utilized as follows:

Original: To be sent to member bank at whose request payment was stopped as an acknowledgment of the receipt of its instructions.

Duplicate: To be delivered to the bookkeeping department and held there pending presentation of draft. Should the request to stop payment be canceled later on, the duplicate is to be so marked and then filed.

Triplicate: After receipt of duplicate has been acknowledged, this copy is to be filed in the paying teller's department.

Certification record (C-2).—This form is designed to provide a suitable record of checks certified for account of member banks.

The original, or certification debit, is to be sent to the member bank, together with the daily statement. The duplicate, which will constitute the regional bank's record of the transaction, will be stamped "paid" as the originals are redeemed. This record could be prepared in either pad or book form.

At the close of business a credit ticket for the total of the day's certifications is to be prepared and forwarded to the general bookkeeper. The certified checks paid each day will be listed on bookkeeping department Form G-6, which is intended to support the debits to the controlling account. The total of the checks issued but not paid should equal the balance in the general ledger controlling account for certified checks.

It may be explained at this point that the certifications would probably be few in number, and in most cases would be for the purpose of establishing the genuineness of the signatures on drafts.

Notice of currency shipments (C-3).—The original of this form will be used both as a charge ticket and as an advice to the member bank that the shipment has gone forward; the duplicate will be retained by the regional bank and filed with the member bank's requisition for the currency.

RECEIVING TELLER'S DEPARTMENT.

The chief duties of the receiving teller will be to accept the deposits made by local member banks and to receive shipments of currency forwarded by out-of-town member banks. He will, in addition, maintain the cashier's check register, and attend to such other duties as may be assigned him.

All cash on hand in this department at the close of business each day is to be surrendered to the paying teller.

Deposit ticket (C-4).—A form similar to this is to be used by the member banks when depositing currency or coin in their regional bank.

Cashier's checks register (C-5).—This form is intended to provide a detailed record of the cashier's checks issued in settlement of balances, notes, and bills purchased, and other necessary transactions.

The checks are to be recorded in the register in numerical order, the date, payee, and amount being entered, as well as the account for which the payment was made.

At the close of business the total of the day's entries in the "amount" column is to be extended in the "daily total" column and the general bookkeeper supplied with a credit ticket for the amount of the checks issued during the day. The cashier's checks paid each day will be listed on bookkeeping department Form G-7, which will support the debits to the controlling account.

When the checks are paid, the date is to be entered in the last column. The total of the checks issued but not paid as shown by the register should equal the balance in the general ledger controlling account for cashier's checks.

NOTE TELLER'S DEPARTMENT.

This department will be the medium through which all payments made on account of loans, interest, etc., will be received. From the loan and collection departments will be received the daily maturities, and from the other departments returns and other items payable within the city. The proceeds of the items collected by this department are to be distributed and charged to the proper departments, all cash being turned over to the paying teller's department. The messengers will be under the jurisdiction of the note teller.

Member banks' form for returning items unpaid (C-6).—This form will be used by the member banks in returning unpaid items direct to the member banks in which they were deposited and in charging back such items to the regional bank from which they were received. The four copies to be made of this form are to be disposed of as follows:

Original: To be inclosed with the item, which is to be returned direct to the member bank in which it was deposited.

Duplicate: To be sent to the regional bank from which the member bank received the item, as advice that item has been returned direct and charged to the account of the regional bank to which advice is sent. The regional bank will utilize this ticket as a credit to the account of the member bank returning the item.

Triplicate: To accompany the duplicate. If the item originated in another district, the triplicate will be utilized by the regional bank to which it is sent in preparing Form C-7, statement of returned items.

Quadruplicate: To be retained by the member bank returning the item as authority for its charge to the account of the regional bank from which the item was received.

Regional bank's statement of returned items (C-7).—The data required to complete this form, which is to be used in charging back to other regional banks items returned to their member banks, will be obtained from Form C-6. The original is to be sent to the regional bank from which the items were received as an advice of the charge to its account. It will be used by the recipient as authority for crediting the account of the regional bank from which received, and charging the accounts of the member banks to which the items have been returned. The duplicate will be retained as an office record.

Debit ticket for returned items (C-8).—The data required to complete this form will be obtained from the member banks' form for returning items unpaid (C-6), or from the regional bank's statement of returned items (C-7), depending on whether the member bank to which the item was returned is situated in the same or in another district.

After the account of the member bank has been charged, this form is to be sent to the member bank as an advice of such charge.

TRANSFER DEPARTMENT.

It is intended that this department shall handle all matters relating to the transfer of funds from one member bank to another member bank.

Transfer ticket (C-9).—This form will be used only when both banks are situated in the same district. The three copies to be prepared are to be utilized as follows:

Original: To be used as a credit ticket and then sent to the member bank to which the transfer is made, as an advice.

Duplicate: To be used as a debit ticket and then sent to the member bank requesting the transfer, as an advice.

Triplicate: To be retained and filed after confirmation has been received from the member bank requesting the transfer.

Statement and debit ticket for telegraphic transfers to banks in other districts (C-10).—The several sections of this form will be used respectively as a confirmation of telegraphic transfers to member banks in other districts and as a charge to the member bank requesting the transfer.

The original of the statement section (b) is to be sent to the regional bank to which the transfers are made as a confirmation of the transfers and advice of credit; the duplicate is to be retained as an office record. The debit ticket section (a) is to be sent to the member bank requesting the transfer, as an advice of the charge.

Statement and credit ticket for telegraphic transfers from banks in other districts (C-11).—Except that it will be completed by the regional bank to which the transfers were made, this form will be used in somewhat the same manner as Form C-10.

The original of the statement section of this form (b) is to be sent to the regional bank at whose request the transfers were made as a confirmation of the transfers and advice of charge; the duplicate is to be retained as an office record. The credit ticket section (a) is to be sent to the member bank to which the transfer was made, as an advice of the credit.

Statement and debit ticket for correspondence transfers to banks in other districts (C-12).—As indicated by its title, this form is to be used only when the transfers are to be effected by correspondence.

The original of the statement section (b) is to be sent to the regional bank to which the transfers are made as authorization of transfer and advice of credit for the amount of such transfers; the duplicate is to be retained as an office record. The debit ticket section (a) is to be sent to the member bank requesting the transfer, as an advice of the charge.

Correspondence transfer credit ticket (C-13).—This form will be used by the regional bank when crediting its member banks for transfers made to them

by banks situated in other districts. It will be prepared from the statement of correspondence transfers, Form C-12, and is intended to serve both as a credit ticket and as an advice to the member bank to which the transfer is made.

CLEARINGS DEPARTMENT.

The in-clearings and out-clearings divisions of this department will handle, respectively, the checks received from the clearing house and the checks sent to the clearing house.

The records of this department will be limited to proof and settlement sheets containing a record of the amounts of the checks received from and sent to the various banks.

It is intended that the clearings department shall sort the checks received according to the ledgers to which they apply, and, so far as possible, according to the accounts in these ledgers. Thereafter the proof sheets are to be delivered to the bookkeeping department, where they will be utilized in posting the debits to the accounts of the member banks and government departments. The items also are to be sent to the bookkeeping department for entry in the ledger and daily statement. As totals only will be posted in the journals and the items themselves will be utilized in preparing the regional bank's record of the charge and the daily statements, all relisting and other duplication of work will be avoided.

COLLECTION DEPARTMENT.

In addition to being the custodian of all notes received from other regional banks for collection, this department will have charge of the recording and transmitting of country items collectible through member banks. Items payable locally are to be delivered to the note teller's department at maturity for collection.

Collection form for notes sent out by collection department (C-14).—The several copies of this form will serve respectively as a letter of inclosure, receiving bank's acknowledgment, charge ticket, and office record. Four copies are to be made and disposition made of them as follows:

Original: To be sent with item, as a letter of inclosure, to collecting bank.

Duplicate: To be sent with item and original to collecting bank, by which it is to be signed and returned to regional bank.

Triplicate: To be filed by regional bank in note file until maturity, and then turned over to the note teller's department, where it will be utilized as a debit ticket for the charge to the account of the collecting bank, and then sent forward with the daily statement as an advice of such charge.

Quadruplicate: To be retained by the regional bank in numerical order as a permanent record.

TRANSIT DEPARTMENT.

The duties of the transit department will be confined to the receiving and transmitting of checks, drafts, etc., for member banks. It is intended that the incoming and outgoing mail shall be handled by separate subdepartments and that the work of each shall be proved independently.

Aside from the charge letter for outgoing items, the records originating in this department will be limited to proof and settlement sheets.

Member banks' remittance letter (D-1).—While it is highly desirable that the member banks use a standard form for listing the checks deposited with their regional bank, their regular stock can be utilized if it allows for the entering of the place where the checks are payable. Whatever form is used, however, two copies are to be prepared, one of which will be forwarded with the items to the regional bank and the other retained by the member bank.

The items are to be assorted and thereafter listed on separate letters according to the following classification:

Items drawn on the regional bank in which they are deposited.

Items payable in the city in which the depositing bank's regional bank is situated.

Items payable in the same reserve district, but outside the city in which the regional bank is situated—one letter for each State or other subdivision adopted.

Items payable in other reserve districts—one letter for "inside" items and another for "outside" items. The "outside" items, however, are to be classi-

fied and listed according to the States in which they are payable, or other subdivisions adopted.

Member banks' recapitulation of deposits with regional bank (D-2).—This form is to be used by the member banks for summarizing and classifying the items deposited according to the transit time schedule.

On the books of the member banks the total amount of the deposits will be charged immediately to a transit account, to which credits will be made daily for the amounts due to be collected on that day, the account with the regional bank being correspondingly charged.

Upon receipt of the items by the regional bank, the account of the member bank will be credited immediately with the total amount of the deposit, regardless of the time required for the collection of such of the items as are payable out of town. In order, however, that the regional bank may know the actual free balances, a memorandum column has been provided in the member banks' journal, Form G-1, in which the credits will be analyzed under the dates on which they are due to be collected.

For further information relative to the handling of the transit items reference is made to the section of the committee's detailed report devoted to transit department matters.

Regional banks' list of items drawn on member banks (D-3).—This form will be used by the regional banks when transmitting checks to their member banks. The original is to accompany the items and the duplicate retained as an office record.

FOREIGN EXCHANGE DEPARTMENT.

Under the terms of the Federal reserve act, the foreign exchange department will be empowered to purchase and sell bills of exchange, demand and time drafts, cable transfers, and other classes of commercial paper and securities; also gold coin, bullion, etc. To provide for the proper recording of these transactions, books and forms will be required as follows: Cash books, draft and remittance registers, liability records, a journal, a correspondents' ledger, and a general ledger in which will be carried the controlling accounts of the department and from which the daily statement of condition will be compiled.

Cash receipts book (F-1).—This book will be kept by the receiving clerk of the department, and is intended to contain a complete record of all transactions involving the receipt of cash or checks.

In the columns reserved for the "date," "particulars," and "debits" will be entered, respectively, the date and a brief explanation of the transaction and the amount of cash received. The "credits" columns are to be utilized for classifying the entries in the "debits" section according to the accounts to which such receipts should be credited.

At the close of business each day the columns in both the "debits" and "credits" sections are to be totaled and proved, tickets being prepared thereafter for the day's receipts of each currency, and for the total credits applicable to each of the accounts enumerated in the "credits" section. These tickets, after approval by the proper officer, are to be delivered to the general book-keeper of the department for entry.

Cash disbursements book (F-2).—In this book, which is to be kept by the disbursing clerk of the department, will be entered the details of the cash disbursed and the checks issued for bills of exchange and cable transfers purchased, and for other purposes.

All entries are to be supported by properly approved memoranda. In every case such memoranda should bear the initials of the clerks responsible for the calculation and verification of the rates and conversions, as well as the initials of the approving officer.

Except as regards the nature of the transactions to be recorded therein, the cash disbursements book is to be used in precisely the same manner as the cash receipts book.

Draft advice and record (F-3).—The record of drafts drawn consists of four sections, which are to be prepared at one writing and utilized as follows:

Section "a," original advice: To be sent by first steamer to the bank on which the draft is drawn.

Section "b," duplicate advice: To be sent by second steamer to the bank on which the draft is drawn.

Section "c," to be filed with the correspondence relating to the bank on which the draft is drawn.

Section "d," to be inserted in a suitable binder and preserved as the department's record of drafts drawn.

All four sections, when completed, will show the name and address of the bank on which the draft is drawn, the date and number of the draft, to whose order it is drawn, the tenor, the amount, and the names of the steamers by which the drafts and advices are being forwarded. On sections "c" and "d" will be entered, in addition, the rate, the amount in United States currency, and to whom the draft was sold.

At the close of business each day tickets are to be prepared for the daily totals of the drafts drawn, which tickets, after approval, are to be delivered to the general bookkeeper of the department for entry.

Remittance advice and record (F-4).—This also is a manifold form consisting of four sections, which are to be utilized as follows:

Section "a," original advice: To be sent by first steamer to the correspondent.

Section "b," duplicate advice: To be sent by second steamer to correspondent.

Section "c": To be used as a voucher for the debit postings to the liability records, and then filed in chronological order.

Section "d": To be inserted in a suitable binder and preserved as the department's record of remittances to its correspondents.

Upon completion, all four sections will show the name and address of the correspondent to which the bill is remitted; the names of the steamers by which the bills and advices will be forwarded; the date; index number; the names of the drawer, indorser, and drawee; the tenor and amount of the bill; a description of documents accompanying it, and the terms under which such documents are to be surrendered. The office copies—sections "c" and "d"—will contain, in addition to the foregoing data, the rate, amount in United States currency, date of credits, and remarks if necessary.

At the close of business each day tickets are to be prepared for the daily totals of the remittances, which tickets, after approval, are to be delivered to the general bookkeeper of the department for entry.

Customers' liability record (F-5).—In this record will be entered under the names of the customers their contingent liability to the department as drawers, indorsers, and guarantors.

The particulars to be entered will include the name, address, business, and rating of the customer, the date and number of the item, the names of the drawer and drawee, the tenor, the approximate due date, and the liability amount. Provision being made for entry in separate columns of the liability of the customer as drawer, as indorser, and as guarantor, this record will, of course, show the nature of the customer's liability, as well as the aggregate amount.

The debit entries will be posted from section "c" of the remittance advice and record, Form F-4.

As the items mature and are paid or otherwise disposed of, the customer should be credited in the proper columns, and the amounts in the "balance" columns reduced accordingly.

Payers' liability ledger (F-6).—This ledger will contain the details of the payers' liability to the department, both as drawees and as acceptors.

The ledger sheets will be headed with the name, address, business, and rating of the payer, and will show for each item the date, the index number, the name of the customer, the tenor, the approximate due date, and the liability amount. Separate columns being provided for the entry of the liability as drawee and as acceptor, the extent of the payer's liability under each of these classifications is already ascertainable.

The debit entries will be posted from section "c" of the remittance advice and record, Form F-4.

As the items mature and are paid the payments should be posted in the proper credit column and the amount in the "balance" columns reduced accordingly.

Journal (F-7).—Transfer from one account to another, adjustments occasioned by interest charges, and other transactions not originating in the cash books and the draft and remittance registers are to be entered in the journal. Being columnar in arrangement, the posting of individual items to the ledgers will be necessary only in connection with the miscellaneous items appearing in the column head "sundry accounts."

All entries are to be supported by properly approved tickets.

Correspondents ledger (F-8).—In this ledger will be carried the accounts of the foreign banks selected as correspondents or agents.

All entries other than those posted direct from the draft and remittance records are to be supported by self-explanatory and properly approved tickets.

The particulars to be recorded include the date and a brief description of the transaction, the index number assigned the item, the value date, and the amount. Both the foreign amount and its equivalent in dollars are to be entered. The balance is to be carried in the dollar amount only, as the foreign currency balance would not be needed except when the account is to be reconciled. As advices for charges are received from the foreign correspondents, the amounts of such charges are to be entered in the "charges" column opposite the item to which they apply, after which the net amounts are to be extended in the column so headed.

The auditor will be required to attend to the reconciliation of the statements received from correspondents. Form Y-3 has been provided for use in this connection.

General ledger (F-9).—The general ledger of the foreign exchange department is to be a bound book and will contain all of the control accounts relating to the resources and liabilities of the foreign exchange department and the earnings, expenses, and profit and loss accounts.

All entries are to be supported by properly approved tickets.

Daily statement book (F-10).—At the close of business each day the general ledger balances are to be entered in this book, which will thus constitute a daily record of the resources and liabilities of the department.

BOOKKEEPING DEPARTMENT.

The bookkeeping department will have charge of the accounts of the member banks and Government departments, also the general accounts. In addition, it will be responsible for the preparation of the daily statement of condition and the monthly statement of earnings and expenses and for the maintenance of the analytical records of earnings and expenses.

Member banks' journal (G-1).—This journal will be used for assembling the daily debits and credits and determining the balances of the member banks at the close of each day's business.

In the "debit" columns will be posted the daily charges to each account as shown by the proof sheets prepared by the clearings, transit, and other departments. In the column headed "credits to ledger" will be posted the total of the credit letters received from the member banks. At the close of business each day the balances are to be extended and proved.

In order that the free balance in each account may be readily ascertained, we have included under the heading "credits" a memorandum column entitled "credits in transit," in which the subtotals of the credit letters are to be distributed according to the dates on which the items are due to be collected.

While this style of journal would not be suitable for a bank having a large number of accounts, many of which are inactive, it is especially desirable in the case of the regional banks, where there will be a comparatively small number of accounts, all of which will probably be very active.

In addition to serving as a medium for assembling the daily debits and credits, the member banks' journal will furnish a check on the entries in the member banks' ledger—the entries in the journal being compiled from the proof sheets and those in the ledger direct from the items.

Government deposits journal (G-2).—Except that it does not contain a column for credits in transit, this form is very similar in arrangement to the member banks' journal, and is to be used in the same manner.

General journal (G-3).—By the use of this journal for assembling the daily debits and credits to the general accounts, the daily statement will be completed simultaneously with the balancing of the accounts. The daily statement could, of course, be prepared direct from the general ledger, but in that event it would be far more difficult to locate any differences which might arise.

Member banks' ledger and daily statement (G-4a).—This form will be prepared in duplicate direct from the items. After the day's transactions have been entered, the original—the ledger sheet—is to be inserted in a suitable binder for use as the regional bank's record, and the duplicate forwarded to the member bank concerned for use as an account current and advice of the charges and credits made by the regional bank.

An explanation of the key letters to be used in the preparation of the ledger accounts and statements of the member banks will be found in a subsequent section of this report.

Federal reserve bank's ledger and daily statement (G-4b).—Except that it will be reserved for recording transactions with other regional banks, this form is very similar to the member bank's ledger and daily statement, and is to be used in precisely the same manner.

General ledger (G-5).—This is to be a bound book and will contain an account for each item appearing in the statement of condition. All entries must be supported by properly authorized debit and credit tickets.

Record of certified checks paid (G-6)—*Record of cashier's checks paid (G-7).*—These forms will be used for listing, by numbers and amounts, the certified checks and cashier's checks paid each day. The daily totals of the checks paid, as recorded on these forms, are intended to support the debits to the general ledger controlling accounts for certified checks and cashier's checks.

Expense voucher (G-8).—This consists of a check and statement to be forwarded to the creditor and a carbon duplicate to be attached to and filed with the relative invoice. Before signing the check section the cashier should see that the duplicate bears the approval of the proper persons.

Expense distribution record (G-9).—This form will be used for distributing under appropriate headings the charges to expense account. Separate columns are provided for salaries, directors' fees, legal services, postage, printing and stationery, light and water, rent, freight and express, insurance and bonds, telephone and telegraph, taxes, etc. The details of the expenses incurred will be obtained from the debit tickets covering cash disbursed by the paying teller or from the expense voucher in the event of the payment being made by check.

A somewhat similar form could be used for analyzing the earnings.

Comparative statement of earnings and expenses (G-10).—This statement, which is to be prepared monthly, will show in comparative form the details of the earnings and expenses for the current month and the fiscal period to date as well as the increases or decreases over the previous month and period.

Most of the data required for the completion of this statement will be obtainable from the general ledger and the expense distribution record.

Statement of condition (G-11).—This is to be prepared daily from the general journal and supporting records.

Suggested condensed gross statement for report to Federal Reserve Board (G-12)—*Suggested condensed net statement for report to Federal Reserve Board (G-13).*—These are alternative forms. Whichever is adopted will be compiled from the daily statement of condition (Form G-11).

KEY LETTERS TO BE USED IN THE PREPARATION OF THE LEDGER ACCOUNTS AND DAILY STATEMENTS.

In order to minimize the clerical work involved in the preparation of the ledger accounts and the statements for member banks and other regional banks it is proposed that key letters shall be used for describing routine transactions. For convenience, these key letters and their definitions will be printed on the back of the daily statements.

Following is a list of the key letters relating to transactions with the member banks, their definitions, and a full description of the transactions where necessary. For illustrative purposes the transactions are described from the standpoint of the regional bank situated in New York.

DEBITS.

A. *Items on you forwarded you preceding business day.*

Items drawn on member banks and forwarded to them by regional banks are to be charged to the member banks the day on which they will be received by the member banks, being carried until that time in a transit account on the regional bank's books. Assuming that all member banks will be within one day's mail of their regional banks, the charges would be for items forwarded the preceding business day.

AT. *Deposited with assistant treasurer.*

For deposits made by regional bank with the Assistant Treasurer of the United States for credit of member banks.

CA. *Charged as per separate advice to-day.*

To be used for special charges not covered by other key letters.

CC. *Currency or coin shipped as per advice to-day.*

CL. *Clearing expenses.*

For monthly charges to member banks for expense incurred in the collection of items.

CN. Note in your hands for our account due to-day.

For regional bank's notes or bills sent to member bank for collection and charged to it on due date, also for notes and bills received from other regional banks and forwarded to a member bank for collection, for which a charge will be made on the due date.

HD. Held as per advice to-day.

For item temporarily unpaid and retained for collection.

NT. Handed to notary as per advice to-day.

For items received from member banks, unpaid at close of day, which have been protested and returned to the member banks from which received.

PF. Protest fees as per advice to-day.

For fees charged on protested items returned.

RT. Item returned as per advice to-day.

For items drawn on member banks in other districts which were not paid and have been returned direct to our member bank.

TC. Transfer by correspondence as per advice.**TT. Transfer by telegraph as per advice**

CREDITS.

A. Cash letter received.

For items drawn on member banks in our district and in other districts received from our member banks for credit.

CA. Credited as per separate advice to-day.

To be used for special credits not covered by other key letters.

CC. Currency or coin received.**DC. Deposit for your account as per advice to-day.**

For deposits made by third party with regional bank for credit of member bank.

DI. Dividend payable to-day.

For dividends payable to members banks, which are to be credited direct to their accounts.

IR. Interest rebated.

For unearned interest or discount on loans or discounts taken up prior to due date.

RD. Proceeds of loan or rediscount.**PF. Protest fees.**

For fees on unpaid items returned by our member banks.

RT. Item returned as per your advice.

For unpaid collection items returned.

TC. Transfer by correspondence as per advice.**TT. Transfer by telegraph as per advice.**

The key letters to be used in describing the transactions arising among the regional banks are similar to those prescribed for transactions between the regional banks and their member banks, except for such changes as are necessary on account of the altered character of the transactions. The following is a list of the key letters to be used for regional-bank transactions, with explanations:

DEBITS.

A. Items on member banks in your district forwarded you.

For items drawn on member banks in other districts forwarded their regional bank for credit.

CA. Charged as per separate advice to-day.

To be used for special charges not covered by other key letters.

CC. Currency or coin shipped as per advice to-day.**CN. Notes due to-day as per our list.**

For notes or bills sent to other regional banks for collection, which are to be charged on due date.

EC. Entered for collection as per advice to-day.

For items received from other regional banks temporarily unpaid and retained for collection.

NT. Handed to notary as per advice to-day.

For items received from other regional banks unpaid at close of day which have been protested and returned to the member banks from which received.

PF. Protest fees as per advice to-day.

For fees charged on protested items returned.

RT. Items returned as per our list.

For unpaid collection items.

TC. Transfer by correspondence as per advice.

TT. Transfer by telegraph as per advice.

CREDITS.

A. Items on member banks in our district received from you.

For items drawn on member banks in our district, forwarded us for credit.

CA. Credited as per separate advice to-day.

To be used for special credits not covered by other key letters.

CC. Currency or coin received.

CN. Notes due to-day as per your list.

For notes or bills received from other regional banks for collection, which are to be credited on due date.

EC. Item entered for collection now paid.

For items received from other regional banks temporarily unpaid as described under *EC.* in "debits," now paid and credited.

IR. Interest rebated.

For unearned interest or discount on loans or discounts taken up prior to due date.

PF. Protest fees.

For fees charged on protested item returned.

RD. Proceeds of rediscount.

RT. Items returned as per your list.

For items returned unpaid to our member banks.

TC. Transfer by correspondence as per advice.

TT. Transfer by telegraph as per advice.

MISCELLANEOUS FORMS.

Stock subscription ledgers (M-1 and M-2).—These forms will be used for recording the subscriptions received from member banks and from individuals, and the installments paid on account of such subscriptions.

The record of member banks' subscriptions, Form M-1, is designed to show the number, name, and location of the subscribing bank, its paid-up capital stock and surplus, the amount of the subscription required by law, and the installments paid thereon. As the amount of the subscription, divided by the par value per share (\$100) will give the number of shares represented by the subscription, it has not been considered necessary to provide a special column for entry of the number of shares.

For recording subscriptions received from individuals, Form M-2 will be utilized. The front of this form is ruled for entry of the name, address, and legal residence of the subscriber, the date and amount of the subscription, and the date and amount of the payments on account of such subscription. The reverse will contain a record of the stock certificates issued to the subscriber and the stock certificates surrendered for transfer.

Stock subscription certificate (M-3).—This form is designed to serve both as a subscription certificate and as a receipt for the installment payments. It is intended to be used principally in connection with subscriptions received from individuals.

Stock subscription receipt (M-4).—The stock allotted to the member banks being nontransferable, it is recommended that they be given receipts for the individual payments instead of the stock subscription certificate described in the preceding paragraph.

Stock certificate receipt (M-5).—This form consists of a stub and a detachable receipt on which the subscribers will be required to acknowledge receipt of the stock certificates issued to them.

Stock transfer record (M-6).—This form will be used for recording transfers for account of stockholders other than the member banks. It is ruled for entry of the date of the transfer; the serial number of the certificate surrendered and the number of shares represented thereby; the name of the transferor; the number of the certificate issued in exchange; the number of shares represented by the new certificate, and the name and address of the transferee.

Standing order to mail dividend (M-7).—Each stockholder to whom dividend checks will be issued should be required to complete a copy of this form. If the dividends are to be remitted to some one other than the owner of the stock, the signature of the stockholder should be acknowledged before a notary public.

Dividend register (M-8).—As most of the stockholders of the regional banks will be member banks whose holdings are not transferable, a dividend register of this type should meet all requirements. It is ruled to show the names and addresses of the stockholders and the dividends applicable to their holdings, also the number, rate, and total amount of the dividend, the date on which it was declared, the date paid, and the date credited to the liability account for dividends declared.

Dividends payable to member banks are to be credited to their accounts direct from the dividend register. For the dividends payable to other stockholders dividend checks will be issued.

Authority to open account with regional bank (M-9).—Each member bank opening an account with its regional bank should be required to furnish the latter with a certified copy of the resolution of the board of directors authorizing such action. Form M-9 is recommended for use in this connection.

Signature card (M-10).—Simultaneously with the opening of an account, the member bank will be required to file with its regional bank, on this form, a list of the signatures to be recognized by the regional bank in the payment of funds or the transaction of other business for account of the member bank.

Purchase order (M-11).—This form is designed to furnish a suitable record of the orders issued for the purchase of stationery and other supplies. The original of the order is to be forwarded to the supplier and the duplicate retained for office use.

Stock record for supplies (M-12).—For each article carried in stock separate cards of this form are to be used, on which will be entered the description, the index number, and the location of the stock; the purchases; the issues; and the balance.

FEDERAL RESERVE AGENT.

The act stipulates that the Federal reserve agent shall be a person of tested banking experience and that he shall maintain, under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the bank with which he is connected. These stipulations will necessitate the Federal reserve agent keeping suitable records of the notes received, issued, and withdrawn, of the rediscounts and other paper held as collateral to note issues, and such other records as may be prescribed by the Federal Reserve Board.

Record of Federal reserve notes received from the Comptroller of the Currency (X-1).—In the respective columns of this record will be entered the date and nature of the transaction, the amount of notes received from the Comptroller, the amount returned to the Comptroller, and the balance to be accounted for by the Federal reserve agent. This balance should equal the amount of notes on hand as shown by Form X-2 and the notes issued to the regional bank as recorded on Form X-3.

Record of Federal reserve notes on hand (X-2).—This record will show the details of the notes received from the Comptroller of the Currency or returned by the regional bank, the notes issued to the regional bank or returned to the Comptroller, and the balance, subdivided as between notes on hand which are fit for circulation and notes which are not fit for circulation and are to be returned to the Comptroller.

Record of security furnished by regional bank and Federal reserve notes issued (X-3).—From this record the Federal reserve agent will be able to ascertain at any time the amount of rediscounts and other paper hypothecated with him by the regional bank and the amount of Federal reserve notes issued against such security.

The total amount of each borrower's paper hypothecated with the Federal reserve agent being ascertainable from the loan department records, it will not be necessary for the agent to maintain a special record for this purpose.

Application for Federal reserve notes (X-4).—This form, which will be used by the regional bank when applying for Federal reserve notes, is to be prepared in duplicate. The original is to be retained by the regional bank as authority for the credit to circulation account, while the duplicate is to be signed by the paying teller of the regional bank in acknowledgment of the receipt of the notes and returned to the Federal reserve agent for entry on his records.

Retirement of Federal reserve notes (X-5).—Except that it is to be used in connection with the retirement of Federal reserve notes, this form is very similar to X-4.

Record of notes hypothecated with Federal reserve agent (B-15); record of collateral withdrawn from Federal reserve agent (B-16).—As explained in a preceding section of this report, the loan department will prepare these forms in duplicate in order that the Federal reserve agent may be able to retain a copy for his own use.

Advice of currency returned to comptroller (X-6).—This form will be used by the Federal reserve agent for advising the comptroller of shipments of mutilated currency.

Each package of currency returned to Washington should be accompanied by a detailed schedule of the contents, showing both the serial numbers of the notes returned and their denomination.

Daily report on note circulation (X-7).—The Federal reserve agent will report daily to the Federal Reserve Board on this form the total issues and withdrawals of Federal reserve notes, the amount of unfit notes returned to Washington, and the total amount of notes on hand at the close of the day.

AUDIT DIVISION.

The function of the audit division will be to audit the records and securities of the various departments comprising the banking division, also those of the Federal reserve agent.

The auditor in charge of this division should be thoroughly acquainted with the banking business in all its phases and competent to judge if every part of the work is being properly performed. While not under their jurisdiction, the auditor should cooperate with the officers conducting the banking division so far as is necessary to safeguard the interests of the bank.

Under no circumstances should either the auditor or his assistants be allowed to prepare or approve tickets of original entry. On the other hand, the audit division should be required to prepare all tickets needed for the correction of errors; all error tickets should, however, be referred to an officer in the banking division for approval before delivery to the bookkeepers for entry.

A classification and analysis of the duties of the audit division follow:

General proof.—At the close of business each day the various departments will deliver their settlement sheets to the audit division, where the interdepartmental transactions will be verified and the departmental totals assembled on the auditor's general proof sheet, Form Y-1.

Reconcilements.—The reconciliations of the accounts carried with other regional banks, with member banks and Government departments, and with correspondents abroad will be prepared by the audit division. The domestic accounts are to be reconciled on Form Y-2 and the foreign accounts on Form Y-3. Reference to these forms will show that in each case the reverse can be utilized for listing the outstandings.

Departmental audits.—Each of the departments comprising the banking division should be audited at irregular intervals during the year. These audits should include a verification of the cash, loans, investment securities, and other resources; a comparison of the securities held as collateral with the collateral records; a proof of the liability accounts, and a detailed check of the accrual accounts, and the accounts relating to earnings and expenses.

The securities and accounts of the Federal reserve agent should also be subject to audit at frequent intervals.

Loose-leaf records.—The audit division should have charge of all sheets for loose-leaf records, furnishing them as required and keeping an accurate record of those in use and in the transfer files.

Canceled vouchers.—All canceled vouchers relating to the general accounts, debit and credit tickets, etc., should be promptly delivered to the audit division for filing.

Circular No. 8.]

FEDERAL RESERVE BOARD.
Washington, D. C., October 17, 1914.

In order to promote a desirable uniformity in the organization of the Federal reserve banks, the Federal Reserve Board presents for consideration the outline of a tentative organization for the banks in certain essential aspects of their

business. The outline has not been finally approved by the Federal Reserve Board. It represents the work of certain experts who were appointed by the organization committee to examine into the details of organization. It is, therefore, offered simply as a basis for further discussion.

OUTLINE OF DISCUSSION.

In dealing with the general question of the organization of the reserve system after the necessary structure has been set up by the appointment of the boards of directors of the Federal reserve banks and by the appointment of the Federal Reserve Board itself, it is deemed best to recognize several distinct elements as follows:

1. The organization and management of a typical Federal reserve bank whose operations are supposed to be representative of and practically uniform with those of every other.

2. The organization of the office of the Federal reserve agent stationed at each reserve bank, and the duties of such agent.

3. The organization of the Federal Reserve Board.

4. The conduct of business of Federal reserve banks.

5. The relations between Federal reserve banks themselves and between each Federal reserve bank and its member banks.

6. The relations between the Federal reserve system and outside banks.

7. The establishment of branches at home and abroad, and the relations between such branches and the "parent" banks to which they are attached.

It will not be feasible, for reasons of convenience which will later appear, to discuss these topics strictly in the order in which they are here presented, but each of the general discussions thus indicated will be dealt with in the course of the report.

A beginning will be made by outlining the proposed type of organization for a Federal reserve bank. The reasons for the precise form of organization suggested will become apparent as the treatment proceeds.

ORGANIZATION OF BANKS.

In dealing with the actual organization of the proposed banks, two leading questions are presented:

1. The systematic recording of their doings, including full provision for accounting and internal regulation.

2. The officering of the several institutions, and the general relationship between their organization and that of the Federal Reserve Board.

To some extent these two phases of the subject must be treated together, but the principal features of each branch of the question of organization can be independently disposed of. Attention will first be given to the question of the routine conduct of business in the institutions.

In organizing the Federal reserve bank in each of the districts set apart by the organization committee, it will be necessary first of all to determine upon the general type of organization to be employed and to formulate a specific plan of procedure in accordance therewith. The Federal reserve act makes no effort to prescribe the details of organization, but leaves them to be settled by the boards of directors, subject to the general requirements of the methods, and restrictions definitely set forth in the national banking act are to be adhered to.

ADMINISTRATION.

It is believed, however, that so far as practicable, the adoption of a uniform system of organization which shall prevail throughout the whole system of banks as nearly as conditions will permit is much to be preferred to a plan which would allow the banks to adopt a variety of different methods of organization according to circumstances. The points which have been deemed, on the whole, practically essential in connection with the organization are brought out in the latter portions of this report in connection with the treatment of branches, accounting, and other subjects, but at this point it is considered desirable to sketch their main outlines for the sake of clearness by way of introducing the subject. In general, the following requirements must, it is thought, be complied with:

- (a) Each Federal reserve bank should have a distinct executive head not identical with the Federal reserve agent, even in those cases where the reserve

agent has been selected in a manner entirely satisfactory to the banking community, so that stockholders would be quite willing to have the agent act as the executive head of the bank. Of course, this implies that in no case should the president or executive head chosen by the stockholders be designated by the Government as reserve agent. The intent of the act is distinctly opposed to any such fusion of functions, the agent being intended to be a Government representative and spend his time in furthering the interests of the public at large—a position he could hardly preserve were he to become an active operating officer, anxious to increase profits and advance given private interests.

(b) Each Federal reserve bank should be carefully subdivided into departments, each such department representing a definite allotment of business, the divisions being those which correspond with the various types of business set forth by the Federal reserve act.

(c) Each Federal reserve bank should be so organized as to provide for a proper check upon the operations of the member banks and for a suitable oversight on the part of the reserve agent.

(d) Each Federal reserve bank should be subject to specified internal regulations evolved as the result of bank experience, which will conduce to the efficient and economical conduct of its affairs.

(e) Suitable provision shall be made in each bank for the bonding of employees and for an accurate control of their operations.

An organization chart has been prepared for the graphic presentation of this plan and has already been issued.

(Tentative by-laws prepared for submission to the several boards of directors have already been distributed as Circular No. 6 and are consequently omitted at this point.)

INTERNAL REGULATIONS.

Besides the general by-laws as thus set forth, it is believed that the proper conduct of the new banks will call for a code of rules of internal regulations.

Probably one of the greatest initial difficulties in opening the Federal reserve banks will be the securing of a competent staff. The continued efficiency of even a thoroughly competent corps of bank employees depends largely upon the discipline in vogue in the institution. Such discipline requires the application of rules designed to promote morale and proper thoroughness.

These rules should be sufficiently wide in their latitude to insure the primary essentials of coordination. Their structure should be more than a series of prohibitions, and should serve to give the tendency toward that which is desired, even if not categorically expressed.

They should at least be so arranged as:

1. To set forth the time at which employees of various grades should report for duty; to stipulate when the windows shall be closed for business; to designate a maximum lunch period; to provide for temporary absence or leave of absence; to provide for reports of tardiness; and to provide for overtime work.

2. To set forth when the vault shall be opened and closed and upon what authority the vault may be kept open after the time provided; to designate what records shall be kept by the vault officer and what his duties shall be; to stipulate what parties in conjunction shall hold combinations.

3. To require care to be taken of securities in the various departments; to set forth how shipments of securities must be handled; to provide for receipting and recording of securities received and delivered; to set forth under what conditions and under what authority valuables may be deposited and withdrawn from the vault.

4. To set forth certain necessary regulations and restrictions regarding apparel, neatness, and habits; to prescribe mutual courtesy and politeness; to restrict smoking to certain hours.

5. To require neatness of desks, cabinets, and other working furniture; to require care and neatness in records prescribing how records shall be kept and closed.

6. To provide for initialing and signing of all necessary tickets and vouchers, what class of entries certain authorities are empowered to sanction; to provide for signing of checks, receipts, and other papers.

7. To describe the duties and powers of the auditor; to specify to whom the auditor is responsible and to what extent his authority obtains in the matter of accounting and the records; to place final responsibility for all systems and changes on the auditor.

8. To indicate how supplies shall be ordered and how audited; to state upon whose authority expenditures may be incurred; to prescribe when bills shall be paid, who shall receive and distribute supplies; to require that when reorders are necessary old forms shall be submitted to auditor for possible change and correction.

9. To provide who shall code and decode cables and telegrams; to designate an officer who shall hold test words and keys; to prescribe how copies and records shall be kept and telegraph bills checked.

10. To prescribe who shall receive, assort, and distribute mail, who shall be authorized to sign letters; to direct how correspondence files shall be kept and how access thereto may be granted.

11. To provide for the assembling of all reports in the hands of a designated functionary at a certain time.

WORK OF TRANSFER AGENT.

It is further suggested that in case the Federal reserve agent shall be authorized to act as agent for the transfer of stock of the bank to which he is accredited, the following considerations be observed by him, particularly in relation to stock, if any, that may be held by individuals. It is understood that at the outset no such stock will be held by individual stockholders; but a set of regulations designed to cover not only present conditions but those that might arise under the terms of the law has been developed.

1. The salient point in transferring certificates of stock is to ascertain who has authority to assign the certificate and how the authority was granted; whether by special resolution, general resolution, or by the by-laws, in respect to a corporation; whether by will, indenture, or court order, in respect to executors, trustees, administrators, guardians, agents, and the like; or whether by power of attorney.

2. In every case proof of papers submitted shall be first ascertained to the satisfaction of the transfer agent. He shall require that certificates issued in the name of a corporation or an association be indorsed by such officials authorized by a special or general resolution, or the by-laws, and a certified copy thereof attested by the secretary with the seal affixed, filed with the stock certificate. A copy of the resolution shall be accompanied by a notary's certificate certifying that he had inspected the minutes and that the resolution was a true copy thereof.

3. In issuing certificates to trustees, the trust shall be fully described by a reference to the will or indenture under which the trust is created, and the name of beneficiary given, if possible. In transfers from trustees, all trustees shall sign, and transfers must be accompanied by a copy of instruments properly certified showing the authority of the trustees to sell or transfer. Trustees appointed by a court shall exhibit both certified copy of instrument and certified copy of the court appointment. Transfers by administrators shall be accompanied by a copy of appointment certified by the probate court. Transfers by executors or administrators, with the will annexed, shall be accompanied by a copy of the will and copy of the court appointment, both certified by the probate court.

4. In issuing certificates to a minor, the guardian's name shall also be given, as follows: "James Brown (minor), under guardianship of William Jones."

Transfers from a minor shall be made only by a guardian appointed by the court, who shall exhibit a properly certified copy of his appointment.

5. Trustees, executors, administrators, guardians, or agents shall not transfer directly to themselves individually.

6. In transfers executed by an attorney the original power of attorney, certified by a notary, or a copy of same, shall be left on file. Authority to transfer stock shall appear in the instrument, and evidence is required that the signature to the power of attorney is genuine and that the power of attorney is in force at the time of transfer.

7. In issuing a certificate to a married woman, her Christian name and not that of her husband, with "Mrs." prefixed shall be used. In case a new certificate is desired by reason of change of name by marriage of an unmarried woman the old certificate shall be signed as follows: "Mrs. Mary E. Brown (formerly B. Smith)," the new certificate being issued in the name of "Mrs. Mary E. Brown."

8. Signatures on assigned certificates shall be guaranteed or notarially acknowledged.

9. Transfers shall not be made directly from husband to wife or from wife to husband.

10. Certificates issued in the name of an individual shall show their Christian name, as follows: John Smith, Charles A. Jones.

11. Certificates issued in the name of a bank, corporation, or association shall show title and address, as follows:

First National Bank, New York City.

First National Bank, Chicago, Ill.

Farmers National Bank, St. Louis, Mo.

12. Certificates shall not be issued in the name of an estate of a deceased person, but in the name of the representative of the said estate.

13. Certificates in the name of a deceased person shall not be transferred until the filing of papers as aforesaid and the filing with the transfer agent of consent from the comptroller of the State in which deceased resided.

14. All transfers in the name of a deceased person shall be referred to counsel of transfer agent, as each State has different inheritance laws in respect to estates of decedents.

15. The signature of the assignment on the back of stock certificates shall correspond to the name as written on the face of the certificate in every particular without alteration.

16. All notarial acknowledgments shall have affixed a certificate of certification by county clerk or court of notarial authority.

SYSTEM OF ACCOUNTING.

As already noted the system of accounting to be employed by the reserve banks is logically to be considered and dealt with under the head of organization. Inasmuch, however, as the accounting problems of the banks necessarily involve references to features of business management, such as the clearing system of the banks, the duties of Federal reserve agents and others, it has been separately dealt with.

FEDERAL RESERVE AGENTS.

The Federal reserve act provides for the appointment of a new type of official, heretofore unknown to Federal law, to be designated as "Federal reserve agents." With reference to these agents the reserve act provides (sec. 4) as follows:

"Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the districts for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as Federal reserve agent. He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank, he shall be required to maintain under regulations to be established under the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated."

Elsewhere in the act it is provided that the reserve board shall—

"Make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money, or property of any kind deposited in the hands of such agents. * * *

By section 16 it is provided that—

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum in the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills accepted for discount under the provisions of section 13 of this act, and the Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. * * *

The functions of Federal reserve agents as thus set forth are broad, inasmuch as the agent is made the local representative of the Federal Reserve Board for the performance of the functions intrusted to such board. The agent is therefore able to exercise under the direction of the said board such powers as the board may desire specifically to intrust to him. At the same time the act is exceedingly specific in its directions with reference to the records that are to be maintained by such agent. While experience will undoubtedly in the long run alter and develop any conceptions of the functions of Federal reserve agent which may be employed at the beginning, it is manifestly necessary to develop a set of instructions for Federal reserve agents to be used by them at the inauguration of the reserve banks and to continue in use until such time as experience may demonstrate the necessity of some new method of describing such functions or some extension of them, while it is equally desirable and necessary to describe with care the records which are to be maintained by such agents.

Attention will first be paid to the general duties of the agent himself and to the scope of the functions to be performed by him.

The intent of the act never was that of placing the Federal reserve agent in charge of the Federal reserve bank to which he is accredited or of vesting him with practical banking functions in the direct management of business relationships between the reserve bank and its member banks. Its purpose was to make him a local supervisory factor representing the Federal Reserve Board and ultimately the Government, that is to say, the public, his duties being fundamentally those of controlling the issue of the notes applied for by the reserve banks and of inspecting and supervising banking operations in the district for the purpose of assuring himself, and of being able to assure the reserve board, that the banks, both member and Federal reserve, were complying with the letter and spirit of the law.

In pursuance of this conception of the duties of Federal reserve agents, it will be necessary for the Federal reserve bank to be in possession of detailed information concerning each member bank, as to financial condition, character of management, competency of officers and directors, care exercised in granting and checking credits, custom in extending accommodation to directors and officers, or to corporations which they may own, control, or be interested in, and relations with large borrowers. Safeguards must be adopted to control the use of rediscounting power and to check overexpansion.

In this connection it will be desirable to have detailed records.

It will be necessary for the Federal reserve agent to be familiar with the affairs of the bank and the general business and credit conditions in the district which the bank serves. For this reason, it is both desirable and necessary that a plan be adopted which will give to the Federal reserve agents facilities for obtaining definite, reliable, accurate, and detailed information.

Application for the issue of Federal reserve notes must be made to the reserve agent and must be accompanied by a tender of bills and notes as collateral security. (Sec. 16, par. 2.) It is therefore suggested:

1. That the Federal reserve agent exercise general supervision over credit records and data concerning member banks and borrowers which may be compiled from reports and examinations of member banks and elsewhere.

2. That all statements or reports made to the Federal Reserve Board be prepared under the direction, or bear the countersignature, of the Federal reserve agent.

3. That special examinations of member banks provided for in the act should, when undertaken, be made under general direction of the Federal reserve agent.

We may now proceed to enumerate the chief features of a plan for the management of the business of the Federal reserve agent.

GENERAL PLAN—STATEMENT AND REPORTS.

FEDERAL RESERVE BANKS.

1. There should be adopted a form of general statement or balance sheet which will show on its face the true condition of each bank and give under appropriate headings the assets and liabilities in detail, as well as such supplemental information as will be necessary to give to the Federal Reserve Board an idea of general business and financial conditions in the district which the bank serves.

WEEKLY REPORT.

2. At the close of business Friday of each week a statement showing the general condition of each Federal reserve bank should be forwarded by the agent to the Federal Reserve Board at Washington. Figures should be telegraphed so as to be received at Washington by 9 a. m. Saturday morning.

FEDERAL RESERVE BOARD.

3. A statement showing condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks is to be published once each week. (Sec. 11, Par. A.) It is suggested that publication be made either on Saturday or Monday. This will be more fully discussed in speaking of the board itself.

MEMBER BANKS.

4. For the purpose of ascertaining the general condition of member banks in each Federal reserve district, it is suggested that a weekly report, showing the average condition of each member bank, be made to the head office of each Federal reserve bank at the close of business Friday of each week. The figures should be compiled under the direction of the Federal reserve agent and the summary forwarded by mail or telegraph to the Federal Reserve Board. If deemed advisable, a brief summary of condition of member banks in each Federal reserve district and a combined statement of all member banks should be published not later than Wednesday of following week by the Federal Reserve Board.

RELATIONS WITH BOARD.

5. The Federal reserve agent must each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. (Sec. 16, par. 2.) It is suggested that the Federal reserve agent be also required to forward to the Federal Reserve Board at the close of business Friday of each week a detailed statement giving—

(1) Amount of gold and lawful money deposited with him by the Federal reserve bank to which he is accredited for exchange for outstanding Federal reserve notes. (2) Bills of exchange, notes and drafts held by him as collateral to Federal reserve notes issued to the Federal reserve bank. (3) Record of the total outstanding notes at the beginning of week, notes issued or retired during the week, and liability of Federal reserve bank upon outstanding notes on day of report. (4) A summary to be carried forward from previous report, showing amount of Federal reserve notes received from comptroller, outstanding notes in circulation, notes returned to the comptroller for cancellation or destruction, and notes in hands of Federal reserve agent. (5) List of collateral held by Federal reserve agent, showing the aggregate liability of makers, drawers, indorsers, and acceptors, on bills of exchange, notes, and drafts received from banks, as security for Federal reserve notes issued.

Forms designed to serve for the preparation of these reports and records have been carefully drafted and will be found in the collections of forms accompanying this report. Two distinct sets of forms for the purpose of carrying out the foregoing recommendations have been drafted—one set accompanying the accounting plan presented in Appendix I and numbered as Portfolio III, the other included in that presented in Appendix II and numbered as Portfolio II.

IDENTIFICATION OF NOTES.

In this connection it is also deemed best to make a recommendation that will be of considerable importance in furthering the convenience of the reserve banks in assorting their notes.

Section 16, paragraph 3, of the Federal reserve act provides that—

“Notes * * * shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal reserve bank.”

In order that a uniform set of numbers may apply to the Federal reserve system throughout, it is recommended that the number which shall appear on the Federal reserve notes as above provided shall be the official number of the

city where the issuing Federal reserve bank is located, according to the system of numbers now used by the banks of the country in numbering checks. The consecutive order of these numbers is based upon population. Letters should also be assigned to the banks to indicate their position in the reserve system, the Arabic numerals being arbitrary so far as that system itself is concerned.

Some of the Federal reserve districts and banks would, under this system, be numbered as follows:

- | | |
|---------------------|-----------------------|
| 1. A, New York. | 4. D, St. Louis. |
| 2. B, Chicago. | 5. E, Boston. |
| 3. C, Philadelphia. | 11. F, San Francisco. |

The use of letters in connection with these numbers makes possible a continuity of designation, so that if additional reserve banks are organized it will not be necessary to change any previous numbers or letters.

The notes should be printed with the letters and numbers in the upper right-hand corner and the lower left-hand corner, and they should be sufficiently distinct to enable tellers and clerks to assort the notes readily by number when preparing them for return to their originating banks.

EXAMINATIONS.

In connection with the sections of the Federal reserve act concerning examinations, suggestion is made as to—

1. Examination of Federal reserve banks and branches.
2. Examination of records and accounts of Federal reserve agents.
3. Examination of affairs of member banks, so as to inform the Federal reserve bank as to the condition of member banks and lines of credit that are being extended. (Sec. 21, par. 3.)
4. Establishment of a credit bureau in each district for collecting and compiling information concerning member banks, and borrowers who are dealing with member banks, or who are selling paper in the open market.

FEDERAL RESERVE BANK.

Section 11 (par. A) authorizes and empowers the Federal Reserve Board to examine at its discretion accounts, books, and affairs of each Federal reserve bank.

Section 21 (par. 5) provides that the Federal Reserve Board shall at least once each year order an examination of each Federal bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of condition of any Federal reserve bank.

The law provides for an examination of each Federal reserve bank at least once a year. Each bank should be examined twice yearly. It would be well, if possible, to have all reserve banks examined by a carefully selected corps of bank specialists, who would be instructed to make a thorough and detailed audit of the affairs of each bank, making full report to the Federal Reserve Board and to the board of directors of each Federal reserve bank.

The examination should cover a thorough investigation of investments, re-discounts, collateral loans, and open-market transactions, particular attention to be paid to compliance with the provisions of the Federal reserve act and to rulings of the Federal Reserve Board. Relations with the foreign agents, agencies, banks, and branches of Federal reserve banks should be investigated, and balances and accounts should be verified and reconciled. Accounts of member banks and balances due to or from other Federal reserve banks should be reconciled, as should also all monies on deposit to the credit of the United States Government or of public officials. The foreign department in each bank should be audited. Profit and loss accounts should be carefully analyzed. Thus, the examination should cover a complete audit of the bank and branches. The examiner should consult with the Federal reserve agent and the board of directors, upon the completion of the examination.

Report should also be made as to the competency of management, condition of records, attention given by directors to the affairs of the bank under examination, and attention should be called to any unsafe or unsound condition or tendency that might be apparent in any department of the bank.

The use of a special corps of examiners for examination of Federal reserve banks would have many advantages. The work will call for men combining the qualities of credit specialists, appraisers, and bank accountants. The examiners will become more valuable at each succeeding examination.

EXAMINATION OF RECORDS OF FEDERAL RESERVE AGENT.

The records and accounts of the Federal reserve agent in each Federal reserve district should be examined at least quarterly, and a detailed report made to the Federal Reserve Board by examiners in its employ. The examination should cover a verification (a) of gold and lawful money held by Federal reserve agent, deposited with him by the Federal reserve bank for exchange for outstanding Federal reserve notes; (b) of all bills of exchange, notes, and drafts held as collateral security for Federal reserve notes; (c) records of substitution and withdrawals of collateral; (d) of Federal reserve notes, received from Comptroller of Currency, delivered to Federal reserve banks and in hands of Federal reserve agent; (e) of all other books and records.

In each bank there should be an auditor, who should be under instructions and subject to the direction of the Federal reserve agent.

MEMBER BANK EXAMINATIONS.

Section 21 provides:

"The Comptroller shall appoint examiners who shall examine every member bank at least twice each year, provided, however, that the Federal Reserve Board may authorize examinations by the State authorities to be accepted in the case of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank * * * shall make a full and detailed report of the condition of said bank to the Comptroller of Currency."

Section 21, paragraph 3, provides that—

"In addition to the examination made and conducted by the Comptroller of Currency, every *Federal reserve bank* may, with the approval of the *Federal reserve agent* or the Federal Reserve Board, provide for special examination of member banks within the district. * * * *Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them.*"

Under the plan suggested, each member bank will forward to the head office of the Federal reserve bank in the district in which the member bank is located a weekly report, showing its average condition for the week.

This information will be recorded in a manner to show changes in condition from week to week. For more detailed information, however, the Federal reserve bank will be dependent upon data obtained in connection with the examination of member banks.

Success in bank examinations depends to a large degree upon the care exercised by the examiner in investigating the lines of credit extended to borrowers by the bank under examination, upon the facilities which the examiner has of obtaining reliable information as to the character and financial responsibility of the officers, directors, and principal borrowers, and finally upon the method used in collecting, compiling, and recording information for use in subsequent examinations.

There should be adopted in each Federal reserve district a uniform plan of examination, which would provide for a thorough and detailed examination of each member bank by a force of competent, well-equipped examiners, authorized to take the necessary time. A high standard of efficiency should be established which would make it attractive and desirable for State banking institutions to join the Federal reserve system. Examinations of city and country institutions should be made equally effective.

To prevent a multiplicity of examinations, the special examination by the Federal reserve bank might be made in connection with the regular examinations made by national or State bank examiners. Certain information should be obtained for use of the Federal reserve bank: (1) A record of all loans over a stated amount. (2) The character of collateral accepted as security. (3) A record of bank stock hypothecated at bank under examination. (4) The classification of loans, investments, and collateral. Suggested form for use in this connection has been developed and will be found in the portfolio of forms accompanying Appendix I.

LOCAL CREDIT BUREAU.

It is believed and recommended that the Federal reserve system should be equipped with very carefully prepared credit-bureau records. Two plans for developing such records have been considered. Under one the records would

be conducted and kept at the several reserve banks; under the other they would be kept in a single office under direction of the Reserve Board in Washington. In either case frequent communication of results must occur between the several banks and the board. A choice between the two plans will depend somewhat upon the system of accounting determined upon. In Appendix I is given a system of accounting more adapted to the establishment of a local credit bureau in each reserve bank, while in Appendix II records are so formulated as to concentrate credit records in Washington as a by-product of the accounting. The credit-bureau principles in general will be the same in either case. (See Portfolios II and III.)

Assuming, for the purpose of the discussion, that in each Federal reserve bank a credit bureau in charge of the agent is to be established, its duty should be the collection and recording of data concerning member banks, and the standing of individuals, firms, and corporations, discounting at or borrowing of member banks, or selling paper in the open market.

This bureau should have card indexes showing—

1. Loan record, compiled from examination reports, showing borrower's loan liability at each bank, with a minimum limit of \$5,000 in city and \$2,500 in country banks.

2. Bank stock hypothecation record, showing bank stock hypothecated at member banks.

3. Inactive collateral record, showing securities of small or close corporations, or securities having a limited or inactive market, whether securities be held as investments or as collateral by member banks.

4. Record of the business, firm, or corporation affiliations of the directors and officers of every member bank in the district.

5. Current record of failures, bankruptcies, and large judgments affecting borrowers of any member bank.

6. Record of character, standing, and financial responsibility of all bankers and note brokers engaged in selling notes, drafts, and bills of exchange in open market.

7. Record of standing and financial responsibility of individuals, firms, and corporations selling notes, drafts, and bills of exchange in open market.

A plan for the exchange of information should be arranged with the credit bureaus established in other Federal reserve districts, and, with the approval of the Comptroller of the Currency, with the credit bureaus established by State banking authorities where a proper system for safeguarding information has been adopted.

Credit bureau data should be available to the Federal reserve agent, the executive officers and directors of Federal reserve banks, and the national bank and Federal reserve bank examiners.

Suggested forms for these records are presented in the portfolios accompanying the appendices, especially in Portfolio III.

The credit bureau will also have the benefit of service of mercantile agencies and will no doubt subscribe to various financial publications.

OTHER CREDIT RECORDS.

It is provided in the general plans of accounting offered herewith that each Federal reserve bank shall keep detailed records showing—

1. The aggregate liability of member banks on paper rediscounted by the Federal reserve bank, as well as the liability of member banks on bills, notes, and drafts purchased from or discounted for others.

2. The aggregate liability of individuals, firms, corporations, banks, bankers, municipalities, etc., on bills, notes, and drafts, rediscounted for member banks, or purchased in the open market.

A similar record should be kept of the liability of concerns upon foreign exchange bills and drafts bought and sold and of foreign bills of exchange purchased for investment.

It will be seen that there is provided a means of ascertaining definitely the aggregate liability of any one firm, individual, or corporation on bills, notes, or drafts held by the reserve bank. Through the credit bureaus there will be facilities for ascertaining the extent of paper held by member banks. If the principal office of a concern is located in another district, a comparison may be made with the credit bureau in that district.

To ascertain the credit standing and financial responsibility of concerns selling their bills of exchange, notes, and drafts in the open market, arrangements may

be made to obtain from the note brokers copies of signed financial statements and copies of auditors' reports. Access to records of credit bureaus of other districts will enable the Federal reserve bank to obtain definite information as to the extent of liability at banks where principal borrowing accounts are maintained. However, as in the case of the credit departments in banks and mercantile houses, all information will have to be systematically recorded, statements carefully analyzed, and comparative statements made.

It will take some years to develop the credit bureau and department, but each Federal reserve bank will have access to many sources of information which are not at present available. Through their commanding positions, the Federal Reserve Board and banks will be able to exercise a close supervision over the commercial paper market, to eliminate many of the abuses which are now apparent, and probably suggest a means of standardizing statements, audits, and reports of borrowing concerns.

The credit bureaus will aid examiners in their investigations and tend to increase the efficiency of all bank examinations if the proper degree of cooperation is established. The bureau will have, after each examination, definite information regarding the credits and condition of the bank. The Federal reserve bank will be vitally interested in all data concerning the standing of each member bank, in order to determine the line of rediscount that may be safely and wisely extended. To prevent inflation and an abuse of the accepting power, there must be continuous vigilance.

The power to restrict or limit the rediscounting privilege will be effective in forcing the elimination of lax methods and unsafe practices; will prevent the gradual accumulation of questionable assets, and will, in effect, require members to conduct business along sound, businesslike lines. The Federal reserve examinations of member banks and examinations by national bank examiners will be a distinct advantage to members and will eventually prove a guaranty of solvency.

If the main work of conducting credit records be carried on under the charge of the agent at each of the reserve banks, as thus suggested, it will still be desirable that there be a centralization or combination of results under direction of the board at Washington through some one of its several divisions which shall transmit the combined information to the other bureaus; while if the information is directly compiled at Washington in the first place a local receiving mechanism will also be needed in each bank.

STATISTICAL BUREAU.

An important part of the work of the Federal Reserve Board will be found in the making of thorough and satisfactory analyses of data relating to bank operations in different parts of the country. These analyses will be necessary both from a scientific and a practical banking standpoint. They should include careful compilations of figures designed to show the actual operations under each section of the reserve act, changes in the outstanding currency circulation, fluctuations in the specie stock of the several reserve banks and of the system as a whole, variations in the conditions of domestic and foreign exchange, and a variety of other items. While it is undoubtedly true that experience in the management of the system will materially modify any plan for the collection of such statistics and for the making of analyses of the kinds already indicated, it will be desirable to start with a complete and thorough basis for classifying the various data collected and for presenting the net results in an easily comprehensible form. Indeed it will be only by this means that the subsequent development of the statistical analyses along lines closely adapted to the peculiarities of the system itself will be practicable. It has therefore been deemed wise to present the outline for a statistical bureau to be organized under the direction of the board at Washington. Such an outline has been prepared under the direction of the committee by Mr. Ludwig Bendix, of New York City, and is presented in Appendix III of this report.

BONDING OF AGENTS.

The Federal reserve act provides in section 11, paragraph 1, that—

“The Federal Reserve Board shall be authorized and empowered * * *

“(1) To require bonds of Federal reserve agents to make regulations for the safeguarding of all collateral bonds, Federal reserve notes, money, or property

of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this act, and make all rules and regulations necessary to enable said board effectively to perform the same."

With reference to the first provision in this section, namely, that authorizing the Federal Reserve Board to "require bonds of Federal reserve agents" (the organization committee being presumed to exercise the same functions as the Federal Reserve Board under section 2 of the act), it is suggested that three questions arise:

1. The amount of the bonds to be given by Federal reserve agents.
2. The nature and form of the bonds to be furnished by them.
3. The question whether such bonds shall be separate and applicable only to the reserve agents or whether a "blanket bond" covering all employees and officers of the Federal reserve bank and including the reserve agent with others should be permitted.

In view of the fact that the Federal reserve agent is distinctly a Government officer, although paid by the bank to which he is accredited, and in view of the fact that his responsibilities are to the Federal Reserve Board primarily, rather than to the bank itself, it is recommended that each and every Federal reserve agent be called upon to give a separate bond for himself and his own staff, and that he be not included in the blanket bond, if any, which may be written for the protection of all other officers and employees of the bank at large. His bond would thus cover merely his own liability and that of the subordinates under him in his own office.

The question of form of bond has formed the subject of careful inquiry, and it is believed that the form employed by the American Bankers' Association, and recommended by them for general use, is the best that can be employed under the circumstances.

With reference to the amount of the bond to be given by Federal reserve agents considerable difference of opinion has been encountered, and, as a result, consultations have been had with the officers of some of the principal bonding companies. As a result of the investigation thus had and the advice furnished it is recommended that the bonds of Federal reserve agents shall not fall below a minimum of \$100,000, and that they shall vary according to the activity and resources of the reserve bank to which each such agent is accredited, probably not exceeding \$250,000 in any case.

DOMESTIC BRANCHES.

The Federal reserve act contains the following provisions (sec. 3) with reference to branch offices:

"SEC. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch bank shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager."

It will be observed that this section is expressed in such broad and general terms as to leave in the hands of the Federal Reserve Board and of the organization committee at the outset very large powers with respect to branches. It will be possible practically to prescribe the conditions under which such branches will operate, subject only to the general limitations as to directors laid down in the section as above quoted.

Two methods of dealing with these branches suggest themselves:

1. The establishment of a completely organized banking house acting as a branch of the reserve bank of the district in each place where a branch may have been determined upon.

2. The establishment of a local office only, without banking machinery, and equipped merely with a limited clerical organization at the service of the board of directors appointed as above provided for.

These types of organization may be considered in reverse order.

If it be determined to organize simply a local office, the board of directors of the branch, so called, would necessarily amount to nothing more than a sub-

committee whose functions would be those of ascertaining the character of the paper offered for rediscount by the banks of the community, certifying to its desirability or disapproving it as the case might be, and then transmitting the paper for actual rediscount to the reserve bank of the district. This plan would have the advantage of avoiding the outlay necessitated by the organization of a complete branch and would also eliminate all necessity for establishing a system of accounting in the branch which should fit into the accounting system of the reserve bank of the district. It would also eliminate all question of necessity for a readjustment of the clearing system. On the other hand, the question may be raised whether so simple a type of organization would satisfy the demands of the community in which the branch was located and would supply a sufficient addition to the mechanism of the reserve bank to warrant establishing it. Its function would obviously be only that of a credit committee passing upon particular paper. If this plan should be resorted to, it is suggested that the only records required by the branch would be those relating to offerings of paper.

On the other hand, if a full-fledged bank should be established at each branch point, it is believed that the following questions would have to be definitely considered in connection with the matter:

1. Relation of branch accounting to accounting of district reserve bank.
2. Relation of method of handling checks and transit items to corresponding methods in district bank.
3. Area or territory to be assigned to branch as special or peculiar to it, i. e., extent of subdistrict within which such branch would be located.
4. Internal organization of branch.
5. Capitalization, if any, to be assigned to the branch.

Assuming that branches were to be created on this plan at the outset, it is suggested that in every particular the regulations recommended in this report with respect to the management of a district reserve bank should be applied in the conduct of the branch, in so far as practicable. At certain points, however, it will not be desirable to develop a full-fledged organization in the branch. The question then arises precisely how far the organization should go and at what point reductions or curtailments have to be made.

It is recommended that in the event of the establishment of such branches they be assigned a proportionate capitalization based upon the capitalization and surplus of the member banks included within the territory assigned to the branch. This, however, should be only a tentative matter, and such assignment of resources should be merely to bridge over the period during which it is found from experience about what amount of paper will on the average be presented by the banks in each branch district. When sufficient experience has been had to determine this point the resources to be employed should be distributed among the branches in proportion to the quantity of paper presented on the average by the member bank in each such branch district. It is recommended further that the parent bank of the district shall in every case retain for itself a substantial portion of the district as a territory from which paper shall be directly presented for rediscount. This would mean simply that the branch districts would be established whenever there was a special need for them in a particular part of a district which presented a clear-cut, independent trading area whose territory was an economic unit and whose member banks naturally stood in close relationship to one another. The suggestion also amounts to a rejection of any plan for subdividing a district completely into branch areas while the district reserve bank itself exercised no distinct banking functions except those of oversight. It is believed that this latter plan would not be desirable, but that in every district there should be a strong independent reserve bank organization performing actual banking functions and directly rediscounting the paper of a considerable number of the member banks included within such district.

Whenever a branch is established with a banking house of its own, actual banking machinery, and a board of directors, as provided by the Federal reserve act, it is recommended that it be required to install a system of accounting precisely similar to that prescribed by regulation for the Federal reserve banks themselves, and that it be permitted to vary from the system laid down for such reserve banks only at those points where the maintenance of certain records is rendered unnecessary by reason of the fact that the branch does not perform the functions to which such records relate,

BY-LAWS.

The following suggested outline of by-laws will afford further detailed data concerning the internal organization requiring to be perfected in each branch:

BY-LAWS OF FEDERAL RESERVE BANK OF ———, BRANCH OF FEDERAL RESERVE BANK OF ———, ESTABLISHED BY IT ———, 191—.

ARTICLE I.—*Directors.*

SECTION 1. *Number and quorum.*—The number of directors shall be seven. A majority of the directors shall constitute a quorum.

SEC. 2. *Meetings.*—There shall be a stated meeting of the board every Wednesday at ——— o'clock a. m., or, if that day be a holiday, on the first day preceding not a holiday.

The chairman of the board shall be empowered to call a special meeting at any time, or upon the written request of any two directors, or whenever requested to so do by the manager or by the Federal reserve bank of the district.

SEC. 3. *Powers.*—The board of directors shall annually submit for approval to the parent bank a schedule of compensation and duties of officers, clerks, and employees of the branch.

SEC. 4. *Order of business.*—The following shall be the order of business at each meeting of the board:

(1) Reading or inspection of minutes of the last regular meeting.

(2) Report of the manager, including information concerning banking and business conditions in the district, as well as detailed summary of all business transacted since last regular meeting and statement of present condition, the latter to include:

(a) Statement of all loans, rediscounts, investments, and purchases.

(b) All official correspondence received from the parent bank.

(3) Committee reports.

(4) Unfinished business.

(5) Approval of report and recommendations to parent bank (duplicate to be sent to Federal Reserve Board).

(6) New business.

ARTICLE II.—*Discount committee.*

SECTION 1. *How constituted.*—There shall be a discount committee consisting of the manager, the chairman of the board, and one director of the class appointed by the parent bank. Such director shall be elected by the board to serve for a period not to exceed one month, and his successors shall be chosen in rotation until each member of his class shall have served or shall have been given an opportunity to serve. The board shall elect each month an alternate for service on the discount committee, who shall be authorized to act in the absence or disability of the member first chosen.

SEC. 2. *Minutes.*—The discount committee shall cause to be kept minutes of all meetings held by it, which shall be read and approved by members of the board at the next succeeding meeting. A copy of such minutes shall be promptly sent to the parent bank.

SEC. 3. *Powers.*—Subject to the rules and regulations of the board of directors of the parent bank, the discount committee shall be vested with the following powers:

(1) To pass upon all commercial paper submitted for discount.

(2) To suggest open-market transactions to the parent bank.

(3) To apply through the Federal reserve bank of the district for such Federal reserve notes as may be necessary for the general requirements of the branch.

ARTICLE III.—*Officers.*

SECTION 1. The officers to be chosen by the board of directors shall be a manager, who shall be one of their number, a vice manager,¹ and such other officers as the board may from time to time deem necessary. They shall hold office during the pleasure of the board.

¹ The number of vice managers will depend upon the size of the branch and the character of its work.

SEC. 2. *Chairman.*—The chairman of the board shall be chosen by the Federal Reserve Board from the directors appointed by said board. He shall preside at all meetings of the board. He shall, together with the officers of the bank, have supervision of all credit records and data concerning member banks and borrowers which may be compiled from reports and examinations of such banks. All reports and statements made to the parent bank shall be prepared under the general direction of the chairman and copies thereof shall be sent directly to the Federal Reserve Board.

SEC. 3. *Vice chairman.*—In the absence or disability of the chairman, his powers shall be exercised and his duties performed by the vice chairman, who shall be designated by the chairman, or in default of such designation, by the manager, from the directors appointed by the Federal Reserve Board.

SEC. 4. *Manager.*—The manager shall have general charge of the branch and shall preside at all meetings of the discount committee, subject, however, to such rules and regulations as may be incorporated herein or from time to time promulgated by the board of directors of the branch or of the parent bank.

In all cases where the duties of subordinate officers and agents of the branch are not specifically prescribed by the by-laws or by the board of directors of the branch or the parent bank, they shall be the duties specified by and instructions of the manager. The manager may, with or without the advice of the board of the branch, suspend or remove any employee of the branch, subject, however, to a hearing before said board.

SEC. 5. *The vice manager.*—In case of the absence or disability of the manager, his powers shall be exercised and his duties discharged by the vice manager. In the absence or disability of both, the board of directors shall, by a majority vote of the directors present, appoint a director manager pro tem.

The vice manager shall have charge of all moneys received and paid out on account of the branch and shall examine and countersign all checks for the payment of money signed by the manager. He shall, jointly with the manager, have custody of all investments and collateral held by the branch. He shall keep the minutes of all board meetings and of all committees of the board.

In case of the absence or disability of the vice manager, or whenever occasion may require it, the manager shall appoint such director or employee of the branch as he may deem proper vice manager pro tem.

ARTICLE IV.—*Information.*

SECTION 1. All persons employed by the branch shall keep inviolate its business affairs and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever. Any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

SEC. 2. The action or policy of the board shall not be expressed by any individual member, but by its duly constituted officers after formal action by the whole board and under rules and regulations prescribed by the parent bank.

SEC. 3. For the information of member banks and the public, there shall be maintained in the office of the manager a bulletin board, upon which shall appear the current rates of discount established by the parent bank and such other information as it may deem necessary to publish.

FOREIGN BRANCHES.

The power to establish foreign branches is broadly conveyed in the Federal reserve act, which includes authority covering not only the creation of such branches, but also the establishment of agencies, the appointment of correspondents, etc. The question, however, whether or not to create such branches rests upon a somewhat different basis from that which relates to the establishment of domestic branches.

With reference to operations in foreign countries it is to be expected that as a reserve system develops these operations will become extensive and important. They should be fully provided for by a plan which will assure absolute efficiency in the handling of the functions of reserve banks abroad. That at the start it may be desirable to await the definite organization of the reserve institutions is quite probable, but before many months the management of the business abroad must be seriously taken in hand. Inasmuch as the approval of the Federal Reserve Board is requisite to the establishment of foreign branches, it is evident that the board will have full authority in the matter.

The first point which it is believed calls for careful consideration is the number of branches of reserve banks which shall be independent of one another. Plainly the provisions of the law are such that if the reserve board

should approve of such a course each and every one of the several reserve banks might establish independent branches in foreign centers. The conceivable result of such action would be the establishment of a number of branches, one to each reserve bank, equal to the number of reserve banks, in every important foreign center. This, it is believed, would be unwise. From the standpoint of the foreigner the reserve system should be organized as a unit, while in controlling the flow of specie to and from the United States it should act as a unit with a single and uniform policy and without competition within itself. These requirements should be fulfilled best, it is believed, by requiring the reserve banks to join in designating a common agent or to join in creating a joint branch at each foreign center where it is believed that such representation is needful or desired. If it should appear that some of the reserve banks do not care to have such representation abroad, their cooperation could be waived, the whole matter being placed upon a voluntary basis. But if they find that they want such representation, then they should be required to cooperate in establishing and bearing the expenses of the branch existing at the point where the representation is desired. This naturally necessitates a plan of dividing the expenses of the branches or agencies abroad between the Federal reserve banks. It is recommended that the following plan shall be in substance followed:

1. Whenever a Federal reserve bank desires to establish a branch or agency in a foreign country it shall make application to the Federal Reserve Board for permission to do so, and in case such permission is granted it shall be allowed to establish the branch or agency under conditions of organization conforming to the principles laid down in the general provisions that may be adopted with regard to branches.

2. If any other reserve bank should subsequently desire to secure representation in the same place at which such branch or agency may already exist it shall be required to select the same agent, or if a branch has actually been established it shall be permitted to join in the operation of the branch, bearing a share of the expense dependent upon the percentage of total operations undertaken for its account as compared with the aggregate operations of the branch.

3. The personnel of the branch organization shall continue as first established by the reserve bank which created the branch, but as places fall vacant they shall be filled upon the nomination of the reserve bank subsequently joining in the operation of the branch in a proportion corresponding to its payment of expenses.

4. Should other reserve banks desire to join in the operations of the branch they may do so upon a basis of division of expenses based upon the principles already laid down above.

5. Should the Federal reserve banks subsequently desiring representation (after the establishment of the branch by one such bank) prefer to have the branch already existing act as agent for them they may do so, and in that event the reserve bank or banks actually cooperating in the conduct of the branch shall charge for their services a sum to be determined at the end of each half year and dependent upon the proportion borne by the operations of the bank or banks designating the branch as agent, to the total operations of such branch.

6. Whenever a foreign branch is organized a specified sum shall be assigned to it as a basis for its operations, such sum to be determined in each and every case by consultation between the Reserve Board, or the organization committee, if the task is undertaken while the system is in its initial stages. Other reserve banks which subsequently participate in the operation of the branch shall assign to it a sum of working capital to be determined in the same way.

7. In the event that several reserve banks desire at the outset to join in the establishment of a branch at a designated foreign center, the total working capital to be set apart will be determined as above indicated and shall be divided among the several reserve banks in proportion to their capitalization.

8. The accounting records of each such foreign branch shall be the same as those prescribed for domestic branches, except that the reserve banks participating in the operation of the branch shall be regarded as joint partners.

RELATIONS BETWEEN BANKS.

In discussing the relations between members of the Federal reserve system, attention must be devoted to three phases of the question:

1. Relations between the Federal reserve banks themselves.

2. Relations between member banks in each district and member banks in different districts.

3. Relations between member banks and their own Federal reserve banks.

In surveying these distinct elements of the problem, it is deemed best to consider first of all a matter which involves portions of the question referred to under the first head above and of that referred to under the third head. This is the clearing of checks. It is believed that the most important problem involving these relations between the banks in normal times will be that of clearing the items drawn upon the reserve banks by their member banks and those drawn upon the individual member banks by their depositors. If this clearing process is satisfactorily and effectively carried out, it will profoundly modify the relationships now existing between banks and will have an important influence in reshaping the operations of present clearing houses, transforming ultimately the functions of these clearing houses and changing the degree of their significance from the standpoint both of their members and of outside institutions.

CLEARING SYSTEM.

The provisions of the Federal reserve act with respect to the introduction of a system of clearings are found in section 16, where it is provided that—

“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 bank 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.

“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.”

It is evident that this provision distinctly contemplates two classes of work:

(a) A clearing system providing for the clearing of items among member banks which are stockholders and depositors in any Federal reserve bank.

(b) A clearing system which shall provide for clearing the transactions of Federal reserve banks among themselves.

It is strongly believed and recommended that a complete and thorough clearing system shall be inaugurated by every Federal reserve bank at the earliest possible moment consistent with success. This system should further be continued and extended as rapidly as is reasonably possible until it extends to all classes of operations and provides for the clearing of items drawn on both member and nonmember banks. The facilities of the reserve banks should be used both locally and for out-of-town checks in the broadest possible sense and under conditions which will place the member banks upon a satisfactory basis of competition with nonmembers while giving to the customers of member banks the advantage of a system of par collection wherever possible and of collection at cost wherever charge must be made. Undoubtedly experience will show some necessary changes both of method and of rates of charge from the plan herewith recommended, but it is believed that the basis of a satisfactory system is herewith afforded and that no material alterations will be subsequently necessary. Having in mind the fact that the banks can not perform their full functions in this respect at the very outset, it is, however, recommended that they start only with a partial system of clearings, subsequently extending this as they become able to do so.

An analysis of the law shows that it is the intent to readjust the domestic exchange machinery of the present banking system to conform with practices and regulations that the experience of clearing houses have demonstrated to be the most efficient. Therefore, in drawing up forms and regulations to govern the operations of the Federal reserve banks, the policy should be to adopt so far as possible clearing-house principles as a model. Wherever, in the plan to be proposed, it may seem at first glance that a proposed method of procedure is not specifically authorized in the bill, the warrant for such

proposition is contained in the phrase "functions of a clearing house," and nothing herein suggested will be found to do violence either to clearing-house principles or practices.

It is one of the primary functions of banking and the purpose of all clearing houses to make full use of the "clearing principle," which is the offsetting of debits with credits, to effect settlements by book transfers, and to use such credit instruments as checks and drafts, thus reducing to a minimum the handling of actual currency. The primary object of the plan here presented is to use the machinery of the Federal reserve system to make the enormous domestic exchange business of the country clear itself, the balances of the entire nation being finally focused and cleared by a simple operation on the books of the Federal reserve clearing house.

Each Federal reserve bank should be governed by uniform regulations with respect to domestic exchange functions, since each such bank is a part of the whole system of clearing. These regulations apply to forms, advices, accounting systems, and organization of departments, and conform to the rules applied by all well-conducted clearing-house associations. They will be grouped for convenience of treatment into three divisions:

- (1) The relations between the Federal reserve banks and the member banks in the same city.
- (2) The relations between the Federal reserve banks and their members outside the city.
- (3) The relations between the Federal reserve banks themselves.

RELATIONS BETWEEN THE FEDERAL RESERVE BANKS AND THEIR MEMBERS IN THE SAME CITY.

The Federal reserve banks may, if thought best, cooperate with the other banks of cities where they may be located, first, by joining the local clearing house, and, second, by providing a means of settlement of clearing-house balances through book transfers.

Several points are open to discussion in connection with plans or regulations governing the relations between the Federal reserve banks and their members located in the same city. The logical development of the reserve banks will ultimately result in their assuming the functions of a clearing house, but in view of the policy not to interfere unnecessarily with present practices and also on account of the fact that nearly all clearing houses are composed partly of nonmember banks, it is recommended that the Federal reserve banks shall not accept local member checks on deposit, provided such checks are payable through the clearing house, until such time as it will be possible for the bank to assume all the functions of the local clearing house.

The Federal reserve banks will present checks on outside member banks and outlying local member banks through the mails, but it would be more economical and convenient to present city member checks through the clearing house. A question here arises as to whether the Federal reserve banks should be members "both sides," that is, receiving, as well as presenting, checks at the clearing house. Were the existence of clearing houses where the Federal reserve banks are located to be considered permanent, or were all the members of the clearing house certain to be members of the system, then it would seem wise to recommend that the reserve banks should "out-clear" only, but, the facts being otherwise, local members should be permitted either to deposit drafts on the Federal reserve banks or to present them through the clearing house. As to the deposits of member checks by local banks, it is recommended that a time limit be set by each Federal reserve bank, say at 2 p. m., after which no items of less than \$1,000 of any kind would be accepted on deposit. This rule will be found necessary to prevent the clogging of the internal machinery of the banks, which would delay the outgoing mail. Experience in large city banks has demonstrated that it is much easier to handle large volumes of checks if they come in early in the day, because a given number of checks can be handled with much less labor and chance of error if received within a fixed time limit than the same number of items can be handled when spread over a longer period. The bulk of all checks received by business men come by morning mails, and the individual depositors in member banks can be gradually educated to make their deposits early.

The settlement of balances resulting from clearing-house exchanges must be adjusted to conform with the fact that all members of clearing houses will not be members of the Federal reserve system. Settlement may be effected by one of the following methods:

1. Debtor banks will give their drafts on the Federal reserve banks to the manager of the clearing house, nonmember debtor banks paying to the manager funds acceptable for deposit with the reserve banks. The manager of the clearing house would then deposit the drafts with the reserve bank. The reserve bank would credit such deposits to a "clearing account," which would be subject to the manager's check in favor of creditor banks. The rule should be laid down that drafts on the Federal reserve bank given to member creditor banks should be deposited and not cleared through the next exchange.

2. Assuming that all clearing-house banks are members of the system, the manager of the clearing house will present to the Federal reserve agent a memorandum showing debtor and creditor balances, which may then be settled by a transfer on the books of the Federal reserve bank.

If it should occur in any city that all the banks are members only of the clearing house and of the Federal reserve system, and the clearing house be continued, it would be practicable to have the Federal reserve bank "outclear" only.

The relationship, therefore, between the Federal reserve banks and members in the same city may be said to be a local problem which may be adjusted along the broad lines here suggested without in anyway interfering with the policy of uniformity in the essential features of regulation affecting the clearing functions of reserve banks.

In general matters the regulations covering the accounts of member banks will apply to city members as well as country members.

THE RELATIONS BETWEEN THE FEDERAL RESERVE BANKS AND THEIR MEMBERS OUTSIDE THE CITY.

The deposit section of the Federal reserve act provides that—

"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. * * *"

Under this provision the following elements of the deposit process will be as follows:

1. Lawful money, national-bank notes, and Federal reserve notes are to be deposited as such deposits are now made in banks—that is, using a regular deposit slip bearing the name and number of the member bank and the items to be separated as to kind of money deposited. No checks are to be enclosed with deposits of money.

2. In receiving checks on deposit the Federal reserve banks assume a service for their members which, unless it is properly controlled and regulated, will result in a serious burden and will tax the resources of the reserve banks to the utmost. Care must be taken that the work be reduced to a minimum and that the member banks relieve the reserve banks as far as is practicable.

3. A uniform letter of remittance or deposit should be used throughout. Member banks will divide the items deposited into those payable by the Federal reserve banks and those payable by other banks in the city where the reserve bank is located. These items may be placed on one sheet or letter in separate totals. A different sheet or letter must be used for each State within the region or district, and as the number of members increases such States may be redivided in accordance with the regulations of each reserve bank.

4. Items payable in other Federal reserve districts will be separated into two totals, "inside" and "outside," and the outside items will be grouped as to States, although a single total will be accepted, and such "outside" items may be placed on a single remittance sheet.

5. With each deposit of checks from member banks there is to be inclosed a summary sheet giving the total of each separate sheet or division, with a grand total or footing.

6. Opposite each item in the entire deposit the member bank should designate the place payable, preferably by number. Special instructions, such as "no protest," "wire nonpayment," etc., should be covered by an official tag or slip, which is to be securely fastened to the item, and no confirmation of such instructions shall be required to be written on the letter. A distinctive mark or symbol should also be stamped upon each such check.

7. Each item deposited shall be indorsed by the member bank with a rubber stamp which shall bear the name of the Federal reserve bank through which

the items are cleared, the date received by the Federal reserve bank, and the name and number of the member bank. This stamp, when used by the member bank, shall be considered to guarantee all previous indorsements and shall read as follows:

Cleared through
The Federal Reserve Bank of N. Y.
August 1, 1914.
First National Bank,
50-36 Syracuse, N. Y. 50-36

8. All items deposited by member banks with Federal reserve banks should become "reserve" only after they have been collected—that is, placed in the possession of the paying bank, and thus chargeable to the account of the drawer. They may be charged by member banks into the general ledger item "Due from Federal Reserve Bank of ———" the day they are mailed, but a memorandum account should be carried by the member bank, in which this item is to be divided into "transit account" and "reserve account." Each member bank shall be furnished a time schedule and in connection therewith shall operate a book which may be designated the "Reserve maturity tickler." In accordance with the time schedule, the member banks will post the detail amounts according to the divisions mentioned under the dates when such checks may be credited to "transit a/c" and charged to "reserve a/c." These dates in every case will be based on the receipt of the items at the place of payment.

An alternative plan differing in theory as applied to reserves, but more practical and simple in operation, may be considered as follows: The Federal reserve banks will charge member checks against the balance of such members upon the day forwarded. This would reduce the amount of bookkeeping necessary and would simplify the time schedule by more than one-half. On the other hand, member banks would be apt to object to having their reserves thus depleted without their knowledge. This objection could be met by a concession which would further reduce the accounting—that is, by allowing member banks to use all checks on members of the same district as reserve the day forwarded to the Federal reserve bank, as is now permitted in making remittances to reserve agents.

It is desirable that drafts on Federal reserve banks should be acceptable without question in all districts. It may be suggested, therefore, that such drafts be deposited in a separate total, together with drafts payable by the reserve bank where deposited, to be counted as reserve by the member bank once, or if the alternative plan outlined in the preceding paragraph is adopted, drafts on all Federal reserve banks could be included in the totals of checks on other members of the same district.

The Federal reserve bank will credit the account of the member banks on day of receipt of the items, such account to be subject to draft. The reserve bank in turn will use a time schedule corresponding to the one used by member banks, and similarly the reserve bank will charge transit account, crediting such account and charging other reserve banks as hereafter provided. If any member bank should draw below its collected funds, such drafts should be subject to a charge based upon, but higher than, the current discount rate of interest.

In section 19 the act provides that member banks may check against their reserve balances with reserve banks "subject to such penalties as may be prescribed by the Federal Reserve Board," but it would be better banking to induce them to restore their reserves through rediscounts.

The Federal reserve banks will receive items on deposit until 2 p. m. each day. After 2 p. m. and until 3 p. m. items of \$1,000 and over only, and after 3 p. m. until 3.30 p. m. items over \$10,000 only, after which all items received will be held over until the following day and the member bank so notified.

The time of day and amounts here specified need not be uniform for each reserve bank, but should be regulated by each such bank in accordance with local customs and geographical position with respect to transportation and mail facilities.

At the close of the day's business all checks on member banks will be forwarded to the member banks, the letter bearing opposite each amount the indorsement record of the depositing bank. These remittances will be charged by the reserve banks in "transit account." On the following day, or the day of receipt by the member banks, the accounts of the member banks will be charged and "transit account" will be credited.

Attached to each letter from the reserve bank will be a perforated slip bearing the total of the inclosure, to be used as an acknowledgment of receipt. The slip will read:

"We credit you \$—— checks on this bank received to-day.

"(Signed) _____, *Cashier.*"

If items are unpaid they are to be returned direct by the member upon whom drawn to the member making the deposit with the Federal reserve bank first receiving them, and upon receipt of advice the Federal reserve bank will credit the member bank the amounts of such checks returned direct and charge the accounts of members to whom the items have been returned. If such unpaid items have been received by the reserve banks from other reserve banks they will be returned direct in the same way and adjustment made between the reserve banks as hereafter provided. Unpaid items which have been deposited by the United States Government or any of its agents will, however, be returned in every case to the reserve banks by the member banks.

Member banks should be encouraged to make use of the Federal reserve banks to effect settlement with one another through book transfers. The reserve banks should perform such service as between its own members at par, since it avoids the use of drafts, and also does not reduce the loanable funds of the reserve bank. Transfer of funds by members for the credit of members of other districts may also be easily arranged, and the charges therefor will be discussed under a separate heading in this report.

Reserve banks will also send to member banks for collection notes, acceptances, and such paper as is usually classified as "time items," representing the matured loans and discounts of the Federal reserve banks, such items, if unpaid, to be returned by member banks to the Federal reserve bank owner, with proper advices.

At the close of each day's business the Federal reserve banks will mail a statement of the day's transactions to each member bank other than which no acknowledgment of receipt of items, etc., will be required. At regular intervals the balance shown by such statement as of a certain day will be reconciled by the member bank and a report made to the reserve bank.

RELATIONS BETWEEN THE FEDERAL RESERVE BANKS.

"* * * or solely for exchange purposes (any Federal reserve bank), may receive from other Federal reserve banks 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.

"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."

As between the reserve banks, there will be five different kinds of transactions. (1) The exchange of checks for collection payable in their respective districts, and also the exchange of checks and drafts on one another. (2) The transfer of funds deposited by the member of one bank to the credit of a member of another bank. (3) The deposit of Federal reserve notes for redemption or credit as provided in the act —

"Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued."

(4) The deposit of other funds, such as national-bank notes or lawful money which the Federal reserve banks are permitted to deposit with one another for exchange purposes. Such shipments should be subject to the request of the Federal reserve bank receiving the deposit. (5) The collection of notes, drafts, and acceptances for rediscount, as provided in section 13, which may be payable in a district other than where rediscounted.

Checks remitted by one Federal reserve bank to another should be divided as to inside and outside items, the outside items being further divided as to States, or such other division as has been provided for the member banks depositing with Federal reserve banks. They need not be indorsed by the Federal reserve bank remitting or by the reserve bank receiving them.

Each Federal reserve bank will carry a single account with every other reserve bank. Using the time schedule mentioned previously, charges and credits of check remittances will be made simultaneously.

Remittances of Federal reserve notes will not be charged in transit account, but will be carried in the general ledger item, "Notes of other Federal reserve banks," until the date of receipt by the bank to whom sent. Remittances of lawful money, national-bank notes, etc., to be sent only upon request, will be charged to the reserve bank to whom sent on the date of shipment, and will be carried as an asset of such bank among its other cash items.

Time items will be forwarded a sufficient time before maturity and will be charged and credited on date due.

Transfers for member banks, if made by mail, should be charged and credited on day of receipt of notice. If made by wire the entries should be made on day of such advice. No such transfers should be made by wire or mail after 3 p. m., and in the event of differences of time between banks the time used by the bank that is the farthest east should govern.

The original figures of every transaction of whatever nature between Federal reserve banks should be considered to be correct, and the original entries should not be changed by either the bank charging or the bank crediting. Allowances for errors, returned items, etc., and all changes in the account between any two banks should be adjusted by mail. The accounts between any two Federal reserve banks will thus automatically reconcile, provided there has been no delay in the mails. To provide against such a contingency, it is proposed that if any reserve bank fails to receive the regular daily letter from any other reserve bank by 2 p. m. a telegraphic advice be sent to the forwarding bank, which would then defer the usual charge until the following day.

FEDERAL RESERVE CLEARING HOUSE.

To settle the balances between reserve banks growing out of these various transactions, a clearing house is suggested, as provided in the act in the clause which specifies that "The Federal Reserve Board * * * 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.
* * *

If one of the Federal reserve banks should be chosen as a clearing house, for convenience of location it might be the Chicago bank; but this function of clearing would be better assumed by the Federal Reserve Board. For many reasons it would be well to establish the clearing house at the National Capital. Since each reserve bank will carry a single account with every other reserve bank, subject to simultaneous debit and credit, the bulk of the interchange of business will clear itself. Balances will arise partly on account of the seasonal changes which will alter the debit and credit relationship between the districts and partly on account of the fact that membership in the system will not be proportionately equal as between national and State banks in different regions.

The plan herewith proposed is based upon the requirement that each Federal reserve bank deposit with the Federal Reserve Board clearing house all of its gold beyond that which will be sufficient to take care of local needs. This gold deposit, carried on the books of each reserve bank in a separate item as a part of its reserve funds, can be used in either of two ways or in a combination of them to effect settlement which will be explained later. Settlement need not be made between reserve banks oftener than weekly, since to require daily settlement might prevent the operation of the natural clearing effected by the interchange of ordinary business transactions. Therefore at the close of business on each Thursday each reserve bank should wire the clearing house the amount of the balance and should state whether debit or credit relations exist between it and other reserve banks. Allowing one day, Friday, for adjustment of any differences in the advices received, the clearing would be effected on Saturday. How this shall be done depends upon a consideration of the following possibilities:

The gold deposited with the clearing house may be credited upon a simple set of books to each bank so depositing. Clearing would then be effected by a charge and credit on the books and advice would be made to the reserve banks. This is the simple plan, but it has one apparent disadvantage in that the banks would have no tangible evidence of the ownership of the gold other than a book credit. Consideration might, therefore, be given a plan of issuing certificates

in large denominations against the proposed gold deposits as clearing house currency certificates are now issued. Upon the direction of the Federal clearing house, the debtor reserve banks would mail these certificates to the creditor banks to pay balances. These two plans might be combined so that, although the clearing of balances would be effected by book transfers of gold at the Federal clearing house, the debtor banks could anticipate this settlement by mailing certificates to creditor banks prior to the day of settlement. Both these plans, however, seem less effective and more cumbersome than the first plan. Very little (if any) gold would ever need to be transferred between the reserve banks, and such operations would be limited to transactions between the banks and the clearing house. The banks, in turn, would be able to loan or borrow, buy, or sell gold in dealing with each other, and the transactions would be arranged through book transfers at Washington.

It is recommended that the official who may act for the Federal Reserve Board as supervisor of the clearing functions of the system act also as the manager of the Federal reserve clearing house and bear the same relation to the reserve banks that the manager of any clearing house does to the members of a city clearing house. In addition to the supervision and control over the entire machinery of domestic exchange, he should provide for its development along lines hereafter suggested.

CHARGES FOR COLLECTION.

The Federal reserve act provides in section 16 that—

“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.

“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. * * *

It must be borne in mind that the banking power of the United States will divide more sharply than it has ever done before into two groups—members and nonmembers. It is the intent of the act itself to bring nonmembers into the system. But so long as there is any considerable body of nonmember banks, the two groups will of necessity be in competition with one another, producing two parallel clearing systems. The organization of the domestic exchange machinery of the new system thus takes on a double aspect. On the one hand, Federal reserve banks and their members must be prepared to meet a competition on the part of nonmembers; but, on the other hand, the domestic exchange business of the Federal reserve system must be so arranged as to offer constant inducements to nonmembers to enter the system. At the same time members must find it more profitable to use the Federal reserve system than to make collections as at present. The situation is more complex when it is taken into consideration that member banks are in a position to deal on favorable terms either with the Federal reserve banks and their members or with nonmembers.

All charges contemplated in the act should be based on actual costs, and it should not be the policy of the Federal Reserve Board, nor of the reserve banks, to assess these charges against member banks upon a basis that would yield a profit. All costs should be placed against members for whom service is rendered as hereafter provided. The costs would include overhead charges, clerical hire, including that of department management, stationery, postage, and equipment depreciation. In addition, all similar expense incidental to the maintenance and operation of the Federal clearing house will be assessed against the reserve banks, which charge will, in turn, be added by each reserve bank as a part of its clearing expense.

It should be the duty of the compilation department of each reserve bank to keep an accurate monthly record of the costs herein mentioned incidental to the clearing of all checks. A record of the amount and number of checks and drafts charged against the account of each member should be kept by each reserve bank, and an additional record of the amount of the items payable in other districts deposited for credit and clearing by member banks. The total monthly cost should then be divided between these two amounts in proper proportion, the number of items making up the amount payable outside the district being estimated upon the basis of the figures of the number of checks divided into the total amount charged against members' balances. The cost of

handling checks charged against members' balances should then be charged monthly to the accounts of such members, and should be based one-half per hundred of items and one-half per thousand dollars. The cost of handling checks on other districts should be similarly prorated and charged against members depositing such checks.

Each reserve bank should be required to send a monthly statement to the Federal reserve clearing house, showing total amount that has been charged against it by all other reserve banks during the previous month. The clearing house would then assess the costs of operation upon reserve banks in proportion to such amounts. Each reserve bank should calculate the proportion of this clearing-house cost chargeable to check and transfer-for-members debits, and this cost should then be apportioned and charged to members per thousand dollars of checks charged to their accounts or transfers made for them. Similarly the proportion of the cost of shipping gold to the clearing house chargeable to check and member transfer debits should be added by each reserve bank to the clearing-house cost which is to be charged to members. Except for the charge for telegraphing when such transfers are requested, there should be no further charge against members for the transfer of funds. Accounts of the United States Government or any of its disbursing agents should be subject to the same basis and method of clearing charges as applied to member banks.

In addition to the charges above provided, a scale of fines should be arranged applicable to members making errors in their deposits. The purpose of such fines is to place the cost of locating errors against the member making the error, and the income, if any, derived from this source should be deducted from the total operating cost. The scale should cover the following:

Error in listing or addition.....	\$1.00
Error in recapitulation sheet.....	1.00
Items missorted, including items not receivable, each.....	.50
Checks listed but not inclosed, or inclosed but not listed, each.....	2.00
Items not indorsed, each.....	.50

CHARGES BY MEMBER BANKS.

The policy of limiting charges by member banks against their patrons to actual expenses incurred is clearly indicated in the bill. Therefore the rate which the Federal Reserve Board is to fix for the member banks to charge for their patron's checks which are cleared through the reserve banks should be based on the costs as outlined and hereinbefore provided. Checks payable outside the district may be made subject to a charge by the member banks against the indorsers.

Checks drawn by depositors and charged against the member banks' accounts by the reserve banks may be made subject to a charge against the makers of the checks. In each case the Federal Reserve Board should base the rate on charges made by the reserve banks, both for district and other items, and an additional amount to cover a similar cost entailed by the member bank as to overhead charges, stationery, etc. This rate, which may be made dependent on the amount of the checks only, shall be considered to be the maximum rate which the member bank may be permitted to charge under the act, but it is recommended that the words in section 16, page 19, line 46. "to be collected," be, by rule, construed to mean "may be collected." Otherwise depositors in member banks would withdraw their deposits and place them with nonmembers not required to make such charges.

Charges should be made by the reserve banks against member banks as near as possible to the 1st of each month covering the costs of the preceding month. The charges that are to be made by member banks against their patrons should be based, as provided, on the original costs; but they should be at rates fixed annually to cover such charges with sufficient margin only to allow for slight monthly variations. Every member bank should be permitted to make its own charges against depositors who draw against uncollected funds, or against non-depositors for cashing or collecting checks and drafts. Charges provided in the act should not be construed to cover notes, sight drafts, coupons, or other paper commonly known as "collections," but should cover checks and bank drafts only.

OTHER RULES AND REGULATIONS.

One provision in the Federal reserve act specifies that—

"The Federal reserve bank * * * shall have power—

"Third. To make contracts.

"Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. 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."

In accordance with these powers, it is recommended that as soon as the recommendations herein contained, or similar recommendations, have been officially adopted by the Federal Reserve Board, each Federal reserve bank shall send to each member bank a printed agreement which each member shall sign by its president and cashier. This agreement (subject to change in the details of the clearing plan finally adopted) should be somewhat as follows:

"In order that the provisions of the Federal reserve act affecting the deposit of funds by member banks, the collection and clearing of checks and drafts, and the fixing of charges therefor may be efficiently and economically administered, the ——— National Bank, member of the reserve bank of ———, here-with agrees to be bound by the following rules:

"1. All items shall be deposited on such forms and in such manner as shall be prescribed by the Federal reserve bank, and failure to do so, or any errors made in such deposits, shall subject the member bank to a reasonable fine.

"2. Members agree not to deposit with the Federal reserve bank checks on other member banks within 25 miles of such member bank, except where specifically permitted by the reserve bank, or except that this rule shall not be construed to apply to members which are within 25 miles of the reserve bank. Members situated in the same city with the reserve bank shall not deposit checks and drafts on other member banks in that city, unless such members are not members of the clearing house. (This rule is inserted as a result of the belief that it will be found expedient to give to the reserve bank the power to refuse to accept such items as would better be collected through local clearing houses or branch banks.)

"3. It is agreed that the Federal reserve bank may send all items direct to the member bank on which they are drawn.

"4. Items received after the time fixed for the receipt of such items shall be held over until the following day, and notice sent to the member bank.

"5. The accounts of members will be charged, upon notice, with items lost in the mails or otherwise, and upon request members shall secure duplicates.

"6. Items accompanied by special instructions, such as "no protest," "wire nonpayment," etc., shall have firmly affixed a slip bearing such instructions, and in addition each item shall be plainly stamped with a mark indicating such instructions. Other than this no confirmation of instructions shall be required on the letter.

"7. The member bank undersigned hereby agrees that the clearing indorsement stamp used by it on all checks deposited with the reserve bank guarantees all prior indorsements.

"8. Items unpaid are to be returned direct to the member bank which originally deposited such items with any Federal reserve bank, and proper notice is to be sent to the reserve bank from which such items were received.

"9. The member bank undersigned agrees that all checks and drafts payable at such bank shall be charged against the balance standing to its credit with the reserve bank on the day of receipt of such items by the member bank.

"10. The reserve bank shall charge interest at ——— per cent above the current discount rates for all drafts or debits against member banks' balances when such balances are below the net amount of collected funds standing to the credit of such members.

"11. A daily statement of charges and credits will be sufficient advice and acknowledgment of all transactions."

GENERAL SUGGESTIONS.

The plans and forms prepared for the clearing functions of the Federal reserve system have been so shaped that no change in principle will be necessary after branch reserve banks are established. It has been thought wise not to arrange clearing plans for branch banks at this time, since such banks will not be in operation for some time following the organization of the reserve banks, and a short experience with the system will demonstrate to what extent branch banks will undertake the clearing and collection of checks. It is probable that

they will receive checks on deposit from members in the same city only, and will receive checks on members from other reserve banks only when such members are farther distant than one night's mail from the Federal reserve bank of the district. Again, there may be branches established which may clear a limited territory not easily accessible to or from the reserve bank. Such clearing, however, should be strictly local, and these branch banks should not receive items on deposit payable in other districts, nor should other Federal reserve banks send them items except (perhaps) those payable in the city where the branch bank is located.

Whatever may be the business transactions to be developed between a Federal reserve bank and branch banks of another district, the clearing relations between the reserve banks will not be altered, since all such transactions will be credited or debited on the books of the main banks, proper advices forwarded, and adjustment made between the reserve bank and its branch affected.

If that plan be deemed expedient, the work of clearing may be developed gradually. At first the Federal reserve banks might limit the items received for collection to those payable in the larger cities in the district, extending the service until the entire district is covered. Drafts on all Federal reserve banks should be accepted from the first, but no items payable in other districts should be accepted until the machinery is working smoothly, and this service should then be extended in the same manner that is suggested for each individual district. Member banks on which checks might be accepted at the beginning should be permitted to deposit items payable in other districts. This would enable them to meet the checks drawn against them and would make it possible to develop the exchange relations between the Federal reserve banks at the outset.

On account of geographical and railroad limitations situations will arise in every district where it will not be feasible for member banks to send checks on other member banks to the Federal reserve banks. Each such case will need to be adjusted according to conditions, either through branch banks or by reciprocal relations established between the member banks, settlement being arranged by a system of transfers. There are sections—as, for example, the State of Mississippi—where the nonmember banks will so far outnumber the member banks that a hardship will be imposed upon members unless they find relief through the assistance of the Federal reserve bank of the district, which might establish local offices at many centers and accept and collect checks on nonmember banks.

A list of member State banks and trust companies should be sent to each member bank and a monthly supplement showing additions furnished. A list of nonmember national banks may also for a time be required. A large map should be furnished all members at cost showing the district limits, mail time between Federal reserve banks, variation in time used, expressage and telegraphic rates, and such other information as may be found expedient.

It is recommended that a standard form of draft be required for use by each member bank in drawing on its reserve bank, and if each reserve bank should adopt a different color of paper upon which the drafts are to be printed it would promote convenience in assorting these items and would tend to prevent misrouting. It would also serve as an example to the banks and make it easier later to provide a color system applying to all checks.

Arrangements could be made with the Bureau of Engraving and Printing to prepare the drafts on the Federal reserve banks for members at cost. Uniformity would thus be assured.

A large item of expense and a great source of annoyance and delay to all large banks is the daily weighing and stamping of letters containing checks and drafts sent out each night. This work will be greatly increased in the reserve banks and will constitute quite an item of expense as to labor. The Post Office Department should be consulted and arrangements made whereby the Federal reserve banks would be authorized to send out letters containing checks and other remittances at first-class rates, the payment to be made by bulk weight. This would also be a convenience to the Post Office Department, since it would not be necessary to test the letters as to the correct amount of postage used, and some economy would be effected in the preparation and sale of postage stamps.

CHECKS ON NONMEMBER BANKS.

There is nothing in the act that prohibits the acceptance by Federal reserve banks from members of deposits of checks payable by nonmember institutions.

By accepting such items to a limited extent clearings could be equalized at times between the reserve banks, thus avoiding the transfer of gold to the clearing house. Also, exorbitant exchange rates on the part of nonmembers could be checked wherever there is a member bank in the same town by having such member collect checks on the nonmember bank or banks for other members through the Federal reserve banks.

AN ALTERNATIVE PLAN.

Many suggestions have been presented with reference to the matter of handling clearings of the Federal reserve banks. It has been found that probably the greatest difference of opinion concerns the manner of dealing with the transit problem. In view of the fact that the precise scope of the banks' operations has not been determined, it is therefore considered worth while to offer for consideration an alternative plan for the clearance of transit items differing from the one set forth above. The main feature to be considered in this connection will be found to relate to the time at which the items are to be credited to reserves by the several banks.

In support of this alternative plan it is argued that if the purpose is to shape the operations of the Federal reserve banks so that the growth of the member banks will reflect itself in the Federal reserve banks, it would appear advisable to afford special advantages to the member banks which would encourage their maintaining larger balances than required by law with the reserve banks.

Any plan which would assist in placing member banks in a more favorable position than nonmember banks in the clearance of transit items at par and at the same time extend the privilege to the member banks of an immediate settlement for such items should receive careful consideration, inasmuch as it would without question stimulate more widespread interest in the Federal reserve system and make its membership more attractive.

The essential point of the plan is:

Clearance at par, with immediate credit in the reserve accounts of member banks for such items as they may forward for collection to the Federal reserve bank of their district and which are drawn upon—

- (a) Member banks of their own district.
- (b) Federal reserve banks of other districts.
- (c) Member banks of other districts.

In order that this may be effected, an immediate settlement for such items would be obtained by the Federal reserve banks in the following manner:

MEMBER BANKS OF THEIR OWN DISTRICT.

Items drawn upon member banks located within the district in which the Federal reserve bank is situated will be charged against their accounts upon the day of forwarding.

FEDERAL RESERVE BANKS AND MEMBER BANKS OF OTHER DISTRICTS.

1. A certain portion of the gold reserve of the Federal reserve banks would be concentrated at Washington, preferably with the Secretary of the Treasury, as chairman of the board, who would maintain a ledger record of the balance of gold reserve belonging to each bank.

2. The Federal reserve agents would authenticate each day the transit operations of the Federal reserve banks and forward a descriptive statement to the Secretary of the Treasury, which would enable him to record the debits and credits in the gold reserve of the different Federal reserve banks. This would place the Secretary of the Treasury in a position to assemble the entries of all the Federal reserve agents, with the result that the Federal Reserve Board would maintain the gold reserves in 12 accounts, so that the transfers of gold would be by book entries and shipments would be reduced to a minimum.

3. Each Federal reserve bank would carry an account upon its books known as "Transit account," the account being upon a daily liquidating basis, as the balance resulting from the transactions would mean either a credit or a debit to the reserve account of "Gold reserve with Secretary of the Treasury." The credits to transit account would consist of remittance letters received from other Federal reserve banks, while the debits would be the total of the cash letters in process of being forwarded for collection to other Federal reserve

banks. The result of this would be, say, in the event that the Federal reserve bank of Chicago received remittance letters for collection greater in amount than the total of the cash letters forwarded by it, that the credit balance in the account would be liquidated by passing its equivalent to the credit of "Gold reserve with Secretary of the Treasury," thereby reducing the gold reserve to cover the transit transactions of the day.

From this brief outline it will be noted that an immediate settlement has been obtained for the transit items and that "Outstanding time" has been eliminated by the expedient of book entries in the gold reserve, such entries having been authenticated by the Federal reserve agent.

Further details of the plan would be:

(a) The ledger record of the Secretary of the Treasury would be so designed that a carbon copy would constitute a daily statement to the Federal reserve banks of the debits and credits entering their balances of gold reserve. This would also enable the Federal reserve banks to check such entries and likewise place them in close touch with the condition of the account.

(b) The credit and debit entries which would appear upon the daily statement of the Federal reserve agent to the Secretary of the Treasury would be obtained by means of a form prepared in quadruplicate for use of the book-keeping department of the Federal reserve banks.

(c) Federal reserve notes would be listed upon a separate letter and included in the total of the outgoing remittances.

(d) Unpaid cash items would be charged to the transit department, where they would be listed upon a separate letter and included in the total of the outgoing remittances for the day.

(e) Cash letters from Federal reserve banks or member banks would be credited only when received in time for use the same day.

(f) Checks received by member banks which are payable within a certain radius, to be determined by the Federal Reserve Board, would not be forwarded for credit to the Federal reserve bank of their district.

(g) The usual reciprocal accounts subject to check would be maintained by the different Federal reserve banks for the purpose of collection of drafts, notes, coupons, etc.

(h) Telegraphic transfers up to a certain amount may be made through the reciprocal accounts, while for larger amounts it would be advisable to use the existing subtreasuries or the medium of book transfers in the gold reserve at Washington.

(i) Errors in listing, etc., would be adjusted by means of claim tickets, to be drawn and approved by the auditor and signed by an officer of the bank.

(j) To defray the expense of labor, stationery, postage, depreciation of equipment, etc., it would appear advisable to assess the member banks upon the basis of the volume of business handled as compared with the expense involved.

(k) In view of the special advantages afforded member banks under the proposed plan, and to confine such advantages to banks in the Federal reserve system, member banks should be prohibited from depositing transit items which in turn have been deposited with them by nonmember banks.

The indorsement stamp of the member banks would be:

Pay to the Order of
Federal Reserve Bank, Chicago, Illinois,
May 28, 1914,
Indorsements Guaranteed
(Name of Member Bank)

while the indorsement stamps of the Federal reserve banks would be:

Pay to the Order of
Any Member Bank District No. 2
May 28, 1914,
Indorsements Guaranteed
Federal Reserve Bank
New York, N. Y.

Pay to the Order of
Any Federal Reserve Bank
May 28, 1914,
Indorsements Guaranteed
Federal Reserve Bank
New York, N. Y.

The accounting forms necessary to facilitate the prompt and efficient handling of this alternative plan will be found in portfolio of Forms No. II, accompanying Appendix II, with which this plan is correlated.

QUESTION OF TIME IN COLLECTION.

The usual method employed at the present time in the collection of transit items contains as a most important factor the matter of "Outstanding time," inasmuch as the banks are obliged to await the receipt of returns covering the settlement of such items as may have been forwarded to correspondents for collection. Theoretically speaking, this burden should be borne by the depositors of the banks, as it would not be sound banking to permit the withdrawal of funds in the course of collection, but from a practical standpoint it would be difficult to educate depositors not to check against outstanding items and must so regulate their books that they may know at all times what their checking balance really is.

Under the first plan discussed above, namely, that of withholding outstanding transit items from reserve balances of member banks until such time as the checks are theoretically collected, the problem of outstanding time is admitted, but only partially solved by the decision that in order to lessen the burden upon the member banks the outstanding time be cut in two; that is, the checks will be permitted to enter the reserve balances of the member banks upon the theoretical day of collection.

The first plan proposes as an offset to the deduction of transit items from the reserve balances to defer charging items drawn upon member banks until such time as they have been received, thereby establishing a basis of equality.

For the purpose of carrying out the project, each member bank, in addition to the Federal reserve banks, must, as already explained, be equipped with time schedules indicative of the days necessary for the collection of checks, and upon the days of maturity, when the items are supposed to be paid, entries would be made upon both the books of the member banks and the Federal reserve banks, a plan which would enable the collected items to serve as reserve for the member banks; while in like manner the checks which are forwarded by the Federal reserve banks to the member banks, in accordance with the pre-arranged schedule, would be charged against the balances of the member banks upon the day they are supposed to have been received.

The committee has been at pains to secure criticisms upon the transit problem and finds that the idea of withholding credit until items are collected is thought by many to have the following disadvantages:

1. It places a discount upon such inland exchange as may require Federal reserve banks one day or more to collect.

2. It similarly places a comparative premium upon such exchange as may be drawn upon member banks located within the cities in which the Federal reserve banks are situated.

3. It might tend to discourage member banks from using the facilities of the Federal reserve banks, with the result that they might either withdraw from the system or maintain the exact amount of reserve required by the act.

4. It might render the transit system of the Federal reserve banks more complex and to result in confusion if not skillfully conducted.

5. It might entail additional labor.

6. It might mean the maintenance of subsidiary records, both in the Federal reserve banks and in the member banks.

7. It might be difficult of proof.

8. The most carefully planned time schedule would be only approximate.

9. The return of unpaid items from one member bank direct to another, when the items were originally forwarded by the Federal reserve bank for credit, might result in error.

VIEWS OF A TRANSIT EXPERT.

By way of further elucidating the main points at issue in this matter the committee, without expressing final opinion, thinks best to include in this report the following letter from an eminent clearing and transit expert to whom this subject was referred with a request for an opinion:

"In compliance with your request, I have gone over the plan submitted to me regarding the method of handling items through the Federal reserve banks, and beg to submit the following suggestions:

"(1) REGARDING THE RELATIONS BETWEEN THE FEDERAL RESERVE BANKS AND THEIR MEMBERS IN THE SAME CITY.

"As Federal reserve banks will not handle items on nonmember banks or receive any items from nonmember banks, there does not appear to be any

necessity for a Federal reserve bank joining the clearing house in the city in which it is located. Items which the Federal reserve bank will have on member banks in its own city can be charged to their accounts with the Federal reserve bank and a time allowance made the member bank for the redemption of unpaid items.

"Items on member banks which fall into the hands of nonmember banks can be collected through the clearing house as at present. The only service which would be rendered by the Federal reserve bank through the clearing house would be the facility of member banks settling their balances with each other by checks on the Federal reserve bank.

"Checks on the Federal reserve bank which may fall into the hands of nonmember banks can be deposited in the member banks, and it is probable that nonmember banks in the Federal reserve cities will carry accounts with member banks. They will either have to do this to get the items cleared or will have to become members of the Federal reserve system themselves.

"If the Federal reserve banks should allow clearings between nonmember banks and themselves, this would remove a strong reason for nonmember banks becoming members.

"Checks on member banks which are not members of the clearing house in the Federal reserve cities should be received on deposit by Federal reserve banks. This would provide a place of redemption for items on outlying member banks, many of which are located several miles from the downtown district and whose items have to be collected either by mail or messenger, and would also provide a place of payment for the downtown member banks which are not members of the clearing house. This would be a great accommodation to the member banks, as considerable difficulty is experienced in handling the items of outlying banks.

"When clearing-house balances are settled through the Federal reserve bank, payment should be made by checks on the Federal reserve banks rather than by memorandum showing debtor and creditor balances, as then no dispute could arise in making settlement.

"(2) RELATIONS BETWEEN THE FEDERAL RESERVE BANKS AND THEIR MEMBERS OUTSIDE OF THE FEDERAL RESERVE CITIES.

"In assorting the items for deposit in the Federal reserve banks there does not seem to be any necessity to sort the items according to the States, as State lines have not been used in outlining the districts.

"With reference to 'no protest' and 'wire nonpayment' instructions, besides having the items so marked, these instructions should also be written on the letter accompanying the items, as otherwise the receiving bank would claim the instructions were not given and the sending bank would not have the item to prove they had been given.

"With regard to the clearing system to be used in each Federal reserve bank, if we are going to have a clearing system, why not make it complete instead of going only halfway? All items received by a Federal reserve bank drawn on members in its own district should be credited when deposited to the reserve account of the depositing member bank and charged at the same time to the reserve account of the member banks upon which the checks are drawn, thus doing away with a lot of unnecessary work for the member banks, as well as the Federal reserve banks, in figuring the time taken for the items to reach their destination.

"The system for clearing these items should be as simple as possible, with a minimum amount of clerical work, otherwise the member banks will clear their items through outside banks and will not put them in the Federal reserve bank. The items going through the Federal reserve bank on points in its own district will not change the deposits of the Federal reserve bank. They will only increase the balances of member banks on one side and decrease them on the other.

"The reserve balances of member banks will increase in the Federal reserve bank just as much as they will decrease, and it is quite likely in the course of business that the reserve banks will carry more than the required amount of reserve with the Federal reserve banks, and, instead of having to continually make up their reserve, there will be just as much necessity for reducing the accumulations in the reserve account.

"Items on member banks outside of the depositing member bank's district should not count as reserve, as the reserve bank will have no account to reimburse itself from when the items are deposited. A separate account should be

carried for each member bank which deposits items on member banks outside of its own district, as these items will be paid by a method described under the heading 'Relations between Federal reserve banks themselves,' and the transit account of the member bank will be charged and the reserve account credited.

"The transit accounts should be used only for items which are deposited on member banks outside of the district and on other Federal reserve banks.

"Member banks should not draw checks on the transit account, but should draw all checks on the reserve account. This would do away with any necessity for figuring a discount rate of interest if the transit accounts should be drawn below the amount of collected funds.

"As the member bank itself is the only one which knows the amount its reserve should be, the Federal reserve banks can not ascertain whether a bank is drawing below its reserve or not, except when reports are received from the national-bank examiner. It is up to the member banks to control their own reserves and to the bank examiner to see that they live up to the law in this respect.

(3) RELATIONS BETWEEN THE FEDERAL RESERVE BANKS THEMSELVES.

"Items sent from one Federal reserve bank to another should bear the indorsements of Federal reserve banks which handle, so that it may be known from the check how it has been routed. This is particularly necessary if items are misssent.

"With regard to clearing items between the Federal reserve banks, a system is suggested under which no Federal reserve bank will have to open an account with another. Instead each Federal reserve bank will carry an account with the Federal reserve bank to be selected as the central clearing bank.

"The Federal reserve bank of Chicago is well situated to act as the clearing bank on account of its central location and the excellent transportation facilities between all the Federal reserve cities.

"The suggested plan of carrying a portion of the gold reserve of the Federal reserve banks in Washington would require the shipment of an enormous amount of gold from all the Federal reserve cities, which, besides being a great expense, as some of the gold would have to come from as far away as San Francisco, would also take away the gold from the West, where it is needed for circulation. On the Pacific coast probably less than 10 per cent of the circulation is in paper money.

"Under the present United States subtreasury system gold is divided among nine cities from New York to San Francisco, and it would seem advisable to leave it where it is, so that when it has to be shipped to member banks it will not have to go far and the express rate will be reduced to a minimum.

"It is also desirable to hold the expense of the Federal reserve bank down as far as possible, in view of the fact that there are 12 banks, each with a separate organization, which will create a large overhead expense.

"The Federal reserve bank which will act as the clearing bank will have little or no expense attached to this part of its business and it would only make an unnecessary additional expense by depositing the reserves in Washington.

"Under the attached plan proposed reserve banks could make up the deficiencies in their balances carried with the clearing reserve bank by purchasing exchange, and gold shipments would be less necessary under this plan than they would be if the plan is adopted of carrying the reserves in Washington.

"Under the plan of clearing through a Federal reserve bank each Federal reserve bank would know how it stood at the end of each day's business, as the items would be cleared and settled for every day. The cost of buying exchange to increase balances with the clearing Federal reserve bank could be assessed on the member banks which deposited the items in each Federal reserve bank and could be added by the Federal reserve bank to the cost of handling the checks for the member banks, and in turn charged to the drawers of the checks by the member banks, provided they saw fit to charge the drawers.

"It is, however, likely that a member bank would absorb this cost itself, except where the drawers do not carry satisfactory accounts.

"With regard to the incidental rules, regulations, etc., it does not seem desirable to fix a limit of 25 miles from each member bank, thus denying the member bank the privileges of the Federal reserve bank for the collection of items on banks located within 25 miles of the member bank. Inasmuch as the items can be charged up to the account of the bank upon which they are drawn when they are deposited, checks will reach the Federal reserve bank for pres-

entation in nearly all cases just as quickly as they would reach the bank upon which drawn if sent direct by the member bank.

"Members situated in the Federal reserve cities should be permitted to deposit items on other member banks in the same city provided the depositing bank or the member bank upon which the checks are drawn is not a member of the local clearing house.

"Referring to items bearing 'No protest' and 'Wire nonpayment' instructions, the instructions should appear on the letters accompanying the items.

"Provisions regarding charging interest when balances are below the net amount of collected funds should be omitted, as previously explained.

"It would be very unsatisfactory to the member banks if the Federal reserve banks when they first start business receive items on only certain banks in the larger cities in the districts. These banks would be compelled to ship currency or buy exchange to settle for the items charged to their account by the Federal reserve bank, as they would not in turn be able to deposit items which they would have on all the other member banks in the district. Instead of picking out a number of the larger cities to start with, the Federal reserve banks could take a certain number of counties in each State and gradually increase the number until the whole district was covered. In this way there would be very little burden upon member banks, as the items would be cleared in certain zones in which the members would have items drawn on each other.

"With regard to checks on nonmember banks, I can find nothing in the act which permits the acceptance by Federal reserve banks of items for deposit drawn on nonmember banks. If the act can be construed to permit Federal reserve banks to receive such items, I do not think it would be good policy, as there would be a much greater chance for nonmember banks becoming members if the checks were not handled by the Federal reserve banks than if these facilities were extended.

"Checks on nonmember banks will circulate at a discount and it is quite probable that nonmember banks will arrange for a place of redemption for their checks through the clearing houses in the Federal reserve cities in the effort to make their checks circulate on a par with the items on member banks of the Federal reserve system."

BUSINESS OF FEDERAL RESERVE BANKS.

The business operations of the Federal reserve banks will be fundamentally of two distinct kinds:

1. Rediscounting for member banks.

2. Purchasing specified kinds of paper in the open market under the conditions provided by the act itself.

From another point of view the business operations may be divided as follows:

1. Domestic transactions.

2. Foreign exchange transactions.

The subject may first be considered under the latter division and then inquiry may be made as to how the business should be viewed from the point of view of the division or classification first suggested.

DOMESTIC BUSINESS.

The domestic business of the reserve banks will, as stated, consist primarily in the rediscounting of paper for member banks and in the purchase of paper in the open market. In either case the question is raised how the act must be regarded as applying to the nature of the paper dealt in. As will be seen from a survey of its provisions, the framers of the measure attempted to throw about the rediscount and open-market transactions a series of very careful and detailed restrictions intended to assure the liquidity and unquestionable commercial character of the obligations which were thus taken over by the reserve banks.

COMMERCIAL PAPER.

It is recognized that the question what should be accepted as commercial paper eligible for rediscount under the act is one of great difficulty, as well as one which must inevitably affect in a very profound way the operations of the reserve banks from the beginning.

"Upon the indorsement of any of its member banks, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual transac-

tions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this act."

Later (in sec. 14) Federal reserve banks are given power to—

"Purchase and sell in the open market at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this act made eligible for rediscount, with or without the indorsement of a member bank."

There are other provisions in the act which limit or modify these fundamental clauses, but consideration of them may be deferred for the present.

According as the "character of the paper thus eligible for discount" is defined, the scope of the business to be granted to the banks and to be undertaken by them will be greater or less and the volume of their operations, and consequently the extent of their aid to the community, will be greater or less. Various questions of a specific nature, therefore, arise at once, of which the following may be mentioned:

1. What is commercial paper in the sense in which the term is used to-day?
2. Is this popular definition correct, and should it be accepted by the reserve board?
3. If not correct, can an immediate change in definition safely be made?
4. Is there any need for different treatment of the paper made available for rediscount with the indorsement of a member bank and that to be purchased in the open market?
5. What is a commercial, agricultural, or industrial transaction?
6. To what classes of paper does it normally give rise, and how can a banker assure himself that a given piece of paper had arisen from such a transaction?
7. What distinction, if any, should be drawn between paper that grows out of such a transaction and paper whose proceeds are to be used in such a transaction?

By answering these questions the basis will have been provided for a thorough analysis of the provisions of the Federal reserve act in regard to the use of commercial paper as a basis for rediscount.

The language used in the section of the Federal reserve act with reference to commercial paper is modeled upon language used in many proposals of legislation which preceded the reserve act and whose purpose was that of sufficiently limiting the types of paper presented for rediscount so as to avoid the use of bank funds in two general classes of transactions. The language was intended to be negative rather than positive, and the two types of transactions which were regarded with disfavor were the following:

(a) Those growing out of speculative transactions or involving the use of funds for promotion of speculation.

(b) Those involving the regular, steady provision of capital for investment purposes with the idea of supplying to different enterprises an additional element of business support quite different from the mere use of banking as an aid to the financing of current transactions.

Of course, in addition to these negative limitations it was intended by the language employed to prevent the banks from rediscounting paper that necessitated a too remote maturity and naturally to avoid the rediscounting of paper whose soundness was not altogether assured.

At the present time commercial paper as employed by credit institutions and banks generally includes the following types:

(a) Ordinary notes signed by an individual, firm, or corporation and promising to pay a specified amount either on demand or at a stated time.

(b) Drafts secured by documents (bills of lading, etc.) which are discounted by banks and which bear two commercial names.

(c) Ordinary notes signed by individuals, firms, or corporations either on demand or on time and protected by stock, bonds, or other collateral with a collateral loan agreement.

(d) Ordinary notes of the kind already specified protected by a chattel mortgage on crops and the like.

Investigation shows that of these types of what is ordinarily called commercial paper to-day the ordinary single-name paper constitutes a substantial proportion. Opinions differ as to the relative amount of this paper as compared with other classes, but there is general agreement as to its importance.

Some large concerns estimate that fully 90 per cent of their business is transacted on the basis of such single-name paper. The commercial transactions growing out of or represented by such paper are in general as shown in the following hypothetical case:

A. purchases goods for his fall trade amounting to, say, \$1,000,000 from the X. Y. Z. Co., of New York City. These are bought on open account with, say, 90 days' credit. A. gives no paper in exchange for them, the seller having simply his general knowledge of A.'s credit to protect him. The X. Y. Z. Co., however, offers A. a discount for cash within a specified time (say 30 days), and an additional discount for immediate cash (say within 10 days). In order to get this cash A. applies to his bank, making a full statement of his transactions, and is granted a loan, for which he gives ordinary promissory notes. With the funds thus obtained he pays off the X. Y. Z. Co., getting the advantage of the discount, then settles with the bank as the goods are taken up by consumers and paid for. The transaction is distinctly a "commercial" one, and the paper growing out of it is commercial paper in the ordinary sense. In Europe, however, the X. Y. Z. corporation would have insisted upon being paid by a note signed by A., and would then have sold this paper or discounted it. Or A. might have induced his bank to accept drafts from the X. Y. Z. Co. (properly protecting the institution), in which case the paper would have been an acceptance bearing the name of the bank and the X. Y. Z. Co. It is desirable to stimulate the growth of true commercial paper of the latter class as rapidly as possible for several reasons. The closing up of the transaction by the giving of the paper is in itself a good thing, leading to conservatism and caution in the business. The tendency of this method is also to distribute loans much more widely, thereby creating a much better and more even division of business among banks. The paper thus created can be sold and traded in, and thereby a wider market, with much greater competition and consequently lower rates of interest, can be secured. Furthermore, such paper bears on its face, ordinarily, the certification that it grows out of a real "commercial transaction." The effort should undoubtedly be to work steadily toward a situation which would encourage the development of this kind of paper and would eliminate or reduce as rapidly as possible the present method of trading on the basis of one-name paper.

SINGLE-NAME PAPER PROVIDED FOR.

The conclusion that seems to be necessarily reached in connection with this subject, however, is that the Federal reserve act distinctly contemplates and provides for the use not only of two-name but also of single-name commercial paper. This is seen in the fact that the act in the sections already referred to provides for the rediscounting not only of paper whose proceeds have been used in the particular classes of transactions referred to, but also of that whose proceeds are "to be used" in that connection. At one time during the progress of the bill through Congress the provision was even broadened by the insertion of words including for rediscount such paper as might give rise to funds which "may be used" for the purposes referred to in the act. It is believed, therefore, that Congress clearly and unequivocally intended to recognize under the provisions of the law both classes of paper. This, however, was upon the distinct understanding that such paper, whether it bore one or more names, was not to be admitted to rediscount unless it evidently arose from the classes of transactions referred to or was so clearly for the purpose of providing funds for such transaction as to admit of no doubt.

In the second place, however, it is believed that paper carrying two names bears on the face of it the evidence of a strictly commercial origin which single-name paper never can, without collateral evidence, supply. There is, therefore, a prima facie case in favor of two-name paper which does not exist in that of single-name, and the question is suggested how single-name paper, when admitted to rediscount, as it evidently must be under the terms of the law, shall be prevented from being used as a means to obtain current capital or to furnish the basis for speculative operations. Various methods have been currently suggested, among them the plan of requiring each piece of paper thus presented for rediscount to be accompanied by a certificate on the part of its maker, or of the indorsing bank, or both, that it has originated in connection with a transaction of the permitted kind. Another method that has been put forward is to require such a general certificate on the part of each borrower, insisting that such certificate be made once and for all, or perhaps at periodical

intervals. Still another suggested plan is that of employing a form of note which shall incorporate into its own text a statement that it represents funds whose use is desired for a transaction of the permitted class. Of these various suggestions the latter is perhaps the best, and there may be no harm in putting it into effect, but neither it nor any of its predecessors would be likely to meet the requirements of the case completely. It is believed that this end can be accomplished only by some process that will give absolute assurance of the use of the funds advanced by the reserve banks in the way contemplated by the law. Clearly, however, the absolute assurance that the particular sum of money advanced by the banks on rediscounted paper has been used in the way prescribed can not be obtained in practice, nor is there any use in obtaining it, if there be certainty that an equal sum drawn from the liquid resources of the concern receiving the advance is so applied. The purpose of the Federal reserve act is thus fundamentally satisfied if evidence be given that the advances made are made for a commercial purpose as shown by the fact that the person or concern in whose favor they are made is engaged in actual business of the kind referred to and is in a liquid condition. This fact can be ascertained only by a direct audit of the affairs of the concern, repeated as frequently as circumstances may require, in order to renew the assurance of liquidity, which is regarded as the fundamental and essential test of the good faith of the concern in making application for funds, not to furnish capital for new enterprises or to take the place of capital that has been sunk, but to carry through short-period transactions.

A suggestion to which very considerable attention has been granted in responsible quarters is that of establishing through action on the part of the Reserve Board a so-called "differential rate" on commercial paper of the classes referred to, the rate required to be charged by Federal reserve banks for the rediscount of single-name paper being fixed at, say, one-fourth of 1 per cent or perhaps at one-half per cent higher than that to be charged for two-name paper, the paper of the two classes being supposed to be of equal safety, and the difference in rate being designed merely to discriminate in favor of two-name paper. This would probably be as effective a means as any for accelerating the movement of the business community toward the substitution of double-name for single-name paper. Precisely how great the discrimination in rate would have to be, and precisely how far it would need to be varied between the several Federal reserve districts, is a question that can not positively be answered pending the definite organization of the districts and the creation of the banks as working units in each of them. The idea is merely suggested here as indicating a feasible and desirable mode of bringing about the end in view, assuming of course that the application of the method is careful so that no injustice may be done through the charging of the higher rate to the paper which is less favorably regarded.

Still another plan is that of restricting the total amount of single-name paper admitted to rediscount to a given percentage of the gross rediscounts of the reserve bank in question. This plan has been carefully considered and is believed to be desirable. The estimates that have been made by authoritative persons concerning the proper amount of single-name paper in relation to two-name vary considerably, some taking the ground that not to exceed 25 per cent of the total rediscounts should consist of single-name and others that not less than 50 per cent might safely be allowed to consist of that kind of paper. It is believed that no definite percentage of this kind applicable to the whole country could be fairly established. Inquiry has shown quite conclusively that in some parts of the country there is much more two-name paper than elsewhere, business habits having developed somewhat differently in different communities. The restriction of the relative proportions of two-name and single-name paper, through rules to be issued by the Federal Reserve Board and to be applied by the boards of directors of the several Federal reserve banks, can be scientifically developed when it is seen through the early experience of the banks in about what proportions the two classes of paper are presented for rediscount. It may easily appear that the proportions in which the paper is offered to the Federal reserve banks will vary quite materially from those in which it has heretofore been offered to individual or member banks. No definite relationship can be laid down with certainty in advance. It can only be stated that wherever possible the proportion of single-name paper allowed to figure in the rediscounts of a Federal reserve bank should be confined to the lowest basis consistent with the welfare and convenience of the business community.

A proposal worthy of mention in this same connection, but requiring care in its consideration, is that note brokers who sell single-name paper to banks of the Federal reserve system shall be required personally to indorse the paper they thus dispose of. In support of this proposition it is urged that the custom prevailed in Europe and has been found effective there. This is only partially true, conditions being quite different abroad from what they are here, but it is probably the case that everything possible should be done to stimulate a greater degree of responsibility on the part of note brokers. At present there are many individuals and concerns in the note-broking business whose financial responsibilities may be a matter of some doubt and whose principal effort is to dispose of as much paper as they can, thereby securing for themselves the largest possible amount of commissions. On the other hand, it seems hardly desirable to take a step that would tend to produce a condition of monopoly or semimonopoly in the note business. To require indorsements of the kind referred to would undoubtedly tend to drive the smaller concerns out of business and would likewise tend to promote the formation of very large corporations organized for the purpose of lending their signatures to commercial paper, thus making it available for use by reserve banks. In this same group of suggestions is the recommendation that the note broker whose paper is purchased by the reserve banks through member banks shall be required to be regularly examined and audited by a satisfactory accountant. There is no objection to this requirement, provided that it be properly applied and that the audit or examination be made under conditions that will not be unreasonably onerous or of a nature to entail unnecessary or excessive expense upon the broker.

GENERAL SUMMARY.

Summarizing these suggestions, therefore, we may first enumerate the recommendations which it is believed are at all events not feasible at the present time.

1. Exclusion of single-name paper whose proceeds are "to be used" for commercial purposes.

2. Narrow definition of the words "agricultural, commercial, or industrial purposes" or transactions.

The purposes which should undoubtedly be sought and the recommendations corresponding thereto are as follows:

1. Exclusion of all paper of every kind from rediscount unless those responsible for it are able to make good the contention that its proceeds are intended for facilitating or carrying out a genuine current business transaction of a kind that shall be self-liquidating within the period set by the language of the act.

2. Requirement of all possible classes of information on the part of bankers, note brokers, and others bearing upon the origin of the paper offered for rediscount and the purposes to which its proceeds are to be applied.

The detailed methods that have been suggested for the attainment of these objects and which it is believed will prove more or less useful are as follows:

1. Regular audit of firms or corporations placing single-name paper on the market in order to assure their absolute liquidity and solvency and the liquidity of its assets.

2. Regular audit of note brokers in order to insure absolute knowledge of broker's responsibility.

3. Indorsement by note broker of all paper passing through his hands and ultimately presented for rediscount.

4. Restriction of single-name paper to specified percentage, say, 25 to 50 per cent of total paper rediscounted by a reserve bank.

5. Establishment of differential rate of rediscount for single-name and two-name paper in order to favor the latter type of security.

6. Use of specified form of note or certificate intended to indicate type of transaction giving rise to paper.

The following points at least are, however, deemed essential in determining the practice to be followed by reserve banks:

1. Commercial paper must be broadly defined as including two-name paper given in lieu of cash for goods sold and bearing the name of maker and indorser. If discounted, and single-name paper which is largely discounted or sold to provide cash in anticipation of future purchases and sales. Where the price of the commodity involved has been fixed, two-name paper, so far as the seller is concerned, represents a closed transaction, whereas in the use of single-name

paper, representing as it does principally money borrowed for future transactions, the price remains to be fixed by seasonal demand and trade limitations.

2. From an economic standpoint, two-name paper may be regarded as having no inherent quality that will develop inflation, while single-name paper, involving, as previously stated, future transactions, may (though not necessarily) promote speculation and thus develop price inflation. Member banks, therefore, should carefully analyze the business on which single-name paper is to be predicated, differentiating sharply, for purposes of rediscount, between that which is to be used to finance accounts receivable, or strictly seasonal requirements, and that which is to finance a floating debt or be used for the extension of business that can not be readily liquidated.

3. Single-name paper, secured or unsecured, must bear the name of a solvent party whose responsibility is secured by the filing of a satisfactory statement made within one year prior to the date of the discount or by the filing of a certified copy of such a statement by a responsible person who is in possession of the original.

4. Such paper must bear the indorsement of a member bank and be accompanied by a statement attached to its schedule of application for rediscounts, signed by an officer of said bank, to the effect that to said officer's best knowledge and belief the proceeds of the notes discounted have been or are to be used for commercial, industrial, or agricultural purposes of a *current nature*. Such schedule of application must be classified (on a standard form), giving the kinds of business supported by individual items.

5. Such paper must have a maturity at the time of discount of not more than 90 days, except in the case of notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock, which may have a maturity of not exceeding six months. The total amount of such six months' paper to be taken by any one Federal reserve bank, however, shall not exceed ----- per cent of the capital of said bank.

6. Any Federal reserve bank may discount acceptances (bank or other than consignee) based upon the importation or exportation of goods and which have at the time of discount a maturity of not more than three months and are indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital and surplus of the bank for which the rediscounts are made.

7. Two-name paper must bear the names of two solvent parties, the maker and the indorser, the responsibility of one being reasonably assured by customary credit statements, or the opinion of an officer or director of a member bank formally stated and filed.

8. Such paper must bear the indorsement of the member bank and be submitted on a schedule separate and apart from that used for single-name paper, but similarly classified as to the kinds of business involved.

9. Such paper must have a maturity at the time of discount of not more than 90 days, except as provided by the act for six months' paper based upon agricultural products or live stock.

10. It is recommended as a general practice that at least one party involved in the discount of two-name paper be required to file a statement with the member bank.

FUNCTION OF OPEN-MARKET OPERATIONS.

At this point some attention may be given to the question of open-market operations. Section 14 of the Federal reserve act grants the Federal reserve bank power to deal in gold coin and bullion, to buy and sell bonds and notes of a public character, to purchase and sell bills of exchange with or without its indorsement, and to establish such agencies as it may deem best for the purpose of dealing in bills of this kind. It calls for the formation of certain rules and regulations by the Federal Reserve Board, involving—

(a) Open-market purchases of commercial paper and exchange;

(b) Government bonds and short-time Government, State, municipal, and other bonds, notes, and bills.

With reference to these classes of business the following points are noted:

(a) The scope of open-market operations, so far as the question of individual and corporate credit is concerned, must rest largely with the purchasing bank, subject to suggestions based upon analyses by the credit department of the Federal Reserve Board. It will be necessary, however, for the Federal Reserve Board from time to time to make regulations involving—

(1) The amount of any particular paper permitted to be held by any one bank and the aggregate amount of such paper to be held by all the Federal reserve banks;

(2) The total amount of all open-market purchases held by all Federal reserve banks.

The necessity for such regulations is apparent. The open-market section of the bill was primarily provided to give the Federal Reserve Board the necessary economic control of the domestic money market and to preserve a proper equilibrium in international relations. Specific rules formulated in advance on this general subject are, of course, impracticable. The rules when established will, moreover, have to be varied somewhat from time to time.

(b) The Federal Reserve Board should from time to time formulate rules and regulations covering purchases and sales involved in subdivision (b) of article 14, limiting the volume of securities which it would be appropriate for any one Federal reserve bank to purchase, and also in contemplation of the aggregate volume held by all such Federal reserve banks. The intent of the act is to have such securities purchased, with the exception of Government bonds, somewhat approximate the fluid quality of commercial paper. It will therefore be inadvisable for banks to purchase any revenue bills or bonds that are issued in the aggregate in excess of the amount of revenues received by the respective States, districts, or municipalities beyond the amount which experience shows was received on the annual average of the last preceding two years. No bills or bonds should be purchased which are not issued in anticipation of specific levies or revenues. Federal reserve banks should file with the Federal Reserve Board comprehensive statements involving the experience of all districts and municipalities in relation to taxes and revenues received, and amounts borrowed for the last preceding two years, when purchases are contemplated.

Banks desirous of purchasing irrigation, drainage, and reclamation district obligations maturing within six months shall, prior to making such purchases, file with the Federal Reserve Board a statement of revenues, expenditures, and borrowings of such districts for the last preceding three years. In all cases both as to State, municipal, irrigation, drainage, or reclamation short-time instruments, where any question is involved not herein covered, specific action will be taken by the Federal Reserve Board based upon the facts presented.

The open-market provisions of the act are of very large importance in two ways:

(a) In permitting Federal reserve banks to place their resources at the disposal of constituent or member banks even when such constituent or member banks do not apply for rediscounts, inasmuch as the law allows the reserve banks to buy the paper directly in the open market and thereby to insure the placing of its funds in active use should occasion demand.

(b) In permitting a reserve bank in one district which has surplus funds to relieve the strain upon reserve banks in other districts by buying such surplus of paper as may have come upon the market in those districts, thereby preventing banks in these places from being compelled to refuse to grant rediscounts in cases where the supply of paper is in excess of the capacity of the banks to take care of at the seasons of the year when an exceptional degree of strain has made itself felt.

Much has been said of the effect of the open-market transaction in enabling the reserve bank to get funds out into active use at times when they would otherwise be out of use. There are some limitations upon this idea that have probably not been sufficiently considered. Under ordinary circumstances the reserve banks will not compete with their own members, and while they may be expected to compete with certain individual banks even among their own stockholders under special or peculiar circumstances, they will naturally do so only when such action is rather urgently demanded. A quite different condition of affairs will exist with reference to the open-market transactions relating to paper put out in other districts. In so far as this represents a field of activity which is not occupied, or occupied only in a limited degree by individual banks, the reserve banks may be expected to become active buyers of paper originating in such other districts.

FOREIGN EXCHANGE OPERATIONS.

The second principal element in the business of the Federal reserve banks will be that of dealing in foreign exchange and of transmitting funds abroad. Precisely what relation this business will bear to the general business of the

reserve banks themselves can not be predicted, and will undoubtedly vary considerably from bank to bank, according to the particular type of business developed in each of the several institutions. At some of the banks the foreign exchange service may at times be of preponderating importance, while at others it is entirely possible that the work may be sporadic or incidental. In the case of some of the banks it may be found desirable to conduct the exchange operations entirely through the medium of other reserve banks.

Nevertheless the conduct of the exchange operations for the system as a whole will be of primary importance and will amount to a general control of the foreign financial and monetary relationships of the United States.

The provision of the Federal reserve act relating to foreign exchange operations is found in section 14, where it is provided that the banks shall have authority:

"To open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than 90 days to run and which bear the signature of two or more responsible parties."

The banks are also authorized—

"To buy and sell at home or abroad bonds and notes of the United States and bills, notes, revenue bonds and warrants with a maturity from the date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenue."

In section 13, it is provided that—

"The rediscount by any Federal reserve bank or any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

It is thus seen that the Federal reserve act makes express provision not only for dealing in foreign exchange and securities, but also for the mechanism necessary for such exchange transactions and finally for the regulation and control both of the foreign agencies and of the transactions themselves by the Federal Reserve Board through its regulations.

It is therefore necessary to indicate first of all the conditions under which the reserve banks should operate abroad and their relations to the member banks engaged in similar business as well as to one another.

It is recommended that above all in dealing in foreign exchange the Federal reserve banks should act together as a unit. While this is not necessary, and while the reserve banks could undoubtedly do a successful foreign exchange business independently of one another, each establishing its own agencies as it saw fit, it is believed that better results would be obtained if the reserve banks at least had general knowledge of one another's transactions and were required to act together so far as conditions would permit. It is, therefore, recommended that the policy to be prescribed with reference to foreign exchange by the Federal Reserve Board shall be uniform and that there shall be as little opportunity as possible for the development of conflicting or unnecessarily duplicating orders and policies. Moreover, it is believed that the establishment of agencies by each and every one of the banks would be an unnecessary expense. It is, therefore, suggested that in selecting agents or in establishing offices abroad, the reserve banks shall be required to act jointly. Joint offices for all the reserve banks will ultimately need to be established in each of the principal financial centers in foreign countries, and pending the time that such joint office is established, it is recommended that consent be given only to the establishment of agencies which shall jointly act for all of the Federal reserve banks. The details of this proposal will be fully considered in connection with the question of establishing branches in general.

GENERAL SCOPE OF FOREIGN OPERATIONS.

It is possible that the foreign operations of the Federal reserve bank will not be large at first. The ordinary clearance operations of commerce are handled eagerly and adequately by banks already engaged in foreign exchange. Except in cases of stress, all exchange is easily absorbed at the current price. It will be necessary, however, for the reserve bank to stand ready to negotiate

all bills of exchange that may come to it from member banks in outlying communities or from other reserve banks. Rather should the position of the reserve bank in this field be that of an overflow reservoir, recouping its balances from the credits created abroad by other banks engaged in such business and making such advances from time to time as may be necessary to facilitate absorption of exchange or protect gold reserves—that is to say, not interfering with member banks, but operating rather from a broad economic standpoint. The reserve bank can act as the medium through which the necessities of the post office for foreign exchange to meet the requirements of the foreign money-order division may be liquidated, and otherwise as foreign fiscal agent of the Government, but must give due consideration to the development of offsetting business. It may be needless for many of the reserve banks to enter the foreign field, much depending upon their cooperation through a common agency. It is a matter of grave doubt as to whether it will be necessary for more than one to do so at the start, as even under present conditions the foreign-exchange market for all banks engaged in foreign exchange wheresoever located is in New York City. However this may be, the relations of the Federal reserve banks and either member or nonmember banks in the foreign-exchange field should be sympathetic. The Federal reserve bank should have perfected all the machinery to make it a dominant leader to marshal the collective forces of the exchanges in times of stress.

FOREIGN REPRESENTATIVES.

Arrangements will necessarily be made as soon as feasible to secure banking connections in all of the principal banking centers of the world. It will be unnecessary to establish actual branches in all those places where there are already good banking facilities, unless the Federal Reserve Board should deem it wise to do so after a general survey of the whole field. The existing facilities afforded by foreign banks, or even by branches of American banks, will afford all that would be supplied by an independent branch. Whether it will be deemed best in spite of this fact to create actual branches with independent banking houses and assigned capital in all places where good banking facilities already exist is a matter of policy as to which no definite statement can here be made. The general question of branches and the creation of such branches abroad will be given special attention at a later point, to which attention is accordingly directed. It will at all events be found that in not a few places the appointment of representatives will probably be necessary, owing to the fact that adequate banking facilities for the promotion of American commerce are not available there.

CONDUCT OF BUSINESS.

It is recommended that the service of a foreign exchange expert of known ability who is at the same time familiar with banking in its broadest sense shall be secured. This expert should probably be given the rank of an officer corresponding to that of a vice president in an ordinary bank. Under his direction and through the medium of a deputy acting as his assistant the foreign operations of the bank should be carried on. This foreign exchange expert will find it desirable at the outset to secure, without delay, connections, whether through the creation of branches or not, as may later be decided, with the principal European centers, particularly including London, Paris, Berlin, Hamburg, Frankfurt, Antwerp, Amsterdam, Rome, Naples, Vienna, St. Petersburg, and Zurich. Exchange should be acquired by him with prudence and judgment as to money market conditions at all points, the major portion of resulting balances being, of course, held in London. His funds thus obtained should be employed in the purchase of short-term paper and bills of exchange, as specified under the law, according as business requirements demand. The rule to be observed, however, should be that of having the holdings of exchange in the most liquid form. Dealings in exchange should be carried on both at home and abroad, but it would probably be inadvisable to enter the field as an aggressive operator. The policy to be constantly observed is, unquestionably, that of providing a secondary reserve for the reserve bank. Precisely how much should be regularly invested in exchange with this object in view can not be laid down in any definite manner, and, as will be later indicated, could at most be limited to a given percentage of the operations of the reserve bank, although even that is not in this discussion definitely fixed. The funds invested in exchange will, of course, return

an income, but the principal object should be, as already stated, that of providing the secondary reserve referred to. It is probable that ultimately a considerable quantity of ordinary exchange operations will be undertaken by the reserve banks engaged in this branch of business, but no steps should be taken to force such a growth, it being permitted rather to gain a natural development incident to the regular progress of the institution carrying on the operations.

For the purpose of making clear the details of policy which must be observed in carrying on the foreign exchange business of the reserve banks upon the basis already described, a complete set of regulations designed to govern the management of the foreign exchange department of the reserve bank has been worked out as an element in this discussion.

They are as follows:

I. MANAGER.

(a) There shall be in charge of the foreign exchange department of each Federal reserve bank, if such a department be developed, an official to be known as the "Manager of the foreign exchange department," selected by the board of directors, who shall receive an annual remuneration to be decided by the board.

(b) This official shall have been actively engaged and be experienced in foreign-exchange operations.

(c) Upon appointment the official mentioned shall furnish bond of good and sufficient surety in amount of \$-----.

(d) The duties of the manager of the exchange department shall be to control the funds of the reserve bank carried in foreign exchange. He shall have entire charge of the buying and selling of all checks, drafts, demand or time, cable transfers, bills of exchange, gold coin, bullion, and any other instruments, securities, properties, and commodities that the reserve bank is authorized to buy or sell under the law, subject to the regulations hereinafter provided.

(e) The manager shall have the power to employ, through the channels provided in the regulations, such assistants as he may deem necessary to carry on the business of his department. He shall make such recommendations as he may deem advisable for the expansion or improvement of the bank's foreign-exchange operations to the president.

(f) He or his assistants shall, through the usual clerical channels, submit daily to the president a report of his operations, showing purchases and sales of exchange, prices at which such purchases and sales were made, and the disposition of the reserve bank's foreign balances. It shall be his duty, or that of his designated assistants, to authorize all transactions, approving all purchases, sales, and other operations, subject to the rules and regulations of the board of directors. There shall also be submitted to the board of directors and to the Federal Reserve Board a monthly report and such other reports as the Federal Reserve Board may deem advisable or necessary.

(g) He shall have general supervision, under the direction of the president, of the exchange operations of all of the bank's foreign agencies and branches. The board of directors shall arrange for systematic reports from all foreign agents and managers of foreign branches.

(h) There shall also be selected by the board of directors an assistant manager, who shall act as general assistant. Before receiving appointment he shall comply with the requirements of paragraphs B and C. He shall receive a compensation to be decided by the board.

II. FUNDS TO BE INVESTED IN FOREIGN EXCHANGE.

(a) Unless at the express direction of the board of directors or the Federal Reserve Board, there shall at no time be invested in foreign exchange an amount exceeding ----- per centum of the reserve bank's demand liabilities after deducting from the total of such demand liabilities the total of gold and lawful money on hand or in transit to the bank, such sum invested, however, not to include the working capital of any branch that may be established in accordance with the law. Any Federal reserve bank not regularly engaged in foreign-exchange operations may, at the discretion of its board of directors, invest in foreign exchange or transact any and all foreign business eligible under the law and clear such transactions with foreign countries through the medium of the foreign department of any other reserve bank that may be actively engaged in foreign operations, and such other Federal reserve bank shall separately record any and all foreign transactions it may perform for any reserve bank

independent of its own operations and shall render a separate and distinct accounting therefor and may receive a compensation from such other Federal reserve bank for so acting, such compensation to be fixed by the Federal Reserve Board on the basis of the periodical turnover.

(b) When gold coin or bullion is purchased in foreign countries out of the amount invested by a reserve bank in foreign exchange for the purpose of importation into the United States, such amount shall immediately be deducted from the total carried as foreign exchange and shall be regarded as part of the gold reserve of the bank.

(c) When importations of gold are desired, at the discretion of the board of directors or at the direction of the Federal Reserve Board, banks or bankers may be employed to import gold for the account of a Federal reserve bank. In such cases the gold coin or bullion must be consigned to the Federal reserve bank making the advance, and shall be regarded as part of the gold reserve of the Federal reserve bank when in transit.

(d) No clean bill of exchange drawn on parties other than banks or bankers shall be negotiated by a Federal reserve bank without the indorsement of a member bank.

(e) Clean bills of exchange drawn on banks or bankers at longer time than sight (such maturities, however, not to exceed 90 days sight) may be negotiated by a Federal reserve bank upon the guaranty of acceptance of a member bank.

(f) Documentary bills of exchange drawn on parties other than banks or bankers at longer time than sight, provided, however, at not longer than 90 days sight, and where the documents are deliverable upon acceptance, may be purchased by a Federal reserve bank only with the indorsement of a member bank.

(g) All documentary bills of exchange drawn on banks or bankers of whatsoever tenor in accordance with section 13 of the Federal reserve act may be negotiated by the Federal reserve bank with the guaranty of acceptance of a member bank.

(h) Cable transfers, checks, drafts, and bills of exchange drawn by responsible banks or bankers, at the discretion of the manager, may be purchased by the Federal reserve bank, subject to regulations of the board of directors.

(i) The liability, direct or contingent, unless secured, of any bank or banker member or nonmember shall at no time exceed ----- per centum of the capital, surplus, and undivided profits of such bank or banker where the amount of capital, surplus, and undivided profits is published by requirement of law. Where such capital, surplus, and undivided profits is not so determinable, to not exceed an amount to be fixed as a line by the board of directors, subject to review by the Federal Reserve Board.

(j) The outstanding liability of any foreign individual, firm, corporation, bank, or banker, by reason of acceptance on unmatured bills of exchange held or rediscounted by the reserve bank shall at no time exceed ----- per centum of the capital, surplus, and undivided profits of such bank or corporation, and where the capital, surplus, or undivided profits are not so determinable, to not exceed an amount to be fixed by the board of directors, subject to review by the Federal Reserve Board.

(k) The liability of any individual, firm, or corporation as drawer or indorser of any check, draft, bill of exchange, or other instrument negotiated by a Federal reserve bank in its foreign operations shall not exceed a line to be fixed by the board of directors, subject to review by the Federal Reserve Board, and a record shall be kept of the total liabilities of each individual, firm, or corporation.

(l) A Federal reserve bank shall not purchase and have outstanding at any time in unmatured drafts drawn on foreign points, where the documents underlying such drafts are to be surrendered against payment only, an amount in excess of ----- per centum of the total amount available for use in foreign exchange operations by such Federal reserve bank.

(m) A Federal reserve bank shall purchase foreign gold coins of fineness fixed under the laws of the country where such coins were minted at the mint price of \$20.6718+ per fine ounce whenever such coins are presented to it, and such coins, whensoever and howsoever acquired, shall constitute a part of the gold reserve of the bank; providing, however, that at no time does such amount of foreign gold coins exceed in amount ----- per centum of the amount of gold the bank is obliged to maintain by law.

(n) Whenever a Federal reserve bank purchases cable transfers from member or nonmember banks or bankers, or any other parties whatsoever, payment for the equivalent shall not be made until the reserve bank is advised by telegraph of the receipt of such payment by its foreign agent or branch, unless otherwise guaranteed.

(o) Whenever the Federal reserve bank sells cable transfers it shall be in receipt of payment before it may direct such transfer.

(p) On all purchases or sales of bills of exchange and other instruments except cable transfers by a reserve bank payment shall be made, in the case of purchase to and in the case of sale by a Federal reserve bank, immediately upon delivery of the bills of exchange or other instruments purchased or sold.

(q) Any or all of the restrictions imposed by these regulations may be temporarily suspended by the Federal reserve agent, subject to review by the Federal Reserve Board.

III. CORRESPONDENTS.

(a) There may be selected as required in each principal banking center of the world at least one bank or banker as correspondent, subject to the consent of the Federal Reserve Board. From time to time, or as the requirements of increased business may direct and subject to the consent of the Federal Reserve Board, the number of correspondents in any banking center may be increased to two, except as provided in the following paragraph.

(b) Wherever possible all correspondents of the Federal reserve banks shall be branches of American banks established in such foreign banking centers, and where there may be more than one branch of an American bank the business of the Federal reserve bank shall be distributed among such branches in the approximate ratio that the several banks' capital and surplus shall bear to each other.

(c) Such correspondent shall render a daily report of receipts, disbursements, discounts, and any and all operations undertaken at the direction of or for the account of a Federal reserve bank.

(d) Such correspondent shall render a monthly statement of the account of each Federal reserve bank showing in detail all entries to its account and a memorandum of all interest accrued and charges, showing such charges in detail. It shall further send a monthly schedule of all bills of exchange, drafts, or other instruments, or other property that it may hold on behalf of a Federal reserve bank, indicating amount, drawee or acceptor, maturity, and collateral to such instrument, if any.

(e) Such correspondent shall once each week provide each reserve bank with a statement of the contingent liabilities of the reserve bank by virtue of indorsement on bills of exchange or other instruments which have been discounted or sold on behalf of and for the account of the reserve bank.

(f) There shall exist between the reserve banks and correspondents a secret code suitable to the transaction of their operations and messages under such code shall be protected by a cipher in the possession of the senior officers of the reserve banks, the managers, and their immediate assistants.

IV. BRANCHES.

(a) The board of directors of each Federal reserve bank may from time to time, subject to the consent of the Federal Reserve Board, establish such foreign branches as may be deemed necessary or expedient, and unless at the express direction of the board of directors or the Federal Reserve Board each branch shall use (as fixed working capital) an amount not in excess of ----- per centum of such reserve bank's demand liabilities after deducting from such liabilities the amount of gold and lawful money on hand or in transit to the bank.

(b) All foreign branches shall be officered by the following, seniority in the order given: (1) Manager, (2) assistant manager, (3) accountant.

(c) These officers shall receive remuneration to be fixed by the board of directors.

(d) The manager shall have entire charge of the branch, subject to the direction of the Federal reserve bank or banks creating such branch. His duties shall consist of selecting the branch's investments, developing new business, buying and selling bills of exchange, gold coin, bullion, obligations of the United States, or any other security eligible by law to be negotiated, subject

to the regulations of the home office. He and his assistants shall be responsible for all monies, securities, and any and all assets of the branch and shall make such provision for their safeguarding as may be deemed necessary.

(e) The assistant manager shall have charge of the staff and the office, and shall assume charge in the absence of the manager.

(f) The accountant shall have entire charge of the accounts and records of the branch. He and his assistant or assistants shall make such examinations from time to time as they may deem necessary or as they may be directed. He shall render a daily balance sheet to the manager and shall submit to the reserve bank such statements of the affairs of the branch as are required by the regulations. In the absence or disability of both the manager and assistant manager, the accountant shall assume charge of the branch.

(g) A branch shall make a daily report by mail of its operations to the reserve bank, accompanying which shall appear the copy of the balance sheet of such branch as of the close of business the preceding day, and shall submit a weekly report of all contingent liabilities by indorsement of bills, etc., sold or discounted, and shall further submit a list of all liability of individuals, firms, or corporations to the branch whether as drawer, indorser, guarantor, or acceptor.

(h) On the last day of each calendar month the books of a branch shall take up in its profit and loss accounts and expense accounts all interest, commissions, expenses, and all other determinable incomes or expenditures, and an analysis thereof shall be submitted over the manager's signature to the reserve bank in duplicate—one copy to the president of the reserve bank and the other to the manager of the foreign-exchange department.

(i) A schedule of all bills of exchange, drafts, checks, notes, or other securities and properties held by the branch shall be submitted once each month; such schedule shall indicate amount, drawee, acceptor, or payor, tenor, maturity, and collateral, if any.

(j) As of the close of business the last days of February, May, August, and November, the books of each branch shall be closed, clearing into profit and loss all amounts standing or accrued as income, or expense, and after charging off all bad debts the balance in profit and loss shall be transferred to the reserve bank.

(k) All losses shall be reported to the reserve bank over the signatures of at least two officers. Assets of questionable value shall be reported to the reserve bank and upon confirmation from the reserve bank may be written off.

(l) No clean bill of exchange, unless drawn by a bank or banker, shall be purchased by any branch except with the consent of at least two of the three officers of the branch, or a line on any name may be fixed by at least two officers of the branch within which line the clean bills of any individual, firm, or corporation may be bought. All matters of credit and responsibility of parties shall be subject to the concurrence of at least two officers, and further subject to approval by the home office.

(m) No draft drawn under a letter of credit may be purchased by any branch unless a specimen of letter of credit and signature of the party who issued it are on file, or unless confirmation has been received direct that such a credit is open and that drafts thereunder may be negotiated.

(n) The manager may at his discretion deal in or make loans on gold coin or bullion, and shall cause to be rendered to the reserve bank a detailed statement of such operations. The statement to indicate face value, weight, fineness, and specific value.

V. ACCOUNTING OF FOREIGN-EXCHANGE DEPARTMENT.

(a) The regulations covering the accounting system of the Federal reserve bank shall apply to the branches.

(b) The books of the foreign-exchange department shall be as follows: 1, General ledger; 2, general balance sheet; 3, journal; 4, cash-receipts book; 5, cash-disbursements book; 6, agency ledger; 7, branch ledger; 8, liability ledger; 9, remittance records; 10, draft records; and any other books that may become necessary from time to time in the opinion of the auditor.

(c) All books shall be bound books, except in cases where expediency requires it the books may be loose leaf, to which exceptions, however, the auditor must concur, and such provisions that he may make in the use of loose-leaf records shall be complied with.

(d) The general ledger of the department shall carry the control on all accounts in the department, showing each account separately, except in such

cases as the liabilities (see par. N), wherein one amount may be shown to control all accounts. The general ledger shall be posted daily in ink, and each page footed in ink and carried forward.

(e) The general balance sheet shall be a columnar book showing the daily balances in each account on the general ledger.

(f) The journal shall take up all entries not properly handled in the cash receipts or disbursement books, remittance or draft records. It shall be a columnar book, and after proof a recapitulation thereof shall be taken off and handed to the general bookkeeper.

(g) The cash receipts book shall record all receipts of cash or checks from whatsoever sources. All receipts of cash, unless controlled by preceding entries, shall be acknowledged, a copy of which receipt shall be taken up by the officer signing the original, and handed to the auditor. After proof each night a recapitulation shall be taken off and handed to the general bookkeeper of the department.

(h) The cash disbursements book shall record all cash paid or checks drawn. Unless such payment is controlled by previous entry no disbursement may be made without an order, initialed by the chief deputy, his assistant, or, in their absence, some temporary authority conferred by the president. After proof each night, a recapitulation shall be taken off and handed to the general bookkeeper of the department.

(i) The agency ledger shall record the transactions between the bank and its foreign agents. It shall be posted each day from the books of original entry, proved to the control on the general ledger at least once a week, reconciled and closed quarterly. As statements are received monthly they shall be verified to the postings made from returns indicated by the daily advices of the foreign agents. All charges incidental to the agent's operations must be recorded in a book provided for the purpose and verified and initialed by the deputy or his assistant, and subsequently checked and approved by the auditor.

(j) The branch ledger shall show the accounts of the branches with the head office; this ledger shall be posted from books of original entry, proved once a week to the general control, and reconciled to the branches' monthly statement.

(k) The liability ledger shall indicate the names of all parties upon whose indorsements or guaranties of acceptance exchange has been bought. The total of the line allowed, whether — per centum of the capital and surplus or the line approved by the board. (See Sec. II, par. 1.) As drafts mature or are accepted, and as the responsibilities of the parties terminate, the amount of such draft shall be deducted from the outstanding line. It shall also show the liability of all parties by acceptance on unmatured bill of exchange. (See Sec. II, par. j.) The balances appearing against any and all parties shall be reported to the board of directors each week.

(l) The remittance records shall contain the detail of all drafts, cable transfers, bills of exchange, etc., purchased and charged to agents or branches. This record may be loose leaf if expediency so demands and the auditor approves. No bill may be entered without an authorization of purchase signed by the deputy or his assistant. A recapitulation shall be given to the general bookkeeper at the close of each day.

(m) The draft book shall record all sales of checks, drafts, cable transfers, and other instruments drawn on and to be credited to any agent or branch. There shall be kept therein all the detail of such transaction and no draft, check, cable transfer, etc., may be drawn or consummated without an authorization signed by the deputy or his assistant. After proof, a recapitulation shall be handed to the general bookkeeper of the department.

(n) Among the control accounts on the general ledger shall appear an account liability by indorsement—per contra. Customers' liability on discounted paper. This figure shall be altered from time to time by means of a journal entry. As reports are received from the agents and branches (see Sec. III, par. F, and Sec. IV, par. G) the entries herein ordered shall be made.

(o) All expenses of the foreign exchange department, except those involved in the operation of accounts such as commissions, charges, foreign revenue stamps, etc. (see Sec. V, par. i), shall be charged to expense account maintained on the general books of the bank and supported by a detail book.

(p) All interest receivable or payable, commissions, and other determinable income shall be accrued monthly; all profits on exchange operations shall be determined and set up in profit and loss account quarterly, and all branch returns shall be carried to profit and loss and an estimate of the profit for

the overlapping month shall be made and passed, based on the return on the average capital used the quarter just received.

(g) All profits and losses shall be cleared into the general profit and loss accounts of the bank on the last days of June and December.

(A discussion of the internal organization of the Federal Reserve Board submitted by the experts who prepared the recommendations herein offered is omitted as belonging primarily to the board itself.)

FEDERAL ADVISORY COUNCIL.

Section 12 of the Federal reserve act provides for a Federal advisory council to consist of as many members as there are Federal reserve districts. It is required that each Federal reserve bank shall by its board of directors annually select one member of the council, and that the said council shall meet at Washington at least four times a year, as well as oftener if called by the Reserve Board. The council is given power to select its own officers and adopt its own methods of procedure, and it is further given authority:

"By itself or through its officers (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board. * * *

A review of the provisions of section 12 as thus set forth shows that the power of the organization committee and of the Federal Reserve Board in regard to the organization of the advisory council is only of a very broad general kind, probably extending no further than the mere making of suggestions. It is, however, recommended that the organization committee shall, in organizing Federal reserve banks, make some general recommendations to the said banks with reference to their participation in the task of creating this council. The following points are considered to be desirable in the organization of the council:

1. Appointment of members of the council, who shall at least at the beginning be active operating officers, preferably the presidents of the several Federal reserve banks.

2. Establishment of general headquarters in Washington with suitable representative in charge as agent, through whom requests and suggestions may be transmitted to the Federal Reserve Board, and who shall transmit information to the Federal reserve banks at his discretion or as may be asked by them.

3. Provision of reasonable allowances for this resident agent or officer of the advisory council. This point is specifically made subject to the approval of the Federal Reserve Board in the early part of section 12, and undoubtedly the recommendations made by the board at the beginning will be largely influential in determining the practice of the several reserve banks. The provision of a suitable mechanism at the outset will do a good deal toward starting the system upon right lines in the beginning, and it is believed that the general suggestions or recommendations already indicated ought to be applied.

Consideration should be given to the incorporation in the by-laws of the council of the following points:

- (1) Designation of offices and election of officers.

- (2) Powers and duties of officers.

- (3) Stated quarterly conference at Washington between Federal Reserve Board and Federal advisory council.

- (4) Audit of expenses and plan for semiannual budget.

Referring more specifically to the intent of the act in providing for conferences with the members of the Federal Reserve Board regarding all matters relative to the Federal reserve system, it would seem that the best results would obtain if the active executive officers of the banks of the system participated. The provision that the Federal advisory council "shall have power by itself or through its officers," implies the necessity of continuity of action at Washington in the performance of its duties. The executive officers of the Federal reserve banks manifestly would not be available as officers of the council. It is therefore suggested that it be deemed appropriate for the council to choose a paid officer or officers, who shall reside in Washington and maintain an office in the general interests of the Federal reserve banks. They should, of course, cooperate with the Federal Reserve Board in the general interests of the Federal reserve system.

If the paid officers of the Federal reserve banks are chosen as members of the Federal advisory council, as herein suggested, there would be no need for

their further compensation, other than traveling expenses and maintenance charges during the period of their meetings.

The compensation of the officers of the Federal advisory council, the office rent (unless otherwise provided by the Secretary of the Treasury), the maintenance of the clerical force, and other expenses, should be assessed upon the various Federal reserve banks in the same manner as is provided in the act for the payment of expenses of the Federal Reserve Board.

CODE BOOK.

The Federal reserve banks should be provided with a private code for use in the cable and telegraphic transmission of advices relative to their business. Such codes are in use in the more important existing banks, each such bank developing its own code, adapted to its own uses and employed for the purpose of transmission of cipher messages. It is recommended that such a code be developed for the joint use of the Federal reserve banks and of the Federal Reserve Board and that this be done at an early date, the work being placed in the hands of one of the recognized code experts who is familiar with existing methods of doing this work and who is trustworthy. In the system of clearing and transferring credits which has been worked out in the present report, there is a large field for the constant use of telegraphic advices; and the Federal Reserve Board will find that such advices will be largely relied upon in its own communications with the reserve banks. That such communication will in many instances be of a necessarily confidential nature is obvious and provision for a suitable means of guarding the messages during transmission, while reducing their length to a minimum should be promptly made.

ACCOUNTING SYSTEM.

(The subject of accounting for the Federal reserve banks is dealt with in Circular No. 7.)

PROCEDURE IN THE CONVENTION OF DIRECTORS AND OFFICERS OF THE FEDERAL RESERVE BANKS.

Circular No. 9.]

FEDERAL RESERVE BOARD,
Washington, D. C., October 20, 1914—10.30 a. m.

1. Meeting was called to order by the chairman, the honorable Secretary of the Treasury.
2. Roll call of those present, by calling on the cities. The delegates from each city stood up in turn, giving their names.
3. Address of welcome by the chairman of the meeting.

POINTS TOUCHED UPON IN THE CHAIRMAN'S ADDRESS.

(A) The first object of the meeting was to give the Federal Reserve Board an opportunity to meet and form the acquaintance of the directors and officers of the various Federal reserve banks;

(B) To give these directors and officers an opportunity to meet each other. The whole Federal reserve system was predicated upon complete cooperation between the different reserve banks, and it was important that these directors and officers should get to know each other and understand each other's problems;

(C) The importance of developing some enthusiasm in the work; first, because the work involved many new and difficult problems, and second, because the country expected a great deal as the result of the introduction of this system;

(D) It was the hope of the board that the system would be put in operation at the earliest possible date, and the opinion had been expressed that by Monday, November 16, the reserve banks could open (by which time the Federal reserve notes were promised for delivery), not to perform all their functions, but to undertake at least some of them. No elaborate system was expected at the moment of opening, but it would be necessary to prepare to receive reserve deposits from the banks and to have rediscount machinery ready

for such part of the reserve as would be paid in by the banks. (In this connection, the Secretary of the Treasury was ready to cooperate as far as possible by offering the facilities of the various subtreasuries or mints.)

(E) It was proposed at this meeting to discuss many matters of common interest. Some of them might be properly taken up at this general meeting, at which all were present, while others might better be assigned to meetings of committees, which it was proposed to hold after the general meeting adjourned. The subjects were of a two-fold nature; on the one hand, questions of policy and regulations to be promulgated by the Federal Reserve Board upon which an exchange of views was desired, and on the other hand, subjects which affected the internal management of reserve banks. While the law contemplated that each bank should decide these questions largely for itself, it was clear to all concerned that uniformity was most desirable and this meeting had been called for the purpose of suggesting to all the banks a basis for discussion of these subjects.

(F) In view of the great public demand for early opening, it had been thought desirable that committees with representation from each bank should consider the various problems and if possible reach conclusions which they would submit to this conference at a subsequent session, and that after the approval by the conference of these reports uniform action might be suggested by the board to the several banks.

(G) It might be thought advisable for the Federal reserve agents to meet independently or with members of the board to discuss their duties and the best way of fulfilling them, and in a similar manner the governors or members of the advisory council might wish to hold meetings to discuss their own problems either with or without the presence of members of the board.

4. The governor of the board was then called upon to present to the convention various phases of the subject relating to details. He explained the work done by the Willis committee, mentioning that the gentlemen who did that work were present by invitation and had consented to place themselves at the disposal of the various subcommittees in order to aid in the work and give such information as the members desired. It was emphasized that the Federal Reserve Board did not want in any way to prejudge the findings or the conclusions of the reserve banks in matters which were under their own initiative, but at the same time very much desired to give them the advantage of the work already done, both in order to save time and to bring about ultimate uniformity. With these objects in view, tentative by-laws and organization charts had been sent to the members in advance of this meeting and some suggestions in respect to them had already been received.

5. To facilitate the work of the committees to be taken up upon the adjournment of this meeting it had been thought desirable to classify the work under various headings, assigning one or more members of the board or some specified expert to cooperate with committees selected from among the delegates. The following is a table of subjects and committees:

(a) A committee on legal matters and procedure: First, by-laws; acting with *Mr. Hamlin*. Second, other legal points and the preparation of legal forms; acting with *Mr. Elliott*.

(b) A committee on office quarters, equipment and personnel; acting with *Messrs. Delano and Dawson*. Topics to be taken up by this committee: Office quarters; vault space; organization of staff and matters affecting officers and directors, including compensation of directors and members of advisory council.

(c) A committee on rediscount, including definition of commercial paper and consideration of credit bureaus; acting with *Messrs. Warburg, Harding, and Broderick*.

(d) A committee on duties of Federal reserve agents, including under this heading the auditing of reserve banks; note issues; the clearing of national currency; acting with *Messrs. Williams, Miller, and Fisher*.

(e) A committee on accounting and statistics: Under this topic the committee will consider books and forms, statements to be forwarded to the Federal Reserve Board, etc.; acting with *Messrs. Willis, Benton, Robinson, and Ward*.

(f) A committee on domestic exchange (transit and clearing); acting with *Messrs. Harding, Ward, and Wolfe*.

(g) A committee on bonding of Federal reserve agents, members of their staff or other officers of the reserve banks; acting with *Messrs. Williams and Allen*.

(h) A committee on mechanical devices; acting with *Messrs. Delano and Ward* in connection with the keeping of accounts and statistics.

6. The chairman of the meeting then threw the subject open to general discussion, calling attention to the fact that foremost among the general topics upon which the board wished information was a response to the question, how soon the banks could be opened.

The meeting then adjourned, to reconvene subject to call of the Chair.

TRANSFER OF RESERVES TO FEDERAL RESERVE BANKS.

Circular No. 10.]

FEDERAL RESERVE BOARD,
Washington, October 28, 1914.

To all member banks:

The Secretary of the Treasury having advised the Federal Reserve Board that formal notice of the establishment of the several Federal reserve banks will be given to all member banks on November 16, it is necessary that arrangements be now made for the transfer of required reserves by the member banks to their respective Federal reserve banks. It is the desire of the board to arrange for the actual physical transfer of the first installment in such a manner as to create the least possible disturbance to business conditions in any city or section.

It is, of course, clear that if the banks in nonreserve cities undertake to make the necessary deposit of reserves with their Federal reserve bank by remitting checks or drafts on banks in reserve cities (which checks or drafts can be received by the Federal reserve bank for collection only), there may result an unnecessarily heavy withdrawal of funds from the banks in reserve cities. In the same manner, if banks in reserve cities make remittances of checks or drafts on banks in central reserve cities, an unnecessary burden may be placed upon the latter.

The deposits of reserves with Federal reserve banks must be made in gold or lawful money, and in order that the withdrawal of funds from the vaults of member banks may be as nearly uniform as possible and so distributed as to relieve any particular section or sections of unnecessary burden, the Federal Reserve Board urges all banks to ship from their own vaults gold or lawful money. The Federal reserve banks have been authorized to assume and pay the express charges involved in making such shipments.

The foregoing suggestions also apply to payments on account of the first installment of capital stock, due November 2.

In view of the advantage to be derived from the deposits of gold, which may be used as reserve for Federal reserve notes, it is strongly urged by the board that deposits of reserves in the Federal reserve banks be made, so far as practicable, in gold or gold certificates.

Due notice of the establishment of the Federal reserve banks on November 16 will be sent each member bank by the Secretary of the Treasury, and no transfer of reserve can be made until this is done.

Member banks of large resources will greatly facilitate the physical work of counting reserve money if they will send gold certificates in as large denominations as possible or clearing-house orders calling for gold certificates or gold already counted by the clearing-houses. The Federal Reserve Board appeals to the patriotic spirit of all member banks, large and small, to do their utmost in facilitating the difficult work now thrown upon the officers of the newly-created reserve banks, and to do all in their power to secure for the new system the greatest possible success from the beginning.

CHARLES S. HAMLIN, *Governor.*
H. PARKER WILLIS, *Secretary.*

Circular No. 11.]

CONVENTION OF OFFICERS AND DIRECTORS OF FEDERAL RESERVE
BANKS HELD AT WASHINGTON, D. C., OCTOBER 20-21, 1914.

REPORTS OF COMMITTEES.

REPORT OF COMMITTEE ON LEGAL MATTERS AND PROCEDURE.

The committee on legal matters and procedure begs leave to report that it has given consideration to the form of by-laws for the Federal reserve banks, and recommends the adoption of by-laws in the form submitted herewith.

While it is manifestly desirable that the by-laws of the several reserve banks should be substantially uniform, it appears to be necessary to have the article relating to executive committee (Art. II, sec. 1) modified to conform to conditions in the several districts so far as relates to the number of members of the committee to be chosen by the directors, their term of office and their qualification. For example, in some districts it may be desirable to increase the number, to choose a member from the class C directors, or to provide for rotation in office, and the matter may properly be decided by the directors of the several reserve banks.

Respectfully submitted.

ALLEN HOLLIS, *for the Committee.*

Adopted, October 21, 1914.

Draft of by-laws recommended by the committee on legal matters and procedure appointed at the conference of directors of Federal reserve banks with the Federal Reserve Board on October 20, 1914.

BY-LAWS OF THE FEDERAL RESERVE BANK OF-----

ARTICLE I.—*Directors.*

SECTION 1. *Quorum.*—A majority of the directors shall constitute a quorum for the transaction of business, but less than a quorum may adjourn from time to time until a quorum is in attendance.

SEC. 2. *Vacancies.*—As soon as practicable after the occurrence of any vacancy in the membership of the board the chairman of the board shall take such steps as may be necessary to cause such vacancy to be filled in the manner provided by law.

SEC. 3. *Meetings.*—There shall be a regular meeting of the board every ----- at ----- o'clock ----- m., or, if that day be a holiday, on the first presiding full business day. The chairman of the board may call a special meeting at any time, and shall do so upon the written request of any three directors or of the governor. Notice of regular and special meetings may be given by mail or by telegraph. If given by mail, such notice shall be mailed at least ----- days before the date of the meeting. If given by telegraph, such notice shall be dispatched at least ----- days before the date of the meeting. Notice of any meeting may be dispensed with if each of the directors shall in writing waive such notice.

SEC. 4. *Powers.*—The business of this bank shall be conducted under the supervision and control of its board of directors, subject to the supervision vested by law in the Federal Reserve Board. The board of directors shall appoint the officers and fix their compensation.

The board may appoint legal counsel for the bank, define his duties, and fix his compensation.

SEC. 5. *Special committees.*—Special business of the bank may be referred from time to time to special committees, which shall exercise such powers as the board may delegate to them.

SEC. 6. *Order of business.*—The board may from time to time make such regulations as to order of business as may seem to it desirable.

ARTICLE II.—*Executive committee.*

SECTION 1. *How constituted.*—There shall be an executive committee consisting of the governor, the Federal reserve agent, and one or more directors chosen from classes A or B; the member or members of the committee chosen by the board shall serve during the pleasure of the board or for terms fixed by it. Not less than three members of the committee shall constitute a quorum for the transaction of business, and action by the committee shall be upon the vote of a majority of those present at any meeting of the committee.

The committee shall have power to fix the time and place of holding regular or special meetings and the method of giving notice thereof.

Minutes of all meetings of the executive committee shall be kept by the secretary, and such minutes or digests thereof shall be submitted to the members of the board of directors at its next succeeding meeting. Such minutes shall be read to the meeting if required by any member of the board.

SEC. 2. *Powers.*—Subject to the supervision and control of the board of directors, as set forth in Article I, section 4, the executive committee shall have the following powers:

- (a) To pass upon all commercial paper submitted for discount.
- (b) To initiate and conduct open-market transactions.
- (c) To recommend to the board of directors from time to time changes in the discount rate.
- (d) To buy and sell securities.
- (e) To apply for and provide for the security of such Federal reserve notes as may, in the judgment of the committee or of the board, be necessary for the general requirements of the bank.
- (f) To employ or to delegate to officers of the bank authority to employ clerks and other subordinates and to define their duties and to fix their compensations.
- (g) To approve bonds furnished by the officers and employees of the bank and to provide for their custody.
- (h) In general, to conduct the business of the bank, subject to the supervision and control of the board of directors.

ARTICLE III.—*Officers.*

SECTION 1. The board of directors shall appoint a governor, a deputy governor, a secretary, and a cashier, and shall have power to appoint such other officers as the board may from time to time determine to be necessary and appropriate for the conduct of the business of the bank. The offices of deputy governor, secretary, and cashier, or any two of them, may be held by one person, in the discretion of the board. The officers chosen by the board shall hold office during the pleasure of the board.

SEC. 2. *Federal reserve agent.*—The Federal reserve agent, as chairman of the board, shall preside at meetings thereof. Copies of all reports and statements made to the Federal Reserve Board shall be filed with the Federal reserve agent.

SEC. 3. *Deputy Federal reserve agent.*—In the absence or disability of the Federal reserve agent his powers shall be exercised and his duties performed by the deputy Federal reserve agent, who may perform such other services as shall be prescribed by the board of directors not inconsistent with his duties as provided by law.

SEC. 4. *The governor.*—Subject to the supervision and control of the board of directors, the governor shall have general charge and control of the business and affairs of the bank and he shall be the chairman of the executive committee. He shall have power to make any and all transfers of securities or other property of the bank which may be authorized to be sold or transferred by the executive committee or by the board. The governor shall have power to prescribe the duties of all subordinate officers and agents of the bank where such duties are not specifically prescribed by law or by the board of directors or by the by-laws. The governor may suspend or remove any employee of the bank.

SEC. 5. *The deputy governor.*—In case of the absence or disability of the governor his powers shall be exercised and his duties discharged by the deputy governor, and in case of the absence or disability of the deputy governor the board shall appoint one of the other directors governor pro tem. The duties of the deputy governor shall otherwise be such as may be prescribed by the board of directors or by the governor. In case the board shall deem that the business of the bank requires the appointment of one or more assistant deputy governors, it shall have authority to appoint such assistant deputy governor or governors and shall prescribe and define his or their duties.

SEC. 6. *The secretary.*—The secretary shall keep the minutes of all meetings of the board and of all committees thereof. He shall have custody of the seal of the bank, with power to affix same to certificates of stock of the bank, and by authority of the board or the executive committee to such other instruments as may from time to time be required. The board of directors may, in the absence or disability of the secretary, or upon other occasion where in the discretion of the board greater convenience can be attained, appoint a secretary pro tem or empower one or more officers to affix the seal of the bank to certificates of stock or other instruments. The secretary shall perform such other

duties as may from time to time be prescribed by the board of directors, the executive committee, or the governor.

SEC. 7. *The cashier.*—The cashier and at least one other officer designated by the board of directors shall have the joint custody of all moneys, investments, and securities of the bank, subject to such rules as the board may adopt for their safety. He shall perform such other duties as may be assigned to him from time to time by the executive committee, the board of directors, or the governor.

ARTICLE IV.—*Certificates of stock.*

SECTION 1. *Signature.*—All certificates of stock, or of payment of or on account of stock subscriptions, shall be signed by the governor or a deputy governor and the secretary or cashier, or such other officers as may be prescribed by the board, and such certificates shall bear the corporate seal.

ARTICLE V.

SECTION 1. *Business hours.*—The bank shall open for business from ——— o'clock to ——— o'clock on each day except Sundays or days or parts of days established as legal holidays.

ARTICLE VI.—*Amendments.*

These by-laws may be amended at any regular meeting of the board by a majority vote of the entire board: *Provided, however,* That a copy of such amendment shall have been delivered to each member at least ten days prior to such meeting.

REPORT OF COMMITTEE ON OFFICE QUARTERS, EQUIPMENT, AND PERSONNEL, ORGANIZATION OF STAFF, AND MATTERS AFFECTING OFFICERS AND DIRECTORS.

Your committee on office quarters, equipment, and personnel, to whom was referred the following topics: Office quarters (including vault space), organization of staff, matters affecting officers and directors (including compensation of directors and members of advisory council), also the subject of telegraph code and proposed form of seal for Federal reserve banks, begs leave to report as follows:

First. In respect to office quarters, 10 of the reserve banks were represented by directors, who reported that suitable temporary quarters had been secured and quarters suitable for the opening of the banks (even if not definitely permanent quarters) could be obtained in the near future. After considerable discussion of the subject, the following resolution was offered and passed:

"Resolved, That it is the sense of this meeting that the obtaining of quarters sufficient for the opening of the reserve banks can be arranged for at any reasonable date in the near future, and that the securing of suitable quarters should not occasion any delay in the opening of the reserve banks."

Second. The subject of the organization of the staff, the equipment, and the personnel was very fully discussed. No criticism was offered of the tentative organization chart. The general opinion was expressed that the banks would open with comparatively small forces, something in the nature of a skeleton organization, which might be expanded as the business of the banks grew. A force of 35 to 65 men was mentioned as adequate, in the opinion of the governors of a number of the banks, for beginning the operation of the banks. This, of course, would not include the handling of some of the functions, such, for example, as *foreign exchange* or the general *clearing of checks* between banks, which would necessarily require a large increment in the force. After a general discussion of the subject, the following resolution was offered and passed:

Resolved, That the matter of equipment and personnel of the Federal reserve banks be left to their respective boards of directors.

Third. The subject of a telegraph code was quite fully discussed, and the opinion was expressed that the members were not ready at this time to make a final recommendation. Thereupon the following resolution was offered and passed:

"Resolved, That the Federal Reserve Board shall call upon each Federal reserve bank to submit in the near future the views of its board of directors upon the subject of a telegraph code."

Fourth. It was pointed out that under the Federal reserve act each bank was required to adopt a seal. After some discussion of the subject and an inspection

tion of the seal of the Federal Reserve Board, the following resolution was offered and passed:

"Resolved, That the Federal Reserve Board be requested to send to each Federal reserve bank a design for form of seal, following in a general way the design adopted by the Federal Reserve Board for the center of the seal, but with appropriate lettering to indicate the name of the reserve bank, a monogram bearing its distinctive letter and number, and the date of its organization."

Fifth. The subject of compensation for deputy reserve agents and of the directors was freely discussed. It was pointed out that it was the duty of the directors of the various reserve banks to fix these compensations with the approval of the Federal Reserve Board. The discussion developed the fact that in some cases directors would have to travel long distances and, especially when serving on executive committees, would be compelled to give up a good deal of time. In view of the varying conditions which exist in the different reserve districts, the conclusion arrived at was formulated in the following resolution, which was offered and passed:

"Resolved, That in view of the varying conditions existing in the different districts, it is recommended that the matter of compensation of the deputy reserve agent, directors of the banks, the governor, and the member of advisory council be considered by the directors of each bank and a report of the conclusions arrived at by each reserve bank board be sent to the Federal Reserve Board for approval."

Submitted as the unanimous action of the committee.

Signed by—

THOMAS P. BEAL.
ARCHIBALD KAINS.
WILLIAM WOODWARD.
GEORGE J. SEAY.
EDWIN T. MEREDITH.
OSCAR FENLEY.
THEODORE WOLD.
CHARLES M. SAWYER.
OSCAR WELLS.
RICHARD L. AUSTIN.
W. H. PECK.
C. H. BOSWORTH.
J. F. OYSTER.
R. H. MALONE.
J. A. MCGREGOR.

Adopted by the convention October 21, 1914.

REPORT OF COMMITTEE ON REDISCOUNT, INCLUDING DEFINITION OF COMMERCIAL PAPER
AND CONSIDERATION OF CREDIT BUREAUS.

The committee on rediscount, including definition of commercial paper and consideration of credit bureaus, has not confined its attention narrowly to the subject assigned, but with a desire to contribute to speediest determination has given consideration to a number of features more or less related.

The Federal Reserve Board deems it desirable that the Federal reserve system should be put into operation at the earliest possible date. In working to this end it is clear that a minimum number of functions should be undertaken at the outset. It is believed wise that an executive council should be formed, consisting of the 12 governors, with the deputy governors as alternates, to which should be referred the matter of determining the date and manner of undertaking, from time to time, such additional functions as the following:

1. Opening of branches of Federal reserve banks.
2. Open-market transactions.
3. Purchase and sale of United States Government bonds and municipal 6-month warrants.
4. Appointment of foreign agents.
5. Clearing and collection and determination of charges therefor.
6. Stipulation of charges to be collected by member banks from patrons for clearings and collections.
7. Dealing in gold coin or bullion and making loans thereon.
8. Purchase and sale of foreign exchange.
9. Purchase of bank acceptances.

10. Exchanging 2 per cent Government bonds for 3 per cent bonds and 1-year notes.

In order that the very minimum of machinery may be employed in the first days of operation it is thought that even (a) transfers between member banks and (b) transfers between Federal reserve banks should be deferred until the executive council suggested is satisfied that the necessary preliminaries have been arranged for such transactions.

While the reserve banks in the central reserve cities might possibly be put in operation a few days before other reserve banks, the matter of greatest moment is that country banks shall realize both their opportunity and patriotic duty to help at this juncture by making their initial payments out of the gold in their vaults.

In order to give the reserve banks the greatest lending power, and thus most efficiently aid member banks and general business interests, and in particular to meet the present emergency in foreign exchange, it is vital that as much as possible of the gold now held by members banks and that is now in circulation should be concentrated in reserve banks. At the outset the discount rates should be high enough to encourage initial payments in gold, with very moderate availing of the privilege of payment by rediscount. It is to be hoped that the pending amendment to the act may be adopted permitting member banks to carry with their respective reserve banks any portion of their required reserves. It seems also of prime importance that no tax shall be imposed upon Federal reserve notes. This would vastly facilitate the absorption by reserve banks of gold from circulation, while a tax on such notes would prevent. The payment of transportation charges by the issuing bank on shipments of Federal reserve notes to member banks would also be an important aid in concentrating gold in reserve banks. There should be continuous education of both member banks and the public and persistent planning in every proper way to induce cooperation in gathering gold into the reserve banks. Our commercial stability will be in direct proportion to the solidity of this gold basis of our credit structure. Too much importance can not be attached to the necessity of this cooperation and the mutual confidence growing out of it.

In the acceptance of paper for rediscount there must at first be wide latitude for the exercise of discretion, and it does not seem practicable at this time to attempt to define eligible paper in specific terms, nor should there now be discrimination between one-name and two-name paper. Steady effort should be made to develop bank acceptances, and when authorized for rediscount of domestic acceptances. The purpose of the reserve system is to help member banks by making credit sure, though not by making credit easy. Consequently, it must be found practicable to accept the best paper of each community, whether ideal or not. There should be the most persistent effort to so influence the habits of borrowing and lending that the paper offered for rediscount will be of a steadily improving character until it reaches and maintains the highest possible level of quality. Constant liquidation of loans is the most fundamental proof of a condition powerful to render aid. Paper rediscounted should therefore represent only temporary and not permanent investments, and preference by differential rates should be given to short maturities. Such paper may develop later as will render precise definition possible, but it now seems impracticable to do more than outline the principles determining the character of paper which should be accepted.

After the first few weeks no paper should be offered for rediscount except that given by a borrower from whom the member bank has received a financial statement. All such statements should be subject to the call of the rediscounting reserve bank, and a central credit bureau should be established making available for the whole system the information thus secured. Independent audits should be required in case of those desiring to borrow beyond a specified limit. The Comptroller of the Currency would doubtless be willing to cooperate through the examiners.

In rediscounting, a Federal reserve bank should not rest content merely because of the indorsement of a solvent member bank assuring against loss. It should recognize its larger duty to influence in every possible way the better conduct of both banking and general business. It is believed that careful investigation of all paper rediscounted and the development of a credit bureau for the benefit of the entire reserve system will conduce greatly to this end.

Respectfully submitted.

For the committee:

JOHN PERRIN, *Chairman.*

Adopted by the convention October 21, 1914.

REPORT OF COMMITTEE ON ACCOUNTING AND STATISTICS.

1. ACCOUNTING.

When the committee assembled it found that the preliminary organization committee had been working for several months on the preparation of a system of accounting which might be adopted by all the Federal reserve banks. Two systems had been prepared, each with a set of forms necessary to put it into effect, one of the systems having been completely developed as to form and detail, while the other was developed and presented in a more general way. The originators of both these systems were present and explained them in considerable detail to the committee.

After listening to the presentation of the systems it appeared to the committee that they were not fundamentally at variance. Both had the block system as their basis, and both in part developed the machine principle. The committee adopted as the basis for its considerations the block control and unit system outlined in the report of the preliminary organization committee, described in pages 129 to 169, inclusive, of their report, and found that to this system could be added, if desired, the following books of continuous permanent record included in the alternate plan: Register or tickler or both in the collection department; liability ledger and tickler in the loan and discount department; and members' journal and Government deposit journal in the general bookkeeping department. It appeared to the committee that this plan would provide for intermediate proofs, would give a simple and accurate basis for operation, provide for the expansion or contraction of business, and adapt itself to either a large or a small bank. It also appeared to be adapted to the exercise of a maximum or minimum number of functions of a Federal reserve bank.

During the short time allotted to the committee for its work it has been impossible to make a thorough study of the accounting systems presented, but the unit and block system referred to, which has been reproduced photographically for the consideration in detail by the respective banks, is recommended. It has been prepared by experts after several months of study, it has received the approval of the efficiency bureau of the Civil Service Commission, and has been in partial and successful use in several important banks for some years.

It of course must be understood that the adoption of this system does not preclude a bank from using the books with which its officers are familiar in the initial stages of its accounting, if necessary, until the system suggested is thoroughly installed.

Should the report and recommendations of this committee be adopted by the conference, it is suggested that the individual banks be given a reasonable opportunity to examine the plan in detail and suggest any needed amendments or corrections, after which it is recommended that they be requested to inform the secretary of the Federal Reserve Board of their approximate requirements, in order that the forms may be printed under his supervision, that each individual bank be billed direct for its proportionate amount of the cost of printing, and that at least four months' supply of the forms be ordered.

Changes will be found necessary in any accounting plan, and it seems desirable that in the future corrections or amendments be sent by the various Federal reserve banks to Dr. H. Parker Willis, chairman of the preliminary organization committee, for consideration and advice to the respective banks.

As the Federal reserve act provides that the foreign-exchange policy of the various Federal reserve banks shall practically be under the control of the Federal Reserve Board, it is recommended that such forms as may be necessary to carry out the purpose of the board be promulgated by it at such times as it may be desirable.

2. STATISTICS.

The adoption of the unit principle as suggested makes it quite practicable for each Federal reserve bank to supply the statistics that may be needed both for itself and as a basis of economic control for the Federal Reserve Board.

Your committee has examined the plan for the statistical department outlined in the report of the preliminary organization committee, and recommends the establishment of such a statistical bureau under the direction of the Federal Reserve Board. In general, however, the committee believes that the statistical work of each individual bank should be mainly developed on request for data originating in Washington. Compliance with these requests will make it necessary for each Federal reserve bank to collect the economic, financial, and busi-

ness data in its own district. This will give a basis for its economic control. It is therefore recommended that each Federal reserve bank establish a statistical department under the direction of one of its officers.

It is suggested that the Federal Reserve Board send from time to time to each Federal reserve bank a composite summary of the statistics collated, accompanied by an analysis developing what may be characterized as their economic significance.

The committee desires to express its appreciation of the valuable and painstaking work of the preliminary organization committee. It will expedite the organization of the banks, and we consider it a remarkable achievement to have prepared in advance a comprehensive and workable plan which seems to commend itself to all who have heard it explained and have examined the forms.

GEO. M. LA MONTE, *Chairman.*

This report was adopted October 21, 1914, by the convention, subject to such changes as should be recommended at the meeting of governors of Federal reserve banks to be held October 22, 1914.

The accounting system was examined by the governors of the Federal reserve banks, approved by them on October 22, 1914, and the forms are now being printed under the direction of the secretary of the Federal Reserve Board.

REPORT OF COMMITTEE ON DOMESTIC EXCHANGE.

CLEARINGS AND TRANSITS.

In view of the confusion which will arise from an attempt to handle the entire clearings by a new and untrained force, this committee recommends that the development be gradual, and that only very limited clearances be arranged for at the start; and this committee further recommends that at the outset as little divergence be made from the normal business procedure as possible to comply with the terms of the act, and that the Federal reserve banks join the clearing houses in the cities in which they are located as special members, subject to none of the clearing-house rules other than those directly affecting exchanges of checks.

On November 2, 1914, the first call for capital has been made payable. At the date of opening of the banks a call will be made for the first installment of reserves from each member bank, one-half of which may be paid in rediscounted paper.

Up to this point no checks need be handled. At that point you have created a credit which each member can draw against, therefore the bank should be prepared to receive on deposit checks drawn by members on their balances in Federal reserve banks.

We recommend that member banks be allowed to deposit for their credit at the outset any checks drawn by member banks on any Federal reserve bank or on member banks in reserve and central reserve cities.

In regard to the distribution of checks payable outside of each Federal reserve district, it is presumed that the full operations of clearances of that nature will be worked out in conjunction with the Federal Reserve Board should that body see fit to adopt a national clearing-house system.

It is presumed that each clearing house in a city where a Federal reserve bank is located will undoubtedly make arrangements to use the facilities of the Federal reserve banks in the settlement of balances to the extent that they see fit. Having in mind the fact that the banks will not be able to perform their full functions with respect to clearings at the very outset, it is therefore recommended that they start only with the partial plan above outlined, subsequently extending the function of collecting checks as they become able to do so.

EXCHANGE CHARGES.

Under the act it is evident that all items which may be legally deposited with the Federal reserve banks shall be accepted at par, and that charges for handling such items through the Federal reserve banks, based on the cost of overhead charges, clerk hire, including that of department management, stationery, postage, and equipment depreciation, shall be charged to the member banks upon which the items are drawn, and that this charge may be in turn made by the member banks to their depositors or customers.

This committee recommends that the charges be prorated on the number of items drawn on the member banks rather than on the amount of dollars.

And this committee further recommends that in adopting this report that these charges be applied solely to the administrative cost of handling of checks or items through the Federal reserve bank, and that the evident inequity of the law relating to the charges on checks, as we interpret the law, seems to this committee to suggest a great disadvantage to members against nonmembers and great disadvantages to members in the smaller communities against members in reserve cities, and we respectfully suggest that the attention of the Federal Reserve Board be called to these inequities, which seem to exist, and their consideration thereof be asked.

METHOD OF HANDLING MEMBERS' CHECKS IN FEDERAL RESERVE BANKS.

It is recommended by this committee that the Federal reserve bank charge members' checks against the balances of such members upon the day the checks are forwarded, and that members be allowed to use all checks on members of the same district as reserve the day such checks are forwarded to the Federal reserve bank; the same procedure as is now permitted in making remittances to reserve agents.

Respectfully submitted.

FREDERIC H. CURTISS, *Chairman*.
WM. MCC. MARTIN.
C. H. MCINTOSH.
M. B. HUTCHISON,
WALDO NEWCOMER.
LESLIE R. PALMER.

The above report was adopted by the conference after paragraph 4 had been amended as follows:

"We recommend that member banks be allowed to deposit for their credit at the outset, after the initial reserve and capital payments have been made, any checks drawn by member banks on any Federal reserve bank or on member banks in reserve and central reserve cities within their respective districts."

OCTOBER 21, 1914.

REPORT OF THE COMMITTEE ON BONDING OF FEDERAL RESERVE AGENTS, MEMBERS OF THEIR STAFF, OR OTHER OFFICERS OF THE RESERVE BANKS.

Your committee on bonding Federal reserve agents and their staff officers and employees of the banks beg to recommend:

First. That the bonds of each of the Federal reserve agents and their staffs shall be at least \$500,000.

Second. That the American Bankers' Association bond form, with phraseology modified to make it a blanket form, be adopted for bonding the Federal reserve agents, their staff, and all officers and employees of the banks.

Third. That all bonds be written in American companies approved by the Treasury Department.

Fourth. That after obtaining competitive rates for the security of the Federal reserve bank the several banks should secure their bonds in their respective localities, as far as possible.

Fifth. That the amount of the bonds to be given by the officers and employees should be determined by the directors of each bank.

Respectfully submitted.

J. Z. MILLER, Jr., *Chairman*.

The above report was adopted after the convention had voted to strike out the recommendation that the bonds of the Federal reserve agents and their staffs shall be at least \$500,000.

OCTOBER 21, 1914.

REPORT OF COMMITTEE ON MECHANICAL DEVICES.

Your committee on mechanical devices met in the office of Dr. Adolph C. Miller at 2.30 o'clock, October 20, and proceeded to give careful consideration to the subject before it, and begs to report as follows:

The committee decided that it could best serve the interests of the Federal reserve banks by avoiding details as largely as possible in its recommendations, as the requirements of the banks will vary according to size and other peculiarities, and for the further reason that, in its judgment, the naming of

machines and manufacturers could offer little advantage and might seriously prejudice the cause.

First. We recommend the general use of standard mechanical devices by the banks to as great an extent as such devices can be employed to the most economical end.

Second. We suggest that inasmuch as a council of the governors of the banks will be held immediately following this meeting, this subject be referred to them for final solution; and we make this further recommendation:

Inasmuch as the 12 Federal reserve banks will collectively buy a great number of all kinds of machines, a plan should be devised whereby concessions can be obtained in the matter of the cost of same; and, looking to that end, we recommend that the council of governors take action promptly to receive bids from all manufacturers of standard mechanical office devices, those bidding to agree to supply a part or all of any bank's requirements and to make deliveries of equipment at as early a date as same may be required. The bids should state the price to be paid for each machine, and each firm, company, or person offering a bid should be bound by same to furnish as many of the machines as may be required by each of the 12 Federal reserve banks for a period of 12 months from the date of the opening of the banks. Each bank should be furnished with a list of the machines and prices, and be privileged to buy any machine desired, or to pursue its independent course if it so elects.

Attention is called to the General Supply Committee, which is the agency through which the Government departments jointly buy supplies. It is possible that an arrangement could be effected by which the Federal reserve banks could order their labor-saving devices, etc., through this agency, thus availing themselves of the low prices obtainable by the Government. We call the attention of the council of governors to same as information, without recommendation.

F. W. FOOTE, *Chairman.*

Adopted, October 21, 1914.

Circular 11a.]

REPORT OF THE COMMITTEE ON DEFINITION OF THE DUTIES OF THE FEDERAL RESERVE AGENT AND DEPUTY FEDERAL RESERVE AGENT.

[Submitted at conference of officers and directors of Federal reserve banks, Washington, Oct. 20-21, 1914.]

The committee on definition of the duties of the Federal reserve agent and deputy Federal reserve agent has directed its consideration rather to the implication than the specification of the law.

The motive of a member bank is profit, that of a Federal reserve bank is service. Greed for profit may incite to undue risks and sometimes to crime, resulting equally in wreck, but it is inconceivable that a desire to serve member banks could be so distorted, or an eagerness to earn 6 per cent so obsessing that either would urge the risk of failure. The managers of such a quasi-public institution have every incentive to guide it directly along the very path which the Government would point out. There is no conflict of interest.

One aspect alone suggests a possible exception to this general truth. It is conceivable that a disposition might arise to grant an undue proportion of discounts to certain banks from personal favoritism or to banks of certain sections from political considerations. Supervision by the Federal reserve agent, himself powerless to encompass such favors, would be a safeguard, essential in so far as needed to assure continuously equitable and impartial administration.

Important honor can not be gleaned from being the Government's agent for the purpose of guarding its millions intrusted to a Federal reserve bank. The Government's money is the people's money. Where could it better be placed than in a Federal reserve bank, organized with the high purpose of service to the whole people and safe beyond peradventure? And if lodged with the Federal reserve agent, joint custody would so minimize the special responsibility as even to render the amount of his fiduciary bond unimportant.

Nor does the Government's representative perform vital service in selecting security for Federal reserve notes on the ground that they are the obligations of the Government. Analysis compels the conclusion that the Government has only a contingent liability as guarantor, which is so remote as to be negligible.

No dignity of title nor compliment of precedence can alter the fact that a Federal reserve agent's specific routine duties have only the importance of those of a trusted auditor clerk.

It serves a useful purpose to constantly prove the quality of a reserve bank, and this justifies the Federal reserve agent's supervision in Government behalf, even if unnecessary. More important functions, however, must be performed to justify his position as chairman of the board. There should be no attempt at specific definition of larger duties, but there may properly be suggestion of larger opportunities open to the trusted representative of the Federal Reserve Board, the relation of which to the reserve banks is that of wise, inspiring guide, and not that of suspicious critic.

Cooperation is a fundamental essential to the success of the reserve system—its keynote. The measure of cooperation will be the measure of its success. Equally with the governor, the chairman of the board, as the local incarnation of the Federal Reserve Board, should keep steadily in view, no matter how distant, the goal of a Federal reserve bank—a unified banking machinery in the district, serving its every sound interest with largest helpfulness and highest efficiency and bearing its share of responsibility in national and international transactions. Not only should member banks be informed, but nonmember banks should be influenced to become members, even if to that end they must effect wise modifications of the act or of State laws to render membership possible and advantageous. An incidental benefit of larger volume by increased membership would be the reduced percentage of overhead expense, though, when fully under way, the operating cost is not likely to absorb an undue proportion of a reserve bank's earnings. By patient explanation in public and in private and through the cooperation of patriotic newspapers the purpose, scope, and limitations of a reserve bank should be made known, to gain for the system the full faith and powerful safeguard of an enlightened public opinion. In this endeavor, as opportunity offers, visits should be made from time to time to various parts of the district. If not on occasions of public gatherings, with incidental public utterance, such visits may be even more fruitful in giving better opportunity to gain close acquaintance and enlist earnest cooperation. The traveling expenses incurred, properly modest as for all engaged in public work, could not fail to be fully justified.

An eminent authority has said that a banker has no imagination, and should have none; that he deals only with facts as they develop from day to day. The soundness of this is clear. That is banking as a trade. That is the president of a member bank operating with primary regard for profit. But the chairman and the governor of a Federal reserve bank should view banking as a profession and with vast imagination. They should picture every possible development of trade and industry, and with unselfish devotion seek to be creative agents for its realization. They should seek to exert a benign and inspiring influence not alone upon the banking interests of the district, but upon every business interest, at times giving convincing reason for restraint, at times giving steadfastness for endurance, and again giving courage for new enterprise. They should seek to interpret to the intelligent satisfaction of the whole district that steady, regulating influence which is the underlying principle of the Federal reserve act and enlist cooperation in its application.

While the chairman will doubtless be the channel through which the Federal Reserve Board usually communicates with the directors of a Federal reserve bank, yet to give fullest information and clearest insight both governor and chairman should render reports. The views of the governor would reflect the observations and impressions gained from intimate daily touch with those having transactions with the bank. The chairman's views would be those of one a little apart from the stress of management though fully informed of its details, the more dispassionate survey of one observing rather than doing. Both would naturally come into close acquaintance with the thoughtful and informed leaders in commerce and industry throughout the district, having rare opportunity to gain fundamental knowledge of both apparent and potential forces.

The chairman of the board should be the partner of the governor, each supreme in his own department, assuming joint responsibility, with votes of equal power, in the executive committee, over which the governor would naturally preside as the one charged with the responsibilities of operation. There could be no conflict of authority, though continued disagreements of judgment, if over transactions which by their repetition constituted a policy disapproved by the Federal Reserve Board, would necessitate the governor's eventual change

of attitude. Neither should have the attitude of a watcher of the other, as both would have the same incentive for the bank's excellence. The auditor would naturally report to the executive committee.

The independence of the class C directors, as Government representatives, should be carefully preserved. The law provides that the Federal Reserve Board shall determine the salary of the chairman of the board, though paid by the bank. Consistently with this principle, the salary of the deputy chairman and of the third class C director, to the extent that they are actively engaged in the work of the bank, should be determined in like manner, and not by the board of the reserve bank.

It is to be assumed that all affairs of the bank will be conducted in closest and most harmonious cooperation, but this is best assured by clear statement of authority. The nature of the duties will require a considerable force of assistants in the department of the chairman of the board. Experience alone can determine, and doubtless not uniformly in all reserve banks, the extent of the organization which will be found advantageous for this department. Among other things, the auditing could properly be included. A department of bank examinations, operating in conjunction with the comptroller's office, would also seem a natural part of such a department. The conduct of a credit bureau, however, for information regarding those borrowing from member banks, would seem more properly a part of the governor's operations.

For effectiveness each chairman must, of course, have broadest latitude for action at discretion without delay for consultation and without red tape. This renders it vital that each should come into frequent association with the Federal Reserve Board for the more intimate understanding of the board's desires. If the chairmen of the several reserve banks should have a periodical joint conference with the Federal Reserve Board, perhaps twice each year, this purpose would be served. They would thus also learn general conditions, and, not least, they would gain new inspiration.

From such a view of the organization of the department and of the illimitable opportunities for useful and patriotic service the office of chairman of the board is one of greatest responsibility, and calls for steadfastness, wisdom, and statesmanship.

Respectfully submitted.

For the committee:

JOHN PERRIN, *Chairman*.

WASHINGTON, D. C., October 22, 1914.

Circular No. 12.]

STOCK SUBSCRIPTIONS OF MEMBER BANKS.

FEDERAL RESERVE BOARD,
Washington, November 6, 1914.

Section 2 of the Federal reserve act requires all national banks to signify within 60 days after the passage of the act whether or not such banks intend to become members of the Federal Reserve System, and also requires those banks which accept the provisions of the act to subscribe to an amount equal to 6 per cent of the unimpaired capital and surplus of such banks within 30 days after notice from the organization committee.

In allotting the stock to banks the organization committee adopted as a basis of allotment the capital and surplus of the applying bank at the time its application was filed. Accordingly, the transcript of the stock register forwarded to you to enable you to open your stock ledger shows the amount of capital stock of your bank allotted to the various member banks by the organization committee on the basis described.

Section 5 of the Federal reserve act reads as follows:

"The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said

increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank."

In order that your records may show the original subscription of all applying banks, your stock ledger should contain the amount allotted to each bank by the organization committee. The increase or decrease of capital stock of any member bank should likewise appear on your stock ledger as a separate item.

Your attention is called to the note on the back of the application for stock in the Federal reserve banks for use by member banks, which reads as follows:

"If 6 per cent of the capital and surplus shown amounts to a sum not divisible by 100, any excess or fractional part of \$100 will entitle the applying bank to one additional share of stock. Accordingly, in filling out the subscription on the reverse side of this form, the sum representing 6 per cent of the capital and surplus should be divided by 100 in order to obtain the number of shares to be applied for, and if an excess of less than \$100 remains, one additional share should be added to the application and included in the subscription of stock to be paid for at par in accordance with the provisions of the Federal reserve act."

From this you will observe that if 6 per cent of the capital and surplus of any applying bank amounts to a sum not divisible by 100, any excess or fractional part of \$100 would entitle the applying bank to one additional share of stock. Accordingly, it may happen that a bank has already been allotted a share of stock for a fractional part of \$100. In such case, if the applying bank increases its capital stock, its total allotment should be for an amount equal to 6 per cent of its total capital and surplus, including the increase. Therefore, in order to ascertain the amount of new stock to be issued such bank it will be necessary to determine to what amount the bank is entitled in toto and then to deduct the number of shares of stock previously allotted.

Forms for use by banks applying for additional stock will be furnished to the several Federal reserve banks or to any applying bank, and these applications when properly filled out should be sent first to the Federal reserve bank of the appropriate district and by the officers of such reserve bank to the Federal Reserve Board for approval.

Pending the adoption of these forms by the Federal Reserve Board all Federal reserve banks should collect from the subscribing banks an installment equal to one-third of the stock allotted to such bank by the organization committee, and should subsequently adjust on the stock ledger of the Federal reserve bank the matter of any additional stock subscribed.

DECREASE IN CAPITAL STOCK.

In case of decrease of capital stock and surplus of any member bank the Federal reserve bank should likewise collect from the subscribing bank as its first installment an amount equal to one-third of the stock allotted to such bank by the organization committee, and should subsequently adjust with such bank any amount due on account of any decrease either in capital or surplus.

In all cases where a subscribing bank notifies the Federal reserve bank of increase or decrease, this notice should be transmitted to the Federal Reserve Board for its action.

It is important that the records of the Federal Reserve Board, the Federal reserve bank, and the Comptroller of the Currency should be in accord at all times, and to this end notice of any change in capital and surplus should be transmitted to the Federal Reserve Board when received from any member bank.

The subscribing bank should be notified by the Federal reserve bank of this method of adjustment whenever any increase or decrease of capital stock or surplus is called to the attention of the Federal reserve bank.

STATE BANK APPLICATIONS.

The same method should be adopted in dealing with State bank subscriptions. The by-laws governing conditions under which State banks may become members and a form of application for stock subscription by State banks will be furnished to all Federal reserve banks in due course, with full instructions. In the meantime Federal reserve banks should collect the first installment from those State banks which have been allotted stock by the reserve bank organization committee. All other applications for stock should be referred to the Federal Reserve Board.

H. PARKER WILLIS, *Secretary.*

Circular No. 12a. (Superseding Circular No. 12.)]

STOCK SUBSCRIPTIONS OF MEMBER BANKS.

NOTE.—Attention is called to corrections in heavy type on page 2 of this circular, showing that amount to be paid as first installment is equal to one-sixth instead of one-third of amount allotted by Reserve Bank Organization Committee.

FEDERAL RESERVE BOARD,
Washington, November 25, 1914.

Section 2 of the Federal reserve act requires all national banks to signify within 60 days after the passage of the act whether or not such banks intend to become members of the Federal reserve system, and also requires those banks which accept the provisions of the act to subscribe to an amount equal to 6 per cent of the unimpaired capital and surplus of such banks within 30 days after notice from the organization committee.

In allotting the stock to banks the organization committee adopted as a basis of allotment the capital and surplus of the applying bank at the time its application was filed. Accordingly the transcript of the stock register forwarded to you to enable you to open your stock ledger shows the amount of capital stock of your bank allotted to the various member banks by the organization committee on the basis described.

Section 5 of the Federal reserve act reads as follows:

"The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to 6 per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to 6 per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of 1 per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be

executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank."

In order that your records may show the original subscription of all applying banks, your stock ledger should contain the amount allotted to each bank by the organization committee. The increase or decrease of capital stock of any member bank should likewise appear on your stock ledger as a separate item.

Your attention is called to the note on the back of the application for stock in the Federal reserve banks for use by member banks, which reads as follows:

"If 6 per cent of the capital and surplus shown amounts to a sum not divisible by 100, any excess or fractional part of \$100 will entitle the applying bank to one additional share of stock. Accordingly, in filling out the subscription on the reverse side of this form, the sum representing 6 per cent of the capital and surplus should be divided by 100 in order to obtain the number of shares to be applied for, and if an excess of less than \$100 remains, one additional share should be added to the application and included in the subscription of stock to be paid for at par in accordance with the provisions of the Federal reserve act."

From this you will observe that if 6 per cent of the capital and surplus of any applying bank amounts to a sum not divisible by 100, any excess or fractional part of \$100 would entitle the applying bank to one additional share of stock. Accordingly it may happen that a bank has already been allotted a share of stock for a fractional part of \$100.

INCREASE IN CAPITAL STOCK.

In the event of any increase in capital stock or surplus by a member bank its total allotment should be for an amount equal to 6 per cent of its total capital and surplus, including the increase. Therefore, in order to ascertain the amount of new stock to be issued such bank it will be necessary to determine to what amount the bank is entitled in toto and then to deduct the number of shares of stock previously allotted.

Forms for use by banks applying for additional stock will be furnished to the several Federal reserve banks or to any applying bank, and these applications when properly filled out should be sent first to the Federal reserve bank of the appropriate district and by the officers of such reserve bank to the Federal Reserve Board for approval.

Pending the adoption of these forms by the Federal Reserve Board all Federal reserve banks should collect from the subscribing banks an installment equal to one-sixth of the stock allotted to such bank by the organization committee, and should subsequently adjust on the stock ledger of the Federal reserve bank the matter of any additional stock subscribed.

DECREASE IN CAPITAL STOCK.

In case of decrease of capital stock and surplus of any member bank the Federal reserve bank should likewise collect from the subscribing bank as its first installment an amount equal to one-sixth of the stock allotted to such bank by the organization committee, and should subsequently adjust with such bank any amount due on account of any decrease either in capital or surplus.

In all cases where a subscribing bank notifies the Federal reserve bank of increase or decrease, this notice should be transmitted to the Federal Reserve Board for its action.

It is important that the records of the Federal Reserve Board, the Federal reserve bank, and the Comptroller of the Currency should be in accord at all times, and to this end notice of any change in capital and surplus should be transmitted to the Federal Reserve Board when received from any member bank.

The subscribing bank should be notified by the Federal reserve bank of this method of adjustment whenever any increase or decrease of capital stock or surplus is called to the attention of the Federal reserve bank.

STATE BANK APPLICATIONS.

The same method should be adopted to dealing with State bank subscriptions. The by-laws governing conditions under which State banks may become members and a form of application for stock subscription by State banks will be furnished to all Federal reserve banks in due course, with full instructions. In the meantime Federal reserve banks should collect the first installment from those State banks which have been allotted stock by the reserve bank organization committee. All other applications for stock should be referred to the Federal Reserve Board.

H. PARKER WILLIS, *Secretary*.

Circular No. 13.]

FEDERAL RESERVE BOARD,
Washington, November 10, 1914.

To all Federal reserve banks:

In view of the impending opening of the Federal reserve banks, the Federal Reserve Board deems it proper to outline in this circular, in broad general terms, the discount policy which it believes might be pursued to advantage by the Federal reserve banks at the outset.

While the most acute stage of the recent financial emergency appears to have passed, the conditions in other countries make it necessary that the United States should, to the utmost degree of efficiency, organize and make available its own resources in order that it may provide for its own needs and replace the facilities suddenly destroyed by the closing of so many of the accustomed channels of credit and trade.

The directors and governors of the Federal reserve banks at a conference in Washington on October 20 and 21 recommended that the banks be opened without attempting at the outset to perform all the functions and duties contemplated in the act, but that they be prepared to accept deposits of reserves payable in lawful money, to discount bills of exchange and commercial paper, and to accept the deposit (after the reserve payments had been made) of checks drawn by member banks on any Federal reserve bank or member banks in the reserve and central reserve cities within their respective districts. It was the opinion of the conference that arrangements for the exercise of the additional powers granted by the act to the Federal reserve banks be completed as rapidly as the establishment of safe and efficient organizations would permit. The Federal Reserve Board is in accord with these suggestions.

It should be borne in mind that, although our exports are showing a gratifying increase, there is still a large cash balance due to European countries for which gold may be demanded, and that a large quantity of American securities held abroad may be returned to the United States, while on the other hand more than \$300,000,000 of emergency currency must be gradually retired. No one can estimate the duration of the war or predict what will be the financial and commercial conditions when peace shall be restored. Our own industrial development has been greatly facilitated by foreign capital, and we have been accustomed to borrow large sums annually in Europe and to sell American securities there, which attracted foreigners because of their higher rate of return as compared with European investments. It is probable that at the end of the war interest rates in Europe will be higher than they have been in the past and greater investment returns will be yielded. The tremendous destruction of property and waste of capital will not only check the flow of European savings to the United States, but may dispose foreign investors to return us the securities they now hold. Lower money rates in this country would be likely to accentuate this tendency, while, on the other hand, higher interest rates and larger investment returns on our side would check it.

The function of the Federal reserve banks is, therefore, of a twofold character. They should extend credit facilities, particularly where the abnormal conditions now prevailing have created emergencies demanding prompt accommodation; and, on the other hand, they must protect the gold holdings of this country in order that such holdings may remain adequate to meet demands that may be made upon them. While credit facilities should be liberally extended in some parts of the country, it would appear advisable to proceed with

caution in districts not in need of immediate relief and to await the effect of the release of reserves and of the changes which the credit mechanism of the country is about to experience before establishing a definite discount policy.

Commercial paper.—The Federal Reserve Board, under section 13 of the Federal reserve act, has the right to determine or define the character of paper eligible for discount, to wit, "notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes."

Bearing in mind the requirements of the present situation, the Federal Reserve Board believes that it would be inadvisable at this time to issue regulations placing a narrow or restricted interpretation upon the section defining the character of paper eligible for discount. It has therefore been decided not at this time to enter upon the discussion of the question of single or double name paper, but to admit both forms of bills to rediscount with the Federal reserve banks.

The Federal Reserve Board proposes, however, to prescribe the following basic principles for the guidance of Federal reserve banks and member banks:

(a) No bill shall be admitted to rediscount by Federal reserve banks the proceeds of which have been or are to be applied to permanent investment, and regulation No. 2 has been formulated with the intention of giving effect to this principle, and is herewith inclosed.

(b) Maturities of discounted bills should be well distributed. It is the well-established practice of European reserve banks to invest only in obligations maturing within a short time. It is a general rule not to purchase paper having more than 90 days to run. The maturities of these notes and bills are so well distributed as to enable those banks within a short time to strengthen their hold on the general money market by collecting at maturity or by reinvesting at a higher rate a very substantial proportion of their assets. Acting on this principle, the Federal reserve banks should be in position to liquidate, whenever such a course is necessary, substantially one-third of all their investments within a period of 30 days. Departure from this principle will endanger the safety of the system. It is observance of this principle that affords justification for permitting member banks to count balances with Federal reserve banks as the equivalent of cash reserves.

(c) Bills should be essentially self-liquidating.

Safety requires not only the bills¹ held by the Federal reserve banks should be of short and well-distributed maturities, but, in addition, should be of such character that it is reasonably certain that they can be collected when they mature. They ought to be essentially "self-liquidating," or, in other words, should represent in every case some distinct step or stage in the productive or distributive process—the progression of goods from producer to consumer. The more nearly these steps approach the final consumer the smaller will be the amount involved in each transaction as represented by the bill, and the more automatically self-liquidating will be its character.

Double-name paper drawn on a purchaser against an actual sale of goods affords, from the economic point of view, *prima facie* evidence of the character of the transaction from which it arose. Single-name notes, now so freely used in the United States, may represent the same kind of transactions as those bearing two names. Inasmuch, however, as the single-name paper does not show on its face the character of the transaction out of which it arose—an admitted weakness of this form of paper—it is incumbent upon each Federal reserve bank to insist that the character of the business and the general status of the concern supplying such paper should be carefully examined in order that the discounting bank may be certain that no such single-name paper has been issued for purposes excluded by the act, such as investments of a permanent or speculative nature. Only careful inquiry on these points will render it safe and proper for a Federal reserve bank to consider such a paper a "self-liquidating" investment at maturity.

Turning now to the question of procedure, it is not thought necessary to impose upon the banks the observance of methods which would involve needless difficulty or delay. It is therefore not deemed essential that a statement of condition be attached to each bill when sold to a Federal reserve bank. It is,

¹ For brevity's sake, the words "bills" and "notes" whenever used in these paragraphs include bills, notes, and drafts, as specified in the act.

however, thought advisable by the board to require that on and after January 15, 1915, no paper shall be discounted or purchased by Federal reserve banks that does not bear on its face the evidence that it is eligible for rediscount under the principles and definitions above outlined and as expressed in regulation No. 2, and that the seller of the paper has given a statement to the member bank. A rubber stamp stating, in substance—

ELIGIBLE FOR REDISCOUNT WITH
FEDERAL RESERVE BANKS
UNDER REGULATIONS OF
FEDERAL RESERVE BOARD CIRCULAR No. 13.
CREDIT FILE No. ———.
DISTRICT No. ———.
(Name of Member Bank.)

is considered sufficient evidence to that effect at this time. It would be understood that the Federal reserve bank could at any time call for the appropriate credit file, and it may be expected that the data thus gathered—particularly the files of more important firms and of those rediscounting in larger bureau which, in turn, may eventually develop into a central credit bureau for the benefit of all the Federal reserve banks of the system.

amounts—will be so catalogued as to furnish the nucleus of an effective credit For the time being certified accountants' statements will not be required. This matter is reserved for regulation at a later date. The required statement as outlined above should be signed under oath and should contain a short general description of the character of the business, the balance sheet, and the profit and loss account. Assets should be divided into permanent or fixed investments, slow assets, and quick assets. On the liability side should be shown capital, long-term loans, and short-term loans. Short-term loans should be in proper proportion to quick assets, and the statement should contain satisfactory evidence that short-term paper is not being sold against permanent or slow investments. The statement should furthermore show the maximum aggregate amount up to which the concern supplying this paper expects to borrow on short credit or sale of its paper, and the concern giving the statement should obligate itself to obtain the member bank's consent before exceeding the agreed limit. The affixing of the stamp stating such paper to be eligible for rediscount will be considered a solemn and binding declaration by the member bank that the statement has been examined from this point of view and that the paper bought complies with all the requirements of the law and the regulations hereby imposed.

The board appends two additional regulations: No. 3, covering discount transactions on or before January 15; No. 4, discount operations on and after January 15.

Six-months' paper.—The law provides that the Federal Reserve Board shall fix the percentage of its capital (by which is understood that portion of the capital paid in) up to which a Federal reserve bank may discount "notes, drafts, and bills drawn or issued for agricultural purposes, or based on live stock, and having a maturity not exceeding six months." The law permits the Federal Reserve Board to deal with each Federal reserve bank individually in fixing this limit.

The Federal Reserve Board has determined to fix this limit generally, and until further notice, at 25 per cent of the capital that shall have been paid in from time to time. For those districts in which, during certain seasons, six-months' paper is particularly required to carry through agricultural operations the limit will be increased from time to time upon requests made by Federal reserve banks to the Federal Reserve Board.

Regulation No. 5, relating to six-months' paper, is appended hereto.

Regulation No. 6, relating to bank acceptances, is likewise appended.

CHARLES S. HAMLIN, *Governor.*

EXHIBIT F.

FEDERAL ADVISORY COUNCIL.

The creation of a Federal advisory council is provided for in section 12 of the Federal reserve act in the following words:

"There is hereby created a Federal advisory council which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors, subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may, in addition to the meetings above provided for, hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term."

As the selection of members of the council could not be made until after the organization of the board of directors of each Federal reserve bank, complete membership of this body was not determined until December 8, 1914, at which date notification was received by the Federal Reserve Board that the last of the elections of members of the advisory council had been held. The Federal Reserve Board thereupon sent to each newly elected member of the advisory council an invitation to meet at Washington on December 15, 1914, recognizing that the Federal advisory council is a separate and independent body, but feeling that courtesy demanded that an invitation should be extended to meet with the Federal Reserve Board at the earliest possible date. The meeting was accordingly held December 15 and 16, 1914, and the Federal advisory council organized by electing the following officers: James B. Forgan, president; Levi L. Rue, vice president. Executive committee: Messrs. James B. Forgan, Levi L. Rue, J. P. Morgan, Daniel G. Wing, and W. S. Rowe.

Under the provision of the Federal reserve act cited above the term of office for a member of the Federal advisory council is one year, during which period at least four meetings are to be held. The present members of the council, whose terms of office will expire December 31, 1915, are as follows:

Daniel C. Wing, representing district No. 1, president First National Bank, Boston.

J. P. Morgan, representing district No. 2, J. P. Morgan & Co., New York.

L. L. Rue, representing district No. 3, president Philadelphia National Bank, Philadelphia.

W. S. Rowe, representing district No. 4, president First National Bank, Cincinnati; director Federal Reserve Bank of Cleveland.

George J. Seay, representing district No. 5, governor Federal Reserve Bank of Richmond.

Charles A. Lysterly, representing district No. 6, president First National Bank, Chattanooga.

James B. Forgan, representing district No. 7, president First National Bank, Chicago; director Federal Reserve Bank of Chicago.

Rolla Wells, representing district No. 8, governor Federal Reserve Bank of St. Louis.

C. T. Jaffray, representing district No. 9, first vice president First National Bank, Minneapolis.

E. F. Swinney, representing district No. 10, president First National Bank, Kansas City.

J. Howard Ardrey, representing district No. 11, cashier City National Bank, Dallas.

Archibald Kains, representing district No. 12, governor Federal Reserve Bank of San Francisco.

EXHIBIT G.

OFFICERS AND DIRECTORS OF FEDERAL RESERVE BANKS.

Section 4 of the Federal reserve act provides that the board of directors of each Federal reserve bank shall consist of nine members, holding office for three years, and divided into classes A, B, and C.

"Class A shall consist of three members, who shall be chosen by and be representative of the stockholding banks.

"Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

"Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected."

Under the provisions of this section directors of classes A and B were elected by the member banks in each district, while those of class C, including the Federal reserve agents and deputy Federal reserve agents, in each case also chairman and vice chairman, respectively, of the board of directors of the Federal reserve bank, were appointed by the Federal Reserve Board. Following is the provision contained in section 4 concerning the term of office of directors:

"At the first meeting of the full board of directors of each Federal reserve bank it shall be the duty of the directors of classes A, B, and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors."

The directors of the 12 Federal reserve banks elected or appointed under the provisions of section 4 above cited, with their terms of office, are as follows, the governors of the several banks for convenience being also included in this list:

Boards of directors and governors of the Federal reserve banks and Federal reserve agents.

DISTRICT NO. 1.—FEDERAL RESERVE BANK OF BOSTON.

[Frederic H. Curtiss, chairman and Federal reserve agent. Walter S. Hackney, deputy chairman and deputy reserve agent. Alfred L. Aiken, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	(T. P. Beal.....	Boston, Mass.....	Dec. 31, 1917	1
	C. G. Sanford.....	Bridgeport, Conn.....	Dec. 31, 1916	2
	A. M. Heard.....	Manchester, N. H.....	Dec. 31, 1915	3
B.....	(Chas. A. Morss.....	Boston, Mass.....	Dec. 31, 1917	1
	E. R. Morse.....	Proctor, Vt.....	Dec. 31, 1916	2
	Chas. G. Washburn.....	Worcester, Mass.....	Dec. 31, 1915	3
C.....	(Frederic H. Curtiss.....	Boston, Mass.....	Dec. 31, 1917	1
	Walter S. Hackney.....	Providence, R. I.....	Dec. 31, 1916	2
	Allen Hollis.....	Concord, N. H.....	Dec. 31, 1915	3

DISTRICT NO. 2.—FEDERAL RESERVE BANK OF NEW YORK.

[Pierre Jay, chairman and Federal reserve agent. Charles Starek, deputy chairman and deputy reserve agent. Benjamin Strong, jr., governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	(William Woodward.....	New York, N. Y.....	Dec. 31, 1916	1
	R. H. Treman.....	Ithaca, N. Y.....	Dec. 31, 1917	2
	F. D. Locke.....	Buffalo, N. Y.....	Dec. 31, 1915	3
B.....	(H. R. Towne.....	New York, N. Y.....	Dec. 31, 1916	1
	W. B. Thompson.....	Yonkers, N. Y.....	Dec. 31, 1917	2
	L. R. Palmer.....	Croton-on-Hudson, N. Y.....	Dec. 31, 1915	3
C.....	(Pierre Jay.....	New York, N. Y.....	Dec. 31, 1916	1
	Charles Starek.....	do.....	Dec. 31, 1917	2
	George F. Peabody.....	Lake George, N. Y.....	Dec. 31, 1915	3

Boards of directors and governors of the Federal reserve banks and Federal reserve agents—Continued.

DISTRICT NO. 3.—FEDERAL RESERVE BANK OF PHILADELPHIA.

[Richard L. Austin, chairman and Federal reserve agent. George M. La Monte, deputy chairman and deputy reserve agent. Charles J. Rhoads, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	C. J. Rhoads.....	Philadelphia, Pa.....	Dec. 31, 1917	1
	W. H. Peck.....	Scranton, Pa.....	Dec. 31, 1915	2
	M. J. Murphy.....	do.....	Dec. 31, 1916	3
B.....	A. B. Johnson.....	Philadelphia, Pa.....	do.....	1
	E. S. Stuart.....	do.....	Dec. 31, 1917	2
	G. W. F. Gaunt.....	Mullica Hill, N. J.....	Dec. 31, 1915	3
C.....	Richard L. Austin.....	Philadelphia, Pa.....	Dec. 31, 1917	1
	George M. La Monte.....	Bound Brook, N. J.....	Dec. 31, 1915	2
	George W. Norris.....	Philadelphia, Pa.....	Dec. 31, 1916	3

DISTRICT NO. 4.—FEDERAL RESERVE BANK OF CLEVELAND.

[D. C. Wills, chairman and Federal reserve agent. Lyman H. Treadway, deputy chairman and deputy reserve agent. E. R. Fancher, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	Robert Wardrop.....	Pittsburgh, Pa.....	Dec. 31, 1917	1
	W. S. Rowe.....	Cincinnati, Ohio.....	Dec. 31, 1916	2
	S. B. Rankin.....	South Charleston, Ohio.....	Dec. 31, 1915	3
B.....	T. A. Combs.....	Lexington, Ky.....	Dec. 31, 1917	1
	C. H. Bagley.....	Corry, Pa.....	Dec. 31, 1916	2
	A. B. Patrick.....	Salversville, Ky.....	Dec. 31, 1915	3
C.....	D. C. Wills.....	Bellevue, Pa.....	Dec. 31, 1917	1
	Lyman H. Treadway.....	Cleveland, Ohio.....	Dec. 31, 1916	2
	H. P. Wolfe.....	Columbus, Ohio.....	Dec. 31, 1915	3

DISTRICT NO. 5.—FEDERAL RESERVE BANK OF RICHMOND.

[William Ingle, chairman and Federal reserve agent. James A. Moncure, deputy chairman and deputy reserve agent. George J. Seay, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	Waldo Newcomer.....	Baltimore, Md.....	Dec. 31, 1915	1
	J. F. Bruton.....	Wilson, N. C.....	Dec. 31, 1916	2
	Edwin Mann.....	Bluefield, W. Va.....	Dec. 31, 1917	3
B.....	Geo. J. Seay.....	Richmond, Va.....	Dec. 31, 1915	1
	D. R. Coker.....	Hartsville, S. C.....	Dec. 31, 1917	2
	J. F. Oyster.....	Washington, D. C.....	Dec. 31, 1916	3
C.....	William Ingle.....	Baltimore, Md.....	Dec. 31, 1917	1
	James A. Moncure.....	Richmond, Va.....	Dec. 31, 1916	2
	M. F. H. Gouverneur.....	Wilmington, N. C.....	Dec. 31, 1915	3

DISTRICT NO. 6.—FEDERAL RESERVE BANK OF ATLANTA.

[M. B. Wellborn, chairman and Federal reserve agent. Edward T. Brown, deputy chairman and deputy reserve agent. Joseph A. McCord, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	L. P. Hillyer.....	Macon, Ga.....	Dec. 31, 1915	1
	F. W. Foote.....	Hattiesburg, Miss.....	Dec. 31, 1916	2
	W. H. Toole.....	Winder, Ga.....	Dec. 31, 1917	3
B.....	P. H. Saunders.....	New Orleans, La.....	do.....	1
	J. A. McCrary.....	Decatur, Ga.....	Dec. 31, 1915	2
	W. H. Hartford.....	Nashville, Tenn.....	Dec. 31, 1916	3
C.....	M. B. Wellborn.....	Anniston, Ala.....	Dec. 31, 1917	1
	Edward T. Brown.....	Atlanta, Ga.....	Dec. 31, 1915	2
	W. H. Kettig.....	Birmingham, Ala.....	Dec. 31, 1916	3

Boards of directors and governors of the Federal reserve banks and Federal reserve agents—Continued.

DISTRICT NO. 7.—FEDERAL RESERVE BANK OF CHICAGO.

[Charles H. Bosworth, chairman and Federal reserve agent. W. L. McLallen, deputy chairman and deputy reserve agent. James B. McDougal, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	Geo. M. Reynolds.....	Chicago, Ill.....	Dec. 31, 1915	1
	J. B. Forgan.....	do.....	Dec. 31, 1916	2
	E. L. Johnson.....	Waterloo, Iowa.....	Dec. 31, 1917	3
B.....	Henry B. Joy.....	Detroit, Mich.....	Dec. 31, 1916	1
	M. B. Hutchison.....	Ottumwa, Iowa.....	Dec. 31, 1917	2
	A. H. Vogel.....	Milwaukee, Wis.....	Dec. 31, 1915	3
C.....	Charles H. Bosworth.....	Chicago, Ill.....	Dec. 31, 1916	1
	W. L. McLallen.....	Columbia City, Ind.....	Dec. 31, 1917	2
	E. T. Meredith.....	Des Moines, Iowa.....	Dec. 31, 1915	3

DISTRICT NO. 8.—FEDERAL RESERVE BANK OF ST. LOUIS.

[William McC. Martin, chairman and Federal reserve agent. Walter W. Smith, deputy chairman and deputy reserve agent. Rolla Wells, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	Walker Hill.....	St. Louis, Mo.....	Dec. 31, 1917	1
	F. O. Watts.....	do.....	Dec. 31, 1915	2
	Oscar Fenley.....	Louisville, Ky.....	Dec. 31, 1916	3
B.....	Murray Carlton.....	St. Louis, Mo.....	Dec. 31, 1915	1
	W. B. Plunkett.....	Little Rock, Ark.....	Dec. 31, 1916	2
	LeRoy Percy.....	Greenville, Miss.....	Dec. 31, 1917	3
C.....	W. McC. Martin.....	St. Louis, Mo.....	Dec. 31, 1915	1
	Walter W. Smith.....	do.....	Dec. 31, 1916	2
	John W. Boehne.....	Evansville, Ind.....	Dec. 31, 1917	3

DISTRICT NO. 9.—FEDERAL RESERVE BANK OF MINNEAPOLIS.

[John H. Rich, chairman and Federal reserve agent. P. M. Kerst, deputy chairman and deputy reserve agent. Theodore Wold, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	E. W. Decker.....	Minneapolis, Minn.....	Dec. 31, 1916	1
	L. B. Hanna.....	Fargo, N. Dak.....	Dec. 31, 1917	2
	J. C. Bassett.....	Aberdeen, S. Dak.....	Dec. 31, 1915	3
B.....	F. R. Bigelow.....	St. Paul, Minn.....	Dec. 31, 1916	1
	F. P. Hixon.....	La Crosse, Wis.....	Dec. 31, 1915	2
	N. B. Holter.....	Helena, Mont.....	Dec. 31, 1917	3
C.....	John H. Rich.....	Red Wing, Minn.....	do.....	1
	P. M. Kerst.....	St. Paul, Minn.....	Dec. 31, 1915	2
	John W. Black.....	Houghton, Mich.....	Dec. 31, 1916	3

DISTRICT NO. 10.—FEDERAL RESERVE BANK OF KANSAS CITY.

[J. Z. Miller, chairman and Federal reserve agent. A. E. Ramsey, deputy chairman and deputy reserve agent. Charles M. Sawyer, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	Gordon Jones.....	Denver, Colo.....	Dec. 31, 1915	1
	W. J. Bailey.....	Atchison, Kans.....	Dec. 31, 1916	2
	C. E. Burnham.....	Norfolk, Nebr.....	Dec. 31, 1917	3
B.....	M. L. McClure.....	Kansas City, Mo.....	Dec. 31, 1916	1
	T. C. Byrne.....	Omaha, Nebr.....	Dec. 31, 1915	2
	L. A. Wilson.....	El Reno, Okla.....	Dec. 31, 1917	3
C.....	J. Z. Miller, jr.....	Kansas City, Mo.....	do.....	1
	A. E. Ramsey.....	Muskogee, Okla.....	Dec. 31, 1916	2
	R. H. Malone.....	Denver, Colo.....	Dec. 31, 1915	3

Boards of directors and governors of the Federal reserve banks and Federal reserve agents—Continued.

DISTRICT NO. 11.—FEDERAL RESERVE BANK OF DALLAS.

[E. O. Tonnison, chairman and Federal reserve agent. W. F. McCaleb, deputy chairman and deputy reserve agent. Oscar Wells, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	Oscar Wells.....	Houston, Tex.....	Dec. 31, 1915	1
	E. K. Smith.....	Shreveport, La.....	Dec. 31, 1917	2
	B. A. McKinney.....	Durant, Okla.....	Dec. 31, 1916	3
B.....	Marion Sansom.....	Fort Worth, Tex.....	do.....	1
	Frank Kell.....	Wichita Falls, Tex.....	Dec. 31, 1915	2
	J. J. Culbertson.....	Paris, Tex.....	Dec. 31, 1917	3
C.....	E. O. Tonnison.....	Dallas, Tex.....	do.....	1
	W. F. McCaleb.....	San Antonio, Tex.....	Dec. 31, 1915	2
	Felix Martinez.....	El Paso, Tex.....	Dec. 31, 1916	3

DISTRICT NO. 12.—FEDERAL RESERVE BANK OF SAN FRANCISCO.

John Perrin, chairman and Federal reserve agent; Claude Gatch, deputy chairman and deputy reserve agent; Archibald Kains, governor.]

Class.	Name.	Residence.	Term expires.	Group.
A.....	C. K. McIntosh.....	San Francisco, Cal.....	Dec. 31, 1916	1
	J. K. Lynch.....	do.....	Dec. 31, 1917	2
	Alden Anderson.....	Sacramento, Cal.....	Dec. 31, 1915	3
B.....	A. B. C. Dohrman.....	San Francisco, Cal.....	Dec. 31, 1917	1
	J. A. McGregor.....	do.....	Dec. 31, 1915	2
	E. H. Cox.....	Madera, Cal.....	Dec. 31, 1916	3
C.....	John Perrin.....	Pasadena, Cal.....	Dec. 31, 1917	1
	Claude Gatch.....	San Francisco, Cal.....	Dec. 31, 1916	2
	Chas. E. Peabody.....	Seattle, Wash.....	Dec. 31, 1915	3

SALARIES OF OFFICERS AND DIRECTORS OF FEDERAL RESERVE BANKS.

In considering the salaries paid to officers and directors of Federal Reserve Banks, it is important that note should be taken of various considerations which have an important bearing upon the salaries established, and which account for variations in the amount paid different officials of like position. Under the provisions of section 4 the Federal reserve agents are to receive a compensation to be fixed by the Federal Reserve Board, and their salaries were therefore established by the Federal Reserve Board in first instance, the aim being to avoid payment of salaries which could be considered excessive, but at the same time to pay such salaries as would be sufficiently similar to salaries paid to bank officers in the various districts, to enable the board to secure for this important position men of the very highest type as to ability, experience, and character. The following salaries were accordingly fixed:

District No. 1. Boston, Frederic H. Curtiss.....	\$10,000
District No. 2. New York, Pierre Jay.....	16,000
District No. 3. Philadelphia, Richard L. Austin.....	10,000
District No. 4. Cleveland, D. C. Wills.....	10,000
District No. 5. Richmond, William Ingle.....	10,000
District No. 6. Atlanta, M. B. Wellborn.....	6,000
District No. 7. Chicago, C. H. Bosworth.....	10,000
District No. 8. St. Louis, William McC. Martin.....	10,000
District No. 9. Minneapolis, John H. Rich.....	7,500
District No. 10. Kansas City, J. Z. Miller, jr.....	7,500
District No. 11. Dallas, E. O. Tonnison.....	6,000
District No. 12. San Francisco, John Perrin.....	12,000

The salaries and fees to be paid to deputy Federal reserve agents, directors, and to other officers of the Federal reserve banks, including governors, etc., were, unlike those of the Federal reserve agents, to be fixed by the boards of

directors of the several Federal reserve banks, subject to the approval of the Federal Reserve Board, as provided in the following paragraph of section 4:

"Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers, or employees shall be subject to the approval of the Federal Reserve Board."

In accordance with this provision, the several banks have established salaries for the chief executive officer, or governor; and the salaries thus fixed, which have been approved by the Federal Reserve Board, are given below. In addition to this, the board has in a few cases approved the salaries fixed by the banks for officers other than the governor, but as the banks in several districts have not yet completed their organization, it is not deemed advisable to give at this time a list, which would necessarily be incomplete, of the salaries paid to the subordinate officials of all the banks.

District No. 1. Federal Reserve Bank of Boston; Alfred L. Aiken, governor	\$15,000
District No. 2. Federal Reserve Bank of New York; Benjamin Strong, Jr., governor	30,000
District No. 3. Federal Reserve Bank of Philadelphia; Charles J. Rhoads, governor	20,000
District No. 4. Federal Reserve Bank of Cleveland; E. R. Fancher, governor	16,000
District No. 5. Federal Reserve Bank of Richmond; George J. Seay, governor	10,000
District No. 6. Federal Reserve Bank of Atlanta; Joseph A. McCord, governor	9,000
District No. 7. Federal Reserve Bank of Chicago; James B. McDougal, governor	20,000
District No. 8. Federal Reserve Bank of St. Louis; Rolla Wells, governor	20,000
District No. 9. Federal Reserve Bank of Minneapolis; Theodore Wold, governor	15,000
District No. 10. Federal Reserve Bank of Kansas City; Charles M. Sawyer, governor	7,500
District No. 11. Federal Reserve Bank of Dallas; Oscar Wells, governor	12,000
District No. 12. Federal Reserve Bank of San Francisco; Archibald Kains, governor	15,000

The board has decided to approve for the directors of the Federal reserve banks a fee of \$20 for attending a directors' meeting and of \$10 for attending meetings of the executive committee. In addition to this, directors living more than 50 miles from the reserve banks will be allowed a per diem fee of \$10 for every day's absence from home necessarily involved in such attendance, plus actual necessary traveling expenses.

EXHIBIT H.

CONVENTION OF DIRECTORS.

The Federal Reserve Board from the outset recognized the desirability of obtaining the hearty cooperation of the board of directors of the Federal reserve banks, as well as the advantage which would be obtained from a general unity and similarity of action on their part. It was, therefore, determined to invite the several banks to send a delegation representing them to a convention to be held in Washington on October 20, 21, and 22, and the following letter was sent to each bank:

FEDERAL RESERVE BOARD, *Washington.*

SIR: The Federal Reserve Board has determined to hold a general meeting on Tuesday, October 20, to which shall be invited the governor and a committee of three or more representing the directors of each Federal reserve bank. The invitation is extended to all directors of Federal reserve banks if they choose to attend, but it is desired that the committee of three already referred to shall in any event be present.

I have the honor to inform you of this invitation and ask that your board of directors shall shortly designate the directors who are to serve upon this committee, informing them of the date of the meeting and requesting them to attend.

The meeting will be devoted to a discussion of the general features and more important details regarding the organization of Federal reserve banks. The attached series of questions will give you an outline of some of the pertinent subjects to be taken up; others will doubtless be raised. It is desired that the representatives of each bank shall come prepared to present fully and completely the views of their institution in order that there may be a general interchange and comparison of ideas. To this end you are requested to ascertain the views of your directors with respect to the by-laws and organization chart already presented to you and to designate as a member of the committee at least one member who will be prepared to examine the proposed plans of accounting. It is desirable also that the class "C" directors shall consider and present definite views of the functions of the Federal reserve agent and of his deputy in order that these views may be standardized as a basis for a general ruling on the subject.

I have the honor to be, respectfully, yours,

QUESTIONS FOR DISCUSSION AT MEETING OF FEDERAL RESERVE BANK DELEGATES.

[Inclosed with letter of invitation.]

Question No. 1.

What is the earliest date when you think you can be ready to open the Federal Reserve Bank of ————?

Question No. 2.

Have you any suggestions or criticisms to offer in regard to the tentative by-laws sent you?

Question No. 3.

Have you any suggestions, criticisms, etc., in regard to tentative organization chart sent you?

Question No. 4.

What has been done with respect to securing temporary or permanent quarters?

Question No. 5.

What has been done with respect to staff and how large a staff do you expect to open with?

Question No. 6.

What functions laid down in the law do you expect to undertake at the beginning? When do you believe that the general clearing of checks can be begun?

Question No. 7.

Can the Federal Reserve Bank of ——— successfully arrange to convert emergency currency in its district into Federal reserve notes? What can you suggest as suitable steps toward this end?

Question No. 8.

What suggestions have you to make in regard to the uniformity of blanks for reports, etc., to the Federal Reserve Board, uniformity of statistics, and accounting methods?

The response to this invitation was unexpectedly hearty, many directors volunteering to attend the convention. The board also voted to extend the invitation to members of the preliminary committee on organization, which had included: Messrs. Edmund D. Fisher, Andrew A. Benton, O. Howard Wolfe, Joseph A. Broderick, Ralph Dawson, Stephen H. Farnham, Harry E. Ward, and C. C. Robinson, of New York City.

On October 20 there assembled in the office of the board about 100 persons, including directors, governors, members of the preliminary committee on organization, and others. The first step was to subdivide those in attendance into a number of committees to deal with the various topics demanding consideration. These committees conducted their inquiries during the 20th and 21st and ultimately reported to the board, such reports being herewith presented in Exhibit E as Circular No. 11.

Subsequent to this convention a committee of governors of reserve banks on October 23 requested the secretary of the board, acting unofficially, to place

the contracts for the manufacture of all forms intended to constitute a uniform system of accounting for use by the Federal reserve banks, and to investigate and report upon the uses of machines intended for the practical application of such forms. This request was complied with by the secretary of the board. He ultimately rendered a report to the governors covering the results of his efforts in this connection.

As a result of the work thus done, a uniform system of accounting has been established in the several banks, and provisions made for regular detailed reports to the Federal Reserve Board, such reports constituting the basis for the compilation of statistical data.

EXHIBIT I.

APPEALS FROM DECISIONS OF THE RESERVE BANK ORGANIZATION COMMITTEE.

The Federal reserve act in section 2 contains the following provisions governing the establishment of districts under the Federal reserve system:

"As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, acting as '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. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act."

Under the provisions of the act as given above the decisions of the organization committee shall be subject to review by the Federal Reserve Board, and reviews have accordingly been requested in seven instances. For the reasons stated in the text of the report, the Federal Reserve Board has deferred the hearing of these appeals until more urgent duties connected with the organization of the 12 Federal reserve banks should have been disposed of, the anticipation being that action on the appeals could be taken shortly after the 1st of January, 1915. A summary of the proceedings on appeals thus far had is given below:

1. Petition of Pittsburgh member banks praying that Pittsburgh instead of Cleveland be designated as the Federal reserve city in District No. 4.

(A) Petition and brief filed on behalf of Pittsburgh banks August 12, 1914.

(B) Cleveland banks notified September 15, 1914, that this petition and brief had been filed and requested to designate some representative to appear in their behalf.

(C) Col. J. J. Sullivan designated to represent Cleveland banks September 22, 1914.

(D) Copies of petition and brief of Pittsburgh banks sent to Cleveland Clearing House Association September 25, 1914.

(E) Reply brief of Cleveland filed October 3, 1914.

(F) Hearing set for January 13, 1915.

2. Petition of Baltimore banks praying that Baltimore instead of Richmond be designated as the Federal reserve city in District No. 5.

(A) September 11, 1914, Baltimore filed petition and brief.

(B) September 15, 1914, Richmond banks notified that such petition and brief had been filed and requested to designate some representative to appear in their behalf.

(C) September 21, 1914, L. R. Page and Eppa Hunton designated to represent Richmond banks.

(D) September 25, 1914, petition and brief of Baltimore banks mailed to Messrs. Hunton and Page.

(E) October 5, 1914, reply brief filed in behalf of Richmond banks.

(F) Hearing set for January 6, 1915.

3. Petition of member banks located in Wetzel and Tyler Counties, W. Va., praying that said counties be transferred from District No. 5 to District No. 4.

(A) September 15, 1914, petition and brief filed in behalf of member banks of Wetzel and Tyler Counties.

(B) October 27, 1914, Federal Reserve Bank of Richmond notified that such petition and brief had been filed, and requested to designate some representative to appear in its behalf.

(C) October 30, 1914, Eppa Hunton designated to represent Federal Reserve Bank of Richmond.

(D) November 27, 1914, petition and brief of Wetzel and Tyler Counties mailed to Eppa Hunton.

(E) December 19, 1914, reply brief filed.

(F) Hearing set for January 27, 1915.

4. Petition of member banks of southern Oklahoma praying that the territory in which they are located be transferred from District No. 11 to District No. 10.

(A) September 15, 1914, petition and brief filed in behalf of the banks of southern Oklahoma.

(B) October 27, 1914, Federal Reserve Bank of Dallas notified that said petition and brief had been filed in behalf of the banks of southern Oklahoma, and requested to designate a representative to appear in its behalf.

(C) December 16, 1914, petition and brief of member banks of southern Oklahoma mailed to Federal Reserve Agent Tenison, Federal Reserve Bank of Dallas, with request that they be referred to representative when designated.

(D) December 26, 1914, Charles C. Huff designated to represent Federal Reserve Bank of Dallas.

(E) December 29, 1914, permission granted by Federal Reserve Board to file reply brief as late as January 27, 1915.

(F) Hearing set for February 10, 1915.

5. Petition of member banks in northern New Jersey praying that the territory in which they are located be transferred from District No. 3 to District No. 2.

(A) September 26, 1914, petition and brief in behalf of banks of northern New Jersey filed.

(B) October 26, 1914, Federal Reserve Bank of Philadelphia notified that said petition and brief had been filed, and requested to designate a representative to appear in its behalf.

(C) November 1, 1914, Charles J. Rhoads designated as representative of the Federal Reserve Bank of Philadelphia.

(D) November 17, 1914, petition and brief of the banks of northern New Jersey mailed to Charles J. Rhoads.

(E) January 4, 1915, reply brief filed.

(F) Hearing set for January 20, 1915.

6. Petition of Stewart, Montgomery, and Robertson Counties, of Tennessee, to be transferred from District No. 6 to District No. 8.

(A) October 6, 1914, petition and brief filed in behalf of banks of Stewart, Montgomery, and Robertson Counties.

(B) October 27, 1914, Federal Reserve Bank of Atlanta notified of petition and requested to designate a representative to appear in its behalf.

(C) December 19, 1914, petition and brief of Stewart, Montgomery, and Robertson Counties forwarded to Federal Reserve Agent Wellborn, Federal Reserve Bank of Atlanta, to be referred to representative when appointed.

(D) Counsel of Federal Reserve Bank of Atlanta appointed, December 30, 1914, as representative.

(E) Hearing set for February 17, 1915.

7. Petition of member banks of Nebraska and Wyoming to be transferred from District No. 10 to District No. 7.

(A) Petition in behalf of the banks of Nebraska and Wyoming filed November 14, and brief in support thereof November 17.

(B) November 17, 1914, Federal Reserve Bank of Kansas City notified that said petition and brief had been filed, and requested to designate representative to appear in its behalf.

(C) November 28, 1914, Robinson & Goodrich, Commerce Building, Kansas City, Mo., designated to represent the Federal Reserve Bank of Kansas City.

(D) November 28, 1914, petition and brief of Nebraska and Wyoming member banks mailed to representatives above named.

(E) December 4, 1914, Federal Reserve Board granted 30-day extension for filing reply brief.

(F) Hearing set for February 3, 1915.

EXHIBIT J.

Amount of Federal reserve notes, by denominations received, issued to Federal reserve agents, and on hand in the Federal Reserve Issue Division, Office Comptroller of the Currency, Dec. 31, 1914.

Bank.	5's.	10's.	20's.	Total.
Boston:				
Received.....	\$4,880,000	\$10,000,000	\$6,000,000	\$20,880,000
Issued.....	1,360,000	640,000	.....	2,000,000
On hand.....	3,520,000	9,360,000	6,000,000	18,880,000
New York:				
Received.....	15,280,000	36,160,000	12,880,000	64,320,000
Issued.....	3,600,000	3,520,000	2,880,000	10,000,000
On hand.....	11,680,000	32,640,000	10,000,000	54,320,000
Philadelphia:				
Received.....	3,780,000	6,000,000	3,600,000	13,380,000
Issued.....	2,000,000	1,000,000	.....	3,000,000
On hand.....	1,780,000	5,000,000	3,600,000	10,380,000
Cleveland:				
Received.....	1,440,000	4,000,000	2,400,000	7,840,000
Issued.....	640,000	1,360,000	.....	2,000,000
On hand.....	800,000	2,640,000	2,000,000	5,440,000
Richmond:				
Received.....	2,600,000	4,000,000	2,400,000	9,000,000
Issued.....	1,400,000	600,000	.....	2,000,000
On hand.....	1,200,000	3,400,000	1,440,000	6,040,000
Atlanta:				
Received.....	2,600,000	4,000,000	2,400,000	9,000,000
Issued.....	1,240,000	760,000	.....	2,000,000
On hand.....	1,360,000	3,240,000	2,400,000	7,000,000
Chicago:				
Received.....	6,340,000	10,000,000	6,000,000	22,340,000
Issued.....	2,780,000	200,000	800,000	3,780,000
On hand.....	3,560,000	9,800,000	5,200,000	18,560,000
St. Louis:				
Received.....	3,900,000	6,000,000	3,600,000	13,500,000
Issued.....	2,160,000	840,000	400,000	3,400,000
On hand.....	1,740,000	5,160,000	3,200,000	10,100,000
Minneapolis:				
Received.....	1,380,000	4,000,000	2,400,000	7,780,000
Issued.....	880,000	1,120,000	.....	2,000,000
On hand.....	500,000	2,880,000	2,400,000	5,780,000
Kansas City:				
Received.....	1,740,000	4,000,000	2,400,000	8,140,000
Issued.....	880,000	1,120,000	.....	2,000,000
On hand.....	860,000	2,880,000	2,400,000	6,140,000
Dallas:				
Received.....	2,600,000	4,000,000	2,400,000	9,000,000
Issued.....	1,240,000	760,000	.....	2,000,000
On hand.....	1,360,000	3,240,000	2,400,000	7,000,000
San Francisco:				
Received.....	1,680,000	4,000,000	2,400,000	8,080,000
Issued.....	840,000	1,160,000	.....	2,000,000
On hand.....	840,000	2,840,000	2,400,000	6,080,000

Amount of Federal reserve notes, by denominations received, etc.—Continued.

RECAPITULATION.

Bank.	5's.	10's.	20's.	Total.
Total received:				
Notes.....	9,644,000	9,616,000	2,444,000	21,704,000
Amounts.....	\$48,220,000	\$96,160,000	\$48,880,000	\$193,260,000
Total issued: *				
Notes.....	3,804,000	1,308,000	272,000	5,384,000
Amounts.....	\$19,020,000	\$13,080,000	\$5,440,000	\$37,540,000
Total on hand:				
Notes.....	5,340,000	8,308,000	2,172,000	16,320,000
Amounts.....	\$29,200,000	\$83,080,000	\$43,440,000	\$155,720,000

EXHIBIT K.

CONDITION OF THE FEDERAL RESERVE BANKS.

The first and second weekly bank statements made public by the Federal Reserve Board on Saturday, November 21 and 28, respectively, gave only the figures for the system as a whole without showing the condition of the individual banks as at close of business on the preceding days.

In the following statement figures showing condition of each of the Federal reserve banks as at close of business on November 20 and 27 are given in addition to the totals for the reserve system as a whole. Inasmuch as the returns for November 20 were somewhat incomplete, the weekly statement as originally issued contained some estimated totals. These latter have been corrected since, with the result that the totals for November 20 in the statement below differ somewhat from those in the original statement issued by the board on November 21.

Resources and liabilities of each of the 12 Federal reserve banks and combined resources and liabilities of the Federal reserve system at the end of each week beginning Nov. 20 and ending Dec. 31, 1914.

RESOURCES.

[In thousands of dollars.]

	Boston.	New York.	Philadel- phia.	Cleve- land.	Rich- mond.	Atlanta.
Gold coin and certificates:						
Nov. 20 ¹	10,620	86,161	17,533	15,317	7,423	2,550
Nov. 27.....	13,840	86,600	16,824	16,604	7,997	3,045
Dec. 4.....	13,150	85,961	17,488	17,131	8,121	3,060
Dec. 11.....	12,700	86,858	17,840	17,033	8,407	3,080
Dec. 18.....	12,150	85,960	19,394	17,589	8,432	3,109
Dec. 24.....	12,395	85,401	17,588	17,568	8,452	3,129
Dec. 31.....	12,919	82,235	16,642	17,674	8,688	3,133
Legal-tender notes, silver certificates, and subsidiary coin:						
Nov. 20 ¹	5,962	22,150	1,935	1,147	430	1,303
Nov. 27.....	1,977	21,015	3,012	1,249	276	1,752
Dec. 4.....	1,731	20,259	2,053	1,443	220	1,926
Dec. 11.....	539	18,374	2,313	1,309	82	2,008
Dec. 18.....	85	16,344	2,123	698	48	2,040
Dec. 24.....	673	16,885	2,139	1,089	56	2,077
Dec. 31.....	935	16,864	2,626	1,017	112	2,193
Total cash:						
Nov. 20 ¹	16,582	108,311	19,468	16,464	7,853	3,853
Nov. 27.....	15,817	107,015	19,836	17,853	8,273	4,797
Dec. 4.....	14,881	106,220	19,541	18,574	8,341	4,986
Dec. 11.....	13,269	105,232	20,153	18,342	8,489	5,088
Dec. 18.....	12,236	102,304	21,517	18,287	8,480	5,149
Dec. 24.....	13,068	102,286	19,727	18,657	8,468	5,206
Dec. 31.....	13,854	99,099	19,268	18,691	8,800	5,326
Bills discounted and loans:						
Nov. 20 ¹	10	3,023	880	98	213	25
Nov. 27.....	217	2,715	899	98	405	297
Dec. 4.....	93	3,059	537	363	748	367
Dec. 11.....	145	2,035	289	579	963	645
Dec. 18.....	170	988	140	537	1,184	731
Dec. 24.....	97	620	279	506	2,022	1,079
Dec. 31.....	154	279	786	506	2,022	1,079

¹ Corrected figures. Figures given in the original weekly report were partly estimated.

Resources and liabilities of each of the 12 Federal reserve banks, etc.—Continued.

RESOURCES—Continued.

[In thousands of dollars.]

	Boston.	New York.	Philadel- phia.	Cleve- land.	Rich- mond.	Atlanta.
Investments, Dec. 31.....		50			*	
All other resources:						
Nov. 20 ¹	15	18	18	19	12	7
Nov. 27.....	22	20	21	21	12	10
Dec. 4.....	26	37	43	41	12	11
Dec. 11.....	40	44	757	47	11	312
Dec. 18.....	40	516	476	116	19	257
Dec. 24.....	52	2,477	402	150	60	324
Dec. 31.....	68	5,457	1,447	318	213	970
Total resources:						
Nov. 20 ¹	16,607	111,352	19,486	16,483	7,865	3,860
Nov. 27.....	16,056	110,350	20,737	17,874	8,498	4,832
Dec. 4.....	15,000	109,316	20,483	18,713	8,758	5,294
Dec. 11.....	13,444	107,311	21,447	18,752	9,248	5,767
Dec. 18.....	12,446	103,808	22,282	18,982	9,462	6,051
Dec. 24.....	13,217	105,383	20,269	19,344	9,732	6,261
Dec. 31.....	14,076	104,885	21,501	19,515	11,035	7,375

	Chicago.	St. Louis.	Minne- apolis.	Kansas City.	Dallas.	San Fran- cisco.	System total.
Gold coin and certificates:							
Nov. 20 ¹	36,688	5,002	4,627	4,918	5,575	8,531	204,945
Nov. 27.....	37,731	9,194	8,467	8,544	5,959	13,035	227,840
Dec. 4.....	36,538	10,177	9,305	10,309	6,110	13,562	230,912
Dec. 11.....	36,688	10,189	9,497	10,475	6,161	13,145	232,073
Dec. 18.....	37,417	9,875	9,560	10,226	6,263	13,304	233,279
Dec. 24.....	38,669	9,179	9,567	10,179	6,438	14,023	232,568
Dec. 31.....	37,776	9,226	9,904	10,284	6,292	14,296	229,069
Legal-tender notes, silver certificates, and subsidiary coin:							
Nov. 20 ¹	3,304	1	65	156	.....	10	36,463
Nov. 27.....	2,257	2,298	72	402	259	61	34,630
Dec. 4.....	2,232	1,391	66	474	165	60	32,020
Dec. 11.....	1,340	1,333	1	500	283	68	28,170
Dec. 18.....	1,831	781	1	496	391	69	25,008
Dec. 24.....	1,248	792	1	526	191	71	25,748
Dec. 31.....	931	869	21	534	404	72	26,578
Total cash:							
Nov. 20 ¹	39,992	5,003	4,692	5,074	5,575	8,541	241,408
Nov. 27.....	39,988	11,492	8,539	8,946	6,218	13,096	262,470
Dec. 4.....	38,770	11,568	9,371	10,783	6,275	13,622	262,932
Dec. 11.....	38,028	11,522	9,498	10,975	6,444	13,213	260,243
Dec. 18.....	39,348	10,656	9,561	10,722	6,654	13,373	258,287
Dec. 24.....	39,917	9,971	9,568	10,705	6,629	14,094	258,316
Dec. 31.....	38,707	10,095	9,925	10,818	6,696	14,368	255,647
Bills discounted and loans:							
Nov. 20 ¹	1,131	1,000	175	268	19	.....	5,626
Nov. 27.....	1,509	1,073	175	392	173	11	7,383
Dec. 4.....	2,465	1,605	152	434	308	29	9,844
Dec. 11.....	3,395	1,160	94	388	420	605	10,257
Dec. 18.....	3,092	873	84	208	467	685	9,043
Dec. 24.....	3,034	314	402	108	598	787	8,552
Dec. 31.....	2,617	288	1,104	79	927	752	10,593
Investments, Dec. 31.....	205						255
All other resources:							
Nov. 20 ¹	16	.....	7	.....	.....	12	124
Nov. 27.....	30	4	8	.....	9	8	165
Dec. 4.....	45	14	20	18	24	17	308
Dec. 11.....	145	323	26	26	213	32	1,976
Dec. 18.....	775	60	37	29	229	106	2,660
Dec. 24.....	965	128	38	36	53	130	4,815
Dec. 31.....	880	951	271	44	652	78	11,349
Total resources:							
Nov. 20 ¹	41,139	6,003	4,874	5,342	5,594	8,553	247,158
Nov. 27.....	41,527	12,569	8,722	9,338	6,400	13,115	270,018
Dec. 4.....	41,280	13,187	9,543	11,235	6,607	13,668	273,084
Dec. 11.....	41,568	13,005	9,618	11,389	7,077	13,850	272,476
Dec. 18.....	43,215	11,589	9,682	10,959	7,350	14,164	269,990
Dec. 24.....	43,916	10,413	10,008	10,849	7,280	15,011	271,683
Dec. 31.....	42,409	11,334	11,300	10,941	8,275	15,198	277,844

¹ Corrected figures. Figures as given in the original weekly report were partly estimated.

Resources and liabilities of each of the 12 Federal reserve banks, etc.—Continued.

LIABILITIES.

[In thousands of dollars.]

	Boston.	New York.	Philadel- phia.	Cleve- land.	Rich- mond.	Atlanta.
Reserve deposits—net amounts:¹						
Nov. 20 ²	14,982	107,805	17,398	14,457	6,776	3,073
Nov. 27.....	14,383	106,350	18,265	15,845	7,361	4,025
Dec. 4.....	13,381	105,593	17,658	16,667	7,344	4,390
Dec. 11.....	11,825	103,837	19,359	16,669	7,643	4,855
Dec. 18.....	10,827	100,486	20,196	16,830	7,669	5,006
Dec. 24.....	11,598	102,061	18,183	17,171	7,851	5,146
Dec. 31.....	12,457	101,563	19,415	17,344	9,161	6,155
Federal reserve notes in circulation—net amounts:³						
Nov. 20 ²	5	225	—	—	—	—
Nov. 27.....	55	673	384	—	45	20
Dec. 4.....	—	401	737	16	321	117
Dec. 11.....	—	152	—	52	512	125
Dec. 18.....	—	—	—	121	700	258
Dec. 24.....	—	—	—	142	787	329
Dec. 31.....	—	—	—	140	780	434
Capital paid in:						
Nov. 20 ²	1,620	3,322	2,088	2,026	1,089	787
Nov. 27.....	1,618	3,322	2,088	2,029	1,092	787
Dec. 4.....	1,619	3,322	2,088	2,030	1,093	787
Dec. 11.....	1,619	3,322	2,088	2,031	1,093	787
Dec. 18.....	1,619	3,322	2,086	2,031	1,093	787
Dec. 24.....	1,619	3,322	2,086	2,031	1,094	786
Dec. 31.....	1,619	3,322	2,086	2,031	1,094	786
Total liabilities:						
Nov. 20 ²	16,607	111,352	19,486	16,483	7,865	3,860
Nov. 27.....	16,056	110,350	20,737	17,874	8,498	4,832
Dec. 4.....	15,000	109,316	20,483	18,713	8,758	5,294
Dec. 11.....	13,444	107,311	21,447	18,752	9,248	5,767
Dec. 18.....	12,446	103,808	22,282	18,982	9,462	6,051
Dec. 24.....	13,217	105,383	20,260	19,344	9,732	6,261
Dec. 31.....	14,076	104,885	21,501	19,515	11,035	7,375

	Chicago.	St. Louis.	Minne- apolis.	Kansas City.	Dallas.	San Fran- cisco.	System total.
Reserve deposits—net amounts:¹							
Nov. 20 ²	38,124	5,068	3,896	4,407	4,637	7,257	227,880
Nov. 27.....	38,275	11,645	7,742	8,115	5,442	11,820	249,268
Dec. 4.....	37,709	11,851	8,620	9,983	5,498	12,373	261,067
Dec. 11.....	37,598	11,588	8,730	10,130	5,903	12,440	250,937
Dec. 18.....	39,354	10,063	8,868	9,907	6,085	12,763	248,084
Dec. 24.....	39,779	9,446	9,194	9,853	5,939	13,565	249,786
Dec. 31.....	38,495	10,372	10,486	9,942	6,909	13,719	256,018
Federal reserve notes in circulation—net amounts:³							
Nov. 20 ²	820	—	170	—	—	—	1,220
Nov. 27.....	1,057	—	172	289	—	—	2,700
Dec. 4.....	1,374	413	120	320	151	—	3,970
Dec. 11.....	1,472	494	25	329	216	115	3,492
Dec. 18.....	1,663	603	—	126	309	76	3,856
Dec. 24.....	1,941	44	—	69	385	150	3,847
Dec. 31.....	1,717	39	—	72	410	183	3,775
Capital paid in:							
Nov. 20 ²	2,195	935	808	935	957	1,296	18,058
Nov. 27.....	2,195	924	808	934	958	1,295	18,050
Dec. 4.....	2,197	923	803	932	958	1,295	18,047
Dec. 11.....	2,198	923	803	930	958	1,295	18,047
Dec. 18.....	2,198	923	814	926	956	1,295	18,050
Dec. 24.....	2,196	923	814	927	956	1,296	18,050
Dec. 31.....	2,197	923	814	927	956	1,296	18,051
Total liabilities:							
Nov. 20 ²	41,139	6,003	4,874	5,342	5,594	8,553	247,158
Nov. 27.....	41,527	12,569	8,722	9,338	6,400	13,115	270,018
Dec. 4.....	41,280	13,187	9,543	11,235	6,607	13,668	273,084
Dec. 11.....	41,568	13,005	9,618	11,389	7,077	13,850	272,476
Dec. 18.....	43,215	11,589	9,682	10,959	7,350	14,164	269,990
Dec. 24.....	43,916	10,413	10,008	10,849	7,280	15,011	271,683
Dec. 31.....	42,409	11,334	11,300	10,941	8,275	15,198	277,844

¹ Corrected figures. Figures as given in the original weekly report were partly estimated.² After deduction of items in transit between Federal reserve banks.³ Less amounts in hands of the banks themselves and of gold and lawful money deposited with Federal reserve agents for retirement of outstanding notes.

EXHIBIT L.

STATEMENT A.

NET BALANCES OF FEDERAL RESERVE BANKS.

The following table shows the net balances reported by each Federal reserve bank as due from and to each other Federal reserve bank at close of business on December 31, 1914. Figures under asterisks give the balances due from the Federal reserve bank shown on the left-hand margin on the same horizontal line to the Federal reserve bank shown at the top of the column. Figures without asterisks give net balances due to the Federal reserve bank shown on the left-hand margin from the Federal reserve bank shown at the top of the column.

The figures shown in the last column to the right give the total net balances due to or from the Federal reserve bank on the left-hand margin on the same horizontal line, as reported by each bank. For the purpose of checking the accuracy of the operations the figures in each column have been added and the column totals combined into one grand total which must equal the total net balance due from all Federal reserve banks, or the amount in transit between the several Federal reserve banks.

Net balances of each Federal reserve bank due from and due to each other Federal reserve bank at close of business Dec. 31, 1914.

Banks.	Boston.	New York.	Philadel- phia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minne- apolis.	Kansas City.	Dallas.	San Fran- cisco.	Total.
	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>
Boston.....	*	1,721,026	5,810	9,839	.....	8,367	25,000	50,000	.....	500	6,321	.....	1,735,867
New York.....	1,721,001	*	1,279,754	548,617	1,584,598	1,746,247	1,515,362	45,212	177,509	1,197,378	764,722	1,338,436	8,386,410
Philadelphia.....	5,810	63,718	.....	.....	7,781	2,306	1	51	4	143	57,743	68	120,961
Cleveland.....	9,839	518,617	.....	.....	.....	2,244	5,789	1,750	.....	.....	1,630	.....	536,609
Richmond.....	1,261,564	*	7,841	.....	.....	17,654	17,000	5,978	.....	.....	290	.....	1,224,757
Atlanta.....	8,678	732,087	5,066	2,500	29,623	.....	101,286	22,512	353	5,000	32,791	.....	524,278
Chicago.....	25,000	306,496	1	5,789	7,000	99,187	.....	8,177	1,084,144	167,255	156,803	35,097	1,018,103
St. Louis.....	50,000	57,712	71	1,750	9,010	14,514	8,587	.....	108,847	839,817	575,268	13	1,536,561
Minneapolis.....	*	157,510	4	.....	.....	353	280,728	108,847	.....	.....	.....	.....	547,442
Kansas City.....	1,000	1,168,000	*	*	*	5,000	295,000	698,000	.....	*	100,000	.....	1,477,000
Dallas.....	6,321	120,848	69,500	1,630	33	32,792	171,813	133,400	.....	48,097	.....	.....	89,166
San Francisco.....	.....	209,413	33	.....	.....	.....	20,054	.....	.....	10	.....	.....	229,510
Total.....	2,997,595	884,959	1,356,384	566,865	1,608,417	1,603,750	1,777,478	928,903	1,370,857	215,362	3,296,672	1,373,614	7,927,218

STATEMENT B.

Statements B and C give a digest of the reports of Federal reserve agents, showing the manner in which initial reserve payments were made by member banks from their own vaults and other correspondent banks, and the composition of reserves held on December 4, 1914.

Five of the Federal reserve banks did not report the initial reserve payments received by them, but gave merely the amounts received from reserve agents for the account of member banks. The figures in column A of Statement B, therefore, are the amounts reported by them as due to member banks on December 4.

In the case of Dallas the amount due on December 22 was taken as being probably nearer the total reserve payment than the figures on December 4.

The percentage of gold and gold certificates to total reserves, including national bank notes, held by the 12 Federal reserve banks on December 4, as indicated in Statement C, was 87.7 per cent. The lowest percentage, 61.1 per cent, is shown for Atlanta. Minneapolis and San Francisco show a percentage in excess of 99 per cent.

Initial reserve payments made from member banks' own vaults and through correspondent banks.

	A Total re- serve pay- ments re- ceived by the Federal reserve bank, as reported by the agent, or deposits on hand on Dec. 4, 1914.	B Reserve payments made by member banks from their own vaults.	C Amounts deposited by corre- spondents to the credit of member banks.	D Per cent C is of A.	E Number of mem- ber banks whose initial deposits were made wholly or in part by corre- spondent banks.	Remarks.
Boston (Nov. 16-17, as reported by Federal reserve agent).	\$13,796,000	\$12,763,820	\$1,032,180	7.5	81	69 banks paid in \$912,180 by transfer from vaults of correspondent banks in reserve cities; in the case of 12 banks the amount of \$120,000, reported as paid in by Boston correspondent banks, represents only part of the initial deposits of these banks, the remainder having been paid in by the banks themselves.
New York (Federal reserve agent's es- timate of Dec. 9, 1914).	105,000,000	103,500,000	1,500,000	1.5	90-100	In a great many cases the banks referred to in columns C to E had shipped gold or lawful money to the correspondents, on whom checks for initial deposits were drawn.
Philadelphia (re- ported by Federal reserve agent un- der date of Dec. 9, 1914).	18,608,488	16,280,622	2,327,866	12.5	249	Of the total shown in column C, \$310,876 was paid in by drafts of 50 member banks on correspondents and \$2,017,190 by correspondent banks upon request of 199 member banks.
Cleveland (reported by Federal re- serve agent under date of Dec. 4, 1914).	16,653,603	15,830,998	822,605	4.9	.....

¹ Over.

² Less than.

Initial reserve payments made from member banks' own vaults and through correspondent banks—Continued.

	A Total reserve payments received by the Federal reserve bank, as reported by the agent, or deposits on hand on Dec. 4, 1914.	B Reserve payments made by member banks from their own vaults.	C Amounts deposited by correspondents to the credit of member banks.	D Per cent C is of A.	E Number of member banks whose initial deposits were made wholly or in part by correspondent banks.	Remarks.
Richmond (reported by Federal reserve agent Dec. 4, 1914).	¹ \$7,343,450	\$6,840,725	-----	-----	91	In many cases the interior banks treated in columns C to E sent their cash deposits to their correspondent bank, particularly at Richmond, with the request that the money be dispatched to the Federal reserve bank for their account. In some instances drafts on New York were sent to the Federal reserve bank.
Atlanta (reported by Federal reserve agent Dec. 8, 1914).	¹ 4,532,626	4,171,518	-----	-----	52	Two-thirds of amount shown in column C was paid in for account of 3 banks.
Chicago (letter of Federal reserve agent, Dec. 22, 1914).	¹ 37,772,497	-----	\$640,190	-----	126	Of the total number of banks stated in column E, 42 banks shipped \$269,110 from their own vaults in addition to \$186,648 deposited by their correspondents and included in the total shown in column C. The total required reserve of the latter is stated as \$880,382. 12 banks not heard from are presumed to have required their correspondents to make initial deposits for them.
St. Louis (letter of Federal reserve agent, Dec. 30, 1914).	10,759,277	10,498,826	260,451	2.4	59	400 banks paid in \$10,315,927 in cash out of their own vaults. Of the 59 banks which made payment through their correspondents, 12 made additional payments of \$182,899 out of their own vaults.
Minneapolis (letter of Federal reserve agent, Dec. 5, 1914).	¹ 8,620,062	-----	-----	-----	-----	A few member banks sent checks on their reserve agents. Initial deposits by the latter for account of the former not accepted, unless the correspondent banks agreed to insist upon the return of the gold paid in.
Kansas City (letter of Federal reserve agent, Dec. 15, 1914).	9,916,062	9,407,983	476,789	4.8	131	By December 15 no information had yet been received from 10 member banks with aggregate payments of reserves of \$31,290.
Dallas (letter of Federal reserve agent, Dec. 22, 1914).	² 6,226,367	4,951,940	-----	-----	167	
San Francisco (letter of Federal reserve agent, Dec. 22, 1914).	¹ 12,373,903	-----	1,568,997	-----	154	Figures given in column E do not refer to those banks which shipped the required amount of lawful money to reimburse their correspondents for making the initial reserve deposits.

¹ Reserve deposits at close of business Dec. 4, 1914.² Reserve deposits at close of business Dec. 22, 1914.

STATEMENT C.

Composition of reserves held by each of the Federal reserve banks and the system as a whole on Dec. 4, 1914.

Composition of reserves.	District No. 1.	District No. 2.	District No. 3.	District No. 4.	District No. 5.	District No. 6.
	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>
Gold bullion and coin.....	55	990	868,410	1,709,935	1,576,525	953,000
Gold certificates.....	13,144,590	59,345,130	14,262,780	11,102,660	6,528,415	2,096,500
Clearing-house certificates (gold certificates).....		26,560,000	2,320,000	4,315,000		
Due from Treasurer U. S. gold redemption fund (F. R. notes).....	5,500	55,000	37,000	3,750	16,250	10,000
Total gold.....	13,150,145	85,961,120	17,488,190	17,131,345	8,121,190	3,059,500
Silver coin.....						349,300
Silver certificates.....	432,771	2,061,291	1,387,777	488,264	76,464	976,259
United States notes.....						
Clearing-house certificates (silver certificates).....		4,680,000				
Total silver.....	432,771	6,741,291	1,387,777	488,264	76,464	1,325,559
National-bank notes.....	22,115	11,260	388,670	2,040		17,755
Legal-tender notes.....	1,298,565	5,887,663	665,090	954,755	143,050	600,897
Clearing-house certificates (legal-tender notes).....		7,630,000				
Total legal tender.....	1,298,565	13,517,663	665,090	954,755	143,050	600,897
Grand total.....	14,903,596	106,231,334	19,929,727	18,576,404	8,340,704	5,003,711
Per cent of gold.....	88.3	80.9	87.8	92.2	97.4	61.1

Composition of reserves.	District No. 7.	District No. 8.	District No. 9.	District No. 10.	District No. 11.	District No. 12.	Total.
	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>	<i>Dollars.</i>
Gold bullion and coin.....	2,429,450	1,375,960	1,258,348	1,106,285	696,620	9,643,470	21,619,028
Gold certificates.....	29,724,900	8,775,730	7,093,240	7,528,355	5,390,420	1,623,650	166,616,370
Clearing-house certificates (gold certificates).....	4,285,000		1,005,000	1,655,000		2,290,000	42,430,000
Due from Treasurer U. S. gold redemption fund (F. R. notes).....	100,000	25,000		20,000	23,000		295,500
Total gold.....	36,539,350	10,176,690	9,356,588	10,309,620	6,110,040	13,557,120	230,960,898
Silver coin.....	44,200				34,843	5	428,348
Silver certificates.....	392,867	413,172	2,911	535	80,145	28,013	6,340,469
United States notes.....							
Clearing-house certificates (silver certificates).....							4,680,000
Total silver.....	437,067	413,172	2,911	535	114,988	28,018	11,448,817
National-bank notes.....	80,000		4,480		1,040	40	527,400
Legal-tender notes.....	1,794,000	978,500	12,985	472,505	51,060	37,629	12,895,699
Clearing-house certificates (legal-tender notes).....							7,630,000
Total legal tender.....	1,794,000	978,500	12,985	472,505	51,060	37,629	20,525,699
Grand total.....	38,850,417	11,568,362	9,376,964	10,782,660	6,276,128	13,622,807	263,462,814
Per cent of gold.....	94.1	88.0	99.8	95.6	97.4	99.5	87.7

EXHIBIT M.

Changes in discount rates of each of the Federal reserve banks and dates when made effective from Nov. 16, 1914, to Jan. 1, 1915.

NO. 1.—MATURITIES OF 30 DAYS AND LESS.

Federal reserve bank at—	Novem- ber, 1914.		December, 1914.																	Jan. 1, 1915.
	16	20	1	2	4	7	9	10	11	15	16	17	18	21	23	24	28	30		
Boston.....	6	5½										5						4½		
New York.....	5½												5		4½					
Philadelphia.....	5½										5		5				4½			
Cleveland.....	6					5½					5									
Richmond.....	6				5½							5								
Atlanta.....	6						5½			5										
Chicago.....	6		5½					5½			5							4½		
St. Louis.....	6													5						
Minneapolis.....	6						5½									5				
Kansas City.....	6										5									
Dallas.....	6								5½				5							
San Francisco.....	6			5½							5							4½		

NO. 2.—MATURITIES OF OVER 30 DAYS TO 60 DAYS, INCLUSIVE.

Federal reserve bank at—	November, 1914.		December, 1914.																	Jan. 1, 1915.
	16	20	1	2	4	7	9	10	15	16	17	18	21	23	24	28	30			
Boston.....	6										5½						5			
New York.....	6											5½		5						
Philadelphia.....	6									5½						5				
Cleveland.....	6									5½										
Richmond.....	6										5½					5				
Atlanta.....	6½			6						5½						5				
Chicago.....	6									5½								5		
St. Louis.....	6												5½							
Minneapolis.....	6½					6									5½					
Kansas City.....	6½				6					5½										
Dallas.....	6½		6									5½					5			
San Francisco.....	6½			6						5½										

NO. 3.—MATURITIES OF OVER 60 DAYS TO 90 DAYS, INCLUSIVE.

Boston.....	6																5		
New York.....	6													5					
Philadelphia.....	6															5			
Cleveland.....	6																		
Richmond.....	6															5½			
Atlanta.....	6½			6												5½			
Chicago.....	6																		5½
St. Louis.....	6																		
Minneapolis.....	6½					6													
Kansas City.....	6½				6														
Dallas.....	6½		6														5½		
San Francisco.....	6½			6															

NO. 4.—MATURITIES OF OVER 90 DAYS (LIVE STOCK AND AGRICULTURAL PAPER)

Boston.....	6																		
New York.....	6																		
Philadelphia.....	6																		
Cleveland.....	6																		
Richmond.....	6																		
Atlanta.....	6½			6															
Chicago.....	6																		
St. Louis.....	6																		
Minneapolis.....	6½					6													
Kansas City.....	6½				6														
Dallas.....	6½		6																
San Francisco.....	6½			6															

Commercial paper rates prevailing at leading centers, as reported daily to the Federal Reserve Board from Nov. 16 to Dec. 31, 1914.

	District No. 1, Boston.	District No. 2, New York.	District No. 3, Philadel- phia.	District No. 4, Cleve- land.	District No. 5, Rich- mond.	District No. 6, Atlanta.
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Nov. 16.	6	5½-6	6-6½	6		6
Nov. 17.	6	5½-6	6	6		6
Nov. 18.	6	5-6		6		6
Nov. 19.	5½	5-6	5½-6			6
Nov. 20.	5½-6	5-6		6		6
Nov. 21.	5½-6	5-6	5½-6	6	5½-6	6
Nov. 23.	5½-6	5-5½	5½-6	6		6
Nov. 24.	5-6	5-5½	5½-6	6		6
Nov. 25.	5-6	5-5½	5-6	6		6
Nov. 27.		5½	5½-6	5½-6		6
Nov. 28.	5-5½	5-5½	5-5½	5½-6		6
Nov. 30.	5-6	4½-5½	5-5½	5½-6	6	6
Dec. 1.	5-6	4½-5½	5-5½	5½-6		6
Dec. 2.	5-6		5½-6	5½-6	6	6
Dec. 3.	5-6	4½-5½	5½-6	5½-6	6	6
Dec. 4.	5-6	4½-5½	5-6	5½-6	6	
Dec. 5.	5-6	4½-5½		5½-6		6
Dec. 7.	5-6	4½-5	5½-6	5	6	6
Dec. 8.	5-6	4½	5½-6	5	6	6
Dec. 9.	5-6	4½-5	5½-6	5	6	6
Dec. 10.	5-6	4-5	5½-6	5	6	6
Dec. 11.	5-6	4-5	5½-6	5		6
Dec. 12.	5-5½	4-5		5	6	
Dec. 14.	5-5½	4-5	5½-6	5-6		
Dec. 15.	5-5½	4-5	5-6	5-6		
Dec. 16.	5-5½	4-5	5-5½	5-6		
Dec. 17.	5-5½	4-5	5-5½			
Dec. 18.	5-5½	4-5	5-5½	6		
Dec. 19.	5-5½	4-5				
Dec. 21.	5-5½	4-5				
Dec. 22.	5-5½	4-5	5-5½	6		
Dec. 23.	5-5½	4-5	5-5½	6		
Dec. 24.	5-5½	4-5				
Dec. 26.		4-5		6		
Dec. 28.		4-5	5-5½	6		
Dec. 29.		4-5		6		
Dec. 30.		4-5				
Dec. 31.		4-4½		6		

Commercial paper rates prevailing at leading centers, as reported daily to the Federal Reserve Board from Nov. 16 to Dec. 31, 1914—Continued.

	District No. 7, Chicago.	District No. 8, St. Louis.	District No. 9, Minne- apolis.	District No. 10, Kansas City.	District No. 11, Dallas.	District No. 12, San Fran- cisco.
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Nov. 16.....	6-6½		6	6-7		6-6½
Nov. 17.....	6-7		6	6-6½		
Nov. 18.....	5½-6½		6	6-6½		
Nov. 19.....	5-6		6	6-6½		
Nov. 20.....			6	6-6½		
Nov. 21.....	5-6			6		
Nov. 23.....	5½-6		5½-6	6		
Nov. 24.....	5-6		5½	6		
Nov. 25.....	5-6		5½	6		
Nov. 27.....	6		5½			
Nov. 28.....	6			6		
Nov. 30.....	5-5½	6	5½	6	6	
Dec. 1.....	5-5½	6	5½	6		
Dec. 2.....	5-5½	6	5	6		
Dec. 3.....	5-5½	6	5	6		
Dec. 4.....	5-5½	6	5	6		
Dec. 5.....	5	6		6		
Dec. 7.....	4½-5	6	5	6		
Dec. 8.....	4½-5	6	5	6		
Dec. 9.....	4½-5	6	5	6		
Dec. 10.....	4½-5	6	5	6		
Dec. 11.....	4½-5	6	5	6		
Dec. 12.....	4½-5	6	5	6		
Dec. 14.....	4½-5	6		6		
Dec. 15.....		6		6		
Dec. 16.....		6		6		
Dec. 17.....	4½-5	6		6		
Dec. 18.....	4½-5	6		6		
Dec. 19.....	4½-5	6		6		
Dec. 21.....	4½-5	5½-6		6		
Dec. 22.....	4½-5	5½-6		6		
Dec. 23.....	4½-5	5½-6		6		
Dec. 24.....	4½-5	5½-6		6		
Dec. 25.....	4½-5	5½-6		6		
Dec. 28.....	4½-5	5-5½				
Dec. 29.....	4½-5					
Dec. 30.....	4½-5					
Dec. 31.....	4½-5					

EXHIBIT N.

COTTON-LOAN FUND.

COMPLETED PLAN AND SUBSCRIPTION AGREEMENT.

Memorandum of plan for the creation of a fund of approximately \$135,000,000 to be used for the purpose of making loans on cotton in the cotton-producing States.

Submitted to the Federal Reserve Board at a meeting of bankers representing banks in New York and St. Louis, and approved by the board on October 24, 1914.

Members of the committee present in person: Messrs. A. H. Wiggin, William Woodward, A. J. Hemphill, and J. S. Alexander, representing the New York bankers, and Mr. Festus J. Wade, of St. Louis, and Mr. Daniel G. Wing, of Boston.

OUTLINE OF PLAN.

It is proposed to create in the manner hereinafter provided a fund of approximately \$135,000,000, to be known as the "Cotton Loan Fund," and to be used for the purposes herein stated. Subscribers to this fund shall be divided into two classes, to be designated respectively as class "A" and class "B" subscribers. With the exception of those in Missouri and Virginia class "A" subscribers shall consist of banks, or other corporations, firms, or individuals located or residing in other than the cotton-producing States of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Texas, Tennessee, and Virginia.

All class "A" subscriptions shall be contingent upon the receipt of subscriptions of that class aggregating \$100,000,000. Class "B" subscriptions shall be made by banks or bankers located or residing in the cotton-producing States above mentioned, and as hereinafter more particularly explained; no class "B" subscriptions shall be required except as a condition of a loan or loans to be made out of the fund to be created, and in such event subscriptions shall not be required to exceed 25 per cent of the amount of the loan applied for.

Each subscriber shall, upon the payment in whole or in part of the amount subscribed for, receive a participation certificate transferable only on the books of the Cotton Loan Committee, showing on its face the class of subscription represented thereby and specifying the terms under which the owner will be entitled to share in the distribution of the moneys realized from the loans made from the fund created. The Cotton Loan Committee may make such rules and regulations with respect to the transfers of certificates as in its discretion it may deem to be advisable: *Provided, however,* That the registered holder of each certificate shall for all purposes of said Committee be deemed the owner thereof.

All class "A" and class "B" certificates shall bear interest at the rate of 6 per cent per annum, payable February 1, 1915, and quarterly thereafter, or, in the discretion of the Cotton Loan Committee, May 1, 1915, and quarterly thereafter.

The Cotton Loan Fund shall be administered under the direction of a committee to be known as the Central Committee, and to be composed of the individual members of the Federal Reserve Board, who are hereby constituted such Committee with the powers and for the purposes herein specified. The Central Committee shall appoint a committee for the general administration of the fund, to be known as the Cotton Loan Committee, and shall delegate to such committee such powers as in its absolute discretion may be necessary or advisable to properly carry out the purposes and safeguard the practical administration of this plan. The Cotton Loan Committee to be named by the Central Committee shall consist of the following: W. P. C. Harding, chairman, Washington, D. C.; Paul M. Warburg, Washington, D. C.; Albert H. Wiggin, New York; James S. Alexander, New York; James B. Forgan, Chicago, Ill.; Festus J. Wade, St. Louis, Mo.; Levi L. Rue, Philadelphia, Pa.; William A. Gaston, Boston, Mass.

The Cotton Loan Committee shall appoint committees in each of the cotton-producing States hereinbefore named, the title of each such committee to include the name of the State in which it shall be required to act for the Cotton Loan Committee, and each State committee shall appoint local committees in

sufficient number to safeguard the practical workings of the plan. All committees appointed to be subject to the approval of the Central Committee and all committees to serve without compensation of any kind.

All loans made from the fund created shall bear interest at the rate of 6 per cent per annum, payable in New York City funds to the Cotton Loan Committee on February 1, 1915, and quarterly thereafter, and all applications for loans must be made through banks or bankers, who shall in each instance accompany the application for such loans with a subscription to class "B" certificates in an amount equal to 25 per cent of the amount of the loan applied for. The subscriber to class "B" certificates applying for a loan for a customer will not be required to indorse the note of such customer and shall not be entitled or permitted to receive from such customer the payment of any commission on account of obtaining such loan. Such subscriber shall, however, in such form as the Cotton Loan Committee shall prescribe, guarantee the prompt and punctual payment by the borrower of interest on such loans and all warehouse charges and insurance premiums in connection with the collateral therefor, and shall undertake to collect such interest for and promptly transmit the same to the Cotton Loan Committee.

All loans made shall be first approved by the proper local committee, by the appropriate State committee, and by two members of the Cotton Loan Committee. When applications for loans have been approved as above provided the notes evidencing same, together with the collateral required under the terms of this plan, must be forwarded to the office of the Cotton Loan Committee, with instructions as to the disposition of the proceeds, and must, as stated, be accompanied with the subscription of the bank or banker forwarding the application to an amount of class "B" certificates equal to 25 per cent of the amount applied for.

In order to make the subscriptions to class "B" certificates immediately available, each subscription accompanied by an application for a loan must be accompanied by a New York draft of the bank or bankers through which the application is made, drawn to the order of the Cotton Loan Fund, or in such manner as the Cotton Loan Committee shall designate, said draft to be for an amount equal to 25 per cent of the loan applied for, and upon the granting of such loan a class "B" certificate for this amount shall be issued. In this manner 75 per cent of each loan will be provided by the fund obtained from class "A" subscribers and 25 per cent from the class "B" subscribers.

Each loan shall be evidenced by a note in form approved by the Cotton Loan Committee, and in addition to the guaranty fund hereinafter described shall be secured by cotton on the basis of 6 cents per pound for middling in such quantity as to provide a margin of 20 per cent above the face amount of the loan: *Provided, however*, That, since 100 bales is the customary commercial unit for cotton, unless otherwise determined by the Cotton Loan Committee in particular instances, no loan shall be made upon the security of less than that quantity.

As evidence of the security offered, each note tendered with an application for a loan must be accompanied by receipts of approved warehouses and by evidence of proper insurance. All cotton accepted as security must be located in warehouses or other buildings under the ownership and control of some person, firm, or corporation other than the borrower, and in approving such loans the local and State committees shall, respectively, pass upon the character of the warehouses, the form and sufficiency of the warehouse receipts and of the insurance, and shall be satisfied that such cotton is free from all liens except that created by the loan or loans from the fund to the borrower; and the said committees shall likewise be satisfied that the cotton offered as security is of the grade or grades specified in the application, none of which shall be under "low middling."

All expenses such as warehouse charges and insurance premiums shall be borne by the borrower.

In addition to the security hereinbefore specified, every applicant granted a loan from the fund shall pay to the Cotton Loan Committee a sum equal to 3 per cent of the face amount of the loan granted, which sum the applicant shall authorize the Cotton Loan Committee to deduct or withhold from the proceeds of such loan. All sums so paid, together with all interest earned from the investment thereof, shall constitute a mutual borrower's guarantee fund, to be drawn upon in the following order of priorities: First, for the payment of expenses of administration, which it is estimated will in no event exceed one-eighth of one per cent of the total fund for which provision is herein made;

second, to make up any deficiency in the amount available for payment of the class A certificates, with interest; and, third, to make up any deficiency in amount available for class B certificates with interest, whether such deficiencies result from losses sustained by reason of any loans made from the said Fund or otherwise; the balance, including all interest earned thereon, shall be returned *pro rata* to the borrowers.

The Cotton Loan Committee shall control the guaranty fund so created and may, in its discretion, invest all or any portion thereof in class A certificates herein provided for.

All applications for loans shall be made not later than February 1, 1915, and, except as hereinafter provided, all loans made shall mature on February 1, 1916, or, at the option of the borrower, may be paid 30 days after notice. If payment is thus anticipated, interest must be paid to the interest date then next ensuing. The Central Committee may, however, in its discretion, authorize the Cotton Loan Committee to extend any or all loans for a period not to exceed six months after February 1, 1916, if in the judgment of said Central Committee conditions at that time justify such extension.

Calls for payment of subscriptions to class A certificates shall be made as nearly *pro rata* as possible. In the event that on February 1, 1915, applications for loans shall not have been received to the extent of the full amount subscribed, the fund shall nevertheless be closed at the amount for which applications for loans mailed or delivered prior to February 2, 1915, shall be granted; and class A subscribers shall be released from the payment of balance of their subscriptions not required to make up said amount: *Provided, always, That* the fund shall not be considered to have been established for any purpose until class A subscriptions shall have been received to the extent of \$100,000,000.

As moneys become available for repayment to the subscribers, they will be applied against both class A and class B certificates, but the percentage of reduction in the case of class B certificates shall be one-half of that in the case of class A certificates until the amount of the latter outstanding shall be reduced to approximately the amount of class B certificates then outstanding, after which the percentage of reduction shall be the same. For example, if a payment is made on the class A certificates to the extent of 10 per cent of the aggregate face amount of such certificates then outstanding, a payment shall at the same time be made upon the class B certificates to the extent of 5 per cent of the aggregate face amount then outstanding. Again, if a payment on the class A certificates is made of an amount equivalent to $3\frac{1}{2}$ per cent of the aggregate face amount then outstanding, at the same time a payment on account of class B certificates will be made of an amount representing $1\frac{1}{4}$ per cent of the aggregate face amount of class B certificates then outstanding, which method of payment shall be continued until the amount of the two classes of certificates outstanding shall be approximately the same, after which all sums distributed shall be divided *pro rata* among all certificate holders, regardless of the two classes.

Any member of the Central Committee may resign by delivering his resignation in writing to the other members, and any vacancy resulting from death, resignation, inability to act, or any other cause shall be filled by the remaining members at a meeting called for the purpose, or in writing without a meeting. Until any such vacancy or vacancies at any time existing shall be so filled the remaining members shall constitute the Central Committee for any and all purposes, and shall be fully authorized to exercise all the powers and perform all the duties thereof. All powers vested in the Central Committee shall require for their exercise the assent or approval, with or without a meeting, of at least a majority of the members thereof at the time. Any member of the Central Committee may act by proxy or power of attorney, executed to any person, whether or not a member of that Committee. No member of the Central Committee shall be personally liable under any circumstances for or on account of any matter or thing whatsoever, except his own individual willful malfeasance, and no member shall be liable for the acts or neglects of any other member. The purposes of the Central Committee shall be, and the Committee shall have full power and authority to do or cause to be done any and all acts and things deemed by it necessary, proper, or expedient in connection with the direction of the administration of the Cotton Loan Fund, and the enumeration herein of specific powers shall not

under any circumstances be construed to limit the general powers and discretion intended to be conferred hereby upon the Central Committee in order fully to authorize it to do or cause to be done any and all such acts and things. The Central Committee may appoint an agent or agents to assist it in accomplishing the purposes and intents hereof, and for the neglects or omissions of such agent or agents (care believed to be reasonable having been exercised in his or their selection), no member of said Committee shall incur any responsibility whatsoever. The Central Committee may employ and may advise with counsel, and for anything done or suffered by it in accordance with the advice of counsel any member of the Committee shall not be liable to any one.

Dated November 30, 1914.

The undersigned, designated as The Central Committee in the outline of Plan for the Cotton Loan Fund dated October 17, 1914, and in the annexed Completed Plan dated November 30, 1914, which has been approved by the Federal Reserve Board, hereby severally accept our appointment as members of said The Central Committee; and agree to assume the general direction of the administration of said Cotton Loan Fund as in said Plan provided.

Dated November 30, 1914.

W. G. MCADOO, *Chairman*,
J. S. WILLIAMS.
CHARLES S. HAMLIN.
PAUL M. WARBURG.
F. A. DELANO.
W. P. G. HARDING.
A. C. MILLER.

NOTE.—Corporations must affix their seals.

SUBSCRIPTION AGREEMENT.

The undersigned hereby assent to the foregoing Plan, dated November 30, 1914, for the creation of a Fund to be known as the Cotton Loan Fund, which has been approved by the Federal Reserve Board, and as class A subscribers mentioned in said Plan, each for himself or itself and not for any other, hereby agree with each other, with all other subscribers and with The Central Committee in said Plan designated and appointed, to contribute to the said Fund, subject to the terms and provisions of said Plan, the sums hereinafter set opposite their respective names, and to pay said sums in New York funds at the office or agency in the City and State of New York, of the Cotton Loan Committee in said Plan mentioned, at one time or from time to time in installments, to or upon the order of said Cotton Loan Committee, as called by it, provided, however, that the undersigned shall be under no obligation hereunder or by virtue hereof until said sums so agreed to be contributed and paid by class A subscribers shall aggregate the sum of one hundred million dollars. This assent and agreement may be executed in any number of counterparts, each of which shall be an original, and all of which shall constitute but one and the same assent and agreement.

In witness whereof the undersigned individuals have hereunto subscribed their names and the undersigned corporations have caused these presents to be executed by their duly authorized officer or officers, and their respective corporate seals to be hereunto affixed this — day of December, 1914.

Names.	Amounts.	Addresses.

EXHIBIT O.

DECISION OF THE RESERVE BANK ORGANIZATION COMMITTEE DETERMINING THE FEDERAL RESERVE DISTRICTS AND THE LOCATION OF THE FEDERAL RESERVE BANKS.

[Under the Federal reserve act approved Dec. 23, 1913.]

The Federal reserve act directs the reserve bank organization committee to "designate not less than 8 nor more than 12 cities, to be known as Federal reserve cities;" to "divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities;" and to apportion the districts "with due regard to the convenience and customary course of business." The act provides that the districts may not necessarily be coterminous with any State or States.

In determining the reserve districts and in designating the cities within such districts where Federal reserve banks shall be severally located, the organization committee has given full consideration to the important factors bearing upon the subject. The committee held public hearings in 18 of the leading cities from the Atlantic to the Pacific and from the Great Lakes to the Gulf, and was materially assisted thereby in determining the districts and the reserve cities.

Every reasonable opportunity has been afforded applicant cities to furnish evidence to support their claims as locations for Federal reserve banks.

More than 200 cities, through their clearing-house associations, chambers of commerce, and other representatives, were heard. Of these, 37 cities asked to be designated as the headquarters of a Federal reserve bank.

The majority of the organization committee, including its chairman and the Secretary of Agriculture, were present at all hearings, and stenographic reports of the proceedings were made for more deliberate consideration. Independent investigations were, in addition, made through the Treasury Department, and the preference of each bank as to the location of the Federal reserve bank with which it desired to be connected was ascertained by an independent card ballot addressed to each of the 7,471 national banks throughout the country which had formally assented to the provisions of the Federal reserve act.

Among the many factors which governed the committee in determining the respective districts and the selection of the cities which have been chosen were:

First. The ability of the member banks within the district to provide the minimum capital of \$4,000,000 required for the Federal reserve bank, on the basis of 6 per cent of the capital stock and surplus of member banks within the district.

Second. The mercantile, industrial, and financial connections existing in each district and the relations between the various portions of the district and the city selected for the location of the Federal reserve bank.

Third. The probable ability of the Federal reserve bank in each district, after organization and after the provisions of the Federal reserve act shall have gone into effect, to meet the legitimate demands of business, whether normal or abnormal, in accordance with the spirit and provisions of the Federal reserve act.

Fourth. The fair and equitable division of the available capital for the Federal reserve banks among the districts created.

Fifth. The general geographical situation of the district, transportation lines, and the facilities for speedy communication between the Federal reserve bank and all portions of the district.

Sixth. The population, area, and prevalent business activities of the district, whether agricultural, manufacturing, mining, or commercial, its record of growth and development in the past, and its prospects for the future.

In determining the several districts the committee has endeavored to follow State lines as closely as practicable, and wherever it has been found necessary to deviate the division has been along lines which are believed to be most convenient and advantageous for the district affected.

The 12 districts and the 12 cities selected for the location of the Federal reserve banks are as follows:

DISTRICT NO. 1.—*The New England States: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut, with the city of Boston as the location of the Federal reserve bank.*

This district contains 445 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of Boston, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$9,924,543.

DISTRICT No. 2.—*The State of New York, with New York City as the location of the Federal reserve bank.*

This district contains 477 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of New York, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$20,621,606; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$20,687,606.

DISTRICT No. 3.—*The States of New Jersey and Delaware and all that part of Pennsylvania located east of the western boundary of the following counties: McKean, Elk, Clearfield, Cambria, and Bedford, with the Federal reserve bank in the city of Philadelphia.*

This district contains 757 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of Philadelphia, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$12,488,138; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$12,500,738.

DISTRICT No. 4.—*The State of Ohio; all that part of Pennsylvania lying west of district No. 3; the counties of Marshall, Ohio, Brooke, and Hancock, in the State of West Virginia; and all that part of the State of Kentucky located east of the western boundary of the following counties: Boone, Grant, Scott, Woodford, Jessamine, Garrard, Lincoln, Pulaski, and McCreary, with the city of Cleveland, Ohio, as the location of the Federal reserve bank.*

This district contains 767 national banks which have accepted the provisions of the Federal Reserve Act. The capital stock of the Federal Reserve Bank of Cleveland, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$12,007,384; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$12,100,384.

DISTRICT No. 5.—*The District of Columbia, and the States of Maryland, Virginia, North Carolina, South Carolina, and all of West Virginia except the counties of Marshall, Ohio, Brooke, and Hancock, with the Federal reserve bank located in the city of Richmond, Va.*

This district contains 475 national banks which have accepted the provisions of the Federal Reserve Act. The capital stock of the Federal Reserve Bank of Richmond, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$6,303,301; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$6,542,713.

DISTRICT No. 6.—*The States of Alabama, Georgia, and Florida; all that part of Tennessee located east of the western boundary of the following counties: Stewart, Houston, Wayne, Humphreys, and Perry; all that part of Mississippi located south of the northern boundary of the following counties: Issaquena, Sharkey, Yazoo, Kemper, Madison, Leake, and Neshoba; and all of the southeastern part of Louisiana located east of the western boundary of the following parishes: Pointe Coupee, Iberville, Assumption, and Terrebonne, with the city of Atlanta, Ga., as the location of the Federal reserve bank.*

This district contains 372 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of Atlanta, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$4,641,193; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$4,702,558.

DISTRICT No. 7.—*The State of Iowa; all that part of Wisconsin located south of the northern boundary of the following counties: Vernon, Sauk, Columbia, Dodge, Washington, and Ozaukee; all of the southern peninsula of Michigan, viz, that part east of Lake Michigan; all that part of Illinois located north of a line forming the southern boundary of the following counties: Hancock, Schuyler, Cass, Sangamon, Christian, Shelby, Cumberland, and Clark; and all that part of Indiana north of a line forming the southern boundary of the following counties: Vigo, Clay, Owen, Monroe, Brown, Bartholomew, Jennings, Ripley, and Ohio, with the Federal reserve bank located in the city of Chicago, Ill.*

This district contains 952 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of Chicago, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$12,479,876; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$12,967,701.

DISTRICT No. 8.—*The State of Arkansas; all that part of Missouri located east of the western boundary of the following counties: Harrison, Daviess, Caldwell, Ray, Lafayette, Johnson, Henry, St. Clair, Cedar, Dade, Lawrence, and Barry; all that part of Illinois not included in district No. 7; all that part of Indiana not included in district No. 7; all that part of Kentucky not included in district No. 4; all that part of Tennessee not included in district No. 6; and all that part of Mississippi not included in district No. 6; with the city of St. Louis, Mo., as the location of the Federal reserve bank.*

This district contains 458 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of St. Louis, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$4,990,761; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$6,367,006.

DISTRICT No. 9.—*The States of Montana, North Dakota, South Dakota, Minnesota; all that part of Wisconsin not included in district No. 7, and all that part of Michigan not included in district No. 7, with the city of Minneapolis, Minn., as the location of the Federal reserve bank.*

This district contains 687 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of Minneapolis, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$4,702,925.

DISTRICT No. 10.—*The States of Kansas, Nebraska, Colorado, and Wyoming; all that part of Missouri not included in district No. 8; all that part of Oklahoma north of a line forming the southern boundary of the following counties: Ellis, Dewey, Blaine, Canadian, Cleveland, Pottawatomie, Seminole, Okfuskee, McIntosh, Muskogee, and Sequoyah; and all that part of New Mexico north of a line forming the southern boundary of the following counties: McKinley, Sandoval, Santa Fe, San Miguel, and Union, with the city of Kansas City, Mo., as the location of the Federal reserve bank.*

This district contains 836 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of Kansas City, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$5,590,015; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$5,600,977.

DISTRICT No. 11.—*The State of Texas; all that part of New Mexico not included in district No. 10; all that part of Oklahoma not included in district No. 10; all that part of Louisiana not included in district No. 6; and the following counties in the State of Arizona: Pima, Graham, Greenlee, Cochise, and Santa Cruz, with the city of Dallas, Tex., as the location of the Federal reserve bank.*

This district contains 731 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of Dallas, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$5,540,020; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$5,653,924.

DISTRICT NO. 12.—*The States of California, Washington, Oregon, Idaho, Nevada, and Utah, and all that part of Arizona not included in district No. 11, with the city of San Francisco, Cal., as the location of the Federal reserve bank.*

This district contains 514 national banks which have accepted the provisions of the Federal reserve act. The capital stock of the Federal Reserve Bank of San Francisco, on the basis of 6 per cent of the total capital stock and surplus of the assenting national banks in the district, will amount to \$7,825,375; and if there be added 6 per cent of the capital stock and surplus of the State banks and trust companies which have applied for membership up to April 1, 1914, the total capital stock will be \$8,115,494.

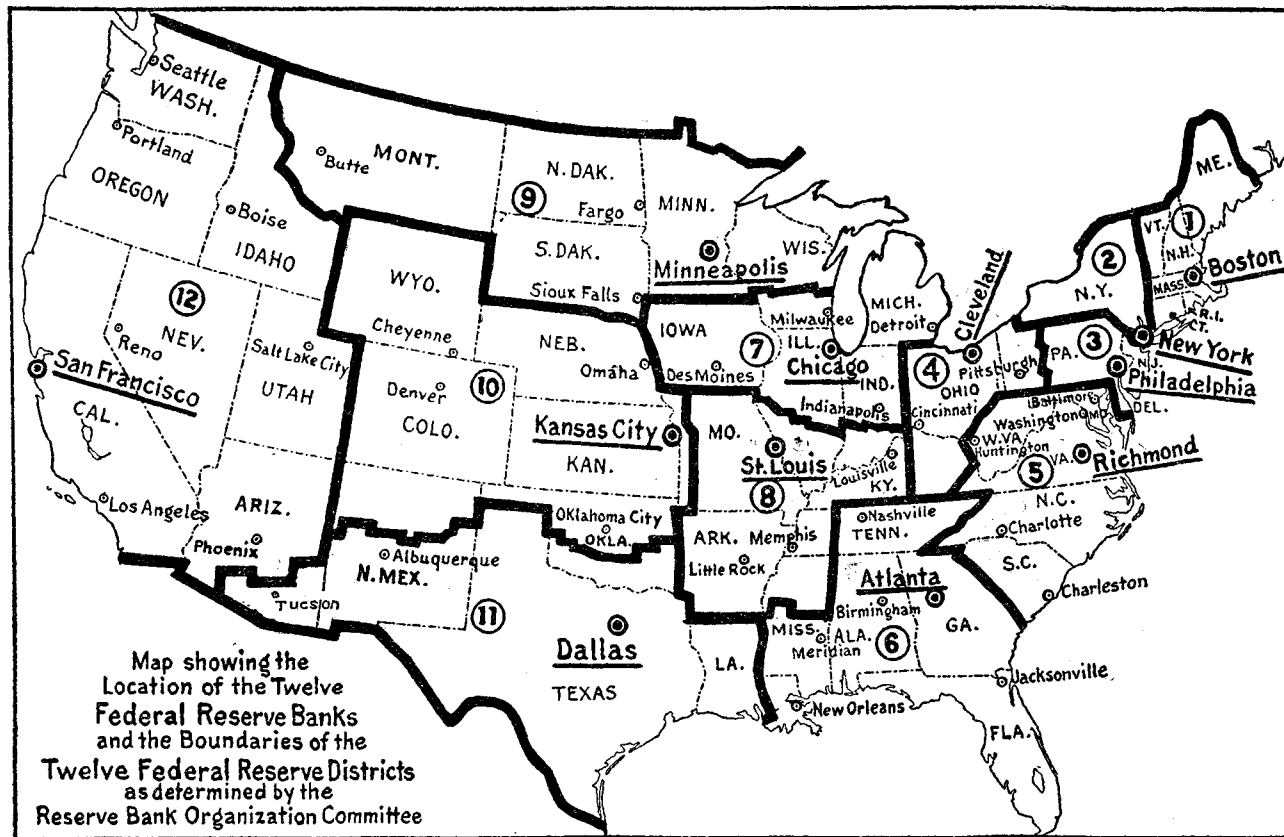
The committee was impressed with the growth and development of the States of Idaho, Washington, and Oregon, but on the basis of 6 per cent of the capital stock and surplus of national banks and State banks and trust companies which have applied for membership, that section could not provide the \$4,000,000 minimum capital stock required by the law. With the continued growth of that region it is reasonable to expect that in a few years the capital and surplus of its member banks will be sufficient to justify the creation of an additional Federal reserve district, at which time application may be made to the Congress for a grant of the necessary authority.

It is no part of the duty of the organization committee to locate branches of the Federal reserve banks. The law specifically provides that "each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located." All the material collected by the committee will be placed at the disposal of the Federal reserve banks and the Federal Reserve Board when they are organized and ready to consider the establishment of branch banks.

Reference is made to the map of the districts and to Tables A, B, C, D, E, and F, hereto attached.

W. G. McADOO,
D. F. HOUSTON,
JNO. SKELTON WILLIAMS,
Reserve Bank Organization Committee.

WASHINGTON, D. C., April 2, 1914.



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